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Inclusive growth and productive employment in Zambia

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Employment and Labour Market Policies Branch

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Preface

The primary goal of the ILO is to work with member States towards achieving full and productive employment and decent work for all. This goal is elaborated in the ILO Declaration 2008 on *Social Justice for a Fair Globalization*,[1] which has been widely adopted by the international community. Comprehensive and integrated perspectives to achieve this goal are embedded in the Employment Policy Convention of 1964 (No. 122), the *Global Employment Agenda* (2003) and – in response to the 2008 global economic crisis – the *Global Jobs Pact* (2009) and the conclusions of the *Recurrent Discussion Reports on Employment* (2010 and 2014).

The Employment Policy Department (EMPLOYMENT) is engaged in global advocacy and in supporting member States in placing more and better jobs at the center of economic and social policies and growth and development strategies. Policy research and knowledge generation and dissemination are essential components of the Employment Policy Department's activities. The resulting publications include books, country policy reviews, policy and research briefs, and working papers.[2]

The *Employment Policy Working Paper* series is designed to disseminate the main findings of research on a broad range of topics undertaken by the branches of the Department. The working papers are intended to encourage the exchange of ideas and to stimulate debate. The views expressed within them are the responsibility of the authors and do not necessarily represent those of the ILO.

Azita Berar Awad
Director
Employment Policy Department

[1] See http://www.ilo.org/public/english/bureau/dgo/download/dg_announce_en.pdf
[2] See http://www.ilo.org/employment.

Foreword

Achieving inclusive growth and productive employment creation is at the top of international and national agendas in both developing and developed countries today. For a long time, standard economic analysis has focused on economic growth per se as a vehicle for productive employment creation and poverty reduction based on a "trickle down" assumption. Yet, the past few decades have been characterized by a decreasing employment content of growth and increasing inequalities. This has shifted the focus from economic growth alone to inclusive growth, a growth that takes place in a context in which economic opportunities (including employment opportunities) expand, the poor's access to these opportunities improves, and inequalities are reduced[1].

The high and rapid economic growth that Zambia witnessed over the past decade has seen little improvement in living standards and productive jobs creation. The benefits of growth have been largely reaped by a small portion of the population as shown by an increase in inequality between rural areas and the urban cities, across regions and between different groups in society.

Economic growth has not been accompanied by the broad-based structural changes that are needed for sustained economic development over the long term. The failure of economic growth to effectively reduce poverty stems from the lack of sufficient productive job creation which calls for the twin challenge of achieving (i) broad-based development of agriculture and diversification of the rural economy and (ii) a transformation of the urban economy to create productive employment. Making growth both more inclusive and economically sustainable would also require large investments in education and human resource development, in particular given the demographic context which puts pressure on the economy to create productive jobs for an increasing and large number of young people entering the labour force in the years to come.

This study analyses recent labour force survey data for Zambia in order to establish: (i) the specific demographic dynamics that set the parameters for development; (ii) the nature of poverty in the country and the characteristics of those who live in poverty; (iii) the dynamics and characteristics of the labour force and of employment; and (iv) the characteristics of economic development, and the best ways of creating and ensuring access to productive employment. The study identifies the main causes of the disconnect between economic growth on the one hand and productive employment creation and poverty reduction on the other, and the main challenges that need to be addressed to set the country on a path of job-rich and inclusive development.

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[1] Heintz, J. (2012). Informality, Inclusiveness, and Economic Growth: An Overview of Key Issues. *SIG Working Paper 2012/2*. IDRC.

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Contents

List of abbreviations

ARV	anti-retroviral
FAO	Food and Agriculture Organization of the United Nations
FDI	foreign direct investment
GDP	gross domestic product
ICT	information and communications technology
ISCED	International Standard Classification of Education
ISCO	International Standard Classification of Occupations
ISIC	International Standard Industrial Classification of All Economic Activities
MSMEs	micro, small and medium-sized enterprises
NELMP	National Employment and Labour Market Policy
ODA	official development assistance
R-SNDP	Revised Sixth National Development Plan 2013–16
SMEs	small and medium-sized enterprises
TVET	technical and vocational education and training
ZMW	Zambian kwacha

List of tables

List of figures

Introduction

The past decade has seen Zambia achieve robust economic growth, with gross domestic product (GDP) growing at and above 7 per cent annually between 2005 and 2014. These very high growth rates are attributable largely to the rise in global commodity prices and the ensuing inflow of foreign direct investment (FDI) in copper extraction. However, this economic growth has bypassed the vast majority of the population, not least those living in poverty, and has primarily benefited the richest 20 per cent. As a consequence, inequality has risen further from an already very high level. Specifically, though sustained over a considerable number of years, these very high rates of economic growth have delivered very little in terms of the creation of productive jobs. Although the share of formal employment in total employment did increase slightly between 2005 and 2012, from 12 per cent to 15.4 per cent, that left nearly 85 per cent of those employed working in the informal economy, with very low earnings, no social protection and no representation. According to the Zambian Central Statistical Office, the informal sector accounted for about 34 per cent of total value added in 2010 (CSO, 2014a, p. 4). Second, the share of working poor in total employment did not decrease between 2005 and 2012. It still represents one in three workers. Finally, the unemployment rate also stagnated at almost 8 per cent. There is clearly a disconnect between growth and productive job creation.

It is this lack of sufficient numbers of productive jobs that is the main direct reason for the persistently high rates of poverty and extreme poverty in Zambia.[2] The vast majority of agricultural households (where the head of household is a farmer) live in poverty. The productivity of small farms is very low, which implies that earnings are also very low and insecure, and those working on them – the smallholder himself and his family – have no social protection. Even wage employment is no guarantee against poverty in rural areas: almost half of the rural households where the head is a salaried worker are poor, and well over a quarter of them live in extreme poverty (World Bank, 2013). In urban areas, poverty is strongly associated with unemployment. If the goal of reducing extreme poverty from 42.3 per cent in 2010 to 29 per cent by 2016 is to be achieved, therefore, there is a pressing need for the creation of productive jobs.

This study analyses recent labour force survey (LFS) data for Zambia in order to establish: (1) the specific demographic dynamics that set the parameters for development; (2) the nature of poverty in the country, and the characteristics of those who live in poverty; (3) the dynamics and characteristics of the labour force and of employment; and (4) the characteristics of economic development, and the best ways of creating and ensuring access to productive employment. With these knowledge blocks in place, the study concludes by identifying the main causes of the disconnect between economic growth on the one hand and productive employment creation and poverty reduction on the other, and the main challenges that need to be addressed to set the country on a path of job-rich and inclusive development.

[2] Extreme poverty is defined as average daily consumption of $1.25 or less. Poverty is defined as average daily consumption of $2 or less.

1 The national policy framework and the need for productive employment

1.1 The national policy framework

The Government of the Republic of Zambia recognizes employment creation as one of the key channels for poverty reduction in order to promote equitable, inclusive and sustainable development. Accordingly, the theme features prominently in three key documents of the national policy framework, as summarized below.

1.1.1 Revised Sixth National Development Plan (R-SNDP) 2013–2016

The Revised Sixth National Development Plan 2013–2016 (R-SNDP; GOZ, 2014) constitutes one of the main instruments for the implementation of the Government's programme in the medium term, with a view to achieving the developmental aspiration set out in the "Vision 2030" of becoming a "prosperous middle-income nation by 2030" (GOZ, 2006).

The thrust of the R-SNDP is to accelerate growth further and promote viable livelihoods for Zambian people, especially in rural areas, through investment in six growth sectors selected on the grounds that they will have the greatest impact on job creation, rural development and inclusive growth, namely: agriculture, manufacturing, energy, construction, tourism and mining (GOZ, 2014, p. 7).

The overarching objectives of the R-SNDP are:

(1) to promote employment and *job creation* through targeted and strategic investments in selected sectors;
(2) to promote *rural development* by fostering agricultural development and rural enterprises, and by providing supporting infrastructure in rural areas;
(3) to enhance *human development* by investing in the social sectors; and
(4) to accelerate *infrastructure development* to enhance the growth potential of the economy.

The Plan also contains indicators and targets relating to employment over the period 2012–16, namely:

(1) to reduce the unemployment rate from 7.8 per cent to 5 per cent;
(2) to increase formal sector employment from 15.4 per cent to 27 per cent of total employment;
(3) to increase the share of wage employees from 48 per cent to 75 per cent of total employment;
(4) to increase the share of the working population contributing to the national social security scheme from 14.5 per cent to 35 per cent (GOZ, 2014, p. 23).

The Plan further includes poverty and inequality targets for the period 2010–16, namely, to reduce:

(1) the poverty rate from 60.5 per cent to less than 38 per cent of the population;
(2) the extreme poverty rate from 42.3 per cent to 29 per cent of the population;
(3) the rural poverty rate from 77.9 per cent to 50 per cent of the population; and

(4) the Gini coefficient from 0.55 to 0.50 (GOZ, 2014, p. 12).

The total financing requirements of the Plan are estimated to be 45.5 billion kwacha (ZMW) (GOZ, 2014, p. 43).

1.1.2 Industrialization and Job Creation Strategy 2012–16

Zambia's Industrialization and Job Creation Strategy (GOZ, 2013) sets a goal of creating 1 million formal jobs between 2012 and 2016. This is to be achieved through both foreign and local investment, and will require economic growth above 8 per cent per annum during the period.

The strategy focuses on four growth sectors with the greatest potential to achieve the objectives of promoting growth and employment, increasing value added and expanding Zambia's economic base: agriculture, tourism, construction and manufacturing. Targets are set for direct job creation in each sector as follows: 550,000 jobs in agriculture, 300,000 in tourism, 85,000 in construction and 89,000 in manufacturing (GOZ, 2013, p. 8). The total cost of the strategy is estimated at ZMW 48 billion (GOZ, 2013, p. 72).

1.1.3 National Employment and Labour Market Policy (NELMP) 2007–11

The main objective of the NELMP, adopted in 2006 and currently under revision, is to create quality jobs under conditions that ensure adequate income and protection of workers' rights. The specific targets identified were to bring the unemployment rate below 10 per cent by 2011 and ensure that by that date 90 per cent of the workforce were operating in an environment where their rights are respected (GOZ, 2005, p. 17). As well as identifying sectors with the potential to create employment, namely agriculture, mining, manufacturing, tourism, trade, transport, and information and communications technology (ICT), the policy highlights the promotion of small and medium-sized enterprises (SMEs), efforts to make the financial sector more inclusive, and the provision of relevant skills by the education and training system. It addresses several cross-cutting issues, such as the HIV/AIDS pandemic, environmental degradation, gender and governance.

To ensure the continued relevance of the NELMP, the Government of Zambia has asked the ILO to support the review of the policy and to suggest strategies for more and better jobs for inclusive growth that would be in line with the R-SNDP and the Industrialization and Job Creation Strategy.

1.2 The need for productive jobs to achieve the poverty goal

The challenge of creating not only more jobs, but better and more productive ones that will generate incomes high enough to enable workers to live above the poverty line, is not only important in Zambia today but will remain so in the years to come.

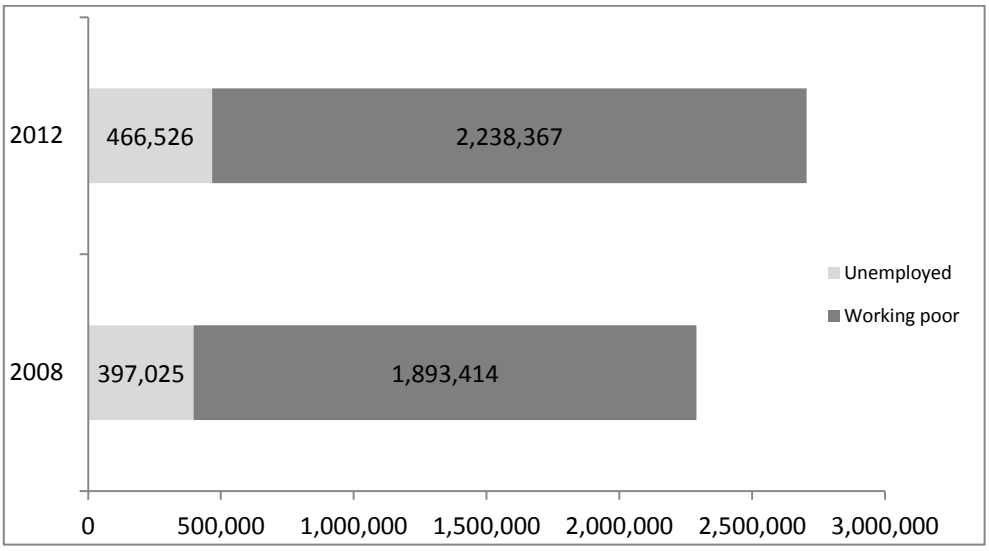
1.2.1 Tackling working poverty as well as unemployment

The concept of "working poor" provides a direct, quantifiable link between employment and income poverty. The working poor are defined as employed persons living in households whose income level is below the poverty line. They do not earn enough to lift themselves and their dependants out of poverty, because the returns to their labour are too low and/or because they do not have enough work and would like to work

more. This concept is particularly useful in strengthening the understanding and analysis of the links between growth, employment and poverty. The working poverty indicator and its antonym – productive employment, defined as employment yielding sufficient returns from labour to give the worker and his or her dependants an income level above the poverty line – make the link between employment creation and the elimination of poverty very explicit. It is thus possible to derive productive employment targets from already established poverty reduction targets.

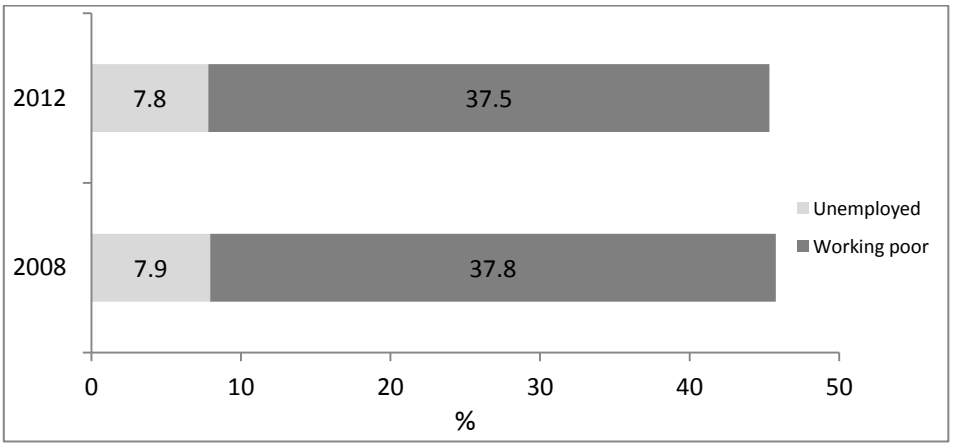
We use here the extreme poverty target of the R-SNDP, the 2006 and 2010 poverty estimates (CSO, 2012d), and the 2008 and 2012 LFS (CSO, 2011, 2013) to calculate the numbers of productive jobs that will need to be created in order to reach the extreme poverty target by 2016. We find that in 2012 about half of the labour force in Zambia suffered from a deficit of productive employment: that is, of 5.97 million people, 2.7 million were either working poor or unemployed (figure 1.1a). Between 2008 and 2012, the number of unemployed workers rose by about 70,000 and the number of working poor by about 345,000. Over the same period, the size of the labour force increased significantly, with 962,328 persons entering the labour market. So in relative terms, the productive employment deficit remained virtually unchanged between 2008 and 2012, with the share of working poor in the labour force falling only very slightly from 37.8 per cent to 37.5 per cent (figure 1.1b).

Figure 1.1a. Deficit of productive employment (absolute numbers)



Source: Author's calculations based on data from the 2008 and 2012 LFS.

Figure 1.1b. Deficit of productive employment (% of labour force)



Source: Author's calculations based on data from the 2008 and 2012 LFS.

1.2.2 The need for more inclusive and labour-intensive growth

On the basis of these figures, to achieve the national goal of reducing extreme poverty to 29 per cent and the unemployment rate to 5 per cent by 2016 the Zambian economy would need to be creating around 1.6 million productive jobs between 2012 and 2016 – equivalent to 390,000 new productive jobs each year. This total can be broken down into the jobs required to absorb new entrants into the labour market (1.18 million), to reintegrate unemployed workers (109,363) and to replace jobs that keep people in poverty (270,400).

For reference, between 2008 and 2012 the Zambian economy managed to create about 137,000 productive jobs a year. Achieving the 2016 target will entail both reversing the trend of increasing unemployment in recent years and reducing working poverty; and this in turn will require not only continued high rates of growth, but much more inclusive growth. Between 2008 and 2012, employment elasticity in Zambia was 0.58,[3] which is low for a labour surplus economy. If employment elasticity were to remain at this level between 2012 and 2016, GDP would have to grow at 8.5 per cent every year just to absorb new entrants into the labour force. To reduce unemployment and working poverty as well, annual GDP growth would have to reach 20.6 per cent. Clearly, such high rates of growth are unrealistic; therefore, if these targets are to be achieved, growth has to become more inclusive and labour-intensive.

The remainder of this paper offers analysis and advice on how Zambia can achieve this more inclusive and employment-friendly economic growth.

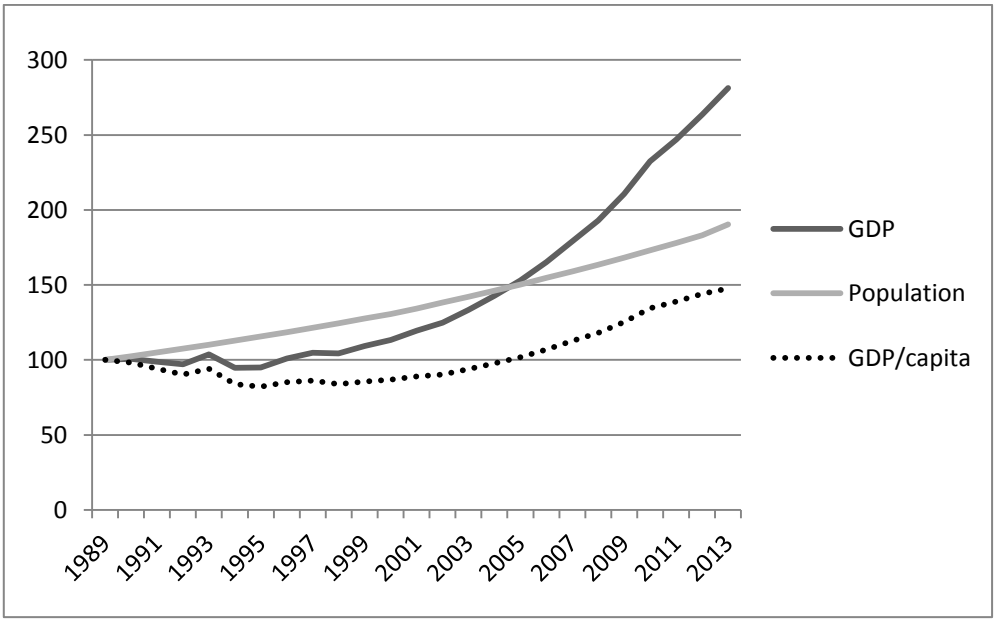
[3] That is, for a 1 per cent increase in economic growth, employment grew by only 0.58 per cent.

2 Economic development

The Zambian economy's annual average growth rate of 7.8 per cent over the past decade places it among the fastest-growing economies in the region.[4] Despite continued high population growth, per capita GDP growth has averaged close to 5 per cent, which compares well with many of Zambia's neighbours as well as with the country's own past economic performance.

This recent impressive economic performance should be seen in the light of a long history of sluggish economic growth, rapid population growth and falling per capita growth. The Zambian economy registered virtually zero growth between 1990 and 2000, a decade in which per capita GDP fell by 20 per cent (figure 2.1). Since the late 1990s there has been a recovery in per capita GDP: by 2005 it had regained its 1990 level, and by 2013 it had exceeded this by 48 per cent.

Figure 2.1. Long-term trends of GDP and population growth (index: 1989 = 100)



Note: Population growth rates calculated as average annual rates of growth between the 1990, 2000 and 2010 population censuses. The revised GDP figures were used to calculate growth from 1995 onwards.

Source: CSO, 2012a, 2014a; UN, n.d.

[4] Based on the recently revised GDP statistics using 2010 as a baseline. For details, see CSO, 2014a.

2.1 The macroeconomic context

The Zambian economy is in many respects much stronger today than it was at the turn of the millennium. The country has achieved a high degree of macroeconomic stability (table 2.1). Inflation is no longer a major problem, the large trade deficits that characterized the economy in the past have been eliminated and the government budget deficit is well under control. The country has also moved out of aid dependency. In 2000 official development assistance (ODA) accounted for over 25 per cent of national income; by 2012 this figure had fallen to little over 4 per cent. Equally importantly, there has been a dramatic increase in national savings, from a negative value in 2000 to a remarkable 29 per cent of GDP in 2012.[5] Gross fixed capital formation has reached a respectable 25 per cent of GDP and, in contrast to the past, no longer depends to any great extent on ODA and foreign net borrowing. Zambia also attracts a fair amount of FDI, equal to around 5–6 per cent of GDP (although almost all of this is directed to the mining sector: IMF, 2014, p. 35). These macroeconomic achievements are important not least because they provide Zambia with a strong basis and an economic policy space for the energetic pursuit of policies aimed at making economic development more inclusive and reducing poverty and inequality.

Table 2.1. Key macroeconomic indicators, 2000 and 2012

	2000	2012
Per capita GDP, US$[a]	321	1,527
Inflation, CPI, %	25.9[b]	6.6[c]
Central government revenue (excl. grants), % of GDP[b]		20.9
Budget surplus/deficit (incl. grants), % of GDP[b]		−3.3
Gross fixed capital formation, % of GDP[d]	17	25
Gross savings, % of GDP[d]	−1	29
Exported goods and services, % of GDP[d]	28	46
Imported goods and services, % of GDP[d]	44	43
ODA, % of GNI[d]	23.1	3.9

Sources: [a] UN, n.d. [b] CSO, 2014b. [c] IMF, 2014. [d] World Bank, n.d.

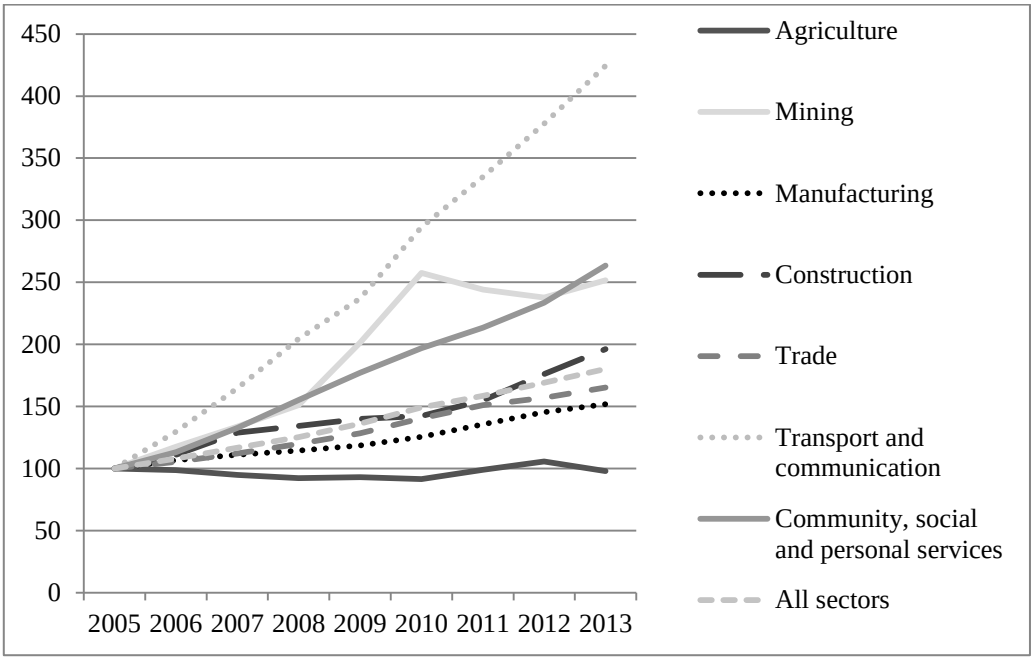
2.2 A review of sectoral performance

A decomposition of economic growth by the main economic sectors gives a more nuanced picture of Zambia's economic performance. Overall, value added in the economy increased by 84 per cent (at constant sector prices) over the period 2005–13. However, agriculture, which is the backbone of the economy – not least from a livelihood and employment perspective – stagnated over this period, while manufacturing grew more slowly than the economy as a whole (figure 2.2). Mining, which accounts for a large proportion of the country's exports and is the major foreign exchange earner, increased by 138 per cent over the period 2000–12; however, since a peak in 2010, production and value added have fallen back somewhat. Three other economic sectors

[5] According to the IMF, national savings amounted to 25 per cent of GDP in 2012 (IMF, 2014, p. 21).

stood out in terms of value added growth: transport and communications, which increased more than threefold; community, social and personal services, which grew by 164 per cent;[6] and construction, which saw its value added almost double.

Figure 2.2. Growth of value added by main economic sectors, constant 2010 prices (index: 2000 = 100)



Note: Figures are based on revised national accounts using 2010 as base year.

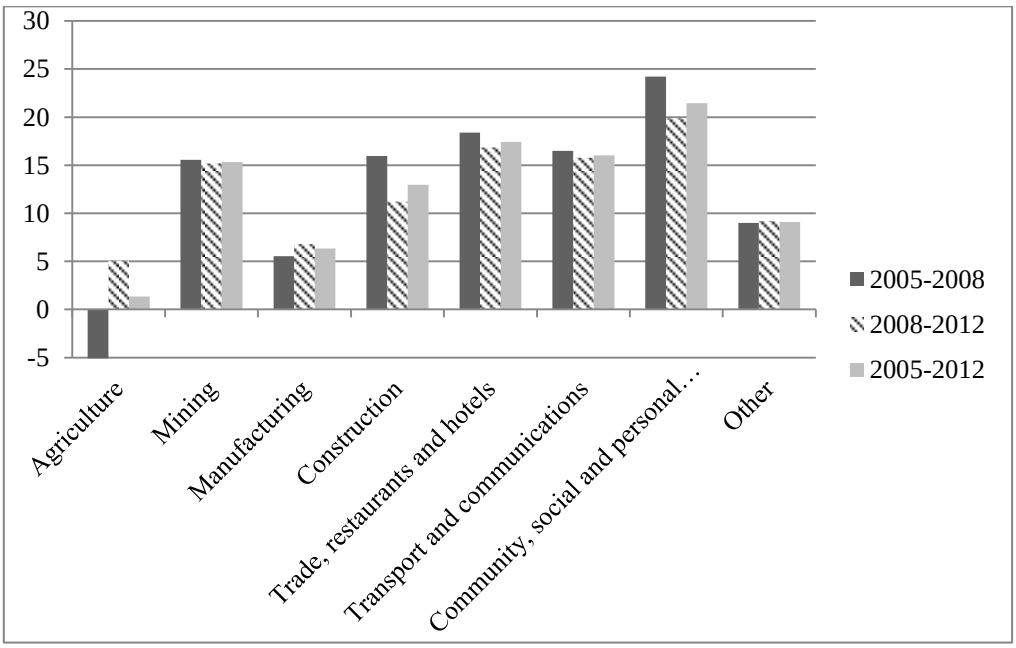
Source: CSO, 2014a.

While it is difficult to distinguish a single driver of growth, five sectors accounted for more than four-fifths of GDP growth between 2005 and 2012. Community, social and personal services, which are largely funded from the public purse, accounted for nearly a quarter of the total growth. Transport and communications, trade, restaurants and hotels, and mining accounted for 15–17 per cent each, while the contribution of the construction sector averaged 13 per cent (figure 2.3). Although mining was an important foreign exchange earner, approximately half of the total value added generated left the country as repatriated profits and was thus lost to the Zambian economy.[7]

[6] Until 2012, the category did not include "personal services". Therefore, where comparisons are made across years, the data have been recomputed to exclude that category from the calculations.

[7] The total value added produced in the mining sector was ZMW 12,518 million, of which ZMW 6,579 million left the country as property income payable to the rest of the world (CSO, 2014a).

Figure 2.3. Contribution of main economic sectors to total economic growth, based on current prices in ZMW (%)



Note: Figures are based on revised national accounts data using 2010 as base year.

