

"Socioeconomic Policies for Inclusive Growth, Sustainable Economic Development and Decent Work"

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Introduction

- This paper is a trade union position on inclusive socioeconomic policies in Zambia
- The paper has been prepared to stimulate discussion at the IMF, ILO, Govt and stakeholders
- The paper outlines key policy areas including policies on the labour market, minimum wages, investment, social protection, privatisation, and industrial policies
- The paper also provides alternatives for policy direction on the policy areas identified

Labour market policies

- Current unemployment (2008 LFS) at 7.9%, and therefore employment rate at 92.1%
- Employment levels increased by 11.5% from 2005 to 2008
- The increase, however, was due to increase in informal sector employment which grew by 13%
- Increase in formal employment still low
- Formal sector employment is estimated at 11% of total employment while informal employment is at 89%

Labour market policies

- Thus a large part of the labour force is in informal employment
- The majority of workers are in precarious employment and lack social security
- Youth unemployment is also high estimated at 14 percent
- Youth unemployment is mainly because of lack skills among youths
- Narrow scope for social security coverage

Policies relating to employment creation

- Policies relating to employment creation in Zambia include 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

Challenges to employment policies

- The National Employment and Labour Market policy of 2004 has not been implemented, partly because of poor funding to the Ministry of Labour
- The national policies relating to employment creation lack a coordinated policy and institutional framework and the policies are implemented in isolation
- The Ministry of Labour has no clear mandate to drive the employment generation agenda in Zambia

Other related policies

- Other related policies include the Citizens Empowerment Act and the Industrial policy
- The Citizens Empowerment programme has also failed to meet its intended objectives
- Investment policies have also failed to drive employment generation through private sector development despite massive incentives given especially to foreign investors

Investment and employment

- Despite increased FDI inflows, there is little local participation, little value addition to local products, and no technology transfer to local firms
- Investment regulations also allow investors to repatriate their investments freely and to send home profits, dividends, interest, fees and royalties, and permit expatriate workers to transfer abroad wages earned in Zambia
- Thus, there is no reinvestment of profits in the domestic economy and there is limited value addition to local products

Investment and financial exclusion

- Despite growth of the financial sector after liberalisation and the drop in inflation rate, 62% of the Zambian population still has no access to banking services, and domestic savings are too low to stimulate domestic borrowing
- The large number of unbanked Zambians is largely attributed to low disposable incomes, low deposit rates, high bank charges
- Financial exclusion is also as a result of low wages for workers especially the most vulnerable workers in the informal sector

Investment and financial exclusion

- Recently, there have been changes to the country's monetary policy such as reduction of the statutory reserve ratio from 8% to 5%; corporate tax from 35% to 30%; and minimum capital requirement raised from K12 billion to K104 billion for local banks and K520 billion for foreign banks

Privatization & private sector development

- The World Bank and the IMF keenly supported liberalisation of the economy and the privatisation process in Zambia
- It was expected that with private sector growth, benefits will trickle down and help reduce poverty
- However, there has not been much gain from private sector growth because of the manner the privatisation process was undertaken

Privatization & private sector development

- It is not enough to assume that a developed private sector will emerge spontaneously without regard to state regulation
- Thus, regulation should be a key part of a privatisation programme
- Also important to note that private companies seek to maximise profits and their objectives could be at variance with the needs of the domestic economy
- Therefore, privatisation as a policy may neither be good nor bad, but emphasis is state regulation to ensure protection of interest of the domestic economy

Infrastructure development

- Infrastructure in Zambia still remains poor and limited and is a major impediment to socioeconomic development
- Thus, there is need for appropriate fiscal policies to move away from a consumption oriented economy to expanding fiscal capacity for infrastructure development

Trade policies

- Trade and market access is at the centre of the globalisation process
- Trade rules and policies determine the direction of resources and have impact on growth and development of the domestic economy
- Zambia's economy is largely dependent on raw material production and export
- There is limited value addition to domestic resources
- Trade agreements such as EPAs or BITs must take into account the current stage of development for Zambia and leave sufficient policy space for development

Trade policies

- Through liberalization of the economy Zambia opened up to foreign competition which did not take into account protection of the domestic economy
- Currently, the main trading partners of Zambia include the European Union, Zimbabwe, Malawi, China and South Africa for agricultural products and China, Korea, Saudi Arabia, Egypt and South Africa for non-agricultural products

Trade policies

- It is expected that the EPA with the European Union is likely to include tariff measures that would in turn negatively affect industrial development for Zambia
- Bilateral treaties and multi-facility economic zones provide incentives that would undermine growth of local firms

Industrial Policy

- Zambia currently lacks a comprehensive industrial policy that would link trade, investment, employment creation and diversification
- Industrial development is important for structural transformation and overall development of the economy
- Although the policy identifies diversification, the main shortcoming is the absence of a distinct definition of the kind of diversification and lack of clear policies on what kind of investment and FDI should be promoted
- Promotion of higher value added and more tech-intensive products would raise incomes of

Industrial policy

- Currently, FDI inflow determines industrial policies instead of the industrial development determining the kind of FDI to attract

Alternative policy options

There is need to:

- Harmonise economic, investment and employment policies and establishing a policy and institutional framework to coordinate multi-sectoral policy formulation, implementation and evaluation
- Need for harmonizing social security legislation, strengthen enforcement of labour legislation and to increase and improve labour inspection
- There is need to address the wage distortions in the labour market to ensure that workers earn a living wage

Alternative policy options

- There is a need to increase access to education and skills, in particular vocational education and training linked to an industrial strategy, as well as promotion of apprenticeships
- Banks must reduce their lending rates in line with the BOZ policy rate to expand financial access to workers and promote productive investment
- Need to strengthen the role of MSMEs by expanding their capacity as drivers for employment creation and development
- There is need for value addition and increasing local participation in the production value chain. This requires an industrial policy

Alternative policy options

- Need for active transformation of the economy by expanding local productive capacities through technology transfer, access to financial capital, training and skills development and raising domestic demand and resource mobilization;
- Need for diversification that emphasises industrial growth and value addition;
- Need for trade policies that enhance domestic production and value addition, infant industry protection, technology transfer. growth of the domestic market and regional integration.

Alternative policy options

- There is need for stabilising the exchange rate, prudent capital account management and counter cyclical policies
- There is a need to create fiscal space for a social protection floor (scaling up from old age schemes), public investment in infrastructure and care services, and public employment schemes like employment guarantee schemes
- There is a need to promote collective bargaining and sectoral bargaining
- There is a need to reduce precarious work and to limit contract and agency labour while at the same time increasing labour inspection to ensure

Alternative policy options

- There is a need to promote social dialogue in a structured way on all policies that impact on the structure, size and quality of employment. Trade unions should be involved in such policy discussions and structures allowing for regular debates need to be set up
- There is a need to promote policy coherence and to assess all economic policies on their impacts on employment. The ministry of finance has to prioritise employment creation in the formal economy in its policies and coordinate joint government responses