

Government of Zambia-ILO-IMF Conference

**“Towards a new Growth Strategy for Employment, Decent Work, and
Development in Zambia”**

Lusaka, May 21-22, 2012

Closing Remarks

(as prepared for delivery)

**Seán Nolan
Deputy Director
African Department
International Monetary Fund**

Fellow participants:

1. Our discussions over the past two days have been very stimulating, in good part because the diverse range of participants contributing to the conversation made for a very rich exchange of views. I, and my IMF colleagues, certainly depart with a better understanding of the challenges that need to be overcome to ensure employment-intensive growth in Zambia – I hope that you too have found it to be useful.
2. In offering concluding remarks, allow me flag some points that received broad-based support from participants, but where supplementary work is needed to produce concrete reform measures:
 - A. **There was general agreement on the need to give high weight to employment growth in framing macroeconomic policies** – although clearly much work needs to be done to give concrete meaning to what this might mean for the setting of fiscal and monetary policies. My own view is that taking this topic much further will prove to be something of a cul-de-sac: I am not convinced that the macroeconomic policy framework needed to promote sustained growth of employment over the medium-term differs much from that needed to maintain economic stability on an ongoing basis (i.e., by limiting inflation and excessive debt accumulation, containing the adverse impact of external shocks, etc.).
 - B. **There was also general agreement on the need to promote rural development**, given the high levels of poverty and lack of economic opportunity in the rural areas. The next step will be to flesh out an appropriate strategy for accelerating development in rural areas and boosting agricultural productivity – a strategy that seeks to maximize the payoffs from use of scarce budgetary resources. This is an issue that would be best taken forward by a working group that includes experts, experienced government officials, and representatives of the various stakeholders in the rural economy.
 - C. **Most contributors underscored the importance of increasing financial inclusion** – expanding the involvement of the general population in the financial system, whether it is through banks, micro-financial institutions, mobile phone-based transactions, or other entities. Again, the challenge here will be to develop a concrete strategy for expanding access on a sustainable basis – an issue again best addressed via a working group that includes all the major stakeholders, most likely led by the Bank of Zambia.
 - D. **I was struck by the number of speakers who emphasized the problem of skill mismatches** – the fact that the skills of those emerging from the education system, at various levels, does not fit well with the skill sets needed by employers. Clearly, more dialogue is needed between employers, educators, and government

education policy-makers to produce concrete solutions to the problem: the experience of other countries can offer useful insights as to how best to proceed.

- E. **Finally, many speakers underscored the importance of accelerating growth of employment in the formal sector** – without slowing the pace of overall employment expansion, whether formal or informal. My sense is that much work needs to be done to identify correctly the barriers and disincentives to formalization – some of which may be amenable to policy influence, others (such as the desire to stay outside the tax net) perhaps less so. This topic received relatively little attention in our discussion, except for some brief discussion of casualization. This omission was unfortunate, but can be redressed in the post-conference work program.
3. There were, of course, issues where views differed among the various contributors, which I leave to our rapporteur to summarize!
 4. It would be remiss of me to end without pointing to one important constraint in designing policies to accelerate employment growth – **the “unpleasant arithmetic” of the government budget**. We have heard many useful suggestions as to how the government can intervene to promote output and employment growth – better training programs, assistance for new entrepreneurs, improved rural infrastructure, an expanded role for local governments, intensified data collection efforts, for example. But any new initiatives will come with an associated price tag and will need to be financed either by scaling back other expenditure items or by expanding budgetary revenues.
 5. **How can this be achieved?** One key task is to undertake a rigorous prioritization of budgetary outlays – which would imply giving greater emphasis to public investment and education spending while scaling back/eliminating subsidies (e.g., on electricity and maize prices) that benefit mainly the better-off. A second route to follow is to boost tax measures in an employment-friendly manner – which will mean relying more on consumption taxes (such as VAT) and less on taxing income and employment (which tend to promote informality). These are not politically easy choices – but they are essential if employment-intensive growth is to be accelerated.
 6. To end, let me record that we at the IMF, working alongside our colleagues at the ILO, are delighted to have been able to contribute to this national dialogue on employment creation and growth. We very much appreciate the large effort that the Government of Zambia has made in leading this project, and hope that the conference will provide an effective spring-board for taking forward the hard work of crafting, costing, and implementing detailed proposals that will help to accelerate the pace and inclusiveness of economic growth in Zambia.

Thank you very much for your attention.