

Strategic Approaches to Job and Employment Creation in Zambia:

Determining the Role of Investment and Trade

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Abstract

Purpose/Objective of the paper – The purpose of this paper is to determine the most appropriate short-term and long-term approaches to creating jobs and employment in Zambia.

Methodology – Our methodology was literature review and Key informant KI's interviews, (interactions and semi-structured interviews) with selected ZDA departments. Our hypothesis was “unemployment is a main cause of poverty” and thus we gathered both quantitative and qualitative data. With quantitative data, we determined the total number of employed labor force with respect to the country's total labor force so as to ascertain the gap between employed and unemployed labor force, and how many people each industry has employed in order for us to determine which industry plays a major role in employment creation. We further determined the level of degree between formal and informal sector employment and the amount of rural versus urban employment. This also involved the determining of demographic trends in terms of employment such as age, sex, location and environment. With qualitative approach, we determined why this industry created more employment than this other industry and the future prospects of employment by industry. Thus, our data analysis and validation was simple since the collected data was self-explanatory and had to show a degree of correlation between secondary and primary data, and as a result, both had shown a high degree of correlation between unemployment and poverty.

Findings – To achieve higher economic growth rates and to increase modern employment rates, governance and economic reforms need to be successfully implemented. Governance and economic reforms would lower production costs and enhance market flexibility important to stimulate investment and growth and increase modern employment rates.

Originality/value – The understanding of the strategic implementation of government reforms such as “prioritizing empowerment and diversification” have successfully added to the knowledge base of the existing academic literature and its application in human context.

Keywords: Employment, pro-job strategy, lower production.

I. INTRODUCTION

Zambia, among other developing nations, has a considerably staggering economy as a result of a slow recovery in investment and trade, regardless of the nation having vast resources and potential to attaining a higher social-economic growth. This, in turn, has led to low levels of employment in the country, leading to high poverty levels.

According to the World Bank Group Report, “73 percent of the Zambian population has been classified as poor. The Gini Coefficient gives the country a high degree of social inequality. The lowest 10 percent of the population accounts for a paltry 1.1 percent of the national income, whereas the top 10 percent take 41 percent of the national wealth. On the basis of the foregoing, this study on the investment policy framework in Zambia comes at an opportune time, when the country and its people are seeking a way forward in tackling poverty and deprivation” (world Bank 2002)

Furthermore, The Bank also notes significant information on the Zambia social-economic environment. “Seventy one percent of informal sector workers are in rural areas, which correlate closely with the 78 percent of poor people who are also in rural areas. Also, the rural poor are heavily reliant upon off-farm income (predominantly in non-agricultural jobs in the informal sector), which now constitutes 50 percent of their total income” (World Bank 2003, 56).

Similar results are reported by the 12th Regional Seminar for Labor-intensive Construction (2007). They reviewed the history and problems of government employment programs over the past 45 years and emphasized that “despite extensive experiences and policy design features, many of the initiatives had limited involvement with communities in project planning and selection, low coverage of the targeted populations, limited involvement of women, implementation lapses and extensive corruption (12th Regional Seminar for Labor-intensive Construction 2007). The Federal Ministry for Economic Corporation and Development (2009) also shows the following similar results: Fostering private sector development, improving labor market institutions and governance and providing vocational education and training must be crucial

elements of any employment strategy. Without employment, the chances of escaping poverty are very low... (Federal Ministry of Economic Corporation and Development of Germany, 2009).

We therefore discuss the most appropriate short-term and long-term approaches to creating jobs and employment in Zambia. This analysis, the discussion should objectively consider the roles of trade and investment, agriculture, manufacturing, and the relevance of rural versus urban. The report, however, also touches on key issues relevant to designing an employment-friendly strategy.

II. PURPOSE/OBJECTIVE OF PAPER

The purpose of the paper is to determine the most appropriate approaches to creating jobs and employment in Zambia.

