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# Moving Forward in Zimbabwe

Reducing Poverty and Promoting Growth

Second Edition, October 2010

## Acknowledgements

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# **Moving Forward in Zimbabwe**

Reducing Poverty and Promoting Growth

Second Edition

October 2010

Editors: Admos Chimhowu, Jeanette Manjengwa and Sara Feresu

### **About the Brooks World Poverty Institute**

The Brooks World Poverty Institute is a multidisciplinary centre of global excellence researching poverty, poverty reduction, inequality and growth in both the developed and developing worlds. At a time of heightened public, media and political interest in poverty issues, it is imperative that the most serious minds, drawing on long-standing experience of the complex issues involved in a variety of world settings, come together to work towards sustainable long-term solutions. Manchester has the potential to make a substantial, distinctive and durable contribution.

We live in a world that is affluent in terms of resources, knowledge and technology but well over one billion people, around a fifth of the world's population, live in absolute poverty. They cannot obtain even their minimum needs – access to food and clean water, basic health services, primary education, shelter. These people struggle every day to meet these needs and to improve the prospects of their children. However, economic, social and political processes often make their efforts ineffective and block off pathways out of poverty. To eliminate global poverty we need a better understanding of how and why people are poor and the conversion of that knowledge into policies and actions that achieve the goal of poverty reduction. This is the mission of the Brooks World Poverty Institute.

### **About the Institute of Environmental Studies**

The Institute of Environmental Studies (IES) was established in 1994 as an independent, non-faculty unit within the University of Zimbabwe in response to national concerns about ecological, social and economic consequences of environmental change. Since the United Nations Conference on Environment and Development in 1992, environment has been linked with sustainable issues including the recognition of the importance of placing people and their needs first in environmental management and the responsibility of protecting the environment for the benefit of present and future generations.

Like many developing countries elsewhere, Zimbabwe is rich in natural resources such as land, minerals and biodiversity, which if managed wisely could significantly contribute towards its sustainable development. Recognising the inextricable link between poverty, environment and natural resources, the mission of IES is to contribute to the sustainable use of these natural resources, poverty alleviation and prosperity of stakeholders by providing research, education, advisory services and networking on the environment.

# Moving Forward in Zimbabwe

## Reducing Poverty and Promoting Growth

### Chapter 2: Employment and Labour Markets

#### 2.1 Introduction

In this chapter we examine employment and labour markets implications of the economic crisis for social protection in Zimbabwe. The chapter highlights the structure of employment in Zimbabwe and considers labour markets dynamics and employment during this period. This is followed by a discussion on social protection for the poor and vulnerable in Zimbabwe, highlighting developments on social protection. It then considers some scenarios for social protection in the future.

#### 2.2. The labour market and employment

One of the key pathways out of poverty is income growth. Although there are different ways of achieving this depending on individual and economic contexts, a sure way to stabilise household incomes is through employment. For Zimbabwe this applies more directly to urban poverty and indirectly to rural poverty, where income growth will have to come from agriculture and other rural non-farm activities. This section examines developments in the labour market and suggests possible policy actions to revive the labour market. We focus on the labour market because of its importance as a linkage between production and consumption, in addition to its role of transmitting policy impacts on development. Further, given the high level of poverty described in Chapter 1, knowledge of the current state, structure and performance of the labour market is vital to inform future policy formulation for recovery. We have argued that the economic crisis started as far back as 1997 and will show how this decline affected labour markets. The structure of the economy, which determines the structure of employment, is then examined together with the labour market structure and the regulatory changes that were introduced. We end by proposing what we feel are the most important policy changes needed to revitalise the labour market.

#### *Contextual background*

We argued earlier that the economy has gone through three distinct policy swings – from interventionism (1980-1990) to structural adjustment (1991-1995) to reactive management (1997 to present). Despite the policy swings and accompanying economic policies, the foundation of the economy largely

remained unchanged, and this foundation was and still is characterised by segmentation and enclavity, which are also reflected in the labour market. In discussing the labour market we shall focus on the economic crisis period.

The labour market structure, like the mainstream economy, is segmented. Workers in the formal sector, particularly those in top positions, are able to prosper and live off their wages, while those in the non-formal economy have very low average wages and hence have to rely on other sources of income in order to survive. Furthermore, during the crisis period, workers in the lower part of the formal sector were worst hit by rampant inflation which in July 2008 reached 231 million per cent. A majority of workers left formal employment around this time to try and make a living in the non-formal economy. Available data suggest that by December 2008 only 480,000 workers remained employed in the formal sector. The formal sector is capital intensive and has low labour absorptive capacity, resulting in the non-formal sector being the principal source of employment creation. The formal sector in Zimbabwe has often been described as part of 'grafted capitalism' (LEDRIZ, 2004). This is a capitalist mode of production imposed on African countries by colonialism and not meant to equally benefit all inhabitants of the economy. Thus, while there is total commodification under endogenous capitalism (the type of capitalism found in Europe) commodification is low in African countries (under grafted capitalism) and only restricted to the formal sector, thus leaving a big part of the economy operating informally. The consequence of this relationship is the absence of a significant relationship between the formal and non-formal sectors.

The non-formal sector provides a market and a pool of surplus labour to the formal sector. It also offers a buffer for spent formal sector labour given the absence of an effective social security system in the economy. The informal economy is found in both rural and urban areas, and can be divided into two (Ranis and Stewart, 1999): one part which is dynamic and relatively more productive, and another that is traditional and moribund.

The non-formal sector's larger part is the communal (including resettlement areas) sub-sector, which is principally subsistence in nature. It dwarfs the formal economy both spatially and in terms of employment, but it lags behind in terms

of value-addition. Treatment of informal employment, found in both urban and rural areas, changed during the structural adjustment period. The informal economy was forbidden in urban areas during the colonial period, and after independence the Government was hesitant about its development (ILO/Southern African team for Employment Promotion, 1985). As a result employment in the informal sector remained low at around 10 per cent of total employment. Following structural adjustment, in the 1990s, and combined with declining real wages in the formal sector over the years, many people joined the informal sector. In addition the high rate of urbanisation in Zimbabwe that saw the urban population growing by 88 per cent between 1980 and 1990 (World Bank, 2008), and the sluggish formal sector employment growth, forced many people to join the informal economy. Economic decline and hyperinflation from 2002 onwards further forced more people to join the informal economy. In the next section we examine the dynamics of formal and non-formal sector employment in Zimbabwe. The analysis will mainly focus on the formal sector because of data availability, its potential to create quality and decent jobs, and because of its capacity to be the engine for economic recovery.

