
LABOUR INPUT PAPER TO THE DRAFT INTERIM-POVERTY REDUCTION STRATEGY PAPER (I-PRSP) PRESENTED BY NAOME CHAKANYA, LEDRIZ AT THE ALTERNATIVE I- PRSP WORKSHOP, HOLIDAY INN, 4 AUGUST 2016

1. Introduction

The I-PRSP process is coming at such a time when the labour market is facing serious challenges emanating from the deteriorating macro-economic context. The country is faced with a daunting challenge of dealing with the scourge of unemployment, under-employment, informalisation of the economy and endemic poverty. As the country's economy continues to deteriorate at an alarming rate, it is the ordinary worker that bears the brunt of the crisis. According to economic principles and practice, the demand for labour is a derived demand, meaning the demand for labour is a result of the demand for goods and services in an economy. The more productive an economy is, the more the demand for labour and this unlocks the jobs potential of any economy and vice-versa. Thus, the sustained economic and structural regression has contributed to a low labour absorptive capacity of the economy. On the other hand, in the poverty discourse, productive employment is seen as the link (nexus) between growth and poverty reduction. Hence, there is no way a PRSP can be effective and successful in reducing **poverty** if employment issues and strategies are not well articulated. It is in this context that this paper brings out critical labour (employment) issues and how they should be integrated and articulated in the I-PRSP.

2. Labour Market Challenges

Below are some of the challenges within the current labour market:

- i. An uncondusive macroeconomic framework that is not job-rich. Economic growth declined steeply to 3.4 percent in 2013 and 3.2 percent in 2014 and further declined to 1.5 percent in 2015;
- ii. Declining capacity utilisation rate, from as high as 57,2% in 2012 to 34,3% in 2015 due to
 - ✓ low local demand;
 - ✓ working capital constraints;
 - ✓ competition from cheap imports; antiquated machinery and machine breakdowns;
 - ✓ drawbacks from current economic environment;
 - ✓ high cost of doing business;
 - ✓ shortage of raw materials; and
 - ✓ power and water shortages.
- iii. Massive deindustrialisation - 4,610 companies closed down between 2011 and 2014, with 55,443 employees losing their jobs as reported in the 2015 Budget Statement. Following the Supreme Court judgment of 17 July 2015 giving employers the right to fire on notice, close to 30,000 jobs have been lost.

- iv. Informalisation of the economy - 94.5% of the currently employed persons 15 years and above were informally employed (2014 LFS), a sharp rise from 80% in 2004 and 84.2% in 2011. 98% of the **currently employed youth** aged 15-24 years and 96% of currently employed youth aged 15-34 years were in informal employment. SMEs employ about 60% of the workforce and contribute about 50% of GDP: 85% of MSMEs are unregistered.
- v. Increase in the number of the “working poor” – the Poverty Datum Line (PDL) is around US\$500.00, whilst average minimum wage is between US\$250-US\$280 leaving most workers in a worse off situation as the salaries lagged behind the increasing cost of living. Sadly most of the workers in Zimbabwe are going for several months without getting their wages (LEDRIZ-Solidarity Centre Wage Theft Report, 2016);
- vi. The push by government and business for labour market flexibility meaning lack of decent work and job security. It also leads to weakening of trade unions as more workers become precarious workers, most of whom will not contribute union dues thus constraining the financial base of the unions.
- vii. A protracted Labour Law Reform Process; and,
- viii. The current Special Economic Zone (SEZ) Bill which does not allow application of labour laws.

Given the above, it is critical that the I-PRSP integrates these issues in trying to find long-lasting and sustainable solutions to poverty reduction.