III. THEORETICAL BACKGROUND

In 2006, the Government of the Republic of Zambia developed a Concept for trade and investment growth strategy for Zambia by forming the Zambia development Agency (ZDA) an entity that should spearhead Investment growth in the country. According to the ministry of commerce, trade and industry, "The Zambia Development Agency (ZDA) was established under the ZDA Act No. 11 of 2006, which came into effect on July 7, 2006. The ZDA is a merger of the Zambia Privatization Agency, Zambia Investment Centre, Export Board of Zambia, Zambia Export Processing Zones Authority and the Small Enterprises Development Board. The merged institutions started operating as one institution after 1st January 2007. The Agency (ZDA) expects major investments in various sectors of the economy. Major investments are expected in financial, mining, cement and fertilizer production and the agricultural sector. This is due to the confidence that has been created by favorable Government economic policies, macroeconomic stability, peace and stability that the country is experiencing as well as the country's strategic location." (The Ministry of Commerce, Trade and Industry, 2014)

According to the ZDA "The Act gives powers to the ZDA in key areas of trade development, investment promotion, enterprise restructuring, development of green fields' projects, small and enterprise development, trade and industry fund management, and contributing to skills training development." (ZDA 2015).

Additionally, the Zambia Daily mail Newspaper posted online on July 29, 2015, indicates that "THE Zambia Development Agency (ZDA) says it has facilitated investment promotion projects worth US\$678 million in the first half of this year. Meanwhile, the agency has recorded a drop in investment pledges to US\$1.136 billion during the same period, compared to US\$3.617 billion registered last year. At a media breakfast yesterday, ZDA director-general Patrick Chisanga said the agency plans to attract up to US\$3 billion foreign direct investment (FDI) pledges through targeted investment promotion strategies." (The Zambia Dairy Mail Online Newspaper, 2015)

By doing this, high employment rates were expected in the country as a result of expected increase in investments. We, therefore, go further to determine milestone approaches to job and employment creation in Zambia.

IV. RESEARCH METHODOLOGY

Our methodology was literature review and Key informant KI's interviews, (interactions and semi-structured interviews) with selected ZDA departments. Our hypothesis was "unemployment is a main cause of poverty" and thus we gathered both quantitative and qualitative data. With quantitative data, we determined the total number of employed labor force with respect to the country's total labor force so as to ascertain the gap between employed and unemployed labor force, and how many people each industry has employed in order for us to determine which industry plays a major role in employment creation. We further determined the level of degree between formal and informal sector employment and the amount of rural versus urban employment. This also involved the determining of demographic trends in terms of employment such as age, sex, location and environment. With qualitative approach, we determined why this industry created more employment than this other industry and the future prospects of employment by industry. Thus, our data analysis and validation was simple since the collected data was self-explanatory and had to show a degree of correlation between secondary and primary data, and as a result, both had shown a high degree of correlation between unemployment and poverty.

Secondary data sources included literature on social-economic trends in Zambia and those other countries that share almost the same social-economic trends like that of Zambia such as the Indonesia. These sources included the World Bank, the International Labor Organization (ILO), Ministry of Labor, the Ministry of Commerce, Trade and Industry, the central statistics office (CSO) and Zambia Telecommunications Limited (Zamtel) reports on the social-economic transformation of Zambia since independence in 1964 to date and some future prospects.

In our second approach we used Key informant KI's interviews, or simply semi-structured interviews, with selected departments such as the export promotion, investment promotion, SME development and the Japan International Corporation Agency (JICA) consultants' departments respectively. We further participated in conference meetings organized by the ZDA, where information as regards to the general investment atmosphere in Zambia was presented.

Research Questions

In the selected ZDA departments, the following questions were asked:

- 1) How has the overall investment techniques you offer to both the local and foreign investors assisted in employment creation?
- 2) Measures being put by the government to secure long and short-term investment towards employment creation in Zambia

- 3) The extent to which SME and business assistance schemes you offered (such as the linking of SME's to financial institutions), helped in employment creation
- 4) What are the major challenges identified so far as regards to the success of Zambian business and What measures are being undertaken to make sure that at least that an average Zambian have access to ZDA services?
- 5) How many people have been employed by the SME's with ZDA membership?

