

► Zimbabwe: Putting decent jobs at the centre of the economic development strategy

ILO Zimbabwe, June 2021

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► Foreword

This report presents the findings of the Zimbabwe Labour Market Diagnostic Analysis (LMDA), which the Government of Zimbabwe conducted through the Ministry of Public Service, Labour and Social Welfare, with support from the International Labour Organization (ILO), and its tripartite constituents.

These findings play a vital role in enhancing the achievement of decent work agenda for all in Zimbabwe as enunciated in the National Development Strategy 1 (NDS1). The LMDA assessed the current labour market situation and key constraints related to the creation of and access to decent and productive employment. It further identified economic sectors and activities that have the highest potential to create productive decent jobs, including in the informal sector of the economy; and identified policy interventions that can stimulate sustainable and inclusive job-rich growth.

The findings of the LMDA indicated that increasing living standards and promoting economic and social development in Zimbabwe would first require improving employment opportunities. Economies grow when more people work and when each job in the economy becomes more productive. At the same time, households escape poverty when labour income, the main source of income for most households, increases. This happens when more working-age household members are employed and when the quality of their jobs improves. Better employment opportunities for Zimbabwean workers are a key ingredient to the attainment of the upper middle-income status by 2030.

The LMDA presents specific recommendations of sectors with potential for employment creation. This will ensure we achieve our set target of 760 000 jobs, as stated in the National Development Strategy and contribute towards the achievement of Vision 2030.

The results of this survey will be fully utilised to inform policy interventions with three interrelated objectives, in the form of promoting the creation of formal employment; improving the quality of existing informal jobs; and facilitating access to employment, particularly for the most vulnerable workers. This will ultimately ensure a rise in participation and employment rates, higher earnings, better access to labour regulations and social insurance programs, as well as better enforcement of core labour standards.

Finally, we would like to take this opportunity to extend our gratitude and appreciation to the tripartite partners and all stakeholders for their support during the development of the LMDA report. More importantly, we look forward to the collaborative efforts to implement the recommendations.



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► Executive summary

Zimbabwe is facing significant development challenges due to years of negative and erratic economic growth that have sharply reduced the quantity and quality of employment. During the first decade of this century, the economy underwent a process of de-industrialisation and contracted by almost half. Employment continued to grow but labour productivity collapsed as jobs shifted from urban to rural areas, from the formal to the informal sector and from industry into agriculture, where labour productivity is 18 times lower. Hence, between 1999 and 2014, the agricultural sector added 960,000 jobs, compared to 300,000 in services and a net loss of 100,000 in industry. The recovery that took place between 2009 and 2018 brought output back to levels comparable to 1999, but labour market outcomes did not improve. Since 2014, the number of jobs in the industrial sector has increased by around 91,700, but some 288,000 jobs were lost in the service sector. In fact, in the last few years, there has been an important decline in participation rates, particularly among women in rural areas and a reduction in the total number of jobs.

Labour market conditions have continued to deteriorate over the last two years. In 2019, Zimbabwe's Gross Domestic Product (GDP) contracted by over 6.5 per cent¹ due to fiscal consolidation, Cyclone Idai and the devastating impact of a drought that severely affected agriculture and electricity production. The economy is expected to have further contract by 4.1-7.4 per cent in 2020 as a result of the COVID-19 pandemic, inflation and currency volatility.² Prior to the COVID-19 pandemic, about 57 per cent of the working age population in Zimbabwe was outside of the labour market, the unemployment rate reached 17 per cent and among those working, 80 per cent were in informal employment; about 8 million people (approximately 60 per cent of the population) were food insecure.³ The COVID-19 pandemic and associated containment/confinement measures have aggravated these problems. The report estimates that the above-mentioned impacts have been particularly severe among informal workers, women, youth, and those working in small enterprises.

In this context, this report aims to inform the preparation of a strategy to improve employment opportunities in Zimbabwe and promote inclusive economic growth. The study has three specific objectives:

- To map current labour market dynamics and identify the main constraints to the creation of, and access to, decent and productive employment.
- To identify economic sectors and activities with the highest potential to create higher quality jobs for Zimbabwean workers.

¹ Reserve Bank of Zimbabwe, "Monetary Policy Statement Focusing on Price and Exchange Rate Stability", (February 2020).

² "Zimbabwe and the IMF," International Monetary Fund. <https://www.imf.org/en/Countries/ZWE#> and http://www.zimtreasury.gov.zw/index.php?option=com_phocadownload&view=category&id=53:mid-term-reviews&Itemid=759

³ Authors calculations on the basis of the Labour Force Survey 2019 and estimates of the World Food Administration from December 2019.

- To identify policy intervention that can support strategic investments in these sectors with high employment prospects and contribute to support formalization strategies and local economic development.

Main structural factors affecting labour market outcomes

By far, the main issue facing the country is macroeconomic instability that generates uncertainty around the outcomes of investment decisions. After a period of relative stability between 2014 and 2019 following the implicit dollarization of the economy, structural imbalances re-emerged. The main culprits were fiscal deficits financed via the creation of quasi-money instruments resulting in an inflation and exchange rate depreciation spiral. Inflation thus remains above two digits and the parallel market premium surpasses 20 per cent. The higher premium reflects additional restrictions placed by the Reserve Bank of Zimbabwe (RBZ) - specifically on trading margins for authorized Foreign Exchange (FX) dealers - policy uncertainty, and a lack of publicly available statistics to guide market expectations.

Investments and job creation are also constrained by an inadequate business environment that increases transaction costs and reduces expected rates of return and severe problems accessing finance. The perspective of a group of business owners interviewed for this study is that doing business in Zimbabwe is expensive and risky, and therefore difficult to remain competitive. The main constraints they identify are in line with the low level of different indicators used to assess the business environment such as the availability of basic infrastructure and Information and Communication Technology (ICT) adoption; the effectiveness of property rights; the time it takes to open and register a business; and the level of skill found in the labour force, including digital skills. Further, the country ranks poorly on indicators such as credit to the private sector (only 22.4 per cent of GDP), access to finance by Small and Medium Enterprises (SME) and the soundness of banks. Those interviewed indicated that the problem is not only financing the creation of new businesses but working capital as well. Weak governance adds an element of risk that also reduces incentives for private investments. When compared to other countries in the region, Zimbabwe ranks poorly in terms of political stability, government effectiveness and the rule of law.

Concerning demand in the labour market, the formal sector is composed of primarily small firms operating mostly in the service sector with low levels of labour productivity. Around 45 per cent of firms have between one and nine employees and are three times less productive than larger firms.⁴ Both the entry and growth rates of firms are quite low. Thus, each year on average, the number of new formal firms in Zimbabwe represents only 5 per cent of existing firms compared to, for example, 25 per cent in Ivory Coast and over 35 per cent in Uganda. In addition, the firms that are created start small and tend to remain small. For instance, on average, firms that survive ten years add just one or two jobs.

At the other extreme, the informal sector, the main employer, is comprised of mainly very low productivity household enterprises that have weak incentives to formalise. Outside agriculture, they are often managed not by vocational entrepreneurs but by workers who, in the absence of wage employment, engage in low-productivity activities involving non-tradable goods and services. Informal

⁴ Based on World Bank enterprise survey of 2016 in Zimbabwe

business owners interviewed for this report are well aware of the benefits of being formal. They give as examples avoiding harassment from the police, access to finance and participation in public tenders, the ability to issue invoices to clients, being able to have fixed premises, and the possibility to relocate to the central business districts as benefits. However, formality also imposes costs in terms of the level of taxes, the registration process, and labour regulations. Around 75 per cent of respondents declared that paying taxes regularly would be a burden they cannot afford, indicating that labour and other taxes were too high and not tailored to the seasonality of their businesses.

Beyond the structural factors that affect the number and the quality of employment that the economy can create, there are important inequalities regarding access to existing opportunities. Labour market outcomes are influenced by 1) innate individual characteristics such as age and gender; 2) individual characteristics shaped by choices and formal institutions such as education; 3) geography and the economic sector, and 4) wealth, social and cultural factors. Some of the main issues identified in the report are as follows:

- **Gender:** Women are four times more likely than men to be out of the labour force, likely primarily due to social norms. Those who enter the labour market, however, are not more likely to be unemployed than men. At the same time, women who work are more likely to do so in the informal economy, particularly as own-account workers. Women also generate lower hourly earnings in informal activities and, in general, are less likely to be satisfied with the job they have.
- **Age:** As women, youth are four times more likely than adults to be inactive but other things being equal and contrary to what is observed in other countries, they do not face a higher likelihood of unemployment. Other structural factors that affect all workers alike (see above) seem to be the main drivers of unemployment. Young workers, however, are more likely to enter the labour market through the informal sector as own-account workers. Young workers are also less satisfied with their jobs than adult workers.
- **Education:** Workers with secondary and higher education are more likely to participate in the labour market than workers with primary or no education. However, education does not seem to reduce the risk of unemployment. One reason is that the skills acquired in universities and Technical and Vocational Education and Training (TVET) centres are not always relevant in the labour market. Another reason is that those with university diplomas are likely to wait longer for the right employment match, which increases the unemployment rate. Still, among workers who find a job, more educated workers have better opportunities in the formal sector.
- **Geography:** Not surprisingly, where people live make a big difference in terms of employment opportunities. Generally, the risk of inactivity and unemployment is higher in Matabeleland and Midlands than in the capital or other provinces. This can be explained by structural factors such as the lower prevalence of farm activities and the fact that urban areas in these provinces experience the effects of deindustrialisation more severely. Geography also affects the types of jobs that are available. For example, own-account work is more likely in rural areas and informal-wage employment in urban areas.
- **Economic sector:** The type of economic activity that workers engage in affects the type of jobs they have. Informal employment, for instance, is more likely in agriculture, manufacturing and construction and much less likely in the ICT, insurance and finance, education and health sectors. The type of informal employment workers also varies. Own-account work is more likely

in the manufacturing, mining, and market-service sectors and less likely in construction and non-market services. The opposite is true for informal wage employment.

- **Wealth:** The level of wealth of the household where workers live is arguably one of the main correlates of labour market outcomes. Workers living in poor households are more likely to be inactive or unemployed. The correlation is particularly strong in the case of inactivity both for women and men, and young and adult workers. Informal work, either in wage or self-employment, is also more likely for middle and low-income households. In the poorest households, 96 per cent of employed workers are in informal jobs and the majority of those are own-account workers. Among the richest households, the share of informal work falls to 64 per cent, closer to levels observed in middle-income countries.

Needs and opportunities in terms of employment creation

The working age population in Zimbabwe is expected to continue to grow relatively fast putting pressure on labour markets and further increasing the risk of unemployment and informality. If participation rates do not increase, the labour force would grow at the same rate as the working age population. This rate is close to 2.6 per cent per year today and it is unlikely to fall below 1.8 per cent by 2050. Thus, to maintain current employment rate constant at 83 per cent, the economy would need to create around 135,000 jobs per year over the next 30 years (or 122,000 per year over the next 10 years). If during this period participation rates for women increase to the same level as for men, the growth rate of the labour force would be around 0.7 per cent faster and the economy would need to create, on average, 200,000 jobs per year (or 165,000 per year over the next 10 years). To reduce the unemployment rate, the pace of job creation would need to be even faster. To reach an unemployment rate of 8 per cent by 2030, the economy would need to create some 184,000 jobs per year during the next 10 years and 165,000 jobs after that ten-year period, assuming participation rates do not increase. If participation rates do increase, the economy would need to create between 230,000 and 240,000 jobs per year.

The number and types of jobs that the economy will actually be able to create, and for whom, will depend on the level of investments and the expansion of output across economic sectors. Some sectors can create more jobs per unit of output (and per unit of capital), but these also tend to be lower-quality jobs, particularly in terms of labour productivity. For instance, the sector that has created the largest number of jobs is agriculture but these, for the most part, have been low-quality jobs.⁵ At the other extreme, sectors that are associated with high productivity jobs such as finance, ICT and professional services have created fewer of them and mainly for an elite of highly educated workers. The employment opportunities that different workers have also vary by economic sector. For example, the mining sector creates more jobs for youth than adults. There are also more women than men in non-market services and fewer in construction.

The analysis presented in the report shows that when holding labour productivity and quality constant, the sectors with the highest potential to lead the creation of jobs (both direct and indirect) are agriculture, transport and construction. These are followed by education, basic services, manufacturing

⁵ During the period 1990-2018, the average employment-output elasticity was higher in agriculture (0.3), followed by services (0.15). In industry, the expansion of output was more often associated with a reduction in employment levels.

and ICTs. For instance, expanding output in agriculture by the equivalent of 1 per cent of Gross Domestic Product (GDP) could create 60,441 new jobs. Of these, 53,518 would be created in the agricultural sector and 6,923 in other sectors. The transportation and construction sectors could create around 58,000 and 46,000 jobs respectively, and some 10,000 would be indirect jobs. The basic services, manufacturing and ICT sectors are therefore important because of their potential contributions in terms of indirect jobs.⁶

To increase employment rates and the quality of jobs for vulnerable workers, there is a role for the government to promote the expansion of leading sectors in terms of job creation,⁷ while intervening to increase labour productivity in agriculture. The report shows that Zimbabwe will have to grow above 5.5 per cent per year to keep employment rates constant and above 7.5 per cent to half the unemployment rate over the next decade (assuming constant participation rates). There are, however, different growth scenarios that could achieve these targets, and those with faster *overall* labour productivity and economic growth are not necessarily the best from a decent work perspective.

For instance, if all sectors, and therefore the economy, grow at 6.5 per cent per year, 163,400 jobs could be created annually over the next ten years; this is barely enough to keep employment rates constant, particularly without improvements in the quality of employment in agriculture. However, if, for example, the leading sectors record growth of 11 per cent per year, the other sectors of 2.5 per cent, and labour productivity in agriculture grow at 3 per cent, the economy would grow at a rate of 5.8 per cent per year and create 183,000 jobs annually over the next decade. In addition, the quality of employment in agriculture would improve. Similarly, to create enough jobs to reduce the unemployment rate, the country would be better off in scenarios where the leading sectors and labour productivity in agriculture grow faster than other, higher productivity, sectors. In scenarios where the leading sectors grow faster, the economy could grow at 7.5 per cent per year and create 212,000 jobs annually, while in the other scenarios the economy would grow at 8.5 per cent per year but create only 200,000 jobs.

Interviews with business representatives from the sectors with the highest potential in terms of employment creation suggest several investment opportunities are not taking place. In agriculture, respondents consider that primary production has been low, yet demand for food continues to increase. There is potential to increase output in the crop and livestock sectors, dairy production, horticulture, hatching and breeding, and packed fruit. Another subsector with potential in the agriculture sector is export-oriented primary production of commodities such as flowers, fruits and tea. As agricultural output expands, there will also be increased demand for specialized veterinary products, animal feed and agrochemicals, and services such as training for the increasing number of new farmers venturing into commercial agriculture.

In manufacturing, there are opportunities to be found in steel products but particularly in agribusinesses. Potential products include processed food, soft drinks and beverages, fertilizers, cotton products, fuel from sugar cane, dairy products and leather products. Other subsectors identified as having the potential to grow and generate employment include housing and construction materials

⁶ Green jobs and the care economy have also the potential to create quality employment. Further analysis would be needed to assess this potential.

⁷ The leading sectors are agriculture, transport, manufacturing, construction, and water and basic infrastructure.

(e.g., timber, ceiling boards, bricks and cement) driven by the expansion of residential housing, internet services, mobile apps and computer accessories which experienced a boost during the COVID-19 pandemic; and in the transport and logistics sector, tourism, public transportation, cross-border freight and passenger transport, customs clearing, logistics and freight insurance.

Towards an integrated strategy to promote decent work

Increasing living standards in Zimbabwe and promoting economic and social development will require, first and foremost, improving employment opportunities.

Economies grow when more people work and when each job in the economy becomes more productive. At the same time, households escape poverty when labour income – the main source of income for most households – increases. This happens when more working-age household members are employed and when the quality of their jobs improves. It is also likely that better employment opportunities for Zimbabwean workers will foster social stability and consolidate democracy.

Policymakers might therefore need to rethink some of the current economic and social policies and put decent employment at the centre of the economic development process. This is because markets alone are unlikely to allocate investments to the sectors that have the highest potential to improve employment opportunities for the majority of Zimbabwean workers. In particular, as shown above, an allocation of investments to higher productivity sectors that would maximize rates of return to capital and the rate of economic growth, is not necessarily socially efficient. However, the number and types of jobs this allocation would generate is unlikely to be what the country needs to reduce youth unemployment figures, increase participation rates among women, increase the share of formal employment and earnings or reduce poverty. The main reason is that, in general, private investors do not take the social value (the social externalities) of jobs into account. In fact, investments driven by profit maximization objectives might seek to reduce labour costs and therefore labour demand. At the same time, investments with potential to generate employment and therefore have a high social rate of return, might not occur because financial rates of return are not high enough.

An integrated strategy to promote decent employment would involve setting specific targets in terms of employment outcomes for different population groups across regions. Depending on the challenges facing these population groups, the relevant targets would include increases in participation and employment rates, higher earnings, a larger share of formal employment, better access to labour regulations and social insurance programs, as well as better enforcement of core labour standards. These targets would then inform policy interventions with three interrelated objectives: 1) promoting the creation of formal employment; 2) improving the quality of existing informal jobs; and 3) facilitating access to employment, particularly for most vulnerable workers.

Achieving these three objectives will require coordinating policies at three levels:

- **Macro and regulatory policies:** Getting these policies right and addressing the structural problems discussed above is a necessary condition to enable private investments and employment creation. They include: fiscal and monetary policies to ensure macroeconomic stability and, over the short-term, stimulate the economy and promote employment; improvements in the business environment - including through public investments in infrastructure - to reduce transactions costs and increase rates of return on investments;

enforce property rights and the rule of law to reduce investment risks; ensure access to finance; and promote investments in human capital.

- **Labour policies and programmes:** These are necessary to improve the quality of employment and to address the constraints facing different groups of workers to access jobs or move to better quality jobs. For instance, the quality of existing jobs can be improved by expanding the coverage of labour regulations and social insurance programmes. At the same time, well designed active labour market programmes can facilitate transitions from unemployment/inactivity into employment and from low to higher-quality jobs. Labour policies and programmes can also have an important role in creating employment. This includes, for example, reducing labour costs where possible, providing incentives to employers to hire first-time job seekers, or developing large scale public works and services.
- **Sectoral/regional policies and programmes:** These are critical to promote employment creation and better-quality jobs in specific regions and sectors, to improve labour market outcomes for targeted groups. The programmes can take different forms such as support the development of infant industries or value chains; extension services and contract farming for farmers; or interventions to promote entrepreneurship and the growth of SMEs in specific sectors.

The National Development Strategy (NDS1) proposes various initiatives at all these levels, but in most cases, they are not linked to specific objectives in terms of labour market outcomes. Further, there remain important issues related to design, implementation and coordination; this is the main challenge going forward. The report presents specific recommendations to prioritize and improve the design of the most promising NDS1 initiatives so that they become part of an integrated strategy to promote decent work. These recommendations are summarised in Table 1a.

The design and implementation of the various reforms and programmes will require better coordination across line ministries (particularly in terms of sectoral and regional policies), strengthening the policymaking process and social dialogue, and building state capabilities. The Ministry of Labour could be the institution that leads the decent work strategy, which would require investing in institutional capacities and allocating sufficient resources (human and financial) to set up a dedicated team responsible for coordinating the various activities. These include facilitating discussions and negotiations with different stakeholders; conducting or outsourcing the necessary analytical work; deploying public information campaigns; drafting new legislation; following up on the commitments of the various institutions involved in the design and implementation of the strategy; and setting up a robust monitoring and evaluation system to assess the impact of the different policies and programmes. Promoting social dialogue through the Tripartite Negotiations Framework (TFN) is a precondition for the successful design and implementation of any reform. Different stakeholders and social partners need to be involved in the reform process from the beginning. Zimbabwe can also consider setting up independent technical commissions in charge of designing parts of the reform programme and preparing legislation as a way to achieve political independence and fill gaps in terms of state capabilities.

► Table 1a. Main elements of an integrated strategy to promote decent work

Policy	Objective	Interventions/programs
<i>Macro and regulatory policies</i>		
Fiscal policy	Stimulate the economy to accelerate the recovery.	Maintain an expansionary fiscal stance to consolidate the COVID-19 Recovery Stimulus Plan focusing on transfers to vulnerable workers; temporary reductions in taxes and social security contributions; and financial support to SMEs conditional on employment creation.
	Protect employment and vulnerable workers.	Restructure the public debt and refinance arrears with international creditors, while accelerating reforms to improve Public Financial Management (PFM). Employment impacts should also be considered when discussing and adopting a new budget.
	Promote the creation of direct and indirect jobs.	Phase-out subsidies to the agricultural sector and reallocate resources to fund investments in infrastructure (as per the NDS1 plan) and fund pro-employment programmes (see below).
Monetary and FX policies	Reduce inflation and ensure a stable and competitive exchange rate to enable private investments and employment creation.	- Maintain reserve money targeting as the anchor for the new currency and ensure moderate reserve money growth through Open Market Operations (OMOs). - Continue to liberalise FX controls by phasing out the FX auction system, discontinuing FX allocation via the priority list, reducing the surrender amount for exporters, and eliminating restrictions set on the rate at which banks can transact in the market.
Regulatory reforms	Reduce risks and transaction costs to incentivise the creation of new and the expansion of existing businesses.	Accelerate the implementation of some of the key reforms described in the NDS1 to improve governance, resolve the issue of land ownership and protect property rights, enhance the business environment, and reform the education system to better prepare the new generation of workers.
<i>Sectoral and regional policies</i>		
Investment subsidies and industrial policies	Promote employment creation and better-quality jobs in specific regions and sectors in order to improve labour market outcomes for targeted population groups.	- Design, pilot and implement programmes that allocate subsidies (in-kind or in-cash) <i>competitively</i> to incentivise private investments <i>conditional</i> on job creation. Use them to: - Promote industrial development and the emergence of value chains in the leading sectors including agribusinesses. - Promote entrepreneurship and SMEs growth in leading sectors. - Promote contract farming.
<i>Labour policies</i>		
Active labour market programmes	Facilitate transitions from unemployment/inactivity into employment and from low to higher-quality jobs.	Design, pilot and implement programmes managed by specialised agencies that offer an integrated package of services to job seekers (e.g., counselling, training and skills development, job search assistance, wage subsidies) and that are paid based on results.
	Create temporary employment opportunities	Implement a <i>Statistical Profiling System</i> managed by Public Employment Offices to register jobseekers, assess the

Policy	Objective	Interventions/programs
	through public works and services.	constraints they face to find work, and allocate a per-capita budget. Adopt a new flag-ship <i>Public Works and Services</i> programme that integrates others and operates through the HSCT offering temporary employment building infrastructure, protecting the environment, in cultural activities, and in social services (including the care economy). Employment can be offered directly by the government, or through NGOs or social enterprises funded by the government.
Social insurance	Improve the quality of existing jobs by expanding the coverage of social insurance programmes.	- Reform the pension system to address solvency problems, improve the adequacy of benefits, and make redistributive arrangements explicit and progressive to enable its expansion to informal workers. - Conduct a feasibility study for the implementation of an unemployment benefit system that would gradually cover all workers. - Aim to integrate subsidies within social assistance, non-contributory, and insurance programmes to avoid overlaps and improve efficiency and equity. - Conduct a study to identify the cost-effectiveness of different administrative arrangements and monetary and non-monetary incentives to facilitate the gradual enrolment of informal workers in the social insurance system and collect contributions from those with the capacity to pay.
Labour regulations	Improve the quality of existing jobs by strengthening labour regulations. Incentivise the formalisation of low productivity firms.	- Reduce discretion in the setting of the minimum wage by enhancing the role (technical expertise and independence) of the Wages and Salaries Advisory Board in making recommendations about its level, at specified dates, and inform the work of the Tripartite Negotiating Forum (TNF). - Harmonize labour laws and ensure regulatory neutrality across contracts by extending the same rights and obligations to all workers and recognising the category of “autonomous independent” workers – workers who are self-employed but whose income depends on one or two companies –, giving them the same labour rights as wage employees. - Accelerate the implementation of the National Labour Migration Policy (NLMP) - If the unemployment benefit system is implemented, consider replacing severance pay with a dismissal tax. - Consider implementing special schemes for low-productivity firms by giving them temporary exemptions on some regulations (e.g., the level of the minimum wage, taxes and/or social security contributions) while enrolling them in programmes that give them support to increase productivity and output.

► List of acronyms

ALMP	Active Labour Market Programs
AMTO	Assisted Medical Treatment Order
BEAM	Basic Education Assistance Module
CIT	Corporate Income Tax
ECD	Early Childhood Development
EMCOZ	Employers' Confederation of Zimbabwe
FDI	Foreign Direct Investment
FSP	Financial Service Provider
FX	Foreign exchange
GDP	Gross Domestic Product
GIR	Growth Intake Ratio
GMB	Grain Marketing Board
HSCTP	Harmonized Social Cash Transfer System
ICT	Information and Communication Technology
IO	Input Output
ISIC	Industrial Classification of All Economic Activities
SME	Small and Medium Enterprises
KI	Key Informant
KII	Key Informant Interview
LEAP	(insert here)
LMIS	Labour Market Information System
MASAF	Malawi Social Action Fund
MPG	Multi-Purpose Cash Grant
NDS	National Development Strategy
NGO	Non-Governmental Organisation
NLMP	National Labour Migration Policy
NSSA	National Social Security Authority
OJT	On the Job Training
PDM	Post-Distribution Monitoring
PEO	Public Employment Offices
PFM	Public Financial Management
PISP	Presidential Input Support Programme
PPP	Public Private Partnerships
PS	Profiling System
PSNP	Productive Safety Net Programme
P4R	Payments for Results
QOG	Quality of Government
RBZ	Reserve Bank of Zimbabwe
RTGS	Real Time Gross Settlement
SA	Social assistance
SIB	Social Impact Bonds
SME	Small and Medium Enterprises

SOP	Standard Operating Procedure
TBI	Tapered Basic Income
TFN	Tripartite Negotiations Framework
TNF	Tripartite Negotiations Forum
ToR	Terms of Reference
TVET	Technical and Vocational Education and Training
TSP	Transitional Stabilization Programme
VAT	Value Added Tax
WASH	Water, Sanitation and Hygiene
ZIMRA	Zimbabwe Revenue Authority
ZNCC	Zimbabwean National Chamber of Commerce



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► I. Introduction

Zimbabwe faces significant development challenges, the result of years of negative and erratic economic growth that have sharply reduced the quantity and quality of existing employment. During the first decade of this century, the economy contracted by almost half. Employment, however, continued to grow at the expense of a deep drop in labour productivity. Essentially, without having the choice to remain unemployed and as paid employment declined, Zimbabwean workers shifted towards low productivity activities. Between 2009 and 2018 the economy resumed growth and by the end of the period labour productivity recovered to the levels observed in the year 2000 (around USD\$1,290 per worker) but labour market outcomes did not improve.

Today, a large share of the employed population is living in rural areas (63 per cent) and occupy informal jobs (80 per cent).⁸ Indeed, structural transformations have occurred in reverse, with employment moving from urban to rural areas, and from high to lower productivity sectors, mainly in agriculture. These changes in the distribution of employment explain the collapse in labour productivity and earnings. They also explain why inactivity and unemployment, which now accounts for 17 per cent of the labour force, have become a rural phenomenon with 74 per cent of inactive workers and 60 per cent of unemployed workers living in rural areas.

The COVID-19 pandemic and associated containment/confinement measures have aggravated these problems. The pandemic reduced access to production inputs, labour productivity, and the demand

⁸ According to the authors' computations using the LFS 2019 and ILO's informal sector definition

for goods and services. As a result, many companies were forced to make workers redundant and/or cut working hours and wages. This in turn reduced disposable income and further affected aggregate demand.⁹ The effects of the pandemic have been more disruptive among informal workers, women, youth and those working in small enterprises.

To increase living standards, it will be necessary to rethink current economic and social policies that place employment at the centre of the economic development process. This is necessary because jobs have social externalities that are not taken into account by markets and the private sector.¹⁰ Simply creating the conditions needed to mobilize private investments and promote economic growth might not be enough to create the number and distribution of employment required to reduce youth unemployment, increase participation rates among women, increase the share of formal employment and earnings or to reduce poverty. A different strategy would involve setting specific targets in terms of improvement in labour market outcomes for different population groups, which would then imply a certain number of interventions to promote investments in key regions and economic sectors, improve the quality of existing jobs and facilitate transitions from low to higher productivity jobs.

In this context, this report aims to inform the preparation of a strategy to improve employment opportunities in the country and promote inclusive economic growth. The study has three specific objectives:

- To map current labour market dynamics and identify the main constraints to the creation of, and access to, decent and productive employment.
- To identify economic sectors and activities with the highest potential to create higher productivity jobs for Zimbabwean workers.
To identify policy intervention that can support strategic investments in these sectors with high employment impacts and contribute to support formalisation strategies and local economic development.

The report is organized in six sections. Section 2 sets the context for the study by presenting an overview of the main characteristics of the Zimbabwean labour market and its dynamics. Sections 3 and 4 analyse the main constraints facing the country in terms of employment creation and access to jobs. Section 5 assesses the opportunities for structural transformations and the creation of decent work across economic sectors. The last section discusses how the government could build on the existing National Development Strategy (NDS1) to design an integrated set of policies and programmes that can promote the creation of formal employment, increase the quality of existing informal jobs and help connect workers to employment opportunities. The section also outlines issues related to the policy making process in Zimbabwe, social dialog, and state capabilities that would need to be addressed to enable the design and implementation of the necessary policy reforms.

⁹ Based on interviews with key informants.

¹⁰ Robalino, David A.; Walker, David Ian. "Economic Analysis of Jobs Investment Projects. Jobs Working Paper."



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► II. Overview of labour market dynamics

2.1 Growth, employment creation and labour productivity

After almost a decade of continuous economic decline at the turn of the century, Zimbabwe underwent a ten-year period of sustained economic growth that came to a halt in 2019. Between 2009 and 2018, the economy grew at an annualized rate of 7 per cent and, for the first time in almost 20 years, it once again reached the levels of output it had in 1999. However, in 2019, Zimbabwe's Gross Domestic Product (GDP) contracted by 6.5 per cent.¹¹ In 2020, the Zimbabwean economy could contract by 4.1-7.4 per cent as a result of the COVID-19 pandemic, drought, inflation and currency volatility.¹² It is estimated that, as a result, GDP per capita could fall to 70 per cent of the level observed in 1999.

The Zimbabwean labour market has adjusted to fluctuations in aggregate demand mainly through changes in labour productivity; until recently, employment and participation rates remained more or less constant. Since 1991, the total number of people in employment in the country has been growing steadily. During the worst part of the economic crisis, the unemployment rate did not increase by much (see Figure 1). Output per worker, however, plummeted along with the economy. This can in part be explained, by the shift of employment towards lower productivity activities, from industry and services to agriculture, from urban to rural areas and from the formal to the informal sector. The lack of investment in capital formation, obsolescence of existing machinery and low levels of human capital are also factors that affected labour productivity.

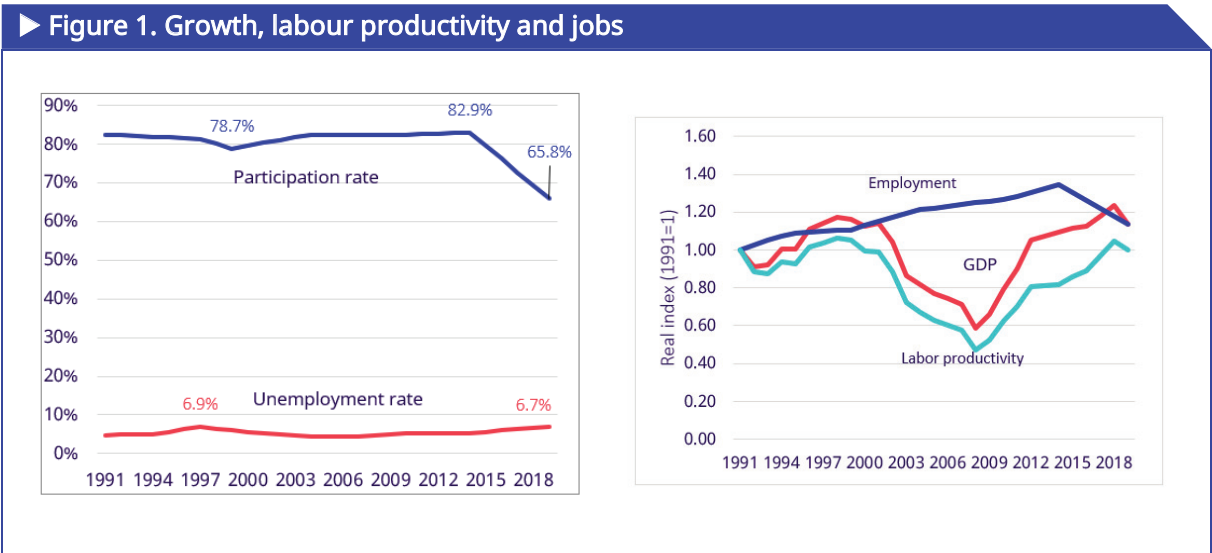
In the last few years, however, there has been an important decline in participation rates, particularly among women in rural areas, and therefore a reduction in the total number of jobs. Part of the decline

¹¹ Mangudya J. "Monetary Policy Statement. Focusing on price and exchange rate stability" 2020. Reserve Bank of Zimbabwe.

