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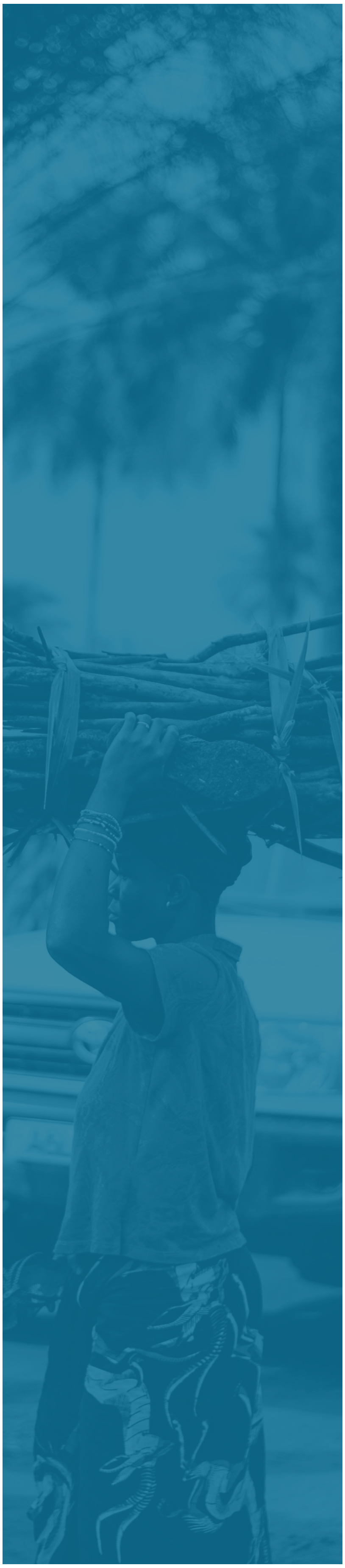
January 2020



Budget Implementation Vis-à-vis Decent Employment Creation in Zambia

Summary

2019 saw unfavourable economic conditions and a slowed economic growth. During the year economic growth rate was projected to be only 2.0%. The poor performance of the Zambian economy was largely attributed to low rainfall, low copper prices and climate change. Statistics both from the Labour Force Survey and the World Bank indicate that the unemployment has been falling in recent years from 7.85% in 2012 to 7.14% in 2019 (World Bank). The 2018 Labour Force Survey reported however that about 73.4% of the employed population are in informal employment and therefore lack employment benefits, basic social or legal protection and may be subjected to unsafe working conditions.

In Zambia there are a number of legislative instruments and policies that address unemployment Employment Act (2019) provides legislation relating to the employment of persons while other key legislative instruments that govern national labour, and therefore affect unemployment, include: Industrial and Labour Relations Act (Chapter 269), National Pension Scheme Act (1996), Workers Compensation Act, Zambia Institute of Human Resource Management (1997) and the Minimum Wages and Conditions of Employment Act.

The National Employment and Labour Market Policy implemented in 2005 provides the government with a labour market management mechanism that will be able to respond effectively and efficiently to the demands of a liberalized market economy. While more recently, the Education and Skills Sector Plan was designed to re-establish education as a key catalyst for national development.

Several different factors have led to high unemployment. The International Labour Organisation identified four main causes of unemployment, namely: the contraction of the formal sector, low education and skills, low levels of entrepreneurship, low absorptive capacity of labour markets, and concentration of growth in highly capital-intensive sectors (mining). CSOs have similarly attributed the high levels of unemployment to the contraction of the formal sector employment levels.

Analysing the budgets over the years, debt servicing seems to be gaining ground at the expense of expenditure on employment creation activities. Expenditure on education has fallen from about 20% of the national budget in 2015 to 12% in 2020. Similar trends are shown in budgetary allocations for agriculture, tourism and health. Domestic debt, which includes arrears, has been increasing over the years. The domestic debt to GDP ratio has increased from 13% in 2013 to 26% in 2020. The increase in arrears owed to local suppliers of goods and services has adverse effects on the private sector and hinders economic growth and the creation of meaningful employment.