Source: CSO, 2014a.

The tradable sectors[8] – in particular manufacturing, but also agriculture – contributed very little to total economic growth. Agriculture registered virtually zero growth over the period and its contribution to GDP was negligible.[9] Similarly, the contribution of manufacturing was very small, amounting to little more than 6 per cent of the total over the period 2005–12 (figure 2.3).

2.3 The importance of manufacturing

The lack of any substantial development of manufacturing is cause for concern, as the sector will need to play a significant role in any strategy for sustainable and job-rich growth in sub-Saharan Africa. In the first place, a dynamic manufacturing sector is essential for creating value chains and strong multiplier effects in the domestic economy, generating an environment conducive to further manufacturing growth and much-needed economic diversification, with a gradual shift towards more processed goods with higher value added. Second, a dynamic manufacturing sector is crucial for developing and maintaining developmental capabilities. Sustained economic development relies on a

[8] That is, sectors producing goods and services that can be exported or replace imports and that are subject to external competition.

[9] It should be noted that the UN Food and Agriculture Organization (FAO) reports a much more positive development of agriculture than emerges from the revised national accounts (http://faostat3.fao.org/home/E). According to the FAO, crop production per hectare increased by 4.8 per cent between 2007 and 2012, measured in 2004–06 constant US dollars. The same source also claims that the total cultivated area increased by 5.2 per cent per year over the same period. It is difficult to reconcile these figures with those in the national accounts.

parallel advancement of domestic development capabilities, in the form of increasingly sophisticated forms of organization of production, the capacity to adopt and apply innovations, and new technologies, managerial and technical skills, etc.[10] Third, developing manufacturing would enhance the impact of FDI on national growth by embedding it in an environment where it can link up with domestic firms.

Given the significance of the sector, then, attention will need to be given to the obstacles facing manufacturing enterprises in Zambia – as indeed in most other countries in the region – including high transaction costs resulting from poorly developed markets and a lack of positive externalities (the positive effect an activity imposes on an unrelated third party)[11] and agglomeration effects (the benefits that firms obtain by locating near each other).[12]

2.4 Problems with competitiveness

A large and increasing contribution to GDP from tradables is necessary to ensure the sustainability of economic growth – for example, by ensuring that the external account does not become a constraint on growth, and by reducing dependence on ODA and/or revenues for oil and mineral resources to fund imports. The small share of tradables in GDP currently prevailing in most countries in the region points to problems with poor competitiveness, which in turn suggests that the current growth pattern is unlikely to be sustainable over the long term. The reasons behind this lack of competitiveness have been subject to much comment and some analysis. According to a recent IMF Article IV report on Zambia, the reasons include the high cost of cross-border trade, lack of secure access to electricity, poor education and high labour costs (IMF, 2014). While it is beyond the scope of the present study to explore this issue in any great depth, three main factors – the strong kwacha, the impact of HIV/AIDS on human resources and the lack of skilled human capital – deserve to be highlighted.

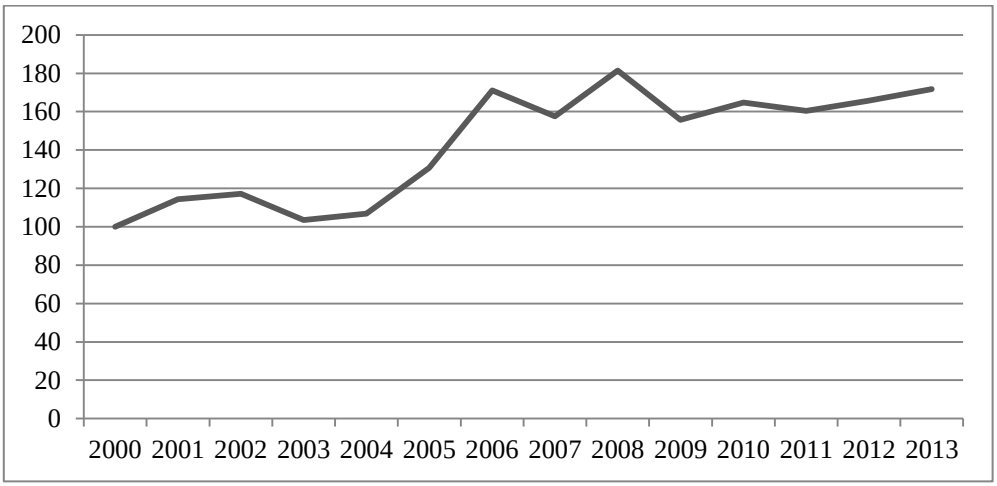
(1) *The strong kwacha.* Since 2000 the real value of the kwacha, in relation to the US dollar and other major currencies, has increased by over 60 per cent (figure 2.4). As a result, the cost of Zambian goods and services to foreign buyers has risen significantly, while the cost of imported goods in Zambia has fallen sharply compared to domestically produced goods and services.

[10] For a discussion, see Salazar-Xirinachs et al. (2014).

[11] e.g. beekeepers collect honey from their hives, and the bees will also pollinate surrounding fields and thus aid farmers; or a foreign firm that demonstrates up-to-date technologies to local firms improves their productivity.

[12] As more firms in related fields of business cluster together, their costs of production may decline significantly (firms have competing multiple suppliers; greater specialization and division of labour result). Even when competing firms in the same sector cluster, there may be advantages because the cluster attracts more suppliers and customers than a single firm could achieve alone.

Figure 2.4. Development of real effective exchange rate (index: 2000 = 100)



Note: An increase denotes an appreciation in real terms of the exchange rate.

Source: World Bank, n.d.

(2) *The impact of HIV/AIDS.* The HIV/AIDS pandemic has taken a very heavy toll on the country's human resources, not least on professionals and skilled workers. It may safely be concluded that this has had a negative impact on labour productivity as well as contributing to an increase in the cost of well-educated and skilled labour, with further negative impacts on competitiveness.[13]

(3) *The lack of skilled human capital.* The current technical and vocational training system in Zambia is not building the skills and competencies that a competitive, dynamic and growing private sector needs to become competitive even in the regional market.[14] As a result, an overall deficiency in skilled labour inhibits productivity increases within sectors, while the mismatch between the skills available and those for which demand is growing hinders productivity increases between sectors and structural change.

2.5 The key role of agriculture

Development of manufacturing needs to go hand in hand with a more dynamic development of agriculture. It is difficult to envisage a successful pursuit of one of these enterprises without parallel effort in the other. All successful structural transformations have begun with productivity growth in agriculture.

Until recently, agriculture in Zambia has been characterized by a trend of stagnating production and falling per capita production and labour productivity. The past few years have seen an increase in production, largely due to an increase in maize production, but it is probably still too early to label this as a trend break. To the extent that there has been growth in production, it is attributable both to an expansion of the cultivated area and to an increase in yields.

[13] This issue is discussed further in Chapter 3.

[14] This issue is discussed further in Chapter 3.

Agricultural development has done little to improve the livelihoods of the majority of small-scale farmers who live in poverty. This can be attributed to two main factors:

(1) the highly unequal land-holding pattern, which has become more unequal over time;[15] and
(2) the transformation to a market-oriented agriculture using improved production methods, which is concentrated among the largest farms and has for the most part bypassed the poor small-scale farmers.

The overall availability of land is not a major constraint on agriculture in Zambia. Only 5 per cent of the total land area is cultivated and it is estimated that the amount of arable land can be increased by 43 per cent (Jayne et al., 2014). However, the distribution of land is highly unequal.

Agricultural holdings can be divided into three broad categories. First, there are fewer than 1,000 very large commercial farms with more than 100 hectares of land each, which control about one-third of all agricultural land. A second category of medium-sized farms (between 2.5 and 100 hectares) control around 37 per cent of all agricultural land. At the other end are a large number of small farms with less than 5 hectares of land, who make up well over 80 per cent of all holdings, but control only 31 per cent of the agricultural land. A more detailed analysis of the 1.4 million farms that have less than 20 hectares of land shows that very small farms with less than 2 hectares of land made up 72 per cent of this category of farms in 2012 (figure 2.5).[16] They hold 40 per cent of cultivated land but account for only about 31 per cent of agricultural production.[17] Some 39 per cent of them have less than 1 hectare, accounting for about 13 per cent of cultivated land and for only 11 per cent of production (figure 2.5). About a quarter of all small and medium-sized farms hold between 2 and 5 hectares of land, but account for 60 per cent of the total agricultural production and 42 per cent of the land.

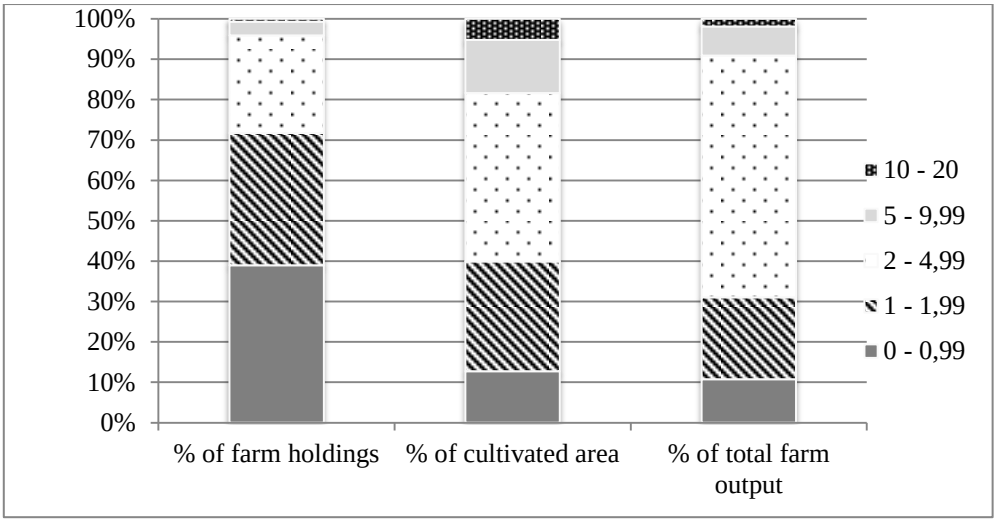
Poverty is closely related to farm size. Some 81 per cent of those with less than 2 hectares of land lived below the poverty line in 2012, compared to 38 per cent of those with 5–10 hectares and 15 per cent of those with 10–20 hectares (Sitko, 2014).

[15] The Gini coefficient of landholding increased from 0.42 in 2001 to 0.49 in 2012 (Jayne et al., 2014).

[16] According to the 2012 Rural Agricultural Livelihood Survey (CSO et al., 2012).

[17] Excluding the large commercial farms with more than 100 hectares of land.

Figure 2.5. Distribution of agricultural land holdings, cultivated land and agricultural production among farms with less than 20 hectares of land, by size of holding, 2012



Note: All figures are from the 2012 Rural Agricultural Livelihood Survey (CSO et al., 2012). The survey excluded farms with more than 20 hectares of land.

Source: Hichaambwa et al., 2014, p. 4; Sitko, 2014.

The agricultural growth of the past decade has been accompanied by changes in land-holding and production patterns. A few farmers have managed to consolidate their holdings and in many cases also shift to more productive modes of production, while most remain stuck in low-productivity subsistence farming, producing barely enough to meet their own basic needs. The total number of farms increased rapidly from 820,000 in 2001 to 1,439,000 in 2009, subsequently falling to 1,400,000 in 2012. The most rapid growth has been among farms holding between 5 and 20 hectares, which multiplied from 146,000 in 2009 to 219,000 in 2012, increasing their share of the total cultivated area from 23 per cent to 40 per cent in the process (Jayne et al., 2014). The number of small farms with less than 2 hectares of land increased from 638,000 to 917,000 between 2001 and 2009, falling to 749,000 in 2012. It would appear that a significant number of small farms with less than 2 hectares of land expanded their holdings and moved up to the 2–10-hectare category, at the same time as others lost land. Larger farms, with 20–100 hectares, have also grown, in terms of both number and cultivated area, but their growth has been entirely overshadowed by that of the 5–20-hectare category.

There is a strong correlation between farm size and market orientation among the small and medium-sized farms. While production for the market increased by 35–40 per cent among farms with 5–20 hectares of land between 2002/03 and 2010/11, it grew by well under 10 per cent among farms with less than 5 hectares (Hichaambwa et al., 2014). By 2009/10 the average annual income from sales of agricultural produce was a mere ZMW 1,000 for farms with less than 2 hectares of land, compared to ZMW 6,500 for farms with 5–10 hectares.[18] Still, farm incomes in that year accounted for over three-quarters of total household incomes, except for the very smallest farms with less than 1

[18] At 2011 prices.

hectare of land.[19] Without any significant sources of cash income, it is virtually impossible to invest in fertilizers, higher-quality seeds, better tools and improved modes of production, so that these smallest farms are stuck in a primitive low-input–low-output mode of production. This is clearly reflected in the fact that returns to land (yields) are by far highest among those with 2–5 hectares of land (figure 2.5).

The reasons for the failure of small farms to break out of low-productivity subsistence farming are quite complex and have been the subject of a number of studies (see e.g. Banda et al., 2011; Bigsten and Tengstam, 2011; Chapoto et al., 2011; Hichaambwa et al., 2014; Jayne et al., 2014; Neubert, 2011; Siegel, 2008; World Bank, 2007)**.** Many small farm households, the vast majority of which are also very poor, suffer from not only a lack of land but also a lack of labour. HIV/AIDS has severely depleted the available labour in many rural households, while very high fertility rates impose a heavy burden of reproductive work on women, significantly reducing the time available for economic activities. Combined with labour-intensive yet low-productivity modes of production, these factors clearly imposes a major constraint on many small farm households. At the same time, high intra-household dependency ratios, resulting from high fertility rates and HIV/AIDS, significantly reduce the ability of these households to save and to invest in tools and technologies that would enhance the productivity of both labour and land.

In this context, an exclusive focus on increasing returns to land, on the assumption that small farms have unutilized labour reserves, will not suffice. The dual challenge of introducing both yield-enhancing and labour-saving technologies and modes of production has to be addressed. Improved extension services and market access are also important – and it is particularly crucial that such facilities be designed to meet the needs of small-scale farmers and not only the larger landowners. It is frequently commented that agricultural development programmes, such as the fertilizer subsidy scheme,[20] are poorly targeted and benefit chiefly the medium-sized and large farms.

A number of studies point to two main pathways out of poverty in rural Zambia. One focuses on increased and better-targeted support to small farms, helping them to evolve from subsistence to market-oriented farming. The focus here is on introducing improved modes of production, tools and other physical capital, and significantly increasing the use of yield-enhancing and soil-enriching inputs in order to boost the productivity of both labour and land. The other pathway, equally important and complementary to the first, focuses on investment in secondary, vocational and post-secondary education of rural children to enable them to break out of chronic intergenerational poverty by equipping them with the education and knowledge required to access productive non-farm jobs or to become successful modern farmers and entrepreneurs. For the latter pathway to succeed, it is also essential to address the widespread problem of child labour.

[19] Households with less than 1 hectare are often forced to supplement farm income by working as day labourers on other (larger) farms, as income from their own farms is simply not enough to meet basic needs.

[20] Called the Fertilizer Support Programme from 2002/03 to 2008/09 and is now Farmer Input Support Programme.

3 Demographic dynamics and human resources development

3.1 Demographic dynamics

3.1.1 A growing population with sustained high fertility

In contrast to the situation in many of its regional neighbours, population growth and fertility in Zambia have not yet begun to fall (see table 3.1)**.** The population grew by an average 2.8 per cent per year over the decade 2000–10, which is the same rate as in the previous decade. The total fertility rate fell somewhat between 1980 and 2000, but has since levelled off at a very high level. The average Zambian woman still gives birth to almost six children over her lifetime, which is among the highest rates in sub-Saharan Africa. As a consequence of the sustained high population growth, the age composition of the population has changed very little over the past decade. Some 45 per cent of the total population are below working age (15 years), while a mere 2.7 per cent are aged 65 or more. People of working age make up slightly over half of the population.

Table 3.1. Key demographic indicators, 2000 and 2010

	2000	2010	Change	% annual growth
Total population	9 885 591	13 092 666	3 207 075	2.8
Rural	6 458 729	7 919 216	1 460 487	2.1
Urban	3 426 862	5 173 450	1 746 588	4.2
Age distribution, %				
0–15	45.3	45.4		
15–24	21.5	20.8		
15–64	52.0	51.9		
65+	2.7	2.7		
Dependency ratio ((0–15 + 65+)/15–64)	0.92	0.92		
Total fertility rate[a]	6.0	5.9		
Urbanization rate, %	34.7	39.5		

[a] The 2007 Demographic and Health Survey arrived at a TFR of 6.7, a slight increase from 5.9 in 2001–02 (CSO; MOH, 2009, p. 59).

Sources: CSO, 2003, p. 34; 2012b, p. 5; CSO and MOH, 2009, p. 59.

3.1.2 Sharp rural–urban differences

The overall picture of continued rapid population growth, high fertility rates and an unchanged age structure masks very large differences in the demographic dynamics between rural and urban areas and between different groups within the population. The total fertility rate is much higher in rural than in urban areas (table 3.2) and the rural–urban gap in fertility has increased since 2000. While in rural areas a woman will on average give birth to and raise seven children, her urban peer will have "only" 4.6 children. Even so, as a result of rural–urban migration the urban population grew twice as fast as the rural population between 2000 and 2010.[21] This combination of high rural fertility rates and large-scale migration to the towns and cities has had major consequences for the age structure and other characteristics of both rural and urban populations.

[21] At 51 and 23 per cent, respectively, over the decade.

Table 3.2. Key demographic data, rural and urban, 2000 and 2010

	Rural 2000	Rural 2010	Urban 2000	Urban 2010
Population	6 458 729	7 919 216	3 426 862	5 173 450
Age distribution				
0–15	46.6	48.6	42.6	40.5
15–24	20.2	19.2	24.0	23.2
15–64	49.8	47.9	56.2	57.8
65+	3.6	3.5	1.2	1.7
Dependency ratio	1.01	1.09	0.78	0.73
Total fertility rate	6.7	7.0	4.9	4.6

Sources: CSO, 2003, p. 34; 2012b, p. 90.

There is a large and increasing rural–urban difference in the *dependency ratio*. Rural–urban migration peaks during the years of early adulthood, as young people move to urban centres in search of better education and employment opportunities. As a consequence, the rural areas are left with a high share of children and elderly in their population and a correspondingly smaller share of people of working age. In 2010 the dependency ratio in rural areas was 1.09, up from 1.01 in 2000, while in urban areas it had fallen from 0.78 to 0.73 (table 3.2). This is one of several important factors behind the large rural–urban difference in poverty and income levels.

3.1.3 The education–fertility–wealth nexus

There is a very close interrelationship between education, fertility and wealth. Fertility falls sharply with the level of education as well as with the level of household wealth (table 3.3). While women with no more than primary education will on average have more than seven children, those with secondary education have on average 4.2 children and those with higher education 2.4 children. The differences in fertility between the richest and the poorest quintiles of households are similarly stark. While the correlations between these three factors may well be complex and multidirectional, it seems safe to conclude that education is very important in bringing down fertility, that education and fertility are very important in improving household incomes and reducing poverty, and that the economic status of a household has a significant impact on the educational possibilities and performance of the children.

Table 3.3. The education–fertility–wealth nexus, 2007

	Total fertility rate
Education of women	
No education	8.2
Primary	7.1
Secondary	4.2
More than secondary	2.4
Wealth quintile	
Lowest	8.4
Second	7.6
Middle	7.2
Fourth	5.2
Highest	3.4
Total	***6.2***

Source: CSO and MOH, 2009, p. 57.

The young population and the sustained high fertility rates imply that the economy, the labour market and the educational system will all be under very strong pressure to provide education and skills to children and young people, and productive jobs for the large numbers of the latter entering the labour market each year.

3.2 Human resources development

The past decade has seen improvements in most key health indicators for Zambia's population. Life expectancy at birth has increased and is now almost back to levels attained before the HIV/AIDS pandemic. The increase in life expectancy is largely attributable to a significant fall in child mortality, from 192 per 1,000 births in 2000 to 138 per 1,000 in 2010, but lower mortality related to HIV/AIDS, as anti-retroviral (ARV) treatment has become more widely available, is no doubt also a factor (table 3.4). Still, malnutrition among children remains a severe problem. In 2007 some 45 per cent of all children under the age of 5 were stunted, 21 per cent severely stunted and 16 per cent underweight. Less than half of all births were attended by skilled health personnel. Less than 10 per cent of the adult population benefited from health insurance and some two-thirds of all health expenditure was covered by the patients themselves through out-of-pocket payments.

Table 3.4. Key health statistics, 2000 and 2010

	2000	2010
Life expectancy at birth[a]		
Male	48	49.2
Female	52	53.4
Child mortality (under 5), per 1,000 births[a]	192	138
Rural areas	206	148
Urban areas	155	118
Prevalence of stunting, % of children under 5		45[b]
Prevalence of wasting, % of children under 5		5[b]
Prevalence of underweight, % of children under 5		15[b]
HIV/AIDS infection rate, both sexes aged 15–59		16.1[b]
% of people with advanced HIV infection benefiting from ARV therapy		79[c]
% of births attended by skilled health personnel		46.5[b]
% of health expenditures covered by out-of-pocket payments	80.4	66.7[c]

Notes: [a] CSO, 2012b, pp. 49, 50, 58. [b] CSO and MOH, 2009, pp. 136, 186, 234; figures refer to 2007. [c] WHO, www.apps.who.int/gho/data/node.main; figures refer to 2012.

3.2.1 The impact of HIV/AIDS on human resources

HIV/AIDS has had a major impact on most aspects of life, livelihood and development. Zambia appears to have passed the peak of the HIV/AIDS pandemic and prevalence rates have begun to fall slowly, from 15.6 per cent in 2000–01 to 14.3 per cent in 2007 and 12.5 per cent in 2013.[22] Nevertheless, the epidemic has stabilized at high levels, and 1.6 per cent of the adult population becomes newly infected each year (Zambia National HIV/AIDS/STI/TB Council, 2009). More women than men tend to be exposed to infection; among the younger age groups in particular, the infection rate is much higher among females than among males. The infection rate in urban areas is almost twice as high as in rural areas, and there are also large regional differences.

[22] http://www.unaids.org/en/regionscountries/countries/zambia.

HIV/AIDS has taken a particularly heavy toll on education and skills. The infection rate increases with the level of education, from 10 per cent among those with no education to 19 per cent among those with higher education. Similarly, the infection rate is higher among persons belonging to the richest 40 per cent of households. In other words, the highest incidence is found among the educated urban population (CSO and MOH, 2009, p. 237). HIV/AIDS undermines access to adequate education and skills as well as increasing inequality to such access. It also undermines the (re)building of human resources by making it harder for the young in households stricken by HIV/AIDS to equip themselves with the education, knowledge and skills required to take up productive employment and escape poverty as adults.

HIV/AIDS is an important cause of poverty and source of impoverishment, even though it is proportionally more widespread among the relatively better-off and better-educated urban population. While the spread of HIV/AIDS may increasingly be brought under control, in view of the still very high prevalence rate of about 13 per cent among the population aged 15–49 (World Bank, n.d.), HIV/AIDS will continue to have major consequences for Zambia's human, economic and social development for many years to come, and will significantly amplify the challenges of achieving more inclusive development and reducing inequality and poverty.

Among the various channels through which HIV/AIDS undermines development efforts and aggravates poverty and inequality, three deserve to be particularly highlighted in the context of the present study.

First, for poor households with little to fall back on economically, illness and death in the family often mean economic disaster, forcing them to sell off precious productive assets such as land and cattle to cope, resulting in landlessness and a fall into chronic extreme poverty and destitution. Studies from elsewhere suggest that the impact of HIV/AIDS on smallholder agriculture is particularly severe.[23] Agriculture both requires a certain minimum labour input during specific periods of time in order to yield any result and imposes special liquidity needs owing to large seasonal fluctuations in expenditures and income. Losing both labour and liquidity, farm households affected by HIV/AIDS often find themselves unable to cultivate their land effectively and forced by the acute need for cash to take up work as day labourers at the expense of their own farms, or to borrow to make ends meet.

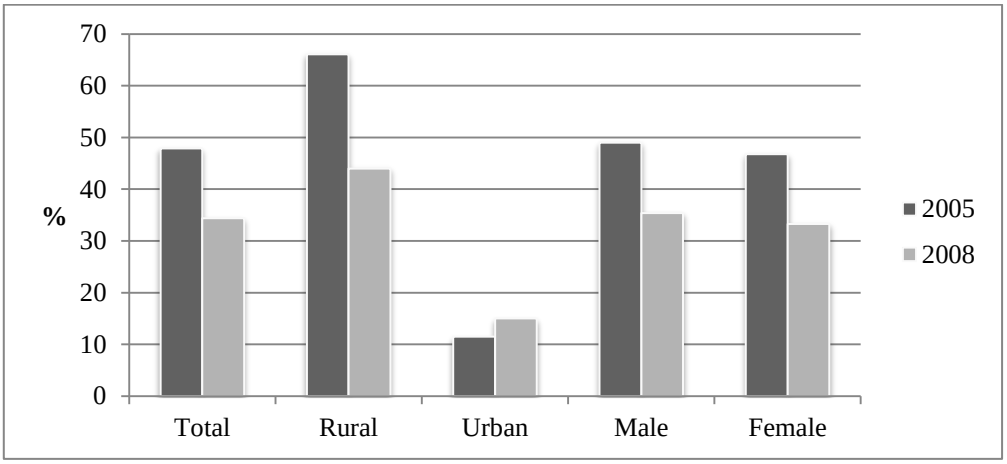
Second, HIV/AIDS depletes the human resource base and weakens the institutional and service delivery capacity of the public sector, both through high attrition rates among professional staff and an increased need for HIV/AIDS-related expenditures. In Zambia as elsewhere, HIV/AIDS has taken a particularly heavy toll on well-educated, skilled and professional workers, such as medical staff, agricultural extension workers and other key groups, notably teachers. High AIDS-related morbidity has drained the stock of qualified teachers, among whom studies have reported an HIV prevalence rate of up to 40 per cent (UCW, 2009, p. 11). This has an inevitable effect on the quality of the education available to children, especially in rural areas.

Third, HIV/AIDS perpetuates the prevalence of child labour – a topic that merits separate treatment here.

[23] For a detailed analysis and discussion see Arrehag et al., 2006; Barnett and Whiteside, 2006.

3.2.2 The high incidence of child labour

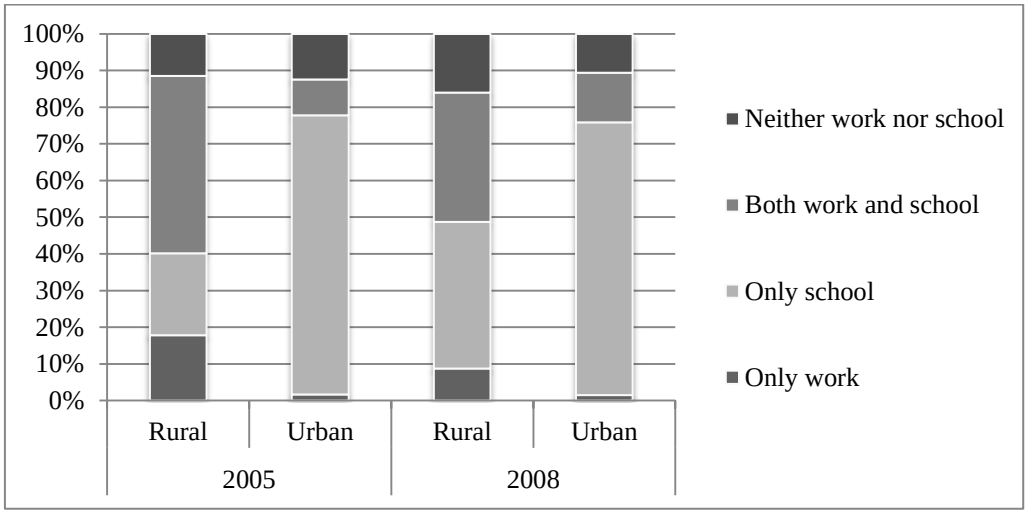
Figure 3.1. Involvement of children aged 7–14 in economic activities (%)



Sources: UCW, 2009, p. 23; 2012, p. 27.