¹² "Zimbabwe and the IMF," International Monetary Fund.

https://www.imf.org/en/Countries/ZWE#http://www.zimtreasury.gov.zw/index.php?option=com_phocadownload&view=category&id=53:mid-term-reviews&Itemid=759

can be explained by changes in the definition of employment, which, to a large extent, excludes low productivity farmers that consume what they produce. This change in definition particularly affected women, as they represent 75 per cent of these “subsistence” farmers. However, even when working with the old definition, the economy experienced a reduction in labour force participation from around 90 per cent in 2014 to 66 per cent in 2019 (instead of 43 per cent with the new definition).¹³



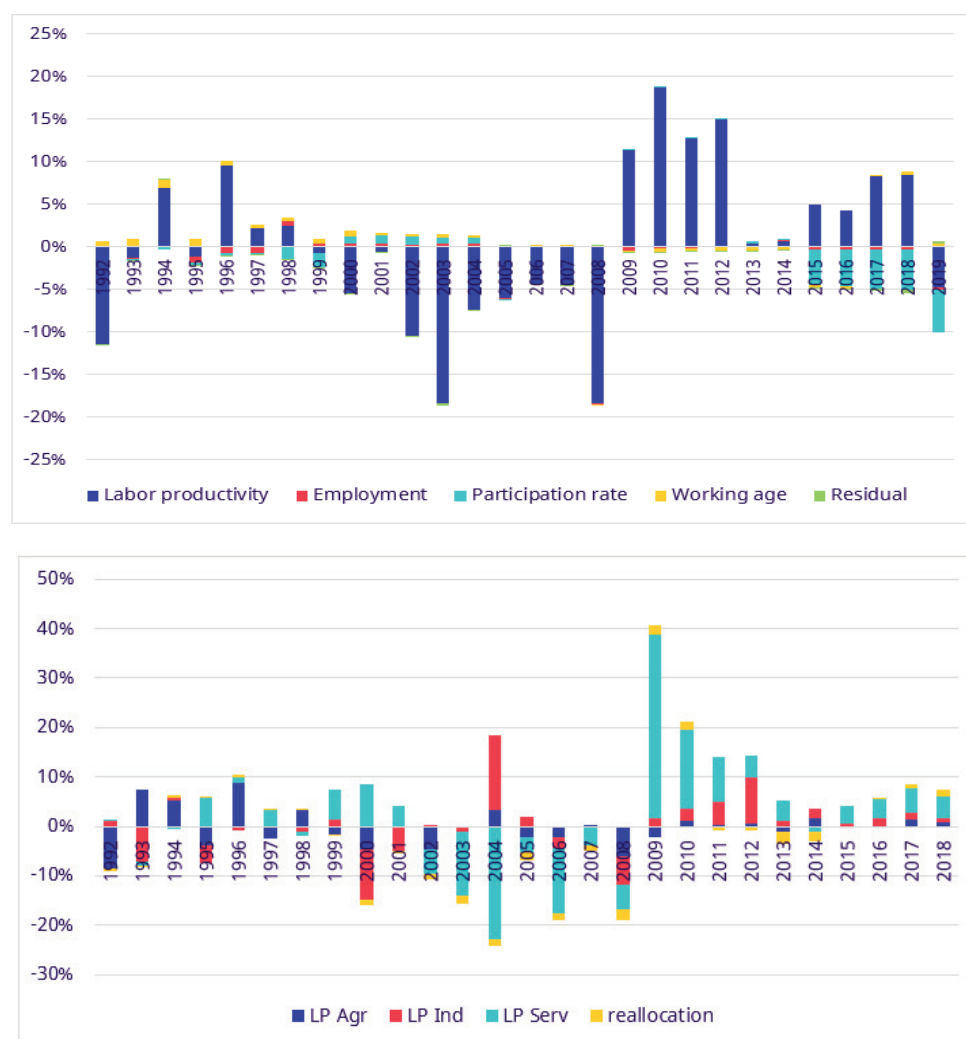
Source: Figures drawn by the authors based on national accounts¹⁴

GDP per capita growth has been primarily driven by the movement of labour across sectors and changes in the level of productivity in market services. Indeed, economies grow when workers move from low to higher productivity jobs (i.e., average labour productivity in the economy increases) and/or when each job in the economy become more productive (i.e., productivity within each economic sector increases). In Zimbabwe, economy-wide labour productivity has been the main driver of GDP per capita growth (see upper panel, Figure 2). In turn, labour productivity has responded mainly to labour reallocations across sectors and productivity growth in market services (see right panel, Figure 2). During the period of economic contraction, the decline in labour productivity was explained mainly by the movement of labour away from industry towards agriculture, where labour productivity is 18 times lower; a process of rapid deindustrialisation of the economy (see Figure 2). Negative labour productivity growth in the service sector also played a role but it was secondary. During the period of macroeconomic stability (2009-2011), there was a partial return to the industrial sector, output per worker in the services sector recovered and labour productivity increased. However, the process was again reversed in 2012.

¹³ A detailed explanation of computations and adjustments caveats is available in Annex 6.

¹⁴ Participation rate is here based on the old definition that was adjusted in 2019 to have a comparable time series.

► Figure 2. Decomposition of GDP per capita growth and labour productivity

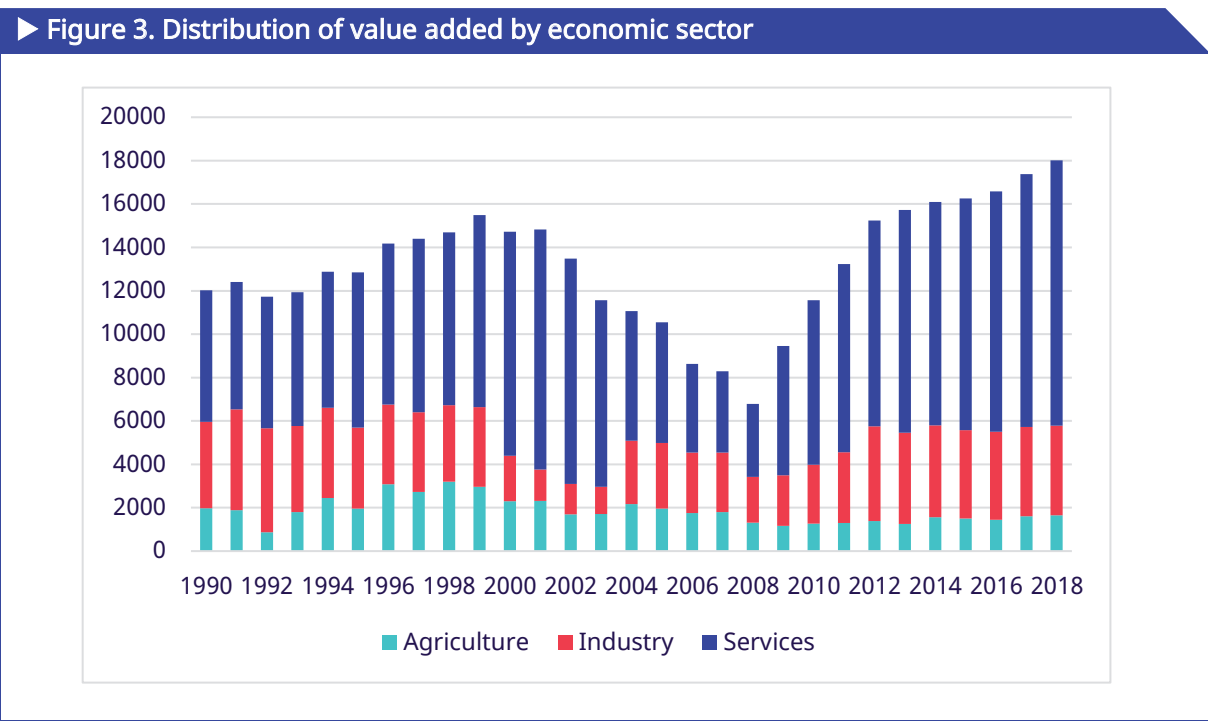


Source: Authors based on national accounts. "LP" stands for labour productivity.

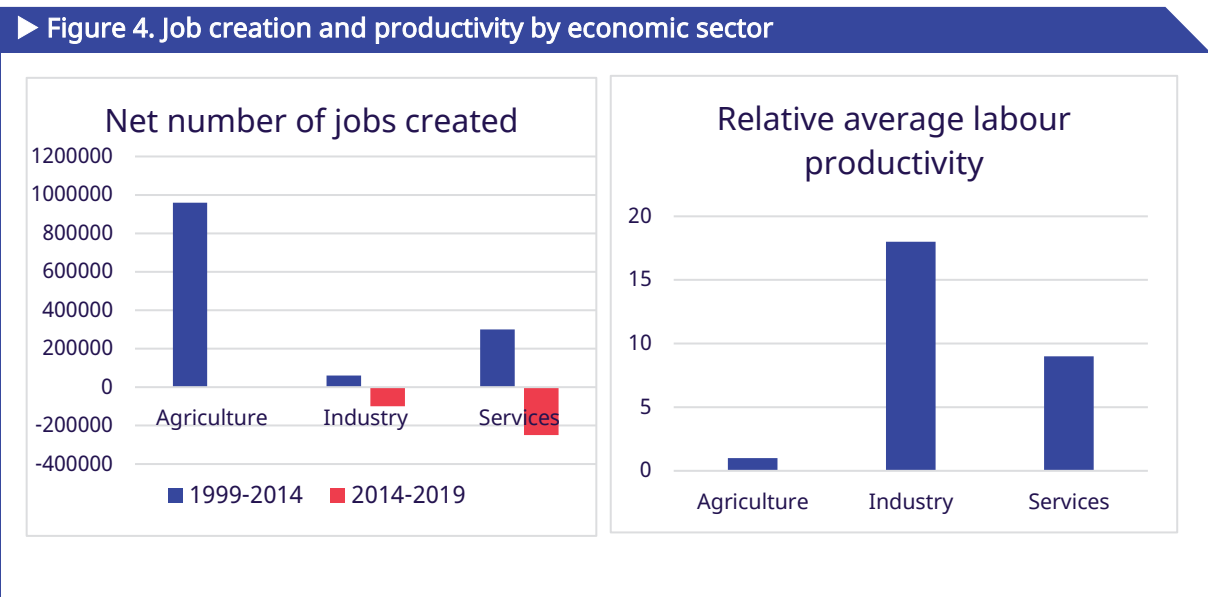
As of today, the agricultural sector is the main source of employment, followed by the services sector; the industrial sector generates a small share of jobs. The agricultural sector contributes only 8 per cent of the total value-added but employs 31 per cent of all workers (see Figure 3). Between 1999 and 2014, the sector added 960,000 jobs compared to 300,000 in services and a net loss of 100,000 in the industry (see Figure 4).¹⁵ This is consistent with the net-out migration of 1.5 million people from urban to rural areas throughout the period. Since 2014, the number of jobs in the industrial sector has increased by around 91,700, partly due to more stable macro conditions in the years following the financial crisis (the sector generates 7 per cent of total employment and 20 per cent of value-added). During the same period, however, some 288,000 jobs were lost in the service sector. The service sector now generates 60 per cent of value-added but accounts for only 27 per cent of total employment. Even within this sector where labour productivity is higher than in agriculture, most jobs are in low-end services in wholesale and retail trade (see Figure 5). Very few jobs are found in higher-end services such as

¹⁵ The main agricultural crops include maize, cotton, sugarcane and tobacco. Tobacco is the biggest agricultural export.

professional and financial services.¹⁶ There are therefore considerable inequalities in the distribution of employment within the sector.

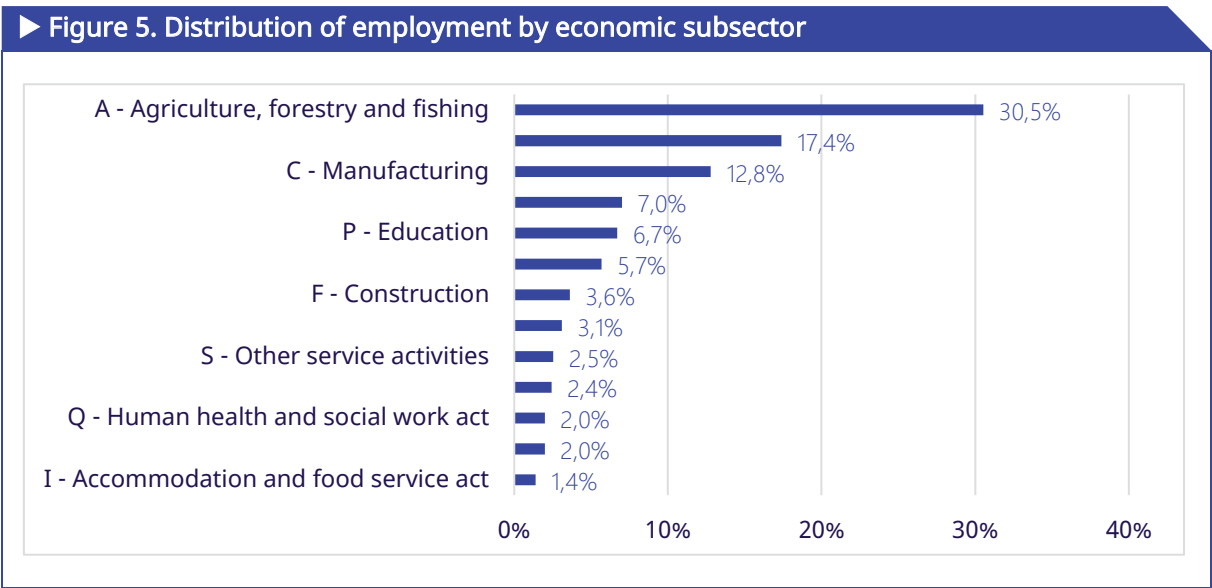


Source: Authors based on national accounts



Source: Authors, based on national accounts data and Labour Force Survey (LFS). Year 2019 is not displayed for agriculture because LFS surveys for agriculture are not comparable between 2014 and 2019.

¹⁶ Société Générale, “Zimbabwean Market: Main Sectors.” <https://import-export.societegenerale.fr/en/country/zimbabwe/market-sectors>.



Source: Authors, based on the Labour Force Survey 2019

2.2 Labour market outcomes and future needs in terms of employment creation

Zimbabwe has a working age population of around 8.1 million people, the majority (63 per cent) of which live in rural areas. This population can be divided into those who participate in the labour market (the active population) and those who do not (the inactive population). In turn, the active population can be divided into those who work (the employed population) and those seeking employment (the unemployed population). This subsection analyses the distribution of Zimbabwe’s labour force, employed and unemployed, by region, sex, and age, using the categories and definitions adopted by the 17th International Congress of Labour Statistics (ICLS).¹⁷ The section also analyses the distribution of the employed population by type of job (formal/informal wage employment and own-account work) and economic sector.

According to these new definitions, the size of the labour force is estimated at 3.5 million workers, 35 per cent of whom work in the capital. Participation rates for women are significantly lower than for men (53 per cent versus 34 per cent). Thus, while women represent 54 per cent of the working age population, they represent only 35 per cent of the labour force (see Table 1). The differences regarding in participation rates are among the largest in the region, closest to those observed in the Middle East and North Africa. They can partly be explained by the fact that the new definitions do not consider subsistence farmers as employed workers. As women represent the largest share of subsistence farmers, once they are removed from the employed (and active) population, their number in the inactive population increases.

¹⁷ See Annex 6.

► Table 1. Labour force participation by province and sex

Location	Working age population	Active population	Labor force participation(%)		
	Total	Total	Male	Female	Total
Bulawayo	420 891	243 377	65	52	58
Manicaland	928 470	346 771	47	30	37
Mashonaland C	636 419	250 399	46	33	39
Mashonaland E	755 669	240 419	42	24	32
Mashonaland W	868 996	384 099	53	36	44
Matabeleland N	420 708	108 210	36	18	26
Matabeleland S	380 898	108 225	37	22	28
Midlands	895 256	331 181	46	29	37
Masvingo	804 824	245 911	39	24	31
Harare	1 989 384	1 215 642	72	51	61
Total	8 101 515	3 474 234	53	35	43

Source: Authors based on the Labour Force Survey (2019)

The national unemployment rate is now estimated at 17 per cent, although it is considerably higher in rural areas, among youth and to some extent among women. The unemployment rate in rural areas is estimated at 21 per cent compared to 13 per cent in urban areas (see Table 2). The national unemployment rate for men (16 per cent) is lower than for women (18 per cent). The main differences are observed between young and adult workers. The unemployment rate in the 15-25 age group is 27.5 per cent. It drops to 17.5 per cent in the 25-35 age group, and to 10.2 per cent in the 45-55 age bracket (see Table 3). Those, workers in the 15-35 age bracket represent the majority (66 per cent) of the unemployed.

► Table 2. Unemployment rate by sex and location

	Labour force			Unemployed			Unemployment rate(%)		
	Male	Female	Total	Male	Female	Total	Male	Fem.	Total
Urban	985 886	808 573	1 794 459	104 212	128 246	232 458	11	16	13
Rural	963 230	716 545	1 679 775	208 453	144 725	353 179	22	20	21
Total	1 949 116	1 525 118	3 474 234	312 666	272 971	585 637	16	18	17

Source: Authors based on the Labour Force Survey (2019)

► Table 3. Unemployment rate by age group

	Labour force	Unemployed	Unemployment rate(%)
<i>Age group</i>			
<i>15 to 25</i>	774 485	212 908	27
<i>25 to 35</i>	1 002 703	175 771	18
<i>35 to 45</i>	889 785	119 347	13
<i>45 to 55</i>	484 665	49 584	10
<i>55 to 65</i>	216 212	18 712	9
<i>Above 65</i>	106 385	9 315	9
<i>Total</i>	<i>3 474 234</i>	<i>585 637</i>	<i>17</i>

Source: Authors based on the Labour Force Survey (2019)

A more serious problem is the quality of employment, given the high prevalence of informal jobs. Wage employees represent only 50 per cent of employed workers and many of them do not have formal contracts (see Table 4). The other half are own-account workers and contributing family members who for the most part operate in the informal economy. Thus, informal employment represents 80 per cent of total employment today. There is evidence that since the independence in 1980, the Zimbabwean economy has increasingly become informal. In 1980, the informal economy contributed only 10 per cent to GDP. This rose to an all-time high of 70 per cent in 2008.¹⁸ It is estimated that the “shadow economy” contributed up to 61 per cent of GDP between 1991 and 2015.¹⁹

► Table 4. Distribution of the working age population by employment status and sex

	Male	%*	Female	%*	Total	% total
<i>Employment Status</i>						
Total labour force above 15	3 695 595	46	4 405 920	54	8 101 515	
Inactive	1 746 479	47	2 880 803	65	4 627 281	57
Unemployed	312 666	8	272 971	6	585 637	7
In employment	1 636 450	44	1 252 147	28	2 888 597	36
1 - Employees	891 235	54	540 665	43	1 431 899	50
2 - Employers	96 314	6	45 712	4	142 026	5
3 - Own-account workers	594 416	36	592 039	47	1 186 455	41
4 - Contributing family members	54 486	3	73 731	6	128 217	4

** percentage of each sex on the total of the column.*

Source: Authors based on the Labour Force Survey (2019)

¹⁸ Makochehanwa A. and Kwaramba M., “Dwindling access to basic services in Zimbabwe,” 2010. <https://mpr.ub.uni-muenchen.de/id/eprint/28271>

¹⁹ Medina.L and Schneider.F; “Shadow Economies Around the World: What Did We Learn Over the Last 20 Years?”, IMF working paper, 2018.

With the exclusion of the agricultural sector, most informal employment²⁰ is concentrated in the service sector. Most informal jobs are in wholesale and retail trade, motor vehicle and motorcycle repair, followed by manufacturing. Other subsectors with a significant concentration of informal employment are transport and storage, then mining and quarrying (Figure 6). The aforementioned sectors largely employ men. Thus, in Zimbabwe, informality rates among men (78 per cent) are not very different from those observed among women (80 per cent) (see Table 5).

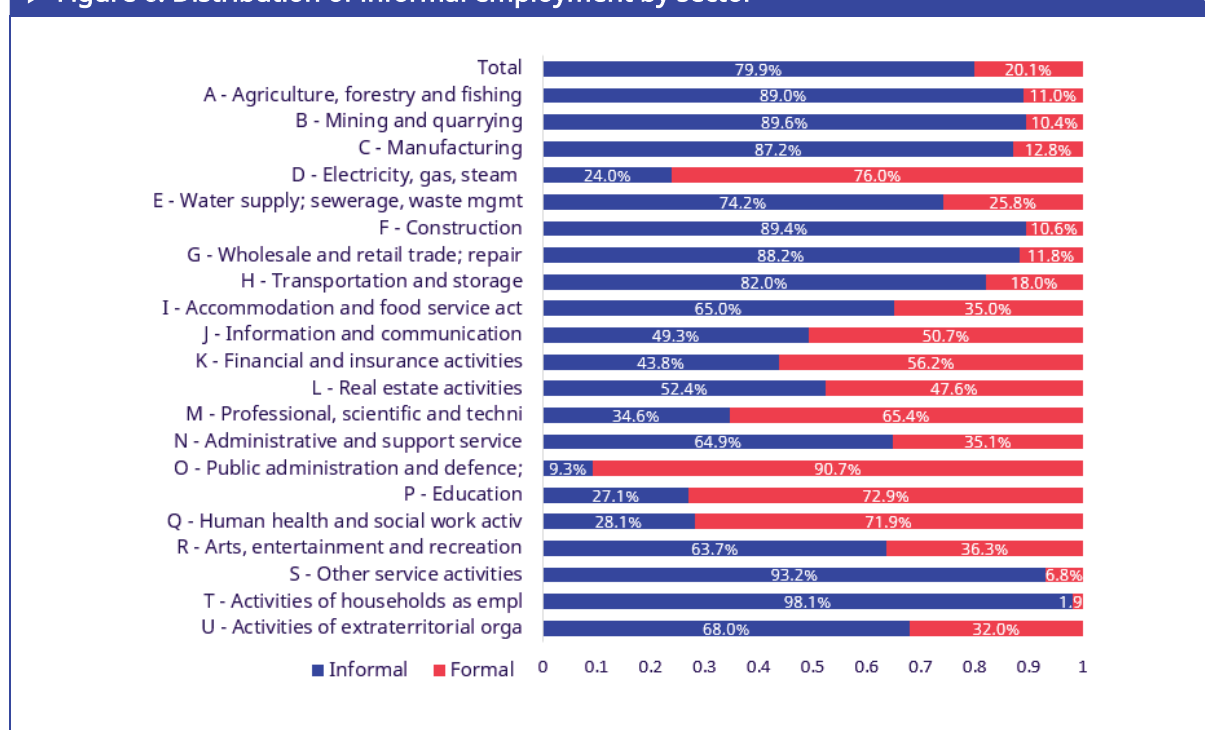
► Table 5. Percent distribution of the employed population by type of work and sex

	Male	%*	Female	%*	Total	% total
<i>Type of employment</i>						
Informal employment	1 292 245	79	1 012 283	81	2 304 528	80
Formal	344 206	21	239 863	19	584 069	20
Total	1 636 451	57	1 252 146	43	2 888 597	100

* percentage of each sex on the total of the column

Source: Authors based on the Labour Force Survey (2019)

► Figure 6. Distribution of informal employment by sector



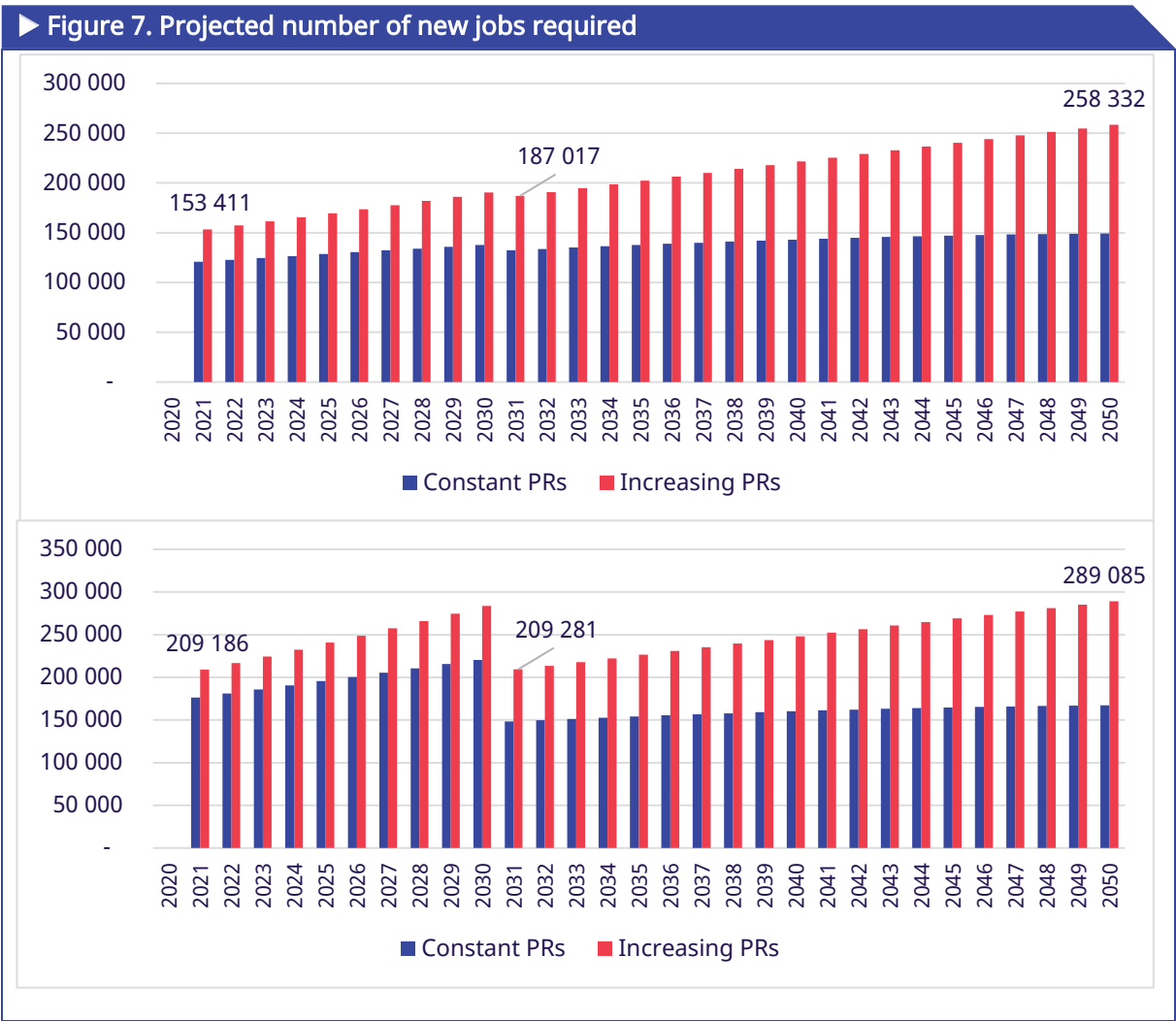
Source: Authors, based on the Labour Force Survey 2019. The definition of Informal employment follows the ILO Zimbabwe definition described in Annex 6.

The working age population in Zimbabwe is expected to continue to grow relatively fast, thus adding

²⁰ Informal employment is following ILO's definition available in Annex 8.

pressure on labour markets and increasing further the risk of unemployment and informality. If participation rates do not increase, the labour force would be growing at the same rate as the working age population. The job creation rate would decline slowly, from 2.6 per cent per year today to 1.8 per cent by year 2050. To keep the current employment rate constant at 83 per cent, the economy would need to create around 135,000 jobs per year over the next 30 years. If during the simulation period participation rates for women increase to the same level as those of men, the growth rate of the labour force would be around 0.7 per cent faster and the economy would need to create an average of 200,000 jobs per year (see top panel of Figure 7).

To reduce the current unemployment rate, the pace of job creation would need to be even faster. Assuming the employment rate increases to 92 per cent in year 2030 (an 8 per cent unemployment rate), the economy would need to create some 184,000 jobs per year during the next ten years and 165,000 jobs afterwards, under the constant participation rates scenario. If participation rates increase, the economy would need to create between 230,000 and 240,000 jobs (see bottom panel of see Figure 7).



Source: Authors based on UN demographic projections. The growth rate of the working age population gradually declines from 2.6% today to 1.8% in 2050. In the scenario with constant participant rates, the growth rate of the labour force is equal to the growth rate of the working age population. In the scenario with increasing participation rates, it is assumed that participation rates for women increase to the same

level as those of men during the simulation period. This implies an average growth rate of the aggregate participation rate of 0.7% per year. Under this scenario, the growth rate of the labour force is equal to the growth rate of the working age population plus the growth rate of the participation rate (plus their product). In the top panel, the employment rate is assumed to remain constant at 83%. In the bottom panel, the employment rate increases to 94% by year 2030 and remains constant afterwards.

The numbers above do not consider net migration, which has been negative in Zimbabwe with numerous workers leaving the country in search of better work opportunities that often do not materialize. It is estimated that in 2020, net migration (the number of immigrants minus the number of emigrants) was close to 580,000 people. Although there is no accurate data on the number of the working age population leaving the country to work abroad, the most recent study suggests that 72 per cent of outgoing migrants fall in the 20 to 34 years age group. In addition, 40 per cent were women and 73 per cent completed secondary education. The majority of emigrants cited a lack of employment opportunities as the major reason for leaving the country. Most worked in the agricultural sector before their departure. South Africa was the leading destination chosen by emigrants, followed by Botswana. Unfortunately, due to their irregular status, most Zimbabwean emigrants appear to occupy low-quality jobs characterized by the absence of employment contracts and social protection, exploitative wages and long working hours.²¹

²¹ See National Migration Policy for Zimbabwe (2020).



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► III. Main barriers to access or maintain employment

This section describes assessment results on the main correlates of labour market outcomes for different population groups. The goal is to help the government set priorities and target policies and programmes by identifying the main factors that seem to increase the risk of inactivity, unemployment/underemployment and low-quality work – taking as given the demand side of the labour market. The hypothesis is that labour market opportunities are not evenly distributed. Thus, even as labour market conditions improve because of economic growth and better employment opportunities, some groups or workers are likely to be excluded from better quality jobs. The analysis also helps correct potential biases that emerge when looking at average inactivity, unemployment or informality rates across population groups. For instance, Section 3 showed that, on average, unemployment rates are higher for young workers, and to some extent women. As shown below, however, once other factors are taken into account the differences in unemployment rates become less important.

The factors assumed to affect labour market outcomes have been grouped into four categories: 1) innate individual characteristics such as age and gender; 2) individual characteristics shaped by choices and formal institutions; 3) geography; 4) social and cultural factors (see Table 6). The core of the analysis is based on econometric models applied to the 2019 Labour Force Survey. The results, however, were complemented based on feedback from interviews with key informants. These interviews particularly concerned the role of social and cultural factors for which the labour survey does not have specific data or indicators. Given data limitations, the analysis does not take into account the specific constraints facing workers with disabilities, OSH or HIV/AIDS.

