



**CLEMENT KASONDE**

**The challenges of minimum wage policy : a zambian  
perspective**

**Os desafios da política de salário mínimo: uma  
perspectiva zambiana**

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**UNIVERSIDADE ESTADUAL DE CAMPINAS**

**INSTITUTO DE ECONOMIA**

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**THE CHALLENGES OF MINIMUM WAGE POLICY: A ZAMBIAN  
PERSPECTIVE**

***OS DESAFIOS DA POLÍTICA DE SALÁRIO MÍNIMO: UMA  
PERSPECTIVA ZAMBIANA***

**Orientador: Prof. Dr. Carlos Salas Paez – orientador**

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## **DEDICATION**

This work is duly dedicated to my children, family members and friends with all my heart



## RESUMO

De acordo com (CSO - LFS 2012) , o Governo da República da Zâmbia formula as políticas de emprego e de trabalho para melhorar a trabalhadores e empregadores ' relações de trabalho e condições de emprego. Estas políticas também visam reduzir a pobreza através da criação de postos de trabalho decentes para os cidadãos ( CSO- LFS 2012). A fim de tornar as políticas relevantes , o Governo realiza avaliações sobre a economia através de vários meios , como a realização de vistorias Forças de Trabalho (IFT) , Living Pesquisas Condições de Monitoramento (LCMS) , os programas de monitoramento de desempenho econômico e outras iniciativas socioeconômicas relacionadas. Além disso, o governo também promove a educação para os seus cidadãos , uma vez que percebe que uma força de trabalho educada é essencial para o desenvolvimento econômico (CSO - LFS , 2012). A promoção de ambos os investimentos locais e estrangeiros em diversos setores também é uma importante política de qualquer governo deve implementar com vista à criação de empregos decentes e reduzir a pobreza . Como Amartya Sen tem opinou , o crescimento econômico tem que ser para o efeito e a maneira mais simples de caracterizar esse objetivo é dizer que os cidadãos devem ser capazes de adquirir as capacidades e que eles precisam escolher a vida que eles têm razões para valor (SEN , 1999) . De acordo com ( Layard 2004; Oferta 2006; Wilkinson e Picket 2010) , o aumento medido em DGP foi visto como referência inadequada do progresso social e parece ter pouco ou nenhum impacto sobre a felicidade ou satisfação com a vida . Esta visão é apoiada por noção de Sen de "desenvolvimento como liberdade" , o que implica que as pessoas possam desfrutar de liberdade genuína apenas na medida em que se baseia em segurança econômica e social. De acordo com o painel de especialistas sobre a Comissão para a Medição do Desempenho Económico e do Progresso Social nomeado por Nicolas Sarkozy , o ex- presidente da França , os termos de referência para o comitê de especialistas foi a de que o objetivo não é de aceitar o mundo como ele é e adaptar os cidadãos para as demandas da economia, mas para reformular a economia para garantir que ele serve o interesse dos cidadãos. De acordo com o "fracasso de um modelo " por Ron Blackwell e David Coates, como parte da militância política , um Estado democrático deve permanecer como um ator indispensável na economia , desempenhando um papel de prestação de serviços públicos de qualidade e como um regulador , definindo o palco para os agentes do mercado e intervir (através de política fiscal ou monetária ) , a fim de esfriar um boom especulativo ou interromper uma recessão (OIT - IJLR , 2012). Há também , como Tim página faz em seu trabalho , um forte argumento para o governo para desenvolver políticas industriais ativas , definindo marcos regulatórios claros , fornecendo capital para investimentos que não serão financiados no mercado aberto . Por exemplo, o 2012 da Zâmbia EUA \$ 750 milhões de Euros de Bond " , que foi originado a partir do mercado de capitais 'Wall Street' para programas de obras públicas ( PMP) , destina-se a melhorar a inter alia ; vias públicas e infra-estruturas ferroviárias , a fim de estimular o desenvolvimento econômico e social da Zâmbia.

Palavras-chave: Mercado de Capitais , o Produto Interno Bruto (PIB) , Desenvolvimento como Liberdade, Obras Públicas Programee ( PWP) , salário mínimo legal , o desemprego Euro Bond, determinação de salários , condições de vida de Monitoramento Survey ( LCMS) , . Labour Force Survey ( LFS ) , o investimento estrangeiro , a produtividade



## ABSTRACT

According to (CSO-LFS 2012), the Government of the Republic of Zambia formulates employment and labour policies to improve workers' and employers' labour relations and employment conditions. These policies are also aimed at reducing poverty by the creation of decent jobs for the citizens (CSO-LFS 2012). In order to make relevant policies, the Government carries out assessments on the economy through various means such as conducting the Labour Force Surveys (LFS), Living Conditions Monitoring Surveys (LCMS), economic performance monitoring programs and other related socioeconomic initiatives. In addition, the Government also promotes education for its citizens as it realizes that an educated labour force is essential for economic development (CSO-LFS, 2012). The promotion of both local and foreign investment in various sectors is also an important policy any government should implement with a view to creating decent jobs and reduce poverty. As Amartya Sen has opined, economic growth has to be for the purpose and the most straightforward way of characterizing that goal is to say that citizens must be able to acquire the capabilities and that they need to choose lives that they have reasons to value (Sen, 1999). According to (Layard 2004; Offer 2006; Wilkinson and Picket 2010), measured increase in DGP has been seen to be inadequate benchmark of social progress and appears to have little or no impact on either happiness or life satisfaction. This view is supported by Sen's notion of 'development as freedom', which entails that people can enjoy genuine liberty only insofar as it is based on economic and social security. According to the panel of experts on the Commission for Measurement of Economic Performance and Social Progress appointed by Nicolas Sarkozy, the former president of France, the terms of references for the committee of experts was that the objective is not to accept the world as it is and adapt citizens to the demands of the economy, but to reshape the economy to ensure that it serves the interest of the citizens. According to the 'Failure of a Model' by Ron Blackwell and David Coates, as part of policy activism, a democratic state must remain as an indispensable actor in the economy, playing a role of providing quality public services and as a regulator, setting the stage for market actors and intervening (either through fiscal or monetary policy) in order to cool a speculative boom or halt a recession (ILO - IJLR, 2012). There is also, as Tim Page makes in his paper, a strong case for government to develop active industrial policies by setting clear regulatory frameworks, providing capital for investments that will not be funded on the open market. For instance, the 2012 Zambia's US\$ 750 million Euro Bond" which was sourced from 'Wall Street' capital market for public works programmes (PWP), is meant to improve *inter alia*; public roads and railway infrastructure in order to help stimulate economic and social development in Zambia.

**Keywords:** *Capital Market, Gross Domestic Product (GDP), Development as Freedom, Public Works Programme (PWPs), Statutory minimum wage, Euro Bond unemployment, wage determination, Living Condition Monitoring Survey(LCMS), Labour Force Survey (LFS), Foreign investment, productivity*



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## **LIST OF ABBREVIATIONS**

AU – African Union  
BNB – Basic Needs Basket  
CBN - Cost of Basic Needs  
COMESA- Common Market for Eastern and Southern African Countries  
CSO - Central Statistical Office  
FFTUZ- Federation of Free Trade Unions of Zambia  
FNDP - Fifth National Development Plan  
GDP - Gross Domestic Product  
HFCE - Household Final Consumption Expenditure  
ILO - International Labour Organization  
IMF- International Monetary Fund  
JCTR - Jesuit Center for Theological Reflection  
LCMS - Living Conditions Monitoring Survey  
LIZ- Labour Institute of Zambia  
MDG - Millennium Development Goals  
MLSS - Ministry of Labour and Social Security  
MoFED- Ministry of Finance and Economic Development  
MFEZs - Multi Facility Economic Zones  
MMD- Movement for Multiparty Democracy  
SMW- Statutory Minimum Wage  
SADC – Southern African Development Community  
PF- Patriotic Front  
PRSP - Poverty Reduction Strategy Paper  
SAP - Structural Adjustment Programme  
SNDP- Sixth National Development Plan  
TNDP - Transitional National Development Plan  
WB- World Bank  
UNIP- United National Independence Party  
UPND- United Party for National Development  
ZCTU- Zambia Congress of Trade Union



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## 1B: GENERAL INTRODUCTION

This thesis relates to statutory minimum wage and its challenges in Zambia. According to (Sesinyi, 1994), the term minimum wage refers to various legal restrictions on the lowest wage rate payable by employers to workers<sup>1</sup>. In the United States and Britain, minimum wages initially focused on women and children and were extended to general work force after the great depression.<sup>2</sup> Policy makers are always seeking ways of addressing the issue of low-income earners to enable them to earn an income that can sustain their lives and that of their families (Sesinyi, 1994). In fact, according to (Sesinyi, 1994), one of the central aims of enacting a minimum wage law is to increase the standard of living of the low wage earners. Minimum wage legislation not only increases the purchasing power of minimum wage earners, but also reduce the gap in wage inequality as well (ILO-IJLR, 2012)

Zambia has been experiencing several challenges in minimum wage policy administration since the liberalization of the economy and labour market reforms that started in the mid 1990s. Some of the challenges can be said to have been caused by political ideologies, others by economic conditions while some are due to labour market institutional reforms. Therefore this research will undertake to examine and analyse these challenges encountered in the setting, implementing and enforcement of minimum wage policy to ensure effective compliance. The purpose of this research is to evaluate the challenges of minimum wage policy in Zambia. The minimum wage policy is regulated by the Minimum Wages and Conditions of Employment Act.<sup>3</sup> This law was enacted by the Zambian Parliament on August 11 1982. The Minimum Wages and Conditions of Employment Act No. 25 of 1982 and 13 of 1994 repealed and replaced the Minimum Wages, Wages Councils and Conditions of Employment Act; to make provision for regulating minimum wage levels and minimum conditions of employment; and to provide for matters connected with or incidental to the foregoing. In particular, minimum wage legislation can be a very important criterion in setting wage payments especially in a country like Zambia where trade union density is low.

The International Labour Organization (ILO) defines the minimum wage (MW) as the salary which constitutes the floor of the wage structure; its objective is to protect workers who occupy the lowest position

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<sup>1</sup> Magdelin Sesinyi (1994). Minimum Wages and Employment: Literature Review and Background on Minimum Wages in Botswana. BIDBA Working Paper No. 16

<sup>2</sup> Ibid

<sup>3</sup> CAP 276 of the Laws of Zambia.

in wage distribution (ILO, 2008, p. 34). According to Adam Smith in his attempt to justify the role of labour in development he contended:

*“No society can surely be flourishing and happy, of which the far greater part of the members are poor and miserable. It is but equity, besides, that they, who feed, cloath and lodge the whole body of the people, should have such a share of the produce of their own labour as to be themselves tolerably well fed, cloathed and lodged.”<sup>4</sup>*

Therefore, what the above quotation from Adam Smith entails is that increasing commitment to social protection in Zambia is an effective way to improve distribution of gains recorded from economic growth. According to ( Mutale Wakunuma, 2013), a national coordinator for Platform for Social Protection in Zambia, she stated that considering the long-standing cry of the average Zambian not benefiting from economic gains, for example, where over 80 per cent of workers are working informally and are thus automatically excluded from the standard types of social security benefits, it can be said that conversations of this nature can help to provide clearer thinking around strategies to expedite coverage of the informal sector as the risks associated with loss of income open a window of vulnerability which threatens to plunge the larger share of the labour force into poverty and therefore reinforce national poverty. According to (Daniel Kumitz, 2013), coordinator for Social Protection Experts Network for Southern African, he said that it was encouraging to see Zambia finalizing its National Social Protection Policy that addresses lack of social security coverage for the informal sector as well as to see means and ways of how to deliver social protection to those outside formal employment who occupy about 90 percent jobs in the informal sector which does not support inclusive growth.

## **1C: THEME OF THE RESEARCH THESIS**

### **1C1: INTRODUCTION**

The introduction to this chapter outlines the scope of this work and identifies the challenges that it seeks to analyse within the scope of employment protection legislations in the Zambia labour market. Minimum wage legislation forms part of this employment protection system in Zambia. The employment

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<sup>4</sup> Adam Smith, *The Wealth Of Nations*, 1776, Book I, Chapter VIII, paragraph 36



protection regime is premised on the notion of full-time, indefinite and bilateral employment relationship between employer and employee. Increasingly, this standard employment relationship model is being undermined by the proliferation of non-standard forms of work as employers seek greater labour market flexibility. The core assumption underlying welfare regimes in industrialized countries is that paid work brings security, and employment is seen as main guarantee of financial security and a pathway to better life and poverty reduction.

## **1C2: PROBLEM STATEMENT AND SCOPE OF THESIS**

This thesis is broadly concerned with the scope and the challenges of minimum wage law in Zambia and its applicability in terms of implementation and enforcement in a rapidly changing world of work marked by a multiplicity of working arrangements. The theoretical considerations about the role of statutory minimum wages both from mainstream approach (neoclassical paradigm) and from a Keynesian perspective will form part of the focus of this research study. However, for this study, despite wider theoretical imperatives, Keynesian approach will be used for the thesis analysis. The problem statement of this thesis relates to the question that despite having minimum wage law, however, Zambia still faces numerous challenges in the employment protection mechanism in that implementation, enforcement and compliance still remain a challenge, thus exposing vulnerable workers to labour market insecurity and exploitation.

Zambia has been experiencing several challenges in the administration of minimum wage policy. Some are caused by political ideologies, others by economic considerations while some are due to labour market characteristics. The objective of this study is to examine and analyze the challenges faced in minimum wage policy implementation and enforcement. The rationale of the study is to assess how minimum wage valorization can help boost incomes for the low paid poorest workers who are deemed vulnerable in the labour market. This research work looks at the nature of minimum wage and efforts towards implementing and enforcing MW levels to meet both the expectations of the employers and workers in Zambia. It examines challenges relating to government policy on minimum wage and its impact on the economic and social wellbeing of the workers. It discusses and examines factors to consider in fixing minimum wage and analyses the challenges surrounding implementation as well as the enforcement of minimum wage. It also offers solutions to the challenges identified therein.

### **1C3: AIMS AND SIGNIFICANCE OF THE STUDY**

This research is broadly concerned with the challenges that minimum wage law faces in regulating minimum working conditions for non represented and vulnerable workers in the changed world of work. It therefore provides an analytical account of how minimum wages and conditions of employment have developed and their consequences on the vulnerable workers from a broader perspective. The study therefore focuses on the challenges of minimum wage administration in Zambia. It uses this as a prism within which to analyse the broader debates about the limitations of statutory minimum wage law to regulate non-standard working arrangements. In order to provide a concrete legal framework within which to analyse the regulation of minimum wage practice, this study focuses on the Zambian legal system, within which the author appears to be familiar. The key research question in this study is whether and to what extent Zambian statutory minimum wage law recognises and regulates the practice of implementing and enforcing minimum wages to both formal and informal sector businesses in order to guarantee compliance and job security.

### **1C4: METHODOLOGICAL APPROACH ADOPTED IN THIS THESIS**

This study comprises a desk-based analysis of existing sources relating to the subject matter covered. The study will be conducted through quantitative research method based on descriptive statistical analysis (Zikmund, 2003). The research has been conducted to identify the cause-and -effect relationships among variables (Zikmund, 2003). Descriptive statistical method is being employed to analyse information on economic and social variables pertaining to minimum wages in Zambia (Zikmund, 2003). The study therefore engages with a broader perspective of sources and literature than the law itself as well as business and legal commentaries. It considers literature from the fields of labour, socio-economic and legal studies to examine how the world of work has changed and the forces behind these changes. Importantly, it considers the literature on the political economy to provide an understanding of the ideological underpinnings of the quest for the applicability of minimum wages under labour market flexibility. It also recognises and considers the efforts of non-state institutions such as trade unions and business enterprises with their strategies as well as the role of the State in regulating the practice under scrutiny.

While the core of this study is located within the Zambian jurisdiction, a comparative approach has been adopted to the analysis of the broader issues discussed herein. This is necessary because it is

common course that labour law and the employment relationships were originally developed in the global North and later transplanted into the global South. It is therefore prudent to make use of the wealth of jurisprudence and scholarly work that has been developed in these countries, with the aim of considering how the debates and the discourse apply in the Zambian context.

In addition, the literature on minimum wage fixing has not been fully developed in Zambia. It is therefore necessary to consider comparative jurisprudence and the commentary of other scholars from other jurisdictions to conceptualise the practice and gain an understanding of the challenges it presents for legal regulation. Looking beyond the Zambian jurisprudence and literature will also contribute to developing an understanding of the minimum wage implications for labour market regulation and for considering possible legal solutions.

## **1C5: LITERATURE REVIEW ON MINIMUM WAGE LEGISLATION**

Zambia has statutory minimum wage law called “Minimum Wages and Conditions of Employment Act, Chapter 276 of the Laws of Zambia”. According to (ILO, 2012), minimum wage setting is a global issue, and also applicable to the Zambian legal order. The MW practice has been on the world calendar way before even Zambia got its independence in 1964. Unlike Brasil, Zambia does not have a law or constitutional provision that emphasis the right to adequate food in the context of State obligations to its citizens. However, according to (Case Study Report on Right to Food, 2010), Zambia adheres to the Universal Declaration of Human rights and is a State party to the International Covenant on Economic, Social and Cultural Rights (ICESCR) of 1966. Zambia has not made any express provision in the current Constitution to give effect to economic, social and culture rights. Therefore, the right to the “cost of basic needs” such as food is not legislated in the Bill of Rights of the Constitution of Zambia. The hope for the low paid wage earners seems to lie in the current draft Constitution which is undergoing process of enactment into law because it contains express provision dealing with the right to fair remuneration and food<sup>5</sup>. According to (JCTR 2005), the appeal for a constitution that will stand for a test of time in Zambia appears to be a fundamental demand by every citizen in the quest to shape the political, economical and ethical

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<sup>5</sup> National Constitutional Conference 2010, Zambia

minds. This is rightly so because the significance of a good constitution is key to democracy, good governance, the rule of law and ultimately development of the any country (JCTR, 2005).

According to (Tinke, Olusegun and Olanrewaju, April edition vol. 8, No.7) the minimum wage issue has been the subject of several serious discourses and was first conceived as a way to control the proliferation of sweat shops in manufacturing industries. The sweat shops employed large numbers of women and young workers, paying them what was considered to be substandard wages. The sweatshop owners were thought to have unfair bargaining power over their workers, and a minimum wage was proposed as a means to make them pay fairly. Minimum wage is an important policy tool in addressing fair remuneration and the right to human dignity at places of work. It is instructive to note however that although the practice of national minimum wage is not new the duration, details and nature vary from country to country. Commenting on the origin of the practice of minimum wage, the Microsoft Encarta observes that the first minimum wage law was enacted by government of New Zealand in 1894. Later on a subsequent law was enacted by Victoria State, Australia in 1896 with established wage boards on which workers and employers were represented in equal numbers with the power to fix minimum wages enforceable on the employer. This innovative law served as the model for the British Trade Boards Act of 1909. In the United States, Massachusetts enacted the earliest minimum wage law in 1922, and eight other states followed suit. Dolle (1999) and Metcalf (2001) observe that the United States and France are among the countries with the longest practice in applying a single national minimum wage. In contrast, in the United Kingdom, a national minimum wage was only introduced in April 1999. Developing countries too have regularly increased their minimum wages to provide social protection to vulnerable and non-organized categories of workers. Many countries like Argentina, Brazil, China and South Africa have been among the main drivers of this upward trend. In China it was newly introduced in 2004 to curb wage inequality while it was also introduced in South Africa in 2002.

## **1C6: OUTLINE OF THE THESIS**

**Chapter one** of the thesis introduces the political, social and economic indicators for Zambia. It analyses the economic and labour market dynamics and how they feed into each other at macroeconomic level and the impact both have on growth, job creation and income distribution. It also analyses the effect of

economic growth and productivity growth on income distribution, poverty reduction and life expectancy dimension. It further analyses how GDP growth, DGP per capita income and the rate of population growth affect the economy in any particular country.

**Chapter two** deals with the theme of the study after having identified the nature of the problems sought to be examined and outlined the approach that will be adopted. It is important to understand why the scope and application of statutory minimum law is a matter of concern for legislatures, lawyers, trade unions and workers, judges, and broader business society. It aims to provide the necessary background to understand *what* minimum wage law is, *why* it exists and *who* it applies to. It addresses the *what* and the *why* dimensions by identifying the key features of the minimum wage law and canvassing a number of theoretical and institutional justifications for its existence, including research methodology and literature review.

**Chapter three** narrows the discussion from the broad processes as discussed in chapter one to focus on the core subject of this thesis. It considers the challenges of minimum wage law in the Zambian labour market context and traces its historical development from the British colonial rule period up until 1982 when the minimum wage law was codified as part of the legal system of the Republic of Zambia.

**Chapter four** focuses on the role of the trade unions in economic development, trade unions policies and their impact on poverty reduction and well being of the wage earners in Zambia. The chapter examines and analyses the labour market policies and how the employment and labour policies affect the income distribution among wage earners and their families. It analyses the effect of minimum wage development on the labour market (either homogenous or heterogeneous) and how the same affect is on the overall employment in the economy in view of the labour market flexibility.

Finally, **chapter five** concludes by drawing together the key issues raised in this thesis and to provide some tentative recommendations as to how the practice under scrutiny could be regulated in the Zambian context. The first part of this chapter seeks to draw out the critical issues in what shall be called the broader debates canvassed in chapters two, three and four, particularly in so far as they relate to the scope of the applicability of minimum wage law in Zambia. The second part looks more closely at the

situation of the vulnerable workers in the labour market and how the law has attempted to regulate the practice and applicability of minimum wage law in order to protect them. Importantly, it makes some recommendations as to how the practice can be better regulated in Zambian labour market, drawing on existing principles in Zambian legal system as well as international and comparative perspectives.

#### **1C7: LIMITATION OF THE STUDY**

The actual number of workers currently benefiting from minimum wage setting is unknown. This is due to the fact that the Ministry of Labour and Social security is still compiling data on the MW coverage. Therefore, this research is unable to assess the real impact of MW on poverty reduction as a result of the constraints experienced during data collection and analysis. In some cases, some figures quoted are just estimates based on existing statistical data analysis.

## **CHAPTER 1: OVERVIEW OF ZAMBIA'S POLITICAL, ECONOMIC AND SOCIAL DEVELOPMENT**

### **1.0 INTRODUCTION**

Since independence in 1964, Zambia has undergone series of changes in political leadership, socio-economic policies and labour market reforms.<sup>6</sup> Therefore, chapter one discusses the political, economic and social developments that have taken place in Zambia from 1964 independence up to date. The research looks at the political transition under three different regimes namely: Kaunda's United National Independence Party (UNIP) government from 1964 independence up to 1991 when the country reverted to multi-party democracy. The study will proceed to discuss the period of multi-party democracy under Fredrick Chiluba's Movement for Multi-Party democracy (MMD) government from 1991 to 2001, then his predecessor Levy Mwanawasa's government under the same former ruling party from 2001 until his sudden death in 2008. After Mwanawasa, his successor Rupiah Bwezani Banda, who had to complete the late Mwanawasa's second term of office from 2008 to 2011. Finally, chapter one will attempt to examine the political, social and economic development policy strategies for both medium and long term for the current Patriotic Front government under president Micheal Chilufya Sata who assumed power in the last presidential and general elections that were held in 2011.

### **1.1 POLITICAL DEVELOPMENT**

According to (ZCC, 2007), in terms of political development, Kenneth Kaunda of UNIP was elected Zambia's first president in October, 1964. He ruled the country for 27 years until he lost power to a former trade unionist, Fredrick Chiluba of MMD in October 1991(ZCC, 2007). According to (Socialist Worker Publication, 2002), Kaunda's UNIP government pursued a mixed socialist-capitalist command economy whereas; the MMD government managed the economy based on capitalist ideology and was therefore regarded as right wing capitalist.<sup>7</sup> Fashoyin and Tayo (2002) opine that prior to the 1991 elections, the Constitution was amended and the opposition political parties legalized to pave way for multiparty elections. Chiluba of the MMD was elected as president of the Republic of Zambia on the promise of both sweeping

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<sup>6</sup> Fashoyin, Tayo (1998), Industrial Relations in Southern Africa: The Challenge of Change. Policy Paper No.5, Southern Africa Multidisciplinary Advisory Team, ILO, Harare.

<sup>7</sup> An extract from the May - June 2002 International Socialist Organisation of Socialist Workers on the topic: Revolutionaries can't remain in a hegemonic right wing popular front, Zambia and Zimbabwe.

economic and political reforms.<sup>8</sup> Since then, elections have been held every five years, with the president serving a maximum of two five-year terms (Source: Amended Zambian Constitution, 1996). According to (World Bank, Findings, October 1996) under Chiluba's regime, the civil service was reformed and a number of government entities privatised, a move which saw relations with the International Monetary Fund (IMF), the World Bank and private investors improve substantially.

This was not the case with Kaunda's government, who had had bad bilateral and multi-lateral relationships with some Western countries, including the World Bank and IMF (Fashoyin, Tayo (1998). Chiluba's successor, Levy Mwanawasa of the MMD, under New Deal Administration was later elected as president in December 2001, and again retained power after winning subsequent election in the 2006 until his sudden death in August 2008. He died before completing his second five year term in office (Post Newspaper, 2008). Mwanawasa was succeeded by his Vice-President Rupiah Banda in acting capacity until the presidential by election which he narrowly won in October 2008 (Times of Zambia, 2008). In the September 2011 presidential and general elections, Micheal Chilufya Sata of the Patriotic Front (PF) seen as left wing socialist party defeated incumbent Rupiah Banda (Lungu, 2013). The PF Government campaigned on the promise of "More money in your pockets"- a political slogan which is yet to be translated into reality (PF Manifesto, 2011-2016).

However, in terms of internal political conflicts and trade union struggles, trade unions have been part of the liberation struggle for political freedom as well as acting as a voice for the workers, with a view to achieving employment and labour rights and freedom for the working class. Since 1964 independence, it can be said that Zambia has enjoyed relative peace and has been seen as the fountain of peace within the Southern Africa Development Community (SADC) after having contributed immensely to the liberation of most Southern African countries including South Africa, Zimbabwe, Namibia, Mozambique, and Angola etc. Despite internal political and labour conflicts that have arisen from time to time due to influence of neoliberal economic policies and international global economy, it can be said that there is likely sense of continued prospects of enjoyment of Zambia's fruits of democracy due to stable political environment.

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<sup>8</sup> Fashoyin, Tayo (2002), *The Contribution of Social Dialogue to Economic and Social Development in Zambia*. Working Paper No. 6, InFocus Programme on Strengthening Social Dialogue, ILO, Geneva.



## 1.2 LAND AND THE PEOPLE: DEMOGRAPHIC ANALYSIS

Figure 1 below, shows that Zambia is a landlocked sub-Saharan African country, sharing international geographical boundaries with Malawi and Mozambique to the east; Zimbabwe, Botswana and Namibia to the south; Angola to the west; and the Democratic Republic of Congo and Tanzania to the north (SADC, 2012). According to (Miyoba, 2012) the country covers a land area of 752,612 square kilometres, thus ranking among the smaller countries in the South Central Africa.<sup>9</sup> It is said to lie between 8° and 18° south latitudes and longitudes 22° and 34° east.<sup>10</sup> According to (CSO Mapping Survey, 2010), about 58 per cent of Zambia's total land area of 39 million hectares is classified as having medium to high potential for agricultural production, but at the moment less than half of potential arable land is cultivated. The country is prone to drought due to erratic rainfall, as its abundant water resources remain largely untapped (CSO, 2006). Zambia is the largest copper producing country in Africa and has some of the largest copper and cobalt deposits in the world (Source: LCMS, 2006- 2010).

The country has one of the lowest population-to-land ratio on the continent – just over 13 million people in a country half the size of Europe (Source: 13<sup>th</sup> edition; Zambia Review, 2012/13). It is known to be one of the safest countries in Africa and is proud of its friendly and hospitable people (Source: 13<sup>th</sup> edition; Zambia Review, 2012/13). About 98 percent of the country's inhabitants are Africans, the main ethnic groups being Bemba, Nyanja, Lozi, Luvale and Tonga, with the remaining 2 percent comprising those of Asian and European origin (Source: 13<sup>th</sup> edition; Zambia Review, 2012/13).

In terms of national administrative structure, as can be seen in figure 1 below, Zambia is divided into ten provinces: Central, Copperbelt, Eastern, Luapula, Lusaka, Muchinga, Northern, North-Western, Southern and Western. Each province is administered by an appointed deputy minister. The provinces are subdivided into several districts with a grand total of more than 85 districts as at April 2013. The State comprises of the central and local governments with Lusaka being the administrative capital city of Zambia and seat of government. The tenth province (Muchinga Province) is, however, not shown in figure 1 below.

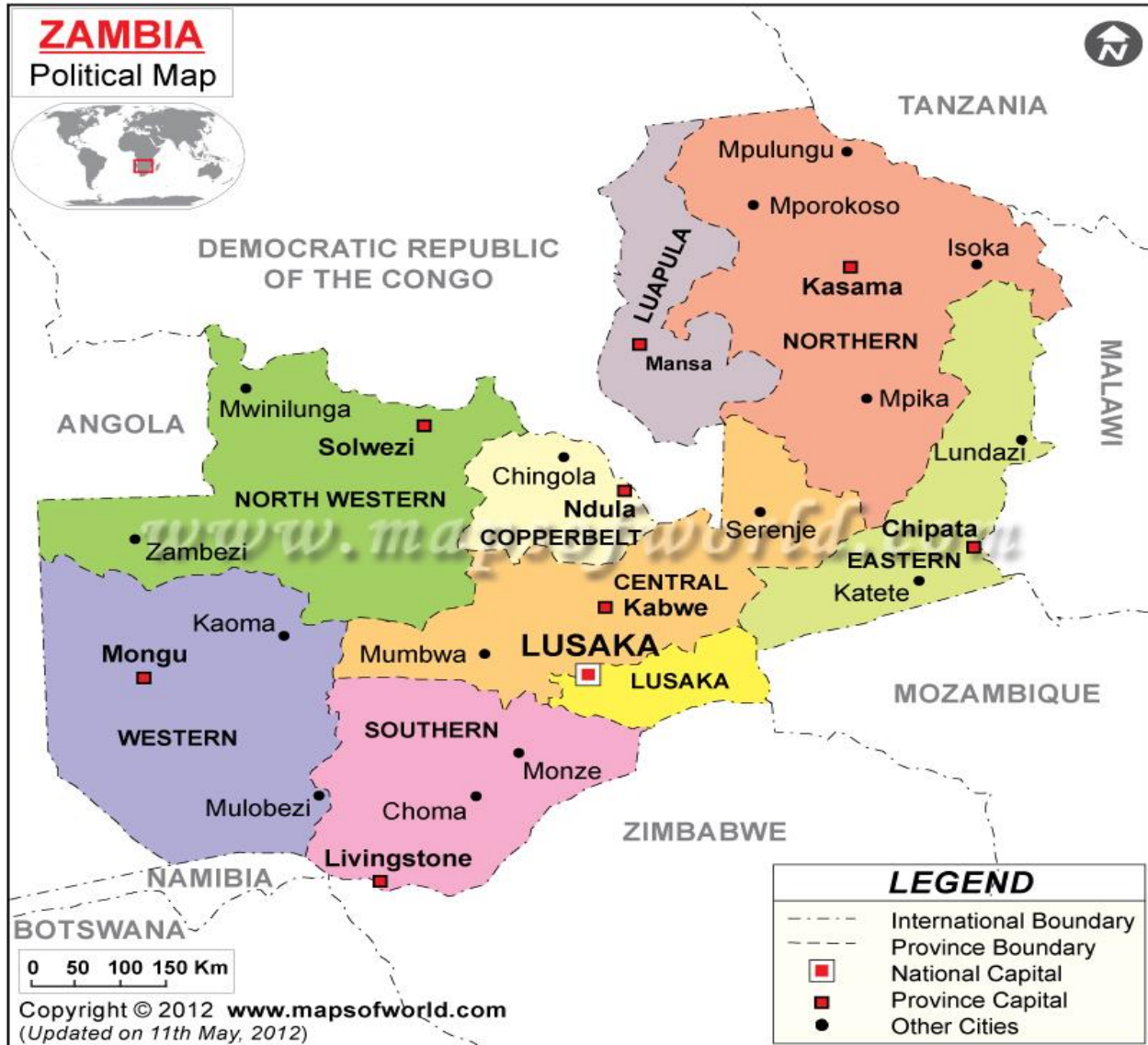
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<sup>9</sup> Zambia SADC National Focal Point 2012/www.zambiz.co.zm, Lusaka, Zambia.

