JCTR's EMPLOYMENT PERFORMANCE INDEX (EPI)

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INTRODUCTION

The Social Conditions Programme of the *JCTR* is implementing a project to advocate for increased formal employment. This is against the backdrop that the country is struggling to create adequate formal employment opportunities for its people, despite Government spending significant resources on attracting investors. Zambia's labour force currently stands at 5,410,610 people. Of this, 90% are considered employed although only 10% of the total labour force are in formal employment. The remainder of the workforce is engaged either in the informal sector or in unpaid family work. Clearly, a significant proportion of the labour force cannot find productive and remunerative employment.

Realizing that employment is one of the major engines of growth and poverty reduction, the programme will consistently and systematically be advocating for an increase in formal jobs[1] as well as improvement of quality of jobs where necessary.

This project is consistent with Government's plans to promote employment growth as evidenced by among others the inclusion of employment as a national key performance indicator in the draft Sixth National Development Plan (SNDP) spanning from 2011 to 2015.

To strengthen our advocacy, we are in the process of finalizing the Employment Performance Index (EPI).

WHAT IS THE EMPLOYMENT PERFORMANCE INDEX?

The EPI is a tool developed by the *JCTR* to comprehensively measure and track the performance of employment. The EPI incorporates two broad indicators – the quality and quantity of employment created. As the ILO Director General Mr. Juan Somavia recently stated, 'the quality of employment is just as important as creation of employment itself' (see http://www.oit.org.pe/americas2010/ENG/release-3.php).   Further justification for selecting the variables used to measure the index is explained in the methodology.

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[1] Formal employment is the kind of employment where the employed persons are entitled to paid annual leave, social security, pension and/or gratuity and work in an establishment employing more than 5 persons (deduced from the 2008 Labour Force Survey - LFS).

This index can be used to measure and rank the performance in any company/ institution against certain expected targets of employment. Improvements in the companies' performance will be reflected in the changes of the EPI scores from one period to another.

The EPI will be produced on an annual basis and will help track the results from Government's efforts in creating an enabling environment for investments, which ultimately is expected to create employment.

The rationale of the EPI is two-fold:

a) To raise awareness of formal employment creation at company level by highlighting various aspects of the number and nature of employment created. Furthermore, it is hoped that the information will trigger action from the company depending on their performance
b) Provide additional information to the Government on relevant policy measures to be undertaken to increase levels of formal employment

The index can be used to measure and rank the performance in any company/ institution against certain set targets. It ranks companies on a 100 percent scale with 100 being the best score (full productive employment and high quality of employment offered) and 0 the worst. The likelihood of a company scoring these two extremes is very low and it is almost impossible to score 0.

Recent improvements in the companies' performance will be reflected in the changes in the EPI scores and rankings from one year to another.

METHODOLOGY

The EPI combines two equally weighted indicators; quality and quantity of employment. Each of these equally weighted indicators are defined using multidimensional indicators. Therefore, the EPI has an advantage of bringing together a number of variables into one composite index.

Quality of employment created

Although there are many factors affecting the quality of employment, the focus is narrowed down to income level, length of contract, working hours, safety and welfare of workers, and social security. These factors were arrived at taking into consideration some of the main challenges experienced in the Zambian labour force.

Different weights are attached to each indicator in line with their perceived pertinence.

I. **Income (Y):** Income is one of the major indicators of the quality of employment in any labour market. Employers must pay employees a wage decent enough to enable them meet the minimum acceptable standard of living. Low wage is one the serious problems characterizing the labour market in Zambia. The current minimum wage for Zambia is K268,000 before adding allowances. Once recommended allowances for lunch, housing and transport are added, the minimum monthly pay and allowances is K499,440. According to the 2008 LFS, about 62% of paid employees were earning less than K850,000 per month which was far less than the cost of meeting the basic needs as measured by the *JCTR* (*JCTR*'s Lusaka *BNB*[2] figure for June 2008 was K1,941,350 – see http://www.jctr.org.zm/bnbasket.html)

Good quality jobs should generate sufficient earnings to allow employees to support themselves and their families. The earning should preferably be ≥ BNB, and at least $1.25/day translating into $7.5/day or $180/month for an employee looking after a family of six.

II. **Working hours (WH):** Number of hours worked is another important indicator of the quality of employment. This information is not only an important factor in the production of goods and services, its measurement is necessary for monitoring the working life and conditions of workers. The numbers of hours worked do not only affect the health and well-being of workers, but also have an impact on the levels of production and the cost structure of establishments. In selecting the number of working hours, the Minimum Wages and Conditions of Employment Act Chapter 276 and the 2008 LFS were consulted. However, the two documents indicate different figures as normal working hours. According to the Minimum Wages and Conditions of Employment Act Chapter 276, the normal weekly hours of work for any employee shall not exceed forty-eight hours. However, the 2008 LFS states that 40 hours per week are considered to be normal working hours for paid employees while those who work more than that are considered to be overworked.