The Zambian government faces many challenges in regard to the creation of employment. Zambia is a developing country and like many developing countries exhibits the characteristic of high fertility and rapid population growth. As a result, there is high youth unemployment as the employment creation is outpaced by the number of people entering the labour market. In addition, climate change resulted in a drought early in 2019 leading to low power generation, poor crop production and high inflation.

In light of the all these challenges, the government should press on with their efforts to capture labourers in the informal markets as help increase their income and allow them to benefit from social protection and contribute to tax. The government should also consider restructuring existing debt in order to reduce the increasing debt payments seen in recent years. This will allow resources to be redistributed to the education sector (and others that influence employment creation). The government must also encourage a culture of entrepreneurship to increase diversification of domestic goods. Making Zambian goods more competitive will broaden our markets beyond borders while creating jobs for Zambians. Solutions to the current problems that are arising from climate change need to be explored in order for Zambia to better deal with changing weather patterns.

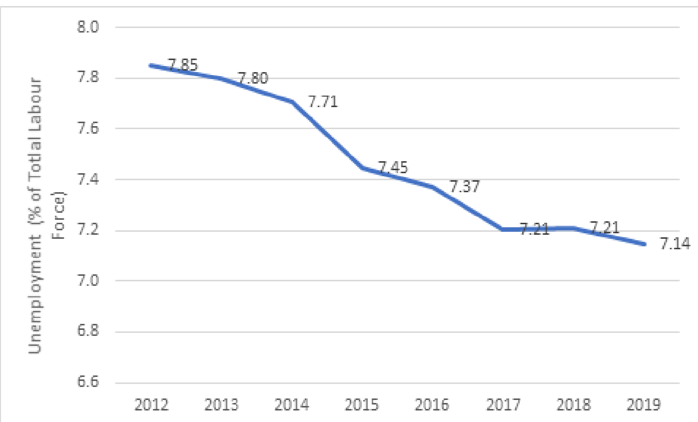
Detailed Analysis

2019 has seen unfavourable economic conditions due to low rainfall (resulting in poor agricultural production and limited electricity supply) and low copper prices lead to the contraction of the economy and slow economic growth to a projected 2.0% for the year. The IMF have projected an even slower economic growth for the year 2020 placing Zambia's Real GDP growth at 1.7%[1].

The 2020 budget address had the theme of "Focusing national priorities towards stimulating the domestic economy" and described measures that aimed to alleviate hardships to those owed money by the Government, preserve businesses, save jobs, increase liquidity and ultimately boost economic activity.

According to the 2018 Labour Force Survey, Zambia's labour force (total employed and unemployed population) was about 3.3 million people, two thirds of which were male. The employed population made up 2.95 million people while the unemployed made up 0.38 million. The unemployment rate, defined as the percentage of the labour force that is unemployed, was estimated at 11.4%, a significant reduction from the previous labour force survey (2017) that reported an unemployment rate of 12.6%.

Unemployment Rate (modelled ILO estimate)



Source: World Bank Data Bank[2]

The table above shows the unemployment rate as estimated by the World Bank. As illustrated, there has been a downward trend in recent years (similar to the estimates in the Labour Force Survey) with unemployment falling from 7.85% in 2012 to 7.14% in 2019.

These estimates are lower than the figures reported in the labour force survey because the world bank defines unemployment as the share of the labour force that is without work but available for and seeking employment (not simply the percentage of the labour force that is unemployed).

It is important to note however that while not unemployed, according to the 2018 Labour Force Survey [3], 73.4% of the total employed persons are in the informal economy. This is important to note as being in informal employment means that they lack employment benefits and basic social or legal protection, work long hours for low earnings and are exposed to inadequate and unsafe working conditions.[4]

What is the policy and legal framework for addressing unemployment?

The Employment Act 2019 provides legislation relating to the employment of persons; to make provision for the engagement of persons on contracts of service and to provide for the form of and enforcement of contracts of service; to make provision for the appointment of officers of the Labour Department and for the conferring of powers on such officers and upon medical officers; to make provision for the protection of wages of employees; to provide for the control of employment agencies; and to provide for matters incidental to and consequential upon the foregoing.[5]

Other key legislative instruments that govern national labour, and therefore affect unemployment, include: Industrial and Labour Relations Act (Chapter 269), National Pension Scheme Act (1996), Workers Compensation Act, Zambia Institute of Human Resource Management (1997) and the Minimum Wages and Conditions of Employment Act.