V. FINDINGS

Twelve strategic findings are here presented. These findings address the key issues facing Zambia's employment growth from 1964 to date.

1. The recovery in investment is a key to job creation and growth in Zambia in both the short term and long term. Zambia's economic growth rates have been modest during the recovery period primarily because of the slow recovery in investments and exports. Moderate economic growth rates have in turn slowed employment creation. In contrast to South Africa, in the other sub-Sahara countries, the recovery in exports and investment has played important roles in their economic recoveries and employment creation. As the report discusses, slow progress in several key economic, legal and governance reforms have been a drag on investment and export recovery, the overall competitiveness of the economy, and therefore, employment creation compared to regional neighbors.

2. Provided governance and economic reforms are successfully implemented and the policy regime in Zambia retains openness, the recovery in investment and employment is expected to accelerate. Improved governance and economic policies would lower costs of doing business. This, in turn, will stimulate investment and economic growth. As new capital is invested, employment of skilled and unskilled labor will increase. The policy obstacles to investment that need to be resolved are well documented. These include, among others, problems associated with customs procedures, tax policy, infrastructure bottlenecks, and uncertainty over property rights, corruption, legal recourse and high-interest rates. Unfortunately, in recent years, some government policies have worsened the obstacles to investment. These include increasing institutional rigidities in the labor market that threaten to slow the creation of better jobs in the economy, creeping and non-transparent forms of trade protection and the proliferation of local government and domestic trade restrictions. Resolving these obstacles would create benefits that cut across all sectors in the economy.

3. Investment and export recovery are a key to creating "better" jobs – mainly in the modern/formal sector – in both the short-term and longer term. "When Chiluba came to power, he inherited an economy with serious problems. By 1991, Zambia's external debt had reached USD 7.1 billion. The new government implemented the full orthodoxy of Structural Adjustment Programs (SAPs) measures, including economic privatization; removal of import restrictions and subsidies, and cuts in public expenditure including transport and

communications. By 2000, 83% of the 280 state enterprises were sold off (Fashoyin 2008, 392). The CIA (World Factbook) argues that privatization of parastatal copper mines relieved the government from covering mammoth losses and greatly improved the chances for copper mining to return to profitability and spur economic growth. Yet, the main result was bringing down inflation. Real GDP growth was modest while the growth pattern was definitely not pro-poor (or shared). During the 1990s, employment in mining, manufacturing and agriculture fell by 40% and total formal employment by 15% (ALRN 2004; Burger et al 2004; FRONTLINE World website)". High inflation adversely affected wages and incomes.

4. A high case scenario of 6 percent economic growth annually suggests that as many as 5-6 million new modern jobs could be created between 2015 and 2020. Over the next five years, there could be as many as 1 million new labor market entrants. A high case scenario of 6 percent economic growth annually could create 3-4 million modern jobs (modern jobs for as many as 60 percents of new job seekers). The lower case scenario of 4 percent economic growth annually would only create 3-4 million new modern sector jobs (covering 40 percent of new job seekers) with the informal sector absorbing 1-2 million new job seekers. This is as a result of the increased investment, especially in the construction and mining sector (See table 1 in the appendix). For example, a newly opened Dangote mine and Handymans Paradise in the Copperbelt province of Zambia considerably added positively to this growth in employment.

5. Creating jobs in the formal/modern sector are pertinent to improving workers' welfare and poverty reduction in the long term. Modern sector jobs provide workers, on average, with higher wages and better working conditions compared to workers crowded into the informal or traditional sector. Workers in the modern sector have more opportunity to acquire modern workplace skills and to access training, which in turn gives them a better chance of increasing their lifetime earnings and welfare. In contrast, most (but not all) jobs in the traditional/informal sector are in low-productivity activities where earnings are low and unstable (e.g. Street vendors, domestic staff, workers in the urban small-scale and cottage sectors and rural agriculture sector). There is a strong positive correlation between formal wage employment and poverty reduction as measured by household consumption (CSO 2008, 8).