Employees should not be subjected to unreasonably long hours of work as they need to balance between work and other family responsibilities. This index uses 40 hours/ week according to what was reflected in the LFS.

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[2] The *JCTR*'s *BNB* measures the cost of basic food and essential non-food items for an average Zambian family. Despite the seemingly high cost of basic needs, the total *BNB* excludes other essential non-food costs such as health, education and transport. These cost are however reflected in the section on additional costs (please see the BNB for further clarification).

III.   Social Security (SS): Social security is another factor considered important in enhancing quality of employment. The 2008 LFS reports that 49 per cent of paid employees interviewed countrywide said that either their employers did not pay a social security contribution for them or, if they did, they were not aware of it.

The index narrows down social security to two variables (a) entitlement to pensions after retirement or (b) gratuity after the expiration of the contract.

IV.   Safety and welfare: This is another key indicator of the quality of employment. Information on this subject is not only cardinal in fostering a safe work environment and a productive workforce but is essential for effective programming for the prevention of occupational accidents and diseases, and for monitoring adherence to minimum safety standards. UNDP observes in their report 'Labour Rights in Zambia' that in recent years there has been an increase in the number of occupational accidents mainly due to failure by government departments to enforce the occupational safety and health laws (such as the factories act and safety regulations under the mines and minerals act). For instance in 2008,out of 5,221,761 employees in Zambia, 443,850 suffered injuries (open wounds, loss of sight, loss of hearing fractures etc) while at work ,with Construction and Mining and Quarrying accounting for 74.8 and 65.7percent respectively (2008 LFS).

A number of factors are considered under this subject but for the purpose of this index, safety and welfare is narrowed down to four aspects; (a) protective clothing (b) removal of and prevention of inhalation of dust and fumes (c) first aid and (d) general ventilation (chapter 441 of the factories act).

V.   Length of contract: This factor was selected to estimate the prominence of this issue in Zambia. The LFS (2008) shows that 49 per cent of paid employees interviewed did not have or did not know if they had a contract of employment with their employer. In 2005, the JCTR found that a mine in the Copperbelt only had 70 permanent, unionised employees and 1800 "casual workers" on short-term contracts with limited benefits (JCTR Policy Brief - Fourth Quarter 2005). A casual worker is a person engaged for a period of less than six months and is paid at the end of each day and is not eligible for allowances or terminal benefits such as gratuity (chapter 276 of the employment act). Additionally, casual workers are not entitled to other benefits such as funeral grants.

The index will consider the average length of contracts for all paid employees in a particular company. Considering the prominence of the issue and its social and economic consequences, a higher weight is attached.

Quantity of jobs created

EMPLOYMENT PERFORMANCE INDEX (EPI) FORMULAE

Method 1

Quantity of jobs created

On the quantity of jobs created, the index defines two variables:

I. The desired level of employment that varies depending on whether the firm is small, medium or a large-scale enterprise in a specific sector. This should take into account the recommended level of employment. The recommended level of employees will be arrived at by first categorizing companies according to their respective sectors (Agriculture, Forestry & Fishing; Mining & Quarrying; Transportation and Storage; Financial & Insurance Activities; Community, Social and Personal Services; Manufacturing; Electricity, Gas, and Water; Construction; Wholesale & Retail Trade; and Hotels and Restaurants) and further according to their size in terms of the available machinery and the capital invested (registered capital). We will then derive the expected proportion of labour required upon considering all these factors.[3] The major challenge here is finding figures that are representative and widely recognized.

II. The actual level of employment, which covers all workers whether involved in actual production or administration.

 Corresponding Formular

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[3] This employment figure will not be derived at a firm level but rather at a sector level taking into consideration size of the company and expected level of investment.

The EPI is stated in the expressions below

EPI = Quality of employment + Quantity of employment

= (Conditions of service +Social Security) + Quantity of employment

$$= (\tfrac{1}{4}Y + \tfrac{1}{16}[WH+LC+SW] + \tfrac{1}{16}SS) + \tfrac{1}{2}(1-[E_t^* - E_t]/E_t^*)$$

Where;

Y = Income - (25% or ¼)

WH=working hours - (6.25% or $\tfrac{1}{16}$)

LC=Length of contract - (6.25% or $\tfrac{1}{16}$)

SW=Safety and welfare - (6.25% or $\tfrac{1}{16}$)

SS=Social Security - (6.25% or $\tfrac{1}{16}$)

E_t^* = Recommended level of employment during period t   50%or ½

E_t =Actual employment level during period t

Method 2:

Quantity of jobs created

In this method, the index defines two variables:

I.   The targeted level of employment: This refers to the pledged number of formal jobs to be created by companies as specified in their proposals submitted to Zambia Development Agency (ZDA)[4]. Companies indicate target quantity of employment to be created within a specified period of time. The target numbers in the agreement will be used.

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[4] ZDA is a statutory body established by an Act of Parliament to among others attract investments. Companies that register with ZDA enjoy various investments incentives e.g., subsidies and tax holidays http://www.zda.org.zm/sites/zda/files/attachments/Investor%20Guide%20Handbook%20Sept.%202010 .pdf.