Child labour in Zambia has declined in recent years, but remains high, especially in rural areas (figure 3.1). In 2008, some 44 per cent of all rural children between the ages of 7 and 14 were working. In urban areas, the incidence of child labour actually increased slightly between 2005 and 2008; however, the proportion of children working in towns and cities is very much lower than in rural areas, and child labour remains largely a rural phenomenon and problem. Boys and girls are exposed to child labour to almost the same extent and appear to have benefited in equal measure from the overall fall in child labour.

Figure 3.2. Combining work and education: Children aged 7–14 (%)



Sources: UCW, 2009, p. 15; 2012, p. 27.

Despite the decline in child labour, only 40 per cent of rural children aged 7–14 were in school and not working in 2008. Another 35 per cent found ways of combining school with work, while 9 per cent were only working. By contrast, in urban areas almost three out of four children were only attending school, while less than 2 per cent were only

working (figure 3.2). The difficulties of combining work with school are underscored by the long hours that children are put to work. Working children aged 7–14 work an average of over 30 hours per week, which severely limits their time and energy for study. The average weekly working hours are even higher when the time these children spend on household chores is taken into account (UCW, 2012, pp. 28–9).

There is a strong causal chain that perpetuates poverty and aggravates inequality. Children from poor households are at a distinct disadvantage when it comes to accessing and completing quality education; and those without sufficient education and skills are at a disadvantage in accessing productive jobs. Thus poverty is transmitted from one generation to the next. While this pattern is found in many countries, the high prevalence of HIV/AIDS in Zambia makes it particularly difficult to break out of this vicious circle. This is primarily because loss of adult labour resources through HIV/AIDS forces children to work at the expense of their education, both to replace adult breadwinners and to earn enough to cover medical expenditure resulting from HIV/AIDS. More than three out of four children from the poorest 20 per cent of Zambian households worked in 2005, as against 18 per cent of the children from the richest 20 per cent of households (UCW, 2009, p. 47). In 2005 a quarter of all children aged 5–14 in Zambia were orphans. Some 19 per cent had lost one of their parents and 5.5 per cent had lost both parents, in the vast majority of cases as a result of HIV/AIDS (UCW, 2009, p. 10). Today's child workers will be tomorrow's working poor.

Breaking this vicious circle will require a combination of policy interventions. Among them, some form of income support for children that relieves the pressure on them to contribute to household income and can reduce the incidence and extent of child labour would seem to be essential.

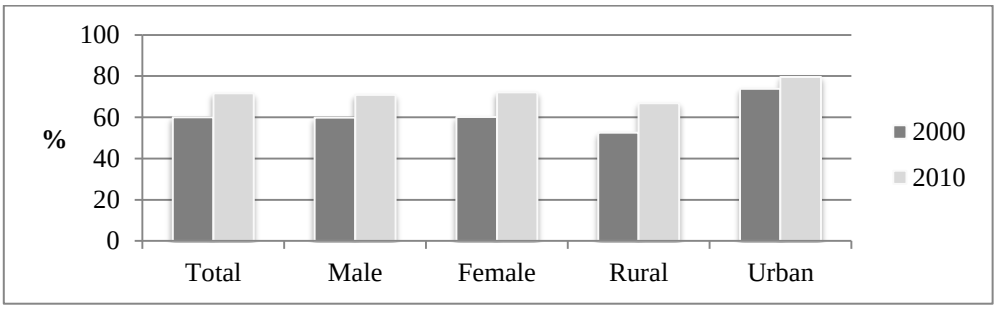
3.2.3 The lack of skilled human capital: Deficiencies in access to education and appropriate training

The current educational level of the entire adult population is low, reflecting poor output of the educational system over a long period.[24] According to the 2010 census, some 45 per cent of the adult population (aged 15 and over) had completed seven years of primary education. However, 16 per cent had not attended school at all or had had less than one year's formal education, and a third had completed no more than four years of primary education. At the other end of the scale, 20 per cent had completed junior secondary school (i.e. 10 classes, excluding any pre-school) and 8.3 per cent had gone on to higher education.

Despite some improvements since 2000 and the introduction of free primary education in 2002, net enrolment in primary education is still far from universal (figure 3.3). In 2010 net enrolment stood at 72 per cent, implying that 28 per cent of all children of primary school age did not attend school. A third of rural children and 20 per cent of urban children in this age range were not attending school. There were virtually no differences in the net enrolment rates between boys and girls, suggesting that the traditionally wide gender gap in the chances of accessing any formal education at all is being closed.

[24] Given that most people obtain their education in childhood and youth, the educational status of the entire population aged 15 and over reflects educational output over the past 50 years or so.

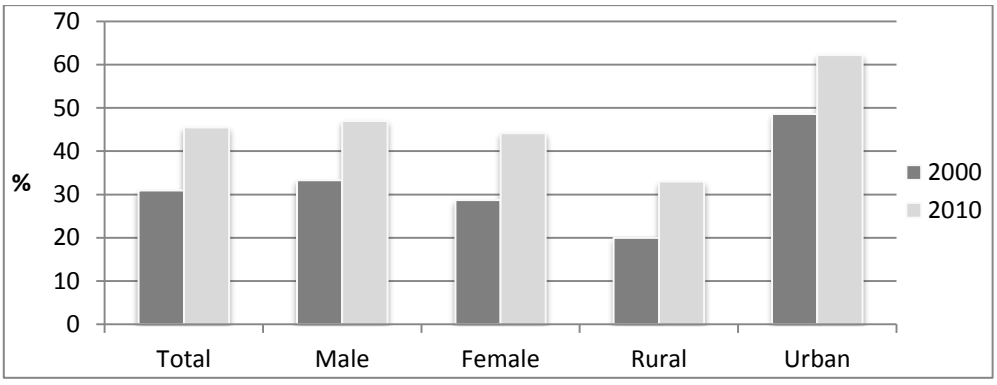
Figure 3.3. Net enrolments in primary education, 2000 and 2010 (%)



Source: CSO, 2012b, p. 28.

There have been significant improvements across the board since 2000 in increasing access to secondary education, with overall net enrolments increasing from 30 to 45 per cent of the appropriate age range (figure 3.4). The increase in net secondary school enrolments was somewhat larger for girls than for boys, and by 2010 the gender gap had narrowed a little. By contrast, the rural–urban difference remained very large, despite considerable improvements in both rural and urban areas. By 2010 about a third of all rural children of secondary school age were enrolled in secondary education, as against more than 60 per cent of their urban peers.

Figure 3.4. Net enrolments in secondary education, 2000 and 2010 (%)



Source: CSO, 2012b, p. 28.

Despite some improvements, however, net enrolments in secondary education remain at a low level, and this, along with the small proportion of children attending right through primary school, highlights the danger that large numbers of young people, in particular in rural areas, will continue to lack the necessary knowledge and skills to access productive jobs when they endeavour to enter the labour market.

Furthermore, notwithstanding these improvements in access to schooling, the technical and vocational education and training (TVET) system is not building the skills and competencies that a competitive, dynamic and growing private sector in Zambia needs. Out of the employed population of 5.5 million, more than 6 per cent have a managerial or professional background, while under 10 per cent are craft workers or machine operators. This translates into a ratio of one manager for 1.6 skilled manual workers. Any labour productivity and industrialization strategy must address this marked

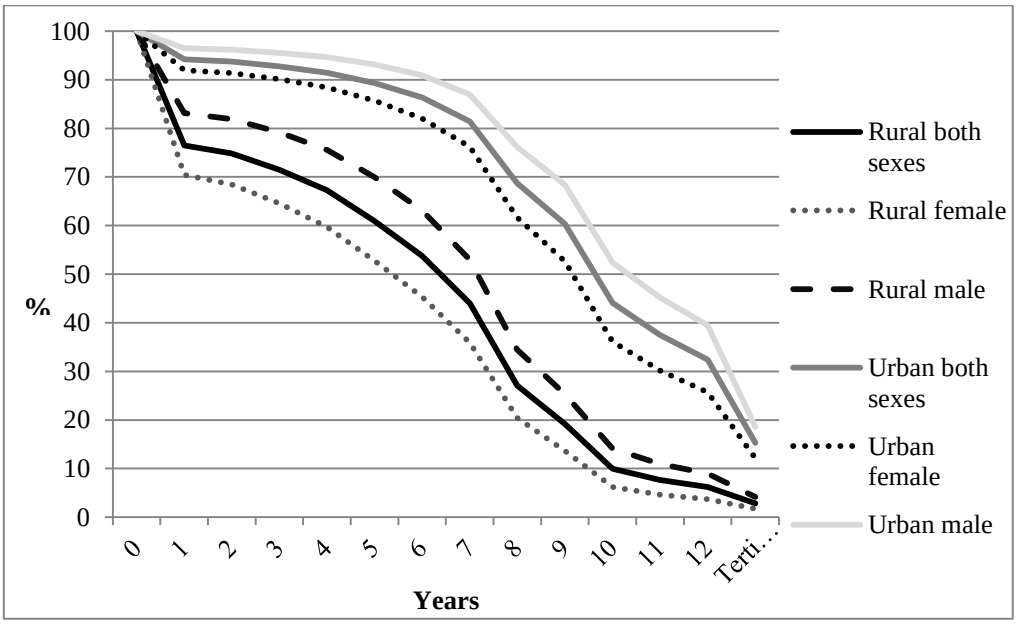
disproportion. A fundamental shift in the conventional way of doing things is called for, with the building of a new approach to the provision of the comprehensive "skills blanket" that the private sector needs if it is to grow. This requires addressing specific skills gaps existing in each industry and significantly improving the labour market information system to enable it to provide data on expanding sectors. Without such an information system, it is impossible to accurately anticipate skills needs. Thorough reform of the TVET system to enable it to deliver the necessary training programmes is also essential.

3.2.4 Unequal access to education

There is pronounced inequality in educational outcomes, both between rural and urban areas and between boys and girls.

The educational status of the rural population is far lower than that of the urban population. Almost a quarter of the rural adult population have less than one year of formal education, implying that most of them lack even very basic literacy skills (figure 3.5). In urban areas this category is insignificant. Only 27 per cent of the rural adult population have completed seven years of primary schooling; without even this level of education they are likely to have very poor prospects of accessing productive non-farm employment, at least in the formal economy. By contrast, 69 per cent of the adult urban population have completed seven years of primary education and 44 per cent have completed junior secondary education (ten years in all). These very large differences are the combined effects of poorer access to education in rural areas, for reasons discussed above, and migration of better-educated youth and adults from rural to urban areas in search of better jobs or educational opportunities. In consequence, there is a severe human resource deficit in rural areas, which is intertwined with lack of productive job opportunities and high rates of poverty.

Figure 3.5. Years of completed formal education among population aged 15 and over by rural and urban areas and gender, 2010 (%)

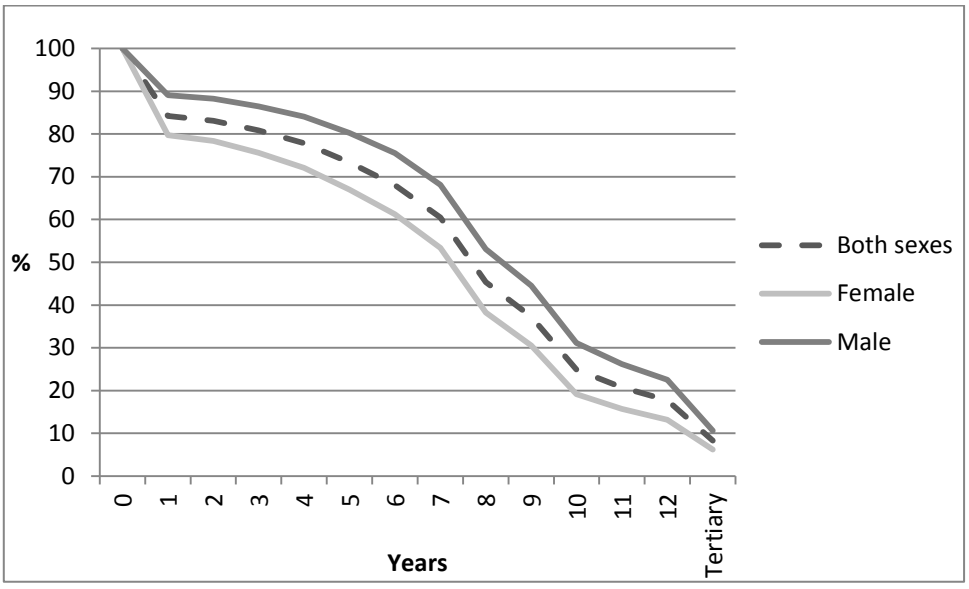


Source: CSO, 2012c, pp. 202–10.

There are also large differences in educational outcome between women and men, in both rural and urban areas (figure 3.5). Overall, men outperform women in terms of educational attainment. The gender-based differences in educational outcome primarily reflect the fact that the share of women with no or less than one year of education is twice as high as that of men. Beyond primary education, there are no major differences in drop-out rates between boys and girls.

When the rural–urban and male–female differences are combined, a picture of huge inequalities in educational achievement emerges (figure 3.5). By 2010, some 30 per cent of all rural women over the age of 15 had received less than one year of education, as against less than 4 per cent of the urban men, and less than 14 per cent of all rural women had completed junior secondary education, as against 68 per cent of urban men.

Figure 3.6. Years of completed education of population aged 15 and over by gender, 2010 (%)



Source: CSO, 2012c, pp. 202–10.

These marked inequalities in educational achievements contribute significantly to the high and increasing inequalities both in income and in access to productive employment. There are three main reasons for this. First, the large rural–urban differences in education create geographical inequalities. Second, the fact that a majority of women in rural areas have little or no formal education effectively prevents them from moving out of low-productivity subsistence farming and contributes to high fertility. Third, a large share of the adult population of both sexes, particularly in rural areas, does not have sufficient education to access productive employment in the non-agricultural formal economy. These are major concerns that will need to be addressed if Zambia is to achieve a more broad-based and inclusive economic development that reduces inequality and poverty.[25]

[25] A detailed analysis of the links between education and labour market outcomes is provided in section 5.2.

4 Poverty and inequality

4.1 Trends and patterns in poverty and inequality

Both total poverty and extreme poverty in Zambia fell until 2004. The decline in total poverty was more pronounced in urban than in rural areas, resulting in a widening rural–urban poverty gap.[26]

Since 2004 poverty has fallen very slowly, if at all, in both urban and rural areas. Of even greater concern is that extreme poverty appears to have fallen hardly at all since 2004. In 2010, at least three-quarters of the rural population were living in poverty and well over half in extreme poverty, while about a third of the urban population were living in poverty and about 13 per cent in extreme poverty.

Table 4.1. Development of headcount poverty, rural and urban areas, 1996–2010 (%)

	Moderate and extreme poverty			Extreme poverty		
	Total	Rural	Urban	Total	Rural	Urban
1996	68.1	84.2	40.5	44.5	61.3	15.8
1998	67.0	83.2	39.5	43.5	59.5	16.5
2004	58.4	77.4	29.1	36.3	52.4	11.2
2006	59.3	76.8	26.7	36.5	50.7	10.2
2006 rev WB	62.3	75.1	38.7	40.4	54.2	14.8
2010 rev WB	60.5	73.8	35.3	39.3	53.3	12.8
2006 CSO	62.8	80.3	29.7	42.7	58.5	13.0
2010 CSO	60.5	77.9	27.5	42.3	57.7	13.1

Note: The methodology was revised in 2006. Figures for 1996–2006 are comparable. 2006 rev WB and 2010 rev WB are based on a World Bank methodology that differentiates between rural and urban costs of living. 2006 CSO and 2010 CSO are estimates by the Central Statistical Office that apparently use common cost of living estimates for rural and urban areas.

Source: CSO, 2012d, pp. 181–3; World Bank, 2012, p. 21.

The stagnation of poverty at very high levels despite strong GDP growth can at the aggregate level be explained by an increase in income inequality. The Gini coefficient rose from 51 in 2004 to 56 in 2006 and 58 in 2010. By 2010 the poorest 10 per cent of households in Zambia accounted for a mere 1.5 per cent of total consumption, while the wealthiest 10 per cent accounted for almost half (table 4.2).

[26] World Bank poverty estimates for 2010 differ from those of Zambia's Central Statistical Office mainly because the World Bank factors in differences in the cost of living between rural and urban areas, while the CSO uses a uniform poverty line across the country. As a result the World Bank arrives at higher poverty estimates in urban areas and lower estimates in rural areas than the CSO. The tables in this chapter present both sets of estimates for changes in overall poverty levels, while for information on the characteristics of the poor the CSO data are used. The choice of methodology does not have any major impact on the picture that emerges as to the characteristics of the poor.

Table 4.2. Economic inequality: Gini coefficient and consumption inequality, 2006 and 2010

	Gini	1st decile	1st quintile	5th quintile	10th decile
2006	56	1.5	3.6	59.4	43.1
2010	58	1.5	3.6	62.2	47.1

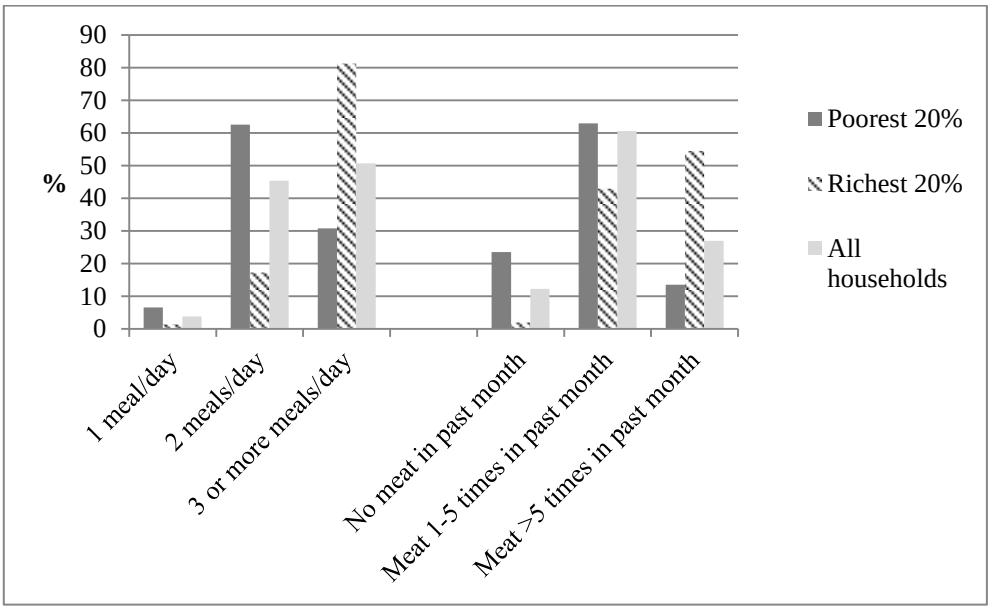
Source: World Income Inequality Database, available at: http://www.wider.unu.edu/research/WIID3-0B/en_GB/database/ [30 Aug. 2015].

Despite the large rural–urban differences in poverty and in income, a decomposition of inequality shows that only 23 per cent of it is due to rural–urban differences, while 77 per cent is due to inequality within both rural and urban areas. These very high levels of inequality are reflected in the Gini coefficient, which stood at 43 for rural areas and 47 for urban areas in 2010. Similarly, despite the regional differences in poverty, inequality between provinces accounts for only 18 per cent of the total inequality, while inequality within provinces accounts for 82 per cent.

The high rates of economic growth achieved between 2006 and 2010 have primarily benefited the relatively better-off in urban areas. Over this period, average annual consumption in rural areas, where the vast majority of the poor live, grew by less than 1 per cent throughout the population, except for the highest 5 per cent of spenders, where it reached 1.5 per cent. In urban areas, too, growth left the poor behind. For the poorest 50 per cent of the urban population, average annual consumption grew by less than 1 per cent per year; for those from the sixth to the ninth decile it grew by 1–2 per cent, and for the richest 5–10 per cent of the urban population it reached 3–4 per cent per year (World Bank, 2012).

Poverty is closely associated with inadequate food intake. Only 31 per cent of the 20 per cent poorest households can afford three meals per day and almost 7 per cent have only one meal per day. Almost a quarter of the poorest 20 per cent do not eat meat even once a month, and less than 13 per cent can afford to eat meat five times or more per month, as against more than half of the richest 20 per cent (figure 4.1).

Figure 4.1. Poverty and food consumption, 2010



Source: World Bank, 2012, p. 44.

There are large regional differences both in absolute levels of poverty and in changes in those levels (table 4.3). The lowest poverty rates are found in Lusaka and in the Copperbelt, both regions with predominantly urban populations. Across all the other, largely rural, provinces levels of poverty are high, although there are some significant variations. Extreme poverty is highest in the Western Province and in Luapula Province, where almost two-thirds of the population lived in extreme poverty by 2010. Luapula also appears to have witnessed a considerable increase in both overall and extreme poverty between 2006 and 2010. Extreme poverty increased in four out of nine provinces and fell significantly only in the Central Province.

Table 4.3. Poverty rates by province, 2006 and 2010 (%)

	World Bank estimates		CSO estimates			
	Poverty, total		Poverty, total		Extreme poverty	
	2006	2010	2006	2010	2006	2010
Central	67.2	54.7	70.7	60.9	48.8	36.7
Copperbelt	40.6	39.7	37.3	34.3	19.5	18.3
Eastern	73.9	74.9	78.5	77.9	56.4	58.7
Luapula	73.4	80.2	73.9	80.5	53.6	64.9
Lusaka	37.5	34.3	24.7	24.4	10.3	11.5
Northern	72.5	72.5	78.5	75.0	57.5	55.8
Northwestern	77.4	68.4	70.7	67.0	44.6	46.1
Southern	65.6	66.0	73.0	67.9	50.9	47.3
Western	79.3	74.1	83.3	80.4	64.6	64.0

Sources: CSO, 2012d, pp. 183–4; World Bank, 2012, p. 123.

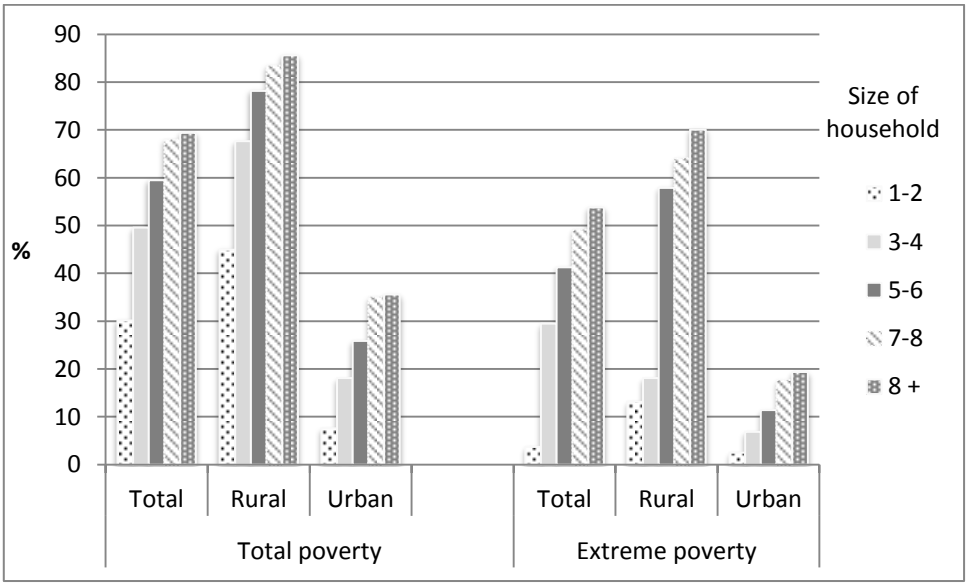
4.2 The main characteristics of poor and extremely poor households

4.2.1 Household size

Both overall and extreme poverty are closely related to household size. The larger the household, the higher the risk of poverty, and in particular of extreme poverty. In rural areas the incidence of extreme poverty increases from 18 per cent in households with no more than four members to 58 per cent in households with 5–6 members and to 70 per cent in households with eight members or more (figure 4.2). The urban population displays a similar pattern, although at much lower overall levels of extreme poverty. It is safe to assume that the sharp increase in poverty with household size is primarily due to a high dependency ratio in large households. Large households have many more children to support than smaller households, but not necessarily more breadwinners. It should be recalled that fertility remains very high, particularly in rural areas.

Women with higher levels of education tend to have many fewer children than women without or with only very little formal education. Women with higher levels of education are also likely to be able to access better jobs and have a higher earning capacity. From a policy perspective, the figures highlight the potential importance of some kind of income support for children to reduce extreme poverty. This conclusion reinforces the need for such support to reduce the incidence of child labour, as identified in section 3.2.2 above.

Figure 4.2. Rates of total and extreme poverty by size of household, 2010 (%)



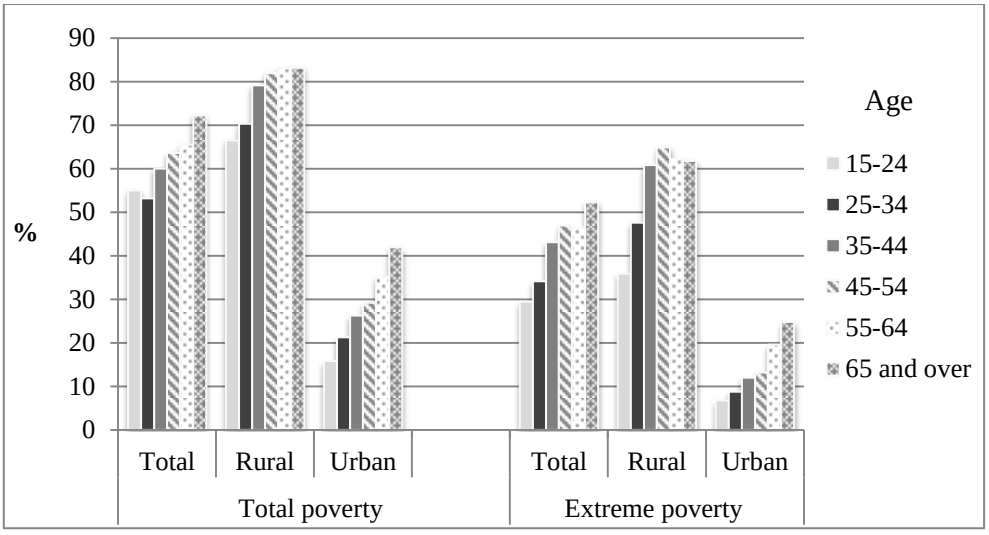
Source: CSO, 2012d, p. 188.

4.2.2 Age, gender and education of head of household

The incidence of poverty also increases with the age of the head of the household, particularly in urban areas. Some 42 per cent of urban households where the head of household is 65 or more live in poverty, and some 25 per cent in extreme poverty. This is far above the population averages of 28 per cent and 13 per cent respectively (figure 4.3

and table 4.1). It thus appears that extreme poverty in urban areas affects primarily people beyond working age who have little or no income support from sources other than labour. From a policy perspective, this points to the need for an old-age pension. In rural areas a different pattern is evident: here there is little difference in the incidence of poverty with age of head of household from 35 upwards.

Figure 4.3. Rates of overall and extreme poverty by age of head of household (%)

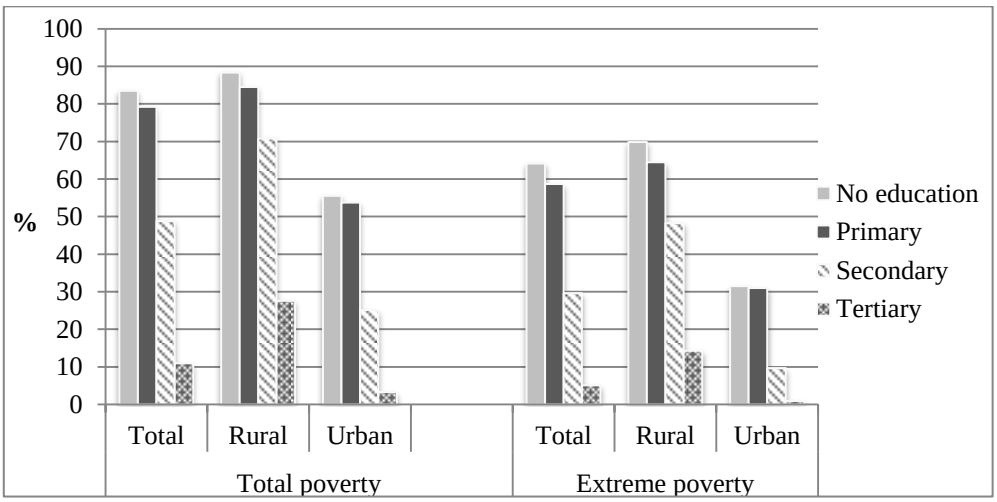


Source: CSO, 2012d, p. 188.