Further to this, the National Employment and Labour Market Policy (NELMP) outlines the role of Government in creating a conducive environment that will generate employment and ensure an effective and efficient labour market and articulates how it will provide policy direction that will successfully propel the Zambian labour market into the third millennium and co-ordinate and monitor its operations in order to enhance productivity in the economy.[6] The policy was implemented in 2005 to provide the government with a labour market management mechanism that will be able to respond effectively and efficiently to the demands of a liberalized market economy. Since 2006 there have been annual labour force survey reports that provide up-to-date data is available for purposes of planning, implementing, monitoring and evaluation of the NELMP.

The Education and Skills Sector Plan (2017-2021)[7] under the Ministry of Education was designed to re-establish education as the key catalyst for national development over the plan period and to help the country attain its long-term development vision.

Action Plan on Youth Employment and Empowerment[8] under the ministry of youth, sports and child development provides strategies to address challenges of youth employment and empowerment through a multi-sectoral approach to boost opportunities for employment and empowerment for young women and men.

What are the factors leading to high unemployment levels in Zambia?

The International Labour Organisation (ILO)[9] identified the main causes of youth unemployment/underemployment in Zambia as:

• low education and skills[10] ;
• low levels of entrepreneurship coupled with limited access to appropriate finance, technology and markets;
• low absorptive capacity of the labour market for new entrants and;
• the concentration of growth in highly capital-intensive and urban-based sectors like mining.

In the 7th NDP, CSOs largely attributed high youth unemployment to the contraction in formal sector employment levels. CSOs pointed out that the consequences of limited youth employment opportunities were youth delinquency, low levels of income among the youth, lack of access to quality health care and poor nutrition.[11]

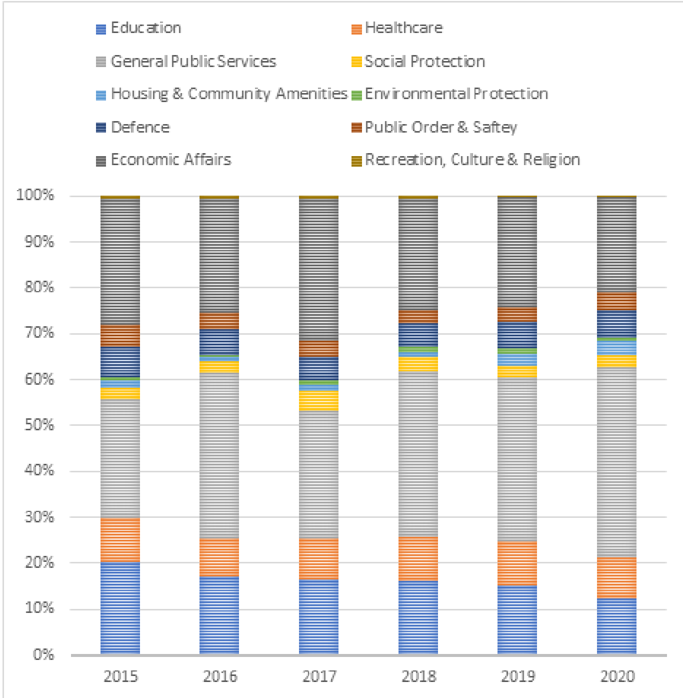
What is the extent to which creation of decent employment has taken centre stage in the budget process in Zambia?

Education and the nurturing of skills is fundamental to the development of a nation as it equips the growing population with the tools that they need to apply themselves effectively in the various sectors of the economy. The most recent national budget address for the year 2020 dedicates about K13.1 billion to the education sector and includes the infrastructure projects and the skills development fund. In monetary terms, this figure is slightly lower than the preceding 2019 budget that dedicated K13.3 billion indicating a lack of prioritisation of the sector. Additionally, the share of expenditure on education, as illustrated in the table below, has been reducing in recent years. Since 2015 the share of planned expenditure on education has fallen by 7.8% (from 20.2% in 2015 to only 12.4% in 2020).