<sup>10</sup> Historical projection of Alnitak as a timeline of its movement up the 31E08 Nilotic meridian of Africa

This is so because the province has just been created through Presidential Decree made late in 2011, after the map had been drawn.

Figure 1: Map of the Republic of Zambia showing neighbouring countries



Source: [www.un.org/Depts/Cartographic/map/profile/zambia.pdf](http://www.un.org/Depts/Cartographic/map/profile/zambia.pdf)

As table 1 below shows, in terms of population, according to the preliminary Labour Force Survey conducted in 2012, the country's total population by age group and sex had risen to about 14.4 million people as compared to about 13.1 million in 2010 and about 9.9 million in 2000. According to (CSO-LCMS, 2010), this represents an annual growth rate of more than 2.4 percent for the period from 2000-2012.

The Labour Force Survey Report indicates that, of the total population, 49.3 percent were male and 50.7 percent female (LFS, 2012). However, the 2010 Living Conditions Monitoring Survey (LCMS) indicates that the regional distribution of the population was mainly concentrated in rural areas, at 64 per cent, compared to 36 per cent in urban areas, whereas for 2012, the urban population increased to 39.9 percent from 36 percent in 2010 while the rural population dropped to 60.1 percent from 64 percent in 2010 (LFS, 2012). At the provincial level, table 2 shows that Lusaka had the largest share of population at 17.3 per cent (2,491,054), closely followed by Copperbelt at 15.3 per cent (2,201,143), Southern Province at 11.8 percent (1,698, 796), Eastern Province at 11.7 percent (1,677, 667), Central Province at 9.7 percent (1,398,003), Northern Province at 8.1 percent (1,169,443), whereas Western Province had 6.8 percent with a population of 971,256. North-Western Province had the lowest population at 5.4 percent (774,897) followed by second lowest Muchinga Province at 5.6 percent (810,460).

**Table 1: Total Population by Age Group and Sex, Zambia, 2012**

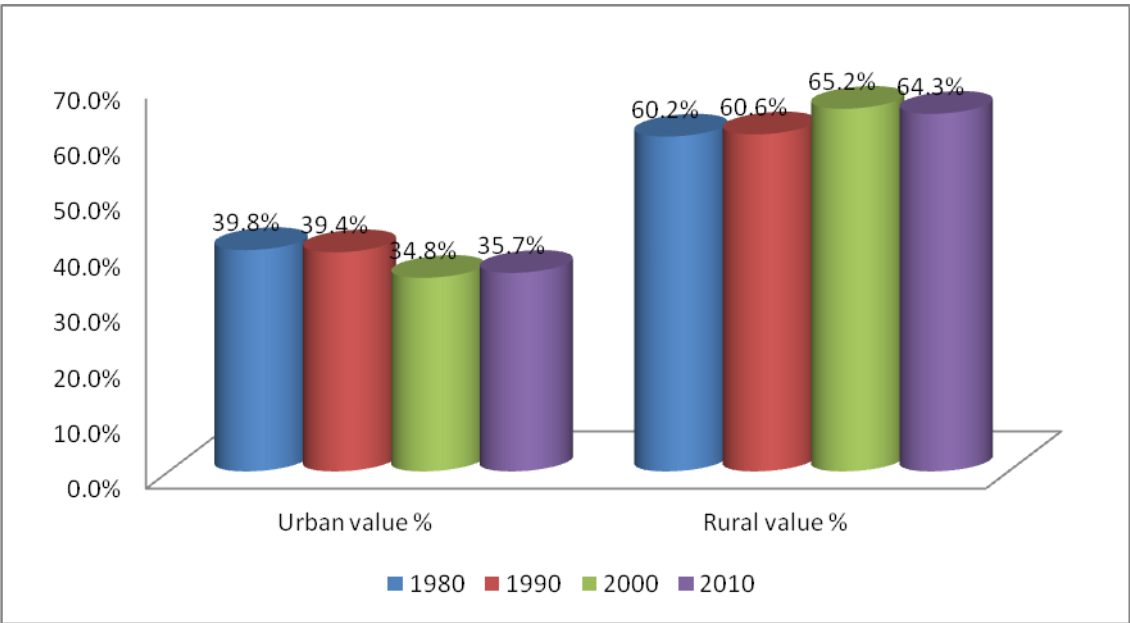
Age Group	Total	Male	Female	Percentage Share
<b>Zambia Total</b>	<b>14,365,719</b>	<b>49.3</b>	<b>50.7</b>	<b>100</b>
00-04	2,428,499	49.8	50.2	16.9
05-09	2,122,544	49.1	50.9	14.7
10-14	1,977,638	51.6	48.4	13.7
15-19	1,746,791	50.2	49.8	12.2
20-24	1,318,150	46.3	53.7	9.2
25-29	1,057,771	45.7	54.3	7.4
30-34	908,801	48.5	51.5	6.3
35-39	737,534	52.2	47.8	5.1
40-44	555,432	50.1	49.9	3.9
45-49	397,869	50.6	49.4	2.8
50-54	313,694	48.2	51.8	2.2
55-59	233,407	50.0	50.0	1.6
60-64	185,094	48.6	51.4	1.3
65+	382,495	46.8	53.2	2.7

Source: CSO, Labour Force Survey, 2012

Figure 1.1 below shows rural-urban population distribution from 1980-2010. The rural-urban population distribution indicates that for rural values the population had been fluctuating between the range 60- 64 percent whereas for urban population, the population values ranged between 35 and 40 percent for the period between 1980 and 2010. According to (CSO, 2010), the average population growth rate for the period under review has been about 2.4 percent, whereas the life expectancy has been fluctuating between

35 and 52 years for the same period. The increase in population calls for the government to plan for increased national resources allocation through sustainable economic growth and implementation of well coordinated sustainable development strategies as outlined in the Fifth and Sixth National Development Plans. These and other macroeconomic measures should help the country in the implementation of socially inclusive economic growth and poverty reduction for a developing country like Zambia in order to manage the fast growing population. Low life expectancy may be attributed to factors such as low standard of living and poor health facilities as well as lack of strong social protection policies among others.

**Figure 1.1: Rural and Urban population distribution, 1980-2010**



As indicated in figure 1.1 above, rural-urban population analysis shows that between 1980 and 2010, there were more people living in rural parts of Zambia than in the urban parts of the country. This situation calls for the government to invest more in agricultural sector being the main employment activity among the rural poor people. Government must come up with deliberate policy to encourage investment in public infrastructure and industry to be supported by well coordinated and efficient productive agricultural sector to stimulate growth in rural areas with a view to creating more employment. Creating more decent jobs can help improve the living conditions of the people and reduce poverty.

In order to continue consolidating robust economic growth trajectory and improve people's standard of living, the government needs to formulate policies and strategies aimed at growth and job creation. Among other important developmental projects to be considered are:

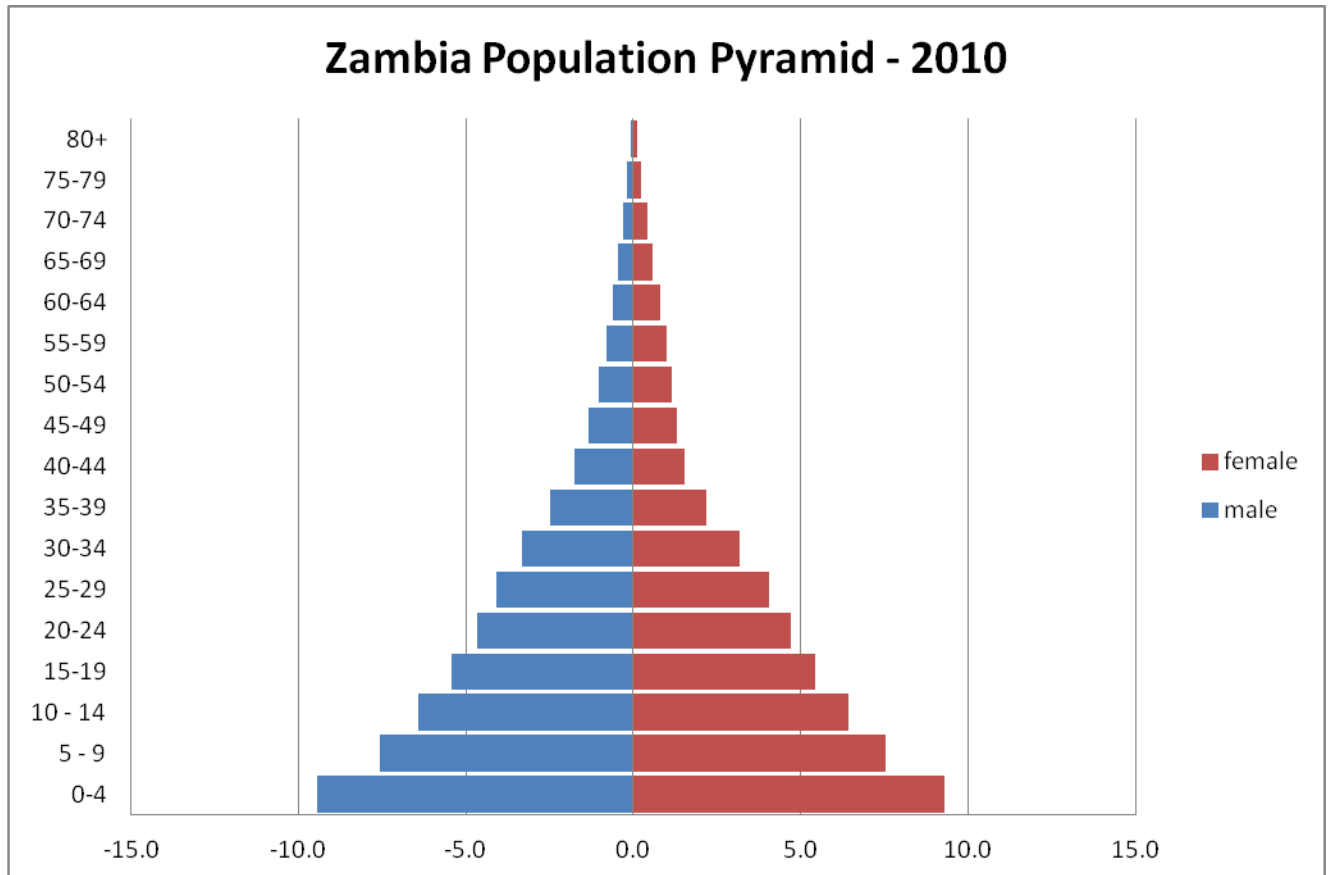
- Public infrastructure development e.g. improved health and education facilities
- Construction of good road network(e.g. link Zambia 8000 and pave Zambia 2000)
- Rehabilitating and construction of more railway lines to be used for transportation of copper and other mining products from and within the country.
- Rural electrification to generate and increase power supply in rural parts of the country in order to promote and encourage rural investment and industrial development through advancement in technology.
- Huge investment in agricultural sector using advanced technology to make it more efficient through increased productivity, increased food security and more decent jobs for the majority rural workers.
- Setting up of industries in rural areas with incentives offered by government to encourage private investment and job creation.

It is expected that the above rural developments may help stimulate economic growth and job creation with a net effect of poverty reduction among the poor people particularly those living in rural parts of the country.

In terms of population growth characteristics, figure 1.2 below shows that the population of Zambia has been growing in a pyramidal shape, typical of a developing country. It has high population growth among young age group between 4 years and 39 years, thereafter the population starts decreasing. This means that the population of Zambia consists of more young people (the youth) than the old. This situation may be attributed to a number of factors; *inter alia*: high birth rate and low life expectancy. The high birth rate may be attributed to low knowledge on use of contraceptives among young male and female youths as well as engaging themselves in early unprotected sex, a recipe for HIV/AIDS pandemic. However, low life expectancy may be due to poor health conditions in the country and poor or non-availability of social protection policies such as pensions and unemployment insurance benefits for the old and retired

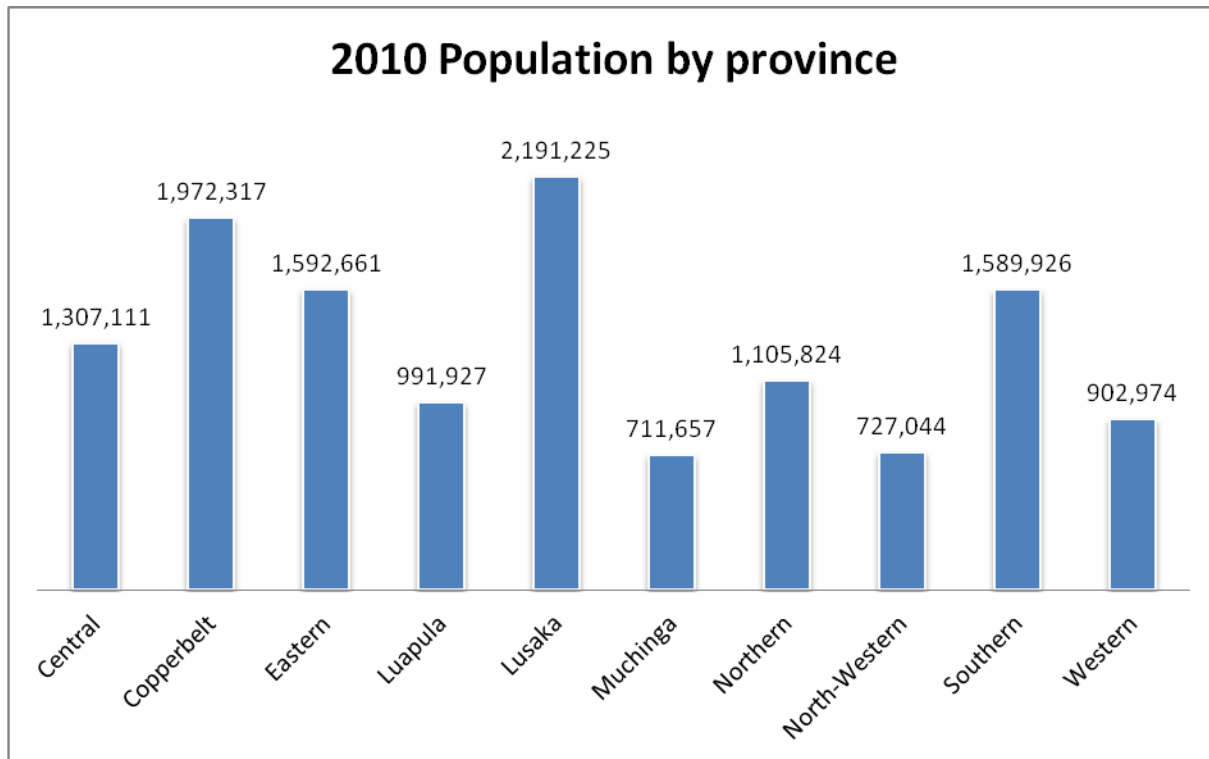
population. Lack of formal decent jobs can also contribute to low life expectancy due to poor working conditions.

**Figure 1.2: Zambia Population pyramid by age and sex, 2010**



The figure above also shows that the population structure by age and sex is mainly composed of young population. The figure in issue is a population pyramid with a wider base which contracts as the age increases, suggesting more people in the younger age groups. This type of population demography calls for the government to come up with special policy strategies aimed at addressing the needs of the young people. These strategies may include *inter alia* affordable educational and training needs, improved and affordable health facilities, policy strategies to deal with youth unemployment, employment policies such as minimum wages to deal with unfairly low wages in the labour market. Etc.

**Figure 1.3: Population distributions by province, 2010, Zambia**



**Source: CSO-LFS 2012**

Figure 1.3 above shows the distribution of 2010 population according to provinces. The highest populated province was Lusaka, followed by Coperbelt and Southern. The least populated was Muchinga province followed by North Western. The pattern of population distribution depend on the levels of economic activities and poverty situation. Lusaka enjoys better standard of living, followed by Coperbelt and Southern, whereas Western and North-Western provinces have high incidences of poverty.

### **1.3 BACKGROUND TO ZAMBIA'S ECONOMIC DEVELOPMENT**

In terms of economic development, as pointed out by Zambia Competition Commission Report(2007), the country has undergone different phases of development processes since 1964 independence - from capitalist to mixed socialist and capitalist command economic model under Kaunda, then a pure capitalist private driven economy under the MMD government which has been viewed as right wing capitalist party and now what appears to be right wing socialist economic development model under the current Patriotic Front government. However, though viewed as right wing socialist government, the PF

government has continued pursuing the private driven market economy except in areas of fiscal policy where they are seen to be spending more thereby increasing fiscal deficits. However, in a country with no inclusive growth policy framework, increased spending by the government may help stimulate domestic consumption, thus help create more jobs and reduce poverty.

In terms of political influence and international global economy, it can be said that from 1991, the liberalization of the economy by the MMD government has had an impact on the current Zambia's labour market institutions, including trade unions policies, employment and labour legislations. As regards to economic development, Zambia has had economic development successes over past decade, as measured by DGP growth, with rising GDP per capita, and falling inflation to low single digit among other macroeconomic fundamentals.<sup>11</sup> However, according to (IMF Survey online, 2012), the record of converting growth into job creation and poverty reduction has been mixed.

### **1.3.1 ZAMBIA'S ECONOMIC DEVELOPMENT ANALYSIS FOR THE PAST 10 YEARS FROM 2002-2012**

Since independence in 1964, Zambia has formulated and implemented several medium term national development plans (Vision 2030, 2006). Each of these instruments carried a theme and strategic focus, which primarily aimed to improve the social economic conditions of the people.<sup>12</sup> These plans, however, were not prepared within the context of a long-term perspective, which looked over the horizon of the future generation (Vision 2030, 2006). There are several factors that contribute to economic development, growth and poverty reduction. In order to register high growth and reduce poverty, you need a country with homogenous well coordinated and functioning economy supported by high productive sectors such as manufacturing industry, agriculture, mining and quarrying, construction, tourism etc. If the economy is efficient and supported by well trained and hard working labour force, operating and using state of the art technology and fully developed public infrastructure, this may lead to high GDP growth rate and high per capita income and economic growth due to high productive capacity taking place inside the economy. Stable exchange rates and low-single digit inflation rates are very important macro-economic fundamentals for a dynamic and efficient economy.

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<sup>11</sup> Central Statistics Office [Living Condition Monitoring Survey, 2010], Zambia

<sup>12</sup> Vision 2030. "A prosperous Middle-income Nation by 2030". Government of the Republic of Zambia



According to (Bank of Zambia, 2013), Zambia's economic growth slowed to 6.6 percent in 2011 from 7.6 percent in 2010, but accelerated again to 7.3 percent in 2012. This was mainly due to a weaker mining sector performance (Bank of Zambia, 2013). However, the medium-term economic outlook for the country appears to be favourable, underpinned by sustained expansion in agriculture, construction, manufacturing, transport and communications, and by a rebound in mining (World Bank, 2013). According to the World Bank, inflation is projected to remain in single digits, reflecting prudent monetary policy, while the objective of exchange rate policy is to maintain external competitiveness. Therefore, increasing domestic revenue collection remains a priority for the medium term and large infrastructure developments will require additional resources (MoFED, 2013).

However, the outlook for the Zambian economy remains favourable in the medium term, underpinned by robust growth and single-digit inflation. The economy is projected to grow 8.3 percent in 2013, picking up to 7.3 percent in 2012, while inflation should remain in single digits, at 8 percent and 8.5 percent respectively, slight up from 7.3 in 2012. The country, however, remains vulnerable to external shocks, with a sluggish global economic recovery a concern for its key mining exports. High youth unemployment and slow progress in poverty reduction may also overshadow the gains made from strong growth and limited inflation.

Therefore, to achieve a sustainable economic development and growth and to be able to fight poverty, Zambia needs an economy which is successful and highly competitive with efficient productive industrial sector, supported by strong agricultural sector and efficient public service anchored on a well articulated broad-based national development plan that should pursue prudent fiscal, financial, monetary and exchange rate policies that are consistent with the nation's socio-economic development objectives.

There are several factors that contribute to economic development and growth. The Zambian economy consists of various businesses: public and private enterprises. Public enterprises are those created to carry-out business at the same time, performing public function to serve the people of Zambia. These are mostly operating in energy, electricity, railway transport and telecommunication sectors. The private enterprises operate as entities created to do business with a view to making return on investment, while paying statutory obligations to the State. All public sector enterprises operate within formal sector of the economy, whereas, private firms are found both in the formal or informal sectors of the economy, depending on the type of business activity and the type of regulatory framework creating it. Other micro

small and medium enterprises though forming the largest bulky with low internal structures of accumulation can only operate in the informal sector due to legal and regulatory restrictions.

The Government of Zambia recognizes the importance of a vibrant and productive private sector in promoting growth and prosperity in the country. The Fifth National Development Plan (2006-2010) underscores the importance of having a broad based knowledge economy capable of generating wealth and create jobs through citizenry participation and technological advancement, while the Sixth National Development Plan (2011-2015) aims to build on the gains of the FNDP based on “Sustained economic growth and poverty reduction” through accelerated infrastructure and human development, enhanced economic growth and diversification, and the promotion of rural development. Sound macroeconomic policies and political stability have encouraged investment and growth in recent years but the environment is not yet sufficient for Zambian industries to be competitive and generate much needed wealth. As explained by the Zambia Development Agency, the private sector continues to be dominated by small, informal enterprises that face a number of challenges to growing their businesses and thereby contributing to the economy

According to African Economic Outlook 2012, Zambia’s real GDP growth for 2013 has been estimated at 7.3, real GDP growth per capita at 4.2, while budget balance (%GDP) and current account (%GDP) are estimated at 3 and 4 respectively. From table 1.2 below, we can see that service sector has been contributing the most towards the GDP from 2008-2012 at an average of 40 percent, followed by industry sector at an average of 20 percent and agriculture sector coming third at an average of 20 percent. The high growth in industry is as a result of a boom in the mining sector and construction, while the service sector boost is as a result of whosale and retail trade as well as increased tourism activities.

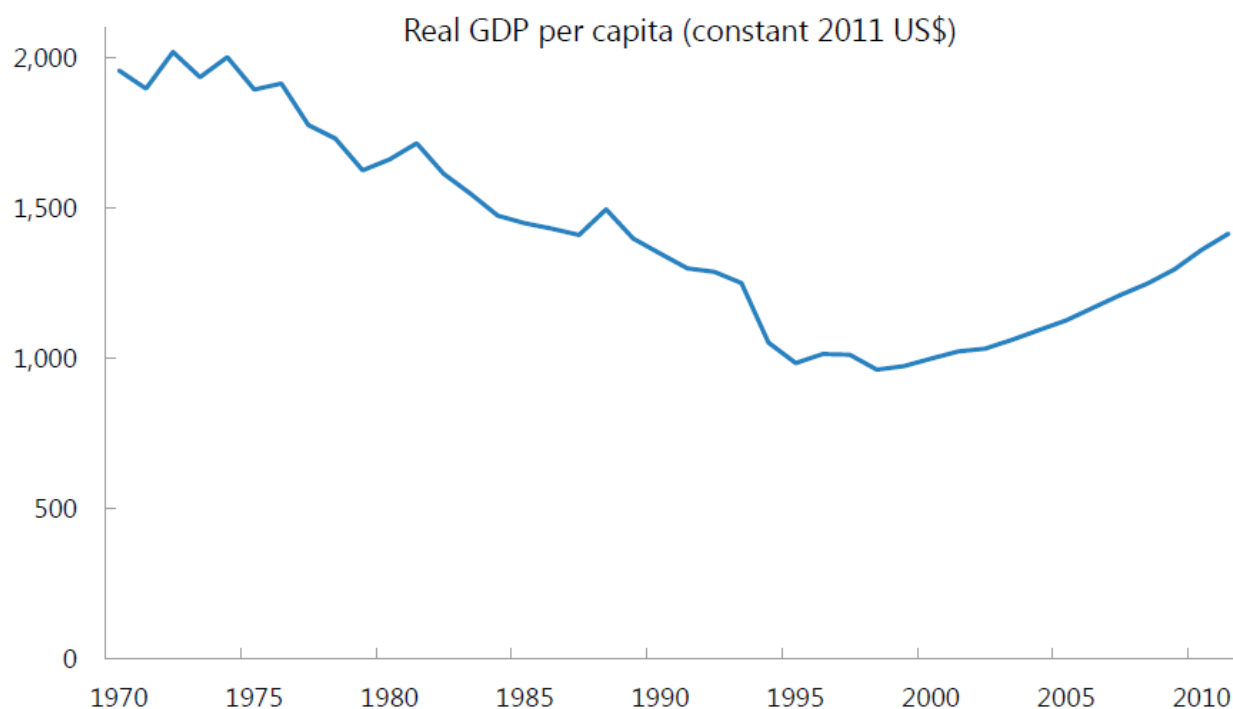
**Table 1.2: Zambia's GDP Composition by Sector, 2008-2012**

ZAMBIA GDP - COMPOSITION BY SECTOR, 2008 - 2012				
YEAR	2008	2010	2011	2012
Agriculture	21.2	19.9	21.5	20.2
Industry	46.3	28.9	35.2	33.5
Service	32.5	52.1	43.4	46.3

Source: CIA Factbook, 2012

Figure 1.4 below shows that, despite a decline in real GDP per capita from 1970s to 1980s, however, the income started growing again from 1995 to date. Zambia has made significant improvement since 2004 in terms of per capita consumption growth, employment growth and access to services; however, it has failed to make durable inroads to deal with current high poverty levels facing many poor people in the country. This perhaps reflects poor economic performance in rural areas with no change in real consumption growth per capita for the poorest half of the distribution. Given strong linkages between agricultural growth and poverty reduction as explained in chapter two, policies to improve agricultural output and productivity will accelerate poverty reduction. Overall, as can be seen from figure 1.4 below, from 2004, the performance of the economy has been satisfactory as other countries like the USA have seen their economies shrink, though slowly rebounding in recent time. As can be seen in table 4 below, the GDP per capita; PPP (US dollar) in Zambia was last reported at 1622.99 in 2011, according to a World Bank report published in 2012.

**Figure 1.4: Real GDP per capita, Zambia (constant 2011 US\$)**



Source: IMF, World Economic Outlook.

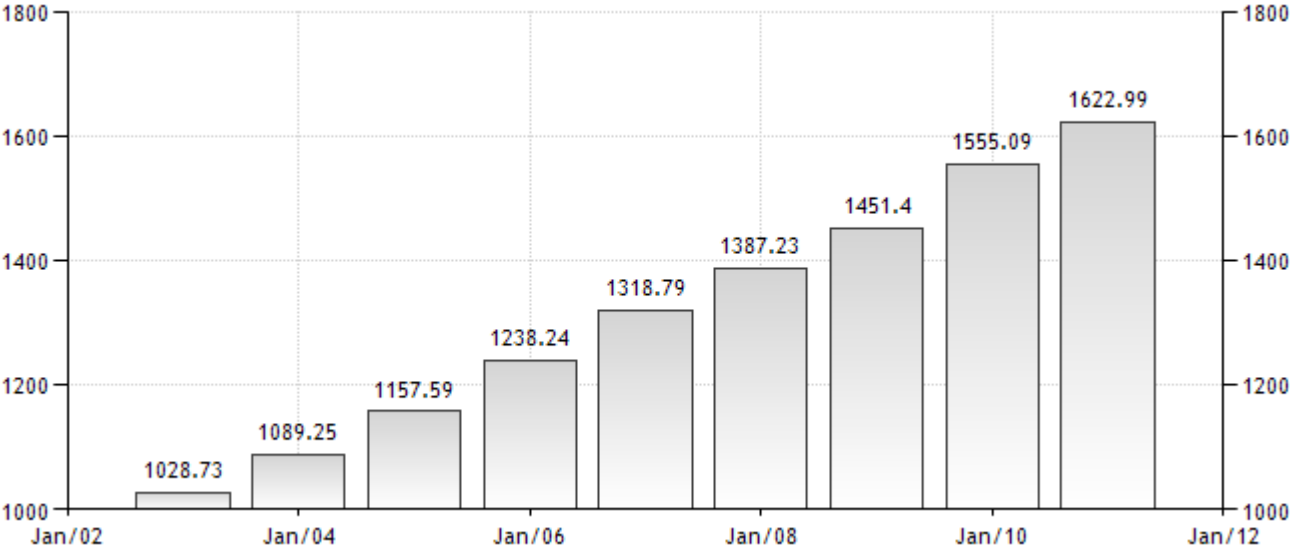
According to (Gallup, Radelet and Warner,1998), they find a strong relationship between overall income growth and real growth of the income of the poor. Furthermore the same variables that affect economic growth also affect growth of the real incomes of the poor, with roughly equal magnitudes.<sup>13</sup> Development specialists have debated for decades the relative importance of overall economic growth, economic policies, social policies, and aid programs for influencing the income of the poor.<sup>14</sup> One widely held view has been that economic growth does not reach the poor as fully as it does other members of society. At least in part, this notion is based on a hypothesis originally sketched out by Simon Kuznets (1955) that income distribution tends to worsen at early stages of development, and only later improve as incomes rise. As can be seen from figure 1.5 below, according to (Standard and Poor's 2013), it has been pointed-out that the low GDP per capita, which stands at \$1700, places the country among the world's poorest nations. UNDP (2010) contends that social indicators continue to decline, particularly in measurements of life expectancy at birth (about 52 years) and maternal and infant mortality (85 per 1,000

<sup>13</sup> Gallup, Radelet and Warner (1998). **Economic Growth and the Income of the Poor**. Harvard Institute for International Development

<sup>14</sup> Ibid

live births). According to (World Bank, 2012), the high population growth rate of 2.3 percent per annum makes it difficult for per capita income to increase. The country's rate of economic growth cannot support rapid population growth or the strain which HIV/AIDS-related issues (i.e., rising medical costs, street children, and decline in worker productivity) places on government resources

**Figure 1.5: GDP per capita from 2002-2012, Zambia**



Source: [www.TradingEconomics.com/World Bank](http://www.TradingEconomics.com/World Bank)

**1.3.2 GDP GROWTH AND REAL GDP PER CAPITAL ANALYSIS**

There is a connection between GDP growth rate, the population growth rate and the growth rate of real GDP per capita. It is always important to analyse and evaluate how economic growth feeds into economic development because this helps to focus on the growth rate of GDP per capita – that is output per person, rather than focusing simply on overall output (World Bank, 2006). The performance of any economy depends on certain macro-economic fundamentals for its positive outlook. Zambian economy has been growing at an average real GDP growth rate of above 6.5 percent for the past 7 years now (2005-2012). The GDP per capital income, a measure of worker productivity has also been slowly improving though not very impressive. It now stands at US\$ 1700 as at December 2012 estimates. The more efficient and better performing economy, the higher the productivity among different sectors of the economy

(industry, manufacturing, agriculture etc), the higher the per capital income of a country, the more it improves the standard of living and quality of life of the people. The other important macro-economic fundamentals, is the fact that Zambian government through the Central Bank has managed to bring down the annual inflation rate to low-single digit from about 30.1 percent in 2000 to about 7.3 percent in December 2012.