3. I-PRSP Positives

- i. Integration and analysis of the macro-economic framework as requested by labour in the past consultative meetings. Issues such as Fiscal Discipline, Public Sector Administration, Conducive Business Environment, Foreign Direct Investment (FDI), among others are clearly identified;
- ii. Diagnosis of the challenges bedevilling the economy is well articulated;
- iii. Integration of the Zimbabwe - SDGs priorities is applauded;and,
- iv. Pillarization of the I-PRSP solutions. Six pillars are identified in order to deal with poverty issues;

4. Critique / Assessment of the I-PRSP

4.1 Unrealistic macroeconomic targets

The I-PRSP states that the economy will grow by an average annual growth rate of 6.6% during the period 2016-2018, with 2017 and 2018 projected to grow by 9.5% and 8.9%, respectively. These are the growth rates expected to finance the I-PRSP budget. Contrary, the 2016 National Budget projected a GDP growth rate of 2.7% in 2016, driven by mining, tourism, construction and the financial sector. However, since the beginning of 2016, these sectors have been performing poorly save for

some companies in the financial sector clearly giving signals that the projected GDP figures will not be achieved. In fact, the IMF and the World Bank have both revised the 2016 growth rate down to 1.4% and 1.5% respectively and yet the I-PRSP projects growth rates above 9%. Evidently, these targets are impossible to reach given that 2016 is already coming to an end and there are no signs of economic recovery. There is no clear indication of how these high growth rate targets will be achieved given the ailing economy. Thus, there is need to revise these growth figures to be more realistic given the current context.

4.2 “Contested” macroeconomic assumptions

The I-PRSP stipulated assumptions guiding the success of the I-PRSP, however, some of them are “bad” assumptions with a possibility of undermining success of the I-PRSP. For example, the document mentions the assumptions of continued use of the multicurrency system and a stable political environment. Firstly, the expected operationalisation of the “promised” bond notes is still debatable and shrouded with confusion which can threaten performance of productive sectors and disrupt the day to day operations of the ordinary citizens. Secondly, the assumption of a stable political environment is unrealistic in the short-run given the pending 2018 elections and the uncertainties associated with an election-year in Zimbabwe. Thus, these assumptions need to be revised.

4.3 Lack of economic diversification

Currently, the sectors driving the economy are mainly two being, agriculture and mining. Unfortunately, commodity prices in these two sectors are externally determined and are on a downward trend globally. All this undermines the expected I-PRSP growth targets. Worsening the agriculture performance are the climate shocks due to climate change which are already negatively affecting agriculture production which is the mainstay of the economy and export revenue and is intricately related to other critical sectors of growth such as manufacturing. Thus, economic diversification is essential for economic recovery.

The I-PRSP proposes value addition as a strategy for economic diversification in sectors such as mining and manufacturing. Whilst the issue of value addition especially in mining sector is not new but has been on the national cards for a prolonged time, there is no effective action on the ground. Even when the value addition kick-starts, the major questions that should be addressed in order to ensure that value-addition is pro-poor and inclusive include: Who will be the beneficiaries, local people or capitalists? Who is employed in the process, local or foreign human resources? Is there job security in jobs created? Where are the inputs in value addition coming from, local economic linkages? These questions should be seriously addressed in all value chain systems in order for them to unlock benefits from pro-poor and sustained value addition.

4.4 Absence of a Social Contract / Social Dialogue mechanisms

The I-PRSP is silent on the need for social dialogue or the role of the in the Tripartite Negotiating Forum (TNF) implementation, monitoring and evaluation of the I-PRSP. It is widely acknowledged globally that better results are achieved if all stakeholders are involved in the design, implementation, monitoring and evaluation of national policies and strategies. For instance, the political economy context of reforms, 'doing business reforms' stipulated in the I-PRSP should be placed on the agenda of the TNF to ensure they are broad-based and are driven through a consultative, inclusive process as opposed to the prevailing situation whereby they are Government-based and characterized by inconsistencies. Zimbabwe can take a cue from the NEDLAC, the social dialogue structure of South Africa. Institutionalisation of the TNF and operationalisation of an independent TNF Secretariat and should be fast-tracked. The lack of an effective national social dialogue has the potential of threatening achievement of results espoused in the I-PRSP.

4.5 Addressing the country risk factors

Over the years, factors causing high country risk have been on the foe in undermining sustainable economic recovery of Zimbabwe. The country risk factors are contained in the Kadoma Declaration which was launched by President Mugabe in 2010. The Kadoma Declaration is a product of the TNF and it lays out the role of each of the three social partners, namely, Government, Business and Labour in addressing the country risk in order to unlock the growth potential of the country. Unfortunately, there is neither no mention of this document no its strategies for addressing the country risk factors. It is therefore critical that the Kadoma Declaration, as well as the Principles Guiding the TNF are implemented in full as a matter of urgency for the I-PRSP to achieve its results.