► Table 6. Factors affecting employment access	
Type of Constraint to Access Jobs	Indicators
Innate individual characteristics	Gender
	Age
	First time job seeker
	Household consumption decile
Individual characteristics affected by choices and formal & informal institutions	Education level
	Types of skills (from COVID analysis)
	Mechanisms used to find a job
	Civil status
	Number of children
	Household head
	Wealth of the household
	Migrated in the last 5 years
	Economic sector
	Urban vs. rural
Location	Province
	Perceptions in terms of the role of social norms
Social and cultural factors (based on feedback from key informants)	Perceptions regarding discriminatory practices based on age, gender, ethnicity or religion
	Perceptions about the bargaining power of workers

Source: Authors

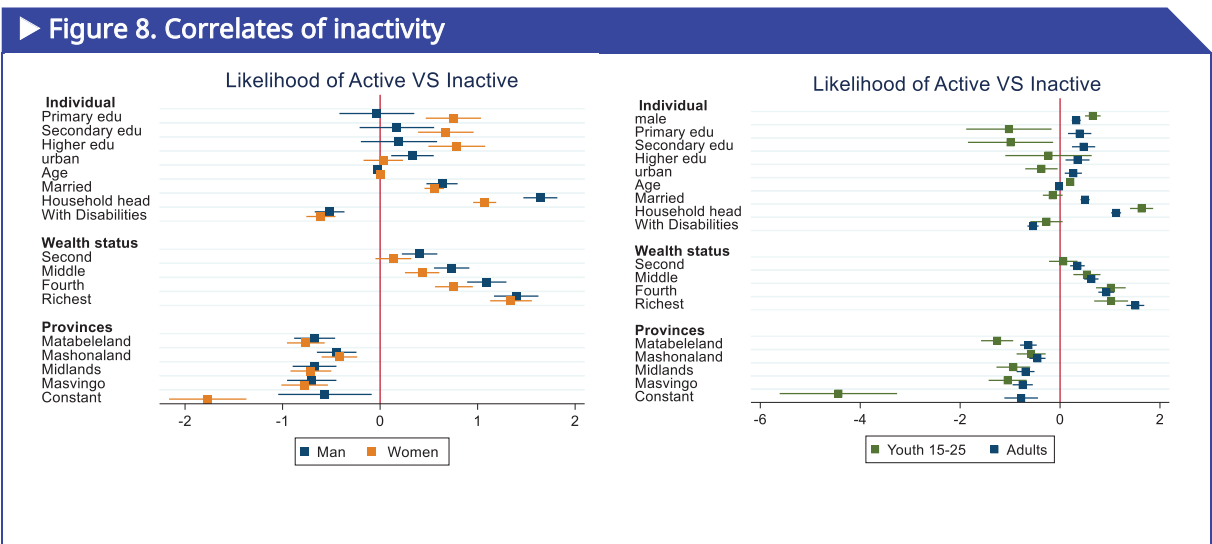
3.1 Inactivity, unemployment and underemployment

Age and gender are the main correlates of inactivity but there are no significant differences in terms of the likelihood of unemployment. Other things being equal, women and young workers are four times more likely to be inactive than men and adult workers respectively (see Figure 8). However, once other factors are taken into account, the likelihood of unemployment is not higher for women or young workers (see Figure 9). These results confirm the persistence of cultural factors abating incentives for women to enter the labour force. Prevalent social norms in the division of labour along gender lines make women more likely to be involved in household chores, the care of children and the elderly, or farm activities.²² Youth who enter the labour market may also face additional barriers to find a job, partly due to a lack of work experience, difficulties signalling their skills to employers, fewer opportunities to access capital and lower levels of social capital.²³ Nonetheless, the

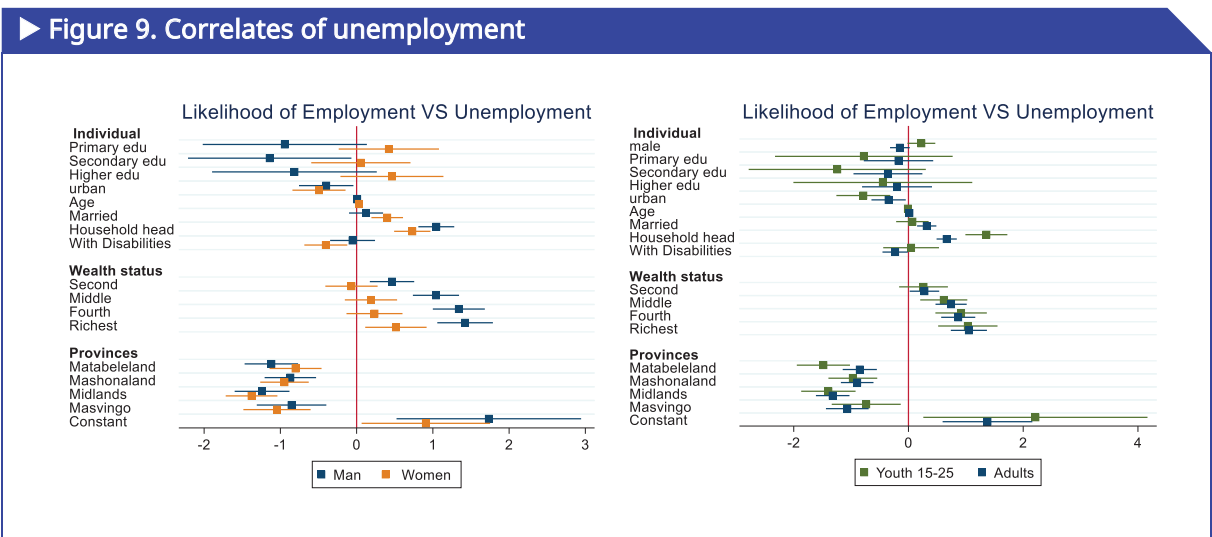
²² Based on interviews with key informants.

²³ Based on interviews with key informants.

results suggest these issues are likely to be secondary relative to other more structural factors that affect all workers regardless of age and gender.



Source: Authors based on Labour Force Survey 2019. Graphs represent the likelihood of being active using a binary logit model. When the square and associated line (standard errors) do not cross the vertical red line, the factor is statistically significant.



Source: Authors based on Labour Force Survey 2019. Graphs represent the likelihood of being in employment using a binary logit model. When the square and associated line (standard errors) do not cross the vertical red line, the factor is statistically significant.

Wealth is the next factor affecting inactivity and unemployment. Controlling for other variables, workers living in poor households are more likely to be inactive or unemployed. The correlation is particularly strong in the case of inactivity for both women and men, as well as young and adult workers. The risk of unemployment can also be correlated with wealth, although the correlation is less important in the case of women. Clearly, these correlations do not imply causality; wealth is likely to be lower in households with a high proportion of workers who are not generating income. Regardless,

the results suggest that any strategy to increase participation rates and reduce unemployment would need to pay particular attention to poor and vulnerable households.

Geography is also important. Where individuals live make a difference in terms of participation in the labour market and employment opportunities. In general, the risk of inactivity and unemployment is higher in Matabeleland and Midlands than in the capital or other provinces. This can partly be explained by structural factors such as the lower prevalence of farm activities and the fact that the effects of deindustrialization seem to have been more severe in urban centres in these provinces.²⁴ For women, the effect of geography is similar to that of men in the case of inactivity, but higher in the case of unemployment. Regarding youth, geography is more important than for adult workers in terms of inactivity and unemployment. One interpretation is that social norms and the structural factors that affect employment opportunities, and that are likely to vary by region, are more binding for women and young workers. These results emphasize the importance of having a regional perspective when designing strategies to improve employment opportunities.

The results also show that education plays an important role in the participation of women and adult workers in the labour market. Yet, education does not significantly reduce the risk of unemployment. Women and adult workers with higher education are more likely to enter the labour force; the opportunity cost of inactivity is higher. As expected, youth with primary or secondary education are less likely to enter the labour force. Education is, however, not correlated with higher employment rates. There are no statistically significant differences between employment rates among those with higher education and those without. In fact, the results show that the opposite could be happening; those without education are less likely to afford unemployment and wait for the right job – they, therefore, are more likely to be employed.

The lack of correlation between education and employment rates can be explained by issues related to the relevance of skills acquired by an individual, though as well as to the lack of good employment opportunities. Although the country has a Gross Intake Ratio (GIR) above 90 per cent and although gross enrolment rates at all levels – particularly in Early Childhood Development (ECD) – are increasing, recent assessments of the education system show that literacy and numeracy rates are low and that students are not acquiring necessary non-cognitive skills. Moreover, many students who enrol in universities or Technical and Vocational Education and Training (TVET) acquire diplomas that are not in demand in the labour market. The government estimates a deficit of 68 per cent in the production of qualified specialists and technicians, especially in Natural & Applied Sciences, Engineering & Technology, Medical & Health Sciences and Agriculture.²⁵ Still, employers are expected to use university diplomas as a signalling device and therefore prefer hiring, other things being equal, workers who have these diplomas. As discussed above, the fact that this is not happening might reflect higher reservation wages among educated workers and/or higher expectations about the quality of jobs they are willing to take.

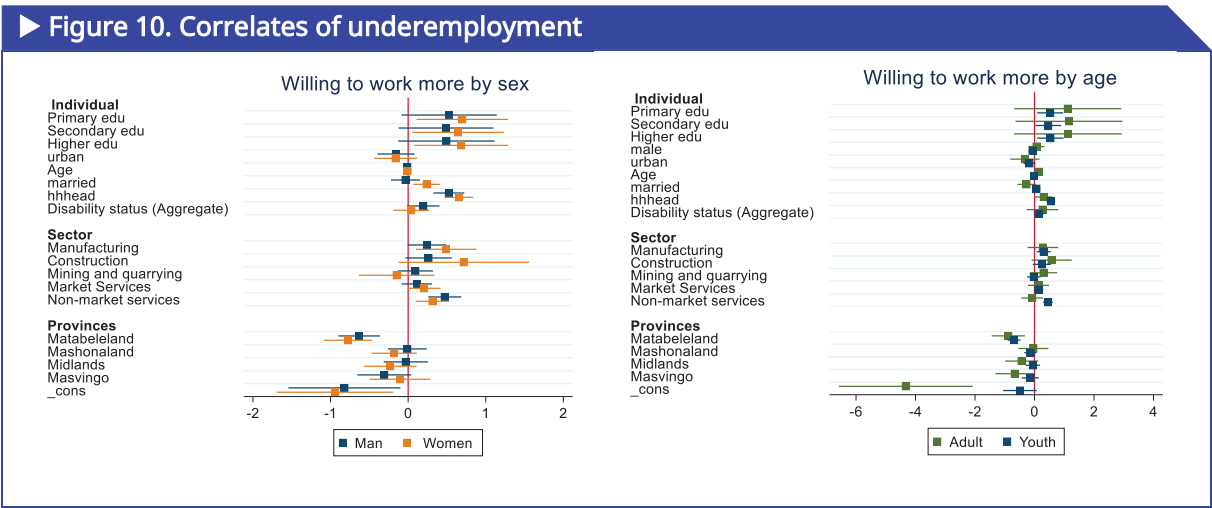
Underemployment, measured by the share of workers who would like to work more hours but cannot, is much more prevalent than unemployment; 40 per cent of workers are underemployed by this measure versus 17 per cent unemployed. Thus, 43 per cent of employed workers declare being willing

²⁴ Based on interviews with key informants.

²⁵ Based on interviews with key informants and the analysis presented in the NDS1.

to work more hours. Among them, 94 per cent would be prepared to do so the “following” week. The underemployed can be broken down into two subgroups. Half are workers who are not employed full-time but would like to be. The other half are individuals who are already working 40 or more hours per week but would need to work more given the low quality of their jobs and their economic needs. On average, irrespective of their age and gender, workers are willing to work 16 extra hours per week on average (14 hours in rural areas and 17 hours in urban areas). The desire to work additional hours differ by sector, with workers in manufacturing and construction wanting to work more.

Nonetheless, there are no well-defined correlates of underemployment other than gender and age; men and adult workers are less likely to want to work more hours (see Figure 10). Other things being equal, women and youth with education are more likely to declare that they would like to work more hours, but education does not seem to play a role among men or, in general, adult workers. Heads of households are also more likely to declare wanting to work more hours. Wealth and geography, however, do not seem to have a significant effect except in Matabeleland, where underemployment is less prevalent (see above).



Source: Authors based on Labour Force Survey 2019. Graphs represent the likelihood of being willing to work more on a binary logit model. When the square and associated line (standard errors) do not cross the vertical red line, the factor is statistically significant.²⁶

3.2 Formal versus informal employment and the quality of jobs

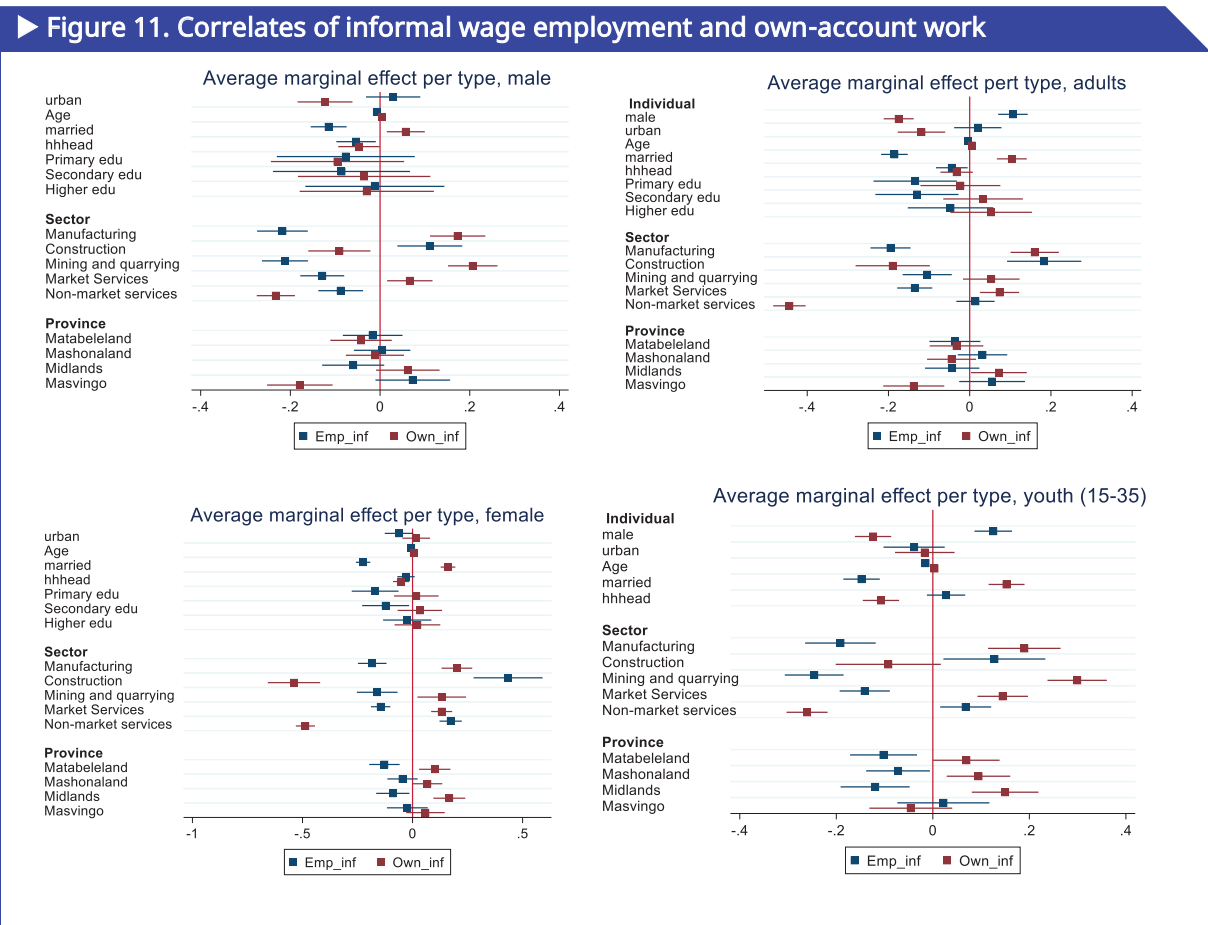
The first indicator that demonstrates the relatively low quality of employment is the prevalence of informal work, be it informal wage employment or own account work. The results show that the correlates of both types of jobs are markedly different. Workers who engage in informal wage employment tend to have different characteristics than those who engage in own-account work. The latter seems to be an economic activity of last resort. Workers unable to find wage

²⁶ The plotted coefficients are the result of a binary logit model using the declared willingness to work more as a dependent variable. When the square and associated line (standard errors) do not cross the vertical red line, the factor is statistically significant.

employment, even in the informal sector, engage in low-productivity activities such as own-account workers.²⁷

Men are more engaged in informal wage employment than women and less engaged in own-account work. This is the case for both young and adult workers. The economic sector is also an important correlate of informality. For men, own-account work is more likely in the manufacturing, mining, and market-service sectors and less likely in construction and non-market services. On the contrary, informal wage employment is less likely in the manufacturing, mining, and market-service sectors and more likely in construction. That informal own account work is more likely in mining can be explained in part by a high prevalence of informal/artisanal work in the sector (see Section 6).

Geography plays a less important role. In general, own-account work is less likely in urban areas and particularly in Masvingo. As before, education does not seem to make a difference when it comes to the likelihood of informal work, either wage or own account (Figure 11).

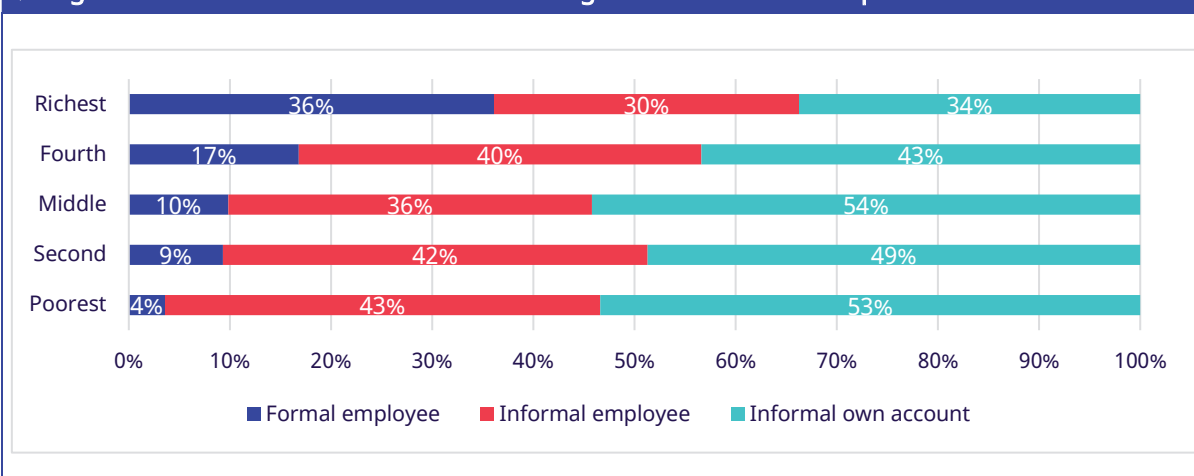


Source: Authors based on Labour Force Survey 2019. The chart summarizes the results of a multinomial logit. Since there is more than one category, the coefficients have been transformed into average marginal effects. The squares give the marginal effect of a change in the factor on the likelihood of informal wage employment, own account work, and formal wage employment (no presented in the chart). When the

²⁷ Based on interviews with key informants.

square and associated line (standard errors) do not cross the vertical red line, the factor is statistically significant.

► **Figure 12. Distribution of workers according to the wealth index quintile**



Source: Authors based on Labour Force Survey 2019. The graph presents the distribution of workers according to the wealth index quintile as computed in the LFS 2019. The first decile is associated with the poorest quintile and the fifth with the richest.

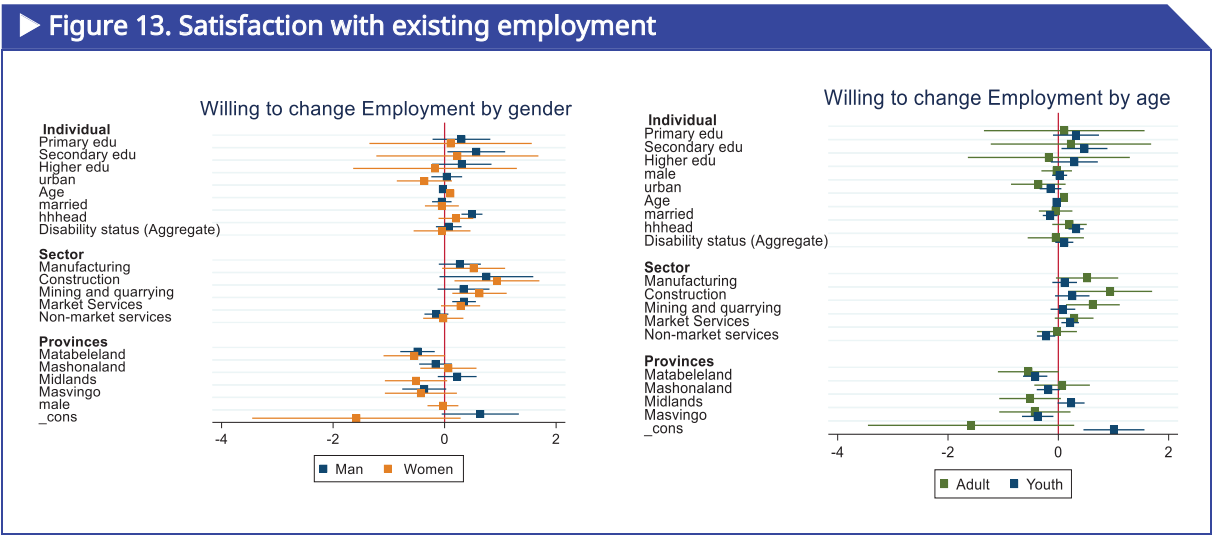
For women, civil status, economic sector and to a certain extent education and geography are the main correlates of both informal wage employment and own-account work. Women who are married are more likely to be in own-account work and less likely to be in wage employment. This is likely due to marriage increasing the likelihood that women work from home. In terms of economic sector, the patterns are also similar to those observed among men: own-account work is more likely in manufacturing, mining (like for men most likely artisanal), and market-service sectors and less likely in construction, and non-market services. For informal wage employment, it is the opposite. Finally, the effect of geography is more clearly defined: in Matabeleland, Mashonaland and Midlands, own-account work is more likely and informal wage employment less likely. As discussed above, this reflects in part fewer opportunities for farm work and wage employment in general as a result of deindustrialization.

Like for men, education does not seem to play an important role in explaining informality, except that having some education versus no education somewhat reduces the probability of informal wage employment. This suggests that access to formal jobs is severely constrained and/or that available formal jobs are low-skilled jobs that those with higher education prefer not to take.

Informality is also correlated with household wealth; the majority of formal sector workers live in the richest households. In the poorest households, 96 per cent of employed workers are in informal jobs and the majority are own account workers (see bottom panel of Figure 11). In the second and third deciles, the proportion of informal workers falls to 90 per cent, also with a predominance of own-account work. In the fourth decile, informal workers represent 83 per cent of the employed population, equally distributed between wage employment and own-account work. Among the richest households, the share of informal work falls to 64 per cent, closer to levels observed in middle-income countries.

Another indicator of the quality of employment is workers' willingness to change jobs. This indicator suggests that most workers are not satisfied with the type of work they do. Around 56 per cent of employed workers declare they would like to transition to a different job.

As in the case of underemployment, the main correlates of employment satisfaction are gender and age, and to some extent household wealth. Men seem to be less satisfied with their positions than women, and young workers seem less satisfied than adult workers. The desire to transition also seems to decline with a household’s level of wealth. Otherwise, there are no significant differences based on education, civil status or geography.



Source: Authors based on Labour Force Survey 2019. The plotted coefficients are the result of a binary logit model using the willingness to change employment as a dependent variable. When the square and associated line (standard errors) does not cross the vertical red line the factor is statistically significant.

3.3 Potential impact of COVID-19 on different groups of workers²⁸

The analysis presented in the previous section is based on the 2019 Labour Force Survey, and therefore does not take into account the impacts of the COVID-19 pandemic. Yet, the pandemic and associated containment/confinement measures have negatively affected businesses and workers. This section briefly assesses the vulnerability of different groups of individuals to the loss of employment and earnings. The main hypothesis is that the impact of the pandemic on workers depends, in part, on the types of occupations they have. Other things being equal, occupations that could more easily resort to teleworking are less likely to be at risk. On the contrary, workers in occupations where the main tasks are not compatible with teleworking (for instance, “act or work directly with the public”) face a higher risk of becoming unemployed.²⁹

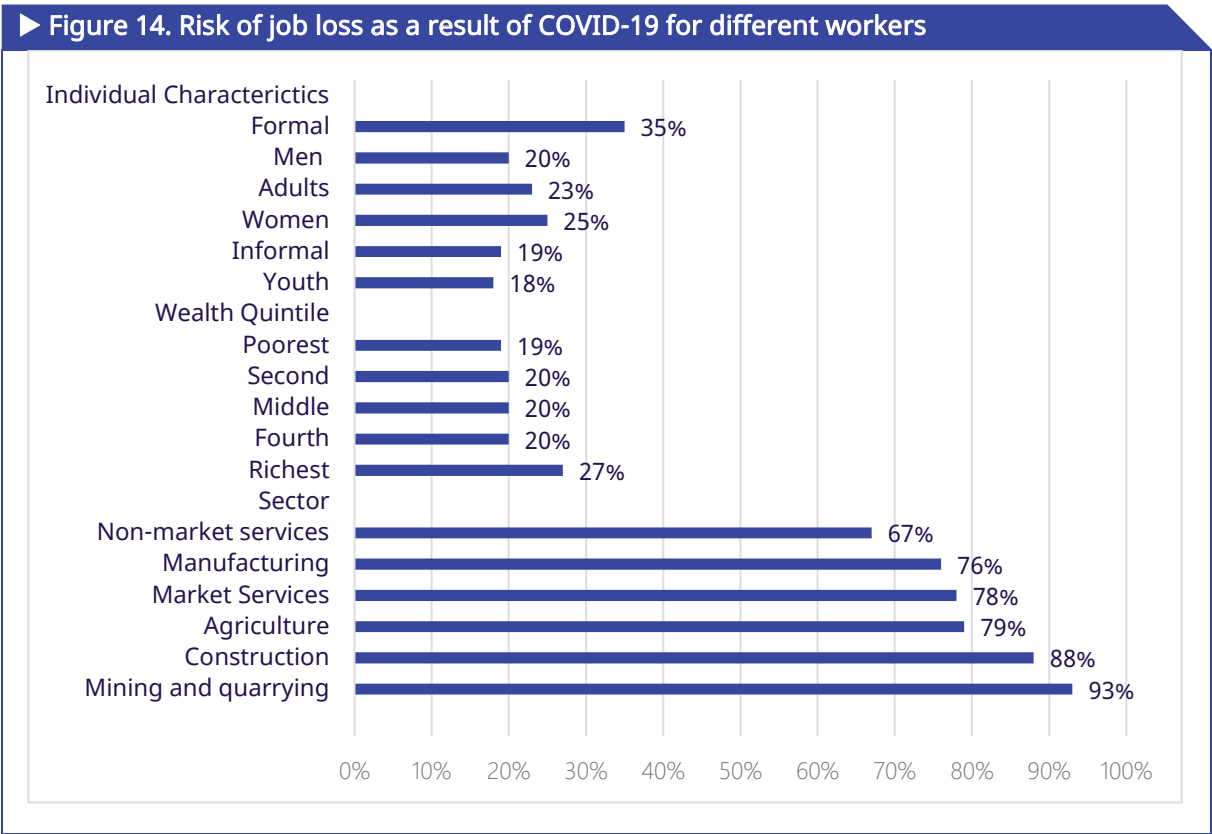
The pandemic reduced access to production inputs due to problems with distribution and delays with imports as a result of travel restrictions; it reduced labour productivity and output given that many workers were quarantined and could not go to work, and it reduced significantly the demand for goods and services. As a result, many companies were forced to make workers redundant and/or cut working hours and wages. This in turn reduced disposable income and further affected aggregate demand.³⁰

²⁹ For a formal description of the methodology see Annex 9, Bonavida, C., & Gasparini, L. (2020).

³⁰ Based on interviews with key informants.

Impacts on the informal economy seem to have been particularly significant. On average, respondents to the survey presented in the next section declared that revenues decreased by 40 per cent in Harare, with certain specific businesses being more impacted than others.³¹

The results of the analysis suggest that there are important differences in terms of the risk of losing a job across economic sectors, types of workers, and types of households. For instance, workers in the mining, construction and agricultural sectors are more likely to have been affected than workers in manufacturing and, in particular, non-market services (see Figure 14).



Source: Authors based on Labour Force Survey 2019. Each occupation in the survey is associated with a given risk of unemployment based on the structure of tasks. The risk of job loss for a given group of workers is the average of the distribution of different occupations within the group. Farmers have been excluded from the calculations.

Unsurprisingly, workers engaged in informal work face a much higher risk of job loss than formal sector workers. In the informal sector, for instance, many of the occupations of own-account workers offering services require direct interactions with clients. Small, low-productivity, informal firms are also less likely to accommodate telework or to maintain the level of cash flows necessary to avoid dismissing workers.

There are also considerable differences by age and gender. The analysis suggests that young workers are more likely to be affected than adult workers, and that women are more vulnerable than men. This is consistent with what was observed during the last financial crisis. When firms cut jobs, young workers and women were the first to be dismissed.³²

³¹ Based on the survey of informal sector businesses.

³² See Banerji et al., (2013).

Finally, workers in the richest households (ranked by wealth) are less likely to be affected than workers in other households. There do not seem to be major differences between workers in the poorest households and households in the second to fifth quintiles. This reflects the fact that most formal workers live in the richest households (see previous section).



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► IV. Existing constraints to the creation of decent and productive jobs

Outside the public sector, employment creation ultimately depends on investors' and entrepreneurs' decisions to start new or grow existing businesses. Public investments in infrastructure or production of public goods and services, or an increase in government consumption, can increase aggregate demand and through this channel create business opportunities for the private sector, but ultimately more and better jobs require an increase in private investments. For these investments to take place, there are three preconditions. First, the existence of investment opportunities with competitive expected rates of return, which implies having macroeconomic stability and an adequate business environment. Second, investors' abilities to appropriate returns on their investments, which requires good governance, security and the Rule of Law. Finally, access to finance, which largely depends on the development of the banking sector and capital markets.³³

This section starts with a brief review of the main issues with macro and regulatory policies in Zimbabwe that are likely reducing incentives to invest and create jobs. It then presents the results of

³³ See Hausmann et al., (2006).

the qualitative surveys of formal and informal enterprises, and outlines the main constraints they face to grow and create quality employment.³⁴

4.1 Structural factors that constrain investments and employment creation

The main issue facing the country is by far macroeconomic instability that generates uncertainty around the outcomes of investment decisions. After a period of relative stability between 2014 and 2019 following the implicit dollarization of the economy, structural imbalances re-emerged. The main culprit has been unsustainable fiscal deficits financed via the creation of quasi-money instruments resulting in an inflation and exchange rate depreciation spiral. Thus, inflation reached 737.3 per cent in June 2020 and the official exchange rate moved from 1:2.71 to the US Dollar in March 2019 to 1:83 by end of August.³⁵ In the parallel market, the exchange rate was 1: 100 to the US Dollar.³⁶

At the same time, the peg to the dollar and the auction system for foreign exchange (FX) have affected the competitiveness of the export sector and thus impacted growth and employment creation. Maintaining the official parity of the Real-Time Gross Settlement (RTGS) dollar with the US Dollar, provided opportunities for rent-seeking as exchange rate distortions crushed exporters to the benefit of well-connected importers.³⁷ During the first three years of the dollarization (2009-2011), prices were stable, and the real exchange rate depreciated by around 30 per cent. Since then, however, the real exchange rate has appreciated by over 40 per cent due to inflation and the appreciation of the US Dollar against the South African Rand. The current auction system, where importers compete for FX, has contributed to realigning the official and market exchange rates but the market premium continues to be above 20 per cent. This suggests that the real exchange rate remains below its equilibrium level (i.e., the local currency is still overvalued affecting the competitiveness of exports).³⁸

Investments are also constrained by an inadequate business environment that increases transaction costs and reduces rates of return, and severe problems accessing finance. This is illustrated by different indicators compiled by organizations such as the ILO, the World Bank, and the World Economic Forum.³⁹ For instance, indicators such as the cost of starting a business, transportation and utilities, infrastructure and ICT adoption rank close to the bottom relative of the distribution of countries (Table 7). The skills of the labour force, including in terms of digital skills, and the lack of systems to intermediate labour also seem to be a problem. At the same time, the country ranks poorly in indicators such as credit to the private sector (only 22.4 per cent of GDP), access to finance by SMEs and the soundness of banks.

³⁴ See Annex 2 and Annex 3 for a description of the surveys of formal and informal enterprises, respectively.

³⁵ 'USD/ZWL Rates - Zimbabwe Market Watch.' Accessed 8 April 2020, <https://www.marketwatch.co.zw/>.

³⁶ International Monetary Fund, Zimbabwe Country Report No. 20/82, 26 March 2020.

³⁷ See IMF country Report (2020).

³⁸ See Brixiová Zuzana and Mthuli Ncube. "The Real Exchange Rate and Growth in Zimbabwe: Does the Currency Regime Matter?," 2014.

³⁹ See ILO's report on the Enabling Environment for Sustainable Enterprises (ESEE); the World Bank's Doing Business; and the World Economic Forum's Competitiveness Report.

