



ZAMBIA'S BUDGET IMPLEMENTATION VS DECENT EMPLOYMENT CREATION

Parliamentary Committee Submission

ABSTRACT

Zambia's quagmire over the years has been robust growth that does not resonate with weak employment creation rates. In the decade to 2015 Zambia's growth rate averaged 7.8% while employment grew at an annual pace of 2.81%. Some of the key drivers of lack of inclusiveness in growth have been the restriction of employment creation to provision of public goods and services especially post the privatisation era when the state gave up its shareholding in most entities it controlled leaving the employment drive to the private sector. The government has however been deliberate about inclusiveness through industrial parks, farming blocks, empowerment funding and infrastructure development initiatives mirrored in policy that govern the nations growth agenda. Budget implementation over the years has however weighed the inclusiveness agenda through resource constraints fuelled by rising debt service needs that has temporarily slowed the nations production possibilities.

Economics Association of Zambia

THE ZAMBIAN EMPLOYMENT QUAGMIRE

Despite bullish growth in the decade running up to 2015, Zambia's employment growth pace remained anaemic at 2.81% annually matched against a 7.8% average growth rate. This growth rate has since marginally improved adding pressure on the government to address the employment creation agenda through various initiative such as Vision 2030 and the National Development Plans. Despite being the largest employer, the governments ability to create employment is capped and limited to the provision to create public goods and services.

Liberalisation of the Zambian economy in 1991 where the state gave up its stake in most state-owned entities was the critical point that marked the transition of employment creation responsibility to the private sector. However private sector will always operate with a capitalistic rather than socialistic tendency and as such will optimise employment create opportunities in line with business strategy and profitability. However, governments mandate is job creation and employment that should ideally match rising population and economic growth potential of a nation.

Zambia needs not only any jobs but quality jobs. This poses very critical questions such as what will the source of these jobs be? How can the existing jobs be improved to offer decent wages and working conditions? Is it Government's role to create employment through the Industrialization and Job Creation Strategy? What is the entrepreneurship pulse of the country? What is the role of the private sector?

THE ROLE OF NATIONAL BUDGET IN EMPLOYMENT CREATION

As an estimate of revenues and expenditure, budgets are designed to drive the nations growth agenda on an annual basis. It is about a dry point of construction that growth in Zambia has not been inclusive as concentrations have been in a few sectors with immense focus on mining. To address this the government has focussed its efforts on the following to boost inclusive growth and employment creation:

- I. **Infrastructure Development:** This has increased significantly over the last few years and has become the theme of Zambia's external debt post the dollar bond issuances and other project finance related projects. This is evidenced by the road construction countrywide, airport infrastructure, educational and health amenities etc. Significant resources are now allotted towards debt service which is shaping fiscal posture manifesting in the money and foreign exchange markets through currency weakness and rising yield rates causing interest rate spirals. These projects however when completed are expected to improve the nations production possibilities and spur growth.
- II. **Multi-Facility Economic Zones and Industrial Parks:** As part of the diversification agenda, the MFEZ is targeted towards improving the nation's manufacturing capability thereby creating employment opportunities through rebates and tax exemptions for businesses that are and will be clustered in these zones. The multi-facility economic zones and industrial parks which are intended to create market and business linkages across different business activities and creating employment at each stage of the value chain.

- III. **Agricultural Farming Blocks:** Agro led structural diversification, is the ultimate target in pursuing agriculture as a method for employment creation. Agriculture has the greatest potential to drive the diversification agenda from an agro processing perspective and as Zambia vies to be Africa's bread basket. The national budget allocates significant resources to agriculture annually through the Famer Input Support Program (FISP) as it addresses food security risks.
- IV. **Citizenry Empowerment Funding:** Like road infrastructure, empowerment funds have also become almost a permanent feature in national budgets recently. The importance of empowerment funds is that they are meant to support individuals or groups of people who would like to participate in the economy but do not have the means to do so. Resources allocated to empowerment activities are expected to spur economic activities among individuals who otherwise would not participate in the economy and be able to create jobs for others. The picture of empowerment funds however remains unclear when it comes to their effectiveness.

BUDGET IMPLEMENTATION

Budget implementation is the fiscal execution of estimates of revenue and expenditure for the sovereign in this case Zambia. Budgets collate the funding needed to support growth agenda of any economy based on projected revenues from taxation, cash flows from dividends from shareholding in state owned entities, funding from grants and potential revenue sources such as potential sale of strategic assets.

Zambia's economic growth has since 2015 to date been in a decline trajectory phase as a consequence of balance sheet vulnerabilities as a consequence of rising debt for infrastructure spend, energy poverty as a consequence of climate change and inadequate investment in diversified energy mixes and other exogenous drivers such as rising crude prices manifesting in volatility in fossil fuel prices that have impacted manufacturing pulse as evidenced by the Markit Economics Purchasing Managers Index – PMI. Zambia's growth has significantly slid to under 2% (est. 2019) from levels of over 6.7% (before 2015 period). This slowdown in momentum has impacted employment creation significantly weighed by the same drivers that have weighed growth.