Poverty, in particular extreme poverty, is higher among female-headed households than among households headed by men. In 2010, some 44.4 per cent of female-headed households suffered from extreme poverty as against 41.9 per cent of male-headed households (CSO, 2012d, p. 190). More detailed information on differences between the characteristics of female- and male-headed households is needed to identify the precise reasons behind these gender-based differences in poverty rates. One plausible suggestion is that female-headed households have fewer working-age members and that they tend to be both poorer and more vulnerable, often with only one, female, breadwinner.

Poverty is closely related to the level of education of the head of household (figure 4.4). Achieving only primary education is not usually enough to lift a household out of poverty: there is little difference in the incidence of poverty between households where the head has had no formal education and where he or she has had primary education. Where the head of household has had secondary education, however, the incidence of both overall and extreme poverty falls sharply in both rural and urban areas; and where he or she has had higher, tertiary education, the incidence of poverty is only a small fraction of the average. These findings are confirmed and reinforced by panel data surveys, which clearly show that secondary education is key to escaping chronic poverty (Chapoto et al., 2011, p. 19).

Figure 4.4. Poverty and extreme poverty rates by level of education of head of household (%)

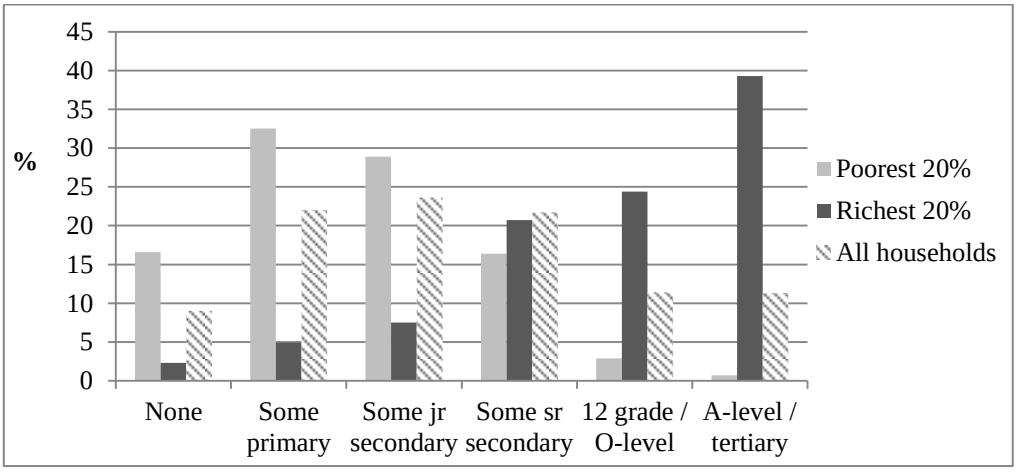


Note: Primary education covers grades 1–7, junior secondary grades 8–9, senior secondary grades 10–13.

Source: CSO, 2012d, p. 189.

The very strong relationship between education and income/consumption levels appears even more starkly when the educational levels of the poorest 20 per cent of households – basically, the lower half of the extremely poor – are set against the educational levels of the richest 20 per cent of households (figure 4.5). Some 84 per cent of the heads of the richest households had continued education beyond junior secondary level, as against only 20 per cent for the poorest quintile.

Figure 4.5. Educational levels of heads of household of the poorest and richest quintiles of households (%)



Note: Primary education covers grades 1–7, junior secondary grades 8–9, senior secondary grades 10–13. O-level exams are taken at the end of 12th grade and A-level at the end of 13th grade.

Source: World Bank, 2012, p. 43.

Education reduces exposure to poverty by several means, the most important of which are likely to be increased employment opportunities and lower fertility. The figures confirm findings from other countries that secondary education is essential for accessing wage employment in the formal economy and for successful entrepreneurship. This conclusion is reinforced by large rural–urban differences in both levels of education and availability of productive non-agricultural jobs.

4.2.3 Employment status and sector of head of household

The vast majority of agricultural households (where the head of household is a farmer) live in poverty. Some 62 per cent of these households live in extreme poverty, while under 18 per cent have a consumption level above the poverty line (table 4.4). Indeed, more than four-fifths of the poorest quintile – who make up the bottom half of the extremely poor – derive their living from farming (figure 4.6). At the other end of the scale are households deriving their living from wage employment, where three out of four households have a consumption level above the poverty line. In almost six out of ten of the richest quintile the head of household is a wage-earner; these are divided almost equally between the public and private sectors (figure 4.6). However, wage employment is no guarantee against poverty. In the rural areas almost half of the households headed by a wage worker are poor and well over a quarter of them live in extreme poverty. By contrast, extreme poverty among urban households headed by a wage-earner is fairly rare. A plausible reason for the high incidence of poverty among rural households headed by wage workers, though it remains to be validated, is that a large share of them are agricultural workers.

Table 4.4. Poverty and extreme poverty by employment status of head of household, 2010 (%)

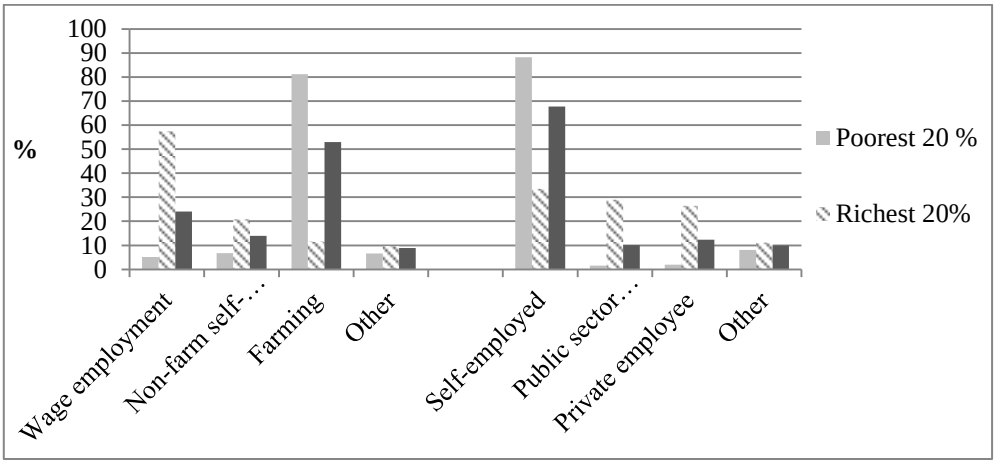
	Total poverty			Extreme poverty		
	Total	Rural	Urban	Total	Rural	Urban
Wage worker	25.3	46.1	15.2	12.6	27.9	5.1
Non-farm self-employed	42.0	65.2	30.6	23.5	41.1	14.8
Farming	82.4	84.0	56.4	62.1	63.8	33.6
Unpaid/piece worker	67.4	80.3	59.2	45	64.4	32.5
Unemployed	54.5	83.9	46.3	30.5	61.2	22.0
Inactive	43.2	79.6	26.9	28.6	59.2	14.9
All households	60.5	77.9	27.5	42.3	57.7	13.1

Source: CSO, 2012d, p. 189.

Non-agricultural self-employed ("own account") workers are found across the entire income spectrum, reflecting the great heterogeneity of this category which ranges from successful entrepreneurs to impoverished "shoeshine boys" and street vendors. About a fifth of the richest households are headed by a non-farming self-employed person. This may reflect the incidence of highly successful entrepreneurs. In rural areas, households headed by own account workers in non-agricultural sectors tend to be somewhat better off than agricultural households, yet even so two-thirds of them are poor and over 40 per cent of them live in extreme poverty. This suggests that, at least in rural areas, diversification out of agriculture is far from a guaranteed route out of poverty. Indeed, such diversification may often be a matter of necessity rather than a voluntary move to grasp attractive profit and income opportunities. Nevertheless, complementing farm income

with income from other economic activities does increase the chances of escaping poverty (Chapoto et al., 2011, p. 179).

Figure 4.6. Employment status of heads of household in the poorest and richest quintiles, 2010 (%)



Source: World Bank, 2012, p. 46.

4.2.4 Unemployment

Overall, unemployment among urban heads of household seems to be associated with poverty. In rural areas the incidence of both general poverty and extreme poverty among households with an unemployed head is about the same as for agricultural households and somewhat higher than for non-farm self-employed. By contrast, in urban areas the incidence of both moderate and extreme poverty is much higher among the unemployed than across all types of household (table 4.4).

4.2.5 Differences within rural and urban areas

Almost the entire reduction in poverty between 2006 and 2010 was accounted for by non-agricultural rural households,[27] which make up a mere 4 per cent of all households and registered a significant fall in poverty over these five years. This may be a sign that economic diversification in rural areas, which is still at a very early stage, is being driven by earning opportunities rather than by people being pushed out of agriculture. Among the very large category of small-scale farm households, which made up 59 per cent of all households in 2010, both overall and extreme poverty remained unchanged at very high levels. It is noteworthy that exposure to poverty is not much lower among the medium-sized farm households than among the small farm households. While poverty among small-scale farmers may be explained by limited access to land, the very high incidence of poverty among middle-sized farm households suggests that there are other binding constraints preventing rural households from escaping poverty.

[27] The 2006 and 2010 Living Conditions Monitoring Surveys (CSO, 2012d) divide households into seven – four rural and three urban – categories. Rural households are categorized as (1) small-scale agricultural, (2) medium-scale agricultural, (3) large-scale agricultural and (4) non-agricultural households. Urban households are categorized depending on the cost of housing: low, medium and high cost.

In urban areas, poverty is much less frequent in large cities than in smaller towns. More importantly, while poverty among households in low-cost urban areas, mainly smaller towns, remained unchanged between 2006 and 2010, it fell considerably among households in medium- and high-cost areas, i.e. in larger towns and cities. This is in line with the overall conclusion that income growth has been largely concentrated in the richest households. There may be several reasons for the persistent level of poverty among households in low-cost urban areas: it may reflect a stagnation among this group, but could also reflect the combined effect of an inflow of poor people from rural areas and a shift of some households to medium-cost areas as their income improves.

Poverty in rural areas – where the vast majority of the poor live – is entrenched and largely chronic. Panel data surveys of some 4,300 rural households between 2001 and 2008 (Chapoto et al., 2011, p. 11) revealed that out of 89 per cent poor households in 2001, some 82 per cent were still poor in 2008, while less than 7 per cent had managed to escape poverty. Over the same period 8 per cent of the 11 per cent non-poor households managed to escape poverty. Overall poverty increased marginally by one percentage point. Put differently, the survey showed that 79 per cent of rural households were chronically poor and only 2 per cent were consistently non-poor, while the remaining 19 per cent moved in and out of poverty over the period.

5 Labour force dynamics and employment characteristics

5.1 The labour force: Activity and inactivity

5.1.1 An overview of trends in the labour market

Zambia's working-age population is young and growing. The 2012 LFS estimated the country's total population at 14.4 million, up from 12.3 million in 2008 (CSO, 2013). The working-age population (15 years and above) numbered 7.9 million in 2012, compared to 6.7 million in 2008. In both 2008 and 2012, youth (aged 15–24) represented 39 per cent of the working-age population, while those aged 15–34 represented approximately 65 per cent of the working-age population (table 5.1).

Table 5.1. Overview of labour force characteristics, 2008 and 2012

	2008			2012		
	Total	Male	Female	Total	Male	Female
Total population	12 298 000	6 149 000	6 149 000	14 375 601	7 087 171	7 288 430
Working-age population, 15+	6 716 000	3 303 000	3 413 000	7 861 259	3 823 172	4 038 087
Aged 15–24	2 635 125	1 281 395	1 352 730	3 076 077	1 491 273	1 584 804
Aged 15–34	4 394 847	2 135 512	2 259 335	5 048 456	2 418 576	2 629 879
Labour force 15+	5 003 871	2 603 822	2 400 049	5 966 199	2 885 146	3 081 053
Employed	4 606 846	2 391 785	2 215 061	5 499 673	2 702 410	2 797 263
Unemployed	397 025	212 037	184 988	466 526	182 736	283 790
Inactive	1 712 000	699 000	1 013 000	1 895 060	938 027	957 033
Dependency ratio, actual, %	1.67			1.61		
Dependency ratio, age-based, %	0.83			0.83		
Activity rate, %	74.5	78.8	70.3	75.9	75.5	76.3
Employment rate, %	68.6	72.4	64.9	70.0	70.7	69.3
Unemployment rate, %	7.9	8.1	7.7	7.8	6.3	9.2
Inactivity rate, %	25.5	21.1	29.7	24.1	24.5	23.7

Notes: Dependency ratio, actual: total non-employed population divided by total employed population. Dependency ratio, age-based: non-working age population (under 15 and 65+) divided by working-age population.

Sources: CSO, 2011, 2013.

Labour force participation is high and increasing. Overall, three-quarters of people of working age are active in the labour force. Between 2008 and 2012, the labour force increased slightly faster than the working-age population. As a consequence, the labour force participation rate (or activity rate) improved from 74 per cent in 2008 to 76 per cent in 2012.

Labour force participation is increasing because many women are entering the labour force. Between 2008 and 2012 the female activity rate increased by 6 percentage points from 70 per cent to 76 per cent, while in contrast the male activity rate decreased by 3 percentage points over the same period from 79 per cent to 76 per cent. By 2012, the female labour force participation rate was higher than the male (76.3 versus 75.5 per cent)

(table 5.1). Over the same period, women's labour force has grown more than twice as much as men's (table 5.2).[28]

Table 5.2. Labour force characteristics: % growth, 2008–12

	Total	Male	Female	Urban	Rural
Total population	16.9	15.3	18.5	36.8	6.6
Working age population, 15+	17.1	15.7	18.3	40.7	3.6
Labour force, 15+	19.2	10.8	28.4	59.7	1.3
Employed	19.4	13	26.3	66.9	1.5
Unemployed	17.5	−13.8	53.4	26.5	−3.1
Inactive	10.7	34.2	−5.5	8.4	13.3

Sources: Author's calculations based on data from 2008 and 2012 labour force surveys.

Growth in labour force participation is translating into growth in employment. The aggregate employment rate increased from 69 per cent to 70 per cent between 2008 and 2012, and the total number of workers employed from 4.6 million to 5.5 million. The aggregate unemployment rate remained constant at 7.8 per cent during the period, representing a total of 466,000 unemployed in 2012. The number of female unemployed doubled, while the number of male unemployed actually fell by 14 per cent. The pace at which female unemployment has grown, i.e. double the rate of employment, suggests that the increased labour force participation of women has been driven less by attractive job opportunities for women than by greater numbers of women seeking sources of income, alongside a lack of available jobs.

The differences in labour force growth between urban and rural areas are remarkable and suggest a more rapid urbanization than previously estimated.[29] Between 2008 and 2012, the labour force in urban areas appears to have more than doubled while the growth was virtually nil in rural areas. Employment in urban areas seems to have grown by nearly 70 per cent and unemployment by 26 per cent, while over the same period in rural areas employment increased by 2 per cent and unemployment fell by 3 per cent.

Rates of economic inactivity are slightly decreasing, but with stark differences between men and women. Between 2008 and 2012 the inactivity rate rose from 21.1 per

[28] The 2012 LFS classifies substantial numbers of urban women as being engaged in "undifferentiated goods and service-producing activities of private households for own use" (category T98 in the International Standard Industrial Classification of All Economic Activities (ISIC) Rev. 4), resulting in an apparent rapid growth of female labour force participation and employment between 2008 and 2012. As this category did not exist in the 2008 LFS, it is impossible to establish its precise contribution to the overall growth in female labour force participation.

[29] It should be noted that as a consequence of an underestimation of the rate of urbanization since 2000 and a slight underestimation of total population growth, the 2008 LFS, which used the 2000 census as its sampling frame, appears to have overestimated the rural population by half a million or 6.2 per cent and underestimated the urban population by almost 600,000 or 14 per cent. Hence, while the estimation errors are unlikely to have had much impact on statistics on the composition and characteristics of the rural and urban labour force, respectively, figures on development of the labour force and employment in urban and rural areas between 2008 and 2012 should be interpreted with some caution.

cent to 24.5 per cent for men, but fell from 29.7 per cent to 23.7 per cent for women (table 5.1). This suggests that some males are staying longer in school, while others are becoming discouraged and leaving the labour force altogether. The factors behind this trend are discussed in section 5.1.3 below.

The dependency burden is lightening in urban areas, but not in rural ones. Overall, the actual dependency ratio fell from 1.67 to 1.61 between 2008 and 2012 (table 5.1). This fall is mainly explained by a sharp drop in the urban actual dependency ratio from 2.32 to 1.72, while the urban age-based dependency ratio fell from 0.71 to 0.67. This implies that even at constant earning and productivity levels a worker would have become increasingly better off, owing to a lighter dependency burden. By contrast, the actual dependency ratio increased in rural areas from 1.43 to 1.55 and the age-related ratio from 0.9 to 0.96, implying that the same worker has to earn more than before to stay out of poverty as he/she has more dependants to support. Thus, at constant productivity and earning levels, working poverty would have increased in rural areas.

The following sections examine in detail the trends in labour force characteristics between 2008 and 2012, with a focus on the inequality of opportunities that workers face in the labour market, using the following broad distinctions: men/women, youth/adult, formal/informal and rural/urban.

Box 5.1. Definitions of youth

In Zambia, the 2006 National Youth Policy uses the age range 18–35 years as the definition of "youth", while the revised National Youth Policy (currently under review) uses the range 15–35 years, in line with the African Youth Charter.

The United Nations defines youth as bounded by the age range 15–24 years, while the ILO school-to-work transition survey uses the range 15–29 years.

The variation in the upper limit of "youth" varies across these definitions reflects the fact that young people are tending to remain in education longer: the higher upper limit enables studies to capture more information on the post-graduation employment experiences of young people.

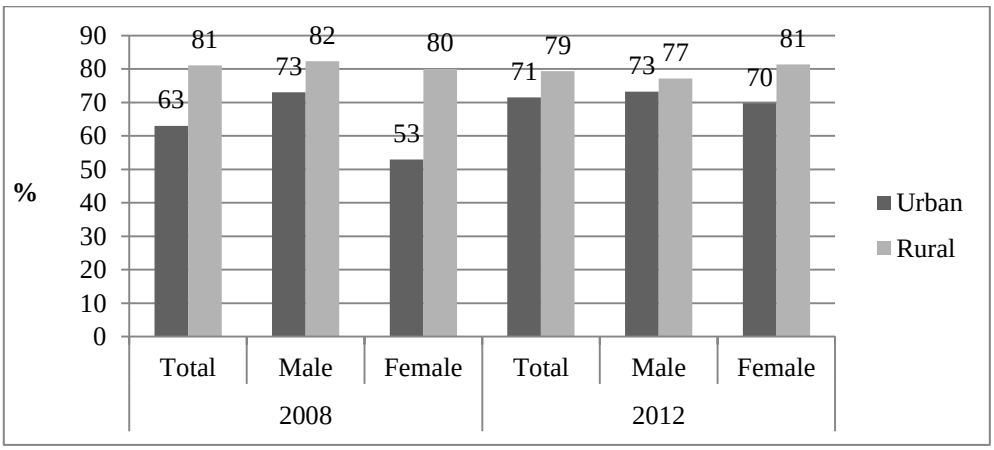
For the purpose of this paper, "youth" is defined in accordance with Zambia's 2012 LFS and the revised National Youth Policy as those aged 15–35 years.

5.1.2 Labour force participation

Women are increasingly participating in the labour market, particularly in urban areas. The sharp increase in the urban labour force participation rate between 2008 and 2012, from 63 to 71.5 per cent, is entirely due to an increase in female labour force participation, which rose from 53 per cent in 2008 to 70 per cent in 2012 (figure 5.1).[30] The female participation rate also increased in rural areas, from 80 per cent in 2008 to 81 per cent in 2012, thus overtaking the corresponding rate for men.

[30] Part of this increase took the form of women's self-employment within their own households, producing goods and services mainly for own consumption (ISIC Rev. 4, category T98). See n. 27 above.

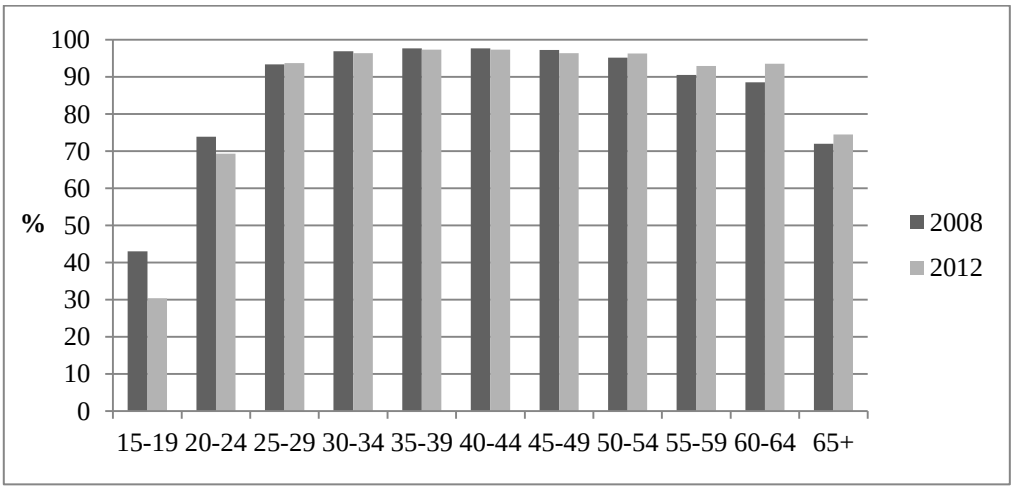
Figure 5.1. Labour force participation rate, urban and rural, by gender, 2008 and 2012 (%)



Sources: CSO, 2011, table 5.1; 2013, table 5.1.

Men's participation in the labour market is falling in rural areas and for the youngest age groups. Urban labour force participation among men remained stagnant at 73 per cent, in rural areas it fell significantly from 82 per cent to 77 per cent between 2008 and 2012. This fall explains the overall decrease in the participation rate in rural areas from 81 per cent to 79 per cent (figure 5.1). Similarly, the decline in the overall male labour force participation rate is explained by a reduction in the rate for young men (aged 15–24) from 55 per cent to 46 per cent between 2008 and 2012 (figure 5.2). This decline in the participation rate for the youngest male cohort echoes the finding that young men are staying longer in education. In 2012, many more males than females were economically inactive because they were in education (81 per cent of inactive men versus 63 per cent of inactive women: CSO, 2013, table 5.8). (For an analysis of educational outcomes, see sections 3.2.3 and 3.2.4 above.)

Figure 5.2. Male labour force participation rate by age group, 2008 and 2012 (%)



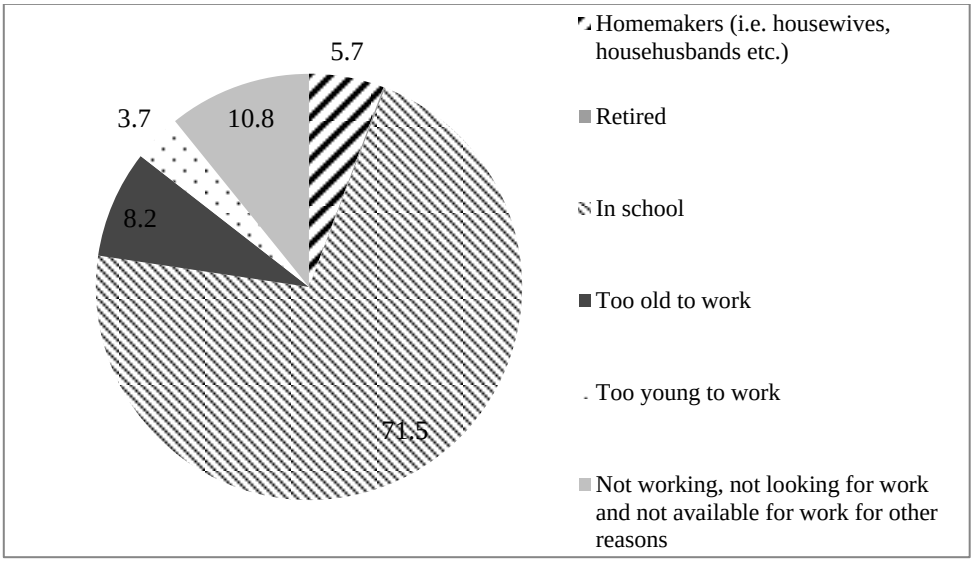
Sources: CSO 2011, table 5.2; 2013, table 5.2.

5.1.3 The economically inactive

Zambia has 1.9 million economically inactive citizens, divided equally between men and women. The reasons for inactivity include are participation in education and schooling, retirement, engagement in reproductive and household work, discouragement (the belief that there are no jobs available), and sickness or disability.

The main reasons for inactivity are education and retirement. The 2012 LFS reports that 72 per cent of the inactive cited education and schooling as the main reason (CSO, 2013). Another 11 per cent gave retirement as the reason, while a further 8 per cent felt that they were too old to work (figure 5.3). The picture that emerges of the economically inactive in Zambia is one of mainly young people aged 15–24 and older people aged 60 and above.

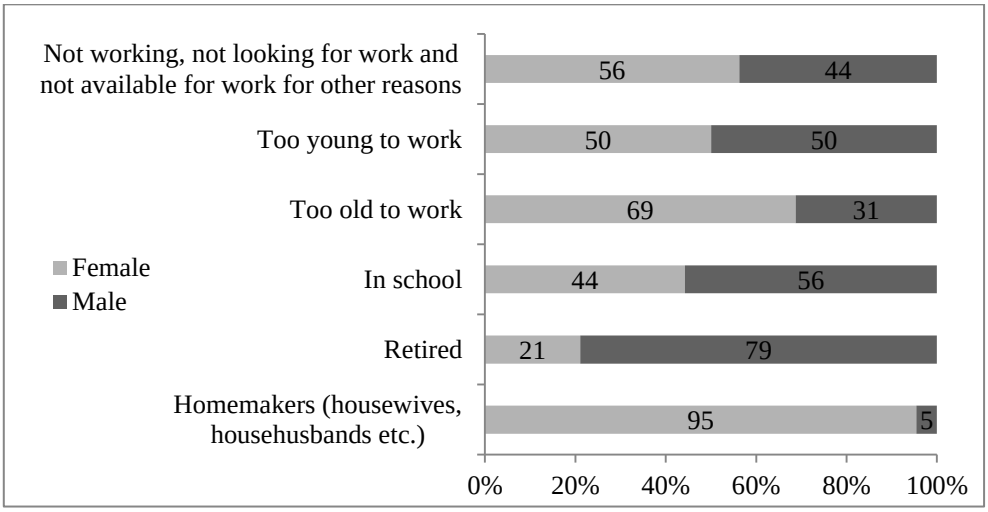
Figure 5.3. Distribution of the economically inactive population by reason for inactivity, 2012 (%)



Source: CSO 2013, table 5.8.

The reasons for inactivity differ markedly between men and women. Almost all homemakers are women (figure 5.4). A lot more young men than young women are inactive because they are in school. Among older age cohorts, it is striking that those in (pensioned) retirement are mostly men (79 per cent), while those who are too old to work but not receiving a pension are mostly women (69 per cent). Women are also more likely to say that they are "not working, not looking for work and not available for work", even though the gender gap here is much smaller. This category could include some "discouraged workers" who believe their employment prospects are bleak.

Figure 5.4. Distribution of the economically inactive by reason for inactivity and gender, 2012 (%)



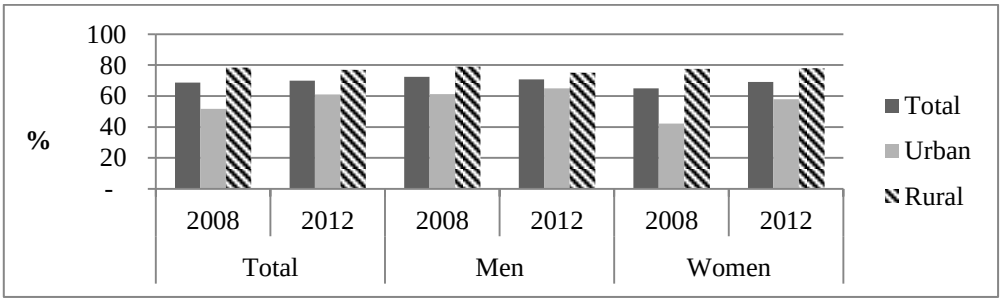
Source: CSO, 2013, table 5.8.