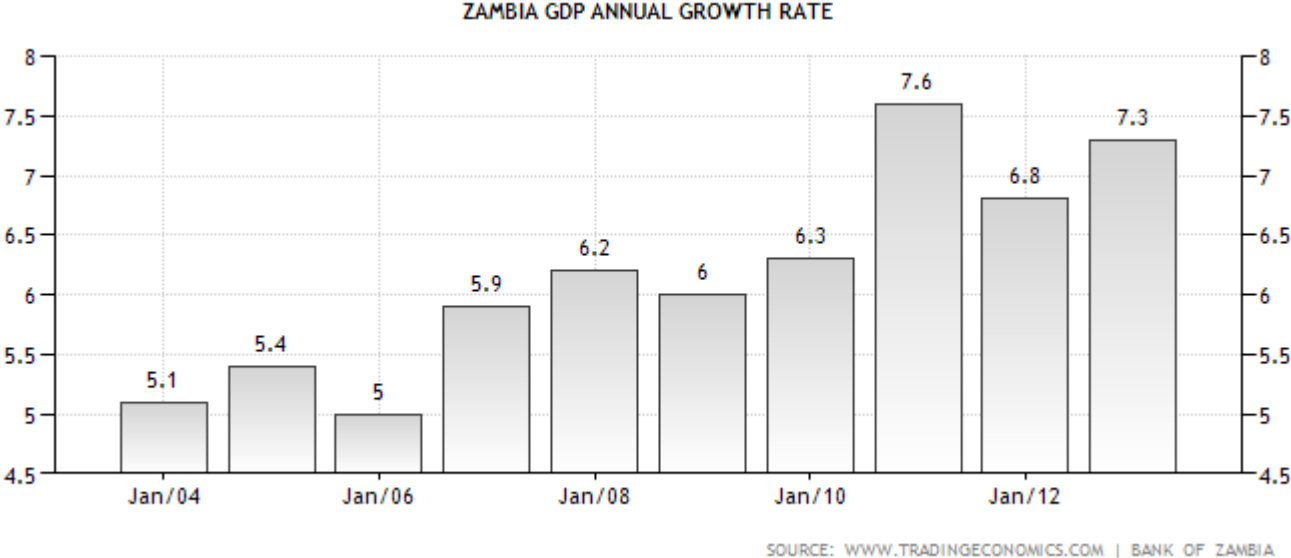
In addition, Zambia needs to continue to pursue prudent fiscal, financial, monetary and exchange rate policies that are consistent with the nation's socio-economic development objectives, increasing the share of industry in GDP from 29 percent in 2006 to 38 percent in 2030; increasing the share of manufactures in GDP from 13 percent in 2006 to 18 percent in 2030; increasing the share of manufactures exports to 80 percent of merchandise exports, comparable to Malaysia; maintaining the share of services in GDP at about half, with both private and government services rising slightly as a share of GDP over the period to 2030 as recommended in the Vision 2030 macro-economic framework, then it is likely that Zambia's economy will be able to respond to the needs of the labour market without a serious strain on the economy. This is very important because there is a connection between the economic growth, job creation and poverty reduction.

Therefore, the economy of Zambia needs to grow at an annual GDP growth rate of more than 8 percent with a higher per capita income and stable exchange rate in order to have a significant impact on job creation and poverty reduction. Increased investment in manufacturing industry and mining with support of an efficient and well managed agricultural sector to boost production capacity in other sectors of the economy is a prequisite for increased foreign exchange earnings through export of value added products from mining products and other manufacturing industry. This will help in creating jobs and reduce poverty.

Figure 1.6 below shows that the Gross Domestic Product (GDP) in Zambia expanded 7.3 percent in 2012 from the previous year. According to the Bank of Zambia database, historically, from 1961 until 2012, Zambia GDP Annual Growth Rate averaged 2.8 percent reaching an all time high of 16.7 percent in December of 1965 and a record low of -8.6 percent in December of 1994. Zambia is one of the poorest countries in the world with 60 percent of population living below poverty line. In recent years, Zambia's economy has been growing rapidly due to expansion of copper mining industry and agriculture diversification. However, widespread poverty, mainly caused by fast population growth and systemic youth unemployment, remains Zambia's main economic challenge. As figure 1.5 above shows the growth of real

GDP per capita, figure 1.6 below also shows how Zambia’s GDP annual growth rate has been positive since 2004 until now. The economy has been growing at a very faster rate with corresponding rise in GDP per capita and low single digit of inflation, but with little or no growth in employment and little in poverty reduction. This is a very serious challenge to the government and policymakers, an issue which requires urgent attention.

**Figure 1.6: Zambia GDP annual growth rate 2004-2012**



According to IMF and World Bank assessments for 2013, the main challenge for fiscal policy remains that of widening the tax base, increasing the tax take from the mining sector and allocating these resources to productive uses. Vision 2030 and the Sixth National Development Plan continue to provide overall guidance in fiscal management. Reforms are needed, among them a gradual withdrawal of widespread tax breaks and the introduction of a property tax. A 2012 budget proposal to remove copper and cobalt ores and concentrates from the Import VAT Deferral Scheme would significantly enhance revenue mobilisation efforts and perhaps help boost investment in the mining sector.

**1.3.3 MONETARY POLICY ANALYSIS**

In 2011, the Bank of Zambia decided to set up a monetary policy committee. This committee is mandated to maintain Bank of Zambia Policy Rate at 9.75% in order to relatively maintain tight monetary policy stance so as to keep the annual inflation to low single digit. Monetary policy regime has been focusing on sustaining macroeconomic stability by restricting inflation to single digits while ensuring adequate levels of liquidity for the growing economy. Market-based instruments have remained the hallmark of the central bank's monetary policy supported by a flexible exchange rate regime, aimed at absorbing external shocks to contain inflationary pressures (BOZ, 2012).

Inflation in 2011 was held at 8.7%, up from 8.5% in 2010 (CSO, 2012). Tight monetary policy and a reduction in fuel prices towards the end of the year helped slow the increase in non-food inflation while food prices were kept in check by adequate stocks following successive bumper harvests. Food price inflation declined to 3.9% in 2011 from 4.4% in 2010 while non-food inflation fell to 10.2% from 11.3%. Inflation in 2012 was 7.3 percent and 2013 is projected at 8.5%. The government's expansionary fiscal policy to fund increased infrastructure spending and possible accommodation of wage demands in the public sector may add to inflation pressures (World Bank, 2012). The Zambian kwacha depreciated 5.3 percent in 2011, mainly because of uncertainty about the outcome of the elections, which heightened risk aversion towards the local currency (CSO, 2012). The rate of depreciation would have been higher, but for central bank intervention to smooth out sharp movements in the exchange rate and maintain external competitiveness (CSO, 2012). It appears that the Bank of Zambia remains committed to a floating exchange rate regime like for the past years up to 2012 and beyond (World Bank, 2012).

#### **1.3.4 FISCAL POLICY ANALYSIS**

The Bank of Zambia is mandated by the Bank of Zambia Act to manage monetary policy-framework on behalf of the government, whereas fiscal policies are managed through the Ministry of Finance and Economic Development, acting together with other government spending agencies. According to (Hammond, Kanbur and Prasad, 2009), they contend that in emerging economy such as Zambia, monetary policy is typically the first line of defense against a number of internal and external shocks that these economies are now exposed to, so it is important to get it right. According to (Bank of Zambia, 2013), to maintain macroeconomic stability in 2011, the fiscal deficit, at 2.6 percent of GDP, was kept within the sustainable limit of not more than 3 percent of GDP whilst strengthening domestic resource mobilisation. Total government expenditure stood at 19.3 percent of GDP in 2011, down from 21.5 percent



in 2010. The main spending pressures in 2011 were related to the general elections and larger-than-anticipated maize purchases. However, recurrent expenditure was kept largely in line at 15.4 percent of GDP, compared with 15.8 percent in 2010, with salary costs unchanged at 7.7 percent. Capital expenditure increased marginally to 3 percent of GDP from 2.8 percent, reflecting additional spending on infrastructure, particularly the maintenance of urban roads. Domestic revenues fell to 14.7 percent of GDP in 2011 from 16 percent in 2010 and are projected to fall further to 12.6 percent in 2013. According to (IMF, 2013), the overall balance in the public finances showed a deficit of 2.6 percent of GDP in 2011, down from 3 percent in 2010, but the shortfall is expected to increase to 3.6 percent in 2012 before easing again to 3 percent in 2013. The expected widening of the public deficit in 2012 reflects the new government's policy of increased expenditure on social and infrastructure development. Domestic revenues are expected to fall to 13.6% of GDP in 2012, largely because of an increase in the tax relief granted to low income earners. To partly cushion the impact of this measure, the government has raised the mineral royalty rate to 6% from 3%. Grants are expected to be unchanged at 1.2% of GDP in anticipation of reduced aid flows. Additional spending on infrastructure will be financed by external borrowing, of which the USD 700 million bond issue will be the major component.

#### **1.4 ZAMBIA'S SOCIAL INDICATORS**

According to the Living Conditions Monitoring Survey (LCMS, 2006-2010), the population of Zambia was about 13 million in 2010 and 11.7 million in 2006. The survey established that the population was mainly concentrated in rural areas, at about 65 per cent, compared to about 35 per cent in urban areas in both years. According to (CSO, 2011), Copperbelt Province had the largest share of population with 15 per cent, closely followed by Lusaka Province with 13.5 per cent in both years. The most urbanised province was Lusaka Province with above 82.5 per cent of the population living in urban areas in both years (CSO, 2011). However, according to the preliminary Labour Force Survey (LFS, 2012), in 2012, Zambia's total population was estimated at 14,365,719, out of which about 49.3 percent were males whereas 50.7 percent were females. From the total population of 14.4 million persons, 16.9 percent were aged 4 years and below, about forty five percent (45.3 percent) of the population were below 15 years,

whereas persons aged 65 years and above accounted for 2.7 percent.<sup>15</sup> The working age population (Population aged 15 years and older) was estimated at 7, 837,038.<sup>16</sup>

In terms of poverty dimensions, the proportion of the population who lived below the poverty line in 2010 was 60.5 per cent compared to 62.8 per cent in 2006(LFS, 2006-2010). The interpretation and extrapolation of statistical data from the Labour Force Survey shows a slight drop in poverty levels of 2.5 percent in about 4 years as from 2006-2010. However, according to (LFS, 2010), the rural population of Zambia remained predominantly poor with overall poverty levels at 77.9 percent as compared to their urban counterparts at 27.5 per cent in 2010. The report further revealed that in 2006, 80.3 per cent of the population in rural areas lived below the poverty line, while 29.7 per cent in urban areas lived below the poverty line (LFS, 2010). However, there was a decrease in poverty among rural small scale farmers from 81.5 per cent in 2006 to 79.9 per cent in 2010(CSO-LFS, 2010). In urban areas, the low cost housing dwellers had the highest incidence of aggregate poverty at 34.5 per cent, followed by medium cost housing dwellers at 8.8 per cent, while the high cost housing dwellers had the lowest incidence at 4.9 per cent in 2010(CSO-LFS, 2010). The LFS report further established that the pattern was the same as in 2006.

In terms of analysis of consumption of basic needs of food items based on family size, the proportion of poor persons in households with five to six persons reduced from 64 per cent in 2006 to 59.5 per cent in 2010, while the life expectancy slightly rose from 51.9 percent in 2006 to 52 percent in 2010(Source: MOFED and Central Statistical Office, Zambia, 2012). The slight decrease in poverty dimensions may be attributed to many factors such as the continued growth of the country's DGP and rising per capita income. This could be as a result of increased levels in foreign direct investments and domestic development policies aimed at stimulating local enterprise growth through structural transformation for economic diversification in agriculture and mining sectors as leading economic sectors of Zambia's economy (Koyi, 2012). According to (Hausmann, Rodrik and Velasco, 2005), Zambia needs to formulate an inclusive growth policy(IG Framework) that goes beyond factors preventing growth in order to ascertain whether growth translates into increased households incomes and, ultimately, reduced levels of poverty. This may be achieved by formulating policies capable of employing 'Business Environment

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<sup>15</sup> 2012 preliminary Labour Force Survey Report/www.zamstats.gov.zm

<sup>16</sup> Ibid

Analysis' and an 'Employability Analysis' (Koyi-GRZ-IMF, 2012). According to (Koyi, 2012), the 'Business Environment Analysis' is used to identify the constraints preventing firms from investing in the economy to generate growth or to accelerate growth where this is occurring at a rate deemed lower than perceived potential (Ianchovichina and Lundstrom, 2008), whereas the 'Employability Analysis' is a diagnosis of the productivity attributes of individuals either as wage earners or as self-employed workers.

It is therefore important to put in place an inclusive, job rich poverty reducing growth process aimed at expanding employment and social protection for the population where poverty rates have remained high and HDI indicators poor (Source: ILO's Country Programme for Zambia: 2001-2007). For instance, according to (Stewart, 2000), he has observed that the sensitivity of poverty to growth depends on a country's income distribution; for example, a 1 per cent growth rate of GDP leads to a 0.21 per cent reduction in poverty in Zambia, if distribution is unchanged, compared with a 3.4 per cent reduction in Malaysia (Sen, 1995).

## **1.5 CONCLUSION**

Statistical information available shows that the annual population growth for the past 10 years(2002-2012) has been growing at a rate lower than the GDP growth rate(CSO, 2012). The GDP has been growing at an annual growth rate of above 5 percent(World Bank, 2012). However, the real DGP per capita is still low and needs to grow at the rate higher than the current US\$ 1700(IMF, 2012). This is important in order for the overall growth to impact positively on the growing population and job creation. Both the GDP and GDP per capita income need to grow at rates higher than the current ones in order to address issues of high unemployment, wide-spread poverty levels and low life expectancy among other human development indicators. However, to achieve this, we need to address among other development challenges, such as low manufacturing and industrial base, to encourage forward and backward linkages between SMEs and MNCs, as well as to deal with economic diversification and productivity and investment in value addition, particularly in extractive industry and agricultural sector which employs majority population in Zambia.

Further demographic analysis shows that on average the population has increased by more than 3 million people for the past 20 years. According to (CSO, 2010), the average population growth rate for the period under review is about 2.8 percent, whereas the life expectancy has been fluctuating between 50 and

52 years for the same period. The increase in population calls for the government to plan for increased national resource allocation through sustainable economic growth and implementation of well coordinated sustainable development strategies as outlined in the Fifth and Sixth National Development Plans. These and other macroeconomic policy measures should help the country in the implementation of socially inclusive economic growth and poverty reducing policies in order to have positive impact on the growing population. Low life expectancy may be attributed to factors such as low standard of living and poor health facilities as well as lack of strong social protection policies among others.

As commented by Sinyangwe (Source: online Watchdog: 10 June, 2013), creation of more and better jobs is a significant factor in achieving a more balanced distribution of income in both advanced and developing economies. Public policies aimed at promoting decent work opportunities and reducing income inequalities, both in monetary and non-monetary terms, allow the vulnerable to strengthen their position and take advantage of opportunities to move up the income ladder (World of Work, 2013). According to COMMERCE permanent secretary Stephen Mwansa( Watchdog online Publication: Monday 10 June 2013), he lamented that about 250,000 jobs would be created from the four multi-facility economic zones currently under development. In an interview, Mr. Mwansa said 84 companies had so far applied to go into the multi-facility economic zones (MFEZs). He contended that the PF government was aware of low levels of industrialization and lack of value addition in the mining and other sectors of the economy hence the creation of four MFEZs both in Lusaka and Copperbelt provinces.

*"We have got about 84 companies that have applied to go into the zones, and so far we are going to sign lease agreements with four of them. Phase one of the zone is Lusaka South, which is complete. Phase two is underway. There were a few disturbances as people were trying to illegally allocate themselves land but the matter has been sorted out. He said three of the zones were currently in the development phase while one was at planning stage".*

Therefore, it can be said that the creation of MFEZs is intended to boost low levels of industrialization in Zambia. It could be used as one of the positive and progressive development models as well as a macroeconomic policy strategy tool to help increase in investment as a share of GDP and create inclusive investment-employment relationship capable of supporting capital accumulation and future

investment and savings. This is important because, according to (LIZ, 2013), there is empirical evidence suggesting that the country's long-run economic performance is determined primarily by the institutions and government policies that make up the economic environment within which individuals and firms make investments, create and transfer ideas, and produce goods and services. However, In terms of development linkage between capital and labour, at a deeper level, it has always been documented that the differences in capital accumulation, productivity, and therefore output per worker are driven by differences in institutions and government policies supported by social infrastructure as well as investment in productive sectors of the economy (Salas: Lecture Material on Economic Development, 2012). According to (Sachs and Warner, 1995), several results have strongly indicated that growth in both per capita income and the income of the poor has been much faster in open economies than in closed economies. Gallup, Radelet and Warner (1998), have all explored that there is a relationship between three basic government policies, among them these are - openness to the global economy, government saving, and the composition of government expenditures -- and growth of per capita income, growth of the income of the poor, and changes in income distribution. First, it would be expected that countries that have been consistently open to the global economy would record faster growth than closed economies. Open economies are likely to grow faster because they will tend to have a greater division of labor and production processes that are more consistent with their comparative advantage (Gallup, Radelet and Warner, 1998). In addition, open economies are in a better position to import new technologies and new ideas from the rest of the world.



## **CHAPTER TWO: WAGE STRUCTURE AND STATUTORY MINIMUM WAGE DEVELOPMENT IN ZAMBIA**

### **2.0 INTRODUCTION**

In Zambia wage setting is conducted mainly through the process of collective bargaining under the auspices of the Industrial and Labour Relations Act or through Statutory Minimum Wages and Conditions of Employment Act<sup>17</sup>. Although this study focuses on the challenges of minimum wage setting, implementation and enforcement, however, it can be said that collective bargaining as a means of establishing minimum wages and conditions of employment has permeated the greater part of the workplace including the public service arising from tremendous growth in the institutions of industrial relations namely trade unions and employer's organizations. It can be safely estimated that over 50% of the work force in the formal sector is covered or affected by collective bargaining processes either directly or indirectly. Collective bargaining takes place at both enterprise and industry levels. In the recent past however industry level bargaining has tended to be shunned in favour of enterprise level bargaining which is considered more realistic as it tends to take full account of enterprise capacity. Industrial bargaining has been abandoned in the motor trade, banks and other financial institutions during the last decade.

The Industrial and Labour Relations Act (CAP 269) empowers trade unions and employers to negotiate for wages and other conditions of service for unionized employees through collective bargaining agreements, while the Minimum Wages and Conditions of Employment (CAP 276) confers statutory power on the Minister of Labour and Social Security to regulate and fix minimum wages and other conditions of employment for workers who do not belong to any trade union[s] or who are deemed by the same law to be so vulnerable, and therefore requires state protection.

The previous chapter one analysed the political, economical and social development in Zambia, whereas chapter two will discuss and analyse the employment and labour protection system in Zambia. Widespread poverty and high unemployment in Zambia have bred a dangerous environment where workers are willing to tolerate severe abuse from employers for fear of losing what little wages they bring home at each month end. The unjust treatment of employees in Zambia is widespread in its prevalence and diverse in its appearance.

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<sup>17</sup> CAP 276 of the Laws of Zambia

According to executive summary of the World of Work Report 2013: *Repairing the economic and social fabric*, it has been acknowledged that the labour market and income situation is uneven but can be improved by consolidating the rebalancing process in emerging countries and finding the right balance between employment and macroeconomic goals in advanced economies. Progress towards reducing economic and social inequalities would pave the way for a lasting recovery.

## **2.1 MAIN FINDINGS: THE EFFECTS OF MINIMUM WAGES ON THE ECONOMY**

According to (Sesinyi, 1998) minimum wage legislation can have adverse effects on the survival of both small and larger businesses. The effects of a high minimum wage on employment are among the most important factors to be considered when changing the wage rates, particularly in an economy like Zambia with unemployment rate of 15% and a rapidly growing labour force (Sesinyi, 1998). Therefore, the main problem that needs to be taken into account in setting the minimum wage is the predicament of unemployment (Sesinyi, 1994). According to ILO World of Work Report 2013, the main findings on the role of minimum wages in developing and developed countries are:

- Minimum wages can be a powerful tool for supporting decent work goals and can be a crucial complement to the strengthening of social protection floors and poverty alleviation efforts. This tool has become even more relevant as many of these countries need to boost domestic sources of growth in order to counteract the weakening of exports to crisis-hit advanced economies. Rising minimum wages can help to rebalance sources of growth even with limited fiscal space.
- The study shows that, for the above benefits to be reaped in the context of the present crisis minimum wage systems need to be well designed. First, the coverage of minimum wage systems should be improved. About half of the 151 countries for which data exist do not have a comprehensive system of minimum wages. Partial coverage reduces the effectiveness of minimum wages as a demand management tool. It also runs the risk of creating unfair competition between enterprises and sectors.
- Second, the level of minimum wages should be carefully considered. Too low a level reduces the relevance of minimum wages; too high a level runs the risk of firms refusing to comply with minimum wage legislation. Setting the level of minimum wage is a complex matter and the research provides interesting insights into recent innovations, such as those employed in Costa



Rica and India. These countries have managed to achieve higher compliance rates through regular updates of the system, involvement of social partners and enhanced enforcement institutions.

- Third, good design can help to support the goal of improving incomes in the informal economy and reducing wage inequality. The study establishes positive association between minimum wages and earnings in the informal economy in majority of the countries for which detailed analysis could be performed. Countries that have improved compliance were able to reduce wage inequality.
- Fourth, empirical analysis suggests that the direct effect of minimum wages on employment levels in developing countries has tended to be small or insignificant. However, if carefully crafted, minimum wages can have important indirect effects in terms of developing new markets and increased aggregate demand, thus paving the way for new investment opportunities and job growth.

The findings of the report cited above, is in fact, a re-confirmation of the earlier position taken by ILO, where the International Journal of Labour Research (IJLR,2012), has acknowledged that the role of the minimum wage has become an integral part for social justice and growth both in developed and developing countries in the world.

Like policy-makers in Zambia, according to the ILO's Global Wage Report 2008/09, it has been reported that minimum wages are a nearly universal policy applied in some form or another in more than 90 percent of the countries in the world (ILO, 2008, p.34). In all these countries, it has been reported, the main question that policy-makers have to answer is not whether a minimum wage should be adopted or not; but it is: "How should it be operated?" and "At what level should it be set?" This is the current position for Zambia to which this study applies.

## **2.2 MINIMUM WAGE SYSTEMS ACROSS FEW SELECTED COUNTRIES**

In recent years, there has been growing interest in the role of minimum wages in promoting social justice by improving the lives of low-paid workers, and also in rebalancing national economies.<sup>18</sup> In Brazil, a stronger national minimum wage and "*Bolsa familia*" – a conditional cash transfer programme – are two of

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<sup>18</sup> ILO World of Work Report 2013: Repairing the economic and social fabric

the most widely credited measures to explain the reduction of poverty, which has fuelled the country's economic engine (WWR, 2013). In China, coordinated minimum wage increases across Provinces have been a key part of a strategy to reduce inequality and rebalance the economy, encouraging stronger domestic consumption in the face of falling export demand and reduced scope for investment-led growth.<sup>19</sup>

In the United Kingdom, where minimum wages were introduced at the beginning of the twentieth century, abolished in the 1980s and reinstated in the 1990s, a survey of political experts has identified the national minimum wage as a successful Government policy.<sup>20</sup> In the United States, too, a higher minimum wage has come to be seen by many as a way to reduce poverty and inequality and provide a stimulus to the economy with potentially favorable fiscal effects, including through reduced costs of anti-poverty programs and increased tax revenue.<sup>21</sup>

### **2.3 THE ROLE OF STATUTORY MINIMUM WAGE LAW IN ZAMBIA**

Minimum wages are now well established labor market policies in the world.<sup>22</sup> The role of the minimum wage has now been connected to social justice and growth.<sup>23</sup> As will be discussed in chapter four on trade union strategies and labour market policy, the primary law regulating minimum wage setting in Zambia is the Minimum Wages and Conditions of Employment Act (CAP. 276).

This law<sup>24</sup>, was enacted on 21<sup>st</sup> August 1982 to repeal and replace the British Colonial law: 'Minimum Wages, Wages Councils and Conditions of Employment Act' in order to; make provision for regulating the minimum wage levels and minimum conditions of employment in Zambia. Laws relating to minimum wage policy development have become very critical because wage policies are needed to ensure that wages increase along with labour productivity growth for equitable and sustainable growth ( source: ILO-ITC Training Course on Building Effective Wage Policies, 2010).

The Act of Parliament is periodically updated through the passing of Statutory Instruments (SIs) that outline revised wages and allowances for qualifying employees. The minimum wage law empowers the

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<sup>19</sup> Ibid

<sup>20</sup> Ibid

<sup>21</sup> "US minimum wage rise makes sense", Financial Times, 20 Feb. 2013.

<sup>22</sup> Ncube, M. (2005) 'Wages through Booms and Recessions: A Case Study of Zimbabwe'. South African Journal of Economics, Vol.73.

<sup>23</sup> Dan Cunniah [2012]. "*Social Justice and Growth: The Role of the Minimum Wage*". Vol.4/Issue 1.

<sup>24</sup> Act No. 25 of 1982 and 13 of 1994

state through the Minister of Labour and Social Security to *inter alia*; prescribe minimum wages and other related conditions of employment. These relate to sectors where collective bargaining is either not effective or not possible.

In fact, almost all the countries in the world have developed complex legal mechanisms and institutions intended to protect the interest of working population and to help guarantee minimum standard of living by keeping the poor out of poverty traps (Botero, Djankov, La Porta, Lopez-de-Silanes, & Shleifer, 2004). The reason why governments intervene in the labour market is based on the notion that free markets are imperfect. The imperfect markets give rise to the creation of rents in the employment relationships. These unfair labour practices are the basis for the state to enter into the labour market to protect vulnerable workers from as manager of conflict, while at the same time act as an entrepreneur to ensure social conflicts between labour and capital are minimized for continued sustainable economic development and growth. When material condition required for continued productivity is achieved, businesses will be able to flourish and remain competitive in order for profits to be realized part of which can be used to meet labour costs such as minimum wages and other conditions of service. When demand for labour is met, there is likely to have stable and continued social structure of accumulation, thus it can lead to higher savings and increased investments, which in turn leads to higher productivity and higher returns on investment.

## **2.4 LEGAL COVERAGE OF MINIMUM WAGES IN ZAMBIA**

The extent to which minimum wages can transfer resources to low-paid workers and stimulate private consumption depends on a number of key factors. First, this chapter considers legal coverage. The term “legal coverage” refers to workers who have been included in the minimum wage legislation and who are therefore entitled to be paid at least the minimum wage. The extent of legal coverage depends largely on whether a country operates a broad national minimum wage, which applies to all wage workers across the country (with some possible exceptions) or a more complex and partial system of minima that apply only to selected industries or occupations.

In Zambia, the minimum wage determination and coverage is administered in accordance with the Minimum Wages and Conditions of Employment Act. In accordance with the provisions of this said law, there is no uniform national minimum wage rate applicable to all in Zambia. What applies in terms of

minimum wage payment is that national minimum wage is segmented according to category of workers. The categories of employees envisaged by the law are as follows:

- Shop workers;
- General workers; and
- Domestic workers

To protect the most vulnerable workers, Zambia has policies on minimum wages which cover domestic workers, shop workers and general workers. The principal law for these protected workers is the Minimum Wages and Conditions of Employment Act, Cap 276 of the laws of Zambia. Under this Act, the Minister of Labour is empowered to issue statutory instruments to set wages for the most vulnerable workers such as:

- The Minimum Wages and Conditions of Employment (Shop Workers) Order, 2012
- The Minimum Wages and Conditions of Employment (Domestic Workers) Order, 2012
- The Minimum Wages and Conditions of Employment (General Order), 2012

According to Augustine Mkandawire (Senior Researcher, PMRC),<sup>25</sup> in July 2012, the Government announced the revised statutory minimum wages by Ministerial orders through issuing:

- Statutory Instrument No.45: Domestic Workers Amendment Order 2012;
- Statutory Instrument No.46: General Amendment Order, 2012; and
- Statutory Instrument No.47: Shop Workers Amendment Order, 2012.

The above SIs improved mandated wages and conditions of services for general workers, shop workers, and for the first time, domestic workers. The new orders resulted from amendments and withdrawals of the following statutory orders:

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<sup>25</sup> Implications of Minimum Wages (SI 45 - 47) On Industry Productivity, Labour and Poverty Reduction: Learning From Evidence. Lusaka, Zambia

- Statutory Instrument No.57: General Order, 2006;
- Statutory Instrument No.56: Shop Workers Order,2006;
- Statutory Instrument No.56: Domestic Workers Order,2006;
- The Minimum Wages and Conditions of Employment Act (General) Order 2010;
- The Minimum Wages and Conditions of Employment (Domestic Workers) Order 2011;
- The Minimum Wages and Conditions of Employment (Shop Workers) Order 2011

Governments' reasons for enacting and subsequent amendments to the Minimum Wages and Conditions of Employment are mainly fourfold:

- to safeguard the interest of the workers;
- to protect workers from exploitation of salary working conditions;
- to create a legal base on which employers will base their wage rate on;
- to protect non-unionized workers from abuse.

According to recent research findings, the prevalent atypical forms of employment such as casualisation of labour, amidst abundant natural wealth, arable land and impressive macro-economic performance in Zambia makes a strong case for mandated wage increases (CSO-LFS, 2012).

The Minimum Wages Statutory Instruments are rules that are made under the authority of the Act by the minister which have the force of law that is applicable to all workers (including casual workers<sup>26</sup>) except those:

- employed by government, local authorities;

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<sup>26</sup> A Casual Worker is a worker engaged by an employer for a period of not more than six (6) months. A casual worker is paid on a daily basis. After six (6) months, such a worker is supposed to become permanent worker if he continues in employment.

- those whose wages are regulated in a process of collective bargaining conducted under the Industrial and Labour Relations Act;
- workers whose contracts are governed by specific employment contracts attested by a Labour Officer, those in management or those in a sector for which the Minister has by SI prescribed a minimum wage.

The Act provides the minimum wage as being in the same range for a general worker, cleaner, handy person and an office orderly and persons engaged as guards or watch persons. Category with a different range exists for persons engaged as drivers, receptionist, telephonists or typist, and persons engaged as qualified clerks. The Minister has also prescribed a specific statutory instrument for domestic workers and shop workers.

Under these minimum wage statutory instruments, the following are the lowest monthly wages a worker is legally expected to be paid:

- K522,400 (or Kr522.40 about US\$100) - Domestic Worker (maid, gardener, baby sitter), Calculated as basic pay K420,000 plus transport allowance K102,400
- K1,100,000 (or Kr1,100 about US\$200) - Shop Worker, General Worker, Cleaner, Handyman, Office Orderly', calculated as basic pay K700,000 plus transport allowance K102,400; lunch K120,000; housing K210,000 which is at 30% of basic pay.
- K2, 100,639 (or Kr2, 163.90 about US\$400 – Qualified clerk) inclusive of all allowances.<sup>27</sup>

Parts of the requirements for minimum wage payments are as follows:

- A worker who received a salary higher than that in the minimum wage shall maintain such salary;
- The normal weekly hours for a worker shall not exceed forty-eight hours;

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<sup>27</sup> It should be noted that the Zambian Kwacha was rebased in January 2013 by knocking off three zeros. The old figures expressed in thousands of Kwacha (K) are now being expressed in hundreds of Kwacha Rebased (KR). All the figures used in Kwacha should be divided by 1000 to find the equivalent in Kwacha Rebased (KR).

- A worker who works overtime must be paid at a rate given by the Statutory Instrument (SI). This rate differs for one working during a public holiday. The rate paid over a holiday is higher than on a normal working day;
- A worker is entitled to annual leave at the rate of two days per month;
- For female workers, maternity leave is granted for one hundred and twenty days every two years of service;
- A worker is entitled to retirement benefits if he has served for more than ten years and has reached the age of fifty-five;
- Where the employer has established a pension scheme approved by the Minister, the retirement benefits of the workers are to be paid according to the pension scheme;
- When a worker's employment is terminated on medical grounds, s/he shall be entitled to a lump sum of not less than two months pay for each year served;
- A worker is entitled to funeral assistance in the event of death of the worker, worker's spouse or registered child;
- A worker is entitled to transport allowance of one hundred and two thousand kwacha per month if he lives more than three kilometres from the place of work;
- A worker is entitled to lunch allowance of one hundred and twenty thousand kwacha per month;
- A worker who is required to provide their own tools to execute employers work shall be paid tool allowance;
- An employer is obliged to provide protective clothing to a worker for any work done that is likely to be injurious to the worker.<sup>28</sup>

In terms of coverage and application, Statutory Instruments number 45-47 of 2012 signed by the Minister of Labour and Social Security, do hereby provide for an increase in minimum wages for domestic

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<sup>28</sup> Labour Law Summary Consolidated Version, ILO Law Growth Nexus II Project (LNG II), 2012

and general workers effective January 2012. The current law does not cover for employees falling out of the envisaged sectors to which the current Statutory Instruments are applicable. The minimum wage rates have been adjusted as follows: For domestic and general workers from US\$30 and US\$50 (figures for 2006) to US\$105 and US\$220 (figures for 2012) respectively (Source: Ministry of Labour and Social Security, 2012).

Generally the Government does not interfere in the contents of collective agreements. The major determinant is capacity of the employer and negotiating skills of the Union. Provided an agreement is not contrary to any written law, the Minister will direct the registration of the agreement. Upon registration by the Labour Commissioner a collective agreement assumes legal effect and is binding on the parties. In spite of the bias for collective bargaining enshrined in the Act, it is recognized that State intervention in the regulation of wages and other conditions of employment is necessary and inevitable in those areas or sectors where collective bargaining is not possible or is ineffective. To this effect, the Minimum Wages and Conditions of Employment Act enacted in 1982 provide the State with residual power to determine minimum wages and other conditions of employment.