The 2015 Economic Report published by the Ministry of Finance stated that for that year there was an increase in the number of schools as well as an improvement in pupil-teacher ratio for both primary and secondary school education. In addition, net enrolment rates at secondary school increased. Enrolment levels at primary school, despite the budget allocation of 20.2% to education, declined.[12] These results stress the need for government to channel more funds the education sector in order to maximize school enrolment, particularly at primary school level.

The 2018 Economic Report explained that there was a steady increase in the number of female candidates entering as well as sitting for examinations. The increase was attributed to the interventions the Government and other stakeholders have put in place to retain the girl child in school. The registration of TEVET institutions increased to 302 in 2018 from 284 in 2017 which translated into increased enrolment to vocational education and training (Skills development). However, the report noted a decrease in the pass rate of students that sat for grade nine examinations during the review period. Thus, showing the need for an increased allocation and dedication to the education sector.

Percentage share of annual budgets



Source: Annual Budget Speeches[13]

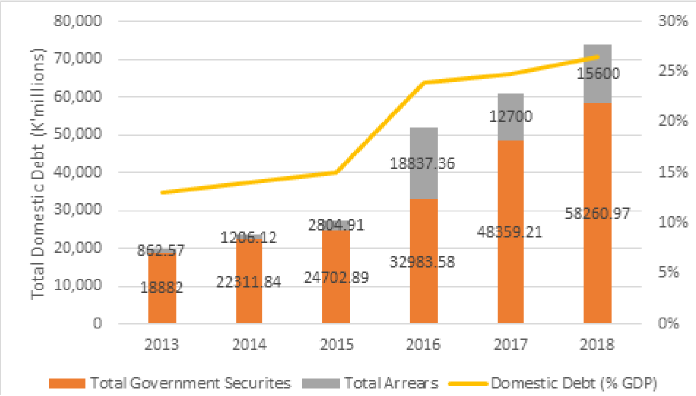
For the year of 2020 education garners a large part of the total GRZ budget, accounting for 12.4% of the overall budget however according the Dakar Declaration Zambia has committed to give 15% (or 7% of GDP). It is also important to note that comparatively debt service (external and domestic debt payments) amounts to 31.81% of the budget.

Debt service is enclosed in the general public services expenditure which has had an increasing share and accounts for the largest part (41.6%) of the total budget. This reduces the amount of public resources available for domestic policy action. [14]

The Economic Reports from the Ministry of Finance outline the approved expenditure as well as the preliminary outturn on various sectors of the economy. In the 2018 Economic Report it the road fund agencies, Farmer Input Support Programme, and empowerment funds all had an outturn less than what was approved of.

In contrast the expenditure for external debt interest payments was 48.59% higher than what was approved of while expenditure on domestic debt interest payments was 9.61% higher. This indicates that government prioritized external debt over domestic debt. But it also indicates that interest payments are crowding out expenditure on other key sectors that drive employment creation. The table below illustrates the escalating domestic debt situation.

Domestic Debt



Source: Annual Economic Reports, Ministry of Finance [15]

The table above shows the total domestic debt as reported in the annual economic reports. As illustrated, there has been increasing trend in the domestic debt. Total domestic arrears have accounted for a significant share of domestic debt since 2016. Between 2015 and 2016, domestic arrears rose by 571.6% from K2.8 billion to K18.8 billion. This rise in arrears was attributed to an increase in arrears to road contractors, electricity imports and fuel. In 2018 the largest component of arrears was owed to road contractors, followed by suppliers of goods and services.

The private sector is fundamental to any meaningful job creation. Arrears owed to local contractors like suppliers of goods and services and road contractors has an adverse effect on the private sector. The accumulation of arrears cripples' local businesses and reduces their productivity. reductions in production also leads to job losses and increases unemployment. The table also shows that the domestic debt to GDP ratio is increasing. In 2018, the domestic debt (inclusive of arrears) to GDP ratio was 26%, double what it was in 2013. At a national level, increasing domestic debt reduces GDP growth which further increases unemployment.