► Table 7. Selected indicators of the business environment

Doing Business indicators	Score (1-100)	Ranking (out of 141)
<i>Active labour market programmes</i>	13	136
<i>Cost of Starting a business</i>	45	135
<i>Utility infrastructure</i>	44	130
<i>Soundness of banks</i>	40	128
<i>Financing SME's</i>	33	123
<i>Transportation infrastructure</i>	36	117
<i>Credit to private sector (22.4 % GDP)</i>	24	113
<i>ICT Adoption</i>	37	112
<i>Mean of years of schooling</i>	54	91
<i>Skills of graduates</i>	49	81
<i>Digital Skills</i>	48	86
<i>Entrepreneurial culture</i>	51	66
<i>Ease of finding employees</i>	56	56
<i>Labour tax rate (5.6%)</i>	100	19

Source: World Economic Forum Competitiveness Report. The first column provides the absolute score of the indicator, measured on a scale from 1 to 100. The second column gives the relative position of Zimbabwe relative to other countries. Indicators in green are those where Zimbabwe scores better (a score of 48 or above).

Finally, weak governance adds an element of risk that is also likely to reduce incentives for private investments. Even when compared to other lower-income countries in Sub-Saharan Africa, Zimbabwe ranks poorly in terms of core governance indicators such as political stability, government effectiveness and the Rule of Law (see Figure 15). This implies, for instance, that investors face uncertainty in terms of the type of policies and programmes that are adopted, the respect of property rights and whether contracts can be effectively enforced.

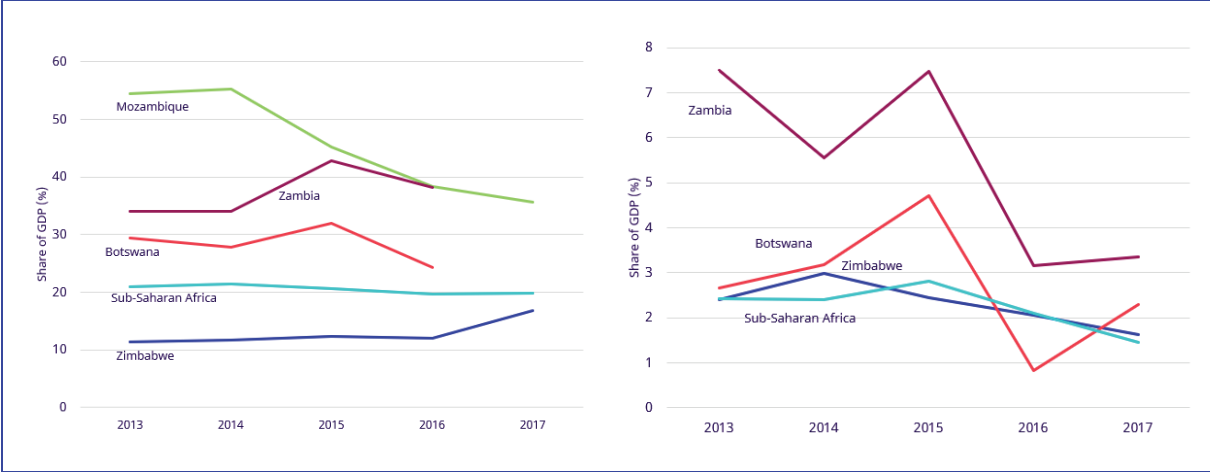
▶ Figure 15. Governance indicators in Zimbabwe and the rest of the world



Source: World Governance Indicators

All these problems have resulted in low investment rates and scarce flows of foreign direct investment (FDI). For most of the decade, investment rates in Zimbabwe have been close to 10 per cent of GDP, which is very low for the country’s level of development and when compared to other countries in the region. The same is true of FDI, which has accounted for only 2 to 3 per cent of GDP whereas in countries like Zambia FDI flows are almost twice as high (see Figure 16).

▶ Figure 16. Gross capital formation and Foreign Direct Investment

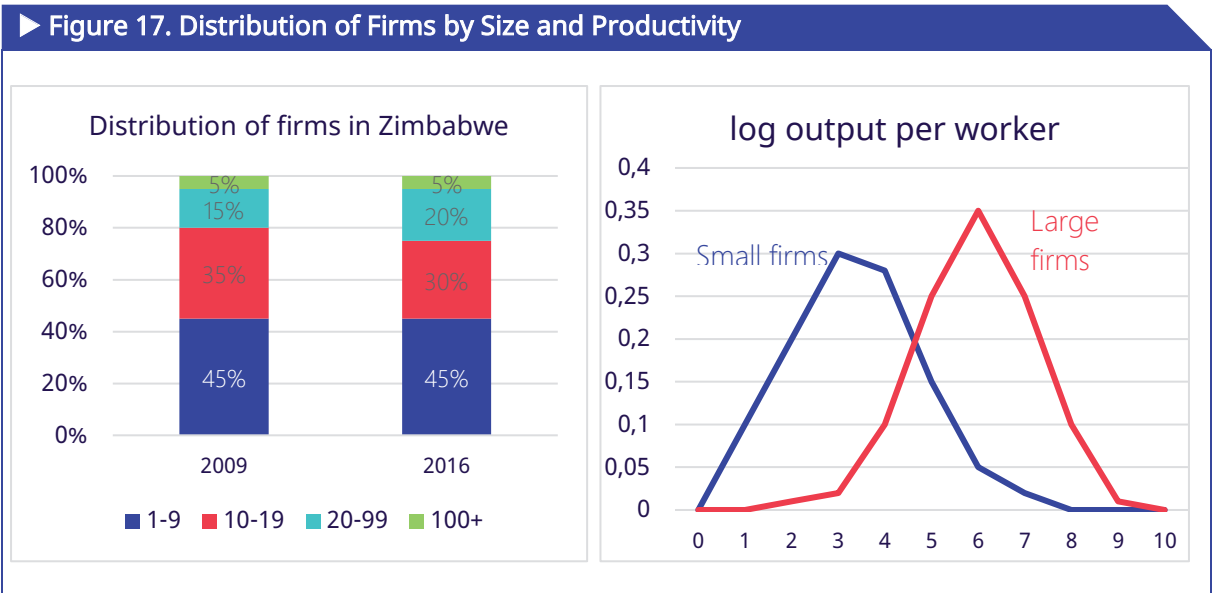


Source: World Development Indicators

4.2 The limits of the private formal sector

The structure of Zimbabwe’s economy still reflects the legacy of a dual and enclave colonial economy. From the demand side, the formal sector is composed of mainly small firms operating mostly in the service sector with low levels of labour productivity. Around 45 per cent of firms have between one and nine employees and another 30 per cent between ten and 19 employees. Firms with more than 20 employees represent less than 30 per cent of all firms. Only 5 per cent of firms have more than 100 employees. (see left panel of Figure 16). Yet, there are important differences in labour productivity between small (less than 20) and large firms (over 20). On average, workers in large firms can be up to three times more productive than in small firms (see the right panel in Figure 17).

Most formal workers, however, are in large and old firms: 46 per cent in firms with 100+ employees and 69 per cent in firms that have been operating for more than ten years. Zimbabwe has the highest concentration of formal jobs with just 1 per cent of firms accounting for more than 50 per cent of formal employment. Formal employment is also spatially concentrated. Harare has only 13 per cent of firms, but 40 per cent of formal workers. The second largest concentration of workers is in Bulawayo, which has 16 per cent of formal workers.⁴⁰



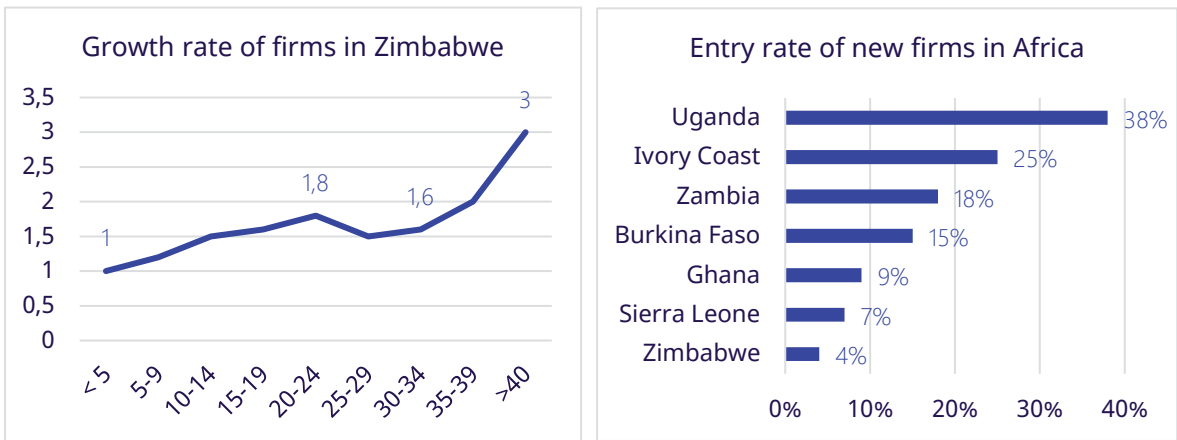
Source: Authors based on Enterprise Survey

Both the entry and growth rates of firms are quite low. When compared to other low-income countries, Zimbabwe creates few new formal firms each year; only 5 per cent of the stock firms relative to 25 per cent in Ivory Coast and over 35 per cent in Uganda (see left panel of Figure 18). At the same time, the firms that are created start small and tend to remain small. For instance, on average, firms that survive for ten years added just one or two jobs over that period (see right panel of Figure 18).⁴¹

⁴⁰ Enterprise Survey in Zimbabwe World Bank, 2016

⁴¹ Ibid.

▶ Figure 18. Entry and growth rates of firms



Source: Authors based on World Bank (2020)

The main constraints to grow identified by the managers of formal business that were interviewed for this study are access to foreign exchange, the cost of imported inputs and raw materials, and inflation.⁴² Indeed, the local economy remains highly dependent on imported raw materials and inputs from South Africa and other countries. Shortages of foreign currency hamper the ability of formal businesses to import these materials. However, even when imports take place, prices in local currency are very high. This reduces the competitiveness of locally made products relative to imported products, particularly from South Africa and China. Examples of imported inputs include packaging materials and veterinary products. In addition, the widening gap between the official and parallel market exchange rates and high inflation rates make planning difficult (see Table 8 for the distribution of firms across sectors).

▶ Table 8. Distribution of firms included in the survey

Sector	Number of firms	Average number of employees
Agribusiness	10	38
Construction	8	48
IT	9	24
Transport and Logistics	10	37
Manufacturing	12	34

Source: Qualitative survey of formal enterprises.

The second most common constraint across sectors is access to finance for both businesses and consumers. Local financial institutions do not have favourable credit facilities. Interest rates and the periods required to settle loans reduce the incentive to invest. The problem is not only in terms of access to finance for new investment projects or to create new businesses. Even financing working

⁴² See Annex 2 for a description of the survey.

capital and upgrading machinery has become challenging. In the construction sector, for instance, those interviewed explained they are unable to upgrade equipment required for major infrastructure projects and therefore cannot compete with international construction companies. Similarly, in the manufacturing sector, having old/inefficient machinery affects a firm's productivity and competitiveness. In the transport sector, businesses cannot replace their ageing fleets due to the lack of credit facilities. Furthermore, access to finance is an issue from the demand side; few consumers have access to credit, which reduces sales of more expensive durable goods (see Table 9).

Formal businesses also indicated that labour costs, taxes and competition from the informal sector are important factors constraining their expansion and employment creation. The minimum wage and dismissal costs are considered high by many businesses. And although social security contributions are low, there are other taxes such as those for City Council licenses, the National Employment Council, Zimbabwe's Manpower Development Fund and Value Added Tax (VAT). Managers also stated that they face unfair competition from informal businesses that do not pay taxes or other statutory obligations and can therefore offer lower prices to consumers.

Finally, interviewees identified problems related to a lack of skilled workers, property rights, corruption and basic infrastructure. The lack of skilled workers was raised as an issue in the horticulture, construction, ICT and manufacturing sectors. Issues related to property rights are more binding in agriculture, while corruption and the lack of a transparent public procurement process have affected more construction companies. Access to basic infrastructure and services seems to be a problem across the board. This is consistent with a 2019 survey by the Zimbabwean National Chamber of Commerce (ZNCC), which reported that 87 per cent of firms consider power cuts as a source of severely reduced labour productivity and 65 per cent identify electricity shortages as the major challenge affecting the competitiveness of their exports.⁴³

When asked about priorities in terms of policy reforms and government support programmes, the most common responses were the following:

- Relax the regulatory environment, including hiring and dismissal procedures.
- Improve currency stability and the predictability of exchange rate policies.
- Achieve political stability and improve the country risk perception to enable businesses to access international capital.
- Respect property rights and enforce the security of tenure, especially in the agriculture sector.
- Reform the tax regime to reduce taxes on formal business and other statutory payments.
- Institute stricter laws on imports that protect local businesses against unfair competition.
- In the agriculture sector, support the training of farmers on Euro Gap standards to improve exports.
- Provide incentives for exporters to increase exports.
- Improve infrastructure and the availability of basic services such as water and electricity.
- Give priority to local companies in the procurement of infrastructure projects.

⁴³ The Zimbabwe Independent, "Businesses Lose \$2,5m to Power Outages." December 6, 2019.
<https://www.theindependent.co.zw/2019/12/06/businesses-lose-25m-to-power-outages/>.

► Table 9. Major constraints reported by private formal enterprises

Sector	Perceived Constraints	Managers Suggestions for Government Policies
<i>ICT</i>	• Access to finance to grow the business and import computers and communication devices • High data/internet charges and slow connectivity/low bandwidth • Unpredictable exchange rate • Macroeconomic stability • Labour costs and business regulations • Lack of skilled labour	• Currency stability • Improve basic infrastructure and services • Improve access to finance • Reduce the cost of labour • Address corruption • Reduce government regulation and statutory payments
<i>Manufacturing</i>	• Competition from the informal sector • Access and high costs of raw materials • Buying raw materials in US dollars and selling in local currency • Access to affordable short term and long-term finance • Low customers' disposable income and access to credit • Foreign currency shortages • Taxes and business regulations • Basic infrastructure	• Reduce the tax burden and statutory payments • Currency stability • Removal of multi-pricing system • Regulation of the informal sector • Provision of loans and financial support to business • Reduce import duty on raw materials • Provision of basic infrastructure and services • Restrict imports
<i>Construction</i>	• Lack of long-term funding for major projects • Shortages of heavy construction equipment • Shortages of skilled labour for major construction projects • There are too many forms of taxes and levies • Corruption	• Quotas for local companies for big infrastructure projects • Pass Construction Bill to improve regulations for the sector • Reduce corruption and improve procurement • Allow importation of equipment duty-free
<i>Transport & logistics</i>	• Foreign currency shortages • Purchasing spare parts in USD but charging in local currency • Access to affordable finance for operating and investment capital • Fuel shortages • Unavailability of letters of credit	• Implement African Continental Free Trade Agreement • Regularize fuel pricing (reduce taxes on fuel) • Reduce custom duties. • Reduce taxes and other statutory payments
<i>Agriculture</i>	• Access to cheap raw materials and inputs • Macro-economic instability and unpredictability • Lack of access to finance • Labour costs • Lack of skilled labour in horticulture • Competition from the informal sector	• Increase flexibility in the hiring of labour • Reduce the tax burden • Banks should reduce charges and transaction costs • Control inflation and currency volatility • Security of tenure • Training of new farmers and producers • Improve access to finance

Source: Authors, based on the results of the qualitative survey of formal enterprises.

4.3 Challenges in the informal sector

The informal sector is comprised of mainly low productivity household enterprises that have weak incentives to formalize. Outside agriculture, they are often managed not by vocational entrepreneurs, but by workers who, in the absence of wage employment, engage in low-productivity activities involving non-tradable goods and services. For these enterprises, the costs of formalization seem to outweigh the benefits (Table 10). Hence, these enterprises would seem to enter the informal sector not because they want to evade the laws and avoid paying taxes, but because they have low levels of productivity and therefore cannot afford to follow regulations.

► Table 10. Illustration of the perceived private cost and benefits of formalization	
Costs	Benefits
<i>Starting a formal business (time and initial capital)</i>	<i>Government support programmes</i>
<i>Permits and registration of property</i>	<i>Access to formal financial institutions</i>
<i>Value Added Tax (VAT) and taxes on profit</i>	<i>Enforcement of contracts</i>
<i>Minimum wage</i>	<i>Access to public procurement</i>
<i>Labour taxes</i>	<i>Trade with other formal firms</i>
<i>Labour regulations (e.g., paid seek leave, work accidents)</i>	<i>Better access to human capital</i>

Source: Authors, based on quantitative interviews with 300 informal enterprises. In the case of labour regulations, there are social benefits that are not included in the table since it only reflects the perspective of the private sector.

Most owners of informal businesses are adults who are married and have low levels of education.⁴⁴ Thus, the average age is 41 years for men and 39 years for women. Only 16 per cent of men and 11 per cent of women have tertiary education; either a TVET or a university diploma. The majority have secondary education or less. There are no significant differences in terms of household size between men and women, but the proportion of women who are divorced or widows is higher (see Table 10).⁴⁵ This suggests that confronted with the need to work and in the absence of formal employment, divorced women and widows do not have the choice but to engage in own account work in the informal economy.⁴⁶

Most businesses have only one employee (often unpaid), operate in the service sector and generate low earnings per hour. The average number of employees in businesses owned by men is 1.6 and one in the case of businesses owned by women (see Table 11). Women are more involved in wholesale activities, while men are more involved in the provision of services and manufacturing. Businesses

⁴⁴ The following findings are based on a microenterprise survey that was carried out in November 2020 on 200 informal businesses in five regions of Zimbabwe (Harare, Bulawayo, Gweru, Mutare and Masvingo). Sampling strategy followed a geographical approach. In each city 4 wards were randomly selected, and enumerators had to interview 10 informal businesses per ward (5 men and 5 women business owners). For more details on the sampling and methodology please refer to Annex 1.

⁴⁵ See also Labour and Economic Development Research Institute of Zimbabwe. ‘Women in the Informal Economy in Zimbabwe.’ 2017.

⁴⁶ See also Jayachandran, Seema. ‘Social Norms as a Barrier to Women’s Employment in Developing Countries.’ n.d., 28.

owned by women seem to be less productive generating an income of 134 Zimbabwean dollars per week for 57 hours of work, vs 173 dollars for 55 hours of work among men. Most businesses have fixed premises either permanent or temporary.

▶ Table 11. Characteristics of the owners of informal businesses per gender			
Household characteristics	Male	Female	P-value of ttest *
Average age	41	39	0.16
Level of education			
Primary School	5%	9%	0.37
Secondary School	77%	79%	0.78
Vocational Training	11%	10%	0.85
University	5%	3%	0.49
Marital status			
Single	11%	13%	0.58
Married (civil)	13%	17%	0.46
Married (traditional)	71%	47%	0.00 ***
Divorce	2%	11%	0.04 **
Widower / widow	2%	12%	0.01 ***
Average number of household members	5.1	5.1	0.85

* Stars indicate that the difference is statistically significant. ***, **, * indicate significance at 1, 5 and 10% respectively.

Source: Authors, based on quantitative interviews with 300 informal enterprises

▶ Table 12. Characteristics of informal businesses per gender			
Business characteristics	Male	Female	P-value of ttest *
Observed Business			
Production	26%	13%	0.04 **
Provide services	45%	21%	0.00 ***
Re selling goods	30%	66%	0.00 ***
Type of location			
Fixed premises with permanent structure	30%	39%	0.20
Fixed premises with temporary structure	54%	39%	0.04 **
No fixed premises	16%	22%	0.28
Visible signs that display permit	22%	16%	0.24
Business owners	96%	99%	0.20
Average nb of owners	1,4	1,2	0.06 *

Business characteristics	Male	Female	P-value of ttest *
Business does use electricity	43%	64%	0.00 ***
Business does use water	59%	65%	0.40
Insufficient water in last 6 months	62%	56%	0.42
Pay for security	38%	27%	0.09 *
Fully agree that corruption is a major obstacle	51%	49%	0.82
Accounts from activity separate from household	24%	16%	0.18
Applied for loans in last 12 months	11%	18%	0.16
Average Nb of years of operations	10	8,6	0.18
Average nb of paid employees	1,6	1,0	0.02 **
Average nb of unpaid employees	0,8	0,9	0.51 *
Average nb of hours worked a week	55	57	0.36
Average weekly revenue	173	134	0.38

** Stars indicate that the difference is statistically significant. ***, **, * indicate significance at 1, 5 and 10% respectively.*

Source: Authors, based on quantitative interviews with 300 informal enterprises

Around 35 per cent of “informal” firms are actually registered with the city council. Most informal business owners (61 per cent) know that all firms should obtain licenses at the local city council to operate and that license requirement depends on the type of business (see Table 12). For instance, if the enterprise has its own premises, it needs to get the Annual General Business License and then specific licenses for the sector in which it operates. Registration is, however, relatively expensive. For the General License, a hairdresser in Harare pays 5,767 Zimbabwe dollars annually (approximately US\$ 70). Entrepreneurs who do not pay but operate from a visible public place, such as a main street, are often subject to fines, closures and harassment by the city council staff. The municipality is highly dependent on these revenues for its budget and hence has incentives to seek out those that do not comply with regulations. This implies that businesses operating in fixed premises have a stronger incentive to register because they are more likely to be audited by the local city council. Businesses that are mobile and do not have fixed premises are less likely to register and pay fees.

Informal businesses, nonetheless, do not register with the Zimbabwe Revenue Authority (ZIMRA). The ZIMRA is the body responsible for collecting taxes and to operate formally businesses are mandated to register. Formal registration gives firms access to the formal banking system and allows them to access public tenders and governments contracts. Despite this, business owners opt not to register and two-thirds declare not knowing about the registration process (see Table 13). This finding needs to be interpreted with caution because, according to key informants, the presumptive tax system for informal firms is well known.

► Table 13. Registration and taxes

Registration status and knowledge	Male(%)	Female(%)	P-value of ttest *
<i>Know about city council registration</i>	58	64	0.43
<i>Registered at city council</i>	28	42	0.06
<i>Know about ZIMRA registration</i>	32	37	0.45
<i>Registered at ZIMRA</i>	4	1	0.16

* Stars indicate that the difference is statistically significant. ***, **, * indicate significance at 1, 5 and 10% respectively.

Source: Authors, based on quantitative interviews with 300 informal enterprises

Informal business owners have a clear idea of the benefits that operating in the formal sector would bring. Most consider that an important benefit is avoiding conflicts with the police. Other benefits are access to finance and participation in public tenders. Indeed, nine out of ten respondents declared that access to finance and formal markets were the main barrier to expand their businesses and increase productivity. Most working capital comes from the revenues generated by the economic activity or family members. Other benefits of formality include the ability to issue invoices to clients, the ability to have fixed premises and the possibility to relocate to central business districts. The perception that entering the formal sector can help with business development seems to be more prevalent among men (Table 14).

► Table 14. Benefits and disadvantages of formalisation

	Male(%)	Female(%)	P-value of ttest *
Benefits of formalisation			
<i>Reduction in harassment</i>	52	50	0.80
<i>Business growth</i>	55	39	0.02 **
<i>Access to loans</i>	53	41	0.11
Disadvantages of formalisation			
<i>Paying regular taxes</i>	83	72	0.08 *
<i>Cost of registration</i>	67	51	0.10 *
<i>Payment of min. wage</i>	47	17	0.0015 ***

* Stars indicate that the difference is statistically significant. ***, **, * indicate significance at 1, 5 and 10% respectively.

Source: Authors, based on quantitative interviews with 300 informal enterprises

Formality does, however, impose costs in terms of taxes, registration processes and labour regulations. Around 75 per cent of respondents declared that paying taxes regularly would be a burden for their business. This is a concern, particularly among men. Many also reported that taxes were too high and not tailored to the seasonality of their businesses. Given the uncertainty about the current economic situation and the COVID-19 pandemic, business owners do not believe they can afford taxes. Respondents indicated that the process to register with ZIMRA was cumbersome and expensive. In

addition, a few respondents reported cases of corruption and excessive red tape. For businesses employing workers, the requirements to respect regulations on the minimum wage were also reported to be a problem.

Hence, while most business owners have considered formalizing, the costs seem to outweigh the benefits or cannot be afforded. Respondents indicate, for instance, that they receive little or no support from their local city council. In Masvingo, no waste collection was organized by the council, and although electricity is supposed to be public, 80 per cent of businesses that use it must pay for the service. More than half of the businesses also reported experiencing water shortages (see Table 11). Registering with ZIMRA would bring more tangible advantages (see above) but most businesses would not be able to afford taxes and labour regulations.



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► V. Potential for investments and employment creation in strategic economic sectors

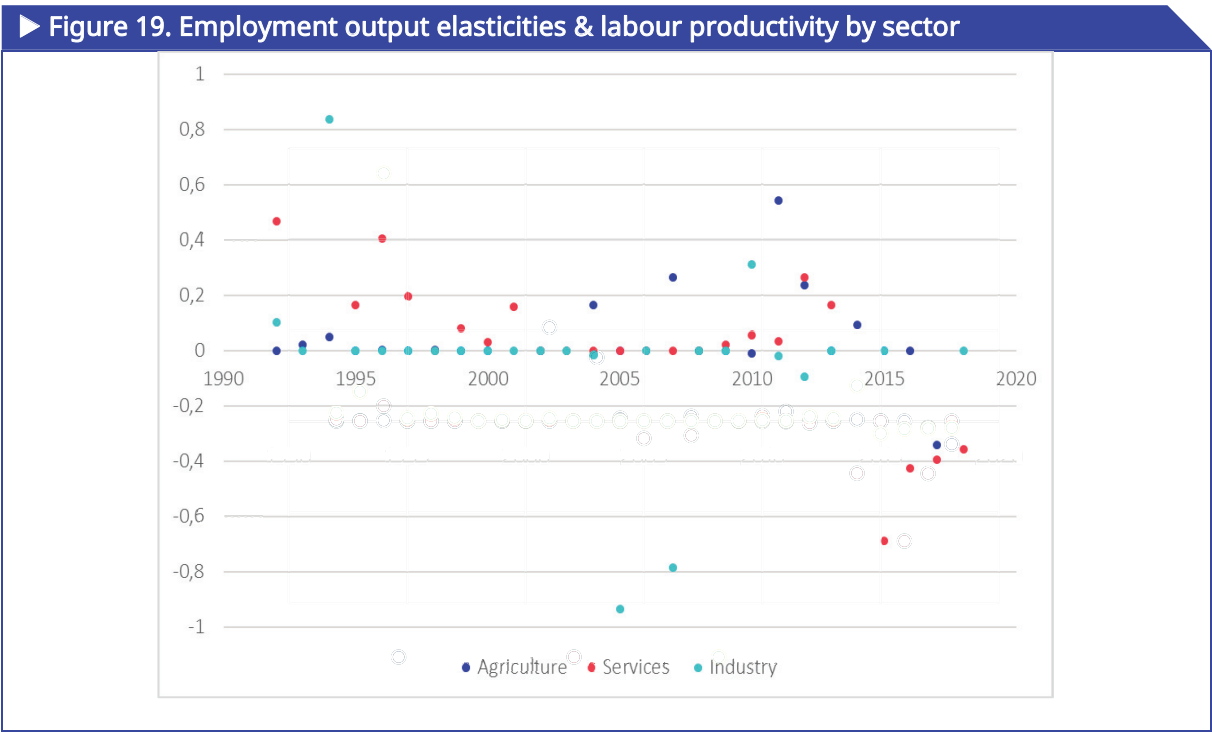
This section presents an analysis of the potential for job creation across economic sectors and the type of growth patterns that are more likely to maximize employment outcomes among Zimbabwean workers.⁴⁷ The section also discusses the opportunities in terms of economic activities and the types of constraints that would need to be removed to mobilize public and private investments to the *leading sectors*. The first part of the analysis is based on an Input-Output (IO) model of the Zimbabwean economy (see Annex 8). The second part relies on interview results with key informants and sectoral experts with a focus on agriculture and agribusinesses.

5.1 Employment creation by sector and implications for economic growth

The number of jobs that can be created for a given expansion of output, proxied by employment-output elasticities, varies considerably across economic sectors and over

⁴⁷ The analysis does not distinguish between formal and informal jobs.

time. This reflects, in part, changes in labour productivity.⁴⁸ In general, employment-output elasticities decline when labour productivity increases. Other things being equal, the number of jobs created in sectors where labour productivity is increasing is lower than in sectors where labour productivity is constant or falling. In Zimbabwe, large fluctuations in value-added across sectors have been accompanied by large fluctuations in employment-output elasticities (see Figure 19). All sectors experienced changes in labour productivity, periods when elasticities were negative, meaning that output expanded but jobs were destroyed resulting in an increase in labour productivity.⁴⁹ During 1990-2018, the average employment-output elasticity was higher in agriculture (0.3), followed by services (0.15). In industry, the expansion of output was more often associated with a reduction in employment levels.



Source: Authors based on national accounts data

⁴⁸ The growth rate of employment in economic sector i is given by: $e_i = \frac{y_i - v_i}{1 + v_i}$, where y_i is the growth rate of output and v_i is the growth rate of labour productivity. The employment-output elasticity is the ratio between the growth rate of employment and the growth rate of output. When the growth rate of labour productivity is zero, the growth rate of employment is equal to the growth rate of output and the employment-output elasticity is equal to 1. Elasticities lower than 1 imply a positive growth rate of labour productivity.

⁴⁹ Only periods with growth rates for output were considered in these calculations. Indeed, elasticities can also be negative if the growth rate of output is negative, and the growth rate of employment is positive. In this case the growth rate of labour productivity would be negative.

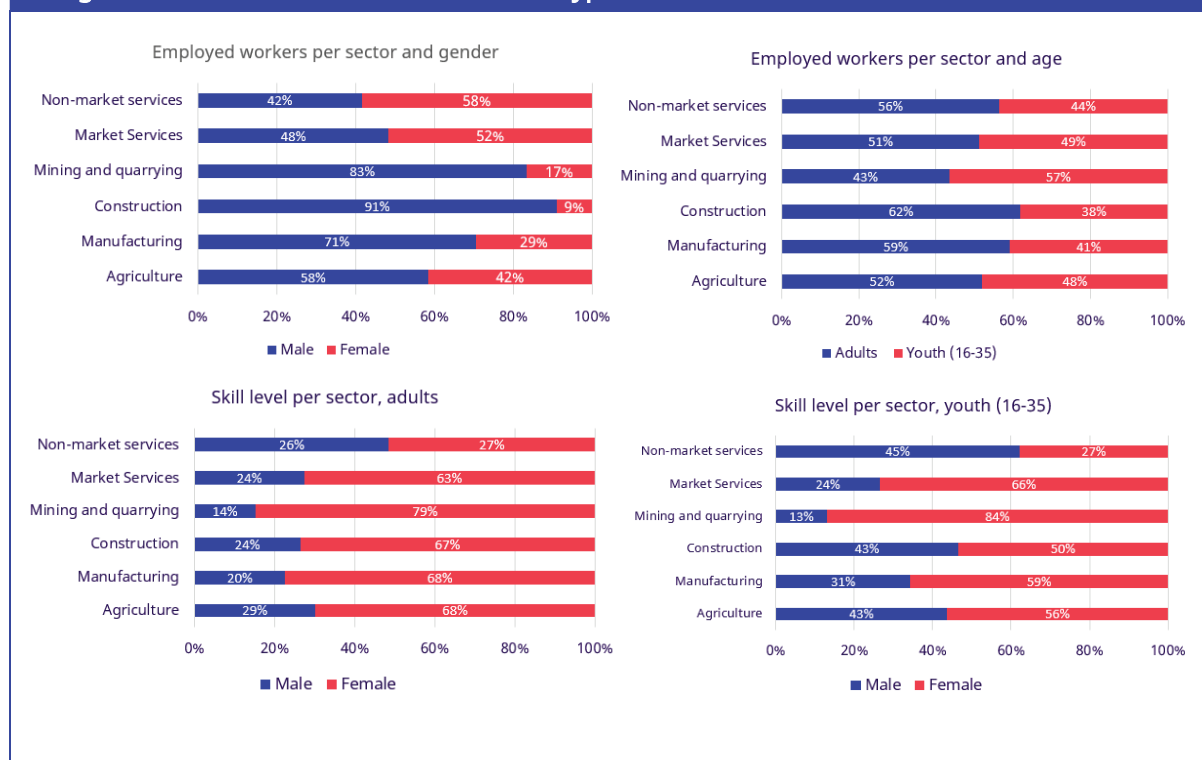
► Figure 19. Employment output elasticities & labour productivity by sector



Source: Authors based on national accounts data

The quality of the jobs created and the types of workers who are hired also vary widely across sectors. As discussed in Section 2, subsectors such as finance, professional services and information and communication technologies have a much larger share of formal positions and also higher labour productivity and therefore wages (Figure 19). Nevertheless, they also create fewer employment opportunities than other sectors and mainly for high-skilled workers. There is also stratification by age, gender and skills. For example, the mining sector creates more jobs for youth than adults, and the construction sector less. Similarly, there are more women than men in non-market services and fewer in construction. Finally, non-market services – which includes the public administration - is more likely to attract skilled workers (see Figure 20). The corollary is that if the priority is to create more jobs for youth or women, certain sectors are likely to offer better opportunities than others.