**Employment structure and dynamics**

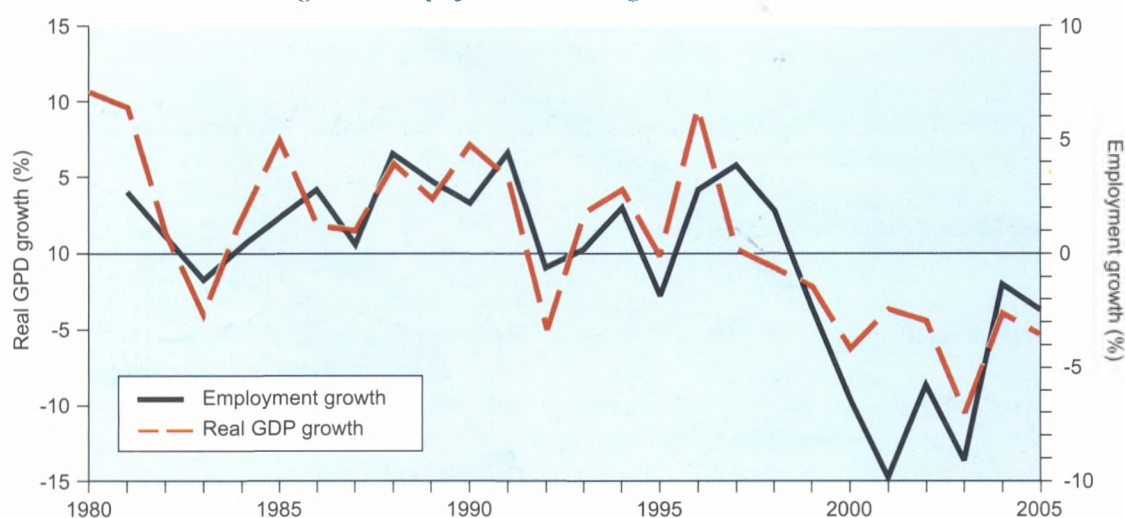
Figure 2.1 shows employment and GDP growth between 1980 and 2005. It illustrates that there was a high degree of co-variation between employment and GDP growth. Thus, employment, like GDP, declined during periods of covariant shocks such as drought. The extent to which both employment and GDP growth were driven by the agricultural sector has already been examined in Chapter 1. Suffice to say, the decline in the agricultural sector is one of the reasons that the total

employment declined from 1999.

Employment growth was sluggish in the 1980s because of high employment protection (Fallon and Lucas, 1991). Despite weak unions, employment protection laws shielded incumbent workers from competition from the unemployed, thereby causing unemployment to become long term (Lazear, 1990). It also discriminated against young workers, resulting in rising youth unemployment. It was only in the late 1980s that the trade union movement became stronger and critical of the Government. Thereafter tensions with the State worsened especially when unions opposed the implementation of ESAP. During the 1990s, the unions became a galvanising force which led to the formation of the main opposition party.

The high employment protection is often seen as having prohibited employment flexibility in line with changes in demand brought about by ESAP (Hamermesh and Pfann, 1996). This caused formal sector employers to shoulder high labour costs during downturns. While the protection might have encouraged insiders to extract a premium on wages, wage increments were gazetted by the Government, thus disadvantaging both workers and employers. Firms responded by substituting work process flexibility for numerical flexibility, thereby increasing work intensity which workers opposed because they felt they were not being adequately compensated. Notwithstanding this, employment protection did have a positive effect of shielding workers from economic, social and psychological effects of losing jobs. It also helped to preserve incomes and skills, thus providing insurance to labour market risks. From a firm perspective, workers with secure tenure are inclined to accept workplace modernisation without feeling threatened. They are also likely to put in more effort, thus reducing supervision costs.

Figure 2.1: Employment and GDP growth, 1980-2005



Source: Based on statistics from CSO, 2004

Table 2.1: Average annual employment growth (percentage), 1997-2004

	1997	1998	1999	2000	2001	2002	2003	2004
Overall employment growth	3.9	1.9	-2.4	-6	-4.3	-5.8	-9.1	-1.4
Agriculture and fishing	2.3	-2.8	-2.1	-3.9	-10.8	-23.8	-28.5	-2.3
Mining and quarrying	-1.2	3.2	-2.5	-25	-4.3	0.2	-2.1	19
Manufacturing	7.8	5.0	-3.3	-9.6	-1.5	-4	-17.7	-3.5
Construction	0.8	1.3	-12.5	-22.3	0	0	-37.6	-6.5

Source: CSO Quarterly Digest of Statistics 2003; IMF Country Report 2005/359 Statistical Appendix.

For the period 1997-2008, employment declined significantly across all sectors due to the economic recession. There were significant firm closures that led to considerable job losses, especially in Harare and Bulawayo. The result was growth in long-term unemployment and significant under-employment, especially in the informal economy where skills were under-utilised because of a lack of resources. In response to the economic crisis, many workers migrated to seek better jobs and incomes regionally and internationally. Table 2.1 shows average employment growth in the agriculture, mining, manufacturing and construction sectors.

Decline in agricultural employment from 2000 was a result of the displacement of some farm workers by new landowners, most of whom were not able to adopt the employment contracts between the workers and previous land owners. A decline in manufacturing employment was mainly caused by the shortage of foreign currency to import raw materials and machinery. Loss of employment affected major urban centres where manufacturing activities were concentrated. Construction sector employment was one of the worst hit sectors because of a shortage of building materials, mortgage finance, and because the Government stopped financing new construction projects. The decline of employment in low skill sectors like agriculture and construction caused unemployment to rise among unskilled workers. To drive the points raised here

further, we examine the dynamics of employment structure over time.

### Structure of employment

Changes in employment can be explored further by analysing sectoral employment contributions as shown in Table 2.2. It shows that in 1980, agriculture was the biggest employer, followed by manufacturing and private domestics. During that period, the private sector was quite competitive and had a significant presence on the export market. The composition of employment changed over time. The proportion of agricultural workers declined to 24.3 per cent in 1990. Long-term employment in the sector declined between 1980 and 1990 as it was substituted with casual labour on large scale commercial farms, particularly among women (Adams 1991). The contribution of agricultural employment increased to 26.9 per cent of total in 1995, an indication of the positive employment response to structural adjustment. The sector had a competitive advantage in horticulture, tobacco and cotton production that saw the country achieving remarkable presence on the world market. Agriculture remained the largest employer and earner of foreign currency until 2000. Thereafter, its contribution to employment declined, reaching almost half its 2000 contribution in 2005.

Table 2.2: Percentage sectoral formal employment, 1980-2005

Sector	1980	1985	1990	1995	2000	2002	2003	2004	2005
Agriculture	32.4	26.3	24.3	26.9	26.3	19.8	15.6	15.5	14.2
Mining and quarrying	6.6	5.2	4.3	4.8	3.6	3.9	4.2	5.0	5.4
Manufacturing	15.8	16.1	16.5	15	14.7	15.4	13.9	13.6	12.5
Electricity and water	0.7	0.7	0.7	0.8	0.9	0.9	1.1	1.1	1.1
Construction	4.2	4.3	6.4	5.8	4.4	3.8	2.6	2.5	2.3
Finance and insurance	1.2	1.5	1.5	1.7	2.8	2.5	3.8	3.8	3.8
Distribution and restaurants	7	7.4	8.1	8.1	8.4	9.4	11.5	11.4	10.4
Transport and communication	4.5	4.8	4.5	4.1	3.6	3.7	3.9	3.8	3.5
Public Administration	7	8.6	7.8	6.2	4.7	5.8	6.5	6.8	7.3
Education	4.1	8.5	9.1	9.3	11.3	13.4	14.9	15.1	16.3
Health	1.5	1.9	2.1	2.1	2.3	2.9	2.6	2.6	2.6
Private domestics	10.7	9.4	8.6	8.2	8.3	9.2	10.1	10.2	10.2
Other Services	4.3	5.5	6.2	6.9	8.6	9.4	9.4	8.8	8.9

Source: Calculated From Quarterly Digest of Statistics and National Accounts, CSO, 2003; IMF Country Report No. 2005/359

The proportion of manufacturing employment changed marginally during the 1980s and 1990s. There was a slight decline in manufacturing employment during the structural adjustment period because of firm restructuring and high competition on the domestic market which forced some firms to reduce capacity utilisation or to close down. Manufacturing employment continued to decline through to 2005 because of foreign currency shortages and Government price controls. Overall, employment in most tradable sectors (agriculture and manufacturing) declined from 1995 onwards, while non-tradable sectors' (all other sectors in Table 2.2) employment increased, especially in the education and distribution sectors. This was in part because of foreign currency shortages, high inflation, exchange rate over-valuation, and reduced export competitiveness. As controls increased from 2000 onwards, there was also an outflow of foreign capital, thus reducing the level of investment in the economy. Further, the level of gross national savings persistently declined over this period.