5.2 Employment characteristics

5.2.1 Characteristics of the employed

As noted above (section 5.1.1), the overall increase in the employment rate between 2008 and 2012 was mainly due to an increase in the employment rates for women as opposed to men, and in urban as opposed to rural areas. The fall in the (primarily rural) male employment rate reflects the rapid urbanization that took place during this period as a result of rural–urban migration, and also the tendency of more young men to prolong their education and delay entering the labour market. The growth of the urban employment rate from 52 per cent to 61 per cent between 2008 and 2012, while the rural employment rate declined from 78 per cent to 77 per cent, was driven by the marked increase in female urban employment from 42 per cent to 58 per cent between 2008 and 2012, again in large part as a result of migration from the countryside to the towns and cities (figure 5.5).

Figure 5.5. Employment rate, rural and urban, by gender, 2008 and 2012 (%)

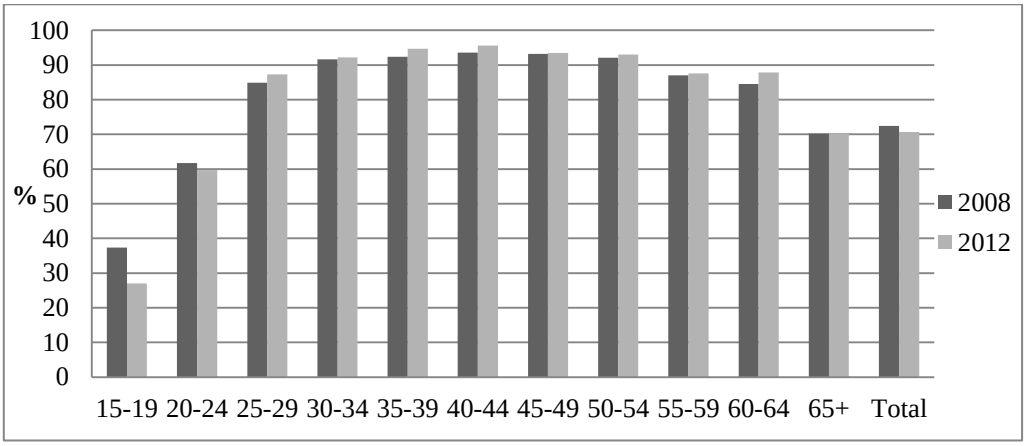


Sources: CSO, 2011, table 6.1; 2013, table 6.1.

The youngest cohorts of the population are staying longer in school. The decrease in male employment rates was most marked in the youngest age bands (15–24), particularly

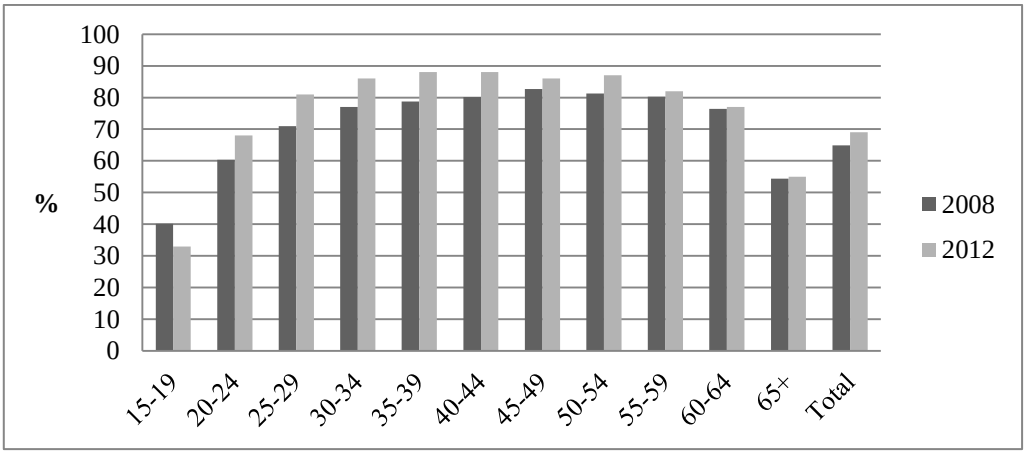
those aged 15–19 (figure 5.6). The employment rate of young women aged 15–19 decreased similarly (figure 5.7). As noted above, the decline in the employment rate (and in the economic activity rate) among young people does not necessarily mean a worse situation in the labour market but could reflect the fact that more young people than adults are in education.

Figure 5.6. Employment rate, male, 2008 and 2012 (%)



Sources: CSO 2011, table 6.1; 2013, table 6.1.

Figure 5.7. Employment rate, female, 2008 and 2012 (%)



Sources: CSO 2011, table 6.1; 2013, table 6.1.

While the employed are still mainly located in rural areas, with one-third located in the two main urban districts of Lusaka and Copperbelt, rapid urbanization saw employment in Lusaka Province grow at a remarkable pace of 16.5 per cent a year between 2008 and 2012, and at over 6 per cent a year in Copperbelt. This is much higher than the aggregate employment growth in the country,[31] and reflects the trend that more

[31] As noted above, these figures should be interpreted with caution as much of the apparent increase in the labour force is due to an underestimation of the population and labour force in Lusaka in 2008. The growth in the labour force since then may therefore be lower than stated.

people are moving to urban areas in search of more and better employment opportunities, and to the Copperbelt Province attracted by employment prospects in the mining industry. In contrast, one province, Central, has seen an actual fall in employment in recent years (table 5.3).

Table 5.3. Employed by province, 2008 and 2012

			Distribution		Annual growth
	2008	2012	2008	2012	2008–12 (%)
Central	531 927	501 923	11.5	9.1	−1.4
Copperbelt	580 433	747 562	12.6	13.6	6.5
Eastern	668 773	678 134	14.5	12.3	0.3
Luapula	419 330	462 459	9.1	8.4	2.5
Lusaka	553 748	1 020 325	12.0	18.6	16.5
Northern + Muchinga	664 712	781 624	14.4	14.2	4.1
North Western	274 154	287 282	6.0	5.2	1.2
Southern	542 602	646 067	11.8	11.7	4.5
Western	371 167	374 296	8.1	6.8	0.2
Total	4 606 846	5 499 672	100.0	100.0	4.5

Note: Muchinga province was separated from Northern province in 2011. For comparison purposes, the numbers of employed in Muchinga and Northern provinces for 2008–12 are grouped together. It should be noted that the underestimation of the urban labour force and overestimation of the rural labour force in 2008 affected the regional estimates.

Source: CSO, 2011, table 6.5; 2013, table 6.5.

The education level of the employed is relatively low, although it is improving. In 2012, nearly 60 per cent had no more than primary education (up to grade 7). At the other end of the scale, less than 1 per cent had completed tertiary education to degree level. The majority of those in employment, then, have an education level somewhere on the spectrum between primary and upper secondary education. The situation does seem to have improved to some extent: the proportion of the employed with a higher degree grew faster than that of those with less education (table 5.4).

Table 5.4. Employed by education level

				Distribution	
Education level	2008	2012	Annual growth, %	2008	2012
None + nursery	710 340	806 682	3.2	15.4	14.7
1–7	2 047 364	2 401 956	4.1	44.4	43.7
8–12	1 637 436	2 024 760	5.5	35.5	36.8
A levels + certificate/diploma	189 223	235 887	5.7	4.1	4.3
Degree	22 483	30 389	7.8	0.5	0.6
Total	4 606 846	5 499 674	4.5	100.0	100.0

Notes: Due to some classification changes in education levels between LFS 2008 and LFS 2012, some groupings were made to allow comparison. The education levels “none” and “nursery” were grouped together, as were those for “A levels” and “certificate/diploma”.

Sources: Author’s calculations, based on CSO, 2011, table 6.4; 2013, table 6.4

The skill level of the employed is low. In 2012, over 95 per cent were unskilled (that is, had been educated to only primary level at most, i.e. grades 1–12); just above 4 per cent were either skilled in manual occupations or low-skilled in non-manual professions (education to A-level standard, plus certificate/diploma); and less than 1 per cent were in the high-skilled non-manual category (educated to degree level). The next section confirms this finding.

Table 5.5. Categorization of occupations by skill level

ISCO category	Skill level	ISCED category	Education level
Professionals	High-skilled non-manual	Tertiary	Degree
Managers			
Technicians and associate professionals			
Clerical support workers	Low-skilled non-manual	Secondary	A levels
Service and sales workers			
Plant and machine operators and assemblers	Skilled manual		Vocational certificate
Craft and related trades workers			
Skilled agricultural, forestry and fisheries workers			
Elementary occupations	Unskilled	Primary	Grades 1–12

5.2.2 Employment by occupation

The distribution of employment by occupation mirrors the low skill level of the workforce (table 5.6). The largest segment of the employed is engaged in skilled agricultural, forestry and fisheries work (49 per cent), followed by elementary occupations[32] (21 per cent), service and sales work (14 per cent) and craft-related work (7 per cent).

Table 5.6. Distribution of the employed by occupation, 2012 (%)

	Both sexes	Male	Female
Managers	0.9	1.4	0.5
Professionals	4.0	4.6	3.4
Technicians and associate professionals	1.4	2.0	0.7
Clerical support workers	0.7	0.7	0.7
Service and sales workers	14.0	13.3	14.7
Skilled agricultural, forestry and fisheries workers	48.7	46.9	50.4
Craft and related trades workers	6.9	11.7	2.3

[32] Elementary occupations consist of simple and routine tasks which mainly require the use of hand-held tools and often some physical effort. These include: selling goods in streets and public places, or from door to door; providing various street services; cleaning, washing, ironing; taking care of apartment houses, hotels, offices and other buildings; washing windows and other glass surfaces of buildings; delivering messages or goods; carrying luggage; door-keeping and property-watching; stocking vending machines or reading and emptying meters; collecting garbage; sweeping streets and similar places; performing various simple farming, fishing, hunting or trapping tasks; performing simple tasks connected with mining, construction and manufacturing, including product-sorting and simple hand-assembling of components; packing by hand; freight handling; pedalling or hand-guiding vehicles to transport passengers and goods; driving animal-drawn vehicles or machinery.

Plant and machine operators and assemblers	2.7	5.2	0.2
Elementary occupations	20.7	14.3	26.8
Other	0.2	0.3	0.1
Not stated	0.0	–	0.0
Total	100.0	100.0	100.0

Source: CSO, 2013, table 6.8.

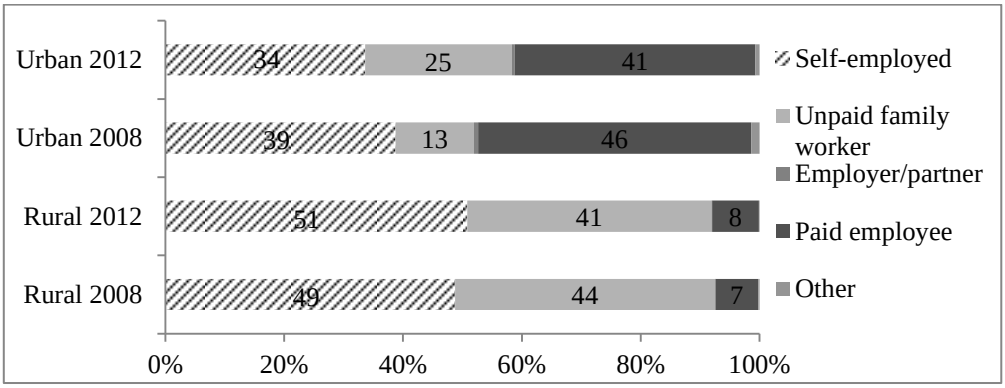
Occupations are strongly segmented by gender. Women tend to be overrepresented in the occupations requiring fewer qualifications: more than a quarter of employed women work in elementary occupations, as against 14 per cent of employed men. Women are also overrepresented among agricultural workers. By contrast, plant/machine operators, craftspeople, technicians and managers are mainly male.

5.2.3 Employment status

Vulnerable employment, defined here as the sum of self-employment and unpaid family work, is the most common form of employment. In 2012, more than two-thirds of the employed were categorized as in vulnerable employment (44 per cent self-employed and 35 per cent in unpaid family work) while 20 per cent of the total employed were in paid employment. Employers and "others" (apprentices and interns) accounted for less than 1 per cent of the total employed.

The likelihood of being in vulnerable employment is greater in rural areas than in urban areas. In rural areas, more than 90 per cent of the employed are in vulnerable employment, reflecting the continued dominance of subsistence agriculture as a source of work. In 2012 in rural areas roughly 3.1 million people, divided between self-employed and unpaid family workers, were in vulnerable employment, while paid employees represented a minority of 270,000 people. In urban areas, paid employment is much more prominent, representing 40 per cent of the employed (roughly 850,000 people). Nevertheless, even in urban areas over half those working are in vulnerable employment, a third of them self-employed and a quarter classified as unpaid family workers (figure 5.8).

Figure 5.8. Distribution of the employed, urban and rural, by employment status, 2008 and 2012 (%)



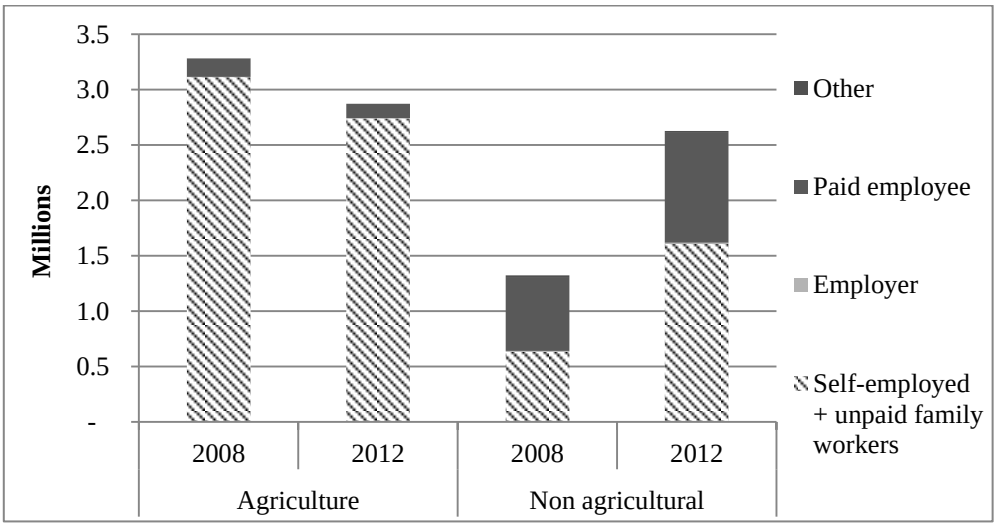
Note: The category "other" includes apprentices and interns in the 2012 LFS report (CSO, 2013); no such specification is mentioned in the 2008 LFS report (CSO, 2011).

Source: CSO, 2011, table 6.2; 2013, table 6.2.

Some improvement in employment status has taken place. Between 2008 and 2012, the overall share of vulnerable employment in total employment fell slightly (from 81 to 79 per cent) while the share of paid employment rose slightly (from 18 to 20 per cent) (CSO 2011, table 6.2; 2013, table 6.2). In rural areas, the shares of vulnerable employment and waged employment in total employment have stabilized over the period, representing respectively 92 per cent and 8 per cent of total employment. In urban areas, the share of vulnerable employment in total employment increased from 52 to 58 per cent between 2008 and 2012 while that of paid employment decreased from 46 to 41 per cent (figure 5.8). The rapid increase in total employment in urban areas translated into an increase in the urban waged employed of 272,000, while the number of self-employed increased by 218,000. There was also a large increase (354,000) in unpaid family workers.[33]

Most new employment was created in the non-agricultural sectors, where employment grew by 1.3 million between 2008 and 2012 (figure 5.9). Vulnerable employment in these sectors more than doubled over the period, while paid employment increased by 50 per cent. In agriculture, by contrast, employment declined by about 408,000; in this sector the share of vulnerable employment remained constant at a high level, representing 95 per cent of the employed, with paid employment confined to just 5 per cent.

Figure 5.9 Distribution of the employed in and outside agriculture, by status, 2008 and 2012 (millions)



Source: Author's calculations based on data from the 2008 and 2012 LFS.

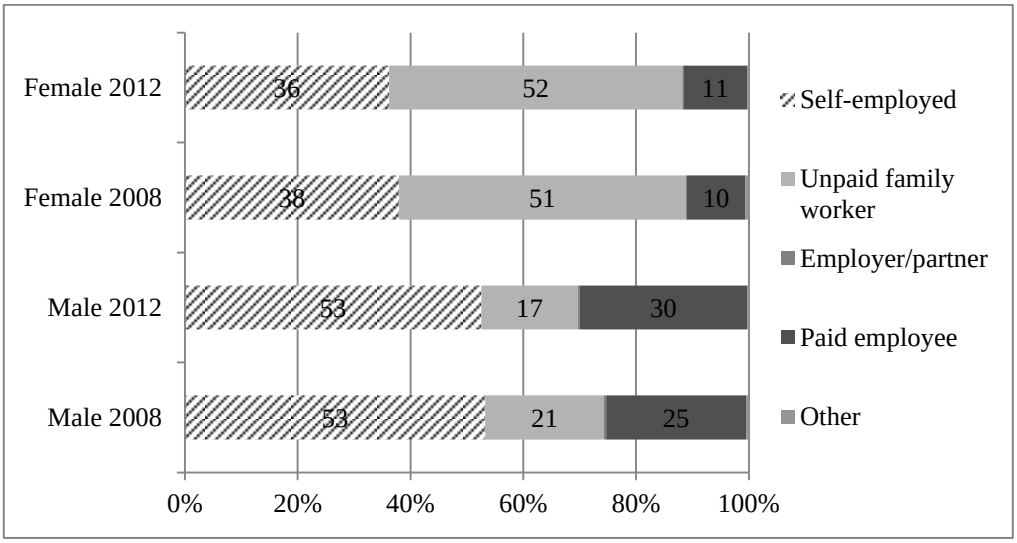
A much higher proportion of women than men are in vulnerable employment, and this imbalance has hardly changed over time. In 2012, as in 2008, almost 90 per cent of females employed fell into this category, compared to 70 per cent of the men. Within this

[33] As noted above, the figures should be interpreted with caution, as (1) much of the apparent increase in the labour force between 2008 and 2012 is due to an underestimation of the population and labour force in Lusaka in 2008 and (2) much of the increase in self-employment has been in ISIC Rev. 4 category T98 (the total number of those employed under category T98 was 534,058 in 2012, of whom 438,195 were women and 332,686 lived in urban areas).

group, women tend to be employed in unpaid family work (52 per cent) whereas men tend to work in self-employment (53 per cent) (figure 5.10).

More men than women are in wage employment and the gap is widening. The proportion of men in paid employment in 2012 was almost three times that of women (30 per cent versus 11 per cent), having risen by 5 percentage points since 2008; the corresponding increase for women was less than 1 percentage point.

Figure 5.10. Distribution of the employed by gender and employment status, 2008 and 2012 (%)



Source: Author's calculations based on data from the 2008 and 2012 LFS.

5.2.4 Trends in formal employment

There was some growth in formal employment, albeit from a very low level. The number of workers in formal employment rose from a low 511,338 in 2008 to 847,420 in 2012 (table 5.7). This is a significant increase of over 13 per cent per year, a rate of growth over twice that in the economically active,[34] raising the share of formal employment in total employment from 11 per cent to 15.4 per cent.

Table 5.7. Formal job creation by industry between 2008 and 2012

			Change 2008–12	
Sector	2008	2012	No. of jobs created	% of total
Agriculture, forestry and fishing	71,888	87,420	15,532	4.6
Mining and quarrying	62,082	67,608	5,526	1.6
Manufacturing	36,923	73,814	36,891	10.9
Electricity, gas and water	10,683	17,403	6,720	2.0
Construction	13,889	36,676	22,787	6.7
Trade, wholesale and retail distribution	28,706	110,365	81,659	24.1

[34] The labour force grew at 4.8 per cent per year between 2008 and 2012.

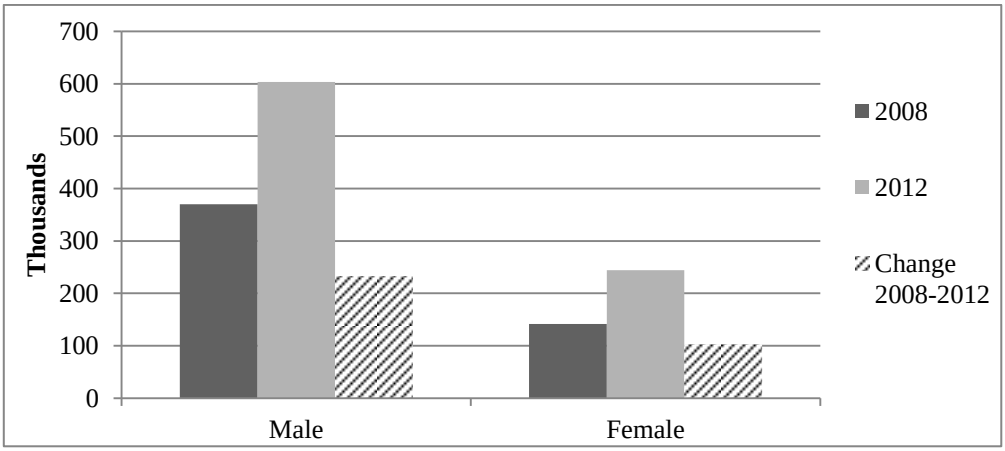
Hotels and restaurants	16,689	29,574	12,885	3.8
Transport and communications	29,484	77,692	48,208	14.2
Finance, insurance and real estate	12,935	14,655	1,720	0.5
Community, social and personal services	225,680	332,213	106,533	31.5
Total	508,959	847,420	338,461	100.0
Not stated	*2,379*	*0*		

Source: CSO, 2011, table 7.6; 2013, table 8.5.

Most new formal jobs in the Zambian economy were created in the service sector: almost a third of the total in community and social services, and almost a quarter in trade and wholesale/retail distribution. Both these sectors employ predominantly women. However, transport and communications, and manufacturing, also contributed substantially to the creation of formal jobs, and these two sectors employ predominantly men.

Formal employment growth has been slightly faster for women than for men (14.6 per cent per year versus 13 per cent per year), but women started from a much lower level than men. Of the 338,000 formal jobs created, about 100,000 have been taken by women (figure 5.11).

Figure 5.11. Formal employment, by gender, 2008 and 2012 (000)



Source: CSO, 2011, 2013.

5.2.5 Trends in informal employment

The high and sustained economic growth of the last decade has not been accompanied by a significant decrease in informal employment. Indeed, in absolute terms, the number of informal workers actually increased, as shown in table 5.8, although at a slightly slower pace (3.5 per cent per year) than total employment (4.6 per cent per year). Also, while the share of informal employment in total employment is down four percentage points on the 2008 figure, it remains very high at 85 per cent.

Table 5.8. Informal employment, 2005–12

	Total		Men		Women	
	No.	% of total employment	No.	% of total employment	No.	% of total employment
2005	3 635 747	88	1 611 710	83	2 058 329	94
2008	4 095 508	88.9	2 021 903	84.5	2 073 605	93.6
2012	4 662 280	84.8	2 156 370	79.8	2 505 910	89.6

Sources: Labour force surveys, various years.

Nine out of ten economically active women work in the informal economy. This represents 2.5 million working women without protection or any social benefit. They mostly work in the informal (unregistered) sector, but one in four works informally in the formal sector (table 5.9).

Table 5.9. Informal employment, 2012 (workers aged 15 and over)

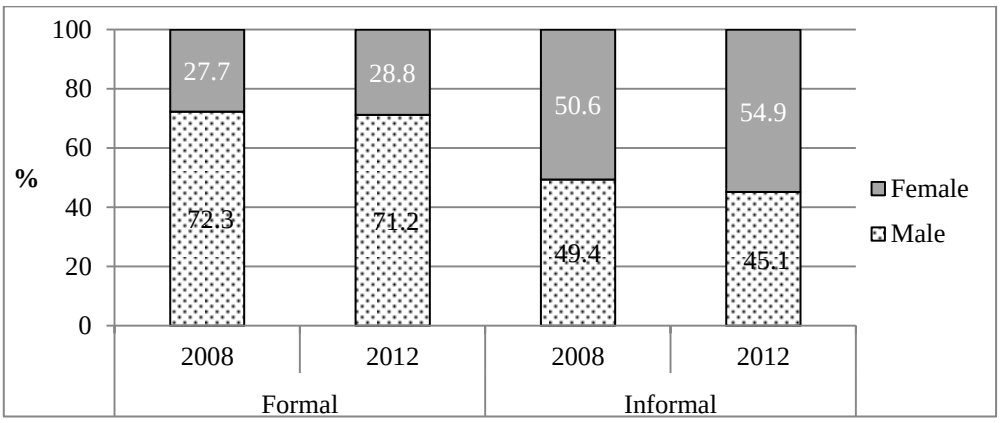
			Of which:		
	Total employment	Informal employment (1+2)	Informal employment in the informal sector (1)	Informal employment outside the informal sector (2)	Informal employment rate, %
Total	5,499,591	4 662 280	3 466 260	1 196 020	84.8
Male	2,702,533	2 156 370	1 570 251	586 119	79.8
		100%	72.8%	27.2%	
Female	2,797,058	2 505 910	1 896 009	609 901	89.6
		100%	75.7%	24.3%	
Rural	3,394,134	3 009 333	2 314 786	694 547	88.7
		100%	76.9%	23.1%	
Urban	2,105,457	1 652 947	1 151 474	501 473	
		100%	69.7%	30.3%	78.5

Note: The informal sector consists of unregistered and small, unincorporated private enterprises engaged, at least partly, in producing goods and services for the market. Informal employment refers to jobs that lack basic social or legal protections or employment benefits. Informal employment also includes people involved in many kinds of self-employment or own-account work. A large part of informal employment is, of course, in the informal sector, but the two do not overlap completely. Workers may be working informally for enterprises that operate in the formal economy (for instance, casual daily labour for a large construction company).

Source: Author's calculations based on data from 2012 labour force survey.

Inequalities between men and women in access to formal employment are high and not closing. The informal employment rate is 10 percentage points higher for women than for men (table 5.9). Women represent more than half of all informal workers, while men account for almost three-quarters of formal workers. Between 2008 and 2012, the share of female informal employment in total informal employment actually increased, as illustrated in figure 5.12.

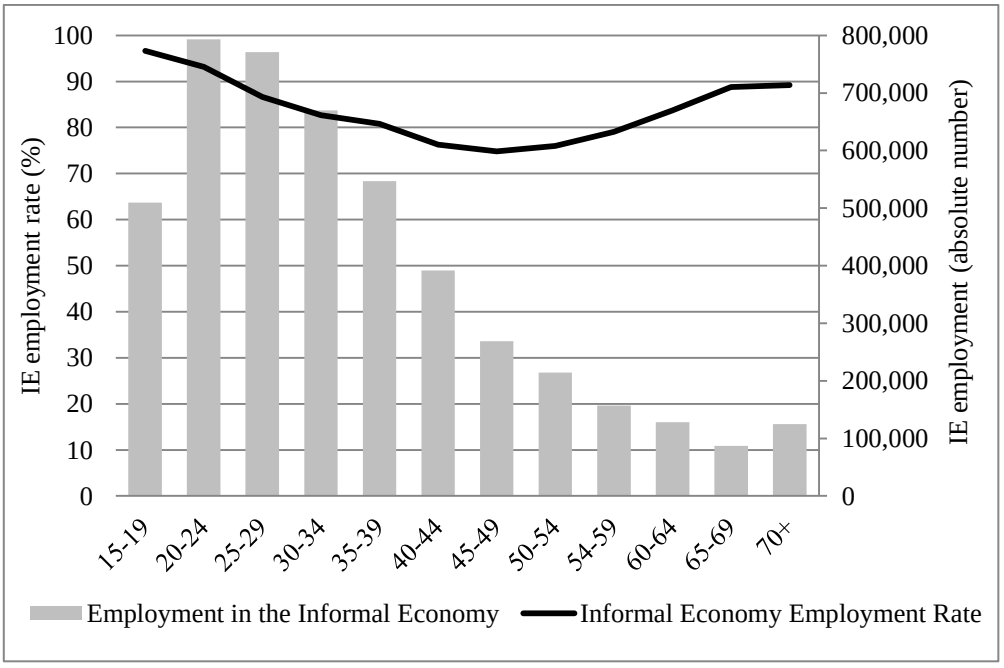
Figure 5.12. Composition of formal and informal employment by gender, 2008 and 2012 (%)



Source: CSO, 2011, 2013.

