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Zimbabwe Economic Policy Analysis and Research Unit



# **DISTORTIONS IN THE LABOUR MARKET IN ZIMBABWE**



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## List of Acronyms

<b>AfDB</b>	African Development Bank
<b>AIDS</b>	Acquired Immunodeficiency Syndrome
<b>ALMP</b>	Active Labour Market Policies
<b>CBA</b>	Collective Bargaining Agreement
<b>CI</b>	Competitive Index
<b>COLAZ</b>	College Lecturers Association of Zimbabwe
<b>CSC</b>	Civil Service Commission
<b>CSEA</b>	Civil Service Employees Association
<b>CZI</b>	Confederation of Zimbabwe Industries
<b>DB EWI</b>	Doing Business Employing Workers Indicator
<b>DB</b>	Doing Business
<b>EPL</b>	Employment Protection Legislation
<b>ESAP</b>	Economic Structural Adjustment Programme
<b>FPL</b>	Food Poverty Line
<b>GDP</b>	Gross Domestic Product
<b>GWA</b>	Government Workers Association
<b>HSB</b>	Health Service Board
<b>HSBNP</b>	Health Service Board Negotiation Panel
<b>ILO</b>	International Labour Organisation's
<b>KIPPRA</b>	Kenya Institute for Public Policy Research and Analysis
<b>LEDRIZ</b>	Labour and Economic Development Research Institute of Zimbabwe
<b>LICs</b>	Low Income Countries
<b>MSME</b>	Micro, Small and Medium Enterprises
<b>NEC</b>	National Employment Council
<b>NJNC</b>	National Joint Negotiating Council
<b>NPI</b>	National Productive Institute
<b>NSSA</b>	National Social Security Authority
<b>OECD</b>	Organisation for Economic Co-operation and Development
<b>PDL</b>	Poverty Datum Line
<b>PSA</b>	Public Service Association
<b>PTOA</b>	Professional and Technical Officers Association
<b>PTUZ</b>	Progressive Teachers Union of Zimbabwe
<b>SOEs</b>	State Owned Enterprises
<b>SSA</b>	Sub-Saharan Africa
<b>TFP</b>	Total Factor Productivity
<b>TNF</b>	Tripartite Negotiating Forum
<b>TNF</b>	Tripartite Negotiating Forum
<b>TUZ</b>	Teachers Union of Zimbabwe
<b>UIF</b>	Unemployment Insurance Fund
<b>ULC</b>	Unit labour costs
<b>UNCTAD</b>	United Nations Conference on Trade and Development

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<b>US</b>	United States
<b>WEF</b>	World Economic Forum
<b>ZEPARU</b>	Zimbabwe Economic Policy Analysis and Research Unit
<b>ZCTU</b>	Zimbabwe Congress of Trade Unions
<b>ZIMTA</b>	Zimbabwe Teachers Association
<b>ZIPAR</b>	Zambia Institute of Policy Analysis and Research

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## Executive Summary

Zimbabwe has been experiencing a rising incidences of un and under employment due to the shrinking formal economy which has increased the non-formal economy. About 94.5% of employment in the country is informalised; about 98% of currently employed youth aged 15-24 years and 96% of currently employed youth aged 15-34 years are in informal employment. Due to the problems of imperfect information and bargaining power, uneven market power (between employers and employees) and asymmetric/imperfect information, government introduces policies and regulations to govern the labour market. However, labour market distortions often result, which are induced by the government policies and regulations in an attempt to correct market failures in the labour market.

The analysis in this study reveals that unit labour costs and the public sector wage bill are generally high in Zimbabwe. The analysis also reveals that real wages are in fact flexible contrary to popular belief. While it can be argued that labour unions may constitute a significant source of labour market rigidities in Zimbabwe, evidence suggests that, as with the regulations on hiring, firing, and working hours, this is unlikely to be a significant barrier to the expansion of decent employment. If for no other reason, this is because unions represent a small and diminishing portion of Zimbabwe's labour force. Union membership in the private formal sector is less than 20 per cent of total employment. Importantly, employers are able to resort to a number of strategies that include the use of contract employment.

Some of the policy implications and recommendations arising from the analysis include:

- increasing capital accumulation to sustainably improve productivity;
- adopting growth-friendly tax reforms to lower labour costs;
- promoting transition to formality;
- adopting integrative collective bargaining;
- linking public sector wages to performance;
- strengthening the National Productive Institute (NPI) and the Tripartite Negotiating Forum (TNF); and
- making tripartite consultations and collective bargaining central as these are the best way to determine labour market policies and to achieve positive labour market outcomes.



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## 1.0 Introduction

Zimbabwe faces a huge competitiveness gap. It has also been experiencing a growing incidence of un and under employment. The shrinking of the formal economy through deindustrialization has resulted in a boom in the non-formal economy through informalisation. According to the 2014 Labour Force Survey, 94.5% of employment in the country is informalised, up from the 84.2% in 2011 and 80% in 2004. Tellingly, 98% of currently employed youth aged 15-24 years and 96% of currently employed youth aged 15-34 years are in informal employment.