6. Although the labor force will grow more slowly in coming years, it will be better educated, more prime-aged and in need of better jobs than generally found in the informal sector. Also, in line with the shift to a more industrialized and service-oriented economy, the urban labor force has already grown to almost 44 percent of the total and is increasing at some five percent per annum. The urban population is expected to surpass the rural population within the next 10 years.

7. Manufacturing played an important role in employment recovery, but other industries and services are becoming increasingly important as well. Manufacturing employment has steadily recovered with an average growth of 3.5 percent

annually since 2008. For example, the coming in of live Companies such as Dairy Moo, Parmalat, Gatsby and Trade Kings Limited has considerably added to this. In 2002, manufacturing employment growth slowed sharply mainly due to declines in textiles, garments and footwear industries. For example, the closure of Mulungushi Textiles, ROP, and Dunlop Zambia Limited during the MMD regime led to a tremendous degree in manufacturing industries. Other industries and services are becoming important generators of employment such as electronics and machinery production (employment growth averaged 13.5 percent annually since 1998), processed foods (5 percent) and construction (4.2 percent). Based on current economic and employment growth rates we expect the non-agriculture sector (which accounts for 85 percent of the economy's output and 55 percent of the workforce) to continue to lead the recovery (See Table 1 in the appendix section).

8. *The agriculture sector has considerably absorbed many, thereby providing an important social safety net. That sector will remain important in this regard (See Table 2 in Appendix).* The majority of the employed (71.3 percent) were in Agriculture, primarily subsistence farming. The data further show that only 11 percent of those employed were in the formal employment. On the other hand, the proportion of the Zambian labor force engaged in the informal economy increased. Many were absorbed into the rural economy.

9. *Strengthening urban to rural linkages remain critical for employment creation and poverty reduction.* The rural sector remains important because 66 percent of the population lives in rural areas (but declining 1.2 percent annually) and the incidence of poverty is higher compared to the urban population. Also, recent household surveys indicate that farm households derive almost 50 percent of their income from off-farm activities and thus the rural industry is an important channel for poverty reduction. Improved agriculture growth would provide knock-on effects to rural activities and poverty reduction. Also, higher incomes and faster economic growth in the urban areas have important spillovers effects on rural incomes through a rural-urban labor migration - and, therefore, remittances - and increased urban demand for commodities and products produced in the rural areas.

10. *An appropriate approach to employment creation in the short term is restoring aggregate demand in the economy – investment, consumption and exports – and removing policy obstacles to growth across all sectors.* Consumption growth has been the main factor driving economic growth of between 3.4 to 3.7 percent since 2001, but it is unlikely to lift the economy to higher economic growth rates in the medium term. Higher economic growth rates will require increases in investment and exports.

11. *In the medium to long-term, an appropriate employment strategy should increase its focus on generation of formal sector jobs.* Ongoing demographic changes mean that better jobs are needed, not just to improve welfare, but also to respond to the rising aspirations of a better educated, older and more urbanized workforce.

12. *To achieve higher economic growth rates and to increase modern employment rates, governance and economic reforms need to be successfully implemented.* Governance and economic reforms would lower production costs and enhance market flexibility important to stimulate investment and growth and increase modern employment rates.

VI. DISCUSSION AND IMPLICATION OF STUDY

The study recommends that a pro-job growth strategy should address problems in the following areas:

Empowerment as one of the priority policy: In this case, the Zambian government needs to put citizen empowerment as one of the most supreme and practical policies, not just on paper or either verbal. Empowering people with financial and educational (skills development and capacity building) resources, especially youths and women would enable a lot of locally owned enterprises to emerge. These will, in turn, create employment for the fellow local citizens, thus lessening dependence on the government and foreign direct investments as the only main sources of employment. Additionally, if in the country, there are a lot of locally owned businesses, there is high wealthy retention, leading to further reinvestments and relatively equal wealth distribution amongst local citizens. For example, in South Africa, the huge business entities are owned by local citizens e.g. Shoprite, Pick'n'pay, and Illovo group. In view of this, the Zambian government should definitely reconsider its empowerment policies to make sure that local citizens own those businesses which can scale up from local to multinational. This can successfully be achieved by setting up an independent fund management entity to be completely out of government control to avoid politics, meaningless bureaucracy, corruption and mismanagement of resources.