This power may be exercised only in circumstances where collective bargaining is not possible or effective. It should be noted that there is a requirement that in exercising the power, the Minister must consult and involve the social partners. In practice the Minister determines the terms on the basis of recommendations made to him and emanating from consultations with trade unions and employers organizations including their central organizations. There are three statutory wages determinations made under the Minimum Wages and Conditions of Employment Act covering general workers, shop workers, and domestic workers (Statutory Instrument No. 45, 46 and 47 of 2012), read together with a general determination orders (Statutory Instruments of 2011). The general determination covers all employees except employees of the Government, local Councils, household domestic service, and more importantly employees in occupations where terms are regulated through the process of collective bargaining under the Act.

However, it must be noted that Minimum Wages and Conditions of Employment Act applies to all employees (including casual workers) in Zambia, but do not apply to the following categories of employees:

- Employees of the Government of the Republic of Zambia



- Employees of local authority;
- Employees who undergo collective bargaining (unionized workers);
- Employees in management position (as defined under the Industrial and Labour Relations Act)
- Employees in a sector for which the Minister, by statutory instrument, has not prescribed the minimum wage.

However, in terms of regulation of current minimum wages, Section 3 (1) stipulates that If the Minister is of the opinion that no adequate provision exists for the effective regulation of minimum wages or minimum conditions of employment for any group of workers he may, by statutory order, prescribe:-

- rates of wages to be paid to workers by the hour, day, week or month;
- normal hours of work in any day or week;
- normal working days in any week or month;
- rates for any work done in excess of or outside the normal hours of work or the normal working days;
- rates of paid holidays or any conditions attaching to the granting of such holidays;
- rates for nay piecework;
- rates of allowance for any food or housing; and
- any other matter which in the opinion of the Minister is necessary or expedient to prescribe:

Provided that if the group of workers in respect of which a statutory order is to be made is represented by a trade union, no such order shall be made before consulting such trade union.

In terms of coverage and application, Statutory Instruments number 45, 46 and 47 of 2012 signed by the Minister of Labour and Social Security, do hereby provide for an increase in minimum wages for domestic shop and general workers effective January 2012. The current law does not cover for employees falling out of the envisaged sectors to which the current Statutory Instruments are applicable.

## 2.5 AT WHAT LEVEL SHOULD THE COUNTRY SET ITS MINIMUM WAGE?

According to Patrick Belser and Kristen Sobeck, the question at what level should countries set their minimum wages has not been answered yet.<sup>29</sup> The academic literature has surprisingly little to say about this simple but fundamental inquiry.<sup>30</sup> However, despite a seemingly never-ending debate among economists about whether minimum wages are desirable or not, Zambian policy-makers made a legislative decision to enact the minimum wage law more than 3 decades ago. However, the challenges the New Patriotic Front government is confronted with are issues to do with: “How should minimum wage be operationalised” and “At which level should it be set?”

In terms of what could be the ideal minimum wage to guarantee a minimum standard of living for a family of 6 in Zambia, there are various social indicator instruments to be used both within and outside Zambia to establish the appropriate or ideal minimum wage to be paid in order to guarantee a minimum standard of living for the family of six. One of the most ideal methodologies that may be adopted by the government in consultation with other relevant social partners is the “INDEXATION” model. This is an automatic adjustment of an economic variable, such as wages, taxes, or pension benefits, to a cost-of-living index, so that the variable rises or falls in accordance with the rate of inflation.<sup>31</sup> However, annual discretionary adjustments seem to be more suitable than the automatic indexation of minimum wages because it allows for specific economic developments to be taken into account, supports political mobilization and stimulates active trade union engagement (Bazen/Martin, 1991).

According to Business Dictionary, it also defines indexation as linking of a quantity to the rate of change in another quantity or factor, as measured through an index. For example, increases in government spending, interest rates, wages, etc., are often linked to the general price level as measured through consumer price index (CPI): as the CPI increases or decreases, the linked spending, interest rate, or wage increases or decreases automatically.<sup>32</sup>

There are benefits of adopting this method because it is based on the principle of “win-win” situation in a business transaction. For instance, you may have made an investment that has doubled over

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<sup>29</sup> Belser, P.; Sobeck, K. 2012. “*At what level should countries set their minimum wages?*” in International Journal of Labour Research, Vol. 4, No. 1, pp. 105-27.

<sup>30</sup> Ibid.

<sup>31</sup> <http://www.thefreedictionary.com>

<sup>32</sup> <http://www.businessdictionary.com/definition/indexation.html#ixzz2WiU8ZXEf>

the last 10 years or so, but the purchasing power of money is down due to inflation. Isn't it obviously unfair that the government should tax you on that portion of your gains that has actually been eaten away by inflation? This unfair system of taxation can be resolved by the government by allowing businesses to adjust their capital gains for inflation by applying an appropriate factor from cost inflation index to the original price of units. This could somehow help resolve social conflict in the Zambian labour market each time minimum wages are adjusted upwards by the government because using index method is an explicit and more permanent policy of valorization of MW whose adjustments and raises of MW are not negotiated based on historical circumstances.

## **2.51 THE ROLE OF POLITICS AND TRADE UNION CENTRALS IN SHORING UP MINIMUM WAGE IN BRAZIL**

According to ILO database, the minimum wage has a more than 70 year history in Brazil (IJLR, 2012). The International Journal for Labour Research (IJLR) has reported that the minimum wage policy in Brazil has undergone several phases in its attempt to achieve different political and economic objectives, in some instances increased or decreased depending on the political, economic and social strategy. It was until 2007, when Lula da Silva's government and trade union centrals agreed to an explicit and more permanent policy of valorization of the MW. This type of policy tool has worked very successfully in countries like Brasil and others within Latin America. Lula da Silva's government agreed to an explicit and more permanent policy of valorization of the MW. Since 1995, the MW in Brasil has been adjusted approximately every 12 months. This policy negotiated between government and trade union centrals intends to increase the value of the MW up until 2023 whose value is based on automatic adjustments based on the price inflation incurred since the previous adjustment and on the real variation of the GDP during the past year (based on the last month of the year).<sup>33</sup> Analysing its historical trajectory until the first of the twenty-first century, Dedecca (2005, p.199), asserts that "(...) maintaining an undervalued MW has made it possible to validate a productive scheme based on low salaries and on low worker productivity." The 1988 Brazilian Constitution, currently in force, explicitly includes in its legal text a more thorough expense structure:

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<sup>33</sup> de Melo, F.L.B.; Figueiredo, A.; Mineiro, A.S.; Mendoca, S.EA. 2012. "Rescuing the minimum wage as a tool for development in Brazil", in International Journal of Labour Research, Vol. 4, No. 1, pp. 27-44.

Article 7. The following are the rights of urban and rural workers, among others that aim to improve their social conditions:

(...)

IV – nationally unified minimum wage, established by law, capable of satisfying their basic living needs and those of their families with housing, food, education, health, leisure clothing, hygiene, transportation and social security, with periodical adjustments to maintain its purchasing power, it being forbidden to use it as an index for any purpose(Government of Brazil, 1988).

In fact, for Brazil, the determination of real minimum wage has gone beyond just indexing the value of MW to inflation, because it includes real increase in MW beyond indexation of the annual inflation rate by taking into account real variation of the GDP. For instance, since 2010, the month for the MW raise and implementation in Brazil has been every January of each year.

## **2.6 METHODOLOGY IN SETTING MINIMUM WAGE LEVELS IN ZAMBIA**

In Zambia, there are two important institutions that are responsible for assessing the living conditions of the people of Zambia, namely the Central Statistical office(CSO) and the Jesuit Centre for Theological Reflection (JCTR). The CSO is a government department whereas the JCTR is a department of Catholic Church in Zambia. These institutions working together with other international organizations such as the World Bank, ILO just to mention a few, have been involved in trying to find the minimum wage ideal to help workers pulled out of the poverty datum line. Despite rising household incomes and marginal drops in incidents of poverty, the cost of living remains high in Zambia. This makes it imperative that minimum wages be set at a level which enables low wage earners to meet their basic needs.

### **2.61 INDEXING THE MINIMUM WAGES TO THE BASIC NEEDS BASKET [BNB]**

Zambia, like in Brazil, minimum wage is a political issue on several levels. Unlike most contemporary mainstream economists who, operating within the confines of a neoclassic economics model, maintain that laws of supply and demand demonstrate the deleterious effects of minimum wage on the economy as whole, minimum wage is not indexed to inflation. Minimum wage should enable low-wage earners to live decent lives by meeting their basic needs and those of their families.

In Zambia's case, haphazard reviews of the minimum wages in 1997, 2002, 2006, 2011 and 2012 have not helped workers to keep abreast with the annual rising cost of living. Annual reviews of minimum wages should be explicitly enshrined in minimum wage laws to cater for the cost of living adjustments as is the case in other countries like Brasil, where for example (in January 2012) the MW was raised by 7.5 percent over the inflation rate.<sup>34</sup> This can be done by indexing the minimum wage to the Central Statistical Office food basket or the Jesuit Centre for Theological Reflection [JCTR] Basic Needs Basket. Both of the basic needs basket are measured monthly and now at realistic levels of K3 million and K3.5 million respectively. In collective bargaining, the JCTR Basic Needs Basket is now being used an authority on cost of living adjustments. Macro-economic fundamentals should also be a deciding factor in adjusting the minimum wage.

However, other economists have argued that a temptation to demand an automatic indexation of minimum wages may be a fruitless policy of fighting against low minimum wages and high inflation in that annual discretionary adjustments seem to be more suitable because the general view has been that this allows for specific economic developments to be taken into account, supports political mobilization and stimulates active trade union engagement (Macpherson, 1996).

## **2.62 THE JCTR BASIC NEEDS BASKET AS AN INDEXING POLICY TOOL<sup>35</sup>**

Minimum living wages are usually defined as a certain basket of goods a worker should be able to buy to have a decent life. And there is no doubt that the monthly Basic Needs Basic (BNB) published by the JCTR is now established as a moral authority on the minimum living wage in Zambia. The JCTR is a research, education and advocacy team that promotes study and action on issues linking Christian faith and social justice in Zambia. The Center engages in research on key social issues like cost of living

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<sup>34</sup> The 1988 Brazilian Constitution, currently in force, explicitly includes in its legal text a more thorough expense structure aimed at improving social conditions of the rights of urban and rural workers among others. For the 2008-2015 period, it has been agreed that adjustments would be based on the price inflation incurred since the previous adjustments and on the real variation of the GDP during the past year [based on the last month of the year]. The current Act that rules the process [Act No. 12.382/2011], proposed by the executive power at the beginning of Dilma Rousseff's government which runs until 2015 is based on the MW policy negotiated between government and trade union centrals which intends to increase the value of MW until 2023.

<sup>35</sup> <http://www.jctr.org.zm/>

through monthly surveys of prices of basic family necessities e.g food & housing based on "Basic Needs Basket". The Basic Needs Basket (BNB) is widely used by civil society organizations, labour unions, etc in order to promote better living conditions

The 200% wage increment for the least paid civil servant in 2013 demonstrates government's commitment to deliver real wages that are closer to the BNB. Dr. Velepi Mtonga, the Permanent Secretary for the Public Service Management Division had this to say on the KR 3000.00) new minimum salaries for public service workers:

*"We looked at the lowest paid and how we could move them into a basic needs basket."*<sup>36</sup>

The interpretation of the action by the government to link increments for public workers to JCTR BNB shows that the government has started appreciating the role of JCTR in its poverty assessments and the impact that has on the living conditions of the workers and their families.

## **2.63 CENTRAL STATISTICS OFFICE [CSO, ZAMBIA] NATIONAL FOOD BASKET**

The Central Statistic Office has also revised its food basket upwards from K435, 574 (Kr 435.60) in 2010 to K2.9 million (Kr 2,900.00) currently. And the gross pay for the highest category of a bookkeeper under the Minimum Wage, Shop Workers is pegged at K2,372,519 (Kr 2, 372.50) while that of a qualified clerk under the General Order is pegged at K2,100,639 (Kr 2, 100. 64). These figures demonstrate government's desire to move wages closer to the K3.5 million (Kr 3,500.00) JCTR's BNB. The pressure now will be on the private sector to revise wages above the minimum wage, following the Labour Minister's discretion to extent the period of implementation of the revised minimum wage rates to mid-year 2013. This is in order to accommodate those businesses having challenges to meet increased labour costs as a result of the new revised minimum wage policy.

As to what is the current basic needs basket obtaining in Zambia, the JCTR BNB is currently at KR 3000 per month for a family of six, whereas for CSO, the food basket is set at KR2,900 as at 2012. Both minimum wage levels are being used to bench mark the minimum levels at which salaries and wages can be set at depending on the industry and the ability to pay.

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<sup>36</sup> Lowest-paid government worker to get K2.9m," The Post Newspaper, 27<sup>th</sup> March 2013

## **2.7 CAN THE COUNTRY'S ECONOMY OR EMPLOYERS IN ZAMBIA AFFORD TO PAY THE CURRENT BASIC NEEDS BASKET? IF NOT WHY?**

The question as to whether the country's economy or the employers can afford to pay the current basic needs basket has always been a subjective one in Zambia. This is so because employers' ability to pay differs from one institution to another or from one industry to another.

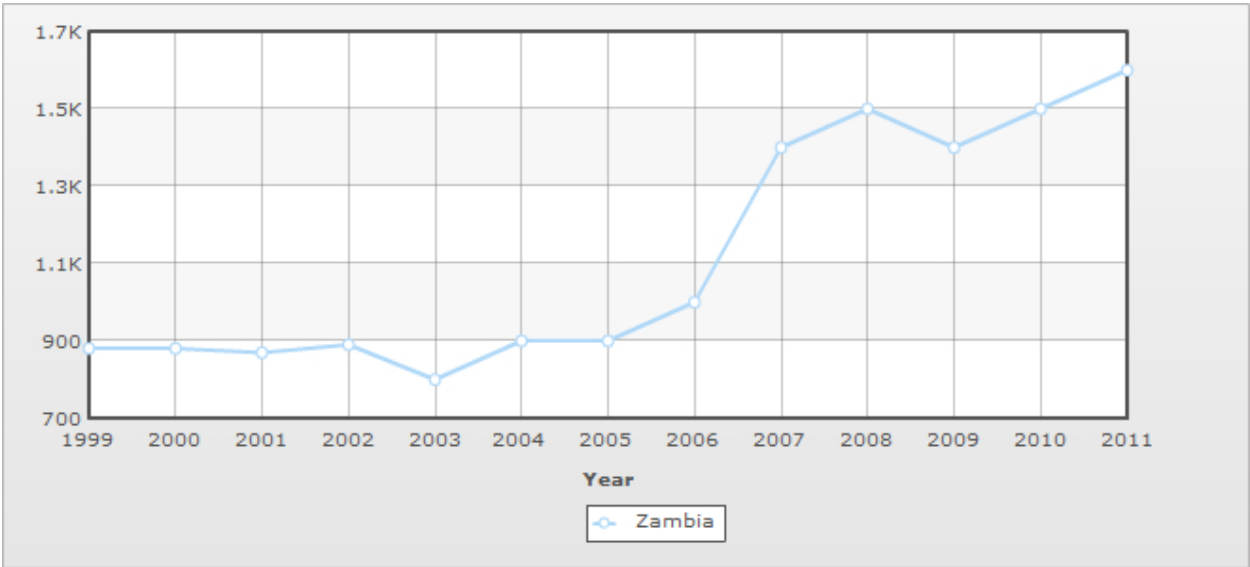
However, to try and attempt to answer the question, it is better to justify the same in terms of the analysis of economic performance of Zambia for the past 10 years or so (2002-2012). As already alluded to in the previous chapters, in 2005, Zambia qualified for debt relief under the Highly Indebted Poor Country Initiative (HIPC). The debt was approximately USD 6 billion. In addition, Zambia has experienced a bumper harvests from 2007- 2012 that has helped to boost GDP and agricultural exports and to contain inflation. Although poverty continues to be a significant problem in Zambia, its economy has strengthened, with an average annual GDP growth rate of above 6.5 percent for the past 10 years also, as well as featuring single-digit inflation, a relatively stable currency, decreasing interest rates, and increasing levels of trade. The latest positive macroeconomic outlook recorded annual GDP growth of 7.3 and a single digit inflation at 7.3 percent as at December 2012, respectively (see figures 3.1 and 3.2 below).

In terms of industry productivity, Zambia presents a typical Sub-Saharan African (SSA) labor market dominated by the agriculture sector and a high unemployment rate. Zambia's agricultural employment accounts for 73% of the total labor force compared to an average of 60% across the other SSA countries (ILO 2011). Industrial sector employment makes up about 11% of the SSA population but only 9% in Zambia (ILO 2011; LFSR 2010). The agriculture sector, even though large in terms of labor force, only accounts for around 20% of Gross Domestic Product (GDP), while the less populated industry and service sectors account for 34% and 47%, respectively. However, the comforting scenario is that, with improved diversified agricultural methods supported by continued bumper harvest in Maize, the staple food for Zambia, there is a positive outlook that agricultural sector and other sectors which indirectly and directly depend on agricultural activities should be able to meet the present and future increased labour costs as demanded by the labour market (see figure 3.2 below).

The mining sector continues to drive economic development in Zambia, as it has done for the past 70 years. The latest economic report on Africa has revealed that Zambia's copper mining could continue to operate at current rates for the next 60 years even without new discoveries. The report states that there is

currently a reserve base of 35 million metric tons of copper in Zambia’s soils. It shows that Zambia remains Africa’s largest copper producer and exported US\$6.8 billion worth of copper in 2011. The report says copper provides 10 percent of the country’s employment in the formal sector. It further indicates that the copper industry in Zambia also employs thousands of people in the informal sector adding that female workers are mostly represented in the tertiary educated and lower- management sections of the labour structure of copper producing firms. The above macroeconomic assessments also justifies the positive favourable outlook for small and medium enterprises who depend on the mining for business operations to continue in business and to make enough profits to meet the increased labour costs through MW policy valorization.

**Figure 2: GDP growth rate from 1999-2011, Zambia**



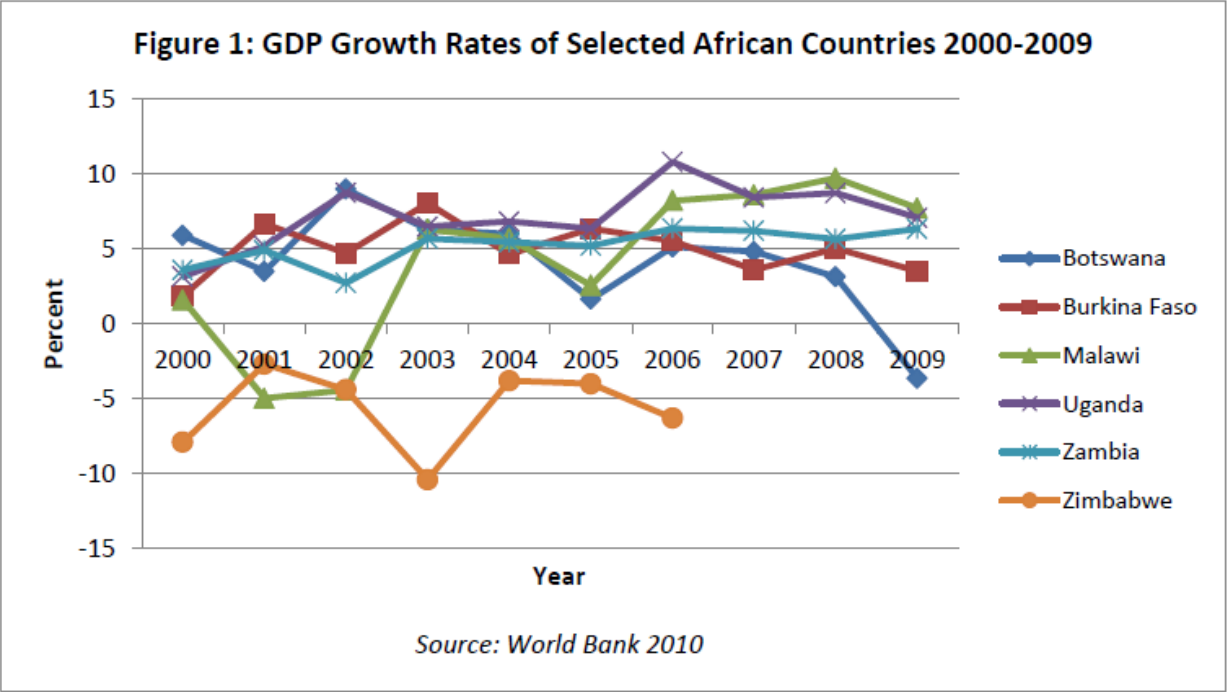
**2.8 WHAT IS THE AVERAGE GDP GROWTH RATE AND THE REAL GDP INCOME PER CAPITA FOR ZAMBIA FOR THE PAST 10 YEARS [FROM 2002-2012]**

As can be adduced from the statistical information in figure 2 above and figures 2.1 and 2.2 below, the annual GDP has been rising since 2003, with agriculture contributing to GDP by sector share above 20 percent, the industry currently contributing between 30-40 percent of the national GDP while the service sector, the highest has been fluctuating between 54 and 40 percent. In terms of real GDP per capita, which

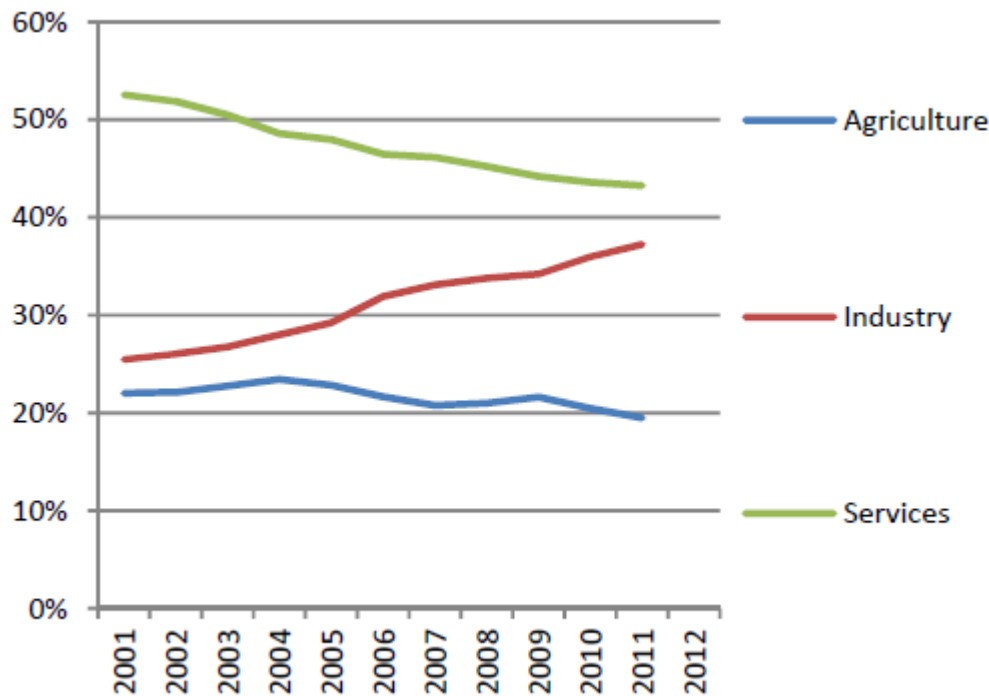


is the standard measure of industrial productivity, as at 2012, the GDP per capita has risen to US \$ 1700 (CSO and World Bank, 2013).

Figure 1 of 2.2: GDP Growth Rates of Selected African Countries, 2000-2009



**Figure 2.2: Sectors share of GDP, 2001-2012**

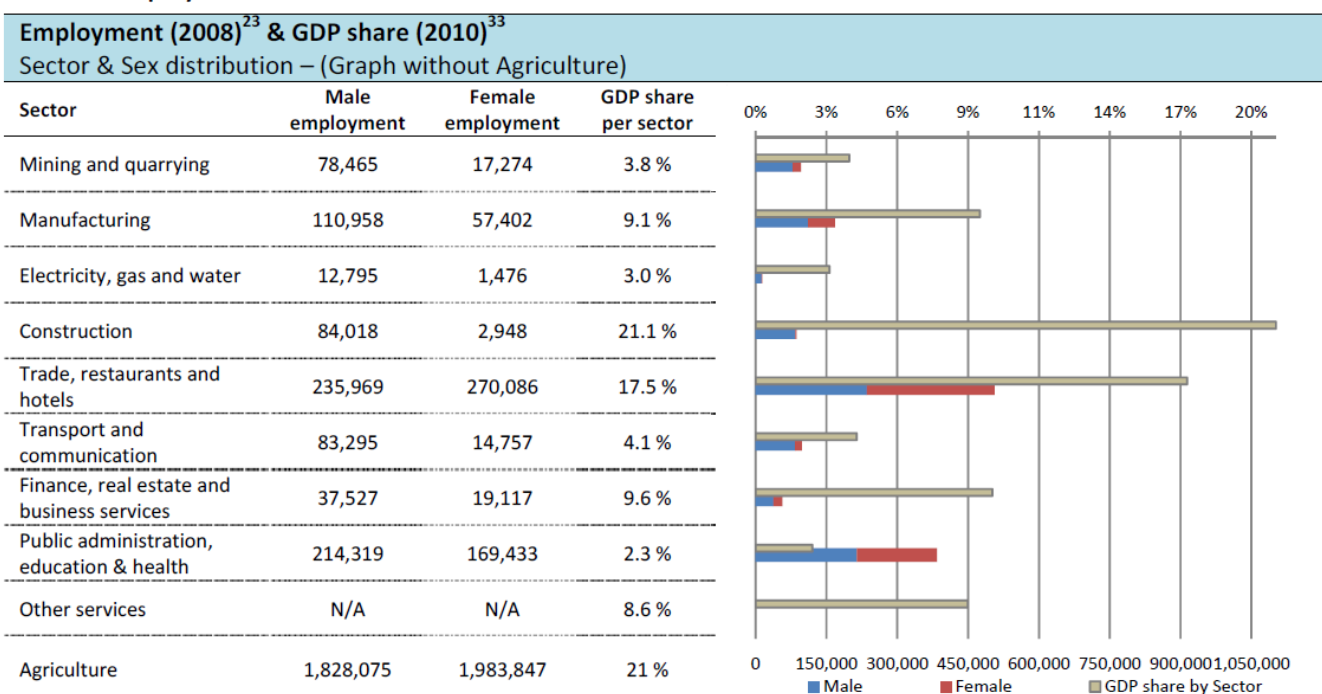


As regards to employment and GDP, figure 2.3 below shows in each sector their employment absorbing capacity without agriculture. Construction with about 87,000 workers takes up a higher GDP of more than 21 percent followed by with trade, restaurants and hotel with a work force of more than 500,000 workers, but with a lower GDP of about 17.5 percent. The third sector is finance, real estate and business services with about 56,000 workers but contributing about 9.6 percent to the GDP while manufacturing and mining follow with lower work force and contributing 9.1 and 3.8 percent to the GDP respectively. These are the sectors with the highest number of MW beneficiaries and are at the moment doing fine in terms of productivity justifying their capacity to meet increased labour costs through MW raises. To be able to effectively meet the increased labour costs through MW valorization, the sectors with larger labour force should be seen to contribute higher share of GDP. This is based on the notion that the more efficient is the work force, they more that particular industry is likely to contribute to overall growth of the economy as a percentage of GDP

The survey established that there is little variation that exists in worker productivity across firms of different sizes in Zambia.<sup>37</sup> On the overall, labour productivity or total output per worker in industry has been rising since 2002<sup>38</sup>. Productivity of labour in the manufacturing industry though slightly lower, is comparable to China, India and Kenya.<sup>39</sup> Also established is the fact that Zambian firms of all sizes, especially in manufacturing industry, use more capital per unit of labour than Chinese, Indian, Ugandan and Ethiopian firms that have created more broad-based wealth and jobs per unit of capital. However, this is despite returns on labour in Zambia being higher than returns on capital.<sup>40</sup>

**Figure 2.3: Employment (2008) & GDP share (2010)**

**Sectoral employment**



**Note: Footnote 23 and 33 in figure 3.3 above all refer to Zambia Labour Market Profile, 2012**

<sup>37</sup> CSO raw data 2006-2010, Quarterly Employment and Earnings Enquiry CSO raw data 2006-2010, Quarterly Employment and Earnings Enquiry

<sup>38</sup> Ibid

<sup>39</sup> Ibid

<sup>40</sup> Ibid

## **2.9 HOW MANY WORKERS ARE COVERED BY MW AND HOW MANY ARE LEFT-OUT**

According to 2010 Zambia Central Statistical Office Economic and Population Survey, out of the total population aged 12 years and above, 61.7 per cent constitute the labour force. Of these 43.1 per cent were in paid employment and 10.5 per cent were unpaid family workers, while 8.1 per cent were unemployed. In 2006, 64.3 per cent of 12 years and above constituted the labour force. These were broken down as 43.4 per cent paid employment, 12.1 per cent unpaid family workers and 9.1 per cent unemployed. In 2006, of all persons aged 12 years and above residing in rural areas, 47.1 per cent were in paid employment, 18.4 per cent were unpaid family workers, 3.4 per cent were unemployed and 26.2 per cent were full time students. In urban areas, on the other hand, 37.3 per cent were paid employees, 18.6 per cent were unemployed and 28.2 per cent were students. In 2010, the proportions of 12 years and above of rural residents in the labour force were as follows: 46.2 per cent in paid employment, 15.9 per cent unpaid family workers and 27.9 per cent full time students.

### **3.91 MINIMUM WAGE COVERAGE IN ZAMBIA**

The Minimum Wages and Conditions of Employment provides for the scope of the beneficiaries on the minimum wage setting and coverage in Zambia. The Ministry of Labour and Social Security is still compiling data to establish the actual number of workers directly benefiting from minimum wage application. This is a serious limitation at present moment as it is difficult to ascertain the impact of minimum wages on the national wage bill and even at industry level. The number of workers benefiting indirectly is not yet established but could be in excess of more than 3 million working population.

There also a number of workers excluded from the legal minimum wage coverage at the moment, but may be benefitting indirectly. These are the unemployed, self-employed, family workers, government workers and those covered by CBAs etc. It must be noted that Minimum Wages and Conditions of Employment Act applies to all employees (including casual workers) in Zambia, but do not apply to the following categories of employees:

- Employees of the Government of the Republic of Zambia
- Employees of local authority;
- Employees who undergo collective bargaining (unionized workers);

- Employees in management position (as defined under the Industrial and Labour Relations Act)
- Employees in a sector for which the Minister, by statutory instrument, has not prescribed the minimum wage

## **2.92 SECTOR-BASED MINIMUM WAGE CRITERIA**

After the new minimum wage was adjusted by 64 percent and more( in some cases) in July 2012, many employers protested and many of them have appealed to the Minister of Labour to exempt them from the minimum wage on account that their businesses cannot remain viable and competitive. The peculiarities and intricacies of specific sectors had come to the fore following the coming into effect of the new minimum wage settings. Stakeholders feel that sector-based minimum wages would be ideal in Zambia's situation as opposed to the current minimum wage general order which applies to all workers except domestic and shop workers. This is the way to go as is the case in South Africa and Kenya where the social partners had gone to learn on best practices. The Ministry of Labour would have to be restructured and adequately resourced to implement, monitor and review sector-based minimum wages which will be numerous compared to the current three minimum wage orders (statutory instruments).

According to the online publication by (Wageindicator.org, on 28<sup>th</sup> March, 2013, Labour Commissioner Cecilia Mulindeti Kamanga announced that the government was considering ways of devising a sector based minimum wage in the construction sector following concerns over the lack of consultation over minimum wage raises among some stakeholders (Wageindicator.org).

*“Ministry of Labour and Social Security is still consulting relevant stakeholders before it can implement sector based minimum wages. We may not come up with sector based minimum wages in all the sectors at the same time. We may start with the construction sector”.*

The question we need to ask ourselves is: Can the current national minimum wage legislation be replaced with proposed sector-based minimum wage policy being formulated by the PF government? Is it going to help resolve political debates and controversy surrounding the current MW policy in Zambia?