The Bank of Zambia, in an effort to reduce the inflation rate, adjusted the statutory reserve ratio in December 2019. It was contractionary move that raised the ratio by 4% from 5% to 9% that although reduced the inflation rate, also reduces the amount commercial banks can disperse as loans. The increase in the statutory reserve ratio effectively reduces the amount banks can loan out, hence making financing more expensive for the private sector. as a result, GDP growth and meaningful employment creation are stifled.

What are the strategies for employment creation in the conservative national budgets during the plan period (7NDP 2017-2021)?

During the plan period, employment creation has been identified as a fundamental part of national development in the national budgets. From the 2017, to the 2020 national budget speech, various methods and strategies have been discussed to stimulate meaningful job creation. The strategies outlined in these budgets target labour intensive sectors of the economy.

The strategies discussed in the national budgets so far are in line with the 7NDP where Government prioritized the thematic areas of agriculture, mining, manufacturing and tourism as the key strategic sectors for the creation of decent employment opportunities in the spirit of reducing poverty and inequality. [17]

In the 2020 National Budget Speech presented by the Minister of Finance Hon. Dr Ng'andu in September 2019, various pillars of development were explained. The Economic Diversification and Job Creation pillar had the objective of continued and sustained public and private investments in agriculture, tourism, mining, energy and manufacturing sectors.

• **Agriculture** – Aquaculture Enterprise Development Project. The Project aims to train more than 1,000 farmers by 2022. The objective of these interventions is to raise productivity and make Zambia self-sufficient in fish production. Government has been working on irrigation projects to reduces the dependence on rain. The 2020 national budget recognised the Mwomboshi dam, the Lusitu irrigation scheme and the Musakashi South irrigation scheme as the major projects in this regard. The continued implementation of the Farmer Input Support programme is also key to employment creation in the 2019/2020 farming season.

• **Tourism** – in the budget speech it is explained that the government will aim to complete and develop the Northern Circuit in a bid to increase accessibility in that region and diversify the tourism sector. The government will also attempt to actualise the pledges made during the provincial investment expos.

• **Mining** – to diversify the mining sector, the budget address outlined how the government would promote the exploration on non-traditional minerals such as gold and manganese. (e.g. mining of manganese has already started in the Mkushi district).

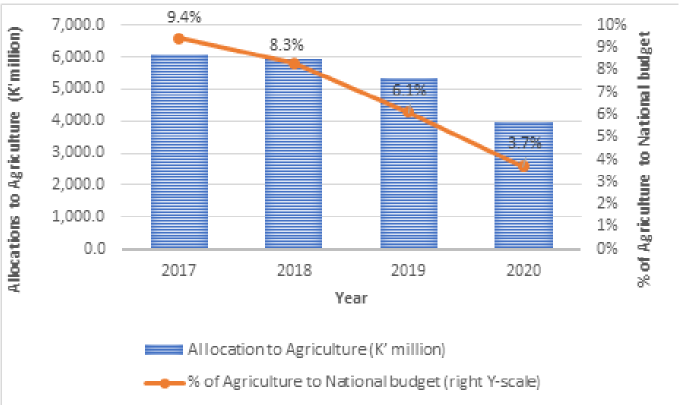
• **Energy** – the budget outlined how government has been exploring alternative sources of energy. The Bangweulu and Ngonye Solar Power Plants generating a combined total of 90 megawatts have been completed and are operational. There is also the construction of the Kafue Gorge Lower Hydropower station and the upgrading of the Lusiwasi upper hydropower station and the Chishimba falls power station that are expected to complete 2020. The Batoka hydropower station between Zambia and Zimbabwe is also being planned.

• **Manufacturing** - National Industrial Policy, Government aims to promote an export-oriented industrialisation. Progress is being recorded in the export of products such as cement, honey and detergents. In line with the National Local Content Strategy, these products are being manufactured from local raw materials. Industrial Yards are being established to support locally owned enterprises such has carpentry.

The industrial yards being constructed in Solwezi, Ndola, Kasama, Mongu and Chipata districts, are expected to be completed in 2019, while those in Kitwe, Lusaka and Mansa, are planned to be completed in 2020. Upon completion, these yards will result in increased access to processing facilities and the creation of more than 4,000 direct jobs. Zambia also signed the AfCFTA agreement which will create a new market for Zambian goods and create jobs.