► Figure 20. Economic sectors and worker types



Source: Authors based on the LFS 2019

Each economic sector is also more or less integrated with the rest of the economy and therefore has a different potential to generate employment. The input-output matrix for Zimbabwe shows how much each sector “sells” to other sectors and how much it “buys” from other sectors. Sectors that are more interconnected with others are more likely to generate employment when output within the sector expands and/or when output in other sectors expands. The more interconnected sectors in Zimbabwe appear to be agriculture, manufacturing and ICT (see Table 15). Sectors with sparse linkages include the public administration and the social sectors (such as education and health). The financial sector is also poorly interconnected probably because of the difficulties facing firms to access financial services (see the previous section). In between, there are sectors such as mining, tourism, and basic services that can have sizeable effects on indirect employment, and the energy sector that generates employment when other sectors expand.

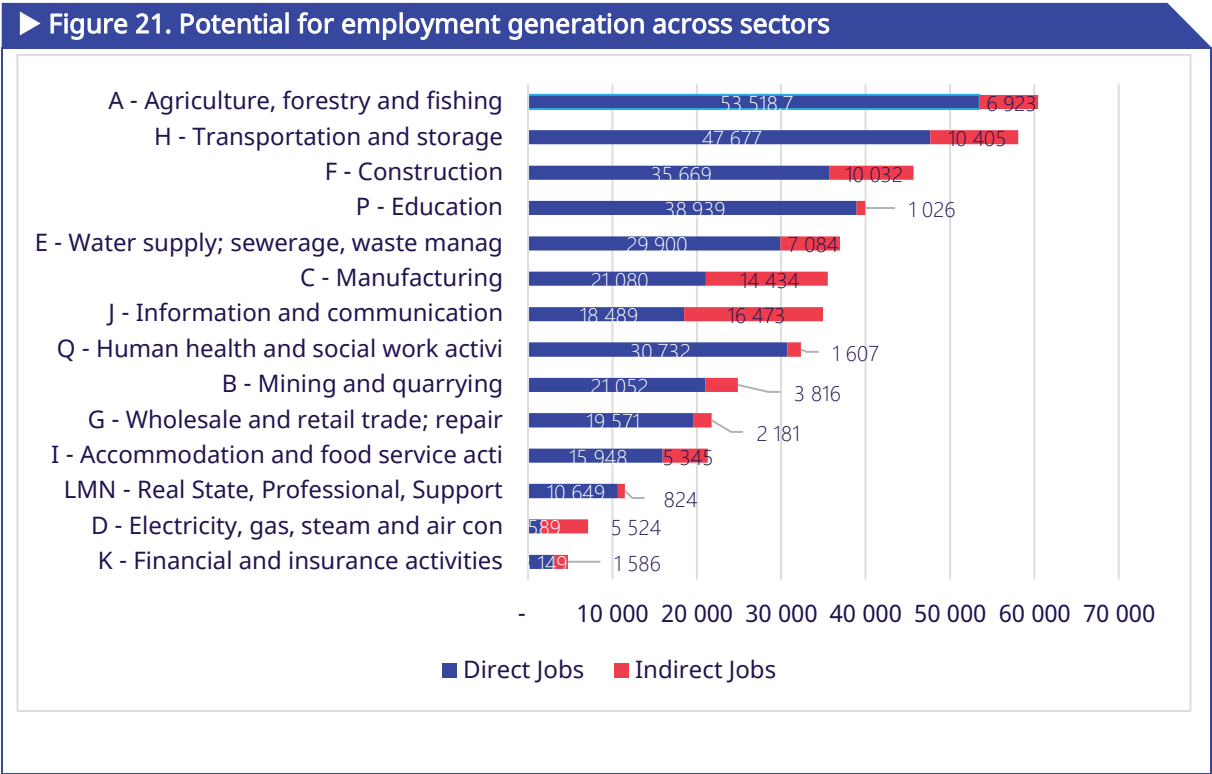
► Table 15. Input-output matrix for the Zimbabwean economy

	A	B	C	D	E	F	G	I	H	J	K	LMN	O	P	Q	RSTU	
A - Agriculture, forestry and fishing	1.399	0.029	0.313	0.016	0.040	0.123	0.016	0.073	0.087	0.142	0.008	0.004	0.003	0.006	0.011	0.011	0.059
B - Mining and quarrying	0.015	2.151	0.050	0.111	0.025	0.008	0.003	0.008	0.030	0.023	0.001	0.002	0.001	0.002	0.002	0.003	0.161
C - Manufacturing	0.697	0.225	2.451	0.119	0.295	0.398	0.120	0.181	0.681	1.098	0.060	0.030	0.021	0.048	0.082	0.080	0.393
D - Electricity, gas, steam and air con	0.056	0.096	0.094	3.701	0.662	0.021	0.005	0.163	0.027	0.048	0.003	0.031	0.011	0.024	0.023	0.048	0.330
E - Water supply; sewerage, waste	0.002	0.003	0.004	0.090	1.912	0.003	0.000	0.007	0.001	0.002	0.000	0.002	0.000	0.001	0.001	0.002	0.135
F - Construction	0.007	0.019	0.015	0.018	0.073	3.422	0.008	0.016	0.012	0.020	0.009	0.009	0.003	0.002	0.002	0.004	0.242
G - Wholesale and retail trade	0.005	0.003	0.002	0.003	0.004	0.001	1.526	0.001	0.001	0.001	0.006	0.005	0.000	0.000	0.000	0.000	0.104
I - Accommodation and food service activities	0.015	0.003	0.022	0.037	0.054	0.005	0.009	3.228	0.007	0.118	0.010	0.009	0.003	0.007	0.006	0.014	0.235
H - Transportation and storage	0.010	0.019	0.024	0.048	0.039	0.017	0.014	0.014	3.518	0.017	0.006	0.006	0.002	0.001	0.001	0.003	0.249
J - Information and communication	0.043	0.014	0.148	0.017	0.068	0.030	0.017	0.017	0.058	2.362	0.039	0.005	0.002	0.006	0.005	0.015	0.187
K - Financial and insurance activities	0.008	0.014	0.012	0.035	0.055	0.014	0.007	0.017	0.008	0.012	2.214	0.007	0.003	0.006	0.005	0.011	0.161
LMN - Real State, Professional, Support	0.005	0.007	0.007	0.019	0.020	0.259	0.011	0.026	0.047	0.022	0.008	2.245	0.007	0.015	0.038	0.024	0.184
O - Public administration and defence;	0.000	0.000	0.001	0.001	0.026	0.000	0.000	0.000	0.003	0.013	0.002	0.000	1.337	0.000	0.000	0.000	0.092
P - Education	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	1.840	0.000	0.000	0.123
Q - Human health and social work activities	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.001	0.000	0.000	0.004	0.001	0.000	0.004	1.601	0.269	0.125
RSTU - Arts, entertainment and recreation	0.000	0.000	0.001	0.002	0.001	0.000	0.000	0.003	0.001	0.002	0.001	0.001	0.000	0.002	0.006	1.869	0.126
INTER-CONNECTEDNESS	0.058	0.170	0.189	0.280	0.215	0.279	0.115	0.245	0.293	0.249	0.158	0.157	0.093	0.131	0.118	0.156	
	0.38	0.5	0.56	0.69	0.75	0.5	0.38	0.56	0.5	0.69	0.25	0.19	0.19	0.25	0.31	0.56	

Source: Authors’ calculations based on the national accounts from 2012. The numbers along a column (sector) indicate how sensitive employment in other sectors is to changes in output in the sector represented by the column (e.g., Agriculture in column A). The numbers in the last row, therefore, indicate the potential of the sector represented by the column to generate indirect employment. Coefficients along a row indicate how sensitive employment within the sector (referenced by the row) is to changes in output in other sectors. The coefficients in the last column, therefore, indicate the potential for employment generation of the sector when other sectors expand.

Holding labour productivity and quality constant, simulations suggest that the sectors with the highest potential to generate employment, both direct and indirect, are agriculture, transport and construction, followed by education, basic services, manufacturing and ICTs. For instance, expanding output in agriculture by the equivalent of 1 per cent of GDP could create 60,441 new jobs. Of these, 53,518 would be created in the agricultural sector and 6,923 in other sectors (see Figure 21). The transportation and construction sectors could create around 58,000 and 46,000 jobs respectively, and some 10,000 would be indirect jobs. Otherwise, basic services, manufacturing and ICT sectors are important because of their potential contributions in terms of indirect jobs. As discussed above, the productivity and quality of the jobs are not the same across sectors. The sectors with the highest potential to create jobs also tend to be lower productivity sectors. There is therefore a trade-off between the productivity and the volume of jobs that can be created.

Markets alone are unlikely to allocate investments to the sectors that have the highest potential to improve employment opportunities for the majority of Zimbabwean workers. In particular, the allocation of investments to higher productivity economic sectors that maximize rates of returns to capital and the rate of economic growth does not necessarily create the number and types of jobs that the country needs to address the problems described in Sections 2 and 3. The main reason is that, in general, private investors do not take into account the social value (the social externalities) of jobs.⁵⁰ In fact, investments driven by profit maximization objectives might seek to reduce labour costs and therefore labour demand, something that has happened in Zimbabwe in the past (see Figure 18). At the same time, investments that have the potential to generate employment, and therefore have a high social rate of return, might not take place because financial rates of return are not high enough.⁵¹



Source: Authors' calculations based on an input-output model calibrated based on national accounts data (see Annex 8). The bars give the number of direct and indirect jobs that can be created for the expansion of the economic sector equivalent to 1% of GDP. In the simulations, the average productivity of jobs across sectors remains constant.

Simulations of different growth patterns illustrate the trade-offs between faster productivity growth and employment creation; a minimum level of economic growth is needed to create enough jobs, but faster economic growth does not always imply more or better employment. The Input-Output model was used to divide the economy into *leading sectors* in terms of employment generation (agriculture,

⁵⁰ There are different sources of externalities. One example is that reducing underemployment and increasing earnings increases aggregate demand and the potential for economic growth in the country (this is the so-called labour externality). Another example are jobs for youth which contribute to build their human capital making other workers in the economy more productivity. Jobs might also be able to contribute to political and social stability. See Robalino and Walker (2018) and Robalino, Romero and Walker (2020) for a discussion.

⁵¹ See Robalino, Romero, and Walker (2020).

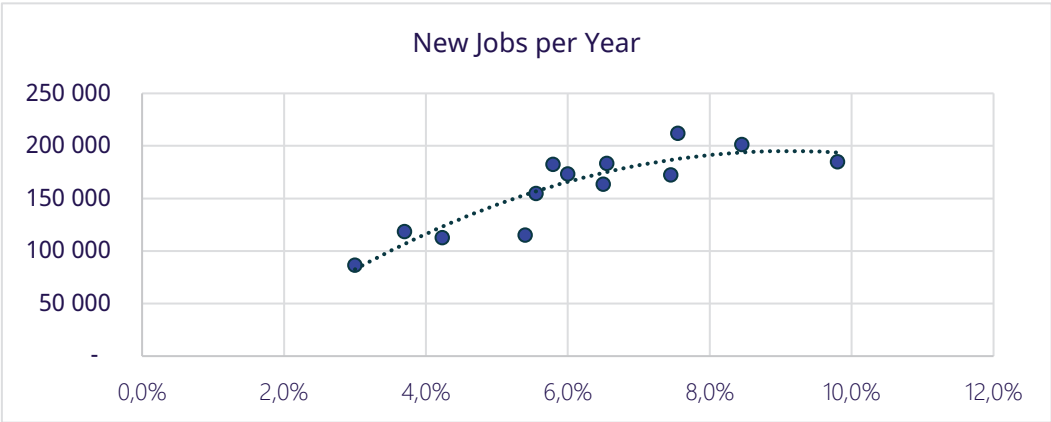
manufacturing, construction and transport and water and basic services) and other sectors, which include those with the highest labour productivity. The simulations consider different growth scenarios for these two groups of economic sectors and two scenarios for the growth rate of labour productivity in agriculture. For each of these scenarios, the model calculates the growth rate of the economy and the net number of jobs that can be created per year (see left panel of Figure 22). For instance, in scenario one, labour productivity in agriculture does not grow while all sectors, and therefore the economy, growing at 3 per cent per year. Under this scenario, the economy can create some 86,661 jobs per year, which is not enough to keep current employment rates constant.

The main insights from the different growth scenarios are the following:

- **Zimbabwe will have to grow above 5.5 per cent per year to keep employment rates constant and above 7.5 per cent to halve the unemployment rate over the next decade.** If the economy grows at 5.5 per cent or above, it could create more than 154,000 jobs per year (see left panel of Figure 21), which would be enough to keep employment rates constant at current levels (83 per cent) (see Section 2.2). If the economy grows at more than 7.5 per cent, it could create over 200,000 jobs per year which is what is needed to reduce the unemployment rate from 17 per cent to 8 per cent over the next decade (without changes in participation rates).
- **Different growth scenarios could achieve these targets, and those with faster overall labour productivity growth are not necessarily the best.** For instance, in scenario 7, the economy would grow at 6 per cent per year and create 173,000 jobs (enough to keep employment rates constant), but the growth rate in agricultural productivity would be zero; many of the jobs created would be low-quality jobs. A better option would be scenario 8 where labour productivity in agriculture grows at 3 per cent per year and the economy grows at 6.5 per cent, creating 163,000 jobs; this would be sufficient to maintain employment rates constant. An even better option, however, would be scenario 6, where labour productivity in agriculture still grows at 3 per cent per year and, although the economy grows at only 5.8 per cent, it can create 183,000 jobs. This is a scenario where leading sectors grow faster than the others. Similarly, scenario 11 would be the better choice to create enough jobs to reduce unemployment, where the economy grows at 7.5 per cent and creates 212,000 jobs. Whereas in scenario 12, the economy grows at 8.5 per cent but creates only 200,000 jobs.
- **To increase employment rates and the quality of jobs for vulnerable workers, the government has a role to play in promoting the expansion of leading sectors while intervening to increase labour productivity in agriculture.** Scenarios where high productivity sectors grow faster, and therefore the rate of economic growth and labour productivity growth is higher, are not necessarily able to generate enough or better jobs. The relationship between economic growth and employment that emerges is therefore U-shaped. (See right panel of Figure 21). Higher labour productivity in agriculture implies that for the same increase in the level of output, fewer jobs would be created (such as 45,000 versus 69,000 in scenario 9), but these would be higher-quality jobs. As other leading sectors expand and create jobs, for instance, agribusinesses, they could also employ workers who otherwise would have engaged in low-productivity farm activities.

► Figure 22. Examples of growth patterns & employment creation in the next decade

Scenario	Growth Prod in Agriculture	Growth Leading Sectors	Growth Other Sectors	GDP growth	New Jobs per Year
1	0.0%	3.0%	3.0%	3.0%	86 661
2	0.0%	5.0%	3.0%	3.7%	118 476
3	0.0%	3.0%	5.0%	4.2%	112 619
4	3.0%	3.0%	7.0%	5.4%	115 237
5	3.0%	8.0%	4.0%	5.6%	154 765
6	3.0%	11.0%	2.5%	5.8%	182 373
7	0.0%	6.0%	6.0%	6.0%	173 321
8	3.0%	6.5%	6.5%	6.5%	163 661
9	3.0%	9.0%	5.0%	6.6%	183 425
10	3.0%	5.0%	9.0%	7.5%	172 558
11	3.0%	10.0%	6.0%	7.6%	212 086
12	3.0%	6.0%	10.0%	8.5%	201 218
13	3.0%	0.0%	16.0%	9.8%	184 917



Source: Authors’ calculations based on an input-output model calibrated based on national accounts data (see Annex 8). Each scenario has different assumptions regarding the growth rate of labour productivity in agriculture and the growth rates of the leading sectors (agriculture, manufacturing, construction and transport) and the other sectors. The growth rate of GDP and the net number of jobs created are a function of these assumptions.

Although the results presented in this section are quite aggregate, they illustrate the importance of having an employment-focused development strategy versus a growth-focused strategy, where employment creation is not the primary outcome, but instead a by-product. Once broad strategic sectors have been selected, -reflecting priorities in terms of employment creation across regions and population groups - local knowledge can be used to identify the economic activities that have the highest probability of success. This is because, usually, these are activities where there are already firms and workers involved and what is needed is to facilitate new investments and the expansion of these firms. In principle, it is also possible to make “strategic bets” on new economic activities and products, but these are likely to be riskier. Indeed, the set of new products that a country can produce

efficiently usually depends on the products which the country is already producing since these embed a certain level of knowledge and know-how. Large jumps within the *product space* entail more risk.⁵²

Interviews with business representatives from the sectors with the highest potential in terms of employment creation suggest that several investment opportunities are not being explored. In agriculture, respondents consider that primary production has been low, yet the demand for food continues to increase. There is potential to increase output in the crop and livestock sectors, dairy production, horticulture, hatching and breeding and packed fruit. Another subsector with potential in the agriculture sector is the export-oriented primary production of commodities such as flowers, fruits and tea. As agricultural output expands, there will also be increased demand for specialized veterinary products, animal feed and agrochemicals and services such as training for the increasing number of new farmers venturing into commercial agriculture (see Table 16).

In manufacturing, there are opportunities in steel products, but particularly in agribusinesses. Potential products include processed food, soft drinks and beverages, fertilizers, cotton products, fuel from sugar cane, dairy products and leather products. Other subsectors identified as having the potential to grow and generate employment include housing and construction materials (such as timber, ceiling boards, bricks and cement) driven by the expansion of residential housing, internet services, mobile apps and computer accessories which have received a boost during the COVID-19 pandemic; and in the transport and logistics sector tourism, public transportation, cross border freight and passenger transport, customs clearing, logistics and freight insurance (see Table 16).

► Table 16. Opportunities for investments across selected economic sectors	
Sector	Opportunities
ICT	Internet bandwidth service provision
	Sales of computer hardware and communication devices
	Software and apps development
	Digital marketing
	Online education services
Manufacturing	Processed foods
	Soft drinks and beverages production
	Steel and steel products
	Tanning and leather
Construction	Bricks, cement, construction steel products
	Expansion of housing
	Public infrastructure
Transport & logistics	Tourism
	Public transport system (urban and rural)
	Cross-border freight and passenger transport
	Customs clearing
	Freight insurance
Agriculture	Primary production (crops, livestock, poultry, horticulture)
	Export-oriented primary production
	Farmers training and advisory services

⁵² See Hausmann et al., (2006).

Source: Authors, based on the results of the qualitative survey of formal firms and interviews with key informants.

5.2 A “deep-dive” into agriculture and agribusinesses

All key informants identified agriculture and agribusiness as the sectors with the highest potential in terms of employment creation. As a result, additional interviews were conducted with sector specialists to better understand the constraints that would need to be removed to promote investments in the sector.⁵³

The general perception is that there is considerable scope to increase production in the sector and create jobs, but that the government has not been able to implement the right policies and programmes. Specifically, there are opportunities for employment creation around four types of activities: 1) production of crops, livestock and horticulture; 2) transformation/value addition activities; 3) support services; and 4) marketing and distribution. Zimbabwe already had a booming agricultural sector and with the right interventions, it would be possible to increase domestic production and substitute imports. Unfortunately, governments interventions to date have consisted mainly of ad-hoc subsidies that have failed to address long-standing structural problems.

The government has been supporting the agricultural sector through different types of output and input subsidies that represent around 5.5 per cent of GDP. The most important include:

- **Presidential Input Support Programme (PISP).** This programme was introduced in 2009 and focuses on subsistence farmers. It offers a fully subsidized input package to produce grain on a limited area, typically less than each farmer’s full area of cropping.⁵⁴
- **Command agriculture.** The programme aims to mobilize financial resources from the private sector to finance the importation and distribution of inputs for commercial farmers contracted to deliver output to the Grain Marketing Board (GMB). The main crops are maize and wheat, but the programme also covers small grains, soybeans and livestock producers. In principle, these programmes do not involve subsidies since farmers are bound to reimburse the loans when they delivered their output to the GMB. In practice, however, non-repayment rates range between 30 per cent and 40 per cent.
- **Subsidies for tobacco.** The RBZ, through AgriBank, capitalized the Tobacco Input Revolving Fund. This fund is managed by the Tobacco Industry and Marketing Board. It finances the purchase and distribution of production inputs along the value chain.
- **Subsidies for cotton.** The government subsidizes the purchase of all inputs needed to grow this crop. The implementation of the programme shifted from AGRITEX and GMB in the first year to the Cotton Company (Cottco).

⁵³ Another sector that was mentioned often was *mining and quarrying*, given the large number of informal operations that exist today. For the sector to be competitive, however, current capital labor ratios would need to change. This implies that while during the short-term there are opportunities to improve the quality of existing jobs (see next section), it is unlikely that over the medium- and long-term the sector would be a major source of jobs.

⁵⁴ Initially, the program tried to develop small-scale agro-dealers by recapitalizing their input and grain marketing in rural areas, and voucher and e-voucher mechanisms were piloted and partially scaled up to target small farmers. However, these initiatives were abandoned when donor finance dried up.

- **Subsidies on output prices for selected crops.** These take the form of GMB domestic procurement prices that are higher than GMB sale prices to domestic processors (around 38 per cent higher). This programme has encouraged domestic processors to source maize, wheat and soybeans from domestic producers (via GMB) rather than through imports.

These programs, however, have not been able to increase output or productivity. The subsidies for tobacco and cotton producers were allocated without any type of conditionality, and it is unclear why a 100 per cent subsidy on inputs is still in place for cotton growers. Regarding Command Agriculture, which is essentially a publicly managed type of *Contract Farming*, a recent evaluation shows that while farmers who benefited from the programme utilized more inputs than the non-Command Agriculture farmers, there was no significant difference in maize yields. Hence, a significant amount of public resources were allocated to a programme that did not stimulate maize yield or agricultural productivity.

At the same time, the structural problems that affect the agricultural sector have not been addressed. The main issues identified include:

- **Lack of infrastructure.** Currently, most farmers depend on rain-fed agriculture for operations. This limits their production as they must wait for the single rain season and have the land fallow the rest of the year, affecting returns from the land. At the same time, electricity is a problem for those farmers who use power for operations such as irrigation and greenhouses.
- **Lack of skills of new farmers.** Most commercial farmers in Zimbabwe are “relatively new” to farming as they obtained land after the land reform programme. Most farmers lack the skills needed to improve productivity. Very few have market intelligence and knowledge of the requirements to enter export markets for specialized products in horticulture and flowers. It is estimated that post-harvest losses in Zimbabwe are significant; 33 per cent of the product is lost before reaching the market.⁵⁵
- **Prevalence of “subsistence” farming.** Half of the land that can be used for agriculture is “owned” by small, subsistence, farmers. They cannot achieve the necessary economies of scale to be competitive and access commercial markets on their own.
- **Land ownership and access to finance.** Most farmers use “land offer letters” from the government as the document to demonstrate land tenure. Most financial institutions do not accept these letters as collateral. With many new farmers not having other assets, banks cannot finance their operations, limiting farmers’ access to working capital.
- **Inefficient pricing system.** The current system of output subsidies, and the government monopoly in the purchase of grains, benefits a few producers. On the other hand, it harms businesses that engage in processing activities and compromises the development of value chains. The government often announces submarket grain producer prices that are higher than import parity prices. Agribusinesses find it difficult to operate profitably and competitively after purchasing grain at high prices.
- **Policy uncertainty.** Policy changes are common. For example, in early 2021, the government unilaterally increased the export forex surrender requirements for exporters from 30 per cent

⁵⁵ Food and Agriculture Organization of the United Nations, “The State of Food and Agriculture.” 2019.

to 40 per cent. These policies affect companies' ability to finance their operations and purchase imported materials.



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► VI. Policies and programmes that can be considered to improve opportunities for decent employment

Increasing living standards and promoting economic and social development in Zimbabwe will first and foremost require improving employment opportunities.

Economies grow when more people work and when each job in the economy becomes more productive. At the same time, households escape poverty when labour income – the main source of income for most households – increases. This happens when more working-age household members are employed and when the quality of their jobs improves. It is also likely that better employment opportunities for Zimbabwean workers will foster social stability and consolidate democracy.

Policymakers might therefore need to rethink some of the current economic and social policies putting employment at the centre of the economic development process. As discussed in the previous section, simply creating the conditions needed to mobilize private investments and promote economic growth might not be sufficient to generate the number and distribution of jobs required to reduce youth unemployment, increase participation rates among women, increase the share of formal employment and earnings or reduce poverty.

A different strategy would involve setting specific employment outcome targets for different groups across regions. Depending on the problems facing these population groups (see Section 2), the relevant targets would include a rise in participation and employment rates, higher earnings, better access to labour regulations and social insurance programs, as well as better enforcement of core labour standards. These targets would then inform policy interventions with three interrelated

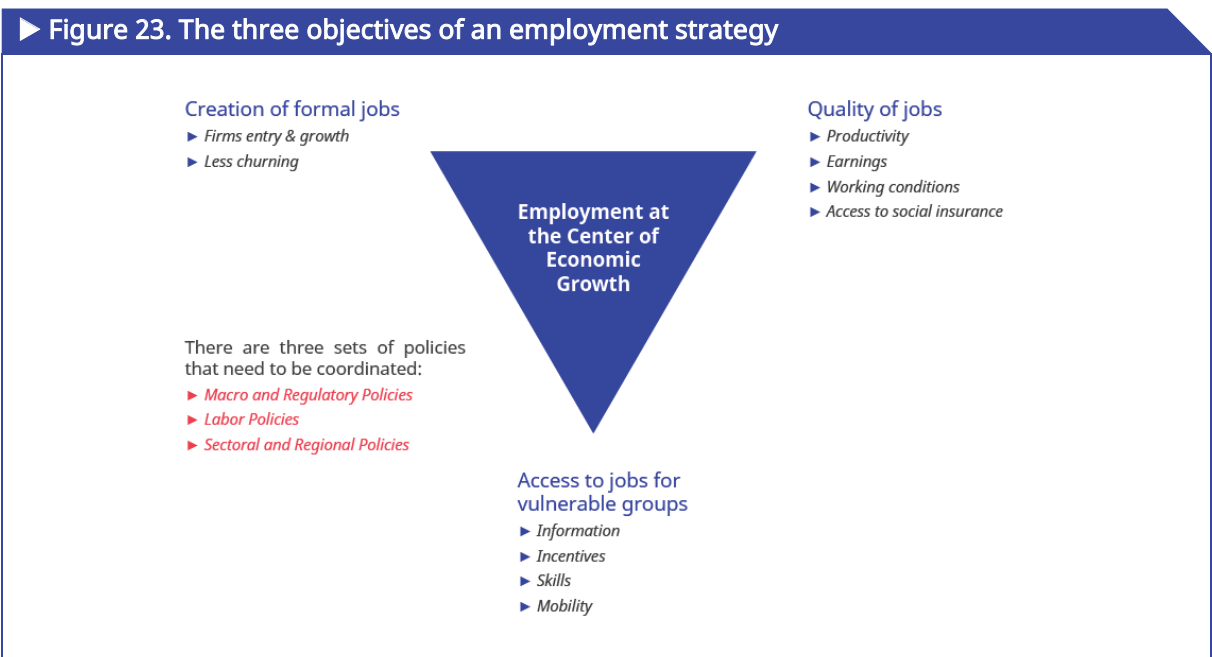
objectives: 1) promoting the creation of formal employment; 2) improving the quality of existing informal jobs; and 3) facilitating access to employment, particularly for the most vulnerable workers (see Figure 23).



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Achieving these objectives would require coordinating policies at three levels:

- ▶ **Macro and regulatory policies.** These are necessary conditions to address the structural problems discussed in Sections 4.1 and 4.2, and enable private investments and employment creation. They include fiscal and monetary policies to ensure macroeconomic stability and, over the short-term, stimulate the economy and promote employment creation; improvements in the business environment - including through public investments in infrastructure - to reduce transactions costs and increase rates of return on investments; enforcing property rights and the rule of law to reduce investment risks; ensuring access to finance; and promoting investments in human capital.
- ▶ **Labour policies and programmes.** These are necessary to improve the quality of employment and to address constraints facing different groups of workers to access jobs or move to better quality jobs (see Section 3). For instance, the quality of existing jobs can be improved by expanding the coverage of labour regulations and social insurance programmes. At the same time, well designed active labour market programmes can facilitate transitions from unemployment/inactivity into employment and from low to higher-quality jobs. Labour policies and programmes can also have an important role in creating employment. For example, by reducing labour costs where possible, by providing incentives to employers to hire first-time job seekers or by developing large scale public works and services.
- ▶ **Sectoral/regional policies and programmes.** These are critical to promote employment creation and better-quality jobs in specific regions and sectors to improve labour market outcomes for targeted population groups. The programmes can take different forms such as support to the development of infant industries or value chains; extension services for farmers; interventions to promote entrepreneurship and the growth of SMEs in specific sectors; or special economic zones for export promotion. A key issue is how to design and implemented these programmes.



Source: Authors

The NDS1 proposes various initiatives at all these levels, but in most cases, they are not linked to specific objectives in terms of labour market outcomes and there are still important issues related to design, implementation and coordination; that is the main challenge going forward. Thus, the remainder of this section first reviews the most important government proposals from a decent work perspective. It then helps set priorities and outlines some specific interventions and reforms that the country could consider, to ensure that the many initiatives under discussion can have positive impacts on labour markets and improve the opportunities of decent work for Zimbabwean workers. The last part of the section discusses issues that need to be addressed for the successful implementation of these reforms, including in terms of the policymaking process, social dialogue and state capabilities.

6.1 Existing initiatives and the five-year development strategy (NDS1)

The framework driving the design and implementation of new policies and programmes in Zimbabwe is the National Development Strategy (NDS1 (2021-2025), the successor to the Transitional Stabilization Programme (TSP). The NDS1 is an ambitious development programme aiming to transform Zimbabwe into a middle-income country by 2030. It is built around 14 national priorities that were identified through extensive consultations with stakeholders and social partners (see Table 17). Some of the most relevant priorities for decent work agenda include: 1) growth and stability; 2) food security and the development of the agricultural sector; 3) value chains development and structural transformations; 4) infrastructure and housing, and 5) human capital development and social protection.

▶ Table 17. Key elements of the NDS1 to improve employment opportunities

NSD Priority	Creation of formal employment	Quality of informal employment	Access to employment
Economic growth and stability	+++		
Food and nutrition security	+++	+++	
Moving up the value chain and structural transformation	+++	+++	
Human capital development			+++
Social protection		+++	+++
Infrastructure and utilities	+++	++	
Housing	+++	++	
Governance	+++	+++	+++
Environmental protection, climate resilience and natural resources management	+/-	++	
Digital economy	+++		++
Health and well-being		+++	++
Image building and international engagement	+++		
Youth sports and culture			+++
Devolution	+	+	+

Source: Authors, based on consultations with key informants. A “+” sign is a qualitative measure of the impact of the policy priority on different labour market outcomes.

The foundation of the NDS1 is a programme of reforms to ensure macroeconomic stability, promote private investments and create jobs, although current targets might fall short of what is needed to increase employment rates. The goal is to ensure that the economy can grow at least 5 per cent per year, driving GPD per capita to USD 3,205 by 2025 (see Table 18). Growth would be driven to a large extent by the expansion of the agriculture, manufacturing, mining, utilities and tourism sectors. These are, to a large extent, consistent with the sectors identified in Section 5. The government expects that the economy could create around 150,000 formal positions per year, a number far greater than that observed between 2014 and 2019. At the same, as discussed in Section 5.1, to be able to reduce the unemployment rate the economy should be creating around 200,000 jobs per year which would require growth rates above 7.5 per cent.