In the social sectors, health and education experienced growth in their contribution to total employment, with the most growth coming from education. There was massive expansion and enrolment in education in the first decade, and it remained comparatively high through to 2005.

Dividing employment between private and public sectors shows that private formal sector employment declined from the Economic Structural Adjustment Programme (ESAP) reform period onwards for reasons cited above, including declining domestic demand and low technology adoption. Although public sector employment declined marginally during the ESAP reform period, it increased by 21 per cent between 1995 and 2005. This growth was a result of changing employment dynamics that resulted in the public sector remaining the only stable form of employment in the face of economic recession.

However, as the economic crisis deepened, some people in the public sector left formal employment, mainly because of low pay, to migrate to the informal economy.

Employment in the informal economy grew consistently over time. Despite the lack of time series data, we know that informal employment accounted for 10 per cent of the labour force in 1985<sup>14</sup> (ILCO/Southern African Team for Employment Promotion, 1985). By 1998, 62 per cent of the labour force was in informal employment, and by 1999, it was twice the size of formal employment. It is believed to have grown further during the crisis period.

While the discussion above has focused on changes in numbers of employment, it is also important to look at changes in the laws of employment, because we know employment law affects the level and composition of employment (Fallon and Lucas, 1991) and the attractiveness of the economy as an investment destination. Furthermore, any attempts to revitalise the labour market when stability is achieved requires that the law of employment be supportive of the new economic regime. The following section explores changes to the employment legal framework.

### *The employment legal framework and wage formation*

The employment legal framework, just like the economic policy framework, also experienced changes between 1980 and 2008. We will not go into the details of the changes introduced in the 1980s and 1990s, except to the extent to which they are linked with current regulations. Anyone interested in these changes should consult work by Sachikonye (1987), Kanyenze (1993), and Madhuku (2001), among others. Suffice to mention that regulations in the 1980s institutionalised employment security

*Table 2.3: Real consumption wage index, 1990-2003*

	1990	1992	1994	1996	1998	2000	2002	2003
Agriculture	100	55.5	65.2	64.5	73.5	57.2	37	-
Mining	100	82.2	79	93.8	121	71.7	85.9	38.7
Manufacturing	100	80.6	72.6	66.1	76.9	61	60.8	21
Electricity and Water	100	79.2	89.8	161.7	346.7	233.3	172.6	56.8
Construction	100	86	66.9	70.9	89.7	66.4	38.9	-
Finance and Insurance	100	100.9	103.3	110.4	149.7	171.4	119.7	36.7
Distribution	100	86.3	75.1	77.1	94.2	78.5	73.3	22.8
Transport & Communication	100	72.6	66.5	58.7	67.9	65	46.9	13.9
Public Administration	100	68.1	47.6	61.5	80.1	104.8	74.5	29.3
Education	100	79.7	61.9	88.8	124.5	146.5	112.9	38.2
Health	100	77.9	64.2	78.4	124.3	169.3	141.6	42.7
Domestic services	100	59.1	37.9	25.4	16.3	6.6	2	0.3
Other	100	92.3	84.4	90.6	116.6	119.1	101.9	32.1
Total	100	78.7	69.2	75.4	97.6	94.2	76.6	24.9

Source: own calculations from CSO Quarterly Digest of Statistics 2003

<sup>14</sup>Note that the informal sector referred to here does not include rural agricultural activities.



which created inflexibility in the labour market. This was followed by labour market liberalisation (from 1991) which introduced flexibility that allowed firms to adjust their levels of employment in line with changes in demand (Velenchik, 1997; Bjurek and Dureval, 2000).

Liberalisation also introduced collective bargaining as the medium for setting wages. Wage bargaining was maintained during the economic crisis period, but the Government retained power to review the wage agreements, including power to set a minimum wage. Despite collective bargaining and the occasional introduction of national minimum wages, real wages declined significantly during this period, as shown in Table 2.3. Table 2.3 shows that in real terms, collective bargaining was not a perfect medium for income distribution given that in twelve years from 1990 to 2002, workers lost nearly a quarter of the real value of their earnings, notwithstanding the reduction in collective job action incidences. The only sector that performed reasonably well up to 2002 was the electricity and water sector. While the wage outcomes in part reflect the power that employers wielded in the bargaining process, they, in large part, reflect the impact of economic recession which reduced firms' profitability. Further, there were rising wage differentials between and within sectors (PWHC, 2000), with skilled and managerial workers increasingly earning more than other workers. There were also growing inter-sectoral wage differentials as illustrated in Table 2.4.

predominantly rely on labour income for sustenance, the proportion of labour income in rural household incomes is small. The Table also shows that the domestic sector experienced accelerating wage decline relative to other sectors.

Since Independence wage differentials increased between the private and public sectors. In the 1980s, wage differentials were compressed because the Government wanted, among other things, to discourage the substitution of private sector for public sector employment. After the introduction of economic reforms, wage setting in the private sector became collective bargaining-based. In the public sector, the Government's austerity measures resulted in reduced wage growth relative to the private formal sector. As a result, wage differentials increased. The Government responded by awarding hefty increments of over 150 per cent from 2000 onwards. It was going to take several years of such hefty increments for the public sector wages to become similar to private formal sector wages. While lower level Government employees earned more than their private formal sector colleagues, top Government workers earned far less than their private formal sector counterparts.

From the discussion above, low skill sectors of agriculture, construction and domestic services were the worst losers through to 2008. By 2005, most of the sectors' earnings were well below the poverty datum line (which stood at \$1,747,226 as

Table 2.4 : Sectoral wage differentials, 1997-2002

	1997	1998	1999	2000	2001	2002
Manufacturing/agriculture	5.60	5.15	5.17	5.65	3.42	6.23
Mining/agriculture	5.32	5.62	5.62	5.51	3.36	7.19
Manufacturing/domestic	18.95	23.76	34.08	53.16	90.05	181.3
Mining/domestic	18.01	25.94	37.07	51.80	88.46	209.20
Agriculture/domestic	3.39	4.62	6.60	9.41	26.33	29.08

Source: own calculations from Quarterly Digest of Statistics 2003

Table 2.4 shows that the manufacturing sector wage was on average 5.6 times higher than the agricultural wage in 1997. By 2002, it was 6.2 times higher. The mining-agriculture wage differentials reached a maximum factor of 7.2 in 2002. Assuming that agriculture represents the rural sector and manufacturing the urban sector, it is clear from the Table that rural wages lagged behind urban wages. Based on the textiles sector and 2005 household survey datasets, on average, urban workers earned US\$1,922.52 annually, which was 73 times more than the rural annual average labour income (US\$26.23) (Chiripanura, 2008). These differentials arise from the fact that rural wages are very low, and that while urban workers

at July that year)<sup>15</sup>, signalling increasing impoverishment that was evident in both urban and rural areas. The decline in urban real incomes reduced the flow of transfers into the rural economy, thus reducing use of productivity-enhancing inputs and consumption of manufactured goods. The outcomes included declining living standards, failure to access health services, and reduced labour productivity. In the urban sector, the bulk of people in formal employment in 2008 were minimum wage earners striving hard to make ends meet because of hyperinflation. This resulted in increased frequency of collective bargaining across all sectors to an average of four times a year. By the first half of 2008, some firms were already running two payrolls in one month. Yet this did not reduce

<sup>15</sup>The CSO calculates monthly poverty datum lines for a family of five persons.

inter- and intra-sector wage inequality because firms offered efficiency wages to their critical staff to discourage them from leaving. This was particularly so in the mining, manufacturing and health services sectors. A study into textile and clothing sector operations in 2005 (Chiripanhura, 2008) found that most companies had resorted to offering free or subsidised midday meals to their workers, both to maintain productivity and as a non-wage benefit. Others offered free transport to and from work.