Access to formal employment opportunities is limited for younger and older workers. The proportion of workers in informal employment is higher for those aged 15–24 and over 55 than for the intervening age groups (figure 5.13). Almost all young workers in Zambia, in fact, are engaged in informal employment. According to the 2012 school-to-work transition survey, many more young Zambians fall into the category of informal sector employment (83 per cent) than into that of informal work within the formal sector (17 per cent) (Chigunta et al., 2013, p. 36).

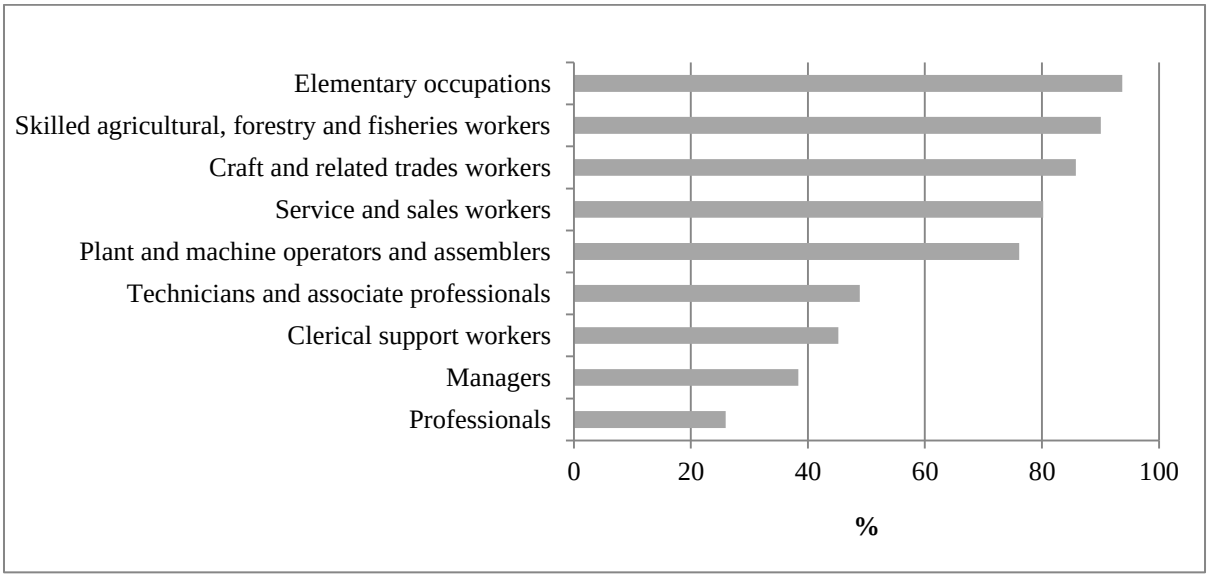
Figure 5.13. Employment in the informal economy by age, 2012 (% and absolute numbers)



Source: Author's calculations based on data from the 2012 LFS.

It is clear that inadequate education poses a barrier to accessing formal wage employment and decent work. Those in elementary occupations have the highest informal employment rate (figure 5.14). These are unskilled occupations, corresponding to a primary or lower secondary education level.[35] Almost all informal workers (98.7 per cent) are unskilled, with education levels below grade 12 and no technical or vocational degree (figure 5.15a). Managers and professionals, who perform high-skilled non-manual work, have a much lower informal employment rate.

Figure 5.14. Informal employment rate by occupation, 2012 (%)

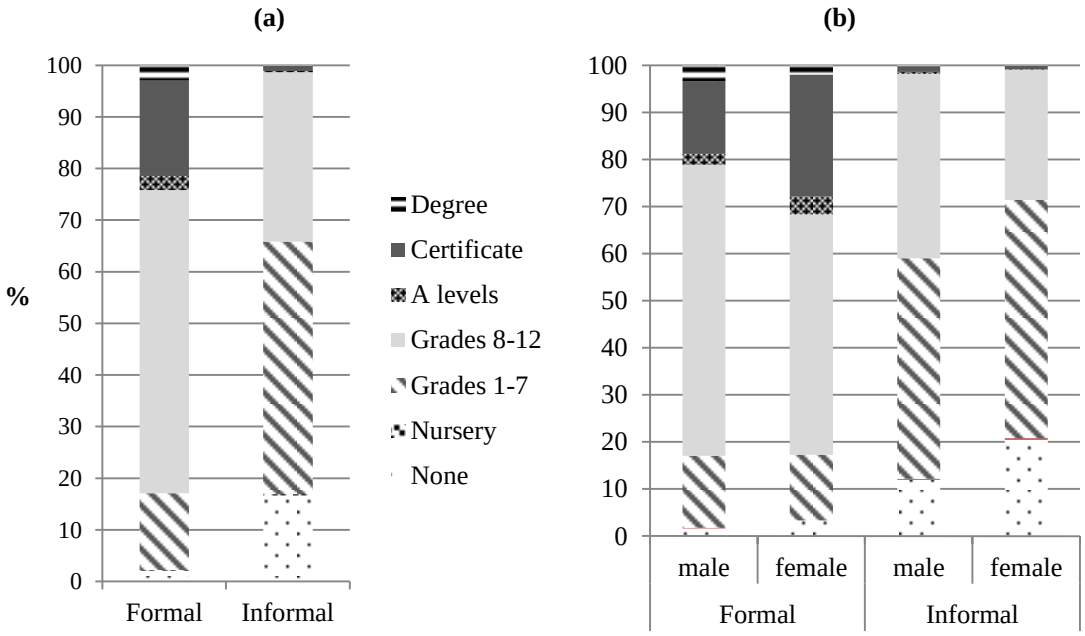


Source: Author's calculations based on data from the 2012 LFS.

Having secondary or higher education clearly improves access to formal jobs. Figure 5.15 shows that over 80 per cent of workers in formal jobs have post-primary education. This is true for men and women alike. Having a vocational school certificate also increases access to formal jobs, especially for women. Almost one in five formal workers – one in four women – holds such a certificate, while only 1 per cent of informal workers do (figure 5.15).

[35] The International Standard Classification by Occupations (ISCO-08) includes a categorization of major occupational groups by level of education in accordance with the International Standard Classification of Education (ISCED). See ILO, 2013, table 3.

Figure 5.15 Education level of those in formal employment versus those in informal employment, 2012: (a) aggregate levels; (b) by gender



Source: CSO, 2013, tables 8.13, 8.16.

Skills mismatches are large in the informal economy

The skill mismatch between the job that a person does and their level of educational qualification is measured by applying the normative measure of occupational skills categories from the International Standard Classification of Occupations (ISCO) in accordance with the International Standard Classification of Education (ISCED) (see ILO, 2013, table 3). Workers in a particular group who have the assigned level of education are considered well-matched. Those who have a higher (lower) level of education are considered over- (under-) educated.

A comparison of the numbers of informal workers in managerial and professional posts with those of informal workers reporting having a tertiary degree shows that about 50,000 persons are in managerial and professional posts in the informal economy, while only 5,500 report having a tertiary degree.[36] However, about 44,800 informal workers report having a certificate, which corresponds to skilled manual labour. This level of skill would be appropriate to the owners of small informal craft businesses, for example the proprietor of a small street-corner welding shop, which require vocational and technical skills rather than higher education.

Low levels of formal education are likely to be a major barrier to the growth of small firms. While small firms using only family labour often can be managed with relatively low levels of formal education, managing a larger firm with wage employees is qualitatively very different and tends to require a fairly high level of education. The undereducation of managers and professionals is likely to be a constraint on endogenous

[36] Author's calculations based on data from the 2012 LFS.

enterprise growth (of small firms) as well as on generation of wage jobs in small firms and the formalization of informal small businesses. Similarly, the ability to apply the more sophisticated technologies and modes of production that lead to higher productivity requires fairly high-level education and managerial skills. Better-educated managers are able to manage workers better, keep accounts and other financial transactions in order, and consequently expand businesses at a faster rate than their less well-educated counterparts (Mazaheri and Mazumdar, 2005).

According to the 2012 school-to-work transition survey, one in four young workers in Zambia is overeducated for the job he or she is currently performing (Chigunta et al., 2013, p. 37). Given that more than nine out of every ten young people are working informally, this points to the lack of sufficient jobs that match their education levels, forcing young Zambians to take up work in the informal economy for which they are overqualified. Over two-thirds of these overeducated young people are working in elementary occupations (Chigunta et al., 2013, p. 37).

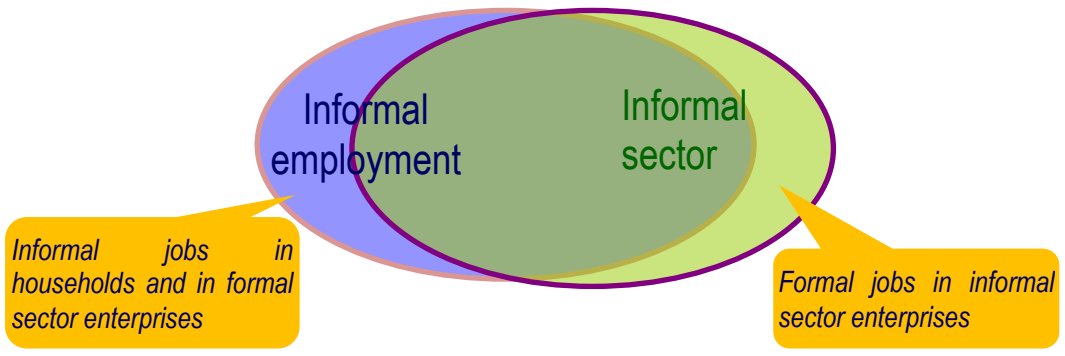
Informality and compliance with labour regulations

The data available do not allow trends to be identified in types of informal employment: the relative prevalence of, for example, informal wage employment, subcontracted self-employment (such as industrial outworkers/homeworkers who usually work at piece-rates without direct supervision and own the means of production), casual day labourers and contributing family workers. Information on trends in informal employment outside the informal sector would be particularly useful in examining the links between the informal economy and inclusive growth. Without this information, it is difficult to know whether the cost of labour is related to the level of informal sector employment (as the World Bank and others argue in respect of Zambia). It is, nevertheless, possible to touch on these issues using the information available from the last three LFS (CSO, 2007, 2011, 2013).

Many formal firms employ workers informally. In urban areas, a third of informal employment is outside the informal sector (table 5.9). In total, 1.2 million people work informally in the formal sector.

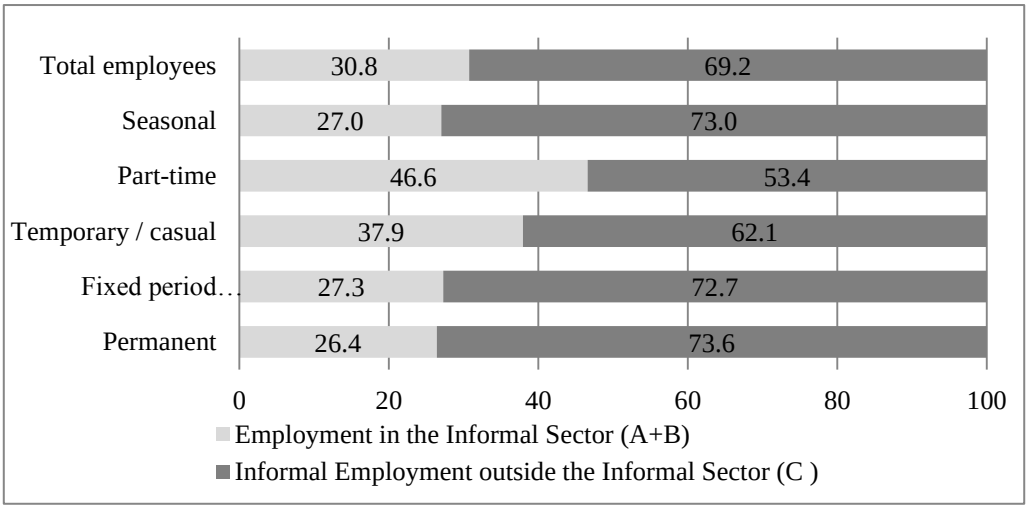
Box 5.2. The overlap between informal employment and the formal economy

Informal employment and the informal sector overlap to a large degree, but are not identical. Workers may be working informally for enterprises that operate in the formal economy (for instance, casual daily labour for a large construction company). And, more rarely, some employees working for enterprises in the informal sector may be holding formal jobs. An example of this would be a salaried worker with a regular contract, employed by a small, unincorporated firm.



Being an employee – someone who gets a basic remuneration not directly dependent on the revenue of the employer – does not necessarily constitute formal employment. Almost one in five informal workers was an employee in 2012, according to that year's LFS. Of these, 70 per cent worked in formal enterprises (figure 5.16). Most of these workers are temporary, casual, part-time and seasonal employees. The informal employment rate of temporary/casual employees is above 96 per cent, much higher than for other types of employees (table 5.10). There is clearly scope to improve the quality of employment of the 729,000 informal employees, of whom over 504,000 work in formal firms (table 5.10).

Figure 5.16. Composition of informal employment of employees by contract type, 2012 (%)



Source: Author's calculations based on data from the 2012 LFS.

Table 5.10. Informal employment of employees (aged 15 and over) by contract type, 2012

Contract type	Total employment	Informal employment (1+2)	Of which:		Informal employment rate, %
			Informal employment in the informal sector (1)	Informal employment outside the informal sector (2)	
Permanent	539 552	230 201	60 827	169 374	42.7
Fixed-period contract	321 994	248 255	67 712	180 543	77.1
Temporary / casual	211 705	204 975	77 786	127 189	96.8
Part-time	29 533	28 768	13 405	15 363	97.4
Seasonal	16 909	16 709	4 517	12 192	98.8
Total employees	**1 119 693**	**728 909**	**224 248**	**504 661**	**65.1**

Source: Author's calculations, based on data from the 2012 labour force survey.

Some industrial sectors are particularly prominent in the use of informal workers in formal enterprises. Among them are mining and quarrying, transportation and storage, and accommodation and food service activities (table 5.11). Administrative and support

services, and electricity, gas, steam and air-conditioning supply also stand out. Policies could usefully focus on the formalization of these workers.

Ensuring that employers of domestic workers register them with the public authorities so that they receive the benefits to which they are entitled would significantly reduce the incidence of informal employment in Zambia and improve the quality of such employment. The sector "activities of households as employers" has the highest incidence of informal employment at 98 per cent (table 5.11). One in four of these informal workers are employed by households as domestic personnel, such as maids, cooks, waiters, valets, butlers, laundresses, gardeners, gatekeepers, stable staff, chauffeurs, caretakers, governesses, babysitters, tutors, secretaries, etc. The other workers classified in this sector produce goods and services for their own use, mainly services for their own subsistence. These activities include cooking, teaching and caring for household members.

Table 5.11. Informal employment by broad industrial sectors, 2012

ISIC (Rev. 4) category	Total employment	Informal employment (1+2)	Of which:		Informal employment rate, %
			Informal employment in the informal sector (1)	Informal employment outside the informal sector (2)	
Agriculture, forestry and fishing	2 872 455	2,578 709	1 969 787	608 922	89.8
Activities of households as employers	722 524	711 242	578 774	132 468	98.4
Trade, wholesale and retail distribution	645 365	532 644	466 406	66 238	82.5
Manufacturing	216 660	177 783	119 061	58 722	82.1
Construction	187 907	160 690	105 447	55 244	85.5
Transportation and storage	137 301	112 329	54 957	57 372	81.8
Other service activities	110 550	97 992	72 789	25 203	88.6
Accommodation and food service activities	62 671	47 333	20 681	26 651	75.5
Mining and quarrying	88 251	47 254	9 938	37 315	53.5
Education	150 215	39 220	5 425	33 795	26.1
Administrative and support services	57 801	35 249	7 743	27 506	61.0
Information and communications	42 104	32 111	21 145	10 966	76.3
Human health and social work	62 180	23 766	7 849	15 917	38.2
Public administration and defence, compulsory social security	60 750	19 134	1 211	17 922	31.5
Water supply,, sewerage, waste management and remediation activities	14 790	10 671	8 071	2 600	72.1
Professional, scientific and technical activities	19 378	8 530	5 827	2 702	44.0
Arts, entertainment and recreation	10 267	8 493	4 387	4 106	82.7
Electricity, gas, steam and air-conditioning supply	12 211	6 512	158	6 353	53.3
Financial and insurance activities	14 941	5 606	1 706	3 900	37.5
Real estate activities	7 257	4 898	4 898	0	67.5
Activities of extraterritorial organization and bodies	4 016	2 117	0	2 117	52.7

Source: Author's calculations, based on data from the 2012 labour force survey.

5.3 Underutilization of the labour force

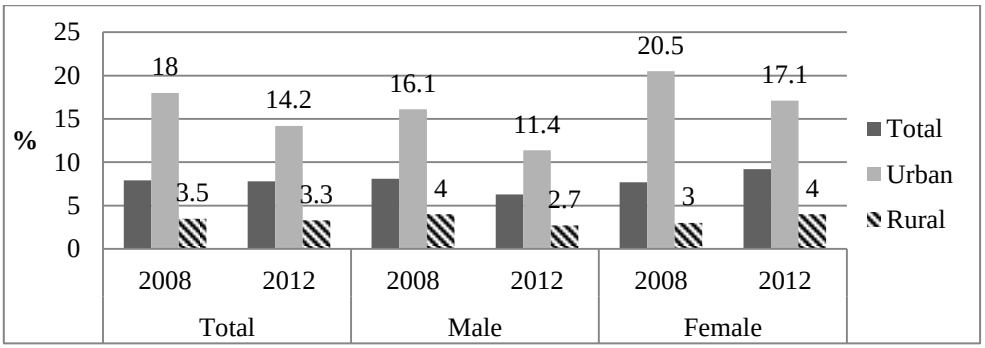
5.3.1 The unemployed – An urban challenge

As noted above, unemployment in Zambia is largely an urban phenomenon. While the urban unemployment rate stands at 14.2 per cent, considerably higher than the overall rate of 7.8 per cent, unemployment in rural areas is consistently low at 3.3 per cent (figure 5.17).

Urban unemployment fell between 2008 and 2012 by 4 percentage points, more sharply for men than for women. Given that the inactivity rate for men increased by a third over the same period (table 5.2), a large part of the decrease in male unemployment can be attributed to men leaving the workforce through discouragement or putting off entering the labour market, choosing instead to remain longer in education.

The female urban unemployment rate is higher than for men at 17.1 per cent, having fallen from 20.5 per cent in 2008, and the gap widened between 2008 and 2012 from 4.4 to 5.7 percentage points (figure 5.17).

Figure 5.17. Unemployment rates, urban and rural, by gender (%)

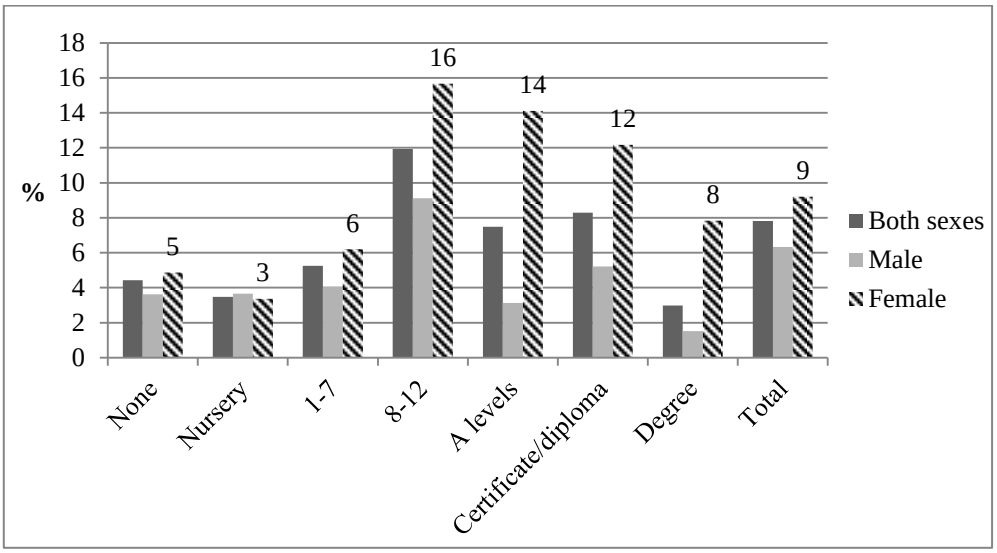


Source: CSO, 2011, table 9.2; 2013, table 9.2.

The likelihood of being unemployed is greater for those with secondary education and technical higher education than for those with only primary education or, conversely, a university degree (figure 5.18). For those with no schooling or only primary education, unemployment is below 5 per cent; this may reflect the fact that these people are likely to be poor and hence cannot afford to remain unemployed. This unskilled labour is mainly found in agriculture and the petty trade sectors (e.g. small retail businesses). The unemployment rate is also low, at 3 per cent, for those who have a university degree, in contrast to 8.3 per cent for those with vocational certificates/diplomas. This could imply that technical degrees do not respond to the skills needs of the private sector, and that employers are not interested in hiring those leaving high school without any specific technical skills.

Women with higher education face more difficulties in finding employment opportunities than men. Indeed, the gender gap increases with the level of education, especially from secondary level upwards (figure 5.18). Women with A levels or university degrees are four times as likely to be unemployed as their male peers.

Figure 5.18. Unemployment rates by education level and gender, 2012 (%)



Source: Author's calculations based on data from the 2012 LFS.

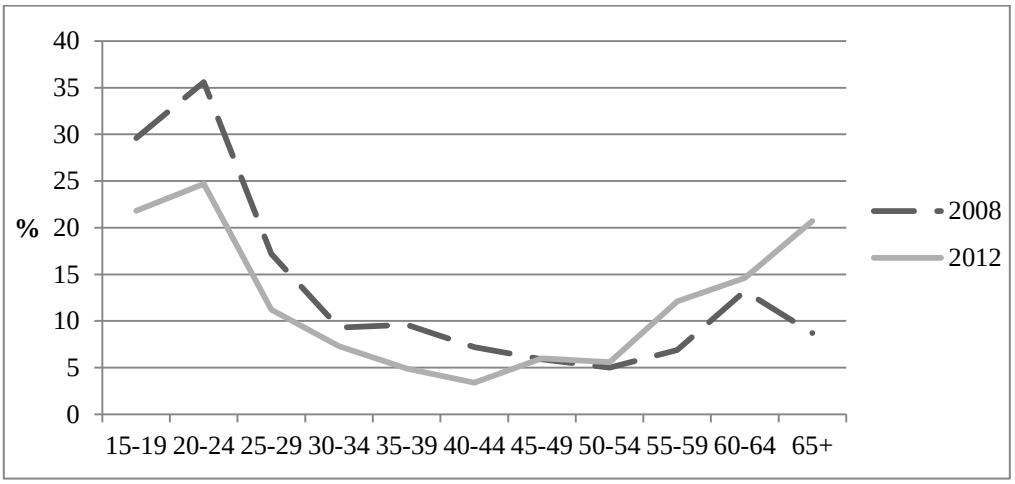
The urban youth unemployment rate is very high, standing at 17.2 per cent in 2012 for the age group 15–35: 19.8 per cent for females and 14.3 per cent for males. Male unemployment is particularly high for the age group 20–24, while female unemployment is particularly high for the age group 15–24 at over 25 per cent (figures 5.19 and 5.20).[37]

In all provinces, youth unemployment rates are higher in urban areas than in rural areas. The highest rate is in the urban areas of Copperbelt Province, where it was estimated at 30.3 per cent in 2012. Rates are also very high (above 24 per cent) in the urban areas of Eastern, Muchinga and Western provinces, but lower (below 8 per cent) in Luapala and Lusaka provinces (CSO, 2013, table 9.7).

The situation for young people seems, however, to be improving. The urban youth unemployment rate has declined for both young women and young men, particularly for those aged 20–24 (figures 5.19 and 5.20). Indeed, the overall decline in the urban female unemployment rate between 2008 and 2012 was mainly due to a sharp decrease in the age groups 15–19 (from 38 per cent to 29 per cent) and 20–24 (from 40 per cent to 27 per cent).

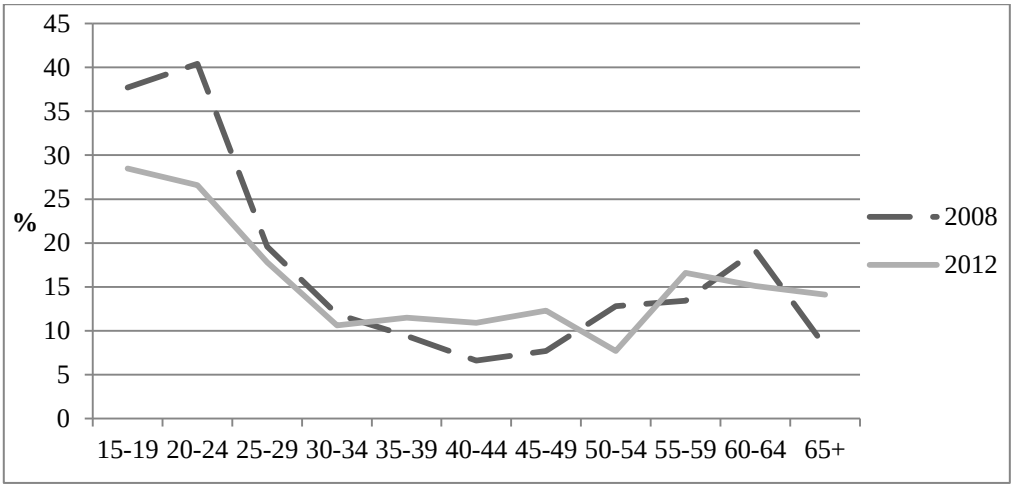
[37] For a full report on the current labour market situation of youth, see ILO, 2013.

Figure 5.19. Urban unemployment rate by age group, male (%)



Sources: CSO, 2011, table 9.1; 2013, table 9.2.

Figure 5.20. Urban unemployment rate by age group, female (%)



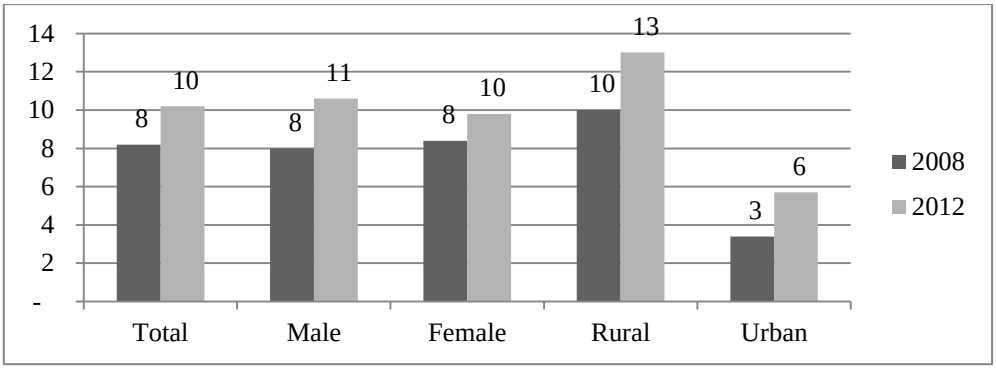
Sources: CSO, 2011, table 9.1; 2013, table 9.2.

5.3.2 The underemployed – A rural issue

Aggregate time-related underemployment[38] increased between 2008 and 2012 from 8 per cent to 10 per cent. The rate for men rose slightly more than that for women (figure 5.21).

[38] Time-related underemployment is defined as a situation in which the number of working hours for the employed population is "insufficient" in relation to what is considered sufficient and where the affected persons are available and willing to work for more hours. In Zambia, 40 hours

Figure 5.21. Underemployment rate, urban and rural, by gender, 2008 and 2012 (%)



Source: CSO 2011, table 8.1; 2013, table 7.2.

