

Promoting Job-rich Urbanisation in Zambia

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1. **Zambian cities must create 1.2 million net new jobs by 2025**

Zambia finds itself at an important juncture in determining its urban future. The country's policymakers must actively choose to promote its cities as centres of job creation and opportunity. Over the last 15 years, the economic stagnation that marked the late 20th century has given way to high rates of sustained economic growth. Despite Zambia's current economic downturn – driven by a decline in global copper prices and energy shortages – the country's Gross Domestic Product (GDP) is still projected to grow three percent in 2016, an indication that the drivers of its growth lie beyond the copper industry alone. However, GDP growth has not translated into adequate employment growth for Zambia's citizens.

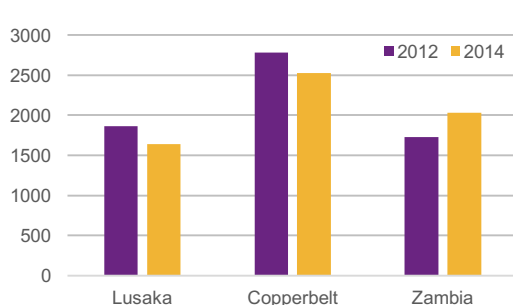
With the process of structural transformation accelerating, Zambia's cities are assuming greater importance in ensuring its people have access to productive employment. The country is witnessing a dramatic labour market shift, as its workforce moves out of agriculture and into services and industry; between 2008 and 2014, the share of Zambian workers employed in agriculture fell steeply, from 71.4 percent to 48.9 percent. City populations are expanding at an average rate of nearly four percent per year. Projections suggest that Zambia must create 1.2 million net new urban jobs by 2025 and 2.8 million by 2035.

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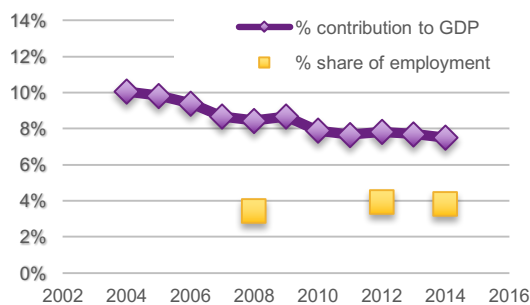
2. Real wages declined between 2012 and 2014 in both Lusaka and the Copperbelt

Despite the country's robust economic growth, evidence shows that its urban labour markets are not creating enough of the kinds of jobs that will propel inclusive growth and maximise Zambia's "demographic dividend."

Real wages declined between 2012 and 2014 in both Lusaka and the Copperbelt – the country's two heavily urbanised provinces where two-thirds of its city-dwelling population lives. In Lusaka, urban workers earned nearly 17 percent less in real terms in 2014 than in 2012.



Real Monthly Earnings Among Paid Workers in Zambia - Selected Geographies (2010 Kwacha)



Manufacturing: Share of Employment & GDP

In both Lusaka and the Copperbelt, the number of unpaid family workers is still growing faster in absolute terms than the number of paid workers. Most urban employment growth is taking place in low-productivity informal services. And several of the sectors where urban jobs are concentrated and growing are in fact declining in terms of their contribution to Zambia's overall GDP – an early warning that productivity may not be rising fast enough to sustain continued job growth in the long run. These data predate the economic slowdown, which is likely to exacerbate the trends.

There are some positive notes, too: a declining rate of urban unemployment; a booming construction sector that employed 128 percent more workers in 2014 than in 2008; a hospitality sector that expanded formal employment by 63 percent in the same period. But these bright spots cannot outshine the warning signs mentioned above, which point to a severe lack of productive jobs in urban areas, outside the small, and shrinking, formal sector, which employs just over a quarter of urban Zambians.