What resource allocation through the national budgets relates to employment creation during the plan period (7NDP 2017-2021)?

Allocation to Agriculture

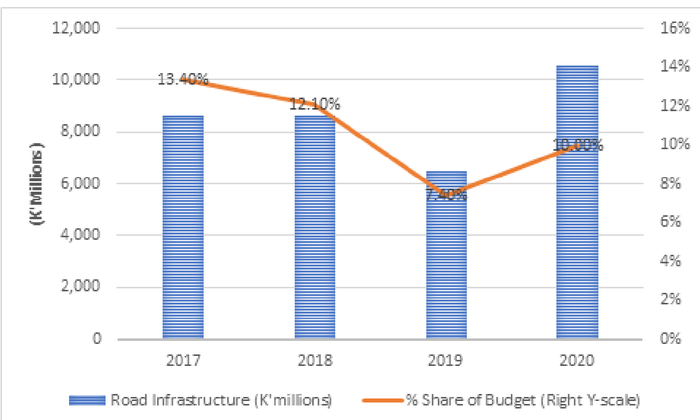


Source: Yellow Books, Ministry of Finance

The allocation to the Ministry of Agriculture and the Ministry of Livestock and Fisheries has been declining over the years. Despite this reduction in the monetary value of expenditure on the Farmer Input Support Programme has increased from about K1.08 billion in 2015 to about K1.11 billion in 2020. The expenditure on strategic food reserves, however has fallen by about K332 million for the same time period. The Maputo Declaration on agriculture had an objective of all signatories designating 10% of their national budget to agriculture. Zambia is a long way from achieving this objective as the agriculture budget now only constitutes 3.7% of the national budget.

Farmer Input Support programme was designed to provide financial assistance to poor farms to allow them to have access to various farming inputs at a subsidized price. However, there has been a decrease in the program's budgetary allocation over recent years. In 2017 the FISP was allocated about K2.9 billion and made up about 14.2% of the total agricultural expenditure. The 2020 budget on the other hand, has only allocated about K1.1 billion which makes up about 2.5% of the total national budget.

Road Infrastructure Allocation 2017-2020

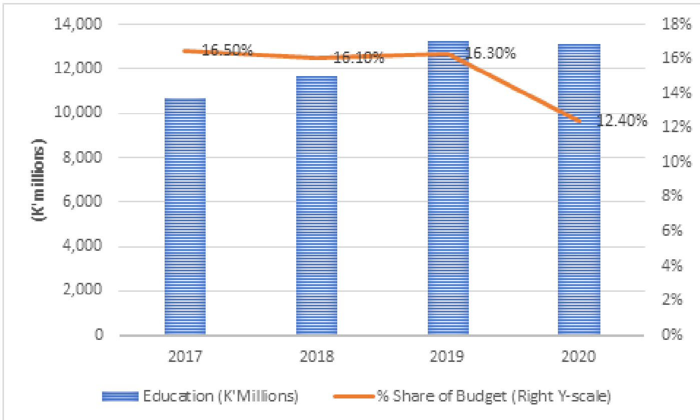


Source: National Budgets, Ministry of Finance

The 2020 national budget outlined investing in road infrastructure as a strategy to increase accessibility to tourist sites such as the Lumangwe, Kalambo and Kabwelume water falls.

The table above shows that in 2020 the government as increased the share of the budget to road infrastructure from 7.4% in 2019 to 10% in the 2020 budget.
Education allocation:

Education Allocation 2017-2020



Source: National Budgets, Ministry of Finance

The table above illustrates the budget allocation to the education sector over the years. The education sector is critical to long term employment creation through skills development programs such the TEVET. As shown above the allocation in the last budget (2020) has decreased and the percentage share has dropped from 16.3% to only 12.4%.