Underemployment is mainly an issue in rural areas. In 2012, the underemployment rate was 13 per cent in rural areas (up from 10 per cent in 2008) and only 5.7 per cent in urban areas (still up from 3.4 per cent in 2008). It was highest in the Northern (17.1 per cent) and Luapula (13.8 per cent) provinces, which have an almost exclusively primary economy based on subsistence agriculture and fishing (CSO, 2013, p. 49, table 7.1).

In sectoral terms, underemployment is highest in agriculture, at 14 per cent (15 per cent for men and 12.5 per cent for women) (CSO, 2013, p. 51, table 7.4). In rural areas, agriculture usually involves relatively few hours of work per week except in peak seasons. Skilled agricultural, forestry and fisheries workers register the highest underemployment rate at 13.8 per cent (15.3 per cent for men and 12.4 per cent for women) (CSO, 2013, p. 50, table 7.3). These are self-employed workers who perform subsistence agriculture and are willing and available to work more, but do not have any opportunities to do so. As a result, their incomes are low and working poverty is high among this group.

5.3.3 Working time

Working time in urban areas is much higher than in rural areas. On average, the employed declare working 38.7 hours a week. In urban areas, the average number of hours worked is 48 hours per week, while in rural areas it is 32.6 hours per week (table 5.11).

Men work more hours than women. In urban areas, while both men and women work "excess" hours (above 40 hours a week[39]), men work many more hours than women

per week is considered sufficient. In this report, underemployment is expressed as a percentage of total employment.

[39] In the LFS 2012, employed persons who worked 40 hours a week were considered to have worked normal hours. Employed persons who worked less than 40 hours per week were considered to have worked "short" hours, while those who devoted more than 40 hours per week were considered to have worked "excess" hours.

(52.3 and 43.3 hours per week respectively). In rural areas, the gender gap is less significant (34.6 hours versus 30.5 hours of work per week respectively) (table 5.12).

Table 5.12. Average number of working hours per week for the employed, 2012

	Total	Male	Female
Total	38.7	41.8	35.4
Rural	32.6	34.6	30.5
Urban	48.0	52.3	43.3

Source: CSO, 2013, table 7.6.

Working time varies significantly across industries (CSO, 2013). Agricultural workers work fewer hours (on average 31.1 a week), while those in the secondary and tertiary sectors (except for the category "activities of household as employer") work "excess" hours above the 40-hour threshold. The difference between men and women varies considerably across industries. Women tend to work much more than men in real estate activities (46.1 hours) and arts, entertainment and recreation (57.4 hours). By contrast, in other industries such as mining and quarrying, manufacturing, transportation and storage, etc. men work many more hours than women.

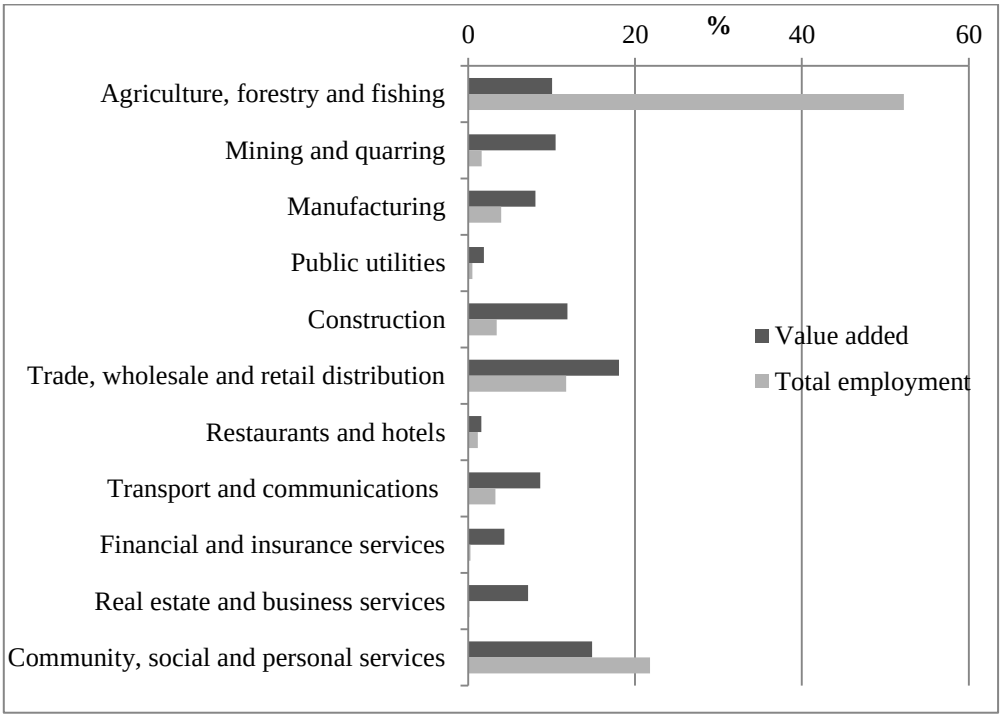
Workers with no or little education register the shortest weekly working time (33 hours) while those educated to A-level standard work the longest (50 hours).

6 Growth and employment across the economy: A sectoral analysis

Employment in Zambia is concentrated in agriculture and services. The most important sectors in terms of employment are agriculture, forestry and fishing; community, social and personal services; and trade (including wholesale and retail distribution) (figure 6.1). However, agricultural employment has been declining since 2005, while employment in trade and in community and social services has been increasing (CSO, 2007, 2013). Another fast-growing sector in terms of employment is construction, even though its contribution to total employment is as yet small.

In terms of contribution to GDP, trade, wholesale and retail distribution (18 per cent) and community and social services (15 per cent) ranked first and second (figure 6.1); next came construction (12 per cent) and mining and quarrying (10.5 per cent), followed by agriculture, forestry and fishing, and transport and communications.

Figure 6.1. Distribution of employed persons (aged 15 years and over) and value added, by sector, 2012 (%)



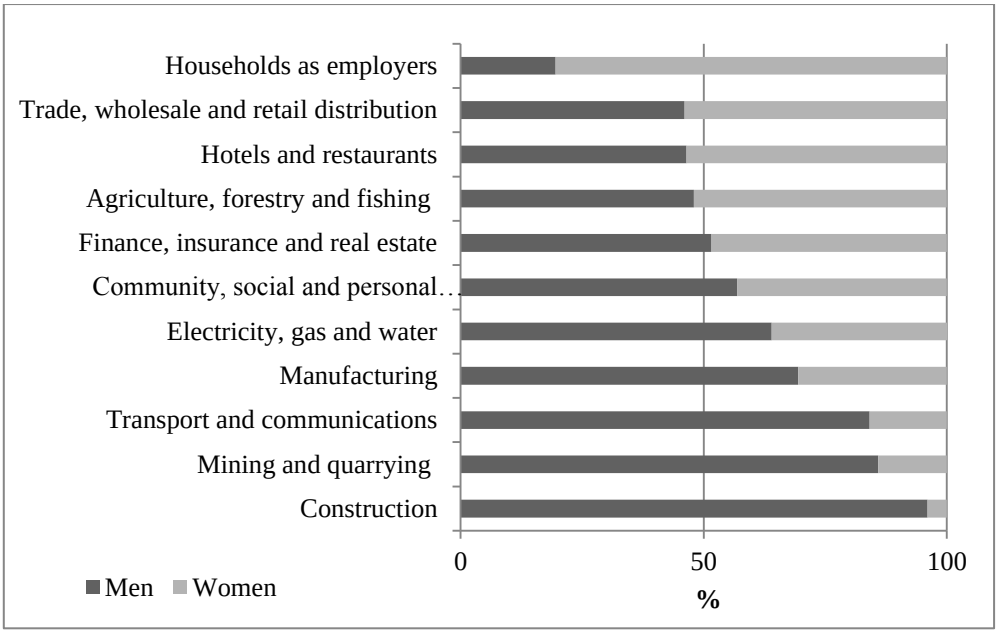
Sources: CSO, 2013, 2014a.

6.1 Gender segregation

There is strong gender segregation by sector. Men represent the vast majority of workers (over 75 per cent) in the sectors with high value added shares, notably mining

and quarrying, transport and communications, and construction. Women on the contrary are concentrated in the sectors with little value added (figure 6.2).[40]

Figure 6.2. Sectoral distribution of employment by gender, 2012 (%)

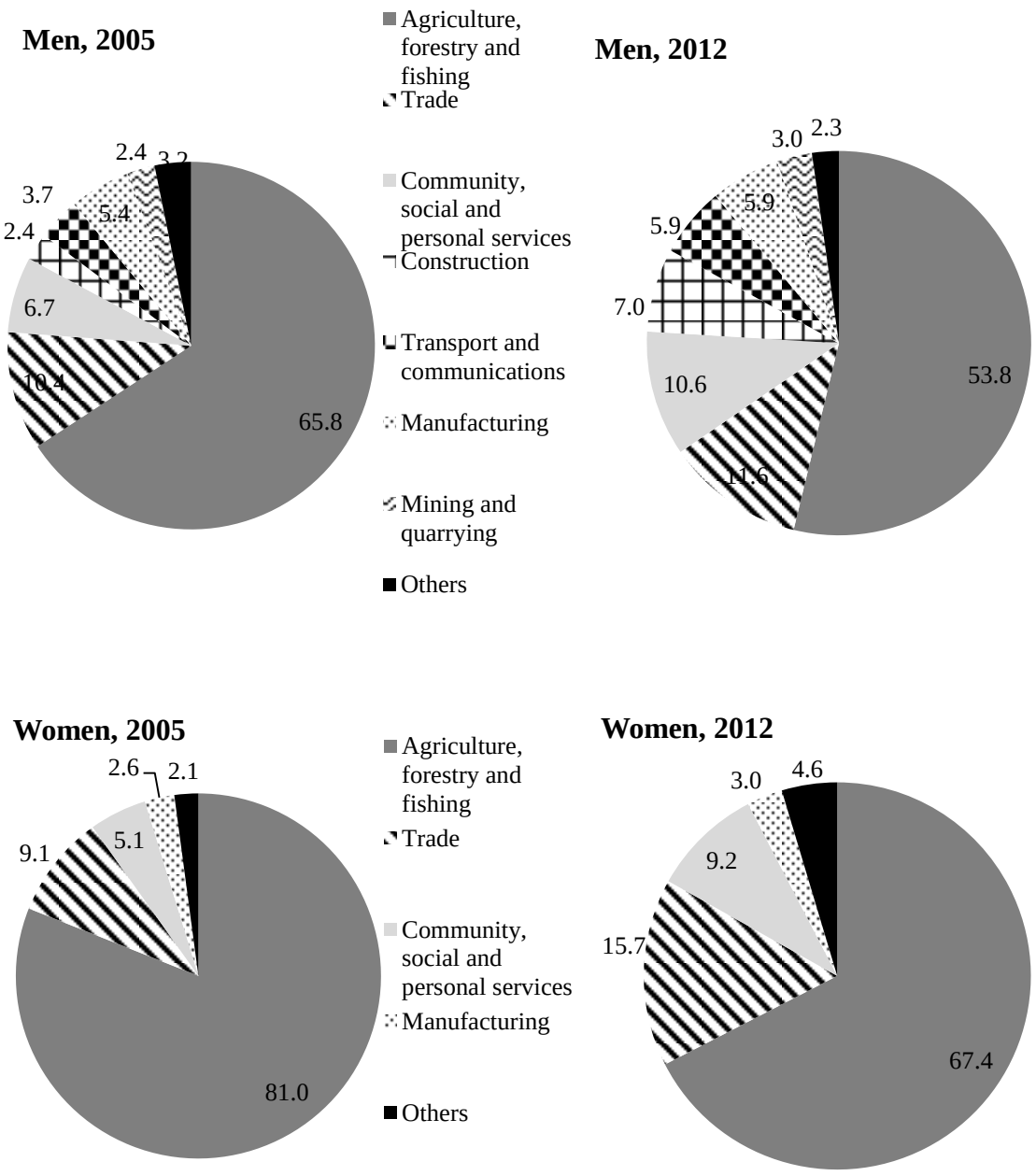


Source: Author's calculations, based on data from the 2012 LFS.

Women's employment is highly concentrated in a few sectors. Nine out of ten women work in one of three sectors: agriculture, trade, and community and social services (figure 6.3). Male employment is much less concentrated, suggesting that men might have fewer constraints on access to different types of jobs, including in the higher productivity/value added sectors. Construction, transport, communications and manufacturing accounted for almost 19 per cent of male employment in 2012 (figure 6.3).

[40] Hotels and restaurants, agriculture and "households as employers". In ISIC Rev. 4, workers classified in the category "activities of households as employers" produce goods and services for their own use, mainly services for their own subsistence, such as cooking, teaching and caring for household members. According to the national accounts, "activities of households as employers" produce almost no value added (ZMW 4.3 million in 2010, i.e. ZMK 6 per worker).

Figure 6.3. Distribution of male and female employment by main sectors of activity, 2005 and 2012 (%)



Note: Households as employers were excluded from the data because of the bias it introduces when comparing the different years: in 2012, this category accounted for over 20 per cent of female employment.

Source: CSO, 2007, 2013.

Women do not gain work in sectors for which they are qualified. This is well illustrated by the data on female youth unemployment by education level, which show a very high rate of unemployment (17 per cent in urban areas) among young women educated to vocational certificate level (see also discussion in section 5.3 above). This is

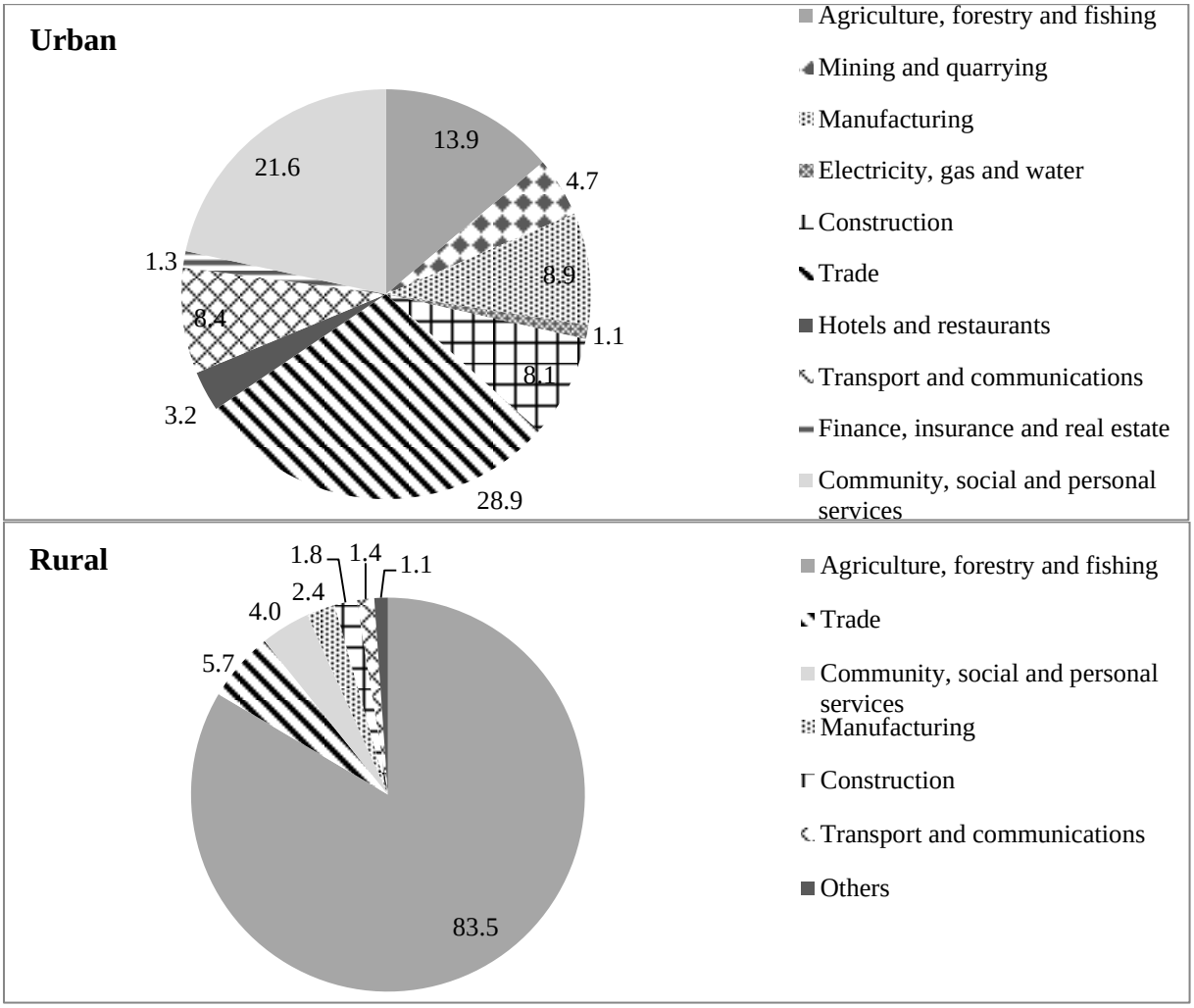
almost five times as high as young men educated to the same level (see CSO, 2013, p. 75). The sectors requiring high manual skills seem largely reserved for men. This and the concentration of women in sectors where no specific skills are required leads to the conclusion that there is very strong gender segregation in the Zambian labour market.

6.2 Sectoral diversification: An urban–rural divide

Urban areas show a wide diversity of economic activity (figure 6.4a). Public sector employment (in community and social services) and trade are the two main sectors (figure 6.4), with manufacturing, construction, and transport and communications also providing significant proportions of total employment.

By contrast, diversification of employment is almost entirely lacking in rural areas, where non-farm work employment represents only 16 per cent of total employment (figure 6.4b). Public services (mainly education and health) and trade together employ about 10 per cent of rural workers, but there is very little manufacturing, construction and transport (accounting together for only about 6.6 per cent of rural employment).

Figure 6.4. Sectoral distribution of employment, urban and rural, 2012 (%)



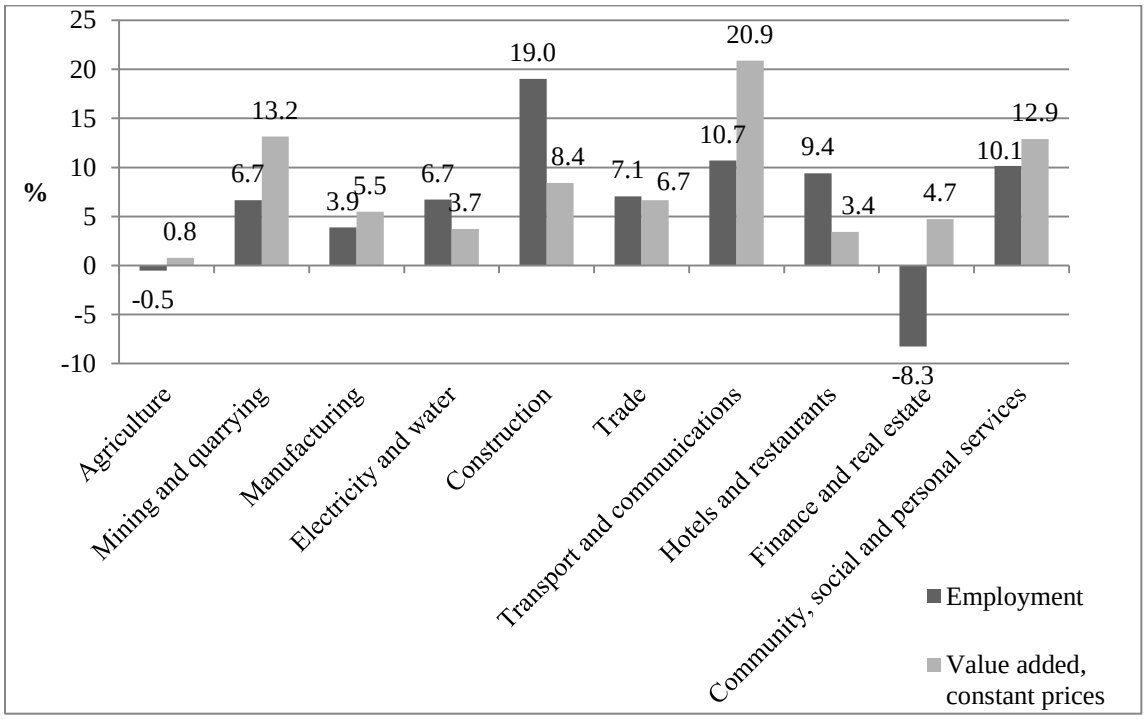
Source: CSO, 2013.

6.3 Growth, employment and productivity by sectors

The sectors registering the highest economic growth are the same as those with the highest rates of employment creation (figure 6.5). The fastest-growing sector over the period 2005–12 was transport and communications, at 21 per cent per year; it also provided significant employment growth at almost 11 per cent per year. Community and social services was the second fastest-growing sector (at 13 per cent per year), providing employment growth at 10 per cent per year. These two sectors are growth engines, yielding rapid growth in output and employment alike.

It is, however, noteworthy that the gender distribution of employment in these dynamic sectors is markedly unequal. Men account for 92 per cent of employment in transport, 57 per cent in communications and 57 per cent in community and social services (figure 6.2; CSO, 2013).

Figure 6.5. Annual change in employment and value added by sectors, 2005-12 (%)



Sources: Employment data: CSO, 2007, 2011, 2013. Value added data: calculated from CSO, 2014a.

Mining is growing fast, but the well-paid jobs it creates are few and almost exclusively for men. The mining and quarrying sector registered high economic growth between 2005 and 2012 (13 per cent per year), but created relatively little employment (figure 6.5). Average monthly earnings of employees in this sector increased by almost 25 per cent between 2005 and 2012, while productivity increased by 7.3 per cent per year over the same period (table 6.1). Men account for 86 per cent of employment in this sector.

In construction, employment growth is much faster than economic growth, pushing productivity levels down. Between 2005 and 2012, the construction sector registered the highest employment growth of any sector (19 per cent per year); but value added grew at only 8 per cent per year during the same period, leading to a sharp drop in productivity (table 6.2). Men account for 96 per cent of employment in construction.

Table 6.1. Growth of productivity and earnings, 2005–12 (%)

	Productivity, constant prices, annual average growth, %	Real monthly earnings, annual average growth, ZMW
Agriculture	1.4	65.4
Mining and quarrying	7.3	37.2
Manufacturing	1.6	34.2
Trade	−0.37	36.0
Transport and communications	12.2	30.5
Finance and real estate	21.9	35.1
Community and social services	2.7	24.0

Note: Productivity growth refers to the sector as a whole and is based on total employment in the sector, while earnings growth is based on wage employment and may therefore not be representative of total earnings. It is therefore not possible to establish a direct relationship between productivity and earnings growth in this table.

Source: Monthly earnings from CSO, 2007, table 10.2; 2013: table 10.3. Productivity calculated from CSO, 2014a.

Table 6.2. Labour productivity and labour productivity growth, 2005 and 2012

	Productivity at constant prices, ZMW 000		Productivity growth, %
	2005	2012	2005–12
Agriculture	3 515.1	3 858.2	9.8
Mining and quarrying	86 437.1	130 871.0	51.4
Manufacturing	36 816.5	41015.4	11.4
Electricity, gas and water	92 968.1	76 141.6	−18.1
Trade	31 708.9	30 892.0	− 2.6
Transport and communications	28 629.7	53 087.1	85.4
Hotel and restaurants	40 839.5	27 515.1	−32.6
Construction	134 114.1	69 734.3	−48.0
Finance and real estate	225 552.1	571 312.7	153.3
Community and social services	29 013.2	34 481.0	18.8
All sectors	15 495.0	22 384.6	44.5

Source: Authors' calculations based on data from 2005 and 2012 labour force surveys and 2010 benchmark estimates of GDP.

Overall, productivity in Zambia is low, at ZMW 22,385 (US$3,540) per worker in 2012. This figure, however, obscures important differences across sectors. There is a huge productivity gap between agriculture on the one hand and the non-agricultural

sectors on the other hand (table 6.2). Women's employment is concentrated in the low-productivity sectors (agriculture, trade, and community and social services).

Agricultural productivity grew very slowly between 2005 and 2012, and what growth did occur has been largely due to people migrating to urban areas in search of jobs, as shown by the shrinking share of agricultural employment, rather than to any significant growth of value added. Furthermore, most growth in agricultural production was confined to large and medium-sized farms, while production on small farms, where the vast majority of the working poor are found, stagnated (see also section 2.1 above).

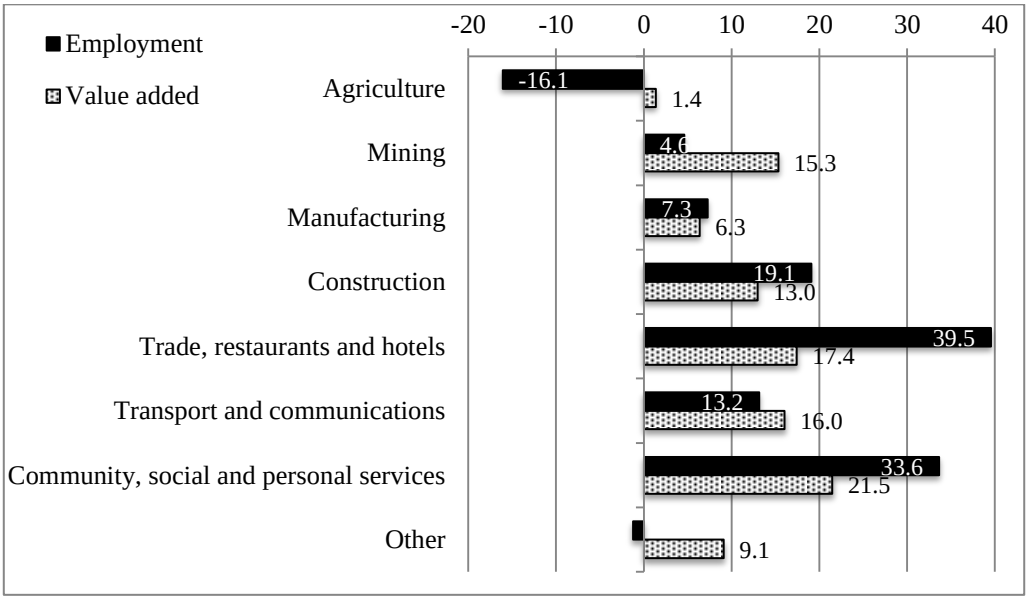
Non-agricultural jobs were created in the sectors where the working poor and the unemployed are predominantly found (trade, construction), but they are not very productive and income levels are low. These sectors provide urban jobs for the working poor who move out of agriculture in search of other work. A worker receives on average ZMW 1,313,611 a month in construction, ZMW 1,300,011 a month in trade. These levels are even lower than in agriculture, where a worker receives on average ZMW 1,637,596 a month. In the public sector, the monthly average wage is about ZMW 2,380,000. The highest pay is found in mining, at ZMW 4,654,781 a month on average (CSO, 2013, p. 80).

Labour productivity in the sectors employing large proportions of working poor, and the contribution of productivity growth to total growth in these sectors, have actually fallen (table 6.2). The figures for trade, combined with the very low levels of productivity and wages in this sector, suggest that employment growth has been supply-driven rather than based on actual growth of economic and income opportunities. Agricultural poverty pushes rural–urban migration, and for lack of alternative income opportunities the migrants (along with other young people in urban areas with low education levels) end up in work with few or no barriers to entry. This type of employment creation can be seen as a form of disguised unemployment.

6.4 Growth, education and employment

Economic growth in Zambia is driven by four sectors: natural resource extraction (which creates few, but well-paid jobs); public sector employment (which is dependent on fiscal resources); construction; and transport and communications. By contrast, agriculture and manufacturing, the two sectors that need to function as the core pillars of economic transformation and are essential to generate and support sustainable growth, show dismal performance, in terms of both economic growth and employment creation (figure 6.6).