The Government in consultation with relevant stakeholders intends to introduce sector-based minimum wage in order to accommodate various interest groups within the labour market. This is to ensure effective implementation of minimum wage policy in future, as well as to take care of those businesses

struggling to implement the national minimum wage. According to the discussion of the findings of this research, the statistical analysis shows that despite having differed on the minimum wage setting the government, trade unions and employers are now working together through the Tripartite Consultative Council to come up with a sector-based minimum wage. Study tours involving all the social partners were conducted in South Africa and Kenya in 2012 to learn how these countries are implementing the sector-based minimum wage. It is hoped that sector-based minimum wages would take into account the different concerns and interests of the different stakeholders in the different sectors of the economy.

However, the ILO advises that setting different minimum wages for different occupations, sectors, ages or qualifications within one region is not recommendable. The greater the variety of minimum wages the more the characteristic of a minimum wage as a lower boundary of wages is lost. The costs of adjusting, monitoring and enforcing also increase. For these reasons, we think that a national statutory minimum wage should be set which can and should then be made higher in regions with higher productivity and other political and social preferences.

The Ministry of Labour and Social Security has started working on a sector based minimum wages mechanism which will focus on the sectors where exploitation and low wages are rife. This process requires consultation and research so that Ministry can develop evidence based policy decisions. This will require careful consideration taking into account the performance of various economic sectors, both domestic and foreign investors, being able to get a fair return on capital invested and capacity of employers to pay. we need to be cautious because a badly set minimum wage could have negative effects on employment generation and family income. The Ministry has been faced with a number of challenges that have made it ineffective in the delivery of service to the public especially the general protection of workers. Normally, the best way of preventing labour disputes or reducing labour complaints is to undertake labour inspections. However, due to inadequate funding, the officers lack vehicles and logistics to undertake inspections and over 67 percent of the positions for labour officers are vacant while most labour laws have not been amended to bring them in line with modern labour practices.

## **2.93 THE LABOUR MARKET AND ECONOMICALLY ACTIVE POPULATION [LABOUR FORCE]**

The country comes from the state command economy until it was liberalized in 1991 when the country returned to multiparty democracy. The liberalisation of the economy was followed by privatization of state-owned enterprises which led to massive job losses. The country is currently grappling with about 14 percent unemployment rate (see figure 5 below) with 300,000 school leavers being offloaded on the labour market annually. And the Zambian labour market is highly informal estimated to be 90%. This leaves only 10% workers in formal employment out of the total labour force of about eight million.

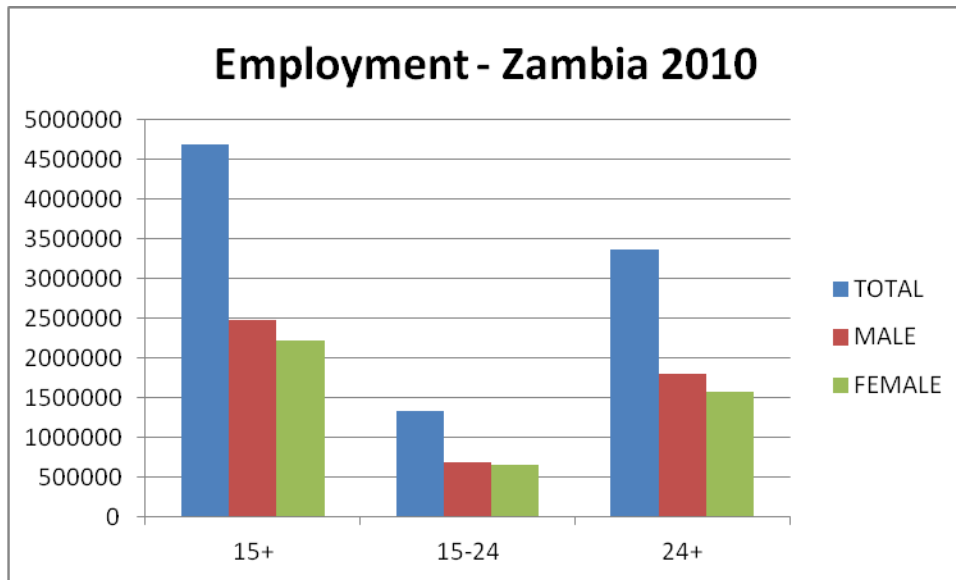
In terms of labour market analysis and labour force participation, according to an update of the JCTR 4th Quarter Policy Brief 2005) by Chris Petrauskis, widespread poverty and high unemployment in Zambia have bred a dangerous environment where workers are willing to tolerate severe abuse from employer for fear of losing what little wages they bring home at each month end. The unjust treatment of employees in Zambia is widespread in its prevalence and diverse in its appearance.

As indicated in figure 3.4 below, in 2010, there were about 5 million people working both in the formal and informal sectors of the economy. This is against an economic active population estimated to be more than 8 million people as at 2012. Out of this only 10 - 11 percent of the workers are in the formal employment leaving about 90 percent trapped in the informal employment. As you may be aware this can bring about labour market challenges because in Zambia, like elsewhere, unemployment challenges are not just a reflection emanating from economic crisis but also a crisis associated with social policy dimension. Some of these issues are cyclical, stemming from the financial crisis; while others are more structural in nature relating to changes in population and structural shifts in employment as well as how the economy may be responding to other macroeconomic challenges in the country (LIZ, 2013).<sup>41</sup>

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<sup>41</sup> Extract from speech by acting Executive Director Dr Fanuel Sumaili at the official launch of Labour Institute[LIZ] of Zambia on Thursday 20 June 2013 at Cresta Golfview Hotel, Lusaka, Zambia.

**FIGURE 2.4: 2010 EMPLOYMENT LEVELS**



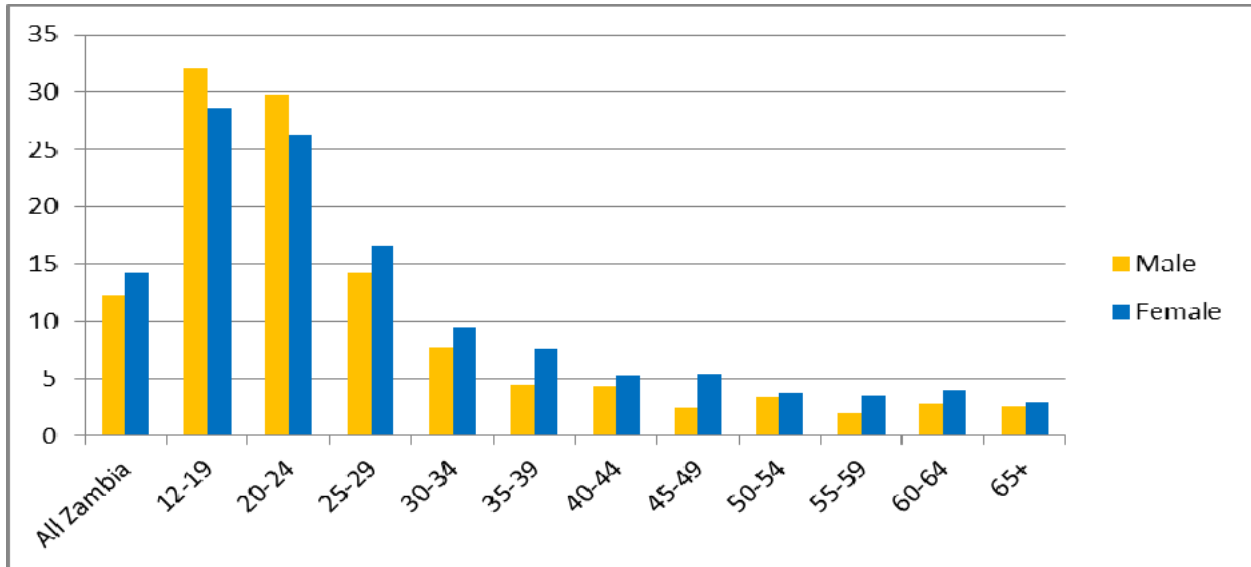
Figures 2.5 and 2.6 below both also show high levels of unemployment for all working age categories in Zambia. This is both a political and social problem for a developing economy. So, one of the macroeconomic policy tool to help resolve low labour force participation is to increase wages and other remunerations for the working few so that more people are attracted into the labour market. So raising the minimum wage would then both increase pay and induce more workers into the labor market, hence increasing employment.<sup>42</sup> If government could nail the minimum wage to the marginal revenue product of the least productive workers, the minimum wage could produce a first-best outcome; one where pay and employment levels were efficient thus increasing productivity, more profits, higher savings and increased investments leading to more job creation, as one of the poverty reduction strategies.

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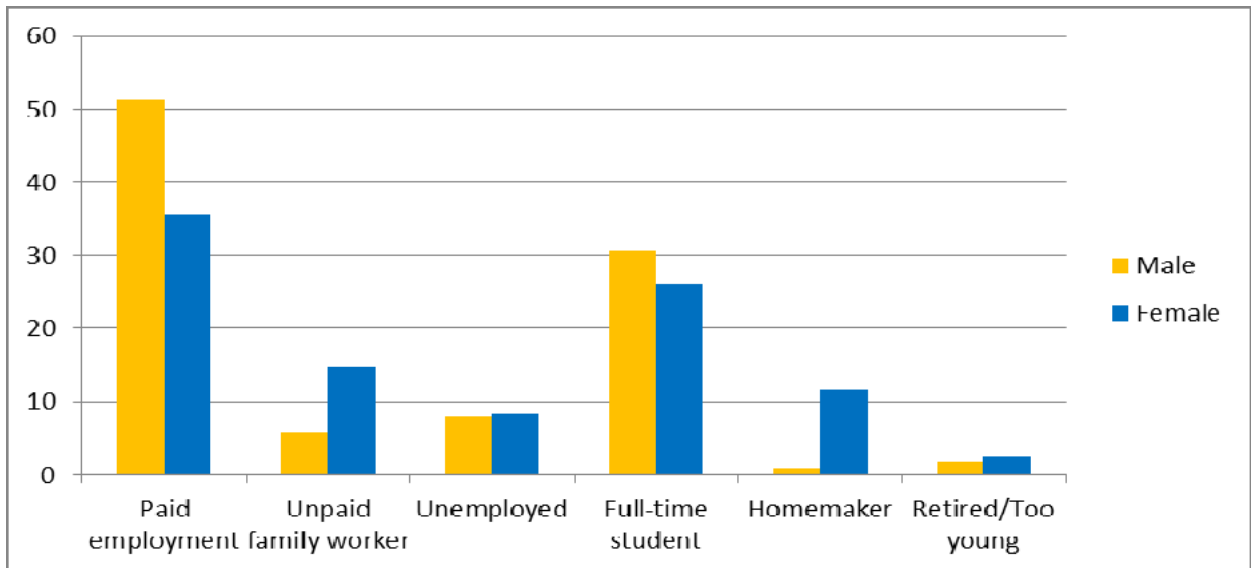
<sup>42</sup> Source: Richard Green, Monday, February 18, 2013/<http://digitalcommons.ilr.cornell.edu/cgi/viewcontent.cgi?article=1458&context=ilrreview>



**FIGURE 2.5: UNEMPLOYMENT RATES BY AGE GROUP AND SEX, 2010, ZAMBIA**



**FIGURE 2.6: SECTORAL EMPLOYMENT AND GDP SHARE 2010**



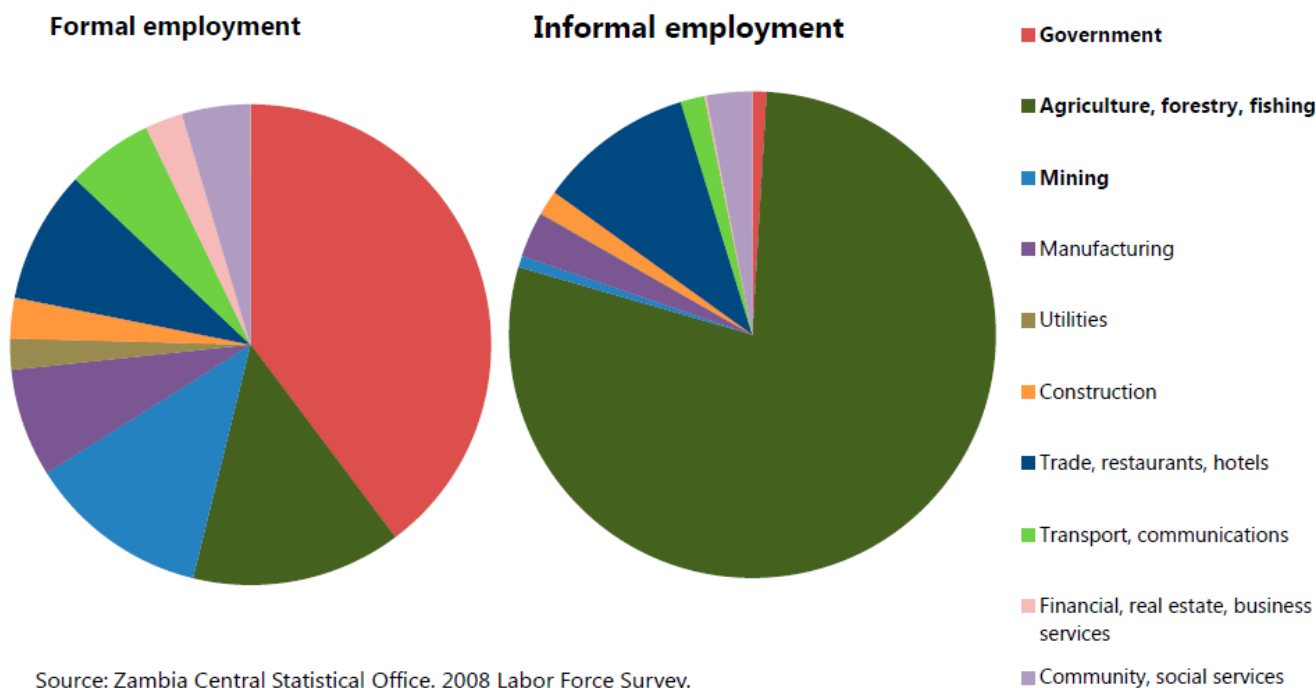
### 3.94 MINIMUM WAGE POLICY AND THE INFORMAL SECTOR N ZAMBIA

Figure 2.7 below shows that in Zambia, the majority of working population is found in the informal economy. According to said figure, it appears that formal employment is concentrated in government and other quasi government institutions while informal employment is concentrated in agriculture sector. The creation of more and better jobs is a significant factor in achieving a more balanced distribution of income in both formal and informal sectors in Zambia. As discussed in previous chapters, public policies aimed at promoting decent work opportunities and reducing inequalities, both in monetary and non-monetary terms, allow the vulnerable to strengthen their position and take advantage of opportunities to move up the income ladder. According to the Inclusive Growth Framework (adopted from Ianchovichina and Lundstrom, 2008), the Employability Analysis is a diagnosis of the productivity attributes of individuals either as wage earners or as self-employed workers. Inclusive growth requires growth that translates into increased household incomes and, ultimately, reduced levels of poverty.<sup>43</sup> The Living Conditions Monitoring Survey 2010 revealed that in Zambia, 90 percent of working population (both wage earners and self-employed) work under informal sector. Out of the 90 percent working in the informal employment, about 70 percent, especially the poor, are employed and derive their income from agricultural farming activities. However, this is the sector that has not been growing and so its contribution to real growth in the recent past has been marginal.

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<sup>43</sup> Grayson Koyi (2012). Ensuring an inclusive job rich poverty reducing growth process, a presentation to the GRZ-ILO-IMF Conference organized by Economics Association of Zambia, Lusaka

**FIGURE 2.7: FORMAL AND INFORMAL SECTORS IN ZAMBIA**



This lack of agricultural growth suggests that the benefits of recent economic growth have largely bypassed the poor in Zambia who derive their incomes from farming activities most of whom are trapped in the informal sector doing informal jobs. Another dimension to consider within Zambia’s labour market is that labor productivity in industry and services is much higher than in agriculture. The huge gap between farm and non-farm labor productivity implies that Zambia, which has 70 percent of its labor force employed in agriculture, uses its labor extremely inefficiently. This therefore suggests that the benefits of economic growth will continue bypassing this vulnerable group of working population with poverty levels widening. Therefore to ensure an inclusive job rich and poverty reducing process will need the government to act as ‘employer of last resort’. This according to Murgai and Ravallion (2005) would make minimum wage legislation in poor countries like Zambia really effective. The government should commit to employ the entire excess supply of unskilled workers in the informal sector at a stipulated minimum wage. The other development model is for the government to provide investment incentives by encouraging new investors to invest in the informal economy so as to stimulate growth and create employment. As other economists of argued, capital higher and pays according to skill and experts within the labour market, so indeed from the perspective of workers, the supply of labour at a wage below the minimum depends on whether a better

alternative is available. If, for instance no minimum wage jobs are available, labour will continue to be supplied at sub-minimum wages.

According to the Central Statistics Office and the Ministry of Labour and Social Security, as at 2012, there are about 90 percent of workers doing informal jobs in Zambia. As can be seen from figures 4, 5 and 6 above, as at 2010, there were more than 50 percent male and about 36 percent female paid employees with less than 15 percent unpaid workers in the labour market. Statistically, with about 10 percent formal jobs, it means that 90 percent of working class who are either wage earners or self-employed are trapped in the informal sector doing informal jobs. If the MW policy extended the coverage beyond the current MW setting in Zambia, this can have a very positive impact on poverty reduction because the raise in MW entails more money in the economy circulating. In fact, a survey of political experts has identified the national minimum wage as a successful Government policy. In the United States, for example, a higher minimum wage has come to be seen by many as a way to reduce poverty and inequality and provide a stimulus to the economy with potentially favorable social and cultural effects, including through reduced costs of anti-poverty programs and increased tax revenue. Its report reviews the linkages between minimum wages and aggregate demand, including recent findings from the literature regarding the effects of minimum wages on inequality, poverty and employment. It is also possible that if you increase employment and raise wages, you are reducing poverty by 10 percent because experts have proved that MW is third most important factor in reducing poverty risk for wage earners after education and geographic location.<sup>44</sup>

In Zambia, informal workers earnings are always low as compared to those working in the formal sectors of the economy. According to Global Union Research Network report on precarious work, it has confirmed that workers in informal sector are always subjected to exploitative labour practices and forced to enter into atypical employment conditions, characterized by limited or no social benefits, low job tenure, low income and high risks of occupational injury and diseases. Real wage increases below productivity growth and greater job uncertainty systematically destabilize domestic demand and serve to increase unemployment rather than reducing it. When productivity grows without a commensurate increase in wages, demand will eventually fall short of the production potential, thereby reducing capacity utilization

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<sup>44</sup> ILO International Journal of Labour Research(2012). The effectiveness of minimum wages in developing countries: The case of India. P.46, Geneva

and profits. This in turn will typically lead to cuts – and not to an increase – in investments. Therefore, increasing the coverage of the current MW to cater for all wage earners in the informal sector, particular the agricultural sector which employs more than 70 percent of the working class can be a big boost to increased earnings and increased propensity to spend back into the economy by low wage earners thereby helping to reducing poverty.

## **2.95 CONCLUSION**

Zambia, just like any other developing country, the effectiveness of minimum wage policy depends not only on the coverage and levels of minimum wages but also on the degree of compliance with legal provisions. The fact is that “simply legislating a minimum wage will not make it happen” (Murgai and Ravallion, 2005:2). In advanced economies, the proportion of workers paid less than the national minimum wages is often relatively low (Bureau of Labor Statistics 2009; Metcalf, 2008). Ensuring compliance in developing economies, as measured by the proportion of wage earners who receive minimum wages, is more problematic. For example, in Brazil, Lemos (2004) estimated that in 2000 the proportion of workers earning below the minimum wage was 13.7 per cent in the private sector and 4.6 per cent in the public sector. Even at this level of less than perfect compliance, a majority of low-paid wage workers would still benefit from minimum wages. However, in Zambia, it is estimated that more that 50 percent of the workers envisaged for minimum wage rates have not been paid their wages and salaries based on the revised rates. For instance, the Labour Institute of Zambia issued a statement during the labour Day - on May 1, 2013, that despite the PF government’s efforts to increase the minimum wages and to warn employers to comply with the new revised minimum wage rates, majority of employers in the private sector had not yet complied and were not paying workers the new minimum wage rates as per new Statutory Instruments issued in 2012.

Labour market challenges in Zambia, like elsewhere, are not just a reflection emanating from economic crisis but also a crisis associated with social policy dimensions. Some of the issues are cyclical, stemming from the financial crisis; while others are more structural in nature, relating to changes in population and structural shifts in employment. The degree of compliance depends, first, on the complexity of the system. A uniform system is typically simpler and easier to enforce than a system of multiple minimum wage rates. Clear information or guidelines available to employers and workers about the level of minimum wages, and about possible sanctions in case of non-respect, may also increase the likelihood of

compliance. Second, if set at too high a level, there is a risk that minimum wages may increase evasion in certain sectors and occupations. Third, a high rate of compliance requires a coherent strategy based on provision of information, effective labour inspection and sanctions in the event of failure to comply with legal provisions. The regulatory structures in developing economies, including labour inspection services, are often under-resourced and under-staffed and penalties may be too weak to induce compliance (Ghosheh, 2013).

With employment statistics in urban areas segmented as 37.3 per cent paid employment, 1.6 per cent unpaid family workers and 18.6 per cent full time students, suggesting that high unemployment to be more prevalent in urban than in rural areas, it is important that the government should also act as “employer of last resort” in the sense that it should commit itself to employing the excess supply of unskilled labour. This requires taking a broader stance of creating employment for the unskilled workers.

To achieve this, trade unions in Zambia as one of the key agents of economic development and labour market should evolve from “political unionism” to a “service-based trade unionism” which is more suitable for economic development and sound industrial relations (LIZ, 2013). However, by urging the trade unions to adopt a service-based trade unionism does not entail having a compromised labour movement at all. It is a call which may help come up with a development model capable of benefitting both the working population and the owners of capital so that in terms of inclusive growth framework and employability analysis, the main instrument for a sustainable and inclusive growth is productive employment (Lanchovichina and Lundstrom, 2008).

## CHAPTER 3: STATUTORY MINIMUM WAGE LAW AND ITS CHALLENGES IN ZAMBIA

### 3.0 INTRODUCTION

In Zambia wage setting is conducted mainly through the process of collective bargaining under the auspices of the Industrial and Labour Relations Act or through Statutory Minimum Wages and Conditions of Employment Act<sup>45</sup>. Although this study focuses on the challenges of minimum wage setting, implementation and enforcement, however, it can be said that collective bargaining as a means of establishing minimum wages and conditions of employment has permeated the greater part of the workplace including the public service arising from tremendous growth in the institutions of industrial relations namely trade unions and employer's organizations. It can be safely estimated that over 50% of the work force in the formal sector is covered or affected by collective bargaining processes either directly or indirectly. Collective bargaining takes place at both enterprise and industry levels. In the recent past however industry level bargaining has tended to be shunned in favour of enterprise level bargaining which is considered more realistic as it tends to take full account of enterprise capacity. Industrial bargaining has been abandoned in the motor trade, banks and other financial institutions during the last decade.

The Industrial and Labour Relations Act (CAP 269) empowers trade unions and employers to negotiate for wages and other conditions of service for unionized employees through collective bargaining agreements, while the Minimum Wages and Conditions of Employment (CAP 276) confers statutory power on the Minister of Labour and Social Security to regulate and fix minimum wages and other conditions of employment for workers who do not belong to any trade union[s] or who are deemed by the same law to be so vulnerable, and therefore requires state protection.

The previous chapter two looked at trade union strategies and the labour market in Zambia, whereas chapter three will discuss and analyse the wage structure and the minimum wage setting in Zambia. Widespread poverty and high unemployment in Zambia have bred a dangerous environment where workers are willing to tolerate severe abuse from employers for fear of losing what little wages they bring home at each month end. The unjust treatment of employees in Zambia is widespread in its prevalence and diverse in its appearance.

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<sup>45</sup> CAP 276 of the Laws of Zambia

According to executive summary of the World of Work Report 2013: *Repairing the economic and social fabric*, it has been acknowledged that the labour market and income situation is uneven but can be improved by consolidating the rebalancing process in emerging countries and finding the right balance between employment and macroeconomic goals in advanced economies. Progress towards reducing economic and social inequalities would pave the way for a lasting recovery.

The main focus of this thesis is on the minimum wage law and its challenges within the Zambian labour market. Minimum wage fixing machinery has been one of the most important incomes policy objectives since 1982, when the first Minimum Wages and Conditions of Employment Act, Chapter 276 of the Laws of Zambia was codified into the laws of the Republic. According to (Stewart, 2000), he contends that there is a broad-based empirical and theoretical support for the view that income distribution is extremely important for development, since it influences the cohesion of society, determines the extent of poverty for any given average per capita income and the poverty-reducing effects, as well as its effects on people's health<sup>46</sup>. There is also further evidence suggesting that governments can influence income distribution by their policies towards asset distribution, by the growth strategy chosen and by tax and expenditure policies.<sup>47</sup>

According to (Neumark/Wascher 1992), the problem of minimum wage fixing is often conceived of as one of reconciling the need to raise the incomes of the lowest paid wage earners, so that they can satisfy their basic needs, with the need to ensure rapid employment expansion. It has been observed that these objectives tend to conflict and that the critical problem is to know at what point the possible loss of income-earning opportunities caused by higher minimum wages will offset the gains in incomes for lowest paid wage earners (Neumark/Wascher 1992).

It has therefore generally been observed that the higher minimum wages are fixed relative to prevailing levels, the more difficult enforcement would become and the greater would be the differences in income between those workers lucky enough to receive the minimum wage and those that do not. It is in this vein that for the economy of Zambia to remain competitive, higher wages must always match with higher productivity.

Under this chapter, two competing theoretical considerations about the role of statutory minimum wages will form part of the basis of this thesis. This chapter will analyse the mainstream approach on

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<sup>46</sup> Frances Stewart (2000). *Income Distribution and Development*: QEH Working Paper Series - QEHWPS37. Working Paper Number 37.

<sup>47</sup> Adelman I and Morris CT (1973). *Economic growth and social equity in developing countries*. Stanford, California, Stanford University Press.



minimum wages (the neoclassical paradigm), and then turn to Keynesian approach which the author uses as the basis for our analysis.

### **3.1 HISTORY OF MINIMUM WAGE DEVELOPMENT IN ZAMBIA**

In terms of minimum wage policy development, although enabling legislation had existed for a number of years, minimum wages were not fixed in Zambia until 1982. Since then, minimum wages and other conditions of employment have been fixed from time to time for specific basic sectors. This law was first enacted by parliament in 1982 and had major amendments in 1997.

According to the Minister of Labour and Social Security (Ministerial Statement, 2012), the legal requirement for revision of any of the statutory instruments issued under the MW law is every two years. Traditionally, over the years, the statutory instruments have excluded government employees, local authorities and domestic workers and those whose conditions of service are regulated through the process of collective bargaining and by contract if occupying management position (Section 3[1] of Minimum Wage Law).

Over the last sixteen (16) years, the minimum wage rates have been reviewed and adjusted as follows: -

- In 1997, under Statutory Instrument No. 119 of 1997 (General Order) and Statutory Instrument No. 120 of 1997 (Shopworkers), the minimum wage was set at K 245 (KR 0.245) per hour or K55, 000 per month (KR 55, 00).<sup>48</sup>
- In 2002, under Statutory Instrument No. 2 (General Order) and Statutory Instrument No. 3 (Shop workers), the minimum wage was set at K400 (KR 0.40) per hour or K 95, 000 (KR 95, 00) per month.
- In 2006, under Statutory Instrument No. 56. (Shop workers) and Statutory Instrument No. 57 (General Order), the minimum wage was increased to K268, 000 per month with 30 percent VEhousing allowance, K70, 000 (KR 70, 00) lunch allowance and K80, 000 (KR 80, 00) transport allowance.

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<sup>48</sup> 'K' stands for old kwacha currency, whereas 'KR' denotes new rebased kwacha currency. The new monetary policy regulation issued by Bank of Zambia is that to convert old currency to new rebased currency, 3 zeros must be looped off from old kwacha currency, thus K 1000 = KR 1.

In 2011, under Statutory Instrument No. 1 (General Order) and 2 (Shop-workers) of 2011, the minimum wage was set at K479, 000 (KR 479, 00) per month with housing allowance of 30 percent of the basic salary, lunch allowance of K120, 000 (KR 120, 00) and transport allowance of K102, 400 (KR 102, 40) per month. For the first time, domestic workers minimum salary and conditions of service were included under statutory instrument No.3. For domestic workers, the minimum wage was set at K250, 000 (KR 250, 00) with transport allowance of K102, 400 (KR 102, 00) giving them a total earning of K352, 400 (KR 352, 00) per month.

### **3.2 MINIMUM WAGE LAW AND ITS PURPOSE**

Minimum wage law is part of the employment protection mechanism in Zambia. It is also forms part of the social protection system for the vulnerable workers whose jobs are found outside formal labour market. A look into the statute books and judicial decisions of any jurisdiction will reveal that this law also forms part of the regulatory framework in the Zambian labour market<sup>49</sup>, that is, the place where people exchange their productive capacity (or labour) for remuneration. This law helps to determine the terms and conditions of work for workers who may have weak trade union representation or no union at all. Therefore, they minimum wages and conditions of employment are fixed through statutory state intervention. The law may set limits on the number of hours and days that a person should be allowed to work and set minimum periods which a worker can spend away from work for various reasons. It may even stipulate the minimum amount that workers should receive and any benefits that employers should grant them. Importantly, statutory minimum wage law may set out the circumstances under which an employer may dispense with the services of a worker.

Minimum wage law may also stipulate the precautions and measures that employers must take to safeguard the health and safety of workers, and may require employers to compensate workers for occupational injuries and diseases. Moreover, they may provide for the training of workers to ensure that they keep up with the demands of their work and have the knowledge and skills to improve their prospects

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<sup>49</sup> Benjamin defines labour market regulation as a range of laws and policies whose primary purpose is to regulate the labour market. P Benjamin *A Review of Labour Markets in South Africa: Labour Market Regulation: International and South African Perspectives* (Johannesburg, Human Sciences Research Council: 2005) 2.

for advancement. Minimum wage law may prohibit employers from discriminating against workers on the basis of characteristics such as their gender, nationality, or sexual orientation.

### 3.2.1 OBJECTIVES OF MINIMUM WAGE SETTING

The objective of minimum wage fixing, as set out in ILO Minimum Wage Fixing Convention, 1970 (No.131) and its accompanying Recommendation No. 135, is to give wage-earners the necessary social protection in terms of minimum permissible levels of wages. This objective was already implicitly or explicitly contained in previous ILO Convention No.26 and Recommendation No. 30 (applicable to trades) and Convention No. 99 and Recommendation No. 89 (applicable to agriculture), which stipulated that the minimum wage should not be fixed at a lower rate than one which would ensure the subsistence of the worker and his/her family. Minimum wages along with other measures of economic and social policy aim at reducing poverty and meeting basic needs. According to (Ntumwa, 2012) it is the responsibility of the Government to see that the resources of the country are fairly shared, both by the rich and the poorly paid members of our society. Although main stream economists strongly believe that minimum wage destroys jobs, particularly the young and those without experience, however, other researchers have concluded that minimum wage policy actually creates more jobs than the opposite view expressed by other schools of thought. In fact, ILO (2013) observes that minimum wage fixing is often associated with rebalancing of the economy.

According to the World of Work Report (2013),

*“Well-designed systems of minimum wages can provide an effective income floor for both formal and informal workers. They can also provide an incentive to unlock low productivity traps and, combined with social protection floors, can contribute to enhancing the capabilities of low-income women and men”.*

Experts have always argued that the level at which the minimum wage is set requires careful coordination in order to make it both binding and consistent with the creation of formal jobs.<sup>50</sup> This is a challenge for Zambia, where MW setting, implementation and enforcement have sometimes become subject of legal battle between the State and some employers.

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<sup>50</sup> ILO World of Work Report 2013,

### **3.3 THEORETICAL CONSIDERATIONS ABOUT THE ROLE OF STATUTORY MINIMUM WAGES**

The research starts with the mainstream approach on minimum wages (the neoclassical paradigm), and then turn to the Keynesian approach which we use as the basis for our analysis. According to (Stewart, 2000), the distribution of income is the outcome of complex economic processes and that the question of the impact of minimum wages on income distribution and poverty is a controversial one. For instance, the neo-classical theory suggests a rise in the minimum wage should reduce employment, and this could offset the impact of any rise on poverty, whereas the Keynesian demand management holds a contrary view that a rise in income distribution may have a positive effect on job creation and increased market demand and consumption.