Changes introduced during the economic crisis period reached a peak when the harmonised Labour Act was passed in 2002, however, this did not cover the informal sector. In the formal sector, the far-reaching outcomes of the reforms included the introduction of retrenchment regulations, which were enhanced by the 2002 Act; the abolition of the 'one industry - one union' principle (despite its potential to complicate the collective bargaining process (Madhuku, 2001); the creation of the Labour Court to replace the Labour Tribunal which had been created in the 1990s to deal with the backlog of industrial relations cases; and the prohibition of employment discrimination on the basis of one's HIV status (through Statutory Instrument 202 of 1998). The new Act also updated and consolidated various pieces of employment regulations that existed, and for the first time, civil servants were governed under the same law as workers in the private formal sector, although disciplinary issues remained the preserve of the Public Service Commission. This was, however, reversed by Amendment 7 of 2005 which took public sector industrial relations back to the Public Service which does not recognise collective bargaining rights for the workers, hence its decisions are largely unilateral. Despite the existence of various associations in the public sector, they do not have union rights, and their contributions to wage negotiations through the Joint Negotiating Forum are merely advisory.

Some of the provisions of the Labour Act severely limit trade union activities, including possible deregistration and/or suspension from conducting their work. Yet there are also some positives from it: the new regulations removed the power to issue disposal orders (in the event of collective job action) from the Minister to the newly created Labour Court. This allowed for non-partisan handling of industrial actions. The Labour Court also acted as the final court of appeal for all employment cases, thus removing the High Court from industrial relations matters. The Labour Court was empowered, like the High Court, to review its decisions. Appeals against the Labour Court's decisions on matters of law could be taken to the Supreme Court. In employment, the probation period length was limited to no longer than one week for casual or seasonal workers and no more than three months in all other cases,

and that the period was to be one block not subject to extension. The new Act also introduced and defined the concept of constructive dismissal, and notice pay was increased from one month to three months. On retrenchment, the Act improved on existing regulations by allowing for easier retrenchment of less than five employees without referring to an authority. Further, the new Act extended sick leave from an initial one month on full pay to three months. It allowed a further three months of sick leave on half pay. Given the impact of the HIV/AIDS pandemic, this provision shielded workers from immediate loss of income when struck by the disease. On maternity leave, the new Act increased it from 75 per cent to 100 per cent of monthly salary without loss of benefits.

The changes highlighted above have significant influence on the functioning of the labour market now and in the future. The next sections analyses the demographic structural dynamics experienced since the onset of the economic crisis and examines the potential outcomes in the labour market after stabilisation.

### *Demographic and labour force structural dynamics*

The country's population at independence was 7.3 million people. It reached 10.4 million in 1992, and 11.6 million in 2002 (CSO, 2004). Thereafter, it had grown to 13.2 million by 2006 (World Bank, 2008). The 2004 labour force survey reported a reduced total population of 10.8 million that year, mainly because of emigration and high death rates (CSO, 2006a).<sup>10</sup> The population structure in 2004 is illustrated in Figure 2.2. It indicates that there is a dominance of young persons, and this has been a familiar characteristic of the population since Independence. This indicates a high dependency ratio problem which has adverse effects on income distribution and living standards. The broad bottom of the graph may be indicative of the impact of the high AIDS-related death rates, and the high volume of migration (see Figure 2.3). With respect to migration, although official migration statistics are low, there has been significant unrecorded migration to neighbouring countries and to the United Kingdom (Chetsanga and Muchenje, 2003; IOM, 2005).

<sup>10</sup>The decline could also be attributed to the data collection method that excluded students in boarding school and visitors.

Figure 2.2: Population structure, 2004

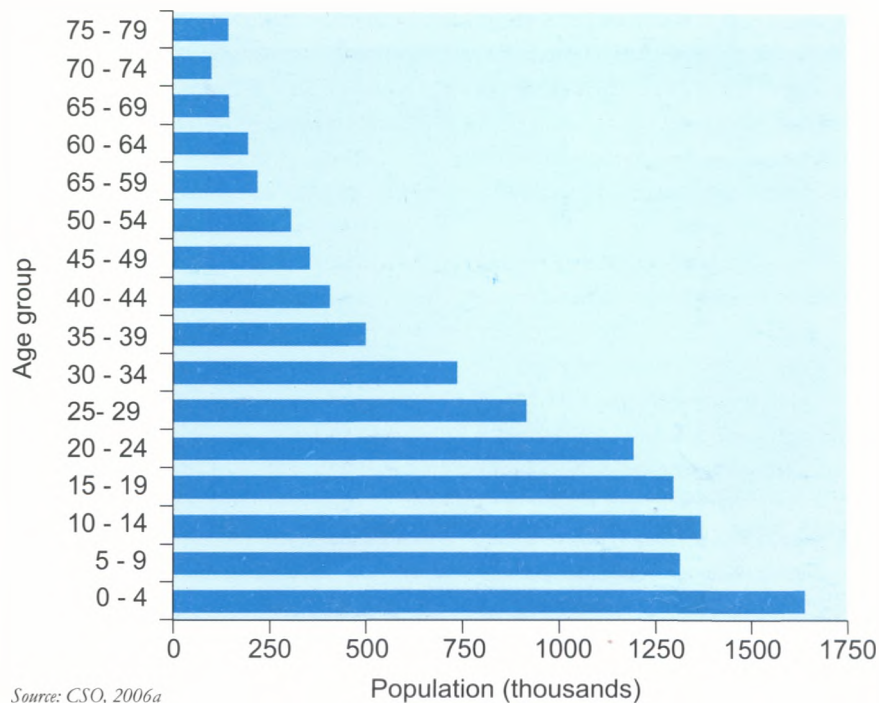


Figure 2.2 shows that in 2004, 40 per cent of the population was below 15 years of age. This was slightly lower than the 2002 percentage (40.6) and the 1992 percentage of 47 per cent (CSO, 2004). The high proportion of young persons demands that the economy provides certain services like adequate education and training and health facilities which, since the onset of the economic crisis, the Government has not been able to adequately provide.

Population growth averaged 3.8 per cent between 1975 and 1984, and this was higher than the sub-Saharan Africa average of 3 per cent (World Bank, 2008). While the regional average growth rate declined to 2.8 per cent between 1985 and 1994, Zimbabwe's rate declined to 3.1 per cent (World Bank, 2008). However, over the period 1995 to 2006, the country's population growth averaged 1.1 per cent compared to the region's 2.5 per cent (World Bank, 2008). Several factors explain these changes, including the wide availability and accessibility of family planning information and methods, the high level of literacy, and the adverse impacts of the HIV/AIDS pandemic. The slow growth rate may also be due to emigration during the economic crisis period.