Enhancing ZDA activities: The ZDA does a good job in business linkages and export promotion. So, in addition to this, it might work well if the agency (ZDA), had funds to manage in order to empower local business entities registered with them, especially SME's because business linkage and export promotion is not enough to foster local investment. Therefore, the researcher would recommend that the government allocates a certain portion of funds to the agency in order for it to boost local enterprise. The newly created IDC by the Edgar Lungu regime cannot do this work effectively, of course, it might try, but not as efficiently as could be done by ZDA because ZDA, having businesses registered with them, and also having technical and practical know-how on the actual investment imbalances in the economy, might well know how to fund businesses based on the specific areas of need.

Economic Diversification: The problem with Zambian economy is that it has too much dependency on copper and when copper prices on the global market reduce, the whole nation is affected by stagflation (high inflation rates accompanied by high unemployment rates). Therefore, massive diversification in sustainable industries such as agro-processing, tourism, and general agriculture must be put in place. Investment in agriculture and trade, in both urban and rural areas, will make it almost possible for every household to

make ends meet, thus reducing poverty. This can successfully be done by the empowerment strategy explained above.

Tax considerations: It will work well if locally youth-run businesses were given a tax-free operation for a period of 5 years. This will act as a motivation for youths to strive in setting up businesses, and thus create employment.

Macroeconomic stability: Zambia has achieved a good degree of macroeconomic stability since 2002, although the benefits may take some time to feed through. Continued and concerted efforts in this area are needed to restore Zambia's investment performance, but must be complemented by improvements in the investment and trade climate.

Policies at the border: Zambia's tariff rates are relatively low by regional standards, however, the Ministries of Trade and Industry and Agriculture are increasing the use of non-tariff barriers to restrict international trade. Customs procedures and endemic corruption and inefficiencies at the borders have also raised the costs for importers.

The policies behind the border: Zambia needs to focus on many "behind the border" policy and investment climate issues relating to, inter alia labor, investment and domestic trade policies; tax policy; decentralization; and infrastructure. High

transaction costs associated with investment-related regulations and procedures raise the costs of doing business for all firms but are particularly burdensome for small and medium-sized firms; and, in particular

Labor policy: Directly related to employment generation, a flawed process for setting minimum wages, difficult and costly dismissal regulations, and restrictions on employment contracts and production outsourcing are raising the costs of hiring new workers and threaten to slow employment growth in the modern sector.

VII. CONCLUSION

The report has highlighted numerous important policy and business environment constraints on investment and trade. Many are issues that have long existed, but are now more urgent while others are due to new external challenges and internal policy developments. In any case, it is clear that these challenges cannot be just left to sort themselves out. Rather, concerted efforts – a broad-based investment and trade strategy – are needed to generate high-quality employment through investment and trade.

VIII. APPENDIX

Industry	Indicator			Employed persons
	Male	Female	Total	
All Zambia	51.9	48.1	100	4,606,846
Agriculture, Forestry and Fishing	48.1	51.9	100	3,284,208
Mining and Quarrying	82.8	17.2	100	92,810
Manufacturing	67.0	33.0	100	159,194
Electricity, gas and water	89.4	10.6	100	13,864
construction	96.5	3.5	100	80,255
Wholesale and retail	47.0	53.0	100	425,209
Transport and construction	85.5	15.5	100	94,800
Hotels and restaurants	51.4	48.6	100	41,973
Finance, insurance and real estate	65.6	34.4	100	18,644
Community, social and persons services	57.0	43.0	100	386,626
Not Stated	49.4	50.6	100	9,263

Table 1: Percent Distribution of Currently Employed Persons Aged 15 years and above within Industries by Sex, 2008. Source: Central Statistics Office

Indicator	Total	Men	Women
Total Population	12,298	6,149	6,149
Working age population	6,716	3,303	3,413
Economically active population (labor force)	5,004	2,604	2,400
Unemployed persons	397	212	185
Employed persons	4,607	2,392	2,215
Employed in agricultural activities	1,323	812	511
Public sector	264	172	92