Figure 6.6. Contribution to employment and value added growth, by sector, 2005–12 (%)

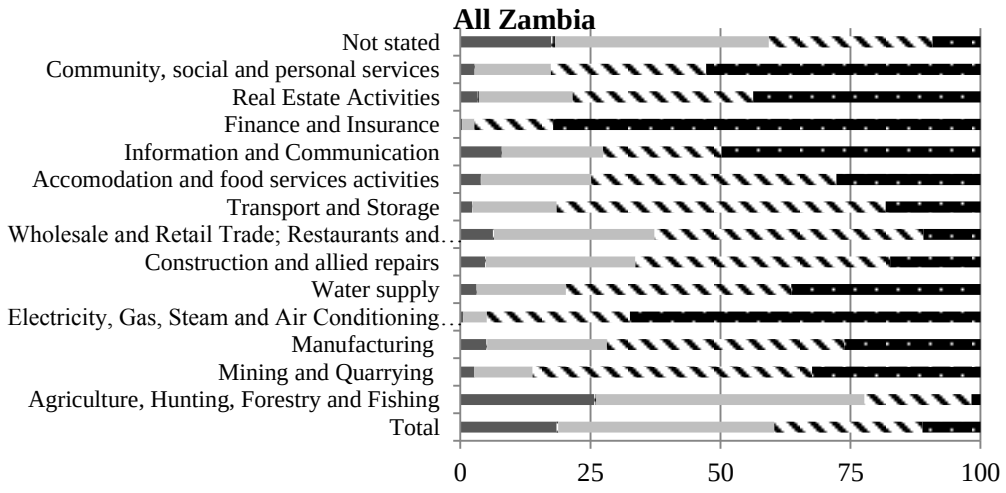


Note: Data for the category "Community, social and personal services" include households as employer.

Source: CSO, 2007, 2013; GOZ, 2014.

The sectors that are growing have different skills requirements. Employment in community, personal and social services, which is mainly in the public sector, is a significant "growth engine" and source of non-farm employment in urban areas. Access to the better jobs in this sector, for example in health and education, is largely restricted to those educated to upper secondary or tertiary level (see figure 6.7), and at this level employment in the sector is dominated by men.

Figure 6.7. Educational structure of employment, by sector, 2010



Note: Figures are for employment of those aged 12 and over, by industry and highest level of education completed.

Source: CSO, 2012c, table E6.

Trade is also a main growth engine and a source of non-farm employment. In urban areas, over 60 per cent of people working in trade have at least secondary education. In rural areas, this sector absorbs those with limited education (over 60 per cent have primary or less) and is likely to generate little value added and income for these workers.

Construction, too, is an important growth engine and a source of non-farm employment, mainly in urban areas, where about 70 per cent of workers in the sector have secondary education or above. In rural areas, over 50 per cent of construction workers have only primary education or less.

There is a wide disparity in educational levels between those employed in agriculture and those employed in the non-agricultural sectors (figure 6.7). The overall much lower level of education among the agricultural labour force presents a challenge to

agricultural development and modernization, and thereby to achieving substantial increases in productivity and incomes in the sector; at the same time, it serves as a barrier making it hard for the agricultural labour force to access more lucrative non-farm jobs.

The working poor and the unemployed tend to lack the necessary education and skills to gain work in the sectors that have been the main drivers of productive employment creation. As a result, they work mainly in agriculture or, when driven out of agriculture, in trade and construction. Much work in trade takes the form of self-employment.

6.5 An unsustainable pattern of growth

It is clear from the above review that the structure and growth pattern of the Zambian economy is inefficient from the perspective of productive job creation and reduction of working poverty, even though the sectors that account for large proportions of GDP growth are also those that account for most employment growth. This growth pattern is not sustainable from either an economic or an employment perspective.

7 Main conclusions and policy recommendations

7.1 Persistent poverty in the face of growth: The challenges to be met

Unprecedentedly high rates of growth over the past decade have bypassed the majority of the population in Zambia and done little to reduce income poverty. With the benefits of growth accruing largely to the richest 20 per cent of households, mainly in Lusaka and a few other large urban centres, inequality has increased and the economic gulfs between rural areas and the large cities, across regions and between different groups in society have widened.

The failure of economic growth to effectively reduce poverty is the result of a failure to deliver productive jobs. With a rapidly growing labour force and a large number of working poor, the productive employment deficit (the sum of the total number of working poor and the unemployed) has not decreased.

Economic growth has not been accompanied by the broad-based structural changes that are essential for sustained economic development over the long term. In recent years, growth has been driven by four economic sectors: natural resource extraction, which creates few jobs and where most of the value added is repatriated abroad; the public sector, which is dependent on fiscal resources from the rest of the economy; and the construction and transport and communications sectors. By contrast, agriculture and manufacturing, which together need to serve as the backbone of an economic transformation, both show weak performance. The fact that the tradable sectors – in particular manufacturing, but also agriculture – have accounted for such a small share of growth to date points to poor international competitiveness and calls into question the long-term sustainability of the current growth pattern.

The development challenge is accentuated by continued very high rates of fertility and population growth, resulting in a high dependency ratio, a need for very large investments in education and human resources development, and great pressure on the economy to create productive jobs for large numbers of young people entering the labour force.

In order to achieve the goal of reducing extreme poverty to 29 per cent by 2016, some 390,000 productive jobs would need to be created annually between 2012 and 2016, implying an almost threefold increase over the 137,000 productive jobs created per year between 2008 and 2012. This would require major qualitative changes in the nature of economic development and in associated economic, employment and human resources development policies.

High intra-household dependency ratios (many mouths to feed but few breadwinners) resulting from high fertility rates as well as the consequences of HIV/AIDS, significantly reduce the ability of poor agricultural households to save or to invest in their children's education and in tools and technologies that would enhance the productivity of their labour and their land. Taking a life-cycle approach, the study shows that poverty forces children into child labour and makes it difficult for them to acquire adequate education and skills, which in turn severely reduces their prospects of accessing productive employment and escaping poverty as adults. The persistently high prevalence of HIV/AIDS in Zambia makes it particularly difficult to break this intergenerational

vicious cycle of poverty, as the loss of adult labour resources forces children to work at the expense of their education. Closely interwoven with this is the generally low level of female education, which is associated with high fertility and in turn makes it difficult for households to escape income poverty. An integrated policy approach is required to address all the links in this chain as an important aspect of achieving a dynamic and inclusive development of agriculture and the rural economy.

The study has identified causal chains that perpetuate and aggravate poverty as well as major barriers and constraints that make it difficult to access productive jobs. In the remainder of this chapter, we summarize these constraints and suggest some broad policy areas for intervention.

7.2 A twin growth goal: Making growth both more inclusive and economically sustainable

The challenges of making economic growth inclusive and economically and socially sustainable are connected. Addressing them requires a focus on reducing inequality and on creating productive employment on a broader base and a much larger scale than at present.

Intensification of agriculture, enhanced opportunities to invest in agriculture (in particular for poor smallholders), economic diversification outside the large cities and stronger rural–urban economic linkages generally would not only contribute to reducing rural poverty and reduce the push factors driving rural–urban migration, but would also serve to reduce the cost of living in urban areas, thus reducing urban poverty and indirectly increasing the competitiveness of the urban economy.

Furthermore, with more than half of the population still living in rural areas, most of them as impoverished small-scale farmers, a sustained increase in agricultural productivity and rural incomes would significantly increase domestic demand, which in turn could serve as a robust engine of economic growth and support a shift to a more balanced sectoral development pattern.

More generally, it can be argued that fostering domestic economic integration (between rural and urban areas and, not least, between the formal and the informal economy) would create larger multiplier effects across the economy and thus enhance growth. It would also increase the ability of the economy to withstand fluctuations in the copper price and the vagaries of external markets. Hence, enhancing the integration of the various elements in the national economy would strengthen both the resilience and the growth potential of the economy overall, and at the same time would serve to make growth more inclusive.

7.3 Reducing inequality in human resources development, employability and capabilities

7.3.1 Reduce child labour

Child labour is a major constraint preventing children from accessing education and devoting sufficient time and attention to school. Economic necessity and poverty – the combined effect of very low levels of labour productivity and a shortage of labour at the household level – are the main factors perpetuating child labour. A child income support, preferably universal and possibly conditional upon school attendance, should be

considered as an important instrument for reducing the necessity to put children at work. The provision of free school meals would further increase the economic incentives to send children to school.

As well as economic necessity, other factors deter parents from sending their children to school: these include the high actual costs associated with education, long distances between home and school, and low perceived usefulness or quality of education. Reducing the costs associated with education, for example by providing free textbooks and other educational materials, adapting school calendars and timetables to the agricultural calendar, offering incentives for teachers to work in rural areas and reviewing curricula to enhance relevance are some of the measures that could be considered to remove these obstacles.

7.3.2 Enhance access to education

The problem of inequality in access to education needs to be addressed to achieve a rapid, robust and inclusive development in the long term. Increasing investment in education and training in rural areas, and expanding access to education and training to reach the most disadvantaged youth in urban areas, would contribute to extending the take-up of education across all groups and preventing early departures from school.

7.3.3 Increase access to vocational training, and link TVET to private sector development needs

Access to vocational training in rural areas needs to be considerably expanded to equip larger numbers of rural young people to take up productive non-farm employment and to address the inadequate supply of skills required to support industrialization. This deficit needs to be addressed with a particular focus on the priority growth sectors: tourism (develop skills training in the hospitality sector), agriculture (upscale the training of agro-professionals; upgrade agricultural colleges and make scholarships available), timber, manufacturing and construction. Training equipment and instructors' skills need to be updated to respond to current needs. Financing of the TVET system needs to be reviewed, redesigned and implemented to ensure effective and efficient financing of national priority skills.

7.3.4 Promote and strengthen quality apprenticeship systems

There is a need to reintroduce apprenticeship training and to promote relationships between training institutions and industrial enterprises, especially in priority sectors. The active support of all the relevant stakeholders, particularly workers' and employers' organizations, is necessary for the development, implementation and continuous improvement of high-quality apprenticeship programmes. The participation of these stakeholders in drawing up training programmes should be encouraged, both in making proposals for the creation, design and updating of programmes, and in identifying the needs of particular sectors to facilitate the creation of targeted programmes. The trade unions have a significant role to play in protecting the welfare and rights of apprentices, including their occupational safety and health.

Apprenticeships may be a way for workers to enter the formal sector. To this end, a training body or commission could assess and recognize skills, capabilities and competences acquired in a non-formal or non-traditional way. A commission or body should be established to set and supervise apprenticeship standards.

7.3.5 Build an effective public employment service

Short-term measures are also needed to increase the employability of the existing labour force, particularly in urban areas. A package of active labour market policies could include provision of short-term skills and entrepreneurship training, job and career counselling services, adult literacy programmes and measures to address gender discrimination in the labour market. The public employment service would have an important role to play in designing and implementing such a package. It also needs to play its role of labour market information provider to better match labour demand and supply and prevent labour market discrimination. Information should be provided on areas including which sectors are expanding, businesses in recession and in expansion, salary levels, career paths, training offers, job integration schemes, contracts with other actors in the labour market, job opportunities in other regions and other countries, and the legal obligations of employers and employees. In order to play its brokering role effectively, the public employment service needs to be able to identify sectors of activity and enterprises in each labour pool[41] and their recruitment needs.

7.3.6 Invest in adult literacy programmes, including business skills

In view of the very large numbers of rural adults and, not least, young adults with very limited levels of education, there is also a need to create opportunities for second-chance learning through remedial schooling and adult education.

7.4 Inclusive and broad-based development of agriculture and diversification of the rural economy

7.4.1 Why smallholder agriculture deserves support

In rural areas, continued widespread subsistence agriculture on the one hand – and the associated very low levels of income among small-scale farmers, who make up the vast majority of the rural population – and a lack of economic diversification into non-farm activities on the other perpetuate the stagnation of the rural economy. They pose a major obstacle to reducing the huge deficit of productive jobs in rural areas, to bringing down poverty and to achieving broader-based and more solid economic development.

Despite a number of studies on the agricultural sector documenting the constraints on a more dynamic development of smallholder agriculture in Zambia and the mounting experience of pro-poor agricultural development from other countries, not only in Asia but also increasingly in sub-Saharan Africa, agricultural development strategies in Zambia appear to have benefited large- and medium-scale farmers much more than small-scale farmers. In particular, the distribution channels and economic infrastructure serving agriculture are mainly designed to cater for larger farms. As the division of the sector between the thriving medium and large farms on the one hand and impoverished, subsistence-oriented small farms on the other hand becomes entrenched, so it becomes increasingly difficult for small-scale farms to modernize and increase their market orientation and production.

[41] The term “labour pool” refers to the available group (or pool) of individuals who are qualified to function in a specific employment situation. This may relate, for example, to a specific position within a company, a specific industry, or even a specific geographical location.

Yet Zambia cannot afford to neglect the millions of rural working poor who are concentrated in small-scale farms, for two main reasons.

First, to do so would be to accept ever-increasing flows of impoverished rural labour migrating to the big cities in the hope of finding other and better sources of employment and sustenance. The formal urban economy is in no position to assume the burden of creating productive jobs for these (mostly poorly educated) migrants as well as the large numbers of young urban people entering the labour force every year.

Second, there is a two-way causality between the stagnation of the smallholder sector and the very weak development of non-agricultural economic activities in rural areas. Large farms do not need a diversified local economic environment to flourish as they can link up directly to more distant urban markets. By contrast, small farms depend on the local economy for inputs and services, and as markets for their products. Small farms can thrive in a dynamic local economy at the same time as a dynamic development of small farms can serve as an engine for the development of a dynamic and diversified local economy. With the development of diversified local economies outside the big cities, non-farm job opportunities would open up, providing much-needed alternative sources of employment and income for the agricultural population. This is an essential aspect of achieving more broad-based and inclusive economic development in Zambia.

Small farms are not inherently inefficient. Experience from other countries shows that small farms can obtain yields and returns to land just as high as larger farms. The success of any strategy to reduce poverty and increase productive employment will depend crucially on increasing the productivity and incomes of the large number of smallholders who make up the bulk of the agricultural and rural population. Such a strategy would need to address several clusters of issues and problems.

7.4.2 Strengthening the resilience of small-scale farmers

Low resilience to economic and health shocks compels farmers with small margins to be highly risk-averse. A range of policy instruments should be considered to strengthen the resilience of small-scale farmers:

- *Improved access to affordable essential health care* is essential. Much has already been achieved on this front, not least in terms of making ARV treatment more widely available, but the fact that out-of-pocket expenditures still account for two-thirds of all health expenditures suggest that more can and needs to be done, in terms of increasing both affordability and physical access. Public investment is needed in the education and training of health professionals and in the provision of health infrastructures to enhance access, and in a social protection floor to enhance affordability.
- *A rural public employment guarantee scheme* would provide a secure fallback source of employment and income in times of crisis as well as smooth out the large seasonal variations in employment and incomes from agriculture. Such a scheme could be used to build the irrigation infrastructure needed to lessen the dependence on rain as well as roads and health and education infrastructure.
- *A child income support programme,* as discussed above, would help reduce the impact of shocks on children and on households with many children more generally. This should form an integral part of a social protection floor for Zambia.

7.4.3 Tailoring support to small-scale farmers: The Rwandan example

At present small-scale farms are disadvantaged in terms of access to markets, inputs, credit, extension services, appropriate technologies and other factors essential to successful operation and development. Input subsidies, an important component of the current agricultural policies, also reportedly benefit the larger farms (Hichaambwa et al., 2014). There is a need for measures specifically targeted to creating a more enabling and supportive environment for small-scale farms. While these will need to be tailor-made to fit the specific Zambian context, important lessons can be learnt from other countries. A case in point is Rwanda, which despite a very high degree of land fragmentation and a predominance of very small holdings is achieving a dynamic agricultural development in which small-scale farms are the key players and beneficiaries. The Rwandan example brings out some salient ingredients for success:

- Inclusiveness needs to be a main objective and explicitly inform all relevant policies and strategies. These strategies and policies should take the potentials of small farms and poor households as a starting point – i.e. the very opposite of a trickle-down approach. Looking at agricultural development from the perspective of small-scale farmers is essential to identify the specific challenges they face and to design policies that address these challenges and create a level playing field. This in its turn requires comprehensive local consultations.
- Agricultural development policies should give priority to creating upward and forward linkages and value chains that are geared towards the needs and participation of small-scale farmers. The development of cooperatives deserves to be promoted to this end.
- A strategy for agricultural development should be embedded in a comprehensive strategy for rural and local development. The Rwandan strategies in these areas focus both on local economic empowerment and community development and on national economic integration and cover a wide gamut of areas, such as human resources development, SME development, economic infrastructure, public services delivery and social protection.
- Decision-making should be decentralized. Local development strategies should be locally developed, owned and implemented, with appropriate technical and financial support from central government. This also requires mechanisms for coordination between local and national strategies.

Such a policy package would also serve the purpose of fostering diversification of the economy outside the big cities, encouraging producer cooperatives, fostering economic growth and non-farm employment creation in small towns, and strengthening economic linkages between small and medium-sized towns and their rural and agricultural hinterland.

7.5 Removing constraints on high and sustained long-term growth rates

Reducing income inequality is important both to sustain high rates of growth and to ensure that growth takes a form that actually reduces poverty.

7.5.1 Sustainable growth needs to be demand-led

Reducing supply-side bottlenecks, important as it is, will not suffice to sustain high rates of economic growth. Sustainable growth has to be demand-led. Although development and diversification of exports is important to this end, a key engine will have to be domestic demand. At present domestic demand in Zambia is highly skewed. A small urban elite has a large purchasing power. Much of this demand, however, is met through imports. Meanwhile the purchasing power of the vast majority of the population remains very low. The link between weak purchasing power and low demand on the one hand and lack of economic impetus on the other hand is particularly apparent in rural areas and outside the large cities. In order to achieve and sustain a robust demand-led growth, domestic demand has to become much more broad-based. This will depend crucially on increasing productive employment and income opportunities for those living in poverty through development of agriculture and diversification of the rural economy, as discussed in section 7.4 above. Interventions in the areas of minimum wages and incomes, employment guarantee schemes and social protection can also contribute to increasing domestic demand.

7.5.2 The multiple benefits of tackling gender bias

Severe inequality, in particular with regard to access to education in rural areas and for girls, is a main factor behind the persistently very high fertility rates. Bringing down the fertility and birth rates, and the associated improvement of the dependency ratio, would potentially have a substantial positive impact on economic growth per se as well as on making growth more inclusive. This impact would take several forms.

First, a fall in the dependency ratio would automatically translate into higher per capita income as long as the economy manages to generate employment opportunities for the growing labour force at (at least) constant levels of productivity. This is simply because the share of income earners in the total population would increase. Second, an improved dependency ratio would substantially increase the capacity to save at both household and national level; and these savings could, in turn, translate into productive investments and the creation of more and better job opportunities. Third, having fewer children would reduce the reproductive work, which tends to weigh heavily on women. Fourth, a fall in births would within a few years lag ease the burden of public investment in education as the rate of growth of school-age children would slow down.

There is ample evidence of discrimination against women in the labour market. Women and men do not have equal access to employment. There is strong gender segmentation by sector, with women's employment highly concentrated in just three sectors: agriculture, trade, and community and social services. Irrespective of levels of education, women find it much more difficult than men to access jobs in line with their qualifications and skills. Women have benefited from the relatively high growth of formal jobs, but they still represent just about one in four formal workers. Women are the clear losers on the Zambian labour market for reasons that have nothing to do with their employability and qualifications. This is an important dimension of inequality that needs to be forcefully addressed in its own right. It also results in serious underutilization of human resources, to the detriment of the overall economic development.

There is a need to break down gender stereotypes as to what occupations or positions are fit for women or for men. Labour legislation also needs to be reviewed in order to eliminate any unintended regulatory disincentives to hire women. The issue is sufficiently serious to warrant an in-depth investigation into the factors behind the unequal treatment of men and women in the labour market.

7.6 Transforming the urban economy and labour market to generate more productive employment

7.6.1 The urban challenges: Unemployment, underemployment, informal employment

As noted above, the urban economy is under extreme supply-side pressure to generate employment, as a result of both rapid natural growth of the working-age population and large scale rural–urban migration due to lack of productive job opportunities in rural areas. A conservative estimate suggests that the urban labour force grew by almost 50 per cent between 2008 and 2012.[42]

Formal urban employment has also grown rapidly, but from a very small base. Some 235,000 new formal jobs were created between 2008 and 2012, increasing the share of formal jobs in total urban employment from 29 per cent to 31 per cent. However, despite this dynamic development, the urban formal economy is still unable to create enough productive job opportunities for the very rapidly growing urban labour force. As a result, urban unemployment remains high at over 14 per cent and urban employment remains overwhelmingly informal.

Unemployment in urban areas affects especially the young and women. The unemployment rate rises with the level of education. This would appear to bear out the "luxury unemployment" hypothesis, that in the absence of unemployment benefits, the very poor cannot afford to be unemployed. Underemployment (in terms of low income and low productivity) rather than unemployment is, therefore, the main adjustment variable between labour supply and demand in the Zambian urban labour market (De Vreyer and Roubeaud, 2013, p. 16). This takes the form of inadequate employment situations[43] and informal employment more broadly.

Despite the creation of some 270,000 urban wage jobs between 2008 and 2012, the share of wage employment in total employment remains low, at 40 per cent. The informal employment rate is also still very high, at 69 per cent of total urban employment. Rapid urbanization has not been accompanied by a significant shift to non-agricultural formal employment. Almost two out of every three new urban jobs created between 2008 and 2012 were informal. So although recent trends are going in the right direction, the deficit of productive employment remains huge.

The dynamic development of the formal urban economy, although from a low base, suggests that there are no serious legal barriers to formalization of businesses in Zambia. This is confirmed by the World Bank's "Doing Business" survey, which places Zambia well ahead of the average for sub-Saharan Africa, although behind South Africa, Botswana, Rwanda and Namibia (World Bank, 2015).

Gender-based labour market discrimination and high educational requirements to access wage employment in the formal economy are important barriers preventing access to formal urban jobs, especially for rural migrants and women. At the same time,

[42] These and subsequent figures are adjusted for an underestimation of the urban labour force in the 2008 LFS by about 14 per cent. See discussion in section 5.1.

[43] There are three types of inadequate employment situations: skill-related, income-related and time-related.

structural weaknesses in the urban economy and labour market hamper economic dynamism and the creation of productive jobs and dampen overall demand for labour.

To strengthen the capacity of the urban economy to generate productive employment and increase competitiveness and inclusiveness, interventions are needed in various policy areas. These are outlined below.

7.6.2 Anticipate skills needs and ensure coherence between education and industrial policies

At the same time as inadequate education and skills bar very large numbers of workers, not least from rural areas, from accessing productive and formal employment, enterprise development is often constrained by insufficient supply of labour with adequate and relevant education and skills. There is a need to strengthen the education and TVET system, with a particular focus on enhancing quality, relevance and inclusiveness. There is also a need to ensure coherence between human resources development and education strategies on the one hand, and industrial policies and economic development strategies and policies on the other. Such coherence, which must have a long-term planning horizon appropriate to processes that can take a generation to mature, need to be complemented with measures aimed at short-term results. It is crucial that the private sector be involved in the definition of skills needs.

7.6.3 Use macroeconomic tools to increase competitiveness

Zambia's real effective exchange rate tends to fluctuate with the copper price. Following a significant appreciation since the early 2000s, it has recently fallen, reflecting falling copper prices (IMF, 2014, p. 46; 2015). Exchange rate policy is particularly important in a resource-rich and mineral-exporting country such as Zambia. Mining companies, the source of almost 80 per cent of Zambia's foreign earnings, are the biggest earners of dollars, the currency in which copper is globally traded (Shula, n.d.). Mineral exports thus exert an upward pressure on the exchange rate, especially at times of high copper prices. Promoting a "strong currency" policy as a way of keeping inflation down is particularly harmful as the negative impact of a currency appreciation on competitiveness is invariably larger than any positive impact of reduced inflation. Not resisting sustained depreciation pressures when they exist would help competitiveness. An overvalued currency prevents the development of export-oriented production with high domestic value added. By keeping imports cheap, it makes it difficult for national firms to produce the same goods domestically.

An excessive focus on reducing inflation to very low levels results in a contractionary monetary policy, which has the effect of reducing the supply of money in the economy and increasing interest rates. The end effect is high cost of investment capital. Maintaining a continuous tight monetary policy in order to meet overly ambitious inflation targets puts upward pressure on interest rates and discourages businesses from borrowing money from the banks to start new businesses or expand existing ones and thereby create jobs. In response to high lending rates and limited access to credit for SMEs, the monetary authorities introduced caps on lending rates in 2013 (IMF, 2014, p. 16; 2015, p. 16). But international experience seems to indicate that lending rate ceilings distort credit allocation and restrict access to credit, particularly for SMEs. This highlights the need for the monetary authorities to consciously relax inflation-targeting policy in order to lower interest rates and encourage small and medium entrepreneurs to borrow money, expand their businesses and create jobs. Competitiveness and

employment deserve to be made explicit targets for macroeconomic policies along with inflation and stability targets.

7.6.4 Strengthen value chains and economic integration

The Zambian economy is segmented, divided between mining, an urban formal economy and large-scale agriculture on the one hand, and subsistence farming and a large informal non-farm economy on the other. To achieve growth that is both inclusive and robust, this compartmentalization needs to be broken down. Promoting inclusive value added chains is one way of achieving this. However, the existing value added chains, at least from agriculture, are designed for large-scale economic agents. What is needed is the development of pro-small-scale or at the very least scale-neutral value chains. This, in turn, requires policies conducive to the development and economic diversification of small and medium-sized towns. In the best of all worlds, value added chains link large firms with smaller ones, so that the larger can contribute technology, market access and sometimes capital, while the smaller ones provide flexibility. China and Vietnam are good examples of countries where linking large and small firms has been an important aspect of overall economic integration.

7.6.5 Explore options for value chain based clusters linking rural producers to processors and markets for their raw materials.[44]

To this end, the Government could provide policy and institutional support for business development services, product quality, market access and occupational safety and health. Regional and local development strategies and programmes, spearheaded by local authorities and other public and private actors, could provide a comprehensive and cohesive framework for such policies and support. The Government should also fully operationalize the preferential procurement scheme for public works and seek to facilitate access to credit for MSMEs.

7.6.6 Address the issue of informal employment in formal firms

This phenomenon is sufficiently serious to warrant a specific in-depth investigation into its causes. Pending the conclusions of such an investigation, legislation needs to be enforced. Interventions need to focus on strengthening labour administration and the labour inspectorate in particular. This can be done by various means:

- *Increasing the size of the inspectorate*. While there is no universal definition of a sufficiency of inspectors, the ILO has specified, as a reasonable benchmark, one inspector for each 40,000 workers in less developed countries.
- *Reviewing the sanctions system*. One option is to vary criteria for fines according to the size of the enterprise – the higher the number of workers affected, the higher the fine. Another is to launch a campaign for the regularization of workers, such that if workers in irregular situations are regularized as part of the campaign, the fine imposed on the enterprise is reduced. These measures are not mutually exclusive.
- *Extending the role of labour inspectors* to include supplying information and giving advice to employers and workers on how to respect the legislation. While

[44] On this point, see GOZ, 2013, p. 16.

sanctions are important because they send a clear message that certain conduct will not be tolerated, labour inspection approaches that are educational, persuasive, transparent and participatory can also bring very good results.

One particularly important strand of this response would be to *ensure that domestic workers are registered with the administration and receive the benefits to which they are entitled*.[45] Training of government officials and employers' and workers' organizations to ensure the effective implementation of legislation on domestic workers is necessary. An awareness-raising campaign for employers of domestic workers would contribute to facilitating formalization of their employment. Training programmes to mainstream domestic workers' rights in workers' organizations' education programmes are needed, and domestic workers should be encouraged to join trade unions.

7.6.7 Reduce rural–urban migration

Rural–urban migration is driven by a huge income gap between rural and urban areas, by an extreme shortage of productive job opportunities in rural areas and by a perception that moving to non-farm employment is the main route out of poverty. Just focusing on increasing the supply of formal urban employment, important as it is, will not suffice. The dynamic growth of urban formal employment increases the perceived chances of accessing such employment by rural migrants and thereby further strengthens incentives for rural workers to move to cities to escape poverty. As long as the huge rural–urban divide in productive job opportunities and in incomes exists, informal urban employment will remain widespread, as the formal economy will not be able to keep pace with the large influx of new entrants and migrants. Ultimately, the only way to address the supply side of the urban employment problem is to develop a much more dynamic rural economy based on both agricultural development and economic diversification.

[45] In 2011, the Government of Zambia enacted the Minimum Wages and Conditions of Employment (Domestic Workers) Order (Statutory Instrument No. 3, 2011).

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