4.6 Operationalisation of the National Productivity Institute (NPI)

There is an intrinsic link between productivity and poverty reduction. For a long time, addressing productivity has been high on the national agenda in order to deal with the most binding constraints on economic growth yet the NPI launched in March 2003 has not been operationalised until now. The I-PRSP is silent on this critical institution that is supposed to address dilapidated state of infrastructure, especially water and energy provision; renewing technologies in use in industry; access to and the cost of capital; and skills in order to unlock the country's productivity potential. Thus, there is need for integration of the NPI in the I-PRSP.

4.7 Adoption of the "people's budget" concept

Whilst the I-PRSP is strong in advocating for provision of basic socio-economic services as a route to poverty reduction, it has to be hinged on promoting the 'people's budget' concept. This concept clarifies that national budget priorities should be based on the attainment of socio-economic rights such as water, sanitation, health, education, social protection, infrastructure (energy), other basic social

services, and employment-enhancement infrastructural investment, among others. It is therefore critical that the I-PRSP ring-fences social expenditures in line with International Benchmarks which include, the Abuja Declaration where at least 15% of the national budget should go towards the health sector, the Dakar Declaration where at least 20% of the national budget should be allocated towards education, and the Maputo Declaration of 10% towards agriculture. Most importantly fiscal rules have been enforced to ensure a sustainable balance between sectoral capital and recurrent expenditures. In addition, the I-PRSP and the national budgets have to speak to each other, if the I-PRSP and the full PRSP are to achieve real poverty-reduction.

4.8 Addressing decent work

The I-PRSP is clear that poverty reduction should be hinged on the promotion of decent work. It is also based on the government's priority of SDG 8 - "*Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all.*" The I-PRSP identifies Special Economic Zones (SEZs) as one of the strategies to resuscitate the ailing industries and attract FDI. Worryingly, the current SEZ bill does not promote decent work as it denies application of the Labour Laws in SEZs. This will translate to sacrificing labour (workers' welfare) in the name FDI – modern slavery, which does not promote poverty-reduction but actually perpetuates poverty wages, indecent work, and eternal suffering of the working population. Workers and they families will be locked in the vicious cycle of poverty. In fact, Government wants to repeat the very same mistakes it made with the Export Processing Zones. Furthermore, the current SEZ Bill goes against the Government's acknowledgment of the need to fully implement the Core ILO Conventions recommended in the ILO Commission of Inquiry Report of 2009.

4.9 The need for sustainable economic models for the extractive sectors versus the current 'predatory' extractivism model

In paragraph 402 on the mining sector, the I-PRSP states that "*local communities remained largely excluded from the benefits, with CSOTs not receiving adequate support, and corporate social responsibility (CSR) being ad hoc and insignificant – it should be mandatory.*" What the I-PRSP fails to recognise is that the current model of CSR requires restructuring in order to effectively contribute towards poverty reduction especially for the local communities where these resources exists. The current model of CSR acts as a social license in order to go about their extractive businesses. CSR is seen as a matter of charity! The new CSR model should be restructured to "Corporate *Economic* Responsibility", a structural shift from social responsibility to economic responsibility. This can be done through:

- i. Promoting business linkages with the communities - local communities suppliers of inputs for company operations.

- ii. Encouraging local government to build business incubators to support and strengthen these local supplier companies to efficiently provide services to these extractive companies
- iii. Promoting co-investment in strengthening local universities - some extractive industries in Angola, Nigeria, China, Kazakhstan, China and West Indies have co-invested in engineering, business, accounting and planning departments in local universities.

In addition, the I-PRSP also proposes the creation of the Sovereign Wealth Fund (SWF). This is a very noble strategy for poverty reduction and ensures responsible mining. Several international case studies have concluded that a successful SWF is linked to fiscal discipline and fund management. A SWF has been more successful in countries with a strong commitment to fiscal discipline, oversight and prudent macroeconomic management. Sadly, the current status quo in Zimbabwe is that the government lacks fiscal management, focusses on recurrent expenditures. This is evidenced by the announcement by the President that US\$15bn from diamonds is missing. So there is high probability of misuse of the WSF if created without the necessary ingredients for success.