The labour force in 1982 consisted of 3.97 million people of which 26 per cent were employed in the formal sector. The labour force increased to 4.96 million in 1999, and of this, 37 per cent was in paid employment (CSO, 2004). The remainder constituted persons either unemployed or in the informal economy. In 2004 the labour force consisted of 5.6 million people, with a participation rate of 87 per cent, having increased from 64 per cent in 1982 and 71 per cent in 1999

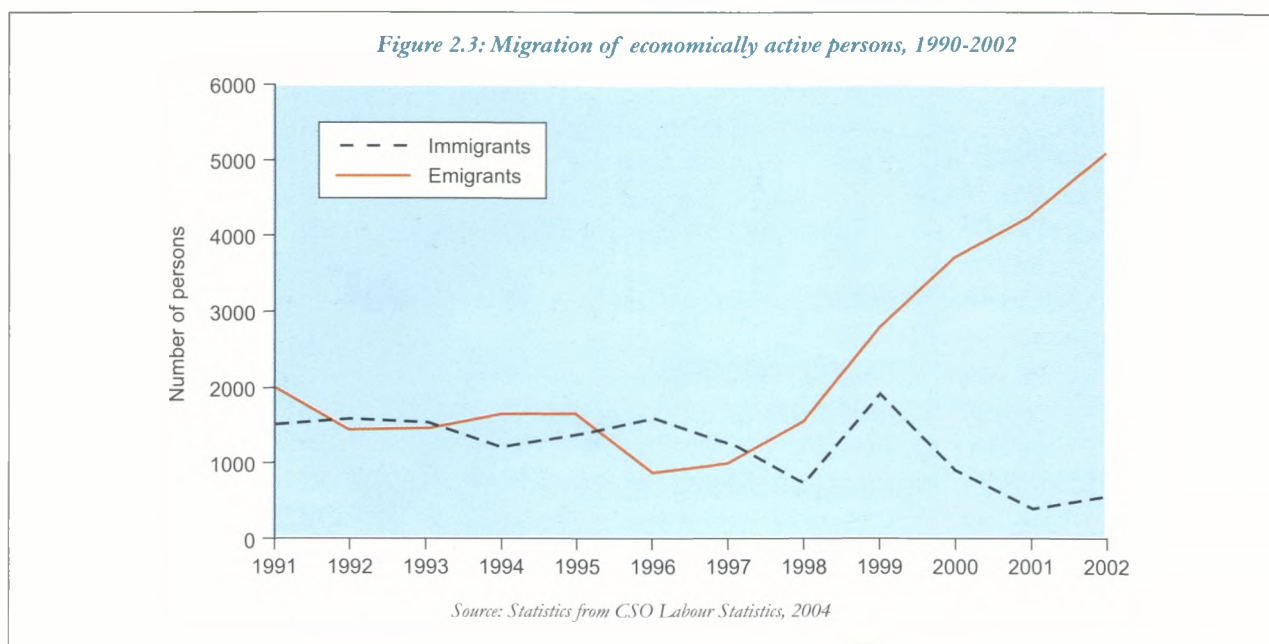
(CSO, 2004). The rising rate of economic activity during the crisis period may be an indication of the instability in the labour market rather than rising efficiency.

### Occupational and skills dynamics

Comparing the occupational surveys of 1986 and 1999 reveals interesting statistics. In 1986, 6 per cent of those employed were professionals, 15 per cent were skilled, 28 per cent semi-skilled, 50 per cent unskilled, and 2 per cent staff-in-training (CSO, 2000; 2004). By 1999, the proportion of professionals had increased to 14.2 per cent. The skilled workers constituted 9.5 per cent of the employed, while the semi-skilled and unskilled constituted 10.6 per cent and 61.5 per cent respectively. By 2004, the proportion of professionals had declined to 5 per cent, that of skilled workers to 8.3 per cent, that of semi-skilled to 7.5 per cent (CSO, 2006a). Only the proportion of unskilled workers increased (78.7 per cent). The declines were mainly due to emigration and HIV/AIDS-related deaths.

The non-formal labour market was mainly dominated by unskilled labour in the 1980s, but there was reasonable growth in skill level in the informal economy in the 1990s and more so after 2000 because of retrenchments and resignations from the formal sector. From 2004, people left formal employment voluntarily, especially in the public sector, because earnings therein were lower than those in the informal economy.

A comparison of the 1999 and 2004 figures reveals the toll of the economic crisis on the labour market. The number of professionals declined by 65 per cent, that of skilled workers by

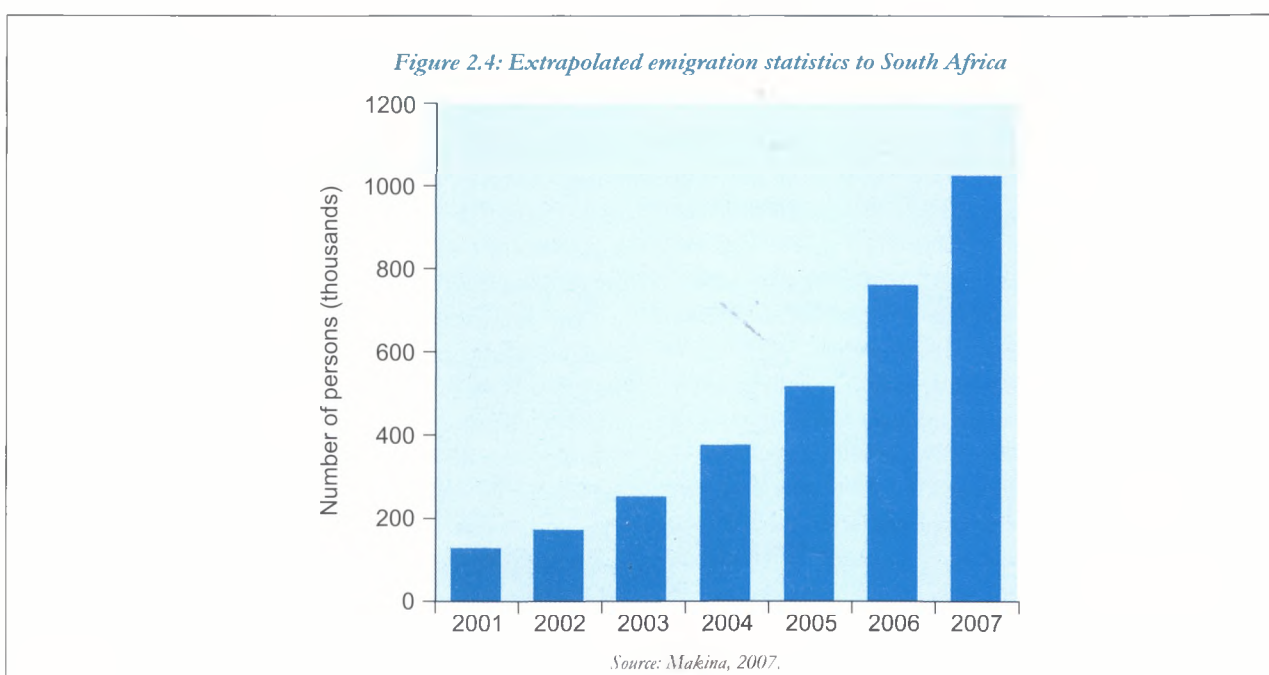


13 per cent, and that of semi-skilled workers by 29 per cent. The decline in numbers of professional and skilled workers is cause for concern given the importance of skilled labour in economic growth and development. The growth in unskilled labour is detrimental to economic initiatives seeking industrial growth, global competitiveness and improved living standards. In fact, Chiripanhura (2008), reported that in 2005 the majority of employers in the textile sector lamented that productivity in their enterprises was held back by the lack of skilled workers, the majority of who had emigrated to South Africa.