The rising incidence of un and under employment has drawn attention to the labour market. Scholars such as Fortin et al (1997), Maloney (2004), Albrecht et al (2009) and Kugler and Kugler (2009) have argued that labour market distortions have given rise to the problem of un and under employment and the growing problem of rising informality. It is further argued that liberalizing the labour market to allow greater wage flexibility and to reduce the constraints on firing workers would go a long way towards solving the unemployment problem. The Global Competitiveness Report of the World Economic Forum (WEF) consistently rates the Zimbabwean labour market as being rigid. WEF rankings have however been criticised on the basis that they are based on the opinions of a small group of local business leaders and hence may poorly reflect the real importance of labour-market regulations. Moreover, Magruder (2012) argues that whereas wage inflexibility may result in short-term job losses, it can hardly explain the long-run, structural inability of the labour market to absorb the jobless into the workplace.

The market for labour is unique. This is in light of increasing recognition that imperfect information and bargaining power are inherent to labour markets (Barr, 1998; Agell, 1999; Gregg and Manning, 1997). Whilst the normal rules of supply and demand do apply to the labour market, these rules are severely distorted by problems of uneven market power (between employers and employees) and asymmetric/imperfect information. As a result, economic considerations of efficiency are often forced to yield to social considerations of equity, resulting in labour regulations which distort the operation of the labour market (Baldwin and Wyplosz, 2012: 215). Labour market distortions are therefore induced by government policies and regulations in an attempt to correct market failures in the labour market. They are motivated by the need to safeguard workers' fundamental human rights (as defined by the International Labour Organisation's (ILO) core conventions) and the need to promote the well-being of workers (Golub, 1997). For instance, it is argued that minimum wages protect workers with little bargaining power from being exploited by employers; social insurance provides insurance against income loss during old age and other employment-related risks while employment protection legislation prevents arbitrary dismissals.

Analysis of theoretical and empirical literature on labour market policies in both

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developing and developed countries has shown that countries should avoid the two extremes of excessive regulations on the one hand and the other extreme of total disregard for labour conditions on the other hand. Labour market policies that are very weak or programs that are non-existent can result in problems of poor information, unequal power and high income disparities (World Bank, 2012). In contrast, excessively stringent regulations can compound market imperfections with institutional failures, and weigh on job creation and competitiveness (Dabla-Norris et al, 2015).

While labour market distortions have been studied extensively in developed countries and some developing countries, few studies have examined the nature and consequences of labour-market regulations in Zimbabwe. Thus, this study seeks to explore and document the distortions in the labour market with a view to informing policy discussions and interventions to create more and better/decent jobs. The objectives of the study are outlined below.

## **1.1 Study objectives**

The objectives of the study are to:

- a) Understand the various forms of distortions that characterise the employment market;
- b) Identify the main causes for these distortions (including policy and practices); and
- c) Suggest viable policy response strategies that can be adopted to remove or manage the distortions.

## **1.2 Research Methodology**

This study is based on both quantitative and qualitative analysis. A comprehensive literature review is undertaken to review studies that have looked at aspects of the issues. The qualitative approach uses subjective information and participant observation to describe the context or natural setting of the variables under consideration (labour costs, competitiveness, labour productivity, wage and salary levels among others) as well as the interactions of the different variables in the context to understand the entire situation.

Quantitative methods are applied to compute labour costs, labour productivity, total factor productivity among others. Unit labour costs (ULC) are a commonly used measure to analyse the competitiveness of a country or a sector. They are defined as the cost of labour (labour compensation) per unit of output. Labour productivity is defined in general as output per unit of labour or hours worked. Time series graphs of the key variables are examined to check for the existence of trends and/or structural breaks.

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## 2.0 Macroeconomic Context

The economy continues to face structural challenges arising from high levels of informality, weak domestic demand, high public debt, lack of confidence, and institutional weaknesses. The fiscal policy remains highly consumption oriented leaving very little fiscal space for capital and social expenditures. According to the 2018 National Budget statement the fiscal deficit was estimated at US\$1.042 billion (7.3% of GDP) in 2016 and US\$1,707 billion (10% of GDP) in 2017. The fiscal deficit is expected to widen further in 2018 owing to poor performance of revenues and pressures on the expenditure side. Government has resorted to domestic borrowing to finance the widening fiscal deficit. This is however unsustainable and is generating inflationary pressures. Total public debt stock was US\$13.6 billion in 2017 (60% of GDP) comprising public domestic debt stock of US\$6 billion and foreign debt stock of US\$7.5 billion. As at 31 December 2016, total public debt (both domestic and external) stood at US\$11.3 billion of which US\$7.3 billion is external debt. The 2018 public debt is estimated at US\$18 billion constituting about 70% of GDP as shown in Table 1.