4.10 Holistic Strategy for Fiscal Reforms

Given the current unsustainable expenditure mix of our national budget with almost 80% going towards salaries, it is critical that the I-PRSP addresses such. Whilst other proposals have been made for fiscal reforms in the I-PRSP, there are very pertinent issues that have been left out especially with regards to dealing with the unsustainable / consumption-oriented national budget. The LEDRIZ & USAID study of 2016 proposed the following as components of fiscal reforms:

- i. Establishment of fiscal rules to put a ceiling on the Public Sector Wage Bill to ensure fiscal responsibility. It assists in reducing the scope of government to use wages for electoral purposes.
- ii. Civil service audit – dealing with issue of ghost workers to ensure fiscal responsibility.
- iii. Adopting growth-friendly tax systems - shifting the tax burden away from direct income toward immovable property and the environment.

All the above have to be clearly specified as a rule in the Public Finance Management Act in order to unlock resources that will spearhead poverty reduction.

4.11 Strategies for formalising the informal economy

Whilst the I-PRSP recognises the extent of informalisation of the economy and the need to formalise the informal economy, the most outstanding sector in terms of detailed strategy is the mining sector. In addition, the document mentions publicisation and decentralisation of the registration of micro and informal sector

enterprises as Private Business Corporations (PBCs), as a quick and cheap way of formalizing such businesses. The I-PRSP further mentions in paragraph 243 that: “*In order to sustain strong inclusive economic growth sufficient to reduce poverty, this IPRSP envisages the fruition of the current efforts being made to formalize the many informal activities in the economy. This is critical in expanding the tax base, which improves the level of resources at the disposal of Government to fund pro-poor programmes and projects.*” The ultimate goal here is clearly to increase the tax base. This has been the bone of contention with labour and informal economy association, that government focus of formalisation of the informal economy is only underpinned by increasing the tax base and squeezing the little that the informal economy players earn.

According to a study by LEDRIZ and FES (2014), the first step toward designing effective interventions to improve conditions in informal forms of employment is to recognize the heterogeneity of informal activities. There is need for the I-PRSP to fully recognise the diversity or heterogeneity of the informal economy, and an integrated policy framework that takes into account the two main categories of informal employment (self- and wage employment) as well as the three main responses to informality (regulation, protection and promotion).

Furthermore study mentioned above, recognised the ILO’s comprehensive policy framework, based on seven key strategies towards formalization. This framework emphasizes the importance of vertical integration and coherence across the range of policies to curb informality, while the horizontal dimension focuses on intensifying action in each policy area. As shown in Figure 1, these policy areas are: quality employment generation and growth strategies; the regulatory environment; social dialogue, organization and representation; promoting equality and addressing discrimination; measures to support entrepreneurship, skills and finance; the extension of social protection; and local development strategies. Therefore, the I-PRSP needs to incorporate these strategies, rather than the narrow focus it proposes to formalisation.

Figure 1: Integrated Strategy to formalisation of the informal economy



Source: LEDRIZ & FES, 2014

4.12 Lack of integration of the national employment strategy and job creation targets

The Zimbabwe National Employment Policy Framework (ZiNEPF) of 2009 indicates that it is now widely acknowledged that the labour market and decent employment in particular, play an intermediating role (the nexus) between growth and poverty reduction. In this regard, a development strategy that fully employs a country's human resources and raises the returns to labour is considered a powerful tool for poverty reduction/eradication. Worryingly, the I-PRSP does not mention this ZiNEPF giving the impression that this will come from 'trickle down', a reason behind the failure of most economic blueprints in addressing the unemployment scourge. Furthermore, the I-PRSP does not have a jobs programming strategy for each of the sectors it highlights, for example, the question of how many jobs are expected to be created per sector is missing, thus making it difficult to monitor and evaluate progress in employment creation.