3. Policy makers must make job-rich urbanisation a top policy priority

Nevertheless, Zambia's current policy framework appears based on the assumption that its rural areas are languishing while its cities are thriving. Job creation policies stress rural development. The Revised Sixth National Development Plan (2013-16), for example, "focuses on public capital investments that have a bias to rural development." The country's manufacturing policy is based on a vision of "rural industrialisation."

This paper calls on the Zambian government to make job-rich urbanisation a top policy priority. Urban economies are predisposed to create quality jobs because of their internal and external economies of scale labelled as agglomeration economies, but the positive relationship between urbanisation and quality employment creation is not inevitable. It depends on the extent to which governments strengthen the economic base of cities and create the spaces and enabling environments for productive economic activities. To manage Zambian cities toward job-rich urbanisation, this report proposes three guiding principles for urban governance:

- 1. Zambia must focus on managing existing urban systems, rather than trying to create them anew.** This means taking stock of existing urban systems – such as informal settlements and informal systems for trading and selling goods and services – and determining the ways in which the state can make those systems operate better: more efficiently, more safely, and with better outcomes for the involved stakeholders.
- 2. Zambian cities must enable businesses – particularly micro, small and medium enterprises (MSMEs) – to expand, increase productivity, and (eventually) enter the formal economy.** Current policies in Zambia emphasize the formation and growth of MSMEs in order to spur job creation – particularly for youth. But urban firms, and especially the small, informal enterprises that are formed through policies that promote entrepreneurship and microfinance, face a built environment and urban policy framework that is not conducive to their growth, graduation into the formal economy, and prosperity.
- 3. Urban planning and infrastructure investment must focus on strengthening the links among firms and between firms and consumers.** Zambia's investments in cities and beyond must advance the goal of strengthening the links within local, provincial, national and international supply chains. Rail and road infrastructure projects must take into account the needs of MSMEs – especially those in labour-intensive sectors like agro-processing.

4. Concrete policy directions: upgrading informal settlements; cluster-based industrial policies, improving connectivity; and revitalising the Copperbelt

Rather than an exhaustive list of all the reforms that must be introduced, these proposals represent concrete examples of how the three guiding principles could manifest in specific policies, taking into account Zambia's particular challenges and opportunities:

- **Bolster efforts to recognise and upgrade informal settlements.** Informal settlements are not only the place of residence for 70 percent of urban residents; they are also centres of economic activity – representing a physical home for the vast informal economy. Currently, the productivity of businesses operating in informal settlements is stifled by several factors: poor connectivity to markets; insecurity of tenure; and lack of space. To enable MSMEs to sustain job creation, policymakers must address the built environment issues faced by such businesses.
- **Extend cluster-based industrial policy to urban areas and upgrade urban markets.** The cluster approach to industrialisation, which the government is currently pursuing in rural areas, is well suited to an urban economy, as agglomeration effects facilitate clustering. There is significant scope for promoting manufacturing and trading clusters in cities to improve employment outcomes.
- **Improve intra- and intercity connectivity and leverage new infrastructure investments to stimulate growth of labour-intensive sectors.** Connectivity – both within the city and between different centres of production – is one of the keys to leveraging the agglomeration effects of urban economies to create more and better jobs. Effective public transportation networks can facilitate better labour market matching and help small businesses that rely on public transit to move their goods to market. Moreover, new investments in national road and rail infrastructure can be harnessed to support the growth of labour-intensive sectors and MSMEs.
- **Revitalize and diversify the Copperbelt to create a more dynamic, job-creating urban region.** The Copperbelt is undoubtedly one of the most important urban regions of Zambia, but today its economic fortunes are imperilled, largely because of its overdependence on the sector that has granted it prosperity – copper mining. Building on the Copperbelt's existing assets, the right mix of interventions by Zambian policymakers can reverse the province's downturn and create a vibrant urban labour market through diversifying its economic output.

Given the current situation – with eroding urban incomes, a decline in the share of formal jobs in non-farm sectors, and large increases in urban unpaid family workers – it is clear that urban employment needs renewed attention among Zambian policymakers.