#### **3.3.1 MINIMUM WAGES IN THE NEOCLASSICAL PARADIGM**

According to (Bazen/Martin 1991; Neumark/Wascher 1992), in terms of minimum wages in the neoclassical paradigm, it can be said that originally, minimum wages did not play a positive role in the neoclassical model. Under the assumption of homogenous labour, minimum wages are either harmful for employment if they are set above the market equilibrium wage or are ineffective and useless if they fall below the market determined equilibrium wage (Neumark/Wascher 1992). However, in terms of heterogeneous labour, (Bazen and Martin 1991) contend that the overall conclusion does not change significantly. For instance, If there is a unified minimum wage in one economy, this may create a negative impact on employment in the low-wage sector as soon as the minimum wage is higher than the market clearance wage for this particular skill group. Unemployment in the low-wage/low-skill sector will increase and, due to substitution effects, employment of skilled workers will increase, although overall employment in the economy will fall.

#### **3.3.2 MINIMUM WAGES IN THE ORIGINAL KEYMESIAN PARADIGM**

The role of statutory minimum wages in the Keynesian paradigm has been an alternative to neoclassical approach. The Keynesian paradigm stresses that output and employment are determined by goods market demand and not by supply factors such as levels of real wages as in the case of mainstream economics. Whereas neoclassical economists believe that minimum wage increase leads to unemployment, however, Keynesian approach gives a clear explanation as to why minimum wage

increases do not lead to higher unemployment at a macroeconomic level (Neumark/Wascher, 1992). Under Keynesian economics, the argument has been that higher minimum wages may lead to a positive employment effect, as households which receive minimum wages tend to have a higher propensity to consume compared to rich households, thus the level of consumption is also expected to be enhanced which will have a positive impact on aggregate demand, output and employment (Neumark/Wascher, 1992).

### **3.4 MINIMUM WAGE LAW AND ITS CHALLENGES**

One of the challenges the labour market in Zambia is facing is that it is highly segmented. According to the latest 2012 Labour Market Survey conducted by the CSO reveals that the labour market in Zambia is segmented into 90% informal jobs and 10% formal jobs (CSO-LFS, 2012). The Challenges of MW policy are several and are not necessarily linked to MW per se [State acting, productivity, tax policies, poverty reduction. Due to labour market segmentation, the Ministry of Labour has had difficulties in implementing and enforcing minimum wages in Zambia.

As can be interpreted in table 3 and figure 3 below, according to CSO-Labour Force Survey, the distribution of working population shows that informal sector employment constituted about 11.3%(610,714) for formal employment whereas the informal employment constituted 88.7% (5,386,118). In the formal sector, the central government was the largest employer followed by parastatal companies and local government, while private business or a farm was among the lowest employers representing 10.2% (305,200 jobs). In the informal sector, however, the biggest employer was private business or farm followed by private household.

**Table 3: Percentage Distribution of the Currently Employed Persons by Institutional Sector and Type of Employment, Zambia, 2012**

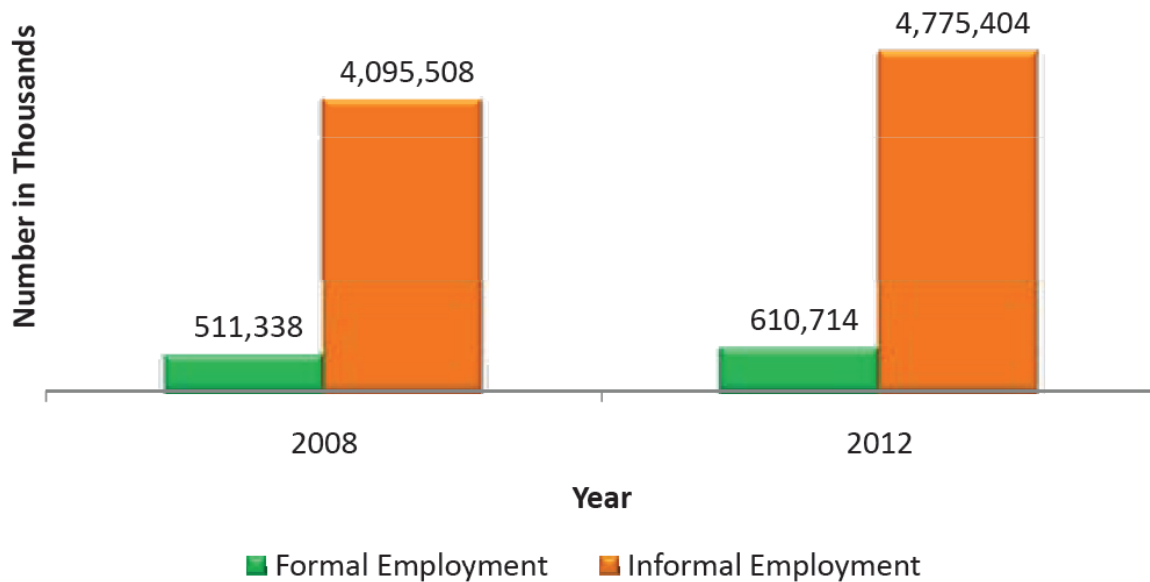
Institutional Sector	Type of employment				Aggregate Employment
	Formal employment		Informal employment		
	Number	Percent	Number	Percent	
<b>Zambia Total</b>	<b>610,714</b>	<b>11.3</b>	<b>4,775,404</b>	<b>88.7</b>	<b>5,386,118</b>
Central government	211,830	89.1	25,926	10.9	237,756
Local government	19,649	62.7	11,713	37.3	31,362
Parastatal	41,720	73.8	14,803	26.2	56,523
NGO or Church	17,602	46.5	20,252	53.5	37,854
Private business or farm	305,200	10.2	2,677,393	89.8	2,982,593
Embassy, international org	4,642	55.2	3,771	44.8	8,413
Private household	9,784	0.5	2,005,178	99.5	2,014,962
Producer cooperative	218	7.3	2,749	92.7	2,967
Not stated	69	0.5	13,619	99.5	13,688

Source: CSO, Labour Force Survey, 2012

In term of figure 3, the 2012 Labour Force Survey revealed that in 2008, the formal employment stood at 511, 338 while the informal jobs constituted 4, 095,508. In 2012, the scenario changed though slightly putting formal jobs at 610, 714 whereas the informal employment was found to be 4,775,404.

The analysis of the thesis is that for the minimum wage policy to impact positively on well-being of the vulnerable low-wage earners and to be effectively poverty reduction strategy, it is important that the current law extends its legal coverage beyond the few workers benefiting from minimum wages and conditions of employment law to include the majority in the informal economy as well as those in formal jobs. This is fundamental because informal sector contributes to the overall fruits of economic growth. For the formal sector, employers have capacity to pay due to high productivity and strong internal and external sources of funds. These businesses in the formal sector are capable of meeting increased labour costs brought about by minimum wage valorization a scenario which is different from small firms found in the informal sector. Small firms found difficulties to increase labour costs as a result of increase in statutory minimum wages because they have weak internal and external financing arrangement. This is one of the challenges facing minimum wage policy enforcement in Zambia today.

**Figure 3: Formal and Informal Employment, Zambia, 2008 and 2012**



**Source: CSO-Labour Force Survey, 2012**

### **3.4.1 DETERMINANTS OF MINIMUM WAGES IN ZAMBIA**

There are several determinants of minimum wages in Zambia. One of the determinants is the law itself which regulates the minimum wage policy in Zambia. The statutory minimum wage law defines who qualifies for minimum wage benefits as well as determines which sectors are amenable to its jurisdiction and how many recognized categories of employees should benefit from the employment protection mechanism. Although the role of the State is to intervene in the labour market in order to protect the interests of vulnerable workers from labour exploitation and to create creation jobs and reduce poverty, however, to ensure sustainable development, the state as an entrepreneurial manager and manager of conflict should consider how the economy is performing (GDP growth), the per capita income which is measured by productivity per worker, and inflation targeting framework adopted by the central bank among other economic indicators. The State should also take into account the productivity of small firms (MSMEs) in the economy by providing material conditions necessary for business growth so that their continued existence is not threatened.

Promoting minimum income grant as another tool to reduce poverty like the *Bolsa familia* in Brasil alongside minimum wage development to combat poverty is very critical because you need other social protection policies to supplement the minimum wage fixing mechanism in order to effectively fight poverty. For instance, the Government of the Republic of Zambia has put in place social grant assistance and cash transfer initiatives targeting old people as way of contributing to pro-poor macro –economic strategy and strengthening of social cohesion with a view to addressing poverty at the individual as well as at household levels. At the present moment, there are about 60,000 old people benefiting from the social grants from selected households of the country. Like what the Civil Society MDG – campaign Zambia said in its letter addressed to the Ministry of Finance dated September 21, 2013 as reported by Zambia News Agency (September, 2013), they stated that Government should formulate appropriate policies and measures aimed at eradicating extreme poverty by improving the livelihood of the people especially in rural areas through conquering poverty and food insecurity at both national and household levels.

According to Global Civil Society Against Poverty (GCAP, Zambia), the Civil Society campaign group further stated that Government should recognize the positive achievements of MDGs, while taking into account the shortcomings of the MDG and its limitations in addressing structural causes of poverty, inequality and exclusion that are supposed to be put at clear road-map to approve post-2015 MDG Framework.

### **3.5 THE CONCEPT OF MINIMUM WAGES**

Minimum wage can simply be defined as the smallest hourly wage that an employee may be paid as mandated by statutory law of each country or jurisdiction. In each jurisdiction, inflation and other factors necessitate periodic adjustments of minimum wage rates.<sup>51</sup> The Cain Labour Standard Act of 1938 in the USA defines minimum wage as the minimum hourly rate of compensation for labour as established by federal statute and refined by employers engaged in businesses that affect interstate commerce.<sup>52</sup> It may also be defined as the rate of pay fixed either by a collective bargaining agreement or by governmental enactment as the lowest wage payable to specified categories of employees. The committee of experts in the ILO 1996 General Survey of Reports relating to Convention No. 131 on minimum wage fixing explains that minimum wage may be understood to mean the minimum sum payable to a worker for work performed or services rendered within a given period, whether calculated on the basis of time or output, which may not

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<sup>51</sup> Metcalf D (2001), The British national minimum wage, in British Journal of Industrial Relations, Vol. 37, 1999

<sup>52</sup> [www.wikipedia.com](http://www.wikipedia.com)



be reduced either by individual or collective agreement, which is guaranteed by law and which may be fixed in such a way as to cover the minimum need of the worker and his/her family, in the light of national economic and social conditions. According to the 1967 legal interpretation of ILO meeting of experts on minimum wage fixing and related problems, they explained that the concept of the minimum wage contains three basic ideas. The first is that the minimum wage is the wage considered sufficient to satisfy the vital necessities of food, clothing, housing, education and recreation of the workers, taking into account the economic and cultural development of each country. The second is that minimum wage represents the lowest level of remuneration permitted, in law or fact, whatever the method of remuneration or the qualification of the worker. Third is that the minimum wage is the wage which each country has the force of law to uphold and which is enforceable under threat of penal or other appropriate sanctions. It further notes that minimum wage fixed by collective agreements made binding by public authorities is included in the above explanation

### **3.5.1 CRITERIA FOR MINIMUM WAGE DETERMINATION**

According to ILO (2012), there are different MW methods used for fixing or determining wages and salaries in the world today. Some are based on international criteria while others follow country specific characteristics. The ILO Recommendation No. 135 identifies certain criteria, or factors, to be taken into account in determining the level of minimum wages. The criteria include:

*“the needs of workers and their families; the general level of wages in the country; the cost of living and changes therein; social security benefits; the relative living standards of other social groups; and economic factors, including the requirements of economic development, levels of productivity and the level of employment. This criterion also includes the capacity to pay”.*

In line with ILO recommendations, Fapohunda, Atiku and Olanrewaju, have also listed some of the methods identified in different pieces of literature as use tools for MW setting:<sup>53</sup>

*“Among these are job evaluation (adjudged the most valuable way of fixing wages), government order (especially with regard to minimum wage), ability to pay (on the part of the employers), cost of living, collective bargaining and the effort of labour unions (which is dependent on the negotiation skills of the parties, the personality and the societal culture of the negotiators and the ideology and culture of the organization); the labour market situation (the interaction of supply and demand of labour in a relatively competitive labour market; the going rate (wages and salaries paid for comparable work by other institutions in the labour work or in the area or industry); and productivity (which has to do with measures of output per person).<sup>54</sup> The basic needs of workers and their families has to match with measuring poverty levels and the basic needs of households (especially of wage earner households) using data on average expenditure by low income households on various household goods and services. The statistics can be compiled from household income and expenditure surveys”.*

### **3.6. POVERTY ANALYSIS**

According to Zambia Central Statistical Office 2006 and 2010 poverty assessment, it identified that poverty is multidimensional and complex in nature and manifests itself in various forms, which makes its definition not always straightforward. No single definition can exhaustively capture all aspects of poverty. An individual is said to be poor if he/she suffers some levels of economic and/or social deprivation. The most commonly used indicator of poverty is income deprivation. Many poverty assessments across the world use the Income Shortfall approach when measuring poverty as this concept directly relates to income deprivation (UN Statistics Division, 2005). This approach is in many ways intuitively appealing since the

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<sup>53</sup> (Fapohunda, Atiku and Olanrewaju). *Minimum wage implementation and management in a post-recession economy: The Nigerian Experience*. European Scientific Journal April edition vol. 8, No.7 ISSN: 1857 – 7881 (Print) e - ISSN 1857- 7431

<sup>54</sup> Supra Footnote No 16 (A2.6).

ability to acquire nearly all basic human needs depends on the levels of income of the household. However, The CSO has adopted the material wellbeing perception of poverty in which the poor are defined as those members of society who are unable to afford minimum basic human needs, comprising food and non-food items, given all their total income.

One of the major challenges facing Zambia today is to reduce poverty and socio-economic inequality among the growing population (CSO-LCMS 2010). Despite the recent turnaround in the economy as shown by recent increase in investment opportunities and continued increase in real GDP growth of more than 6 per cent, the majority of Zambians continue to live in poverty (CSO-LCMS 2010). Figure 2 below shows the levels of extreme poverty by employment status in 2010. According to Living Condition Monitoring Survey Report (LCMS, 2006-2010), empirical evidence reveals that high levels of extreme poverty of more than 60 per cent were observed among unpaid workers, farmers and unemployed persons. Extreme poverty was also common among the inactive population in rural areas. In urban areas, over 30 per cent of the farmers, unpaid workers and unemployed were extremely poor. Results reveal that wage employment as well as self-employment provides some insurance from poverty especially in urban areas.

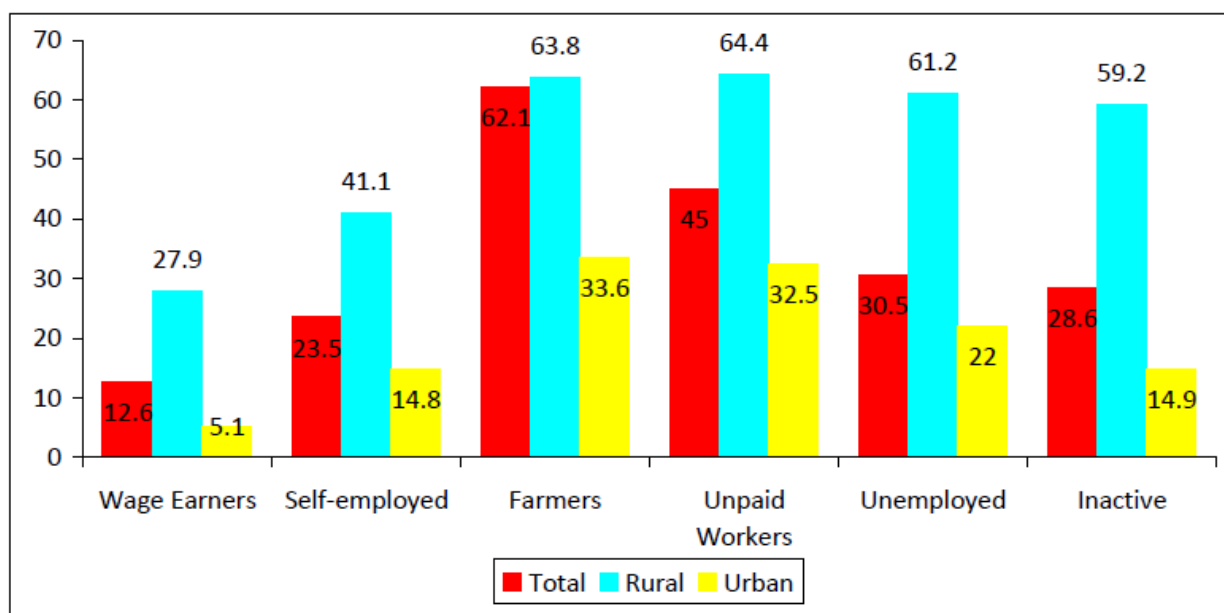
In terms of percentage change in poverty between 2006 and 2010, according to Living Condition Monitoring Survey for 2006 and 2010, it was reported that the 2006 incidence of poverty for Zambia was 62.8 percent whereas, for 2010 it was 60.5 percent, giving a percentage change of -2.3 percent. However, for rural and urban areas, the 2006 and 2010 incidences of poverty were found to be at 80.3 and 77.9 percent for rural population respectively whereas for urban the 2006 incidence of poverty was 29.7 while for the year 2010, the poverty levels were found to be 27.5 percent. The percentage change in incidence of poverty between 2006 and 2010 was - 2.4 and -2.2 percent for rural and urban areas respectively (CSO-LCMS 2006-2010).

In terms of analysis of data collected by the 2006 LCMS and 2010 LCMS to inquire into social and economic conditions in Zambia, the CSO survey established that of the total population in 2010 of 13 013 152, the overall national poverty levels were 60.5 percent, extreme poor at 42.3 percent, moderately poor at 18.2 whereas the percentage of people found not to be poor was 39.5. However, in 2006, LCMS Survey reported that in terms of Incidence of poverty in stratum, for the total population of 11 639 968 people, the

overall national poverty stood at 62.8 percent, extremely poor at 42.7 percent, moderately poor at 20.1 percent while the percentage of those found not to be poor was 37.2 percent.

As figure 3.1 below indicates, in terms of the relationship between wages and poverty reduction, it can be seen from the figure below that poverty dimensions seem to lower among the wage earners than the self-employed, farmers and unemployed. In fact, poverty levels appear to be even much higher among unpaid workers as well as inactive labour force. By extrapolation, this entails that statutory minimum wage law can be used along with other social protection systems to combat poverty among vulnerable low-wage earners in Zambia..

**Figure 3.1: Extreme poverty by employment status of head and rural/urban, 2010, Zambia**



### 3.7 MINIMUM WAGE POLICY AND POVERTY REDUCTION

As can be seen from figure 3.1 above, minimum wages can be used as a poverty reducing strategy among wage earners both for rural and urban population in Zambia. In fact, almost all the countries in the world have developed complex legal mechanisms and institutions intended to protect the interest of working population and to help guarantee minimum standard of living by keeping the poor out of poverty trap (Botero, Djankov, La Porta, Lopez-de-Silanes, & Shleifer, 2004). The reason why governments intervene in the labour market is based on the notion that free markets are imperfect (Botero, Djankov, La

Porta, Lopez-de-Silane, & Shleifer, 2004). The imperfect markets give rise to the creation of rents in the employment relationship.(Botero, Djankov, La Porta, Lopez-de-Silane, & Shleifer, 2004). As a result of labour market imbalances, this gives rise to labour exploitation and other fraudulent labour practices. Most of employers like to manipulate the working class as they extract these rents on them, thus leading to unfairness and inefficiencies (Botero et al, 2004). In fact, according to ILO, Global Labour database report, it has been estimated that in 70 percent of the countries, inequality between top and bottom wage earners has so far increased since 1995.

Policy-makers, economists and other labour experts have now agreed to the notion that there is a connection between minimum wage setting and poverty reduction through increased income approach theory. According to Zambia Decent Work Country Programme (ZDWCP 2007-10) report, the Government of the Republic of Zambia launched its Fifth National Development Plan for the period 2006-2010 (FNDP) following the completion of its first Poverty Reduction Strategy Paper (PRSP) under the Transitional National Development Plan of 2002-2005, and HIPC acceptance. The FNDP was guided by the National Vision 2030 (NV2030), which had as its goal to transform Zambia into “a prosperous middle income country by the year 2030”. It was organized around the theme of “broad-based wealth and job creation” and it focused on “economic infrastructure, technological advancement, citizenry empowerment through poverty reduction, and human resource development”.

The FNDP built upon the achievements of the previous Poverty Reduction Strategy Programme, emphasizing and providing scope for additional poverty- reducing spending and narrowing of income inequalities.<sup>55</sup> One of the macroeconomic policy tools forming part of the FNDP and PRSP frameworks is the minimum wage policy development targeting the low paid workers. This is aimed at pulling low-paid workers from shackles of poverty datum line by paying them a minimum living wage as espoused in ILO Living Wage policy framework

As can be seen from figure above, poverty levels are still very high both at national and provincial scales. At provincial level, poverty levels range from 24 percent in Lusaka to as high as 83.3 percent in Western Province. The PF Government stance is to link minimum wage policy to poverty reduction, although fighting poverty involves more than just that. Poverty eradication is a difficult issue and requires a

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<sup>55</sup> Joint Assistance Strategy for Zambia (JASZ) 2007-2010. April 2007, p. 24.

well functioning and productive economy to support social protection policies which are aimed at reducing poverty.

Therefore, for a minimum wage policy to have real impact on poverty and the wellbeing of low-wage income group, Zambia needs a very strong competitive economy supported by high GDP growth rate of more than 10 percent and higher GDP per capita more of than the current US\$ 1700. Currently, minimum wage seems to be a major issue in the world of economics and politics. However, what is really encouraging is that the New Patriotic Front Government has in its political party manifesto a broad-based development agenda emphasizing on the need for government to promote pro-poor growth for the vulnerable in society in order to address poverty and other socioeconomic inequalities. This is to be achieved by increasingly making resources in the hands of the state available through fair distribution of resources in the economy in order to uplift disadvantaged Zambians.<sup>56</sup>

Integrating poverty reduction objectives into policymaking and socioeconomic development strategies is one of the most important strategic policy tools that any progressive government needs to put at its political, social and economic agenda. Zambia needs economic policies that focus on growth, job creation and poverty reduction. The PF Government recognises that many Zambians have been excluded from the mainstream economic activities of the country. It therefore believes that the creation of jobs is the most fundamental aspect that will reduce poverty and improve inequality levels. In this regard, the PF Government will ensure that it designs developmental programmes that are labour absorbing in order to create the much needed jobs.<sup>57</sup> This, according to PF Manifesto can help reduce poverty by putting “more money in people’s pockets” through increased earnings

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<sup>56</sup> The PF manifesto (2011-2016) is a tool that advocates for concerted efforts by all stakeholders in the country to bring about an improved standard of living for the majority youth and women who have for a long time been excluded from the economic mainstream. It is a party's vision for a better Zambia for all; inspired to address the challenges faced by the common Zambian people. It is tool for transformation of the people's lives through a social and economic programme that is inclusive and promotes equity and justice for all

<sup>57</sup> President Micheal Sata's address to Zambian Parliament at its 11<sup>th</sup> National Assembly session on 14<sup>th</sup> October, 2011, Lusaka in the Republic of Zambia (Source: [www.lusakatimes.com](http://www.lusakatimes.com)).

### **3.8. MINIMUM WAGE AS PART OF THE SOCIAL PROTECTION SYSTEM IN ZAMBIA**

According to the ILO Social Protection Floor Recommendations (Rec. 202/2012), social protection refers to the protection of social and human welfare against contingencies and risks. Issues of social protection and social security are fundamentally important because they are nationally, regionally and internationally recognized as human rights. Writers such as Sabates-Wheeler and Devereux (2007: 26), have contended that dimensions of social protection include minimum wage legislations and labour market regulation. In Zambia, about 90 percent of the working population is trapped in the informal sector. The informal sector lack both legal recognition and legal protection of social protection, thus characterized by social protection deficit and poor working conditions. It can therefore be said that exclusion of informal workers from the fruits of social security and protection is a blatant violation of human rights. Informal economy contributes to growth, but why should informal workers not benefit from the fruits of economic growth? There is no substantial justice without social protection and therefore no social democracy without justice and social protection for the vulnerable low workers found in the informal economy.

From the Keynesian principle of demand management, it has been argued that in many countries, including Zambia, statutory minimum wages have indirect effect as wage developments in the informal sector since they give an orientation of how wages develop. According to qualitative analysis based on Keynesian approach, it has been argued that what kind of minimum wage policy is followed and what kind of wages exists at the bottom of the wage structure depend on the power and strategy of the trade unions and the government alike. This entails that, apart from the role that the business plays in economic development, the roles of the trade unions and that of the government are very critical for sustainable economic growth and the improvement in the welfare of the workers to guarantee stability in the labour market which gives rise to stable “Social Structure of Accumulation” (SSA).

In terms of the difference between formal and informal employment, for the work to be defined as formal, there must be a written contract with work covered by basic conditions of employment, such as stipulated working hours, pay for overtime work, paid holidays, sick leave and in some incidences, the provision of social security, the core of which access to health insurance, unemployment insurance, compensation for work-related injury or disease, and coverage for family in the case of work-related death (Lund, 2012) being among them. In fact, according to (Chikalanga and Chisupa, 2012), in Zambia, the social protection system comprises four pillars, a basic mandatory pension, occupational statutory and

voluntary schemes, individual financial. One of the serious challenges in the Zambian labour market is that the social protection system has had the effect of producing inherent discriminatory outcomes by denying vulnerable informal employees the benefits of social protection which the minimum wage legislation has been trying to address. Some of the challenges can be seen from the labour statistics, where according to (Chikalanga and Chisupa, 2012), only 11% of the workers are employed in the formal sector, whereas about 90% of the total number of people employed is found in the informal sector. Women in Zambia are still under-employed compared to men and the majority is employed in the agricultural sector which is mainly informal. Within the agriculture sector, 52.9% constituted females compared to 47.1% males; within the mining and quarry, 92.5% were males compared to 7.5% females (FES, 2012). Females are more likely to be employed in domestic-related jobs as some view certain professions like mining as a masculine job (Chikalanga and Chisupa, 2012). It is therefore a notorious fact that women are the most disadvantaged in labour and employment. For instance, in Zambia, according to Chikalanga and Chisupa (2012), the employment-population ratio is lower for women (64.9%) than for men (72.4%).

### **3.9 CONCLUSION**

Chapter three considers the purpose of minimum wage law, beginning with the classical account that asserts that the law aims to address the imbalance of power between employers and employees. It then considers a number of alternative accounts which have essentially argued that the scope of minimum wage legislation is much broader than the protection of workers. The chapter considers the market failures approach that states that minimum wage and labour laws are not about protecting workers, but about correcting labour market failures. One of the challenges of employment protection legislations is that according to classical account, labour law is premised on the notion that employment relationships differ from other commercial relationships established by ordinary contracts. It has long been accepted that employment relationships differ substantially from ordinary commercial contracts in that they are characterized by inequality of bargaining power between employers and employees.<sup>58</sup> One of the foremost proponents of the classical account of labour law – Sir Otto Kahn-Freund – argued that the relationship

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<sup>58</sup> B Langille “Labour Law’s Back Pages” in G Davidov and B Langille (eds) *Boundaries and Frontiers of Labour Law: Goals and Means in the Regulation of Work* (Oregon: Hart 2006) 13-36, 23.



between an employer and an isolated worker was inherently unequal, being one between “a bearer of power and one who is not a bearer of power”.<sup>59</sup>

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<sup>59</sup> O Kahn-Freund, *Labour and the Law* (2<sup>nd</sup> Edition) (London: Steven and Sons, 1977) 6.



## CHAPTER 4: TRADE UNIONS STRATEGIES AND THE LABOUR MARKET

### 4.0 INTRODUCTION

According to (SASK, 2012), the rapid population growth in developing countries is bringing more new job-seekers to labour markets than there are jobs available. For instance, in the case of Zambia, currently, the number of new jobs being created in the formal economy is small or minimal. The unemployment levels still remain stubbornly high, and those able to find new jobs must largely depend on opportunities offered by the informal economy. Job shortages and the globalisation of labour markets have resulted in work-related migration both within and between developing countries. Demands for productivity in the global production of goods and services are increasing, resulting in pressure to reduce labour costs. Reactions to these trends include tougher competitive tendering, outsourcing and the relocating of production.

Production and distribution chains consequently become longer and more fragmented. Jobs and employment relationships in turn become more insecure and precarious: permanent employment becomes temporary or periodical, and subcontracting chains and the use of contract labour become more common. This phenomenon is also common within the production chains of multinational companies who produce goods for export markets. The employee's status in the workplace consequently becomes blurred: the majority of workers in an industrial facility or service centre are no longer necessarily employed by the firm running the facility or its multinational company client. Pressure to reduce labour costs has resulted in a downward spiraling of wage levels in many sectors and the development of a class of the working poor. Even a permanent job will not mean a ticket out of poverty unless a sufficient living wage is paid for such work. Particularly women and young people find themselves struggling to escape poverty, since they most often work in the informal economy or the lowest paying sectors in the formal economy. These trends make the task of monitoring and improving working conditions very challenging for the trade union movement. Although trade union rights are internationally recognized as human rights, violations continue and anti-union sentiments are on the rise.

#### **4.1 KEY INDICATORS OF LABOUR MARKET IN ZAMBIA**

In Zambia, Key Indicators of Labour Market (KILM) such as employment levels, unemployment, underemployment, income distribution, child labour and other incidents of employment are necessary tools for informing users and policy-makers for decision making in the market economy. According to the preliminary CSO - Labour Force Survey (2012), Zambia's labour force was estimated at 5,845,250 of which 3,048,342 were male and 2,796,908 were female in 2012. The country recorded a labour force participation rate of 74.6 percent. The highest participation rate was recorded in Eastern Province (84.0 percent), followed by Luapula Province (81.5 percent) and Northern Province (79.8 percent). The lowest participation rate was recorded in Copperbelt Province at 62.0 percent. Zambia's total employed population was estimated at 5,386,118, out of whom 55.8 percent were in the Agriculture sector while 44.2 percent were in the Nonagriculture sector. Of all employed persons in rural areas, Agriculture sector accounted for 80.1 percent. In urban areas, Agriculture sector accounted for 12.1 percent.

#### **4.2 THE LABOUR LAW ANALYSIS IN DEPTH**

The main aim of this section is to analyse the trajectory of labour law framework and its impact on the labour market in Zambia. In order to contextualise the significance of the applicability of labour law to the practice under scrutiny, it would be necessary to begin by considering the purpose of labour law and the socio-economic role it plays. According to (Bamu, 2011), after considering some theoretical and institutional perspectives on the subject, it can be concluded that labour law aims to address the imbalance of power between workers and employers, to empower workers and redistribute wealth between capital and labour and thus contribute to social justice.

Labour law aims to bring about social transformation by improving the living standards of workers and their families and thus fostering societal well-being. It was argued that if economic development is understood in these terms of social transformation, the improvement of living standards, and social inclusion, then labour law is an essential component for fostering development. It was also found that employers stand to gain from providing for greater worker protection and security as it contributes to greater productivity, efficiency and competitiveness.

The four pillars of the Decent Work Agenda were identified as key components of any labour law regime. The first pillar is aimed at job creation and relates to through measures aimed at skills development and the creation of sustainable livelihoods. The second relates to rights at work such as protection against unfair discrimination and employment security. The third relates to social protection and includes measures covering workplace safety, regulation of working time and work-life balance and the creation of social safety nets. Finally, social dialogue relates to engagement between workers' and employers' organisation.

Labour law has however been challenged by the ascendancy of neoliberal ideology which has advocated greater labour market flexibility in the context of globalisation and greater market competition. Proponents of neoliberalism have argued that rigid labour laws relating to matters such as wage determination, working time and employment security undermine firms' efficiency and ability to adjust to rapidly changing market conditions and compete in global markets. They have also argued that rigid labour laws hamper countries' ability to attract and retain foreign direct investment.