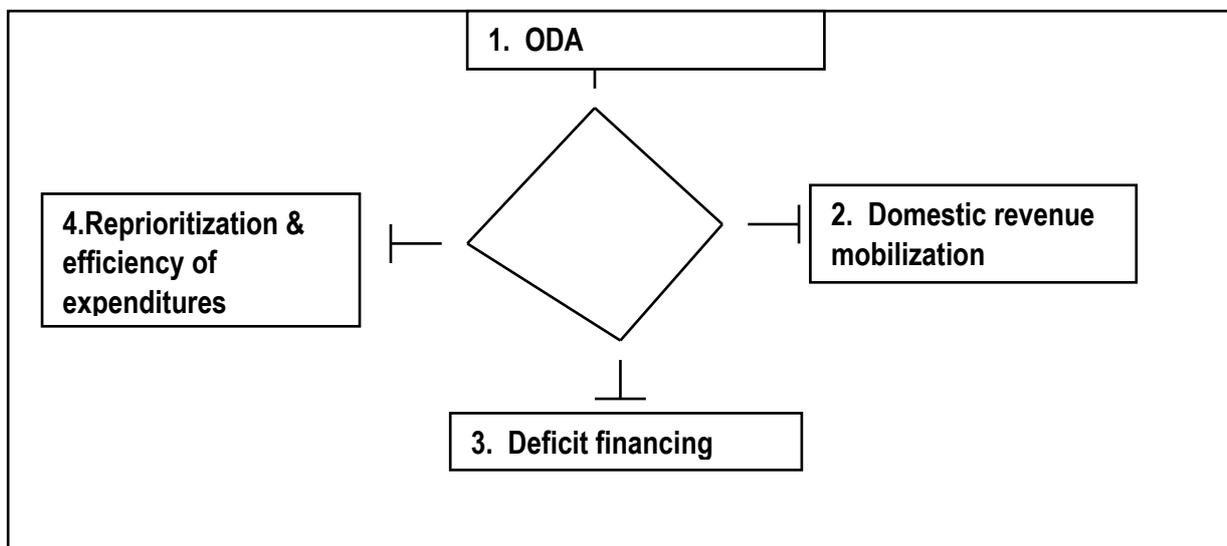
4.13 Financing for Pro-Poor and Inclusive Budgeting – Financing the I-PRSP

Government must explore all possibilities of expanding fiscal space to finance the I-PRSP. Fiscal space refers to "...the financing that is available to government as a result of concrete policy actions for enhancing resource mobilization, and the reforms necessary to secure the enabling governance, institutional and economic environment for these policy actions to be effective, for a specified set of development objectives' (Roy et.al, 2009: 6). In the case of the I-PRSP financing, the fiscal space diamond is a useful framework developed as a diagnostic tool to

widen the government’s policy options. It also helps to identify the endogenous and exogenous, short-term and long-term nature of the available options. As shown in Figure 2, the fiscal instruments for creating fiscal space include; i) Overseas Development Assistance (ODA) through aid and debt relief; ii) domestic revenue mobilisation through improved tax administration and tax policy reforms; iii) deficit financing through domestic or external borrowing; and iv) reprioritization and raising the efficiency of expenditures. However, the challenge for Zimbabwe is the unavailability of all the four pillars of the fiscal space diamond. The fiscal diamond, relevant to understanding the financing options for recovery and unleashing a transformative growth that reduces poverty as outlined in the I-PRSP.

Given the restrictiveness of the available options in the absence of full re-engagement of the international community and the narrow tax base, Zimbabwe needs to carefully focus on how it can create the required fiscal space for the short-term through domestic resources mobilisation by plugging all avenues for illicit financial outflow and leakages. For instance, the missing US\$15bn announced by the President could have been used to finance the annual budget for I-PRSP in full given that the I-PRSP requires financing of US\$6bn per year!!The government should also prioritise and reorient its expenditures in a way that promotes a broad-based, pro-poor and inclusive growth path.

Figure 2: Fiscal Space Diamond



5. Conclusion

Whilst the I-PRSP is a short-term strategy for dealing with poverty reduction, with an implementing period 2016-18, political issues may overshadow economic issues thus undermining success of the I-PRSP especially given the pending 2018 election

and the uncertainties related with a pre-election period. There is a high probability that potential investors and cooperating partners will continue adopting a wait and see attitude as evidenced before. In addition, growth is also highly consumption-driven (retail / supermarket economy). There is need to develop a savings culture to mobilise resources internally in order to secure funding for investment in productive sectors.