▶ Table 18. Macro framework and expected economic growth

	2020	2021	2022	2023	2024	2025
GNI per capita (USD)	1159.8	1842.2	2137.1	2712.7	2960.7	3207.3
Real GNI growth	-	-32.4%	-6.2%	14.9%	1.5%	2.4%
Real GDP growth	-4.1%	7.4%	5.5%	5.2%	5.2%	5.0%
Formal employment (000)	812.1	963.2	1094.7	1236.6	1398.4	1572.8
New Formal Jobs (000)	-	151.1	131.5	141.9	161.8	174.4
Poverty rate	38.9%	24.5%	19.2%	15.4%	12.3%	10.1%
Inflation	654.9%	134.8%	23.7%	10.5%	7.5%	5.8%

	2020	2021	2022	2023	2024	2025
Fiscal deficit	-0.5%	-1.3%	-1.5%	-1.7%	-0.9%	-0.7%
Public debt	78.4%	64.5%	64.8%	64.5%	63.6%	61.5%
Sectoral growth rates						
Agriculture	-0.2%	11.3%	8.9%	7.6%	9.5%	10.4%
Mining	-4.7%	11.0%	7.4%	8.8%	9.2%	8.0%
Manufacturing	-9.6%	6.5%	6.5%	7.7%	6.1%	5.9%
Electricity	-7.9%	18.8%	14.4%	5.9%	4.5%	4.8%
Construction	-11.4%	7.2%	5.0%	4.0%	5.0%	4.0%

Source: NDS1

Part of the programme would involve changes in monetary policy to control inflation, guarantee exchange rate stability, and increase confidence in the banking system. The goal is to reduce inflation to 3.7-5 per cent per year while ensuring a competitive real exchange rate. The latter would be achieved by expanding the existing forex auctions managed by the Central Bank and having foreign reserves able to support at least six months of exports. The stability of the financial sector would also be enhanced, among others, by increasing banks' capitalization by USD\$30 million and through improvements in regulations, supervision and oversight.

Fiscal policy goals are to create fiscal space to enable public investments and increase social expenditures, although some of the interventions and the proposed fiscal targets might have negative short-term impacts on jobs. The government is targeting a maximum fiscal deficit of 3 per cent of GDP and a level of the public debt below 70 per cent of GDP (with no loans from the Central Bank), which could be too radical in the current economic conditions. Some of the interventions to achieve these targets include widening the tax base to include small-scale businesses (a potential problem for jobs), expanding the audits of large taxpayers, reducing the public wage-bill from 47 per cent to 40 per cent of GDP (also a problem for jobs), and reforming the pension system. There will also be reviews of the effectiveness - costs and benefits - of existing fiscal incentives and government subsidies. At the same time, the goal is to increase the development budget from 3.8 per cent to 6 per cent of GDP.

In addition, the NDS proposes several sectoral and regional initiatives for export promotion and import substitution in leading economic sectors including agriculture, mining, manufacturing, and tourism. Some of the priorities in agriculture are resolving the issue of land ownership, securing access to finance, and expanding contract-farming. In mining, the goal is to upgrade regulations to facilitate exploration and exploitation activities, improve the system to allocate concessions, and formalize and train small scale-miners through the *Mining Industry Loan Fund*. In manufacturing, the aim is to increase the complexity of the product space by developing value chains linked to the agriculture and mining sectors, and by expanding innovation hubs and industrial parks. For the tourism sector, some of the initiatives include improving accessibility by upgrading the road network and attracting new airlines, developing marketing programs and providing incentives for foreign and local investments, especially in the *Tourism Development Zones*. Underpinning all these sectoral programmes is the implementation of legal, institutional and structural reforms to improve the business environment, enhance the respect of property rights, enforce Rule of Law and combat corruption.

The strategy to rebalance the economy and reverse the structural regression described in Section 2 is to support the development of value chains directly or indirectly linked to the agricultural and mining sectors.⁵⁶ The idea is to prioritize existing value chains and promote the linkage of SMEs to large firms in the process. The strategy also has a regional component and aims to support the development of industries in the provinces and districts where endowments are located. Value chains would be developed in five subsectors:

- ▶ Agrobusiness
- ▶ Mining
- ▶ Pharmaceuticals
- ▶ Bus and truck assembly
- ▶ Iron and steel and general engineering
- ▶ Plastic waste

Within each of the subsectors, there are several proposals in terms of value chains linked to specific products and various initiatives to support their development, although these tend to be ad-hoc. It is unclear how to set priorities if one of the key objectives is to improve labour market outcomes. For instance, some of the value chains in agriculture include soya beans, fertilizers, cotton, dairy products and leather (see Table 18). For each value chain, there are quantitative production targets for different products to be achieved by 2025, and a wide array of interventions to make them happen. For example, in the case of the fertilizers value chain, these interventions include recapitalizing fertilizer manufacturing companies; ensuring timely orders of fertilizer for government agricultural programs; and investing in new technologies in fertilizer manufacturing. For cotton, the proposals include attracting new investors; promoting the manufacture of explosives from cotton lint as a complex product; establishing the Cotton Value Chain Retooling Revolving Fund; promoting the use of 100 per cent cotton fabric in the production of apparel; and strengthening antidumping measures to reduce the influx of second-hand clothes into the country.

As part of the strategy to develop value chains, the government is also organizing programmes to support SMEs. The target for the 2021-2025 period is to increase the contribution of SMEs to value-added in the manufacturing sector by 10 per cent per year. Although there are no employment creation targets, the government estimates that 15,000 SMEs can be created, one third in rural areas. Some opportunities to achieve these targets include:

- ▶ Specialized training in business processes re-engineering, product development, standardization and certification
- ▶ Provision of funding for working capital and machinery at concessionary rates
- ▶ Provision of appropriate and affordable infrastructure
- ▶ Development of innovation hubs and clusters in the provinces
- ▶ Participation of SMEs in public procurement.

⁵⁶ The goal is to gradually improve the contribution of the secondary sector from 10.6 per cent of GDP in 2020 to 15 per cent by 2025. In addition, to increase the contribution of value-added exports to total exports from USD\$727.47 million in 2020 to about USD\$1.337 billion in 2025.

▶ Table 19. General strategies for value chain development in different subsectors

Subsector	Examples of initiatives
Agrobusiness <i>[Soya beans, fertilizer, cotton, sugar cane to fuel, dairy products, leather products.]</i>	• Promote soya bean production through contract farming. • Recapitalisation of fertilizer manufacturing companies • Timely orders of fertilizer for agricultural programmes • Investment in new technologies in fertiliser manufacturing • Attract new investors in the cotton value chain. • Promote the manufacture of explosives from cotton lint. • Establish the cotton value chain retooling revolving fund. • Promote the use of 100% cotton fabric in the production of apparel. • Manage importation of milk powder and promote local raw milk production. • Create a leather value chain Apex Body. • Facilitate the procurement of production machinery for rural SMEs
Mining <i>[Gold ore to bullion; chrome to ferrochrome; coal to coke; coal bed methane gas; rare earth mineral to complex products; base metal refinery]</i>	• Facilitate, access to land, infrastructure, machinery, and financing. • Over-the-counter exchange to fund the sector. • Enhanced mining research and adoption of ICTs • Enhanced mineral resource governance. • Improved compliance and risk management • Improved mining title management • Improving linkage of the services sector (distribution, wholesale and retail trade)
Pharmaceuticals	• Promote public procurement of locally produced medicines. • Logistics Management Information System (e-LMIS) • Re-capitalisation of the pharmaceutical industry • Facilitate industry, academia and indigenous knowledge systems collaboration on developing formulations for new products and establishment of Bioequivalence (BE) centres • Reduction of registration timelines by Medicines Control Authority of Zimbabwe (MCAZ) and special exemptions for locally produced medicines • Review the list of medicines requiring import licenses
Bus and truck assembly	• Prioritise procurement of locally manufactured buses and trucks. • Enhance strategic partnerships with financial institutions to mobilise funds. • Facilitate re-tooling. • Encourage importation of Completely Knocked Down (CKD) and Semi Knocked Down (SKD) assembly kits through the removal of import duties; and • Manage the importation of buses.
Iron and steel and general engineering	• Secure investors in the iron and steel industry • Resuscitate steel foundries and use of modern technologies in the sector. • Strictly controlling scrap metal exports to ensure adequate quality. • Promotion of manufacturing of steel billets from scrap metal • Facilitate the increased supply of coal and electricity to the iron and steel industry. • Facilitate access to machinery and tools
Plastic waste	• Promote ventures which convert plastic waste into recycled plastic products through targeted incentives. • In addition, the recycled plastic materials will also be used to manufacture other high-value products such as housing for LED lighting bulbs

Source: Authors based on the NDS1

Finally, the NDS1 outlines several labour policies to improve the quality of employment and facilitate access to jobs. However, as in the case of value chains development, there are several questions about design and implementation. For now, the goal is to increase the share of formal jobs from 24 per cent to 30 per cent by 2025 and to reduce the share of precarious work from 19 per cent to 14 per cent. To this end, the government proposes several initiatives:

- ▶ **Strengthen the implementation of active labour market programs**, including through incubation hubs, labour intensive public works and entrepreneurship programmes.

- ▶ **Reconfigure the higher and tertiary education systems to focus on job-relevant skills** and diplomas, and promote innovation, industrialisation and entrepreneurship.⁵⁷ To this end, there will be a review of the degrees offered by state universities to standardize qualifications and abolish “irrelevant” programmes that produce “idle” graduates. In addition, to address skills shortages across sectors, the government plans to establish strategic Public, Private Partnerships (PPPs) for health, engineering, ICTs and agriculture professionals.
- ▶ **Reform social insurance programmes to extend their coverage** to 67 per cent of workers, including informal sector workers. One of the initiatives is the design and implementation of an unemployment benefits scheme to enhance income security. Discussions are also ongoing to reform the pay-as-you-go pension system to increase the value of pensions, improve the financial sustainability of the system and facilitate the portability of benefits. In addition, the government plans to implement a national health insurance scheme to cover all citizens, which would replace the current Assisted Medical Treatment Order (AMTO).
- ▶ **Enforce labour standards and promote social dialogue.** Specific initiatives include expanding the coverage of occupational safety and health services to 20 per cent of informal workers; developing an electronic labour case management system to enhance efficiency when processing grievances and settling disputes; strengthening the labour inspectorate system to upscale the enforcement of labour rights and the promotion of safe work environments, and developing a robust Labour Market Information System (LMIS). The NDS1 also indicates that “labour laws will be reviewed to be in sync with labour dynamics.”
- ▶ **Expand the coverage of social assistance and livelihoods programmes from 3 per cent to 17 per cent of the population by 2025.** This would require expanding social assistance coverage in urban areas, where there has been an increase in poverty and vulnerability. In addition, the NDS1 is supporting the development of livelihood programmes to promote the growth of micro-small-medium enterprises, linking them to value chains, facilitating access to markets to small scale producers and delivering inputs to vulnerable farmers.

6.2 Building on the NDS1 to promote decent work

The challenge going forward will be to move from the general development strategy outlined in the NDS1 to specific reform programmes that can achieve concrete results in terms of labour market outcomes for different population groups. Indeed, the NDS1 treats jobs as a cross-sectoral theme, but in practice, there are no explicit links between the proposed initiatives and labour market outcomes. One of the key questions over the short term is about how to manage the trade-offs between the need to have a balanced government budget and the need to stimulate the economy to accelerate the recovery and increase employment rates. There are also several questions regarding the design and implementation of sectoral and regional policies: how to ensure that the reforms in the agricultural sector and the initiatives to promote value chains development and the growth of SMEs can accelerate the creation of formal employment and improve the quality of existing informal jobs. Finally, there is a need to come up with more specific policies and reform programmes to operationalize the various proposals around labour policies, which are necessary to improve the quality of jobs and help connect workers to better employment opportunities.

⁵⁷ This is the so-called Education 5.0 initiative.

This subsection presents specific recommendations to prioritize and improve the design of the most promising NDS1 initiatives to achieve the three objectives that would encompass an integrated decent work strategy for the country: accelerate the creation of formal jobs; improve the quality of existing jobs; and expand employment opportunities, particularly for vulnerable workers. The discussion is organized around the following set of policies:

1. Macro and regulatory policies to improve incentives for private investments and accelerate economic recovery.
2. Sectoral/regional initiatives to develop leading economic sub-sectors and create jobs.
3. Active Labour Market Programmes (ALMP) to connect vulnerable workers to jobs or better employment opportunities.
4. ALMP to promote large scale public works and services and improve livelihoods.
5. An integrated social insurance system to cover all workers.
6. Improved labour regulations to better protect workers and incentivize the formalization of low productivity firms.

(i) Macro and regulatory policies and COVID-19 responses

The NDS1 rightly focuses fiscal and monetary policies on achieving macroeconomic stability. It is also important to take into account the impact that these policies can have on labour markets. Three transmission channels need to receive particular attention: 1) the effects of changes in the fiscal stance and the structure of the public budget on aggregate demand and therefore employment levels; 2) the impact of public investments on private investments, job creation and labour productivity; and 3) the effects of monetary and FX policies on interest rates, the real exchange and labour dynamics. The goal ought to be to adopt pro-employment macro policies.⁵⁸

Over the short-term it remains important to maintain an expansionary fiscal stance to accelerate the recovery and increase employment levels, without relying on the Central Bank. The government would need to assess whether the targets set for the fiscal deficit (3 per cent) and the public debt (70 per cent) are adequate given the impacts of the COVID-19 pandemic on the economy. It is necessary to finance emergency interventions to sustain minimum consumption levels for the most vulnerable and help firms protect and create jobs. These would include extending social assistance transfers through the Harmonized Social Cash Transfer System (HSCTS); providing grants to businesses to cover salaries; defer taxes on businesses and social security contributions; reduce the cost of bulk water for irrigation; and remove import or excise duties on certain items.⁵⁹

An expansionary fiscal stance might involve additional borrowing, which would require external support and debt relief from the international community. To this end, Zimbabwe would need to put forward a credible plan to restructure its public debt and refinance arrears with international creditors, while showing progress in the implementation of reforms to improve Public Financial Management (PFM). At the same time, the value of the domestic debt has fallen significantly. If the RBZ can build

⁵⁸ See Blanchard et al. (2013) and Blanchard and Summers (2017).

⁵⁹ Based on interviews with key informants. See also the ILO normative guidance framework outlined in Recommendation 205 of 2017 https://www.ilo.org/global/topics/employment-promotion/recovery-and-reconstruction/r205/WCMS_648752/lang-en/index.html.

confidence around the new currency (see monetary and FX policy below) and if there are no caps on interest rates on government bonds (or RBZ savings bonds), the private sector would have better incentives for holding government debt. This would reduce the need to use collateralized external borrowing on commercial terms.

Over the medium term, as outlined in the NDS1, it is essential to review the allocation of public expenditures to enable investments in infrastructure and finance some of the pro-employment programmes described in the next section. To a large extent, the current fiscal deficit is driven by ad-hoc subsidies to the agricultural sector and incentives for gold producers to sell gold to *Fidelity Printers*. As fiscal consolidation proceeds, these subsidies would need to be phased-out and replaced by others that contribute to develop public infrastructure, deliver public goods and services, and mobilize private investment conditional on job creation. Achieving the NDS1 proposed investments in transport infrastructure and services; water and sanitation; and energy would go a long way in the creation of direct and indirect jobs. To this end, it would be important to ensure that local companies can participate in the process and that Public Private Partnerships (PPPs) with foreign firms have conditionalities on employment creation for Zimbabwean workers.



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In terms of monetary and FX policies, the main challenge is to control inflation and have a stable and competitive exchange rate that removes restrictions for the local industry to import inputs and enables investments and job creation in the exports sector. Reserve money targeting remains the most appropriate anchor. To reduce inflation and stabilize the exchange rate, the RBZ needs to control the expansion of reserve money through open market operations. It would also be necessary to liberalize FX controls by gradually phasing out the auction system, allowing exporters to sell more of the surrender amount, and eliminating restrictions on the rate at which banks can transact in the market. Other measures to de-dollarize the economy involve increasing incentives to hold local currency over FX by requiring that government domestic transactions be carried out in Zimbabwean dollars.

Zimbabwe also needs to accelerate the implementation of structural reforms to improve incentives for private investments. These reforms are well described in the NDS1 (see the previous section) and involve improving governance; resolving the issue of land ownership and protecting property rights; enhancing the business environment; and reforming the education system to better prepare the new generation of workers.

(ii) Sectoral/regional policies to incentivise investments in leading sectors and create jobs

Many of the proposed interventions to develop the agricultural sector promote the emergence of value chains in strategic sectors and prop up SMEs are common to other countries. Their impact in terms of employment creation, however, is not guaranteed. The general idea is to support investors, enterprises and entrepreneurs through different types of explicit or implicit subsidies. These can take the form of tax-exemptions, grants, access to loans at preferential rates, or subsidized training, mentoring, technical assistance, access to inputs, networking services, infrastructure development (such as refrigeration for flowers) and support with logistics and access to markets. Existing impact evaluations in other settings have had mixed results in terms of employment impacts.⁶⁰ Thus, in practice, Zimbabwe could be allocating a substantial share of public resources to programmes that might not have the expected results.

There are three important policy problems: 1) how to allocate cash or in-kind subsidies without creating distortions (“picking winners”) and financing investments that are not commercially viable; 2) how to ensure that the programmes are offering the right type of support; and 3) how to maximize employment impacts.

One way to address these problems is through programmes that allocate subsidies (in-kind and/or in-cash) competitively and are managed by specialized institutions paid based on results. These programmes can target local and foreign investors/entrepreneurs, including the Zimbabwean diaspora.⁶¹ The programmes would ensure that: 1) private investors face a substantial part of the investment risk; 2) they can identify the type of support they need (beyond changes in regulatory policies); and 3) commit to achieving specific labour market outcomes. In Zimbabwe, these programmes could be used with three specific objectives:

- **Promote industrial development and the emergence of value chains in leading sectors.** These would be the programmes that mobilize private investments and know-how to the sub-sectors described in Table 19. These are complex investment initiatives that require coordination between different actors within a given sub-sector or value chain. However, there would still be competitive processes to select firms and investors, even if the management of the programmes becomes more difficult.
- **Promote entrepreneurship and SME growth in leading sectors.** The programme in this case supports the expansion of existing firms or the creation of new businesses within selected economic sectors and regions. Business owners and entrepreneurs compete for budget support. The focus is on start-ups, SMEs, and established firms, which are more likely to create good employment opportunities, particularly in the formal sector. Indeed, there is evidence that micro-enterprises rarely grow and create employment; few large firms start as “minnows.”⁶²

⁶⁰ In practice, projects are seldom selected for public support based on the employment impacts the investments are likely to generate. The metrics that dominate the project selection process include financial returns, output and productivity. However, as discussed above, in the presence of Jobs Linked Externalities (JLE), maximizing firms’ financial rates of return, output growth or productivity gains does not necessarily lead to socially efficient jobs outcomes (Johanne Buba and Reyes Aterido, ‘Firm-Level Interventions for Jobs (Forthcoming)’ (World Bank, n.d.).

⁶¹ It is estimated that over 3 million Zimbabweans live abroad and send remittances equivalent to 7 per cent of GDP (see Ministry of Macro-Economic Planning and Investment Promotion, 2016).

⁶² Aterido R. and Hallward-Driemeier M., “The Elusive Search for Gazelles: The Definition for Success Affects the Firms Chosen but Not the Reality That Very Few Firms Maintain High Performance for Long.” 2018.

- ▶ **Promote contract farming.** In this case, processing companies would be competing for government support while committing to achieve specific objectives in terms of the number of small farmers they can reach and specific outcomes in terms of improvements in labour productivity and earnings. To this end, participating companies would need to be able to mobilize the resources to finance inputs for farmers and to offer the necessary training and technical assistance.

In all cases, prospective beneficiaries/investors would prepare investment projects that include information about the business, the types and level of investment and operating costs, expected revenues and number of jobs to be created and the level/type of in-kind or in-cash subsidies that would be required. Essentially, an investment plan would outline the total cost of the project and the share of these costs that would require government financing. Investment projects can then be ranked, for example, by the level of the subsidy per job created. The programmes can attribute different values to different jobs. For instance, the value of jobs for unskilled women and youth can be higher than the values for skilled adult males. This type of design would improve the likelihood that limited investment subsidies are allocated to those sectors/initiatives that are more likely to generate and improve employment opportunities for Zimbabwean workers. It is likely, for example, that the level of subsidies in the mining sector will be lower than the level of subsidies in the agricultural sector and agribusinesses (see Section V).

*Setting up any of these programmes would require building institutional capacity and outsourcing management and implementation responsibilities to specialized agencies under the right types of contracts.*⁶³ These contracts include Payments for Results (P4R), Social Impact Bonds (SIB), and Public Private Partnerships (PPP). *P4R* can work well for programmes that operate at the firm level. Under the contract, at least part of the payment received by those providing support services to SMEs depends on having achieved specific results. For instance, in terms of the number of firms served and the number of jobs created, *SIB* can be more appropriate to support the development of value chains.⁶⁴ *PPPs* could be used to support the development of specific subsectors, value chains, and contract farming. These are long-term contracts between the public and private sector to design, implement and manage a given project and achieve specific results.⁶⁵

(iii) Active Labour Market Programmes (ALMPs) to connect workers to jobs

The NDS1 proposes initiatives to reform ALMPs and expand their coverage but there are no details yet about design and implementation. If well designed, and if the demand side of the labour market is creating jobs and business opportunities, these programmes can have an important role to play in facilitating labour market transitions from inactivity/unemployment into employment, or from low to

⁶³ Zimbabwe's National Productivity Institute might have an important role to play in the design and implementation of these programs.

⁶⁴ Private investors fund the full cost of a given social program and get reimbursed by the government (including interests) only if a set of pre-defined results is achieved; investors face all the financial risk. Usually, an intermediary is set up to design the contract and implement the project, which implies hiring and supervising different providers. An independent evaluator then conducts the impact assessment and clears, or not, the payment of the principal and interests. See Emily Gustafsson-Wright, Sophie Gardiner, and Vidya Putcha (2017). *The Potential and Limitations of Impact Bonds: Lessons from the First Five Year of Experience Worldwide*. Brookings. Global Economy and Development. Brookings.

⁶⁵ Rankin M., Gálvez Nogales E., Santacoloma P., Mhlanga N., and Rizzo C. "Public-Private Partnerships for Agribusiness Development: A review of international experiences." Food and Agriculture Organization (2019).

higher-quality jobs. Over the short-term, while reforms in the education and training systems await, these programmes can also bridge training needs, including through apprenticeships and On the Job Training (OJT) and by creating links to the existing TVET system. Some of these programmes can focus on wage employment and offer services such as counselling, technical and life skills training, intermediation, job-search assistance, wage subsidies, and mobility grants. Others can focus on self-employment and entrepreneurship and include components to facilitate access to finance.

It is clear from international experiences, however, that to reach the desired impact, ALMP requires the right design and implementation arrangements. Indeed, existing evaluations generally suggest that ALMP have not been achieving the objectives for which they were designed. The most recent meta-analysis of around 80 programmes implemented worldwide finds that only 30 per cent of programmes had a positive impact on beneficiaries' employment rates and/or earnings⁶⁶ The evaluations of traditional entrepreneurship programmes also show that impacts on employment rates and earnings have been limited.⁶⁷

Zimbabwe does not seem to have the institutional capacity to upgrade and scale-up ALMP through Public Employment Offices (PEO), but it could outsource the provision of services to specialized institutions. Existing programmes such as the National Employment Services, the Youth Development Loan Facility for Income Generating Projects, and the Small and Medium Enterprises Revolving Fund have limited coverage, lack the necessary resources and have design flaws. Going forward, an option would be to focus the role of PEO on registration and profiling of beneficiaries (see below) and the monitoring and evaluation of results. The Ministry of Labour may consider the following principles to design and pilot a "new generation" of ALMP.

- **Registration and statistical profiling.** The main function of employment offices would be to register and profile jobs seekers. The goal is to have a rapid, automated, assessment of the main constraints they face to find or switch jobs. The Profiling System (PS)⁶⁸ is a statistical model that, based on a short survey at the time of registration, groups employment seekers into categories. From the "hard-to-serve," individuals with the most binding constraints (including psychological disorders), to those requiring minimal assistance. This is an important exercise because it will affect not only the types of services that individuals in each category receive, but also the cost of the package of services (see below).
- **Integrating and pricing services.** The population of job-seekers is highly heterogenous; not all individuals face the same problems when searching for a job. As discussed in Section 2, women and youth may face more binding constraints than adult men, and there are groups of workers like those with disabilities, OSH, HIV/AIDS or those who have special needs. This implies that labour programmes should be able to offer a menu of services; an integrated package of services that is adapted to individual needs (*such as counselling, different types of training, coaching for interviews, wage subsidies*). This is similar to the case of health insurance, where there is a basic package of health services that all individuals can use. The eventual treatment,

⁶⁶ See Jochen Kluge et al., "Do Youth Employment Programs Improve Labour Market Outcomes? A Quantitative Review." *World Development* 114 (February 2019): 237–53, <https://doi.org/10.1016/j.worlddev.2018.10.004>.

⁶⁷ Cho Y. and Honorati M., "Entrepreneurship Programs in Developing Countries: A Meta Regression Analysis." *Labour Economics* 28, no. C (2014): 110–30.

⁶⁸ See Namita Datta et al., "Integrated Youth Employment Programs: A Stocktake of Evidence on What Works in Youth Employment Programs." (World Bank, 2018)., for a discussion about the design and implementation of profiling systems.

however, depends on the health conditions the patient has. Also, like in the case of health insurance, the package of labour services should be priced. The expected cost of the package for hard to serve individuals, for instance, would be higher than that of individuals who require minimal assistance.

- ▶ **Outsourcing the provision of services and paying based on results.** The idea is to rely on specialized institutions that have the expertise to follow-up with jobseekers, provide them with the set of services they need, and identify employment opportunities. When these institutions do not exist locally, international NGOs can be used to develop a local market for ALMP. In all cases, it is important to have contracts that pay providers based on results.⁶⁹
- ▶ **Rethinking entrepreneurship/livelihood programmes.** The goal is to use the profiling system to separate *vocational entrepreneurs* that can join traditional entrepreneurship programmes (see the section on investment subsidies) from *subsistence entrepreneurs*. The latter would be treated not as real entrepreneurs but more as contract workers who are paid for the provision of certain goods and services. They would still need to receive training and support to purchase inputs, but they would not attempt to conceive and set up a business on their own. Their business would in a way become part of larger private/public investment projects to develop parts of or entire value chains (see the section on investment subsidies).
- ▶ **Introducing robust M&E systems.** Programme managers need to be able to generate administrative data to regularly monitor costs and performance, as well as to introduce corrective measures as needed. This information is also critical to identify individuals who risk dropping out of the system or cases where existing services (treatments) are not yielding the desired results. In addition, the information is needed to enforce contracts and pay providers.⁷⁰

(iv) A flagship programme of public works and services to improve livelihoods and earning opportunities

Zimbabwe has experienced mixed results with the implementation of public work programmes. Today several programmes are not well integrated.⁷¹ Programmes such as ENSURE and Amalima provide short-term employment in community works to create productive assets. The Food Mitigation Programme implements public works to respond to humanitarian needs. The government has tried to harmonize programmes through the Productive Community Works Policy Framework. It has also recently piloted a new programme and tested the operational guidelines, but the implementation has been delayed due to the lack of sufficient funds.

⁶⁹ Providers can receive a lump-sum payment for each program beneficiary they manage (the expected cost of the package for that particular beneficiary), but the renewal of contracts depends on having achieved certain targets with performance indicators (for example, placement rates, employment rates, or changes in earnings). Or they can bill by services provided at prices negotiated ex-ante. These prices would have two components: a fixed rate and a rate based on having achieved specific outcomes with the beneficiary in question (such as the beneficiary obtained an internship, a part time job, a full-time job). In both cases, average performance indicators by provider would be made public. See Namita Datta et al., 'Integrated Youth Employment Programs: A Stocktake of Evidence on What Works in Youth Employment Programs'. for a review of alternative types of contracts.

⁷⁰ Today there are standardised instruments that can be used to collect the necessary data. These are essentially short surveys that are used to follow-up program beneficiaries, obtaining information about services used and different types of labour market indicators. See Datta, Namita; Assy, Angela Elzir; Buba, Johanne; Johansson De Silva, Sara; Watson, Samantha. (2018). "Integrated Youth Employment Programs: A Stocktake of Evidence on What Works in Youth Employment Programs." Jobs Working Paper; No. 24. World Bank, Washington, DC. © World Bank.
<https://openknowledge.worldbank.org/handle/10986/31424> License: CC BY 3.0 IGO.

⁷¹ Public works programs have been funded by donors such as WFP, USAID, and DFID.

Going forward Zimbabwe could consider consolidating existing initiatives around the Harmonized Social Cash Transfer System (HSCT) with specific reforms to expand coverage, broaden the spectrum of public works and services, and create links to decent employment. The new programme would offer temporary employment in four types of economic activities: building infrastructure, protecting the environment, delivering cultural programs, and offering social services including in the care economy. Jobs could be created directly in government projects or through NGOs or social enterprises funded by the government.⁷² The new flagship programme would operate through the HSCT which has been the most effective programme given its design features, including strong eligibility criteria,⁷³ and the existence of a robust management and information system.⁷⁴

As a first step, the government could reallocate funding towards the HSCT to cover more districts and households. Some of the specific interventions would include conditioning benefits to participation in ALMPs or public work programmes. In this type of integration, Zimbabwe can learn from other programmes that link cash-transfers to interventions that improve earnings opportunities such as the Livelihood Empowerment Against Poverty (LEAP) programme in Ghana, the Productive Safety Net Programme in Ethiopia (PSNP), or the Malawi Social Action Fund (MASAF).⁷⁵

(v) An integrated social insurance system for all workers

An effective way to improve the quality of existing jobs is to achieve the objectives set by the NDS1 in terms of expanding the coverage of social insurance programmes. This would imply reforming the pension system and setting up an unemployment insurance fund. Zimbabwe could consider the following principles to guide reforms and the design of new programs:

- **Having integrated social insurance programmes that treat all workers and their families equally.** This implies that all workers have the same rights and obligations regardless of where they work. Informal wage employees and the self-employed can enrol in the same system as formal wage employees.
- **Defining explicitly the benefits offered to plan members and their costs.** This is critical to ensure the financial sustainability of the systems as coverage expands, and to identify the most efficient and equitable financing mechanisms (see below).
- **Linking contributions (from employers, workers and the government) to benefits and having explicit redistributive arrangements.** This is important to improve incentives to enrol and

⁷² A reference for this type of program is South Africa's Extended Public Works Program (see <https://www.gov.za/about-government/government-programmes/expanded-public-works-programme#>).

⁷³ To qualify for the HSCT households must have a per capita total expenditure below the national food poverty line and demonstrate labour constraints. Beneficiaries are identified through clear mechanisms, including a household census and proxy means test. The HSCT monthly benefit ranges from US\$10 for a single-person household, to a maximum of US\$25 per household for a family of five.

⁷⁴ A rigorous evaluation of the program showed that it increased the average consumption expenditure of recipient households by about 55 per cent of median expenditures, as well as the number of food groups purchased (see American Institutes for Research, 2014). The HSCT has also help increase agricultural assets (and livestock, diversify income sources (different cropping patterns, more non-farm enterprises), and reduce debt (improvement in credit market position). It is estimated that each dollar transferred to households has the potential to generate 1.73 dollars of income (see Taylor et al, 2014).

⁷⁵ There is some evidence that comprehensive packages that focus on the very poor and operate at the household level can increase consumption but there are concerns about their capacity to operate at scale. These so called "graduation" programs, initially developed by BRAC, offer cash-transfers, training, mentoring, and some form of productive asset (often animals). Engagements with beneficiaries are more continuous and last longer than in the traditional entrepreneurship programs. See Banerjee, Abhijit, et al. "A Multifaceted Program Causes Lasting Progress for the Very Poor: Evidence from Six Countries." *Science*, 2015.

contribute, reduce implicit labour taxes, and improve equity. Hence, workers (and employers when available) can contribute to financing part or all the cost of expected benefits depending on their level of income. The difference would be financed by the government through explicit subsidies.

- ▶ **Integrating subsidies within the social assistance and social insurance programmes.** The idea is to avoid duplication and distortions that can emerge when there are parallel contributory and non-contributory systems.⁷⁶ Instead, there could be two types of integrated subsidies: 1) A Tapered Basic Income (TBI) that guarantees a minimum level of income (consumption) for all; and 2) subsidized social security contributions for those who cannot afford them (see next Section).⁷⁷
- ▶ **Relying on new ICTs to facilitate the identification, enrolment, and profiling/means-testing of workers as well as the collection of contributions.** Having the right policies is a necessary but insufficient condition to improve the performance of social insurance programs; the right administrative systems and implementation arrangements also need to be in place.

Pensions. Zimbabwe should avoid moving to a funded pension system as suggested by the NDS1. Part of the reason is that funded systems can transfer undue risks to workers, particularly when the financial sector and annuity markets are underdeveloped. The goal should instead be to improve the design of the existing “pay-as-you-go” pension system, the National Pension Fund managed by the National Social Security Authority (NSSA),⁷⁸ to address problems related to solvency and equity and to expand its coverage.⁷⁹ The system today covers only around 14 per cent of the labour force and has expenditures that approximate 1 per cent of GDP.⁸⁰

An important problem has to do with the current benefit formula and eligibility conditions which make the system insolvent and potentially regressive; benefits are not in line with the contribution rate and life expectancy at retirement. According to regulations, the replacement rate for 30 years of contributions is 40 per cent and increases to 50 per cent for those with 40 years of contributions (full-career workers). These are relatively modest replacement rates. However, the system also offers a retirement grant to those retiring with more than 30 years of contributions that is equal to 8.33 per cent of the annual salary times the number of years of contributions above 30. For a worker retiring with 40 years of contributions the value of the grant would be equivalent to an annuity that replaces 67 per cent of their income. Meaning that the replacement rate of somebody retiring with 40 years of contributions would be equal to 116.5 per cent. Depending on the number of years of contributions, the equilibrium contribution rate for the system would need to range between 20 per cent (30 years)

⁷⁶ Parallel non-contributory systems for informal workers can fragment the labour market and become an implicit tax on formal jobs (see Ribe et al., 2013). This is because subsidies are allocated based on the type of work instead of means. In addition, some workers tend to move in and out of informality which would imply moving in and out of the parallel systems.