In chapter two, it was argued that these claims are not conclusively borne out by the empirical evidence, and that these proponents fail to explain the existence of strong labour protection in some economies that are marked by high employment levels, high levels of investment and economic growth. It was concluded that given a choice between given a choice between the low road to development which undermines labour protection and the high road which promotes improved worker rights, the latter is preferable. Consequently, labour law continues to play a legitimate if not important role in promoting economic and social development.

#### **4.3 THE IMPACT OF NEOLIBERAL AGENDA ON LABOUR MARKET REGULATION**

This section considers the neoliberal principles relating to labour regulation. It demonstrates that the common factor underlying these principles is the quest for labour market flexibility. The section focuses on the principles espoused by international institutions that have been influential in shaping domestic and international economic policy in the last few decades. These relate to flexibility in wage setting, flexibility in the duration of employment and working time, flexibility in the regulation of dismissal and the promotion of active labour market policies.

The Organisation for Economic Co-operation and Development (OECD)'s *Jobs Study of 1994* documented and analysed the causes of rising unemployment in the OECD in the late 1980s and the early 1990s.<sup>60</sup> The report also considered possible policy solutions to the problem of unemployment. The report found that one of the major causes of rising unemployment in OECD countries was their inability to rapidly adjust to changes in markets.<sup>61</sup> This inability was largely attributed to rigidities in their economies, which were brought about by rigid labour legislation and social protection.<sup>62</sup> This report used the successful economic performance of the US – having the most deregulated labour market, a factor that presumably contributed to relatively high levels of job growth – as a powerful example of the 'flexibility agenda'.<sup>63</sup>

Stanford and Vosko have described the findings and recommendations made in this report as the first statement of a coherent policy agenda towards increasing labour market flexibility.<sup>64</sup> Institutions such as the World Bank have also echoed these policy prescriptions in the *Doing Business* Reports and its Country Policy and Institutional Assessment (CPIA).<sup>65</sup> They have also featured prominently in arenas such as the World Economic Forum, where labour market flexibility is a key criterion in determining a country's global competitiveness.<sup>66</sup>

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<sup>60</sup> OECD, *The OECD Jobs Study Facts, Analyses and Strategies* (1994), accessed at <http://www1.oecd.org/sge/min/job94/part1.htm> on 10/01/2011.

<sup>61</sup> *Ibid* at 42.

<sup>62</sup> *Ibid* at 25.

<sup>63</sup> Stanford and Vosko (note 1) 11.

<sup>64</sup> *Ibid* at 10-11.

<sup>65</sup> The CPIA assesses the quality of a country's policy and institutional framework. The term "quality" refers to its conduciveness to fostering poverty reduction, sustainable growth, and the effective use of development assistance. The World Bank uses the CPIA ratings in the allocation of its lending resources. See World Bank Country Policy and Institutional Assessments: 2008 Assessment Questionnaire, accessed from <http://siteresources.worldbank.org/IDA/Resources/731531181752621336/CPIA2008questionnaire.pdf> on 01/04/2011.

<sup>66</sup> Since 2005, the World Economic Forum has annually published a Global Competitiveness Report which is an analysis based on the Global Competitiveness Index (GCI), which the WEF describes as a "highly comprehensive index for measuring national competitiveness, which captures the microeconomic and macroeconomic foundations of national competitiveness". The WEF defines competitiveness as "the set of institutions, policies and factors that determine the level of productivity of a country". The 12 pillars of competitiveness constituting the GCI are institutions, infrastructure, macroeconomic environment, health and primary education, higher education and training, good market efficiency, labour market efficiency, financial market development, technological readiness, market size, business sophistication, and innovation. See World Economic Forum, *Global Competitiveness Report 2010-2011* (Geneva: World Economic Forum, 2010) 3-8.

These institutions have recommended that states provide for wage flexibility by removing unnecessary restrictions and ensuring that wages reflect local conditions and individual skill levels and individual efforts.<sup>67</sup> Thus, wage levels should be primarily set at the enterprise level as opposed to centrally through legislation and industry level collective agreements.<sup>68</sup> These are believed to create distortions in the labour market<sup>69</sup> and raise wages to artificially high levels, thus impeding efficiency and restricting worker and employer flexibility to adjust to shocks such as new technologies and privatisation.<sup>70</sup> The WEF has argued that in addition for allowing for flexible setting of wages, efficient labour markets must “allow for wage fluctuations without much social disruption”.<sup>71</sup>

The international institutions have also advocated for measures to increase temporal flexibility voluntarily sought by workers and employers through temporary and part-time work.<sup>72</sup> Another dimension of temporal flexibility relates to reducing restrictions on maximum working hours, overtime and rest periods.<sup>73</sup>

Probably the most controversial recommendation made by the international institutions relates to employment security provisions. They have argued that labour markets should be allowed to function freely to reduce unemployment and provide job opportunities for more people.<sup>74</sup> According to the WEF, in order to be efficient, labour markets must have “the flexibility to shift workers from one economic activity rapidly and at low cost”.<sup>75</sup> These are critical of labour regulations that raise the costs of and procedures for dismissing workers as they tend to lock protected workers into relatively poor job matches which make it difficult for them to obtain better positions.<sup>76</sup> They argue that flexibility in hiring and firing would also ensure optimal job

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<sup>67</sup> OECD, *The OECD Jobs Study Facts, Analyses and Strategies* (1994), 45-52; World Economic Forum, *Global Competitiveness Report 2010-2011* (Geneva: World Economic Forum, 2010) 7.

<sup>68</sup> World Economic Forum (note 76) 425.

<sup>69</sup> Sengenberger (note 48) 334.

<sup>70</sup> *Ibid*; World Bank *Doing Business 2005* (Washington DC: Oxford University Press, 2004) 31.

<sup>71</sup> World Economic Forum (note 76) 7.

<sup>72</sup> OECD (note 76) 45-52.

<sup>73</sup> World Bank, *Doing Business 2011* (Washington DC: World Bank, 2010) 95.

<sup>74</sup> UI Haque (note 7) 9; World Bank *Doing Business 2005* (note 79) 31.

<sup>75</sup> World Economic Forum (note 76) 7.

<sup>76</sup> OECD *Employment Outlook* Chapter 2 “Employment Protection and Labour Market Performance” 50-137, 69.

matching to secure the best worker for each job, thus raising productivity, efficiency and, ultimately, wages and output.<sup>77</sup>

The neoliberal institutions claim that excessive dismissal regulations also make it difficult for employers to adjust their workforces in response to rapid technological and product market changes.<sup>78</sup> They also argue that these regulations tend to discourage employers from employing workers, thereby reducing the re-employment prospects of workers and increasing the chances of long-term employment or patterns of cycling between unemployment and temporary jobs.<sup>79</sup> This could exacerbate problems of labour market insecurity and social exclusion.<sup>80</sup>

Neoliberal institutions have also recommended that greater emphasis be placed on active labour market policies with a focus on education and training systems to boost the acquisition of skills and competencies.<sup>81</sup> They advocate income security reform to reduce dependency on unemployment benefits and promote re-integration into employment by making the payment of benefits conditional on active job search.<sup>82</sup>

The World Bank has argued that excessive labour market regulations encourage informal enterprises and informal employment as employers seek to avoid the costs of compliance with regulations.<sup>83</sup> It has argued that this in turn leads to social inequality, as labour regulations protect a few privileged outsiders while excluding the majority of workers and job seekers from protective labour and social protection.<sup>84</sup> To demonstrate this, the *Doing Business 2007* report shows that Malawi and Mozambique have strict regulations which apply to a very small minority of workers in the formal economy while the majority are excluded from protection.<sup>85</sup>

Although the international institutions do not state this explicitly, underlying their reports is an assumption that a country's degree of labour market flexibility has an impact on investor decisions. The

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<sup>77</sup> World Bank *Doing Business 2005* (note 79) 31.

<sup>78</sup> OECD (note 85) 69.

<sup>79</sup> *Ibid* at 63.

<sup>80</sup> *Ibid* at 69.

<sup>81</sup> OECD (note 76) 45-52.

<sup>82</sup> *Ibid*; OECD *Employment Outlook 2010* (Geneva: OECD, 2010) 170.

<sup>83</sup> World Bank *Doing Business 2004* (Washington DC: World Bank and Oxford University Press, 2003), xv.

<sup>84</sup> *Ibid* xv; World Bank *Doing Business 2005* (note 79) 31; World Bank *Doing Business 2007* (Washington DC: World Bank and Oxford University Press, 2006) 21-22.

<sup>85</sup> World Bank *Doing Business 2007* (note 93) 20.



inclusion of labour market regulation in the assessment of “competitiveness” or the “ease of doing business” suggests that this is an important aspect considered by investors. This becomes more critical in a global economic environment where capital is scarce and mobile, leading to greater international competition to attract foreign direct investment (FDI).<sup>86</sup>

While it is not necessary to undertake a detailed analysis of the accuracy of the neoliberal claims about labour regulation for the purposes of this thesis, a few remarks will be made here. One is that empirical studies undertaken to demonstrate the linkages between employment regulation and economic outcomes such as economic growth and investment, have yielded conflicting results<sup>87</sup> which shed doubts on neoliberal claims. Neoliberalism has failed to explain why Nordic countries whose economies are marked by inter alia high employment rates and world class competitiveness while their labour markets “are characterized by high rates of worker and employer organization and collective bargaining coverage, highly developed welfare states, high real wages and gender equality”.<sup>88</sup> This suggests that the relationship between labour regulation and economic outcomes is more complex than proponents of neoliberalism have suggested.<sup>89</sup>

A second remark is that neoliberal accounts of labour law neglect the important role that adequate labour protection plays in ensuring social justice and improving the living standards of workers and their families. These outcomes are important aspects of the process of economic development, which should be understood to encompass more than employment levels, economic growth and investment levels. It is therefore submitted that a developmental trajectory that respects and promotes the rights and well-being of workers is more socially beneficial to one that relies on a race to the bottom. The arguments relating to employment and labour laws’ contribution to social justice and economic development must be put at the forefront of trade unions agenda.

A final remark relates to an apparent shift in the World Bank’s approach to labour standards in its *Doing Business Reports*. In recent years, the World Bank appears to have shifted from rewarding countries for non-existent or inadequate regulation and negatively rating countries for labour regulations merely

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<sup>86</sup> Banks (note 59) 79.

<sup>87</sup> OECD *Employment Outlook* 2004 (note 85) 63.

<sup>88</sup> Sengenberger (note 48) 340-341.

<sup>89</sup> Independent Expert Group “The World Bank Country Policy and Institutional Assessment: An Evaluation accessed from [http://siteresources.worldbank.org/EXTCPIA/Resources/cpia\\_full.pdf](http://siteresources.worldbank.org/EXTCPIA/Resources/cpia_full.pdf) on 10/10/2009 xv; P Benjamin and J Theron Costing, *Comparing and Competing: Developing an Approach for the Benchmarking of Labour Market Regulation* (Cape Town, Development Policy Research Unit, 2007) 16; Rittich (note 64) 34; A Trebilcock, “Using Development Approaches to Address the Challenge of the Informal Economy for Labour Law” in Davidov and Langille, (eds) *Boundaries and Frontiers of Labour Law: Goals and Means in the Regulation of Work* (Oregon: Hart 2006) 75-76.

because they limit an employer's scope for decision-making, even if they seek to promote fundamental principles such as non-discrimination which the *Doing Business* reports endorse.<sup>90</sup>

Since 2008, the World Bank has been changing its methodology to avoid rewarding flexibility that undermines a basic level of social protection.<sup>91</sup> It has introduced new thresholds in line with ILO conventions and envisages adjusting the scoring system to ensure that it indicates excessive flexibility where countries do not regulate certain aspects of employment.<sup>92</sup> While this is by no means a capitulation on the part of the World Bank, and while one may question its motives behind this shift, these changes signify an acknowledgement of the dangers of excessive flexibility and the value of ensuring some minimum level of protection.

While there may be some debate about neoliberalism's impact on economic outcomes within a global context, there is some consensus about that it has driven a quest for labour market flexibility which have affected governments' approaches to labour regulation and on employer's practices.<sup>93</sup> Stone makes a strong case for the "triple onslaught" of flexibilisation, globalisation and privatization on labour standards thus:

*The triple onslaught of flexibilization, which has rendered many of the old labour market skills and institutions obsolete, globalization, with its propensity for geographic dispersion, and privatization under neo-liberal ideology, with its repudiation of social legislation at the national level, all contribute to union decline and a diminishment of labour rights. Flexibilization increases employers' incentive to avoid unions because they perceive unions as promoting rigidity, uniformity, job security protections, and narrow job definitions. Globalization increases employers' opportunities to avoid unions and labour regulations in their quest for lower labour costs. In addition, global production chains, enhanced transportation and communication, and lower trade barriers give employers considerable leverage to avoid unions or limit their effectiveness. The development of transnational global governance institutions also undermines the political strength of unions at the*

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<sup>90</sup> For instance, priority rules when considering retrenchments, which are aimed at protecting workers against arbitrary dismissal. For a critique of the *Doing Business* approach to scoring, see Benjamin and Theron (note 98) 34.

<sup>91</sup> World Bank, *Doing Business 2011* "Annex: Employing Workers" (Washington DC: World Bank, 2010) 94.

<sup>92</sup> *Ibid.*

<sup>93</sup> C Thompson, "The Changing Nature of Employment" (2003) 24 (10) *ILJ* 1793, 1797; Rittich (note 64) 34-36; D McCann, *Regulating Flexible Work* (New York: Oxford University Press, 2008), 1; Arthurs (note 37) 373.

*national level. Privatization fosters policies that diminish legal protection for labour rights and collective bargaining, and contribute to rapidly growing income inequality.*<sup>94</sup>

What emerges from the above is that legal protection of workers and employment security has been reduced in two ways. The first is referred to as explicit disentanglement through legislative reforms, which have sought to make labour regulations more flexible.<sup>95</sup> At the turn of the century, Standing argued that explicit disentanglement had primarily affected industrialized countries, because their regulations and institutional safeguards were most developed.<sup>96</sup> More recent reports indicate that high income countries have continued to make labour laws more flexible and that some middle and low income countries have followed this trend.<sup>97</sup> Many scholars argue that greater economic integration may (at least in part) be driving a race to the bottom and weakening states as they seek to make their labour laws more acceptable to potential investors.<sup>98</sup>

Among these trends is the shift from pro-collective regulations towards pro-individualistic labour regulations through policies eroding trade union influence and collective bargaining, primarily in the OECD.<sup>99</sup> Governments have also broadened the scope for flexible contract arrangements with regard to working time and the duration of employment contracts.<sup>100</sup> In addition, they have weakened and/or reduced the procedural and other restrictions on dismissal,<sup>101</sup> thereby weakening employment protection.

The second way in which workers' protection and employment security have been reduced is through implicit disentanglement, which entails the shifting of workers into status and situations involving less protection, poor working conditions and a lack of employment security.<sup>102</sup> Implicit disentanglement is a global phenomenon, and is evident in the move away from the use of standard, secure employment towards the use of temporary and part-time work, contracting out of work, agency workers, homeworkers, teleworkers

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<sup>94</sup> Stone (note 14)123.

<sup>95</sup> Standing (note 2)170-171.

<sup>96</sup> *Ibid.*

<sup>97</sup> World Bank, *Doing Business 2005* (note 79) 26. The World Bank reports that some countries, particularly those in Sub Saharan Africa have retained or introduced stricter employment regulations. See World Bank, *Doing Business 2007* (note 93), 19-20.

<sup>98</sup> Arthurs (note 68) 55; Fudge and Owens (note 48) 6; Standing (note 2) 68; Stone (note 14) 120-121.

<sup>99</sup> OECD, *Employment Outlook* (note 96)138; Standing (note 2) 97.

<sup>100</sup> *Ibid.* World Bank, *Doing Business 2005* (note 79) 26; World Bank, *Doing Business 2007* (note 93) 19-20.

<sup>101</sup> Standing (note 2) 101; World Bank, *Doing Business 2007* (note 93)19-20.

<sup>102</sup> Standing (note 2) 170-171.

and concealed workers.<sup>103</sup> This has taken place at firm level and is closely linked to explicit disenfranchisement at government level, as argued by Stanford and Vosko:

*The evolution of labour market policy at the governmental level has a natural analogue in the evolution of employment practices at the level of the firm. From the perspective of individual firms, 'flexibility' implies the rise of a new set of employment practices in which employers are able to alter their employment decisions more readily to accommodate fluctuations in demand, while avoiding responsibilities related to the provision of benefits and entitlements.*<sup>104</sup>

Therefore it can be said that implicit disenfranchisement is marked by an increase in working arrangements or forms of work that deviate from the standard employment relationship which are the main focus of this thesis. Having outlined the conditions under which these non-standard forms of work have re-emerged, it is necessary to consider their characteristics more closely in order to assess their impact on the Zambian labour market.

#### **4.4 THE WORKING AGE POPULATION**

According to 2008 Labour Force Survey (CSO-LFS, 2008), in terms of figure 4, the total working population composed of the labour force (economically active population) and those outside the labour force (economically inactive population). The economically active population is further subdivided into employed and unemployed population, whereas those found outside the labour force comprises of economically inactive population. The economically active population is further subdivided into employed (paid employees, self-employed and unpaid family workers) and unemployed (available for work and unemployed). In 2008, the working population aged 15 years and above was 6 748 449. Out of the total, the unemployed population was 15% (812 027), employed population 85% (4 601 491), whereas those

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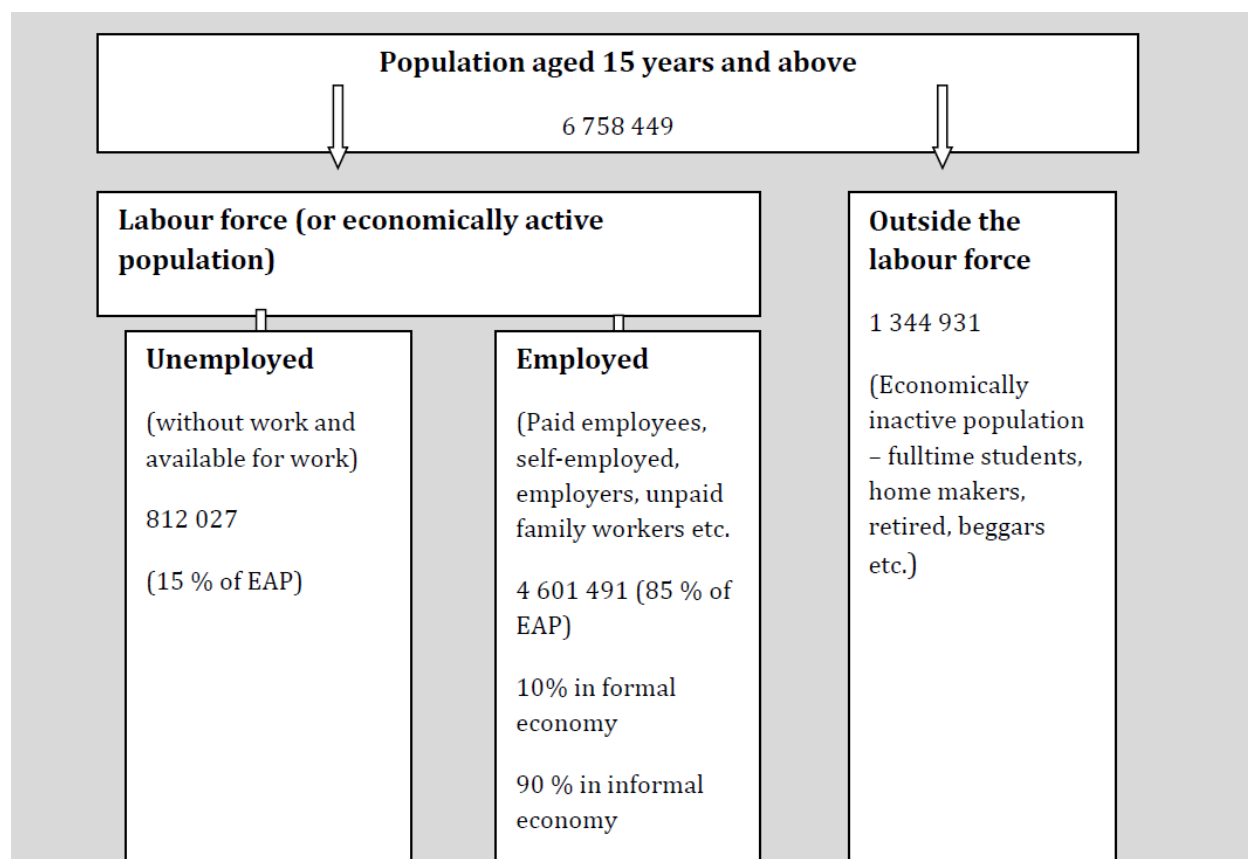
<sup>103</sup> A C L Davis, *Perspectives on Labour Law* (United Kingdom: Cambridge University Press, 2004) 78-9; K Klare, "The Horizons of Transformative Labour and Employment Law" in J Conaghan, R Fischl and K Klare, *Labour Law in an Era of Globalization: Transformative Practices and Possibilities* (Oxford: Oxford University Press, 2000) 3-29,17; Thompson (note 102) 171.

<sup>104</sup> Stanford and Vosko (note 1) 12.

found outside the labour force or economically inactive population (full-time students, home makers, retired and beggars etc) were 1 344 931. The unemployed population comprised of those working age population who at the time of the survey did not have jobs despite being available for work. The unemployed population represented 15% of the economically active population, whereas the employed population consisted 85% of the economically active population (CSO-LFS, 2008). The survey further revealed that 85% of EAP was segmented as 10% formal jobs and 90% informal jobs. These employment statistics showed that the Zambian labour market was and is still highly segmented. This makes it very difficult to implement the minimum wage policy in a successful and effective manner in Zambia. This also poses a big challenge for social partners to deal with minimum wage law as one of the social protection mechanism to fight labour exploitation and poverty reduction strategy.

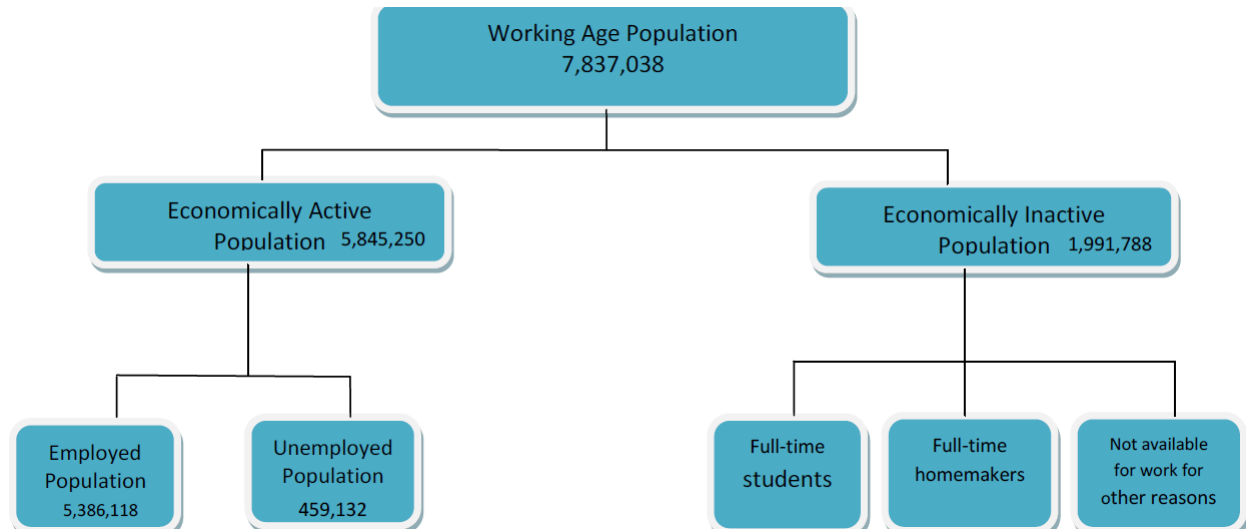
In terms of the Labour Force Survey for 2012, figure 4.1 shows Zambia's Organogram for the working structure of population of 15 years and above. The working age population found to be 7 837 038. The economically active population was 5 845 250, broken down as employed 5 386 118 whereas the unemployed were 459 132. The economically inactive population comprising of full-time students, full-time housemakers and those who were not available for work for other reasons accounted for 1 991 788.

Figure 4: Structure and Composition of the Zambian Labour Market, 2008



Source: Central Statistical Office, Labour Force Survey, 2008

**Figure 4.1: Organogram for the structure of Population 15 years and above, 2012**



Source: CSO, Labour Force Survey, 2012

As for figure 4.2 below, the labour force participation rate by age group and sex for 2012 revealed that the total number of working population was 7 837 038. This represented the working population of 74.6% for both sexes with male labour force participation rate of 80% while female working population was 69.5% (CSO, Labour Force Survey 2012). According to the survey, the total rural working population for both sexes was 81.1% whereas for urban labour force participation, it was 66.2%, with rural male and female labour force participation rates being at 82.9% and 79.3% respectively. However, for urban labour force, the employment statistics were 76.2% and 56.9% for males and females respectively (CSO-LFS, 2012).

Among the working age group between 15 and 65+ years, the majority working class were found in the range between 15 – 29 years old accounting for about 4 million people out of the total of about 7.8 million working population. The youth constituted the highest number among the working population as compared to those above 35 years old. However, the percentage of labour force participation for the working age group between 35 and 54 years was slightly above 90% while that of the youth, the labour force participation rate ranged between 74% and 88% at national level. The labour force statistics show

that the Zambian labour market consists of more youths, a situation requiring increased resource allocation in skills and training to equip the young working population with requisite skills necessary to make them economically useful. The minimum wage law therefore becomes very critical to ensure that the youths who are easily prone to labour exploitation may be protected through employment protection mechanisms such as minimum wage and other social protection policies.

**Table 4: Labour Force Participation Rate by Age Group and Sex, Zambia, 2012**

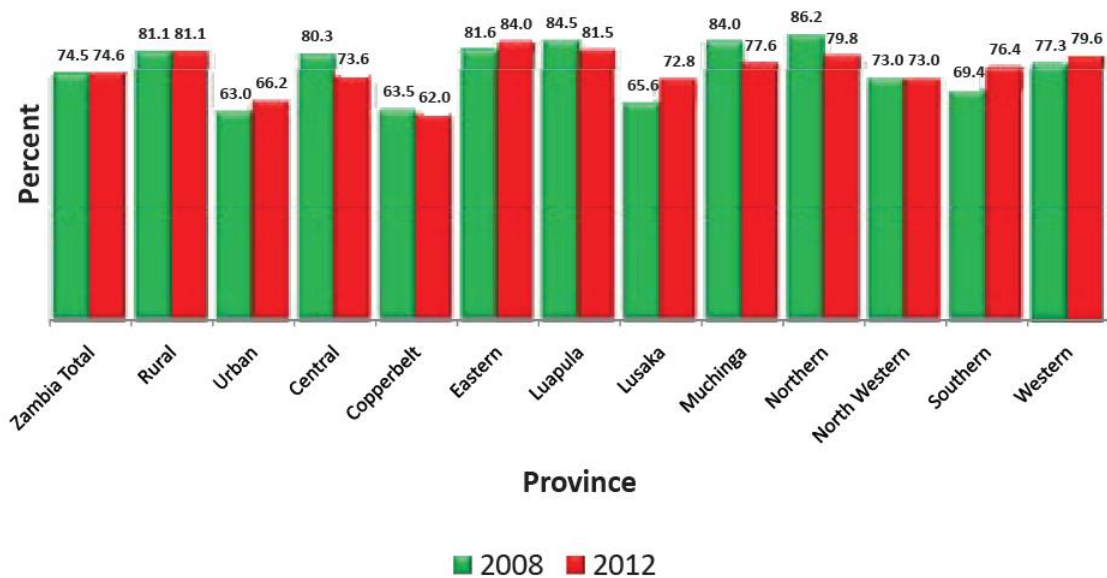
Age Group	Participation Rate									Population 15 years and older
	Zambia			Rural			Urban			
	Both sexes	Male	Female	Both sexes	Male	Female	Both sexes	Male	Female	
<b>Zambia Total</b>	<b>74.6</b>	<b>80</b>	<b>69.5</b>	<b>81.1</b>	<b>82.9</b>	<b>79.3</b>	<b>66.2</b>	<b>76.2</b>	<b>56.9</b>	<b>7,837,038</b>
15 - 19	44.8	45.2	44.4	54.2	53.0	55.5	32.3	33.7	31.2	1,746,791
20 - 24	72.4	75.5	69.8	81.5	79.9	82.9	61.7	70.2	54.5	1,318,150
25 - 29	85.0	95.3	76.2	92.1	97.2	87.7	77.4	93.2	64.4	1,057,771
30 - 34	88.7	97.4	80.5	93	98.3	88.4	84.3	96.5	71.6	908,801
35 - 39	90.7	97.6	83.2	95.2	98.9	91.3	85.4	96.1	73.1	737,534
40 - 44	92.1	98.1	86.1	95.8	98.5	93.2	86.8	97.5	75.4	555,432
45 - 49	90.6	96.9	84.1	94.8	98.3	91.4	85.0	95.2	74.2	397,869
50 - 54	90.3	96.8	84.3	94.7	98.6	91.1	83.2	94.0	72.9	313,694
55 - 59	83.3	88.9	77.8	91.0	94.6	87.4	71.0	79.7	62.5	233,407
60 - 64	81.8	89.6	74.3	90.0	95.7	85.1	66.3	79.7	51.2	185,094
65 +	61.1	71.2	52.2	68.2	77.7	59.7	41.2	52.3	31.8	382,495

Source: CSO, Labour Force Survey, 2012

In figure 4.3, in terms of labour force participation rate by province, the total participation rate shows similar labour statistics at 74.5% and 74.6% for 2008 and 2012 respectively. The figure further shows trends in the labour force participation rate between 2008 and 2012 by province. Participation rate remained high (over 60 percent) in all the provinces. However, increases in participation rates were observed in Eastern, Lusaka, Southern and Western provinces. In Lusaka Province, participation rate increased from 65.6 percent in 2008 to 72.8 percent in 2012, whereas in Eastern province, it increased from 81.6 percent to 84.0 percent.



**Figure 4.2: Labour Force Participation Rate by Province, 2008 & 2012**



Source: CSO-LFS, 2012

#### 4.5 TRADE UNIONS POLICY STRATEGIES TOWARDS CLASS OR SOCIAL STRUGGLE

Although the battle for a living wage is a global one, however, at present, it seems, the labour movement in Zambia has not taken a clear position on the role of minimum wage and its challenges on the Zambian economy and the labour market. While the minimum wage is only one tool to improve the lives of workers, it is an indispensable one and should rightly figure high on the agenda of trade unions in Zambia. As you may be aware, minimum wage is one of the global policy tools to ensure shared prosperity (Source: ILO-IJLR, 2012). According to ILO database, it has been observed that labour experts and economists have argued that while a living wage might mean different things in different parts of the world, the notion, however, has the potential to unite all workers in a common battle for decency, to ensure that even the worst off among them can still live decently from their fruits of work (ILO-IJLR, 2012).

#### 4.6 THE ROLE OF THE STATE AND CIVIL SOCIETY IN THE MARKET ECONOMY

In Zambia and worldwide, the role played by the State and civil society organisations in capital accumulation, growth and structural change in order to raise per capita income and living standards in an economy forms a central part in the face of globalization, economic development and structural change. According to (Ha-Joon Chang,1994), since the end of the so-called 'Golden Age' of capitalism, the industrial countries of Western Europe and North America have experienced a marked slowdown in their capital accumulation and productivity growth (Marglin and Schor [eds] 1990; Armstrong et al, 1991). However, according to (World Bank *World Development Indicators Database 2006*), traditionally, many economists have contended that a pattern of faster growth in poorer countries is predicted by the traditional Solow growth model in terms of which a given increase in the manufactured capital stock should lead to a greater increase in output in a country that is capital-poor than in a country that is already capital rich.

In terms of elaborations of the theory of convergence, some economists have reasoned that it is just a matter of time "less developed" countries will soon catch up with the countries that have already "developed" (World Bank Database, 2006). According to (World Bank Indicators Database, 2006), economists have opined that low-income countries as "developing" are assumed to be on one-way path towards greater industrialization, labor productivity, and integration into the global economy. In order to achieve this, developing countries like Zambia requires industrial and labour policy measures to be used as main tools to upgrade the economy. Zambians have a duty to join hands in order to intensify the crusade against poverty based on the spirit of common purpose of moving the country forward with a view of creating a society premised on social justice and prosperity for all.