Private sector	4,343	2,220	2,123
Economically inactive population	1,712	699	1,013
Under 15 years	5,582	2,845	2,738
15-24 years	2,664	1,296	1,638
25-54 years	2,856	1,042	1,807
55 years or more	1,203	965	238

Table 2: General overview of the labor force by sex (in thousands) 2008. Source: Central Statistics office

Age group	Male		Female		Total	
	Number	Percent	Number	Percent	Number	Percent
All Zambia	2,600,822	100	2,400,049	100	5,003,871	100
15-19	327,671	12.6	335,612	14.0	663,283	13.3
20-24	383,814	14.7	432,430	18.0	816,244	16.3
25-29	430,883	16.5	400,062	16.7	830,945	13.9
30-34	380,610	14.6	314,280	13.1	649,890	13.9
35-39	309,484	11.9	252,626	10.5	562,110	11.2
40-44	225,554	8.7	182,538	7.6	408,082	8.2
45-49	166,081	6.4	143,841	6.0	309,922	6.2
50-54	117,696	4.5	105,424	4.4	223,120	4.5
55-59	83,098	3.2	74,268	3.1	157,366	3.1
60-64	62,130	2.4	67,763	2.8	129,839	2.6
65+	116,811	4.5	91,205	3.8	208,016	4.2

Table 3: Currently Economically Active Persons by Sex and Age, 2008. Source: Central Statistics Office

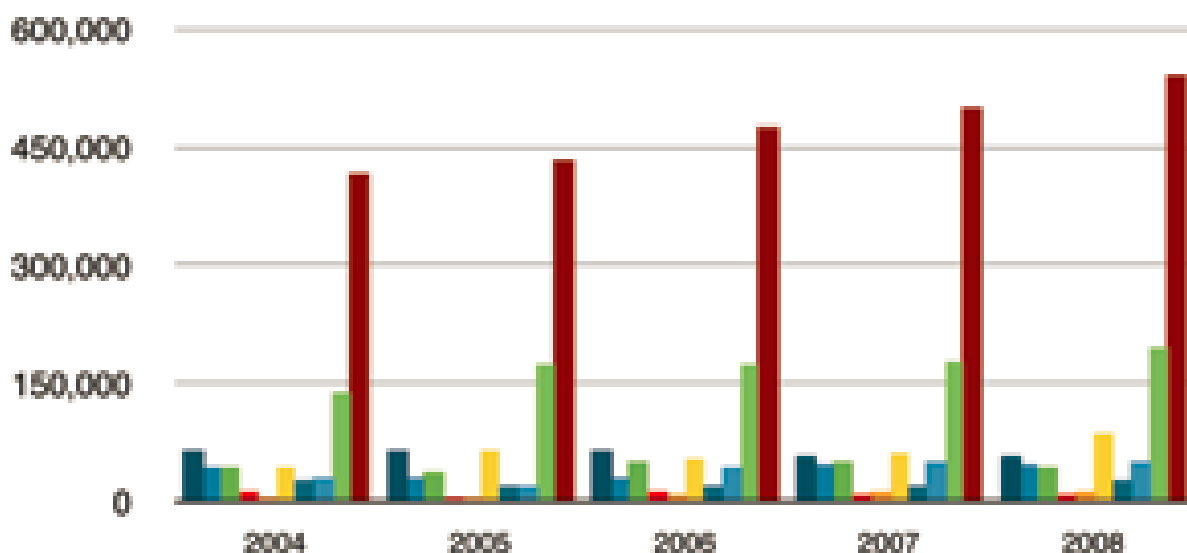


Figure 1: Employment by sector and trends in the level of employment. Source: Central Statistics Office (2008)

GLOSSARY

CSO	Central Statistics Office
ILO	International Labor Organization
IMF	International Monetary Fund
UN	United Nations
ZAMTEL	Zambia Telecommunications Authority
ZDA	Zambia Development Agency

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