⁷⁷ Anton et al., (2012) refers to these subsidies as tapered subsidized insurance (TSI).

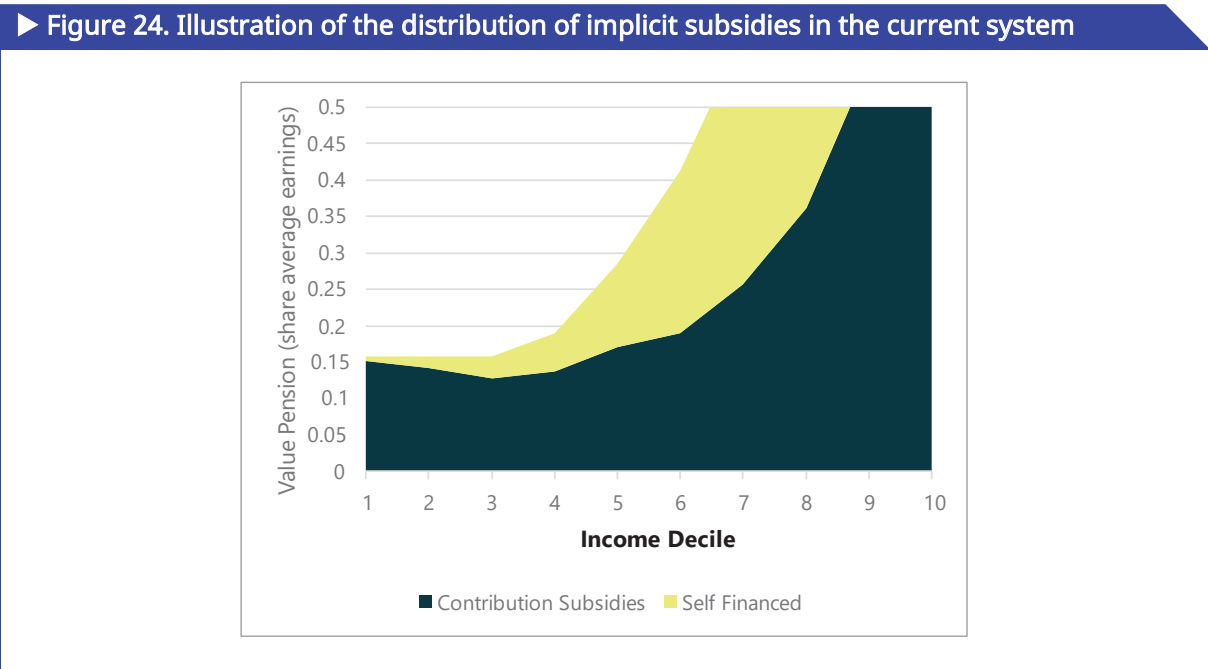
⁷⁸ Zimbabwe also has two additional pension funds: the Civil Service Pensions Fund and Local Authority Pension Fund. It is estimated the NFP covers 15 per cent of the working age population.

⁷⁹ See also the recommendations of the *Justice Smith Commission of Inquiry into the Conversion of Insurance and Pension Values from Zimbabwe Dollar to United States Dollar* that were adopted by Cabinet for implementation by IPEC.

⁸⁰ Based on Annual Report 2017 for the NSSA.

and 40 per cent (40 years).⁸¹ The rate would be even higher for low-income workers with short contribution densities who retire with the minimum pension (USD\$60 per month).

The contribution rate today is only 7 per cent, which means that each worker enrolling in the system is receiving implicit subsidies. Hence, as coverage expands, the unfunded liabilities of the system after considering the pay-as-you-go asset increases and the insolvency problem becomes more acute. Furthermore, the subsidies that workers receive are proportional to their salaries (since the pension is calculated based on their salaries) and contribution densities. Higher-income workers who receive higher pensions are also receiving larger subsidies. The distribution of subsidies within the system is therefore regressive even when taking into account the role of the minimum pension (see Figure 24).



Source: Within each decile implicit subsidies are calculated as the difference between the equilibrium contribution rate (see footnote 66) and the current contribution rate (7%). It is assumed that contribution densities increase linearly from 10% in the first decile to 100% in the last decile. The minimum pension is estimated to represent 15% of average covered earnings. The estimated G factor at age 60 is 12. In the calculation, the real rate of return and the real growth rate of wages are assumed to be equal to 3% and 2% respectively.

Going forward, the government in close consultation with social partners and based on a rigorous actuarial valuation of the pension system would need to consider reforms that could include:

⁸¹ In a well-designed Defined Benefit Pay-as-you-Go system the equilibrium contribution rate can be approximated by the following formula: $\beta = \alpha_R G(R, r)$ where $\alpha_R = \frac{RR_t}{V}$ is the accrual rate and RR_t is the targeted replacement rate, V is the vesting period, and $G(R, r)$ is discounted life-expectancy at the retirement age R. More generally, the equilibrium contribution rate for workers within any income decile i is given by $\beta_i = \frac{TR_i G(R, r)}{\left(\frac{\theta d(i)V + 1 - \theta}{\theta d(i)V + 1 - \theta d(i)V} \right)}$ where the effective replacement rate is given by $TR_i = \text{Max} \left\{ RR_R, \frac{p_{min}}{w_i} \right\}$, where p_{min} is the minimum pension, w_i is average income within the decile expressed as a proportion of average earnings, $d(i)$ is the average contribution density, $\theta = \frac{1+g}{1+r}$, and g is the growth rate of wages.

- ▶ **Rethink the mandate of the system.** The first decision would need to be about the replacement rate that the system offers at the time of retirement for a given number of years of contributions. Part of the reform could involve eliminating the retirement grant and adjusting the current replacement rate upwards.
- ▶ **Improve the formula used to calculate the pension to ensure the solvency of the system and improve equity.** A well-designed benefit formula would need to link the accrual rate offered by the system to the contribution rate and life expectancy at retirement (see footnote 80). In addition, it is desirable to gradually include all salaries in the calculation of pensions, each revalorised by the sustainable rate of return of the system.⁸² It is important to have actuarially fair penalties (premiums) for early (delayed) retirement. Thus, individuals retiring early would receive a lower accrual rate (because they are expected to receive their pension for longer), while those retiring after the statutory age receive a higher accrual rate. Finally, to protect the real value of the benefit, pensions could be automatically indexed with inflation.⁸³
- ▶ **Rethink redistributive arrangements.** It is important to have redistributive arrangements to protect low-income workers and those with short contribution densities who might fail to retire with a decent/adequate pension – particularly if the coverage of the system is extended to informal sector workers. The minimum pension plays this role, but its drawback is that it reduces incentives to contribute because low-income workers, regardless of their contributions, might still retire with the minimum pension. Alternatives to consider are having contribution subsidies and/or offering a non-contributory pension that is then topped-up by the contributory pension. All these choices will require careful calculations of fiscal impacts as part of the actuarial assessment.

Unemployment insurance. *The goal is to have a system that offers adequate benefits to all unemployed workers while reducing moral hazards and facilitating the return to employment.* The system should be able to gradually expand its coverage to all workers, including the self-employed. Ideally, the new system should also guarantee a basic income to all unemployed workers who are not able to find a job before the benefits expire. This ensures policy coherence and a fully integrated design for the social insurance system. Like in the case of pensions, the design of the new system should be based on a proper actuarial valuation and feasibility study taking into account the dynamics of the Zimbabwean labour market. Some of the policy choices that would need to be considered include:

- ▶ **Mandate of the system.** The first choice will have to be about the level of benefits offered by the system. Essentially, what is the replacement rate that workers who become employed receive, what is the duration of the unemployment benefits, and whether there is a minimum benefit. The latter would not be needed if the system also offers a basic income guarantee.
- ▶ **Financing mechanisms.** Once benefits have been defined, it is possible to calculate programme costs; the share of earnings that individuals (and/or the government) would need to pay to

⁸² This rate is equal to the growth rate of the pay-as-you-go asset and should be the result of an actuarial assessment. It is important to note that adding salaries which are properly revalorised actually increases the level of the pension. As an example, using a 3 per cent real rate of return, the salary received 20 years before the time of retirement, should be multiplied by a factor of 1.8 (1.03^{20}), the salary received 10 years before retirement by a factor of 1.34 (1.03^{10}). Not including all salaries in the calculation of the pension reduces incentives to contribute at young ages and also generates inequalities because workers whose salaries grow faster receive a higher implicit rate of return on their contributions.

⁸³ This assumes that the government is able to stabilize the inflation rate (see subsection on macroeconomic policies).

finance the system.⁸⁴ In practice, individuals face different risks and different durations of unemployment. Given the equilibrium contribution rate to the system, which reflects average risks, high-risk individuals would be receiving implicit subsidies while low-risk individuals pay implicit taxes. This type of solidarity is desirable, but it can create *moral hazards* and increase labour costs. Another alternative to consider is to finance part of the subsidies from general revenues either through direct transfers or by having the government pay part of the contribution rate. Assessing the fiscal impacts of the various options should be part of the actuarial valuation.

- ▶ **Conditionalities to receive benefits.** An essential part of the design of an unemployment insurance system is to condition benefits to participation in ALMPs. The goal is to ensure that individuals receiving benefits are indeed unemployed and looking for a job. For instance, workers can be asked to demonstrate that they have spent 20 hours per week in job search-related activities or training. This conditionality is particularly important in economies with a large informal sector. It is also a precondition when the unemployment insurance scheme is expected to cover all workers, including self-employed workers.

Expanding coverage to the informal sector. Enforcing compliance among formal sector employers is already a complex task for any social security administration. Extending coverage to the informal sector adds yet another layer of complexity. Assuming that the programmes are properly designed, and that the government has the necessary financial means, the expansion of coverage requires solving two very different problems: 1) identifying and registering informal workers; and 2) collecting contributions from those workers with the ability to pay. The first is a simpler problem that could be addressed relatively quickly, thanks to new information and communication technologies. The second is a more difficult problem that would involve providing incentives to informal sector workers to contribute. The following recommendations could be taken into account:

- ▶ Make social insurance programmes mandatory for all workers regardless of the type of work
- ▶ Make certain public transactions (such as, property registration) or public documents (such as driver's license, passport) conditional upon registration with the social security
- ▶ Keep transaction costs low by allowing online registration subject to data verification and expanding the coverage of mobile agencies
- ▶ Bundle pensions with other products that informal workers are more likely to value (for example short-term savings, health insurance)
- ▶ Have flexible schedules for the payment on contributions to accommodate the variability in earnings in the informal sector
- ▶ In countries with a robust national ID system, enrol workers and "open" accounts in social security programmes can also be done through census sweeps.

Social assistance. Zimbabwe has a highly fragmented social assistance (SA) system with many programmes that have limited coverage and are poorly funded. Some of the programmes include the HSCTS, the Food Mitigation Program, the Small-Holder Farm Input Support Scheme, the Livestock Drought Mitigation Program, the Basic Education Assistance Module (BEAM) and the Assisted Medical Treatment Orders. These and other programmes are implemented in parallel, with their own

⁸⁴ This contributions rate is equal to the replacement rate times the ratio of the average unemployment and employment rates of plan members.

administrative systems. The absence of effective mechanisms for targeting, payment, and monitoring has led to implementation delays, duplication and overlaps.⁸⁵

To better integrate social insurance and social assistance programmes (see above), Zimbabwe may consider the following reforms:

- ▶ **Replace the current flat benefit offered by the HSCT with a Tapered Basic Income (TBI) that can be, eventually, extended beyond very poor households.** The TBI could remain flat in the first few deciles of the income distribution, but as workers and households increase their income it would not fully disappear (see the section on social insurance); there would not be a 100 per cent marginal tax on the benefit.
- ▶ **Phase-out overlapping social assistance programmes.** Once the coverage of the HSCTS has expanded, many of the existing social assistance programmes would become redundant. The only programmes that would be maintained and probably expanded are those needed to provide support in the case of large-scale natural shocks or disasters.

(vi) Improvements in labour regulations and formalisation of low productivity enterprises

Zimbabwe’s labour regulations are not fundamentally stringent, particularly when compared to other countries in the region. Dismissals for technical or economic reasons are allowed if there is proper advance notice (approximately three months). Employers must notify the ministry of labour about the number of workers that are declared redundant as well as the reasons, but no pre-authorization is required (see Table 20). Employers also must pay severance benefits equivalent to 4.3 weeks of salary for one year of tenure or 2.15 weeks per year for longer tenures, well below the benefits employers pay in other countries in the region. The only parameter that is higher than in other countries is the notice period for redundancy, which is equal to 13 months instead of four in other countries.

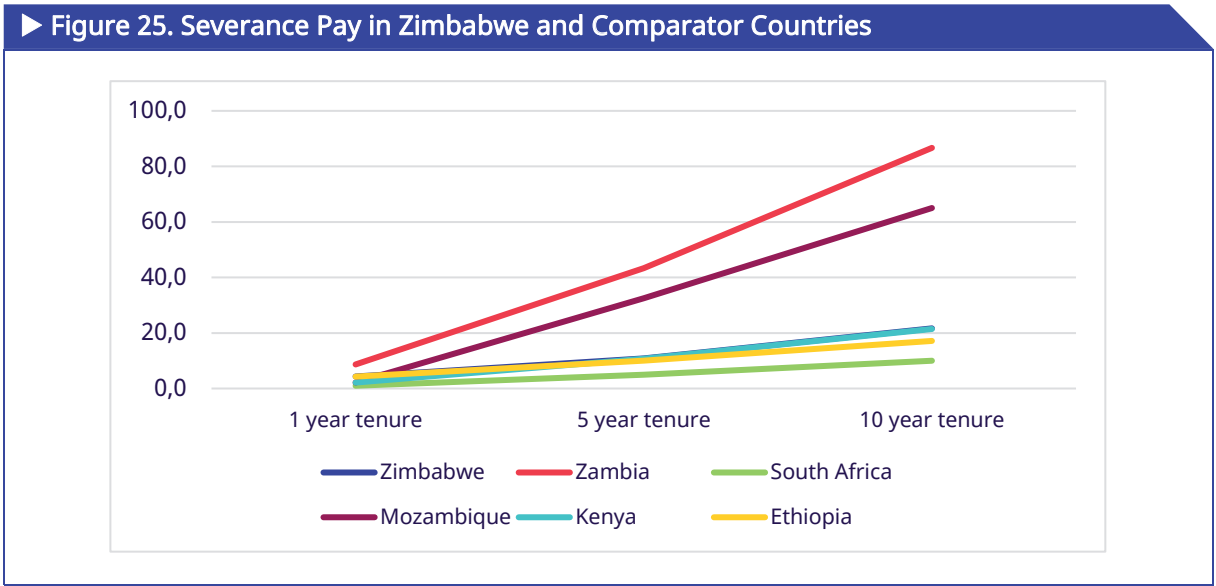
▶ Table 20. Macro framework and expected economic growth						
Economy	Zimbabwe	Zambia	South Africa	Mozambique	Kenya	Ethiopia
Fixed-term contracts prohibited for permanent tasks?	No	Yes	Yes	Yes	No	Yes
Maximum length of a single fixed-term contract (months)	No limit	No limit	No limit	24	No limit	No limit
Minimum wage for a full-time worker (US\$/month) ^b	312	217	291	98	288	0
Ratio of minimum wage to value added per worker	1.2	1.0	0.4	1.4	1.2	0.0
Paid annual leave for a worker with 5 years of tenure (in working days)	22	24	20	30	21	18
Dismissal due to redundancy allowed by law?	Yes	Yes	Yes	Yes	Yes	Yes
Third-party notification if one worker is dismissed?	Yes	Yes	Yes	Yes	Yes	No

⁸⁵ See World Bank 2017.

Economy	Zimbabwe	Zambia	South Africa	Mozambique	Kenya	Ethiopia
Third-party approval if one worker is dismissed?	No	No	No	No	No	No
Notice period for redundancy dismissal (for a worker with 1 year of tenure, in salary weeks)	13.0	4.3	4.0	4.3	4.3	4.3
Unemployment protection after one year of employment?	No	No	Yes	No	No	No

Source: World Bank Development Indicators (2020)

On the contrary, there are concerns about the risks associated with severance pay, the lack of regulatory neutrality between contracts and the lack of mechanisms to protect platform workers.⁸⁶ It is unclear that is the proportion of dismissed workers who effectively receive severance pay, but even in middle-income countries, an important share of eligible workers does not. This is due in part to the fact that employers seldom provide provisions for severance payments. Further, when dismissing workers for economic reasons, they might not have the resources to pay benefits. Employers also prefer to use fixed-term contracts that do not offer severance benefits or access to social insurance programmes. In addition, there are workers who end up in a “grey zone” when it comes to labour regulations, including platform workers. Although their main source of income comes from one or two firms, they are treated as contractors - self-employed workers who are not covered by labour regulations or social insurance.



Source: Authors’ calculations based on existing regulations

At the same time, taxes and labour costs, including minimum wage, can be prohibitive for low productivity firms. There is considerable discretion in the setting of the minimum wage, both regarding the frequency and the level of the revisions. Today, the minimum wage represents 1.2 times the average value added per worker, which is considerably high by international standards (see Table 20).

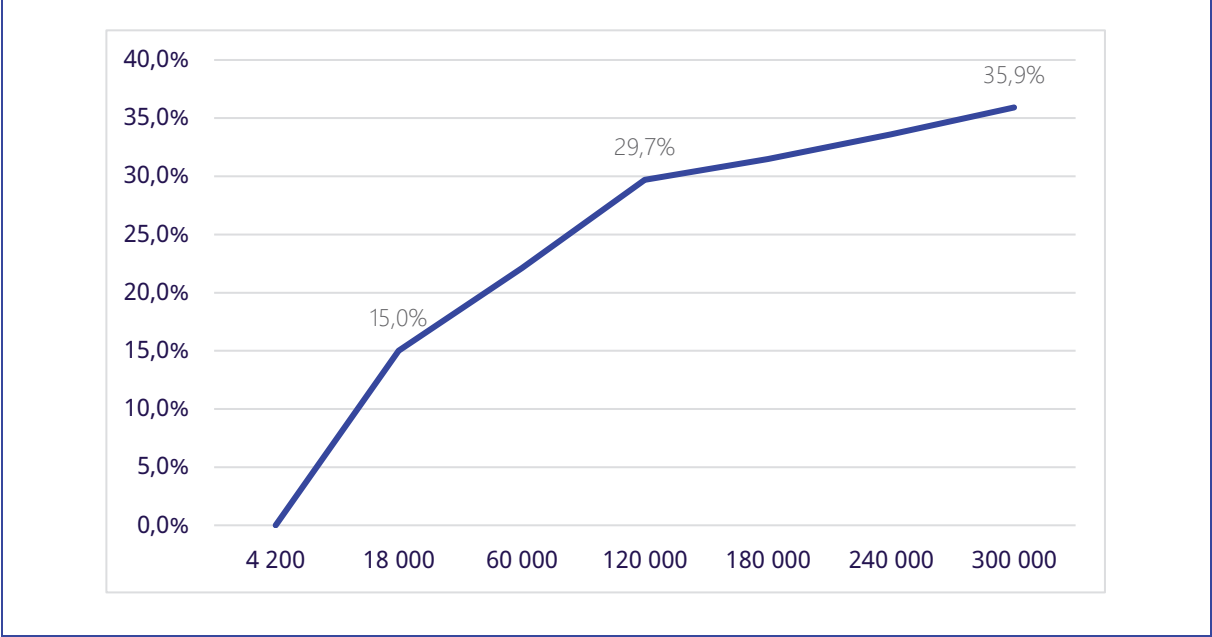
⁸⁶ Based on interviews with key informants and the review of existing regulations.

Social security contributions for employers are low (3.5 per cent for pensions and, on average, 2.5 per cent for work injuries), but once other fringe benefits are taken into account, formal employers need to be able to finance payments on top of regular wages ranging between 11 per cent and 30 per cent (see Table 21). Dismissing a worker with a tenure of ten or more years can cost over 70 per cent of the annual salary (severance plus advance notice). Formal firms also need to pay a Corporate Income Tax (CIT) of 24 per cent and a 3 per cent AIDS levy (personal income taxes only kick in for earnings above USD\$1,500 per month, see Figure 26).

▶ Table 22. Labour costs in Zimbabwe		
	Financing	Benefits
<i>Pensions (old-age, disability, survivors)</i>	Workers 3.5 % Employers 3.5 %	Accrual rate of 1.33% for the first 30 years and 1% afterwards + Grant of 8.33% of annual salary for a x number of years
<i>Sickness benefits</i>		100 % of the employee’s last earning is paid for up to 90 days at 50% of the employee’s earnings.
<i>Maternity benefits</i>		100% of the employee’s last earning is paid for up to 98 days, including at least 21 days before the expected date of birth. If the employee has less than one year of continuous service, up to 98 days of unpaid maternity leave is provided.
<i>Work injury</i>		Temporary and permanent injury benefits, survivor benefits, and funeral grant. All medical services and medicines are covered by the National Social Security Authority
<i>Expected labour costs as a % of annual salary (work injuries 2%)</i>	11.6%	
<i>Expected labour costs as a % of annual salary with sick leaves (work injuries 2%)</i>	36.6%	
<i>Expected cost of dismissal as % of annual salary (10-year tenure)</i>	72.3%	

Source: Authors, based on existing labour regulations and social security laws

▶ Figure 26. Effective personal income taxes



Source: Authors, based on personal income tax schedule

Going forward, the government may consider adjustments to the regulations governing the minimum wage, contracts and severance pay.

- ▶ **Minimum wage.** The objective would be to reduce political discretion and ad-hoc adjustments when setting the level of the minimum wage. This can be achieved by strengthening the role of the Tripartite Negotiations Forum (TNF) and by giving the Wages and Salaries Board the mandate to make recommendations about the level of the minimum wage based on a technical assessment of the economic and social impacts.⁸⁷ To help predict the dynamics of the minimum wage, the Board could define a formula to calculate the baseline value of the minimum wage, which is used for negotiations. The level of the minimum wage that is eventually adopted can deviate from the anchor value. In all cases, it is fundamental to commit to reviews of the minimum wage at pre-specified time intervals.
- ▶ **Contracts and options for workers in the “grey zone.”** It is desirable to give employers and workers flexibility when designing contracts, as long as labour regulations are harmonized and there is regulatory neutrality across these contracts. This means that all contracts guarantee the same rights and benefits to all workers, including coverage of social insurance programmes. For instance, if a worker has a fixed-term contract of three months with a given employer, the latter still must pay social security contributions and credit annual leave on a pro-rata basis. It is also important to recognize the category of “autonomous independent” workers – workers who are self-employed but whose income depends on one or two companies – and give them the same labour rights as wage employees. Regulatory neutrality between contracts becomes even more important as technological progress creates new forms of work and reshapes the future of labour.

⁸⁷ Countries like Malaysia rely on the recommendations of an independent Technical Commission.

- ▶ **Severance pay.** Given that the government is planning to introduce an unemployment benefits system, there is room to rethink the rationale for severance pay. One alternative is to replace severance pay with a flat, relatively modest, dismissal tax (for example 8 per cent of the annual salary). The rationale for this tax is to internalize the negative social externalities associated with unemployment. The revenues from the tax, however, would not flow to workers but rather to a fund that could finance redistribution within the unemployment benefit system and active labour market programmes.

Given the prevalence of economic emigration in Zimbabwe, it is also important to accelerate the implementation of the National Labour Migration Policy (NLMP).⁸⁸ Some of the critical aspects of the NLMP include improving governance of labour migration, better protecting and empowering migrant workers and developing a proper information system to track migrant flows. In terms of governance, the objectives remain to improve accountability and transparency in the regulation of labour migration, as well as having harmonized institutional, legal and regulatory frameworks. On the other hand, better protection of migrant workers will require instruments and bilateral agreements in place to prevent abusive recruitment practices, enforce international labour standards for both inward and outward labour migration and also to offer access to social insurance programs to migrant workers in host countries.

Finally, the government might also consider implementing special schemes for low-productivity firms to reduce labour costs and assist them transit to the formal sector. As discussed in Section 3, a considerable number of firms are likely to be informal because they have low productivity and cannot afford the cost of labour regulations (and taxes). This problem might exist for firms of all sizes, but it is likely to be more prevalent among micro and small enterprises in the informal sector. Penalizing or forcing the closure of these firms is not a desirable option given the impacts on employment statistics. An alternative is to give temporary exemptions on some regulations (for example, the minimum wage rate, taxes and/or social security contributions)⁸⁹ while enrolling them in flagship programmes that give them support to increase productivity and output, or help the owner and employees transfer to different jobs or economic activities. During the transition period, workers would be protected by the TBI and contribution subsidies to social insurance programmes.

6.3 Issues related to implementation: the policymaking process, social dialogue, state capabilities and fiscal space

Why are some countries able to implement complex reforms and not others?

Unfortunately, there is no precise answer to this question, and it is difficult to develop a set of factors that would predict the probability of success. GDP per capita, for instance, is not a key determinant; low-income countries like Bolivia, India and Pakistan have been able to introduce important reforms in their pensions, health insurance and/or safety nets programmes. There are, nonetheless, some useful

⁸⁸ See Government of Zimbabwe National Labour Migration Policy (2020).

⁸⁹ This needs to be done very carefully to ensure that fundamental labour laws are not excluded (such as those regulating forced and child labour, OSH, etc.).

insights from the literature on the political economy of reform and the more recent literature on state capabilities.

The emerging consensus is that much depends on the policy-making process, which is the process of discussing, approving and implementing public policies. Countries that have been able to introduce successful reforms have a policy-making process where political actors and social partners cooperate and can reach and enforce agreements. In general, successful reforms have been defined by 1) strong leadership; 2) the existence of good “aggregators” that can reduce the number of actors who can directly influence policy; and 3) open dialogue and continuous interactions among these actors within a long-term planning horizon.⁹⁰ Successful countries also have a strong bureaucracy to which the analysis and implementation of policies can be delegated. This tends to be underestimated. There can be countries with a good policy-making process but with no state capability and therefore unable to design and particularly implement reforms.

Leadership is usually provided by the relevant line ministries or, in the case of reforms that involve multiple sectors, a higher office such as the office of the prime minister or the president. The leadership of the relevant ministry or institution is accepted by other ministries without creating a culture of competition. The responsible minister needs to make choices about priority reforms and invest sufficient time understanding the issues, communicating and negotiating with different stakeholders. Having in place a full-time team dedicated to coordinating the reform process and conducting part of the analytical work is also a must. In some cases, management of the reform process and policy analysis can be delegated to an external and independent commission managed by a recognized expert on the reform subject (see below).

*Promoting social dialogue is a precondition for the successful design and implementation of any reform.*⁹¹ *Different stakeholders and social partners need to be involved in the reform process from the beginning.* Policy reforms that are planned behind “close-doors” have very little chance of surviving the political process and, if they do, very little chance of being implemented. In 2005 for instance, the minister of finance in Egypt was able to develop a law to reform the pension system for private-sector workers and get Parliamentary approval in record time. There were no consultations with social partners or implementing agencies; only the minister oversaw the reform. The law was never implemented and, when the regime changed, it was forgotten. Organizations like the ILO can facilitate social dialogue around reform of social protection systems. The reform process will take longer as a result, but it will be more sustainable if the rationale for reforms, expected outcomes, fiscal costs and implementation arrangements are widely discussed.

An independent technical commission in charge of designing the reform programme and preparing legislation can be an effective way to achieve political independence and fill the gap when institutional capacity in the line ministries is weak. Chile is a country that has relied on technical commissions to prepare and implement various reforms, including the last reform to the minimum pension and the unemployment insurance system. The technical commission needs to be presided by someone with the relevant technical credentials, seniority and communication skills needed to lead the reform process, and who enjoys political independence. While small, the technical commission needs to be

⁹⁰ Stein and Tommasi (2008).

⁹¹ See also recommendations from the ILO Commission of Inquiry (ILO, 2009).

staffed to execute different functions including: 1) research and policy analysis; 2) technical consultations; 2) communications; 3) legal work; and 4) social dialogue and political negotiations.

Beyond policy analysis and social dialogue, it is important to recognize that many of the reforms and initiatives discussed in this section are highly complex and require strong institutional capacity. Some of the activities involved include: drafting and approving new legislation; deploying public information campaigns; setting up or reforming the institutions in charge of managing the new programs; registering new plan members; setting up new management and information systems to process payments and collect contributions; defining and implementing new procurement and payments systems to outsource the provision of services based on performance; and setting up robust monitoring and evaluation systems.

Indicators of state-capability suggest that Zimbabwe would face considerable challenges when designing and implementing reforms or new programmes. A recent study uses three indicators to measure state capability.⁹² First, the Quality of Government (QOG) index that is a simple average of three indicators from the International Country Risk Guide: First, corruption; law and order; and bureaucratic quality (0-4). Second, the public services indicator from the Failed State Index. This indicator rates countries on carrying out core state functions like infrastructure, sanitation, education, and health. Finally, three indicators from the World Governance Indicators: 1) government effectiveness; 2) control of corruption; and 3) Rule of Law. Re-scaling all these indicators on a range from zero to ten and taking an average gives a measure of state capability. The average for Zimbabwe is below 2.5 which is among the lowest levels of state capability observed in the world (see Table 22).

▶ Table 22. State capability for selected countries	
Index of State Capability (SC in scale 0-10)	Examples of countries
Strong: $SC > 6.5$	<i>Chile, Singapore, Korea, Qatar</i>
Middle: $4 < SC < 6.5$	<i>Colombia, Egypt, Lebanon, Malaysia, Peru, Tunisia, Vietnam,</i>
Weak: $2.5 < SC < 4$	<i>Bolivia, Ecuador, Kenya, Madagascar, Senegal, Uganda,</i>
Insufficient: $SC < 2.5$	<i>Ivory Coast, Iraq, Yemen, Zimbabwe</i>

Source: Based on Andrews et al., (2017)

A low, average, level of state-capability does not imply that a country should forego structural reforms; on the contrary, these reforms are probably of even more importance in such environments. State capability is in fact built by solving problems. There can be important variations in capability across institutions within a country. Reforms that take place through certain organizations and specific sectors can help build overall state capability.

What is important, however, is to align the pace of reform with existing capabilities and to gradually fill existing gaps. A mistake often made is to overload implementing agencies with new functions and

⁹² Andrews et al., (2017).

tasks (“best practices”) that they are not ready to perform. For a reform process to gain normative traction within the institution, it is necessary that *de jure* and *de facto* practices converge over time. This implies having realistic expectations about what can be accomplished within a given period. Forcing the implementation of *de jure* “best practices” without the necessary capabilities can create stress and lead to failure.

The final consideration is fiscal space; all the reforms discussed in this section require allocating resources to fund investments subsidies, active labour market programs and redistribution arrangements within the social insurance system. Costing the value of the different interventions is outside the scope of this study, but funding them would likely require mobilizing resources in excess of 5 per cent of GDP. Zimbabwe is presently facing a very difficult fiscal position and is unable to borrow from international organizations. Nonetheless, with the necessary reforms, the country should be able to both increase revenues and restructure the public debt. At the same time, the government would need to increase the efficiency of public spending and, as the NDS1 indicates, revisit its priorities when it comes to social spending and the investment budget. Reallocating funds from ad-hoc subsidies in agriculture to investments subsidies conditional on employment creation would be an important reform (see discussion on macroeconomic policies above).



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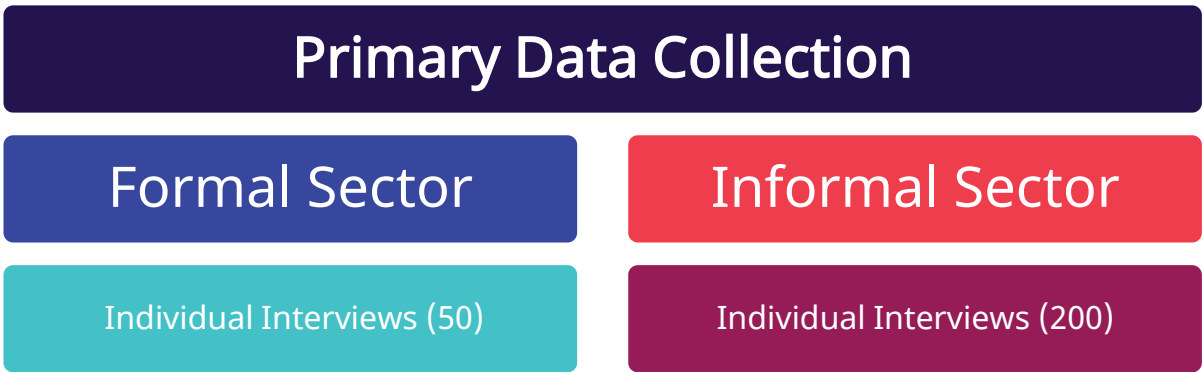
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► VIII. Annexes

Annex 1: Methodology

The research team collected primary data in the field while running interviews with formal sector businesses and informal sector enterprises.