In terms of welfare economics, neoliberalism and institutionalism, Chang (1994) propounds on the theory of state intervention by citing two roles that a state should play in order to facilitate the process of structural change, namely, entrepreneurship in the sense of providing the 'vision' for the future and building new institutions and management of conflicts which arise during the process of structural change. Whereas, the neoliberal approach sees countries with less state intervention and other institutional rigidities as likely to have better records of growth and structural change (Peacock and Rowley 1979), however, according to Chang (1995), in terms of welfare economics, this school of thought argues that when market

mechanism 'fails' to produce the socially optimal outcome, the state, as the all-knowing and all-powerful social guardian (the modern equivalent of Plato's Philosopher King).

#### **4.61 THE STATE AS AN ENTREPRENEUR AND AS MANAGER OF CONFLICT**

Depending on the political and economic ideologies of each country, the roles of governments differ from one jurisdiction to another based on the industrial policy measures and labour market policies adopted to suit a particular development model operating within a capitalist market. Whereas neoliberalism argue that a well – functioning economy needs a substantial degree of depoliticisation of production and distribution of goods and services through the use of the market mechanism, however, developing economies like Zambia, as Kuznets(1973) eloquently argued, requires the state to act as manager of conflicts because technological innovations which characterize the modern growth and structural change process inevitably lead to dislocation of productive factors, thus making the process extremely conflictual (Chang, 1995).

#### **4.7 INFORMAL ECONOMY AND JOB CREATION**

According to Martha Alter Chen (July 2007), the informal economy was first discovered in Africa in the early 1970s. Since its discovery, the informal economy has been subject to interpretation and debate and has gone in and out of fashion in international development circles. Despite the debates and critiques, the informal economy has continued to prove a useful concept to many policymakers, activists, and researchers because the reality it captures—the large share of economic units and workers that remain outside the world of regulated economic activities and protected employment relationships—is so large and significant(Chen, 2007).

For instance, the majority of the SMEs in Zambia are found in the informal economy. As eluded to in chapter three above, about 90% of employed population is in the informal economy. Micro, small and medium-scale enterprises make important contributions to economic and social development. In all economies, SMEs constitute the vast majority of business establishments and account for one third to two thirds of the turnover of the private sector (Lumpa and Moyo: The Post, Thursday September, 2013, Page 28). According to (Lumpa and Moyo, 2013), they contend that in many countries, including Zambia, SMEs have been the major engine of growth in employment and output for the last two decades or so. For

instance, in a developing country like Zambia, SMEs are seen as the major 'self help' instruments for job creation and poverty eradication, whereas in transition economies, they are seen to provide the best illustration of the changes in ownership structures, business culture and entrepreneurial behavior over the past decade (Lumpa and Moyo, 2013).

Therefore, one of the major challenges facing the Zambian Government is to design institutional, organizational and regulatory framework to encourage entrepreneurs to engage in legitimate activities so that SMEs can play a wider role of, social, economic and political development as well as job creation (OECD and UNIDO, 2004). According to OECD and UNIDO (2004) in a guide entitled 'Effective Policies for Small Business', it has been noticed that in all economies, many micro businesses and self-employed persons operate outside the 'formal' sector. A deeper analysis and assessment by Living Conditions Monitoring Survey reports for 2006 and 2010 have revealed that majority of the people who are above 12 years are working in the informal sector. According to (CSO, 2011), women make up 51 percent of the Zambian total population, the majority of which are trapped in the informal economy. Further, the Living Condition Monitoring Survey (2006 and 2010) reports that only 11 percent of the population is in the formal employment, while 89 percent are found in the informal employment. Women take up about 89 percent of jobs within the informal sector (LCMS,2006 and 2010). According to (CSO, 2005), the well-being of both individuals and households in society depends largely on their participation in gainful economic activities and that many women in Zambia engage in small scale trading for their livelihood.

#### **4.8 HOW CAN MINIMUM WAGE LEGISLATION HELP INFORMAL SECTOR JOBS?**

The question that begs an answer is whether or not minimum wage development in Zambia has really helped improve the quality of informal jobs and whether the informal sector is getting better or not as a result of statutory minimum wage law intervention in the Zambian labour market. Despite minimum wage law being part of the social protection system, however, there have been two competing and conflicting positions on the role of minimum wage fixing both in Zambia and outside the Republic. The varying positions on the effects of minimum wage on the economy has been articulated under part 4.8 below. Actually, currently, Zambia has a national minimum wage determination applicable to both formal and informal sectors. However, despite having a national minimum wage development, at the moment, there only three categories of employees to which the current minimum wage law is applicable as alluded to

above. These categories of workers targeted by this minimum wage law are the domestic workers, shop workers and the general workers.

Minimum wage legislation may have both negative results on the economy in form of job losses etc, and positive results in the form of a rise in wages, and thus, may reduce or improve the living standards of the worst paid members of the population (Sesinyi, 1994). According to Micro Economic Research Group (MERG) in South Africa, it argued in favour of minimum wage legislation, stating that minimum wages would redistribute from employers to workers, and stimulate demand for goods and services in the economy, which would in turn boost the economy as a whole. The study suggested that by shifting the income from the rich to the poor, a minimum wage would strengthen demand and with it stimulate economic growth.

Micro, Small and Medium Enterprises (MSMEs) have the ability to contribute to economic growth and development if provided with the right support. MSMEs generate more jobs for low capital investments and can therefore contribute to sustainable growth, wealth creation and poverty reduction. It is against this background that Zambia developed the MSME Policy to promote growth of the MSMEs. In order to maximise this sector's ability to grow, the MSMEs policy provides for the provision of, among others, infrastructure for the operation of MSMEs, credit, technology and training in business and technical skills.

The Policy also recognises the importance that appropriate legislation can play in the implementation of the MSME Policy. Legal institutions and laws have a direct effect on the formation and growth of business enterprises. Employment and labour laws are an important component of the broader enabling environment as they regulate the employment and labour relationships between the business owner and the workers. A pleasant relationship between the employer and worker contributes to high productivity. Labour laws are intended to maintain good relationships between employers and workers.

One of the challenges facing minimum wage administration in Zambia is that it still faces difficulties in its implementation and enforcement. Although the social partners seem to be agreeing on the need to migrate from the current arrangement to adopt a sector-based minimum wage determination, however, this may not absorb the State and other stakeholders from experiencing the same minimum wage challenges that have been faced under the current arrangement. To be explicit, one of the challenges faced by informal sector businesses is that of lack of access to credits to finance informal sector businesses.

In Zambia, informal economy is dominated by micro and small medium enterprises (MSMEs). These small businesses form the bulky of business chains in the informal sector. The small businesses employ majority Zambians in the informal sector. However, despite employing the majority working population found in the informal sector, small scale businesses suffer from low source of internal financing arrangement. Since their internal sources of funds are usually low, they find it difficult to attract external funding through borrowing. Banks are reluctant to give small scale businesses the much needed credits to finance their operations in order to increase their production capacity through investment and savings with a view to making them more competitive.

#### **4.81 THE ECONOMIC EFFECTS OF MINIMUM WAGE ON THE MSMEs**

In Zambia, minimum wage law applies to both small and large enterprises. What seems to be a big milestone for the informal sector businesses is that micro- small and medium enterprises (MSMEs) have greatly contributed to job creation in Zambia (BOZ, September 2, 2013). The entrepreneurs contribute immensely to productivity, growth and job creation in many countries. According to Bank of Zambia governor Dr Gondwe, he opined that the Zambian government is committed to supporting expansion of MSMEs in the country to attain higher growth and increasing the number of decent jobs as stipulated in the sixth national development plan (SNDP). According to Dr Gondwe, he had this to say:

*“We know that most entrepreneurs lack access to sound business development support and this greatly hampers their growth...The major constraints that MSMEs face in Zambia today is lack of access to formal finance and the high cost of capital,”*

It is as a result of such challenges faced by MSMEs that the Bank of Zambia has called on researchers to come up with products that will address economic challenges being faced by micro-small and medium enterprises (MSMEs) in Zambia ( BOZ, 2012). According to a survey by Kedia-Shah (2012), out of the total 1.5 million enterprises in Zambia, 96 percent are MSMEs and of these only one percent had borrowed from the formal financial sector. According to Bank of Zambia,

*“Indeed, less than four percent of the total commercial bank loan portfolio goes to MSMEs in Zambia today. While we may have some evidence on why lending to MSEM is so low, it is important to have more recent and thorough analysis based on sound economic principles. This is my expectation that the research findings will have well informed dialogue that will enhance policy design and implementation,”(Source: BOZ, 2013) .*

It is on this basis that the Zambia National Small and Medium Entrepreneurship Fund proposed for the creation of a Small and Medium Enterprises Credit Bank which has been approved by Bank of Zambia. Therefore, it is useful to develop more equitable linkages between the informal economy and the formal economy in order to promote economic linkages through an appropriate inclusive policy and regulatory environment.

Table 4.1 below shows the percentage distribution of employed persons by Industry in 2012. The table shows that the majority of the employed persons were in the Agriculture industry at 56.0 percent. This is followed by the Trade industry at 12.2 percent. The table also shows that rural areas had a higher percentage share (80.3 percent) of employed persons than urban areas (12.2 percent) in the Agriculture industry. The Trade industry accounted for the highest percentage share (24.5 percent) in urban areas.

**Table 4.1: Percentage Distribution of the Employed Persons by Industry, Region and Sex, Zambia, 2012**

Industry	Total			Rural			Urban			Aggregate Employment
	Both sexes	Male	Female	Both sexes	Male	Female	Both sexes	Male	Female	
Zambia Total	100	100	100	100	100	100	100	100	100	5,386,118
Agriculture, forestry and fisheries	56.0	51.9	60.6	80.3	77.9	82.6	12.2	11.1	13.6	3,005,855
Mining and quarrying	1.7	2.7	0.5	0.4	0.6	0.2	4.0	6.1	1.1	90,003
Manufacturing	4.1	5.4	2.7	2.2	2.6	1.9	7.6	9.9	4.4	221,746
Electricity, gas, steam and air conditioning supply	0.2	0.3	0.1	0.0	0.1	.	0.6	0.8	0.3	12,188
Water Supply Sewerage, waste management and remediation activities	0.3	0.3	0.3	0.3	0.2	0.4	0.4	0.5	0.2	17,032
Construction	3.7	6.8	0.3	1.8	3.5	0.2	7.3	12.1	0.7	201,149
Trade, wholesale and retail distribution	12.2	10.7	13.7	5.3	5.1	5.5	24.5	19.5	31.2	652,143
Transportation and storage	2.6	4.6	0.5	0.7	1.2	0.2	6.1	9.8	1.1	140,260
Accommodation and food service activities	1.2	1.1	1.4	0.3	0.3	0.4	2.8	2.3	3.5	65,528
Information and communication	0.8	0.9	0.7	0.7	0.6	0.8	1.0	1.3	0.7	42,717
Financial and Insurance Activities	0.3	0.3	0.3	0.0	0.0	0.0	0.7	0.7	0.8	14,911
Real estate Activities	0.1	0.1	0.1	0.0	0.0	0.0	0.4	0.3	0.4	7,890
Professional, Scientific and technical activities	0.3	0.4	0.2	0.2	0.3	0.1	0.7	0.7	0.6	18,761
Administrative and support services	1.1	1.8	0.3	0.2	0.4	0.1	2.6	4.0	0.7	57,339
Public Administration and Defence, Compulsory social security	1.1	1.7	0.5	0.3	0.4	0.2	2.7	3.6	1.4	61,389
Education	2.8	2.8	2.9	1.6	2.1	1.1	5.0	3.8	6.6	151,009
Human Health and Social Work	1.2	1.0	1.5	0.4	0.4	0.4	2.7	1.8	3.8	65,319
Arts, Entertainment and Recreation	0.2	0.3	0.2	0.1	0.2	0.0	0.5	0.5	0.5	13,216
Other service activities <sup>1</sup>	2.9	2.5	3.4	1.8	1.7	2.0	4.8	3.6	6.5	155,912
Activities of household as Employers	6.8	4.3	9.7	3.3	2.4	4.1	13.3	7.2	21.7	366,985
Activities of extraterritorial organization and bodies <sup>2</sup>	0.1	0.1	0.0	.	.	.	0.2	0.3	0.1	4,009
Not stated	0.0	.	0.0	0.0	.	0.0	.	.	.	20,757

Source: CSO, Labour Force Survey, 2012

Note: (1) - Activities of membership organizations such as Trade unions, Religious organizations, Political organizations, Professional membership organizations etc

(2) - Activities of international organizations such as the United Nations and the specialized agencies of the United Nations system, regional bodies etc., the International Monetary Fund, the World Bank, the World Customs Organization, the Organisation for Economic Co-operation and Development, the Organization of Petroleum Exporting Countries, the European Communities, the European Free Trade Association etc



**Table 4.2: Percentage Distribution of the Employed Persons by Industry, Region and Sex, Zambia, 2008**

Industry	Total			Rural			Urban			Aggregate Employment
	Both sexes	Male	Female	Both sexes	Male	Female	Both sexes	Male	Female	
Zambia Total	100	100	100	100	100	100	100	100	100	4,606,846
Agriculture, forestry and fisheries	71.3	66	77	90.6	88.2	93	20	17.3	24.1	3,284,208
Mining and quarrying	2.0	3.2	0.7	0.3	0.3	0.2	6.6	9.5	2.3	92,810
Manufacturing	3.5	4.5	2.4	1.7	2.0	1.4	8.2	10.0	5.6	159,194
Electricity, gas, steam and air conditioning supply	0.2	0.3	0.0	0.0	0.0	.	0.6	1.0	0.2	8,496
Water Supply Sewerage, waste management and remediation activities	0.1	0.2	0.0	0.0	0.0	.	0.4	0.6	0.1	5,368
Construction	1.7	3.2	0.1	0.7	1.3	0.1	4.6	7.5	0.3	80,255
Trade, wholesale and retail distribution	9.2	8.3	10.2	2.9	3.1	2.8	25.9	19.9	34.6	425,209
Transportation and storage	1.7	2.9	0.4	0.3	0.5	0.1	5.4	8.1	1.4	77,375
Accommodation and food service activities	0.9	0.9	0.9	0.2	0.4	0.1	2.7	2.1	3.5	41,973
Information and communication	0.4	0.5	0.2	0.2	0.2	0.1	1.0	1.2	0.7	17,425
Financial and Insurance Activities	0.3	0.4	0.2	0.0	0.1	0.0	1.1	1.3	0.9	14,879
Real estate Activities	0.1	0.1	0.1	0.0	0.0	0.0	0.3	0.3	0.3	3,765
Professional, Scientific and technical activities	0.3	0.4	0.1	0.1	0.2	0.0	0.7	0.9	0.4	12,778
Administrative and support services	0.9	1.3	0.4	0.2	0.3	0.0	2.7	3.5	1.6	40,129
Public Administration and Defence, Compulsory social security	1.2	1.8	0.5	0.3	0.5	0.1	3.6	4.8	1.9	54,860
Education	2.2	2.3	2.2	1.2	1.5	0.8	5.1	3.9	6.7	102,659
Human Health and Social Work	1.1	0.9	1.3	0.5	0.6	0.5	2.6	1.6	4.0	50,927
Arts, Entertainment and Recreation	0.2	0.2	0.1	0.1	0.1	0.0	0.5	0.6	0.4	8,125
Other service activities <sup>1</sup>	1.4	1.3	1.4	0.4	0.4	0.3	4.0	3.4	4.8	62,297
Activities of household as Employers	1.2	0.8	1.5	0.3	0.2	0.4	3.4	2.1	5.3	53,539
Activities of extraterritorial organization and bodies <sup>2</sup>	0.0	0.0	0.0	0.0	0.0	.	0.1	0.1	0.2	1,312
Not Stated	0.2	0.2	0.2	0.1	0.1	0.1	0.6	0.5	0.7	9,263

Source: CSO, Labour Force Survey, 2012

Note: (1) - Activities of membership organizations such as Trade unions, Religious organizations, Political organizations, Professional membership organizations etc

(2) - Activities of international organizations such as the United Nations and the specialized agencies of the United Nations system, regional bodies etc., the International Monetary Fund, the World Bank, the World Customs Organization, the Organisation for Economic Co-operation and Development, the Organization of Petroleum Exporting Countries, the European Communities, the European Free Trade Association etc

#### 4.9 ECONOMIC EFFECTS OF MINIMUM WAGES ON UNEMPLOYMENT

There are several challenges surrounding minimum wage development in Zambia. The main problem that needs to be taken into account in setting the minimum wage is the predicament of unemployment (Neal, 1996). It has been argued that some workers inevitably become unemployed following a minimum wage rise (Neal, 1996). Economists worldwide have acknowledged that minimum wage increases result in a trade off, and no matter how well intended, always come with a price, in form of lost jobs for some, and increased benefits for others, especially those who are better off because they have jobs (Stigler, 1946). According to (Stigler, 1946), minimum wage legislation as an anti-poverty policy instrument has deficiencies because it has been seen to lead to effects contrary to the objectives of policymakers. According to the study by University of Chicago on the characteristics of low wage earners in America, it revealed a strong relationship between unskilled workers and low-wage rates.

The study further established that low wage workers stand a high chance of being priced out of the job market whenever a higher minimum wage rate is set (Stigler, 1946). Further studies have revealed that raising the minimum wage in an attempt to help the poor is not an effective economic policy (Sesinyi, 1994). According to Magdelin Sesinyi (1994), increased minimum wages have been seen to dissolve work opportunities for the poor and less skilled, while directing small amounts of money less poor families (Macphersan, 1996). Furthermore, an increase in minimum wages results in an increase in prices of goods and services, as a result of which the real value of the wage in turn goes down and hence the situation of the worker who earns this minimum wage is eroded. However, in some instance, research has shown that increase in minimum wage can actually boost employment, as there is increased spending by wage earners (Business week, June 9 1997). It has been concluded that conflicts of this nature in the economic theory between competing schools of thought can mostly be explained by the elasticity of the labour market (Sesinyi, 1994).

Table 4.3 below shows the unemployment rate by Age group, Region and Sex. According to (LFS, 2012), Zambia's unemployment rate was 7.9 percent of the labour force. The analysis of statistical data indicates that in rural areas, 3.1 percent of the labour force was unemployed whereas in urban areas 15.3 percent was unemployed (see table 3.3). Further results also show that the unemployment rate was higher among females, at 8.6 percent than among males, at 7.1 percent. In urban areas, unemployment was generally high among females, with those aged 15-19 years old recording 35.8 percent unemployment rate. Overall, unemployment was most evident among the youthful age groups.

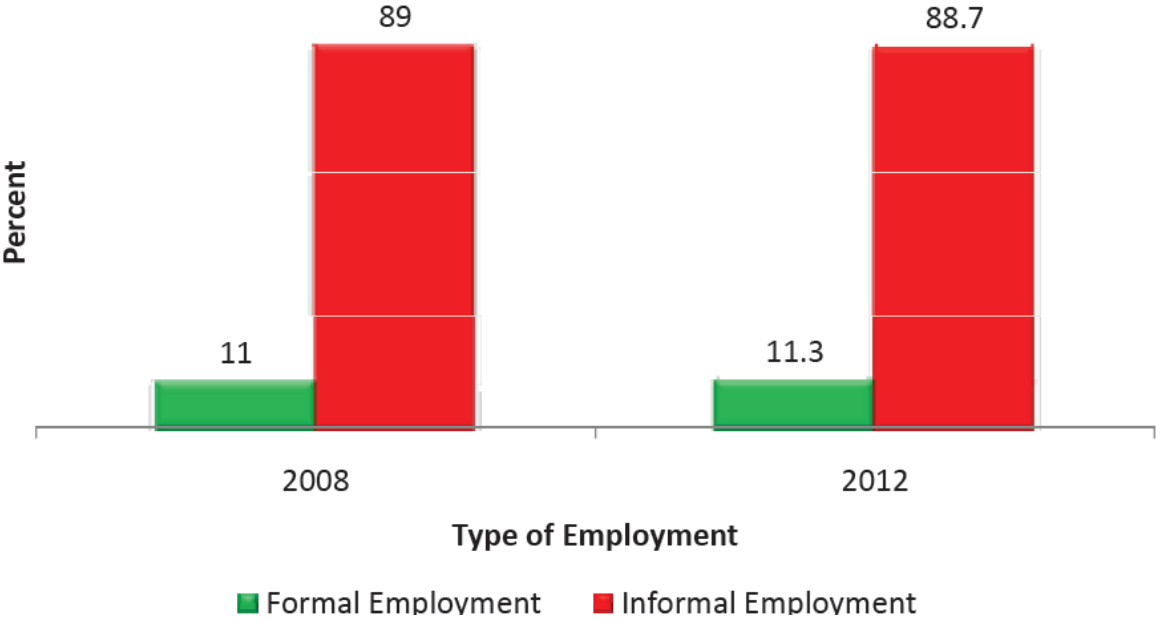
**Table 4.3: Percentage Distribution of Unemployment Rate by Age group, Region and Sex, Zambia, 2012**

Age Group	Unemployment Rate									Labour force - 15 years & above
	Total			Rural			Urban			
	Both Sexes	Male	Female	Both Sexes	Male	Female	Both Sexes	Male	Female	
<b>Zambia Total</b>	<b>7.9</b>	<b>7.1</b>	<b>8.6</b>	<b>3.1</b>	<b>3.2</b>	<b>2.9</b>	<b>15.3</b>	<b>12.7</b>	<b>18.7</b>	<b>5,845,250</b>
15 - 19	13.9	11.9	15.9	6.7	6.9	6.4	29.9	23.7	35.8	782,329
20 - 24	16.3	16.8	15.8	6.1	6.9	5.3	32.3	30.1	34.6	954,694
25 - 29	8.8	8.2	9.5	3.1	3.6	2.5	16.0	13.3	19.3	898,708
30 - 34	5.7	5.1	6.3	2.1	2.0	2.2	9.6	8.0	11.9	805,799
35 - 39	3.4	2.9	4.1	1.0	0.9	1.2	6.5	5.2	8.6	668,991
40 - 44	2.5	2.1	3.0	1.1	1.0	1.1	4.8	3.6	6.4	511,607
45 - 49	4.0	3.2	5.0	1.4	0.9	2.0	7.8	6.1	10.1	360,278
50 - 54	3.5	3.2	3.8	1.6	1.5	1.6	7.1	6.1	8.3	283,291
55 - 59	2.8	2.7	2.9	0.8	1.3	0.2	6.9	5.5	8.8	194,527
60 - 64	1.7	1.8	1.5	0.3	0.4	0.3	5.1	4.7	5.7	151,348
65 +	0.8	1.3	0.3	0.1	0.1	-	4.4	6.3	1.9	233,678

Source: CSO, Labour Force Survey, 2012

Figure 4.6 below shows the percentage share of formal and informal employment in 2008 and 2012. Results show a marginal increase in the percentage share of formal employment from 11.0 percent in 2008 to 11.3 percent in 2012, while a corresponding reduction is observed in the informal employment from 89 percent to 88.7 percent over the same period. However, despite marginal increase and decrease in both formal and informal employment, it can still be said that the Zambian labour market is highly segmented and sign of high labour instability in the country. There is a danger of having a small formal employment and a high informal employment because informal jobs are subject to precarious working conditions, thus the crusade to reduce poverty through income policy is far from being a reality for Zambia.

Figure 4.6.: Formal and Informal Employment, 2008 and 2012



**4.91 CONCLUSION**

This chapter sought to lay a foundation for the thesis by considering the purpose and scope of minimum wage law. It determined that minimum wage law’s purpose is to ensure the protection of workers vis a vis their more powerful employees and thus balance the power imbalance between the parties. It established that this played a role in economic development and social transformation. Thereafter, the scope of minimum wage law was considered and it was established that while the employment relationship remains the cornerstone, most legal systems have introduced measures to expand the concept or introduced additional categories of workers who receive limited labour law protection.

## CHAPTER 5: GENERAL CONCLUSION AND RECOMMENDATIONS

The conclusions drawn from the research findings are both based on qualitative and quantitative dimensions. This is in order to contextualise the significance of the applicability of minimum wage law to the practice under scrutiny as well as a necessary requisite in considering the purpose of minimum wage law and the socio-economic role it plays. After considering some theoretical and institutional perspectives on the subject, it was concluded that minimum wage law aims to address the imbalance of power between workers and employers, to empower workers and redistribute wealth between capital and labour and thus contribute to social justice and growth.

Like employment law and labour law, minimum wage law aims to bring about social transformation by improving the living standards of workers and their families and thus fostering societal well-being. It was argued that if economic development is understood in these terms of social transformation, the improvement of living standards, and social inclusion, then labour law is an essential component for fostering development. It was also found that employers stand to gain from providing for greater worker protection and security as it contributes to greater productivity, efficiency and competitiveness.

Trade unions position on minimum wages and collective bargaining in Zambia is to promote *inter alia*, four pillars of the Decent Work Agenda identified as key components of any employment protection regime. The first pillar is aimed at job creation and relates to through measures aimed at skills development and the creation of sustainable livelihoods. The second relates to rights at work such as protection against unfair discrimination and employment security. The third relates to social protection and includes measures covering workplace safety, regulation of working time and work-life balance and the creation of social safety nets. Finally, social dialogue relates to engagement between workers' and employers' organisation to ensure stability in the labour market which has been seen as a hallmark for higher productivity and sustainable growth.

Labour law has however been challenged by the ascendancy of neoliberal ideology which has advocated greater labour market flexibility in the context of globalisation and greater market competition. Proponents of neoliberalism have argued that rigid labour laws relating to matters such as wage determination, working time and employment security undermine firms' efficiency and ability to adjust to

rapidly changing market conditions and compete in global markets. They have also argued that rigid labour laws hamper countries' ability to attract and retain foreign direct investment.

In conclusion, the current poverty analysis clearly indicates that poverty levels in Zambia are still very high despite recording some decline between 2006 and 2010 (CSO-LCMS, 2010). Poverty is generally measured based on either money metric measures using data on income or household expenditure, or measured based on ownership of assets, both productive and household (CSO-LCMS, 2006). It is clear from these findings that poverty has continued to be more of a rural than an urban phenomenon (CSO-LCMS, 2006-2010). These results indicate that the country requires more effort towards poverty reduction especially in the rural parts of the remote provinces. Results from the 2006 and 2010 LCMSs reveal that the Poverty Gap Ratio has remained much wider in rural than in urban areas. Education and wage employment reduces the risk of becoming poor.

Therefore, one of the best ways to improve minimum wage setting in Zambia in order to make it respond to the challenges facing low wage earners is perhaps to try and borrow the Brazil minimum wage model of development. However, in order to support such a progressive minimum wage policy, the political power of the trade unions in Zambia needs to be re-activated in order to rebalance the power of capital in the international trade and global economy. Trade unions need to devise new policies to increase their bargaining power through strategies such as massive membership recruitments in order to boost their bargaining power.

## **5.1 RECOMMENDATION**

The recommendations are aimed at how to build and operationalize effective wage policy in Zambia. This thesis has analysed the legal regulation of minimum wage policy and the challenges faced in its fixing, implementation and enforcement in Zambia. The research inquiry has further provided a microcosm within which to examine some of the broader challenges that minimum wage law faces in protecting workers in an ever-changing world of work. Having examined the dynamics and consequences arising from minimum wage practice in Zambia and the shortcomings of the current legal framework, the research had made some tentative suggestions as to how the policy should be regulated in Zambia.

The issue of whether to have a single national minimum rate or a series of sectoral/regional minimum rates is a crucial one that requires careful consideration. A national minimum wage has the advantage of providing equal protection for all workers and is also much more easily monitored and enforced than sectoral rates. However, it cannot easily take into account the fact that employers' ability to pay varies across sectors. To avoid causing high unemployment in those sectors which cannot afford to pay minimum wage, a national minimum wage would have to remain by the standards of organized labour based on national poverty datum line

The recommendations made are by no means a panacea for the challenges that minimum wage law continues to face in ensuring its continued relevance in the world of work. Admittedly, the recommended legislative policy intervention would not completely eliminate the challenges that continue to underpin minimum wage law currently in force. Nevertheless, the principles underlying the proposed legislation – most of which Zambia has already recognised in relation to other income policy practices – indicate that there is a gradual shift away from the focus on the industry based minimum wage determination and on the standard employment relationship as determinants of labour market in Zambia.

It is suggested that the incorporation of such principles which grapple with the complexities presented by the changed world of work may contribute to freeing labour law of the limitations imposed by the conventional assumptions. Given the diversity of the arrangements characterising the world of work and the continuous changes, it is difficult to say whether a new paradigm would be appropriate or predict what such a paradigm would look like. A further limitation of the recommended legislation is that ensuring its relevance to the practice it regulates would not eliminate it in its entirety. This is because labour law, like any other branch of law, faces a number of limitations to its ability to ensure the translation of its rules and principles into tangible and meaningful outcomes for the people it applies to. It is therefore submitted that the enactment of the legislation envisaged in part 7.2 above will not protect the workers in contracting arrangements unless certain broader socio-economic challenges are addressed.

One such challenge relates to the fact that many workers are, and continue to be unaware of their rights in terms of labour law. Another is the high levels of poverty and unemployment, which render many workers complicit in the infringement of their labour rights. A third issue is the increasing fragmentation of

workers in the changed world of work and the inability of trade unions to bridge the divisions and build solidarity amongst workers employed under more diversified relationships. The final hurdle is the tendency for employers to seek to avoid the application of labour law at any cost, and their failure to recognise the potential benefits that a better protected workforce can provide them and to the broader society.

## **5.2 CLOSING REMARKS**

In closing remarks, the author's view is that in Zambia, challenges of minimum wage policy are several and may not necessarily be linked to minimum wages per se. The aspect of minimum wage policy is just one important tool to combat poverty. In order to address challenges associated with low income and high poverty levels among the majority poor working class and their families, you need other social protection policies to supplement the minimum wage policy and other employment protection legislations. In Zambia, minimum wage policy development is very complicated because 90 percent of workers are employed informally whereas only 10 percent workers are enjoying formal conditions of employment. Despite high levels of spending in the past on various subsidy programmes, the reduction in extreme poverty has remained an elusive goal. The successful piloting of social cash transfers in several districts across the country and their direct impact on reducing extreme poverty will help accelerate efforts expended towards poverty reduction fight just like the Bolsa Familia poverty reduction strategy being pursued by Brazil.

The 2014 PF government National Budget presented to National Assembly by Finance Minister Alexander Chikwanda on October 11, 2013 appears to have incorporated policies and strategies for consolidating growth and job creation to fight unemployment and poverty (Zambia Daily Mail, 2013). The policies and strategies include GDP growth target of 7%, job creation target of 200,000, raising of revenue collection by 21%, reduce borrowing to 2.5% of GDP, increase in copper production by 13% reaching 1.5 million tonnes by 2015 as mining continues to remain one of the key drivers of the Zambian economy, generating about 80% of foreign direct investment (Zambia Daily Mail, 2013).



Another improvement in the macro-economic management of Zambia's resources is the inclusion of macroeconomic objectives, policies and strategies for 2014 and the medium term in which the Development Bank of Zambia will start to provide financing needs of industry, particularly small and medium scale enterprises the finding of which to be also supported through the Citizen Economic Empowerment Fund. The improvement in the mining production techniques and the promotion of diversification of manufactured products, especially those with export market potential by, among other, Public - Private Sector Development and the acceleration of the Multi-Facility Economic Zones to help stimulate international trade and creating more jobs for the youths, thus improving the living standards of the people of Zambia.

As observed by ILO Lusaka Conference, Zambia needs to enhance social dialogue among social partners through building consensus around economic policies targeted at strengthening economic growth, increasing labour productivity, and improving the labour market institutions in the country(IMF-ILO Survey, 2012). Social partners must remain resolute in formulating policies capable of converting growth into poverty reduction as well as creating an environment conducive to uplift the well-being of the majority working population currently trapped in the informal sector, which is characterized by lack of social security and precarious work conditions (ZCTU President, Leonard Hikaumba, 2012).

Therefore, there is need to strike a balance between labour productivity and increase in employees' remunerations to guarantee sustainable wage increase, higher productivity, profitability and business growth whilst keeping workers moral high. This can be achieved by trade unions and employers engagement with government to ensure effective social dialogue using multi-prolonged forms/approaches such as tripartite arrangements (workers, employers and government), civil society organisations and human rights bodies, ILO .etc.



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