II. The actual level of employment: This refers to the actual number of jobs created and covers all workers whether involved in actual production or administration.

Corresponding Formular

EPI = Quality of employment + Quantity of employment

= (Conditions of service +Social Security) + Quantity of employment

$$= (\tfrac{1}{4}Y + \tfrac{1}{16}[WH+LC+SW] + \tfrac{1}{16}SS) + \tfrac{1}{2}(1-[E_T- E_A]/E_T)$$

Where;

Y = Income - (25% or ¼)

WH=working hours - (6.25% or $\tfrac{1}{16}$)

LC=Length of contract - (6.25% or $\tfrac{1}{16}$)

SW=Safety and welfare - (6.25% or $\tfrac{1}{16}$)

SS=Social Security - (6.25% or $\tfrac{1}{16}$)

E_T =Targeted level of employment during period t ⎱ 50%or ½

E_A =Actual employment level during period t ⎰

DEFINITION OF VARIABLES

The variables measuring quality of jobs (except income level, working hours and, safety and welfare) will be defined as dummy variables (a variable that takes on only two values, 1 to signify the ideal situation and 0 otherwise)

INCOME

$$Y = \begin{cases} 0, & \text{if } y < \text{Minimum wage} \\ 0.25, & \text{if minimum wage} \le y < \text{poverty line} \\ 0.75, & \text{if poverty line} \le y < \text{BNB} \\ 1, & \text{if } y > \text{BNB} \end{cases}$$

The index is designed in a way that different weights will be fed into the formula depending on the income range a particular company pays the majority (mode is used to avoid effects of outliers on average wage) of its employees. A weight of zero is given to those employers paying the majority of the workers below the minimum wage, 0.25 to those paying between the minimum wage and the poverty line, 0.75 to those paying between the poverty line and the BNB and a weight of 1 to employers paying above the BNB.

WORKING HOURS

$$WH = \begin{cases} 1 - \dfrac{WH-40}{40}, & \text{if } > 40 \text{hours/week.} \\ \\ 1, & \text{if } \le 40 \text{hours/week} \end{cases}$$

The variable working hours is treated quantitatively with weights allocated based on how many overtime hours employees have to work beyond 40 hours a week, a value of 1 given to companies requiring their employees to work for hours not exceeding 40hours/week. Companies with high number of overtime hours are accorded lower values.

NOTE; The index considers all hours worked beyond the normal 40 hours per week as overtime working with or without overtime allowance with an exception of those employees who willingly work long hours specifically because they consider these to be good jobs.

SOCIAL SECURITY

$$SS = \begin{cases} 0, & \text{if absent} \\ 1, & \text{if present} \end{cases}$$

The index considers an employee to be socially secure if they are entitled to a pension after retirement or to a gratuity at the expiration of the contract. This includes even those in high paying jobs. A higher salary in this case does not compensate for social security. A zero is allocated to employers who do not offer any of the two and a weight of 1 is allocated to those offering either.

LENGTH OF CONTRACT

$$LC = \begin{cases} 0, & \text{if less than six months} \\ 1, & \text{otherwise} \end{cases}$$

Length of contract, like hours of work, takes on two values, a zero for employers engaging their workers for an average period of less than six weeks and a 1 is allocated to those engaging workers on much more permanent basis (i.e.an average of more than six months)

SAFETY AND WELFARE

$$SW = \begin{cases} 0, & \text{if none of the conditions is met} \\ 0.25, & \text{if one condition is met} \\ 0.5, & \text{if two of the conditions are met} \\ 1, & \text{if all conditions are met} \end{cases}$$

For purposes of this index, four factors define safety at work (protective clothing, General ventilation, first aid and removal of and prevention of inhalation of dust and/or fumes). A weight of zero is allocated to employers satisfying none of the conditions, 0.25 to those satisfying only one condition, 0.5 is given for meeting two of the conditions, 0.75 for satisfying three conditions and a weight of one is allocated if all the four conditions are met.

Ideally, the EPI must add up to 1 or 100%.This means that employers ranking high will be considered to be committed to employment creation and/or offering improved conditions of service.

CHALLENGES

One of the potential challenges likely to be encountered in working with method 1 is the determination of the recommended level of employment for a given category of companies in a particular sector. While information on the recommended number of employees in small, medium and large scale enterprises may readily be available, these are not given as exact figures but in form of ranges making it difficult to determine whether a particular firm has over/under employed. Normally, the ranges (for example, ≤50 employees is considered a small scale enterprise, 51 to 150 considered medium scale and >151 considered to be large scale) are for categorization purposes only rather than recommended optimal levels of employment for an enterprise.

NEXT STEPS

At this point, the programme would like to be helped in two ways:

   i.   How best can we determine the recommended level of employment for each category of companies with respect to above mentioned sectors to be surveyed, in order to ensure accuracy and reliability when measuring the quantity side of the EPI using method one
   ii. Critique the EPI and offer suggestions about how we can further strengthen it

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