Sample population and types of interviews



Source: Authors.

(i) Individual interviews: formal businesses

The research team employed a multistage stratified random sampling for businesses. While using the Employers Confederation of Zimbabwe (EMCOZ) membership list as the sampling frame. The EMCOZ is one of the largest employers’ organization in Zimbabwe.

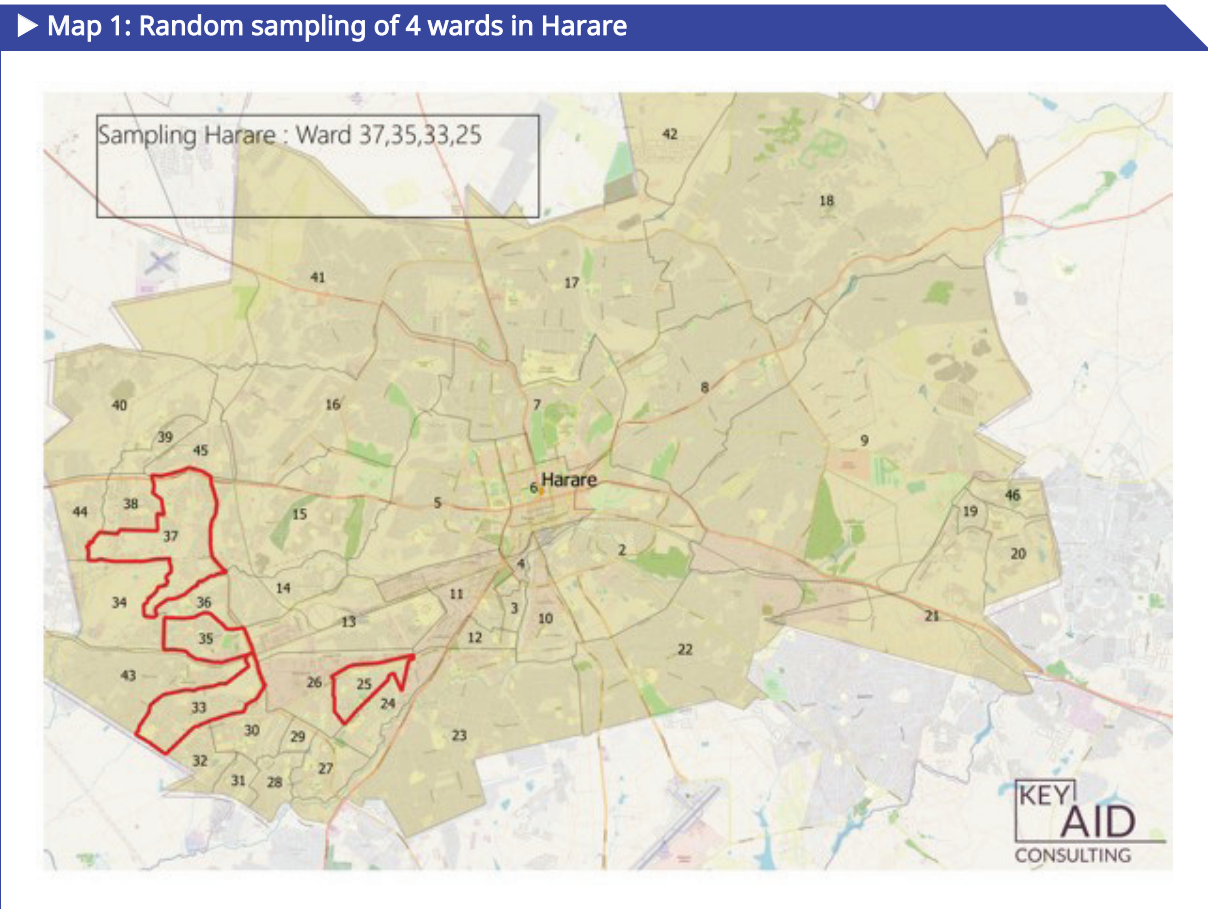
In each geographic region, the study stratified industries according to sector, then randomly sampled businesses to conduct individual interviews. The sample size for the qualitative study was decided using logistical reasons given available timeline and manpower. The study team conducted 50 interviews with formal sector organizations by phone according to the following distribution per sector.

Sector	Nb
Agribusiness	12
Manufacturing	11
Construction	8
ICT	9
Transport and Logistics	10
Total	50

(ii) Individual Interviews: Informal businesses

A comprehensive listing of informal businesses is difficult to compile, as many of them are home based and others have no registered addresses. The study team therefore used a geographic-based convenience sampling for informal businesses. The study team used maps at the ward level as a

reference. For each of the five cities (Harare, Bulawayo, Masvingo, Gweru and Mutare), four wards were randomly selected using QGIS as in the image below.



Based on the sampled wards, enumerators would identify an informal hub and survey five men and five women owned businesses using a qualitative questionnaire and a Kobo survey.

A total of 199 surveys were carried out by the team with the following distribution.

City	Man	Woman	Total
Bulawayo	22	18	40
Gweru	19	19	38
Harare	22	18	40
Masvingo	21	20	41
Mutare	19	21	40
<i>Total</i>	<i>103</i>	<i>96</i>	<i>199</i>

Due to COVID-19 restrictions and risks, the study team interviewed informal sector players individually and not in focus group discussions.

Annex 2: Survey of informal businesses

Information you communicate will be anonymized and the final report will only make references to organization if the data provided by them is public. Please also be aware that you have the right to amend or delete the data you communicated after this survey. In compliance with GDPR regulations, if you wish to delete your information afterwards, please send an email to info@keyaidconsulting.com.

Do you agree to take part in this interview?

Location (City/Ward/Business area)	
Name of business owner	
Gender	
Day of survey	
Business type	
Sector and subsector business	
Number of employees	
Name surveyor	
Start time:	
End time:	
Language of the interview	

Formalization

1. What is the current registration status of your business?
 - Registered in the city council
 - Registered as a company
 - Registered with ZIMRA
 - Not registered at all:/ informal
2. Do you know the process by which you can formally register your business? (Discuss by register level)
 - Registration administrative process and number of steps, length of the process
 - Register as a company, or register at the city council
 - Costs related to registration in companies or city council
 - How and where to go to be registered, specific location or place
 - Requirements for being registered, national ID number and name registered,
 - Fiscal implication of being registered,
3. What do you think would be the advantages if your business was formally registered? (discuss by register level)

Note: Here adjust to what the respondents answered earlier for each level of formalization, if the respondents registered in the city council ask for a more formal registration.

- Reasons why? access to financial tools, bank account, conform with law.
 - Grow the profile of my business, better reputation, being more visible
 - Access to governmental business opportunities, bidding processes, export import goods,
 - You can use court of legal legal system,
4. What do you think would be the disadvantages if your business was formally registered? (prompt for all levels registration)
- Regulation: excessive regulation in terms of norms, labour law
 - Administrative: The registration process is cumbersome, time consuming
 - Taxes: Have to pay taxes
 - Corruption: forces you to be confronted with corruption
5. Currently, would you be interested to formally register your business, Why, at which level?

Current business performances

6. Currently, what are the three main issues are affecting your business' performance?
- For each item the enumerator will go into the details
- Sales and Supply:
 - Investment: Access to finance, banks, microfinance, money lenders, access to assets such as machinery, equipment, building
 - Labour: how many paid employees, skills
 - Revenue: Not enough demand for the product/service
 - Regulation: Harassment from the authorities, corruption, labour law
 - Economic situation: inflation, currency issue, High operating expenses
 - lack of adequate technologies
7. Are there any specific issues that affect women run businesses in the informal sector?
- Taxes
 - Security
 - Household activities
 - Access to finance
8. What is the main source of working capital for your business?
- Family money, bank, money lender
 - Nb of credits currently has
9. What type of services, if any, do you receive from regulatory or licensing bodies (City council, Government bodies)?
- Access to finance, training, utilities (water/electricity), working space, representation

COVID-19

10. How has your business monthly revenue changed compared to pre COVID 19 times, before lockdown in April 2020?
- Estimate percentage drop or increase
 - Depend on the seasonal nature of the activity.
 - Selling or access to material
 - Inflation, currency issues
 - Labour force, people being absent
11. Do you or have you received any type of support for your business from the Government?
- Finance, training, subsidies, place to work from
 - Inputs, permits or permission

12. What policy or other measures, do you think can support the growth and performance of your business?

- Material support
- Policy measures, pay for licensing or rents
- Regulation

Annex 3: Formal business survey

ILO Labour Market Diagnostic Analysis (LMDA) Qualitative Survey

Formal Business Semi Structured Discussion Guide

Location (City/Ward/Business area)		
Name of business owner and gender		Gender:
Nature of business		
Sector		
Day of interview		
Interviewer name		
Start time:		
End time:		
Language of the interview		

Individual business operators sector discussions

Main evaluation question: What are the strategic subsectors/economic activities/value chains and inter-sectoral linkages for job-rich growth and investment?

1. Within your sector which specific subsectors/economic activities/value chains are performing well? (in terms of revenues, sales, turnover, employment, investment)
2. Why do you think these subsectors are performing well?
3. Which subsectors have the most potential for growth in job creation (even if today are not performing well) and why? (types of jobs etc.)
4. What are the major constraints to achieve this potential? (Policy environment, business practices, financing and capital, investment, etc)
5. What policy or other measures do you think should be instituted to improve the business environment to develop these subsectors? (investment, business regulation, monetary, fiscal, currency, business promotion, property rights, regulatory environment, tax reform, other incentives and government programs)
6. Which other sectors/sub sectors affect performance in your sectors and how? (supply chains, demand, vertically, horizontally linked sectors, regulation, labour)
7. How has the COVID 19 pandemic affected your sector?
Sales, demand, supply chains, revenues, production, productivity, labour etc.

Annex 4: Questionnaire KII and list

Interview guide

Economic Sector potential

- 1. Which specific subsectors/economic activities/value chains are performing well?
- 2. Why do you think these subsectors/economic activities/value chains are performing well?
- 3. Which sectors/subsectors have the most potential for growth in Job creation and why?
- 4. Which sector has the most links with other sectors and the potential for downstream growth impacts?

Constraints to business development

- 5. What are the major constraints to business growth and profitability?
- 6. What policy or other measures do you think should be instituted to improve the business environment in Zimbabwe?

Informal versus Formal businesses

- 7. What incentives do informal business have to formalize their operations?
- 8. What disincentives work against informal businesses formalizing?
- 9. How easy is the process of registering and formalizing a business in Zimbabwe?
- 10. What challenges does the informal sector face in staying profitable/viable and in growing?

COVID-19 Impact

- 11. What is the potential impact on jobs and the distribution of income?
- 12. Who are the most vulnerable workers based on their occupation and the economic sector where they work?

Type of policies can be considered to mobilize investment for employment creation. (Only if in policy)

- 13. Macro and regulatory policies
- 14. Sectoral/regional policies to mobilize investments conditional on job creation
- 15. Types of contracts for implementation: payments for results (P4R), social impact bonds, public private partnerships (PPP)

List of key informants interviews

Key informant interviews	Nb
Bilateral Donors representatives	2
Employers representatives	3
Government	2
Lead Government	3
Research organizations	1
UN agencies	2
Workers organizations	2
Total	15
Nb of participants to stakeholder meeting	27

Annex 5: Evaluation matrix

Key study question	Secondary study questions	Type of analysis to conduct	Source of information
1. What are the current dynamics and main constraints in terms of employment creation and access to employment for Zimbabweans workers?	1.1 What are the main macro trends?	• Growth, employment creation, and labour productivity • Decomposition of GDP per capita growth • Employment creation by sector and decomposition of labour productivity • Employment creation by gender, age and level of education • Country's demographic structure and its dynamics (population age and sex composition, local and migrant workers) • Labour force projections and demands in terms of job creation	Analysis: population census and UN demographic projections; labour force surveys; national accounts data. Key informants interviews: UN, ILO and WB staff representatives, Ministry of Labour.
	1.2 Labour market outcomes and main constraints facing workers to access employment?	• Determinants of participation rates • Determinants of employment rates • Determinants of the types of jobs individuals have (formal wage employment, informal wage employment, own account work). • Determinants of earnings • Constraints to accessing jobs: individual factors (e.g., age, gender, first-time job seeker), institutional factors (e.g., education and skills; information, mobility, discrimination, social and cultural norms); geographic/spatial factors (e.g., e.g., regions where workers live).	Analysis: Labour force surveys; O*NET database on occupations and skills. Key informants interviews: UN, ILO and WB staff representatives, Ministry of Labour.

2. What are the opportunities for structural transformation and decent employment creation in Zimbabwe and types of government interventions required?	1.3 What are the main constraints facing employers and entrepreneurs to expand businesses and create jobs?	• Key characteristics of firms in the formal sector and patterns in terms of entry rates, job creation and labour productivity • Constraints in terms of macroeconomic policies • Constraints in terms of the business environment (business regulations, infrastructure, access to finance, access to support systems) • Constraints in terms of governance • Constraints in terms of labour policies	Desk Review: Government Financial Statistics, Doing Business and Governance Databases; Results of the Enterprise Survey; Global Competitiveness Report; Labour Laws and policies documents. Qualitative survey of formal and informal business owners. Key informants interviews: UN and ILO staff representatives, Ministry of Labour and Ministry of Industry, Chamber of Commerce, trade union representatives.	Desk Review: Government Financial Statistics, Doing Business and Governance Databases; Results of the Enterprise Survey; Global Competitiveness Report; Labour Laws and policies documents. Qualitative survey of formal and informal business owners. Key informants interviews: UN and ILO staff representatives, Ministry of Labour and Ministry of Industry, Chamber of Commerce, trade union representatives.
	1.4 What are the potential impact of COVID19 in the labour market?	• What is the potential impact on jobs and the distribution of income? • Who are the most vulnerable workers based on their occupation and the economic sector where they work • Multiplier effects on jobs (direct and indirect) of the expansion of aggregate demand for different economic sectors.	Analysis: Labour force surveys and O*NET database on occupations and skills. Key informants interviews : UN, ILO and WB staff representatives, Ministry of Labour.	Analysis: Labour force survey and national accounts. Desk Review: economic reports by international organizations and the government. Qualitative survey of formal and informal business owners. Key Informant interview: employers, Ministry of Labour, Chamber of Commerce, Trade Unions, CSO's working on labour issues
	2.1 Which economic sectors have the highest potential to create decent and productive employment in Zimbabwe for the available labour force?	• Potential for job creation under different scenarios about economic growth and changes in the structure of aggregate demand. • Product space in Zimbabwe and potential for economic diversification. • Perceptions of managers and entrepreneurs about business opportunities and the potential for job creation	Analysis: labour force survey and national accounts. Desk Review: economic reports by international organizations and the government. Qualitative survey of formal and informal business owners. Key Informant interview: employers, Ministry of Labour, Chamber of Commerce, Trade Unions, CSO's working on labour issues	Analysis: labour force survey and national accounts. Desk Review: economic reports by international organizations and the government. Qualitative survey of formal and informal business owners. Key Informant interview: employers, Ministry of Labour, Chamber of Commerce, Trade Unions, CSO's working on labour issues
	2.2. What type of policies can be considered to mobilize investment for employment creation?	• Macro and regulatory policies • Labour regulations and active labour market programmes including public works and livelihood programmes. • Sectoral/regional policies to mobilize investments conditional on job creation: at the firm level, within value chains, within special economic zones (SEZ). • Types of contracts for implementation: payments for results (P4R), social impact bonds, public private partnerships (PPP)	Desk review: Relevant reports and literature on structural reforms in Zimbabwe and new industrial policies, active labour market programmes, and contracting and payment systems based on results. Key Informant interview: employers, Ministry of Labour, Chamber of Commerce, Trade Unions, CSO's working on labour issues	Desk review: Relevant reports and literature on structural reforms in Zimbabwe and new industrial policies, active labour market programmes, and contracting and payment systems based on results. Key Informant interview: employers, Ministry of Labour, Chamber of Commerce, Trade Unions, CSO's working on labour issues

Annex 6: Definitions of key concepts

(i) Workers

The evaluation team used the new international standards of measuring work statistics adopted by the 19th International Conference of Labour Statisticians (ICLS) in 2013 and subsequently approved by the International Labour Organisation Board in 2014. Employment now includes persons working for pay or profit only, excluding persons engaged wholly or mainly in subsistence foodstuff production. This change in definition highly impacts employment measures as many “subsistence” farmers previously counted as employed will now be considered as unemployed or inactive. In turn, labour force participation rate between the 2014 and 2019 LFS shrunk from 90 per cent in 2014 to 43 per cent in 2019. Not the entire difference is due to the change in definition. Indeed, when trying to apply the old definition to the new data the research team found a participation rate of 66 per cent. One significant caveat to the reliability of this adjustment relied on the nature of the questionnaire. Questionnaire for the 2019 and 2014 labour force surveys are different and the 2019 survey does not ask precise questions targeting “subsistence farmers” in turn excluding them from the analysis.

(ii) Economic sectors

The economic sector definition used during the project will follow the International Standard Industrial Classification of All Economic Activities (ISIC) revision 4 as presented in Table 7.

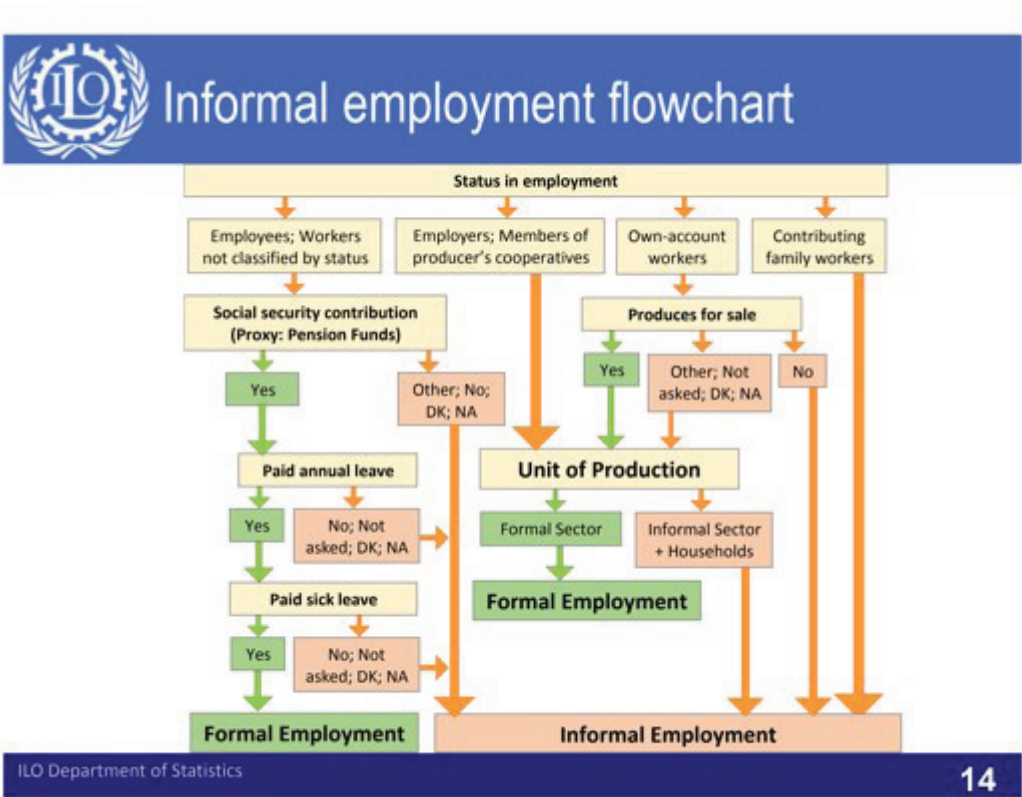
► Table 7. ISIC 4			
AGGREGATE ECONOMIC ACTIVITY		SECTIONS ISIC- REV. 4	
<i>Agriculture</i>		<i>A</i>	
	<i>Industry</i>	<i>Manufacturing</i>	<i>C</i>
		<i>Construction</i>	<i>F</i>
		<i>Mining and quarrying; Electricity, gas and water supply</i>	<i>B, D, E</i>
<i>Non Agriculture</i>	<i>Services</i>	<i>Market Services (Trade; Transportation; Accommodation and food; and Business and administrative services)</i>	<i>G, H, I, J, K, L, M, N</i>
		<i>Non-market services (Public administration; Community, social and other services, and activities)</i>	<i>O, P, Q, R, S, T, U</i>

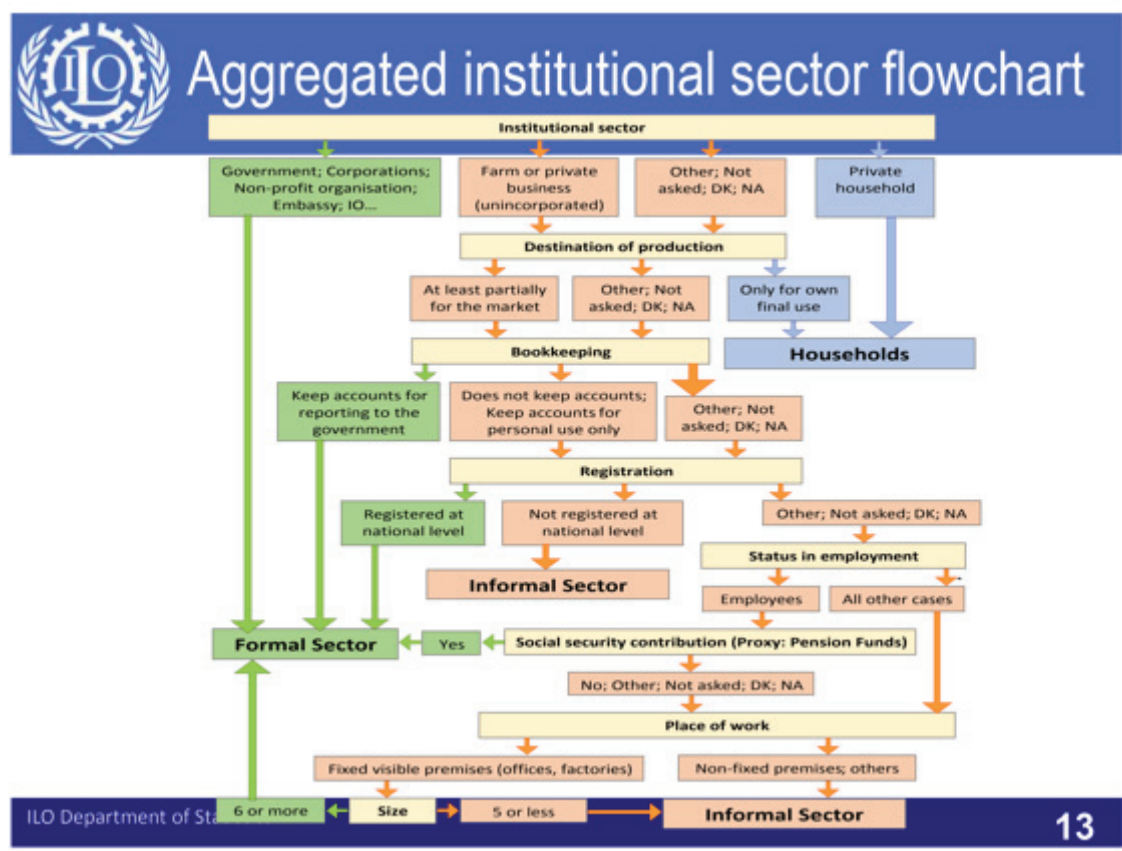
(iii) Informal sector in Zimbabwe

Informality encompasses a large variety of situations and better measuring it contributes to its understanding. In 2015, the ILO Recommendation n°204 concerning the transition from the informal to the formal economy describes the “informal economy” as referring to all economic activities by

workers and economic units that are – in law or practice – not covered or insufficiently covered by formal arrangements. Making the distinction between workers and economic units will lead to two definitions of informal activities. Employment in the informal sector is an enterprise-based concept, and it is defined in terms of the characteristics of the place of work of the worker. By contrast, informal employment is a job-based concept, and it is defined in terms of the employment relationship and protections associated with the job of the worker. Both concepts can work together as formal firms could hire informal labour force. Key Aid Consulting is using the most updated ILO definition of informality based on the two following flow charts.

KAC implemented the operational definition of the concepts of employment and informality based on the STATA script shared by the ILO statistical office that was already tailored to Zimbabwe. Definitions are therefore aligned with the following flow charts except for the informal employment that is more inclusive than the flow-chart. Indeed, workers only having access to pension funds or health insurance were considered as being in formal employment irrespective of them receiving annual leave and/or paid sick leave.





Annex 7: Decomposition of GDP per capita and labour productivity growth

GDP per capita growth can be decomposed based on the following identity:

$$GDPpc_t = \frac{L_t v_t}{pop_t}, (1)$$

where L_t is employment at time t and v_t is average labour productivity (output per worker). At the same time, employment is given by:

$$L_t = e_t p_t W_t, (2)$$

where W_t is the working age population, p_t is the participation rate, and e_t is the employment rate.

The growth rate of GDP per capita is therefore given by:

$$g_t = \dot{v}_t + \dot{e}_t + \dot{p}_t + \dot{w}_t + u, (3)$$

where a dot over the variable is a growth rate, w_t is the share of the working age population, and u is a residual equal to:

$$u_t = \dot{v}_t \dot{e}_t + \dot{p}_t \dot{w}_t + (\dot{v}_t + \dot{e}_t + \dot{v}_t \dot{e}_t)(\dot{p}_t + \dot{w}_t + \dot{p}_t \dot{w}_t), (4)$$

The contribution of labour productivity growth to GDP per capita growth is then given by: $\dot{v}_t/g_t$. Thus, it is possible to assess how fluctuations GDP per capita growth have been driven by demographics, employment rates, and labour productivity.

The next step is to look at the decomposition of labour productivity itself.

$$v_t = \sum_i v_{it} s_{it}, (5)$$

where i indexes the economic sector and s_{it} is the share of employment in economic sector i at time t .

The growth rate of labour productivity is then given by:

$$\dot{v}_t = \sum_i (\dot{v}_{it} + \dot{s}_{it} + \dot{v}_{it} \dot{s}_{it}) \frac{v_{it} s_{it}}{v_t}, (6)$$

Equation (6) can be used to calculate how the distribution of jobs across sectors and labour productivity within sectors have contributed to aggregate labour productivity in the economy.

$$\varphi_t = \sum_i s_{it} \frac{v_{it} s_{it}}{v_t}, (7)$$

Annex 8: The input-output model

The assumption is that output in a given economic sector is produced on the basis of intermediate consumption from other sectors and labour. We have:

$$y_j(t) = \sum_{i \neq j} \alpha_{ij} y_i(t), (1)$$

$$l_j(t) = s_j y_j(t)$$

where $y_j(t)$ is value added in sector j at time t , $l_j(t)$ is employment in sector j at time t , and α_{ij} and s_j are coefficients to be estimated.

In equilibrium, the level of output generated by any sector is equal to the sum of intermediate consumption from other sectors, plus final consumption for the goods and services of the sector. Based on equation (1) we can write:

$$y_i(t) = \sum_{j \neq i} \alpha_{ij} y_j(t) + \beta_i C(t) + \gamma_i X(t), (2)$$

where $C(t)$ is aggregate consumption at time t , $X(t)$ are exports, and β_i and γ_i are parameters to be estimated.

Given the model parameters, at any given year, equation (2) can be written in matrix form as:

$$\mathbf{y} = \mathbf{A}\mathbf{y} + \mathbf{d}, (3)$$

Where $\mathbf{y}$ is a column vector with output per economic sector, $\mathbf{A}$ is the matrix of coefficients α_{ij} and $\mathbf{d}$ is a column vector with final consumption by sector. Each element of $\mathbf{d}$ is equal to $\beta_i C(t) + \gamma_i X(t)$.

Given equation (3), the change in output resulting from investments in sector i that increase the supply of goods and services for final consumption is given by:

$$\Delta \mathbf{y} = (\mathbf{I} - \mathbf{A})^{-1} \Delta \mathbf{d}, (4)$$

The change in the number of jobs is then given by:

$$\Delta \mathbf{l} = \mathbf{s} \Delta \mathbf{y}, (5)$$

where $\mathbf{l}$ is a column vector with jobs by sector and $\mathbf{s}$ is a row vector with the parameters s_j .

The model is used to estimate the total number of jobs that can be created as a result of a given increase in the goods and services produced for final consumption. These jobs can be divided into *direct* jobs (jobs created within the economic sector that expands output) and *indirect* jobs (jobs created in other sectors because of an increase in demand for their intermediate consumption). Essentially, *existing*, opportunities for job creation depend on the current structure of the economy as captured by

$\mathbf{A}$ and $\mathbf{s}$. Economic sectors are ranked on the basis of the total number of jobs created per unit increase in output, and the average productivity of the jobs created, measured by value added per job.

Annex 9: Supply side analysis

To identify the constraints to access quality jobs the following models will be estimated using the labour force surveys:

$$p_{\tau}(\mathbf{Z}) = \frac{\exp(\mathbf{Z}\gamma_{\tau})}{\sum_{j \in J} \exp(\mathbf{Z}\gamma_j)}, \quad (1)$$

$$y_{\tau} = \mathbf{X}\beta_{\tau} + \sum_j \sum_{z=1}^4 \lambda_{jz} p_j(\mathbf{Z})^z + \sum_k \sum_m \lambda_{km} p_m(\mathbf{Z}) p_k(\mathbf{Z}) + \varepsilon_{\tau}, \quad (2)$$

where p_{τ} gives the probability that an individual will be in state $\tau \in J$ which is a vector of occupational states {inactive, unemployed, wage employee, own-account worker, farmer}; $\mathbf{X} \in \mathbf{Z}$ are vectors of individual characteristics; y_{τ} are earnings in occupational state τ ; (k, m) index the possible interactions of the probabilities in the set $\{p_j(\mathbf{Z})\}_{j \in J}$; and λ are coefficients estimated for each type of job.

Models (1) and (2) will then be used to calculate unbiased estimates of earnings gains or losses resulting from potential transitions from informal jobs (informal wage employment, own-account work, and farm work) into formal jobs. The analysis will provide a first approximation of the degree of segmentation of the Zimbabwean labour market and the severity of existing barriers to create and access formal jobs. Large gaps in earnings between formal and informal jobs would suggest a high degree of segmentation. The model will also be used to compute rates of return to education and different types of skills.

The assessment of the impacts of COVID-19 on labour markets are based on a proxy for the vulnerability of different types of jobs based on the share of telework that can be done in a given occupation. The analysis will be done separately for formal and informal jobs, and excluding farm jobs. The estimates will be based on the O*NET database that maps the tasks related to each occupation.⁹³ If there are tasks that are not compatible with telework (for example, “act or work directly with the public”) and these tasks are classified as “important” or “very important,” the occupation is classified as incompatible with telework. Therefore, for each occupation in the O*NET database, coded at 6 digits, it is possible to create a binary variable indicating whether the occupation is compatible or not with telework.

The next step is to map the O*NET occupations to the ISCO international classifications of occupations which is coded at two digits and is used in the labour force surveys. For each occupation within ISCO it is then possible to calculate the share of incompatible occupations at the 6-digit level. This share p_o is a proxy for the vulnerability of the occupation to COVID-19, which can be interpreted as the probability of losing a job because most of the important tasks cannot be executed.

Using this proxy, the expected income of every worker as a result of the epidemic is given by:

$$E(y_{o,cov}) = (1 - p_o) * y_o$$

⁹³ For a formal description of the methodology see Bonavida, C., & Gasparini, L. (2020).

The distribution of the probability of losing a job and the expected income can be tabulated by:

1. Income decile
2. Gender
3. Age (youth, adults, the elderly)
4. Ethnic groups
5. Type of job (wage employment, own account, farm work)
6. Type of contract (formal/informal)
7. Firms size (small, medium, large)

The following model can also be estimated:

$$p_{oi} = X_i \beta + \varepsilon_i$$

where i indexes the workers, X_i is a vector of individual characteristics and geographic factors, and ε_i is a random error.

The final part of the analysis involves estimating the impact of COVID-19 on the income distribution of Zimbabwe. This is done by comparing the Lorentz curve and the Gini coefficient with pre and post COVID earnings.