CHAPTER

One

Overview of Zambia

1.1 Introduction

This chapter provides the contextual background against which the analysis of the Labour Force Survey results should be mirrored. It is generally acknowledged that employment levels to a large extent determine an economy's productive capacity and consumption levels. This report has indicators on some of the Key Indicators of the Labour Market (KILM). Regular production of these Labour Market Indicators will assist in understanding the Labour Market in Zambia.

1.2 The Population

In 2005, the population of Zambia was projected to be 11.4 million. About 65 percent of the population resided in rural areas while 35 percent were in urban areas. Most of the population is concentrated along the major line of rail stretching from the Southern province, through Lusaka and Central province and up to the Copperbelt. Lusaka province, with 81 percent of its population residing in urban areas was the most urbanized province, followed by Copperbelt province with 79 percent, Central province with 25 percent and Southern province with 21 percent of their population residing in urban areas, respectively. The country has a relatively young population with about 46 percent aged between 0 and 14 years inclusively (2005 LFS).

1.3 The Economy

The Zambian economy is a mixture of state run and private enterprises. The economy has been and still remains heavily dependent on receipts from the export of copper. In the 1960s, copper prices were on the increase thus contributing to high profits in the mining industry that increased government revenue. These high mining industry profits propelled rapid economic growth. During this period, agriculture was not the priority of the government's development strategy and only half hearted attempts were made to integrate the agricultural sector with that of manufacturing. This made the economy vulnerable to external shocks.

Over the period 1975 to 1980 the economy suffered massive contraction largely as a result of the world energy crisis and the vulnerability of the economy due to its heavy reliance on mineral receipts, as demand for industrial inputs such as copper had reduced. Falling export receipts and rising import prices resulted in high balance of payments deficits. In an effort to maintain import levels, the Zambian government borrowed from external sources resulting in huge foreign debt. Rising production and import costs led to high inflation rates and a reduction in formal sector employment.

This led to disequilibria in the economy that necessitated the adoption of the structural adjustment programme under the International Monetary Fund and the World Bank. However, adjustment efforts in the 1980s were characterised by several policy shifts that saw the program suspended very often.

The change of government in 1991 saw introduction of a more vigorously pursued Structural Adjustment Programme. The austerity measures introduced included,

- Cost sharing for social facilities such as medical and education services
- Privatization of state owned companies
- Restriction of money supply through a cash budget
- Liberalization of trade
- Stringent revenue collection and
- Introduction of Value Added Tax (VAT)

As the structural adjustment programme implied the reduction of state intervention as a way of reducing subsidies and liberalizing markets this resulted in an inflationary spiral. Adjustment further meant removing dependence on mineral resources particularly copper to one with a more broad-based and flexible export sector.

The foreign exchange rate has remained susceptible to exogenous shocks making business very volatile. Generally, the structural adjustment programme has had both negative and positive effects on the economy and the people.

1.4 Employment

In 2005, the population of people aged 15 years and above in Zambia was estimated at 6.2 million. About 83 percent of this population was in the labour force. About 16 percent of a labour force of 5.2 million people was unemployed. The majority of the employed (73 percent) are in the agriculture, primarily subsistence farming. The data further show that only 10 percent of those employed are in the formal sector (LFS 2005). Establishment based surveys show that employment in the formal sector, including local and central government, stood at 416,000 in 2005.

Zambia inherited a strong economy with the highest per-capita in Southern Africa at independence at independence, which was primarily based on mining. The economy began to deteriorate in the mid-1970s following a sharp decline in world copper prices and compounded by the oil shock. Zambia delayed to make policy adjustments in response to the declining economic environment. Instead foreign borrowing was increased to minimize the decline in living standards (MoFNP, 2002b). The dramatic decrease of workplaces in the formal sector is mainly a result of Zambia's structural adjustment process. Parallel to the shrinking formal sector, the proportion of the Zambian labour force economically engaged in the informal economy increased. Many were absorbed in the rural economy.

The vast majority of informal sector operators seem to be poorly educated/trained survivalists. Productivity is generally low. In the face of a critical lack of tools, materials, and training, as well as of the isolation of activities in the sense that they are performed by only a single operator, the innovative abilities, especially on a technical level, are very few. It is thus all the more admirable that operators actually do succeed in providing consumers with many goods and services, and make a living out of it. The main customers seem to be private individuals or households that the majority of all activities seem to circulate within their own sectoral boundaries. Similarly, the bulk of outputs are produced for local markets while only a very limited proportion of products may be sold in other areas or even outside the country. Generally, the findings indicate very limited linkages between the formal and informal sectors.

As employment in the formal sector has declined in absolute terms, the quality of employment in the formal sector has also declined. Real wages for most categories of workers have continued to fall as the purchasing power gets eroded. Wages for workers in Zambia are very low compared to some neighbouring countries and the developed world. Even though nominal wages have increased over the years, corresponding real wage levels have actually declined over the same period. Based on the latest economic developments and the impact on the trends of key indicators of the labour market, it is possible to list some of the most severe problems facing the Zambian labour market, which need to be solved in order to improve the employment prospect:

- The high youth unemployment rates, which are having major consequences for the behaviour of young people in the labour market.
- Labour market is too skewed towards agriculture. Improved labour productivity would ultimately liberate the redundant and underemployed surplus labour in the rural areas.
- The size of the informal sector is very large and increasing.
- With regards the level of education, it is still not high enough to build up the required level of human capital. Very few people have access to tertiary education.

Reliable Labour Market Information (LMI) is usually unavailable. The last LFS was conducted in 1986