Figure 2.3 shows that emigration started increasing from 1996, exceeding immigration from 1997 onwards. The figures do not capture people who left for neighbouring countries

through illegal exit/entry points dotted around the country, especially in 2007 and 2008 when economic decline increased. It is estimated that over three million people, among them professionals like teachers, nurses and doctors, left the country (IOM, 2005; Bloch, 2006). Although the majority of emigrants went to South Africa, growing numbers also went to Mozambique and Zambia.

Despite the lack of official statistics for the period beyond 2002, it is apparent that emigration increased during that period. On the basis of Statistics SA data, Makina (2007) extrapolated emigration statistics to South Africa that are represented in Figure 2.4.



The Figure shows significant emigration to South Africa as economic crisis deepened. The emigrants' skill base covered the whole spectrum, but there was a relatively larger proportion of unskilled and semi-skilled labour.

The growth of unskilled labour in Zimbabwe may also be due to reasons other than emigration. For example, the introduction of cost recovery measures in education and training since the introduction of economic reforms in 1991, reduced both State and personal investment in education. Other factors include, the decline in the economy, rising poverty and shortage of training staff in vocational education and training institutions. In addition, unskilled labour is not tradable and as such has no demand internationally. Where such labour has emigrated to neighbouring regional economies, it has been accused of under-cutting local wage rates.

Notwithstanding the above, one negative aspect of the economic crisis was making access to education costly. From 2004, school fees, especially at boarding schools, increased tremendously, resulting in some parents pulling their children out of such schools and placing them in less expensive but poorly equipped schools, while others pulled their children out of education altogether. Further, there was low morale among teachers who were striving to survive economically. Teachers left schools in large numbers because their salaries were not adequate to provide a decent standard of living, resulting in the closure of many schools by the second half of 2008.

The structural growth in the labour force, together with high participation rates in the face of economic recession, resulted in unemployment growth. The nature, dynamics, and controversies of unemployment are examined below.

### *The problem of unemployment*

Unemployment has been a problem in the economy since Independence. The rate reported for the 1980s is 11.6 per cent. It increased during the structural adjustment period to reach a peak of 21.8 per cent in 1992 before decreasing to 6 per cent in 1999 (CSO, 2004). The 1992 peak was partly a result of the drought that year. According to the 1999 labour force survey, unemployment in Harare and Bulawayo was 13 per cent and 14 per cent respectively, and the average for other provinces ranged between 1 and 3 per cent, including communal farmers. Harare and Bulawayo are industrial satellites that attract labour from the rest of the country, and company closures due to economic decline contributed to the concentration of unemployment in these cities.

According to the most recent labour force survey, the unemployment rate for 2004 was 9 per cent (CSO, 2006a). The CSO mainly uses the narrow definition of unemployment which classifies a person as unemployed if he/she is aged 15 years or older, and during the reference period was without work, was available for work, and was actively seeking employment. Other institutions use broader definitions when

measuring unemployment and consequently come up with much higher figures. Using productive economic activity to define unemployment can be problematic because often people engage in many types of activities, some of them survivalist in nature, but would still prefer to be employed. Thus, using the strict definition, very few people will be (statistically) regarded as unemployed. This is supported by Serneels (2004) and Krishnan *et al* (1998)'s assertion that unemployment in Africa may be restricted to wealthier households whose members can afford to stay away from any economic activity while looking for suitable employment.

The important questions arising from this discussion are: how useful for policy are unemployment statistics, even the ones based on a broader definition? When we look at the measurement of unemployment, some categories into which respondents are classified (own account worker and unpaid family worker) pose a problem in calculating unemployment statistics since they are likely to hide people who may otherwise be unemployed. Further, the condition that the respondent must have been seeking employment during the reference period can also be problematic, especially since job search is not necessarily a continuous process. This is particularly so in the rural sector where infrastructure is poor, production seasonal, and the dominant type of employment casual.

Suitable concepts that can indicate the hardships faced in the labour market are under-employment and whether or not existing jobs can be called decent work. As reported by the UN Economic Commission for Africa (UNECA) (2005), there are many people disguised as employed in the informal economy who are in fact under-employed, and are striving to make ends meet. Under-employment and decent work are however complicated to measure. Decent work implies safe work in a healthy environment with guaranteed income and employment security, a concept very important for the improvement of conditions in the informal economy. Under-employment is defined as the proportion of employees working part-time, that is, those working for hours less than a given limit, usually less than 20 hours per week. Official statistics record under-employment in formal employment only. Under employment is reported to have increased from 11 per cent of total employment in 1990 to 15 per cent in 2000. It is anticipated to have increased during the recession, though the statistics are under-estimations since they exclude the informal economy. We contend that under-employment should also capture people engaged in activities that fail to fully utilise their skills. This includes skilled people who, for various reasons, cannot fully utilise their skills especially in the informal economy.

Under-employment related to the misallocation and/or ineffective use of skills has grown significantly over the past few years as professionals have left formal employment to join the informal economy. This has not been measured, but can clearly illustrate the degree of waste in the economy. Thus, in order to capture under-employment in the informal economy, its

definition needs to be expanded to include 'skilled workers working too hard to produce very little from informal activities'. If the informal economy is included, under-employment measured in terms of hours worked, generates biased statistics because the problem in the informal economy is due to underutilisation of skills and use of inappropriate equipment (low productivity), not shortage of time. Thus, the definition can be varied to cover people whose productivity falls significantly below the industry average. The definition needs to reflect prevailing conditions in the country rather than be a 'straight jacket' tailored for the sake of comparability.

Given the above, we can argue that while the CSO figures and underlying definitions are statistically correct, they may not be very useful to the local situation for various reasons. Firstly, the situation on the ground shows massive open unemployment, which many observers and commentators estimate at over 70 per cent (Kanyenze, 2006; United States Department of State, 2005). Secondly, the definition of unemployment is too strict to be relevant in the African context where there is massive underemployment, multiple activity, and subsistence production. Since people have to engage in different types of activities for survival, counting such persons as employed irrespective of how intermittent the activities may be results in statistics that are not useful for policy. It is apparent

that unemployment has generally been high, posing a serious challenge to the economy. In fact, the decrease in unemployment shown by official statistics is accompanied by increase in poverty, indicating that unemployment is an inadequate indicator of labour market problems in the economy.

Examining the inverse relationship between poverty and unemployment in the economy actually gives a better understanding of the hardships faced by many households (UNECA, 2005). The existence of unemployment is a revelation of labour market allocative inefficiency. More importantly, its composition is cause for serious concern. It is characterised by a disproportionate representation of the youth (ILO, 2006). UNECA (2005) stated that sub-Saharan Africa's youth unemployment averaged 21 per cent in 2003. The extent of the problem in Zimbabwe was confirmed by Kanyenze (1997) who found that the youth constituted 62 per cent of the unemployed. By 1999, the proportion had increased to 73 per cent (CSO, 2000). In 2004, 42 per cent of the urban unemployed were youths. These high youth unemployment statistics not only reflect the demographics of a youthful population but also indicate that there are fundamental labour market problems hindering smooth school-to-work transition.