Despite a growing budget over the years, allocation of resources has been suboptimal towards key sectors of economy.

Zambia's production possibilities have been hampered by the following:

- I. **Rising Debt Service.** Allocation of financial resources towards rising debt service which has manifested in increased dollar demand that has weighed the exchange rate through currency depreciation. This has resulted in widening debt to gross domestic product, increased import, cost push and input inflation. This has forced the state to increase the tax base on both citizens and corporations thereby increasing payment burden and simultaneous reduction in disposable income widening the cost of living for the citizenry.

- II. **Rising Interest Rates.** Fiscal posture has shaped the Kwacha yield curve to the extent that funding costs are on the rise reflecting high interest rates which have adversely affected domestic credit. As such this has hampered the growth trajectory of entrepreneurship stagnating business expansion thereby depriving decent employment despite Zambia posting record entrepreneurship activity (ranked by the Economist at par with Nigeria on 39.9). This factor has impacted capital allocation for entrepreneurial activity.

Other budget constraints that Zambia has been faced with include the following:

- I. **Budget Credibility:** For many years the Zambian budget estimates have always been surpassed triggering supplementary budget. Some of factors that have led to supplementary budget allocation
- II. **Accountability of Public Funds:** Inferring from the Auditor General reports highlighting misappropriation, misallocation and misuse in the public service, it is very vivid that accountability has been a key challenge. The Ministry of Finance enforced the Public Finance Management Act in 2018 that provides for stiffer consequence management for controlling officers.

EMPLOYMENT CREATION

As a factor of production, is a key component of the **Cobb Douglass** productivity function for any economy in addition to land, capital and entrepreneurship. Zambia has been deliberate about desiring to boost employment in the spirit of alleviating poverty over the years. Ideally, it would be expected that in economic boom years, a positive correlation between the gross domestic product and number of jobs.

However, despite robust growth between the years 2000 and 2014 employment creation rate rose by a marginal 2.81% annually which forced the government of Zambia to re – strategise its efforts around job creation to a 1million job target in 5 years through an economic diversification across the sectors away from traditional mining to cover agriculture and its manufacturing potential through agro led structural diversification.

What then has the challenge been?

The Dutch disease of overdependence on copper mining boom which was not labor intensive enough.

New poverty analysis by the World Bank showed that per capita consumption only rose for the top 3 deciles of income earners in Zambia between 2010 and 2015. The bottom 6 deciles of income earners got worse off in real per capita consumption. In particular, rural workers, youth and women are struggling to find the improved farm productivity and off farm jobs they need to escape poverty.

The National Development Plan (7NDP) under the National Strategy for Industrialization and Job Creation, the government wants to create 1million jobs in half a decade, through economic

diversification. This will require careful prioritization of policy reforms, and strong implementation of investments under a focused jobs strategy.

Growth potential in sectors

On June 13, 2017, in Lusaka, the World Bank published a comprehensive study of jobs in Zambia. The study contains three reports: the Zambia Jobs Diagnostic, a policy Action Plan, and the which stressed the need for Zambia to take comprehensive action at a macro level, through institutions and labor markets, and through targeted interventions to create more demand for good jobs. The studies explicitly highlight the potential of growth in agribusiness and agro processing to connect more Zambians, especially those that are young, rural and poor, to jobs through value chains. Policies and programs on jobs must support linking the poor working as self-employed in agriculture or unpaid family work to where the jobs are: along the central corridor from Copperbelt to Livingstone.

The World Bank supports Zambia's ambitious jobs plans, as articulated in the Vision 2030 and National Strategy on Industrialization and Job Creation. The forthcoming World Bank Systematic Country Diagnostic emphasizes that inclusive growth in Zambia requires faster growth in labor incomes of the poor through jobs. As a result, the World Bank's portfolio will be increasingly focused on supporting Zambia's jobs agenda.

The World Bank reports emphasized that Zambia will need to invest in raising smallholder agricultural and informal productivity, supporting urbanization in secondary towns for off-farm jobs, and improving labor mobility among women and young people. The study also recommends strengthening monetary and fiscal policy to mitigate the effects of copper price fluctuations on investment and job creation; liberalizing input and product markets to reduce production costs and allow freer cross-border trade for farmers and agro-processing firms; strengthening technical training to improve productivity for the self-employed and to reduce formal sector skills gaps; and designing labor regulations to support the creation of more formal sector jobs.

CONCLUSION

There is a significant disconnect between the growth trajectory over the years and rate of employment creation. This is a function of the economic growth model that has been restricted to key sectors of the economy at the expense of potential diversification conduits and a weak drive towards actualising manufacturing which has led to persistent poverty lines. The government has however embarked on deliberate policies such as Vision 2030 and National Development Plans to attain inclusiveness that will result in decent jobs creation opportunities through infrastructure development, industrial parks such as the MFEZ, agriculture blocks and empowerment funding drives such as the CEEC. However, these drives have had their fair share of challenges especially in execution.