The Education and Skills Sector Plan (2017-2021) divides the planned expenditure on education into four items: staff and teacher salaries (PE); school grants for early child education, free primary education and secondary schools; teaching and learning materials; and infrastructure development, mainly for the construction of schools. Personal emoluments (salaries of teachers and staff) account for 89 per cent; infrastructure (construction and upgrading of secondary schools) amounts to 7.5 %.[18] In the 2020 budget, the share of government education expenditure on TEVET which is Included in the skills development fund is extremely limited. The skills development fund only accounts for about 1.3% of the entire educational expenditure.

What challenges are being faced in the creation of employment in Zambia?

High fertility and youth unemployment – Over the past three decades, a combination of rapid population growth and a slow decline in the fertility rate has produced a very youthful population in Zambia. As a result, the Zambian labour market is young, inexperienced and this situation is set to remain so for some time. The fertility rates are declining at a slower rate than the sub-Saharan Africa average, suggesting that the high number of youths expected to enter the labour market each year will not subside for some time which is a major concern.[19]

Climate change and drought – The past farming season was characterised by irregular rainfall and large dry spells throughout the country. Due to the poor rains there have been shortages of food, hunger and high prices of food and necessity goods. It must be noted that agriculture is possibly the most important source of employment in Zambia.

The drought led to low water levels in rivers and water bodies, particularly the Kariba dam that ZESCO is heavily reliant on for the generation of hydroelectric energy. energy sector has been adversely affected by climate change especially in the second half of 2019. This has widened the electricity deficit in the country thereby negatively affecting business operations and communities due to increased hours of load shedding. [20] This hinders employment creation as businesses are less productive and can't operate efficiently.

Reduced economic growth – The economic growth for the year of 2019 is projected to be 2.1%, less than that of 2018. Initial projection for 2019 economic growth was 4%. The slow growth rate means less jobs are being created in the

Rising debt crisis – A s alluded to earlier, the debt crisis has put Zambian government in a position where funds that were initially budgeted for other sectors of the economy are being diverted to debt servicing. The 2019 Economic Review of the second quarter of the year shows that expenditure on both domestic and external debt was higher than what was projected indicative of poor budget implementation at the expense of other sectors of the economy.

According to the Education PER[22] the TEVET subsector of higher education produces a high-quality labour force, for which demand is increasing. However, it receives the smallest share of the government's total education expenditure (per 2013 figures). It is also low in comparison to the shares that other African countries spend on TEVET.

Recommendions: The way forward on the creation of decent employment by the budget

There is a need to formalise workers into the formal sector. The Zambian government in recent years, through organisations like NAPSA and ZRA, have been trying to sensitize and capture the informal economy. The continued effort of government to identify and register informal workers would help increase the income of these workers, and allow them to benefit from social protection and contribute to tax. Through this, appropriate policies can then be made to address informal employment.

There is a need to consider addressing the rising share of debt interest payments in the national budgets. The Government should restructure debt in order to reduce the share of debt servicing expenditure in GRZ budgets. This will allow resources to be redistributed to the education sector (and others that influence employment creation). Reducing Zambia's debt interest payments and increasing funding towards the development of a culture of entrepreneurship and self-employment among the youth by facilitating market-driven training and skills development in entrepreneurship would be key. The TEVET program has yielded positive results and should receive more funding.

Additionally, entrepreneurship would in the turn encourage diversification of goods. In the past decade the Kwacha has depreciated significantly making Zambian goods cheaper, and therefore more competitive in foreign markets. The ILO proposed that a move for diversification should be accompanied by other policies based on industrialization or education, such as boosting competitiveness, increasing public investment in infrastructure, and providing vocational training in areas where people lack skills. In the light of the AfCFTA being signed, investing in the manufacturing sector could integrate Zambian goods into the continental value chain and create production links with other sectors, and the transfer of skills and employment opportunities across borders.

Lastly, climate change has long term effects and should therefore be adequately prepared for. Risk mitigation and management measures should be taken to minimize the effect of climate change and explore new innovative methods to be productive. Addressing climate related challenges requires the adoption of climate smart agricultural technologies and practices which should continue being disseminated throughout the country.

Endnotes

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Editor's Note

This paper was a CUTS Submission to the Parliamentary Budget Committee. The submission was prepared and presented by Mr. Ucizi Ngulube CUTS Research Assistant with support from CUTS Director, Ms Chenai Mukumba.

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