The principal causes of high unemployment include low economic growth, labour force growth, rural-urban migration,



*The decline in numbers of professional and skilled workers is cause for concern given the importance of skilled labour in economic growth and development  
(Photo © Tsvangirayi Mukwazhi).*

and a small private sector incapable of creating enough jobs and apprenticeship opportunities. In addition, the youth lack skills owing to an education system that has, for years, been failing to equip them with relevant practical skills for self-employment or for employment (UNECA, 2005). The situation is made worse by the lack of adequate paid attachment opportunities in the economy. Although one may argue that the youths could seek unpaid attachments to gain experience, most of them are too poor to engage in unpaid attachments, most of which are available in urban areas where the cost of living is high. The main effects of unemployment have been emigration (regionally and internationally) and increase in poverty.

Notwithstanding the issues discussed above, the question is: when stability is restored, what should be done to revitalise the labour market? This is a tricky and yet very important question: important because it encourages us to start debating about policies necessary to revive the labour market given that employment can be used as an instrument to fight poverty. The discussion below is premised on the fact that labour is an important resource at the disposal of households. It is important for income distribution, and acts as a linkage between production and consumption. Whatever labour market policy changes we suggest here should be part of an economic stabilisation and growth strategy because some of the proposals require change in other sectors of the economy for them to be successful.

### **2.3. Policy options necessary for labour market stability**

This section presents a package of labour market reform policy options that the Government of Zimbabwe may need to consider if it is going to address the labour market challenges discussed above. The Government can choose one of two approaches. It can choose a passive approach that allows the markets to shape the nature and form of employment and employment practices, or it can decide to adopt an active labour market policy. The State will need to adopt active rather than passive labour market policies in order to deal with the challenges posed by unemployment and under-employment. The policy options we suggest include the revitalising of the national statistics collection system and the education and training system; the need for effective manpower planning; the need for small and medium-scale enterprises support, skills training and upgrading; and the implementation of an appropriate incomes policy. Some of the policies need to be implemented sequentially, with issues like incomes policy necessary at a later stage when a positive growth path has been attained.

#### *Focus on skills training and upgrading*

The problem of youth unemployment mainly originates from the shortcomings of the education system that produces academically qualified but unemployable youths because they

lack the skills required in industry. In fact, the system is supply-rather than demand-driven. The result has been an overabundance of academically qualified individuals competing for very few jobs. Furthermore, while academic achievement makes one trainable, there have been declining opportunities for skills training in the economy. The centralisation of apprenticeship recruitment by the Government and the reluctance of employers to take on apprentices has resulted in declining training opportunities. Even where individuals have funded their skills acquisition through attending vocational colleges, most of them have ended up as semi-skilled workers because they do not go through the national skills grading and certification system.

Given this scenario, a two-pronged approach to dealing with the skills requirements of the economy is proposed. First, the apprenticeship training system should be made more efficient so that firms have more input into the system. Firms should be given incentives to encourage them to take on more apprentices. Second, vocational college graduates who swell the ranks of the semi-skilled need to be encouraged to go through trade testing so that their skill levels can be graded. One way to encourage them to be tested is for industry to offer an earnings premium on skilled labour. The unskilled should also be encouraged to go through vocational training so that they improve their skills.

As the economic meltdown took its toll, there was increasing pressure on the existing vocational training institutions. However, the fee requirements increasingly became unaffordable, making the institutions inaccessible. It is important that the Government sets up a loan and grant scheme to assist the needy so that they can borrow and finance their education. A similar system should be put in place for technical college and university education. There is need for the Government to create more opportunities for poor people in education and training. This is particularly important given that education can be used as a ladder out of poverty.

All education and training should be subject to a national manpower policy that examines the skills requirements of the economy and avails the information to potential trainees. Such a policy, with input from industry, should monitor the stock of skills and advise colleges and universities to modify their recruitment and training systems to respond to skills shortages and surpluses. Wide dissemination of information on the skills requirements of the economy will be necessary through career guidance and counselling sessions so that students can make decisions with a full set of information. This makes education and training demand- rather than supply-driven, and the operation of market forces in this regard should improve allocative efficiency.

#### *Alternative routes to skills acquisition*

As already mentioned, the education system has often been criticised as being too academic oriented (Ncube, 2003; Chiripanura, 2008). This orientation has placed hurdles in

training, such that students who fail to achieve the minimum requirements of five O-level passes including English and Mathematics, cannot access college training. The existence of such a restrictive system without alternative routes for those who fail to make the grade leads to inefficiency in the labour market. They end up joining the ranks of the unskilled and semi-skilled workers despite the fact that some of them have aptitude to become skilled workers. We therefore propose the expansion of the existing system to offer indirect routes to skills acquisition. Such routes can be useful to those that fail to achieve minimum academic requirements but have the flair to follow certain skilled professions. Copying the good practices already existing in other systems, where access courses exist can help people with ambition to realise their goals. This approach can help rebuild the nation's dwindling skill base.

### *Exploiting the nation's comparative advantage*

Although Zimbabwe is emerging from the economic crisis there is need to focus on how to take advantage of the opportunities presented by the current challenges. The nation experienced significant growth in unskilled and semi-skilled labour during the crisis period. While the growth of this type of labour is a cause for concern, there is a need to realise that this type of labour can be taken advantage of. The existence of such labour indicates that the economy has a comparative advantage in low-skill sectors like agriculture, construction and distribution. As such, economic policy should seek to promote growth in these areas so as to deal with the problem of unemployment.

### *Revitalising agriculture*

Agriculture remains full of potential to kick-start economic growth, especially given the linkages between the agriculture and manufacturing sectors. Thus, revitalisation of the agricultural sector should be top priority of dealing with the current labour market problems. The sector has potential to generate massive low-cost job opportunities, further enhanced by employment growth in downstream industries like agro-processing, clothing and textiles, and chemical manufacturing (e.g. fertilisers and pesticides).

### *Promoting the construction sector*

The bulk of employment in the construction sector is low skill, and reviving the sector will employ more of the unskilled labour in the economy. Currently, the sector is one of the worst affected by the economic crisis, recording massive declines in employment and contribution to GDP. There exist construction projects that have not been completed for the past five or more years because of shortages of building materials. Revival of the construction sector rests on revival of the manufacturing sector that produces building materials, and

growth in both sectors should create many jobs. A national housing strategy needs to be developed that allows councils, companies, and individuals to finance housing projects. This will not only create jobs, but will also assist in the long-term progress of living standards. Individuals, especially those in the diaspora, are willing to contribute to the construction of houses but are constrained by the shortage of building materials, and where the materials are available, the prices are too high in foreign currency terms.

### *Facilitating the orderly return of migrants*

The economic crisis generated waves of migrants leaving Zimbabwe for greener pastures both regionally and internationally. Most of these migrants are skilled workers who respond to world demand for their skills. The tradability of their skills implies that they are able to establish permanent settlement in their respective new nations. Yet differences in culture and other problems mean that many of the migrants may be willing to return to Zimbabwe once stability has been achieved. This may occur with a lag, therefore, investment in education and training needs to be stepped up in the short-term. While the return of skilled migrants can be beneficial, it needs to be managed properly so as to allow returnees to settle well and not crowd out existing workers, some of whom have vital experience managing the difficult economy. Returnees need to be incorporated into the system without being given preference over those that stayed in the labour market. The returnees' main advantages are the skills and experience gained from abroad which can be tapped into the economy.

The sustainable return of migrants should ensure that they do not re-migrate by ensuring that they secure employment in their areas of expertise. There is also need to ensure that the returnees who may be better endowed with money than those that remained in the economy do not push up the cost of services such as accommodation, education and health delivery.

### *Need for an incomes stabilisation policy*

The current economic problems require that after stability is achieved, a comprehensive incomes policy be introduced. The collapse of real wages in the formal sector caused massive resignation of professionals, some of whom joined the informal economy while others emigrated. The existing earnings structure is skewed within and between sectors such that those at the bottom are most affected. Of particular interest are the differentials between private and public sector earnings: up to 2003, the differentials increased quickly, resulting in workers moving from the public to the private sector. The differentials were more pronounced among skilled workers making public sector employment second best. Once stabilisation is achieved, it is important that both the private and public sectors develop proper and attractive remuneration



systems that can attract people back into formal employment. The market must be left to determine earnings rates, but evidence on the ground and from history shows that there is a need for active policy to deal with earnings inequality. The least the Government can do is to restore the image of public sector employment so that it can attract requisite skills.

A starting point will be to set up a Commission of Inquiry into Incomes, along the lines of one set up at Independence, the Riddell Commission, to look into the same issue. This should help in coming up with an acceptable and affordable incomes policy.

An incomes policy should serve both the rural and urban sectors. While minimum wage legislation may be difficult to implement in the rural and informal economies, other strategies need to be considered. An example is public works to redevelop rural infrastructure remunerated at the set minimum wage rate. Proper channelling of funds and management of public works programmes can help boost infrastructure development while also raising household incomes, thus reducing both poverty and unemployment. The removal of maize, tobacco and cotton price controls can also help stimulate production that should have the spinoff of higher employment and implicit wages.

### *Promotion of the informal economy*

The informal sector has become the backbone of the economy. It must therefore be supported in so far as it creates and maintains jobs. However, there is need to deal with the problem of under-employment by creating adequate and relevant employment opportunities for people of varying skill levels. The formal sector alone cannot create adequate jobs, and its small size relative to the labour force has resulted in employers raising the minimum entry qualifications for jobs that require lower educational training (King, 1990). Those that cannot be employed formally are forced by circumstances to join the informal economy, resulting in this sector employing more people than the formal sector.

While the dominance of the informal sector over the formal one is undesirable because the former does not contribute to the fiscus; this disadvantage needs to be balanced with the need for massive job creation. Stability will likely, in the short term, result in sharp negative pay offs, especially in vulnerable and unprotected sectors. This must be taken into account at policy formulation stage so that Government puts in place programmes to alleviate the negative outcomes of stabilisation. The formal sector may require financial support to allow it to adjust smoothly towards a growth trajectory. Households may need to receive support to remain food secure during the early stages: this can be in the form of transfers (see Chapter 8) or public works programmes.

Studies conducted on the informal economy (Gemini, 1991, 1998; Kanyenze *et al*, 2003; Chiripanhura, 2008) highlight

the problems affecting the sector, particularly lack of access to credit. It is paramount that the Government develops an informal economy framework that allows for easy access to credit, availability of sheltered working space, and reform of regulations to facilitate the growth and development of the informal economy. Operators in the sector also lack management skills, and it is important to focus on delivering such knowledge to the sector. Additional growth can be achieved by enhancing linkages between the formal and informal economies whereby the formal sector can subcontract the informal sector in production. Not only will this introduce standardisation and quality improvements in the informal economy, but it will also increase the level of integration in the economy thus creating growth.

### *Developing a national employment policy*

The country has operated without a coherent national employment policy for a long time. Thus the Government will need to develop a comprehensive national employment policy in consultation with relevant stakeholders (ILO Recommendation 122 on Employment Policy, 1964). Such a policy should focus, among other labour market issues, on the need for the following:

- a labour intensive growth strategy which should specifically tackle the problem of youth unemployment;
- a national minimum wage since current wage levels are well below living wages;
- development of a national health insurance scheme that covers all workers in the economy;
- addressing taxation issues to the extent to which they adversely affect the demand and supply sides of the labour market; and
- the promotion of work place partnerships for development and effective employment relations.

The policy should tie in with regional directives on labour administration, and should also address the need for effective linkages between education and training, as well as employment and national manpower requirements.

### *Reforming the system of economic management and labour administration*

The system of labour market administration has largely been centred on the Ministry of Public Service, Labour and Social Welfare. However, there are overlaps with other ministries that deal with some elements of the labour market, like the ministries responsible for small and medium enterprises development, the one responsible for women's affairs, gender and community development, and that responsible for youth development and employment creation. To minimise fragmentation and for better coordination, there is need for

consolidation of labour administration under one ministry with the intention of creating economies of scale in administration and policy formulation and implementation so as to address quickly the problems of unemployment and under-employment. Such consolidation under the Ministry of Labour will be important because the Ministry already has significant expertise which other ministries lack, and because of its tripartite approach to policy formulation and implementation (fostered by ILO conventions) which is more effective than approaches used by other ministries. Tripartism allows participation of other stakeholders in policy formulation, fostering ownership and successful implementation of programmes.

The new administrative system should make use of decentralised institutions like national employment councils (consisting of employee and employer representatives) in grassroots labour administration. Such councils should have an expanded mandate to deal with dispute resolution and the formulation of employment codes of conduct in order to avoid clogging of the system at ministry level. The divisive system that empowers firm level institutions over bipartite (and superior) employment councils must be removed so as to create a coherent and stable system of administration. The role of the Ministry of Labour should be supervisory rather than one where it deals with almost everything to do with employment.

#### *Institution building and the role of trade unions*

Building the institutions of labour administration should include an active role for the trade union movement. As highlighted previously, the trade union movement has been an important player in the campaign for social and economic justice, calling for good governance, and fighting for the protection of workers' rights. It has mobilisation and technical capacities that can be harnessed for the purposes of economic growth and development. Including it in labour administration,

through tripartite arrangements like the Tripartite Negotiating Forum (where labour, Government and business come together to discuss policies) and national employment councils, enriches relations and reduces the occurrence of industrial action. Tripartism, which is currently unique to labour administration, can be extended to cover economic policy formulation, and in both cases there will be need to make the position of social partners stronger than what currently exists under the Tripartite Negotiating Forum. The labour movement has the capacity to contribute effectively to policy as shown by its 1996 critique of the structural adjustment programme. Since then, there has been close tripartite cooperation and synergy especially at a technical level that should be exploited for the benefit of the economy.

#### **2.4. Conclusions**

Based on this discussion it is clear that the economic crisis had two major effects on labour markets. The first relates to labour market restructuring that started with ESAP and accelerated during the crisis. This reshaped the structure of employment and clearly formal sector employment has been dwarfed by a burgeoning informal sector. While informal sector employment can be robust and provide an income on which to live, we also know that unpredictability and low wages create levels of insecurity and vulnerability that now characterise the urban economy in Zimbabwe. For sustained poverty reduction, more and better paying formal sector jobs will have to be created within the manufacturing sector. This will not be easy, given the massive skills flight that occurred over the past decade. This has implications for the recovery of the manufacturing industry. There will need to be interplay between the formal and informal sector focused strategies during the recovery period. For the manufacturing sector to recover, the agricultural sector must also improve as the two are intimately linked in the Zimbabwean economy. It is therefore to the agricultural sector that we turn in the next chapter.



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