The country has experienced a steep increase in money supply. According to the 2018 Monetary Policy statement bank lending to local economic agents grew by 44.31%, from \$7 554.07 million in November 2016 to \$10 637.23 million in November 2017. Of this growth, net credit to Government rose by 70.45% to \$6 271.02 million, while credit to the private sector rose by 6.97% to \$3 705.5 million. The increase in credit to Government continues to reflect increased reliance by Government on the banking sector to finance its budget deficit. Broad money supply grew by 47.97% from US\$5.42 billion in 2016 to US\$8.02 billion in 2017. Public domestic debt grew by 70.45% to close at US\$6.27 billion in 2017. Government treasury bills and bonds grew by 62.5% from US\$3,2 billion to US\$5,2 billion between 2016 and 2017 seriously crowding out the private sector. Worryingly the bulk of government borrowings are funding recurrent expenditures. The substantial increase in money supply is a reflection of the expansionary fiscal stance which has continued to increase RTGS money from \$954 million in 2016 to US\$1,732 million in 2017.

Economic growth has generally been lacklustre having a negative effect on employment performance. The primary determinant of aggregate demand for labour is the growth of national output (GDP), because it provides the resources needed to finance additional employment. Economic growth declined from 14.8% in 2012 to 5.5% in 2013 and 0.6% in 2016 before improving to an estimated 3.7% in 2017 as shown in Table 1. This economic slowdown is on account of a number of factors which include: high cost of production, fiscal revenue underperformance largely as a result of deindustrialisation, drought, high public debt, policy instability and inconsistency, poor infrastructure and institutional quality among others. The improvement in GDP growth rate from an estimated 0.7 per cent in 2016 to 3.7 per cent in 2017 is on account of improvements in the key agriculture, manufacturing,

mining, construction and financial sectors. The promulgation of a protectionist strategy through Statutory Instrument 64 of 2016 to support the local industry has resulted in capacity utilisation in local industry increasing significantly from 34.3 per cent in 2015 to 47.4 per cent in 2016 before marginally declining to 45.1 per cent in 2017 according to the Confederation of Zimbabwe Industries (CZI) 2017 Manufacturing Sector Survey report.

An important factor determining aggregate demand for labour is the investment rate: more investment is needed to equip new labour market entrants and to raise the productivity of existing workers. The investment ratio in the country has remained low in comparison with other developing countries. Gross fixed capital formation as a percentage of GDP was 14.6% in 2012 declining to about 12.1% in 2016.

**Table 1: Key Macroeconomic Indicators**

	2012	2013		2014	2015	2016	2017	2018
Annual GDP growth (%)	14.8	5.5		2.1	1.7	0.6	3.7	6.3
Inflation, consumer process (annual %)	3.9	1.6		-0.2	-2.4	-1.6	1	4.0
Fiscal Balance (% of GDP)	-1.3	-2.5		-1.9	-2.7	-7.3	-10	-9.0
Current Account (% of GDP)	-12.9	-16.3		-14.2	-9.3	-3.6	-2.8	-2.9
Gross Fixed Capital Formation (% of GDP)	14.6	11.3		11.8	12.2	12.1	-	16.8
Gross Domestic Savings (% of GDP)	-16.8	-6.8		-3.9	-10.3	-1.8	-	
Inward FDI flows (% of GDP)	2.84	2.63		3.44	2.62	2.31	1.67	
Public Debt (% of GDP)	49	50		53.2	58.1	55	59	70

**Source:** UNCTADstat; World Bank, World Development Indicators; AfDB Economic Outlook Reports (various), Transitional Stabilisation Programme document.

Zimbabwe has made some strides in terms of reforming the business environment. It moved four places up to 155 out of 190 countries on the World Bank's 2019 ease of doing business global rankings from 159 out of 190 countries in 2018 (Table 2). The country made significant improvements in terms of starting a business, getting electricity, resolving insolvency and registering property. The Doing Business 2019 Report notes that Zimbabwe made starting a business easier by reducing the time needed to obtain a business license. Zimbabwe was also among some of the countries that cut or simplified post registration procedures (tax registration, social

security registration, licensing) and made dealing with construction permits faster by adopting a one-stop shop for building plan approvals. According to the 2017-2018 Global Competitiveness Report by the World Economic Forum (WEF), the most problematic factors for doing business in Zimbabwe include (in order of their importance): policy instability (19.3 per cent); foreign currency regulations (15.9 per cent); inefficient government bureaucracy (13.6 per cent); access to finance (10.5 per cent); corruption (9.2 per cent); government instability (8.8 per cent); inadequate supply of infrastructure (8.3 per cent); tax rates (4.6 per cent); restrictive labour regulations (4.4 per cent) and tax regulations (4.1 per cent) among others. The country's rankings and overall index in the Global Competitiveness Rankings are shown in Table 3.

**Table 2: Doing Business Rankings for Zimbabwe**

	2012	2013	2014	2015	2016	2017	2018	2019
Zimbabwe	171/182	173/185	170/189	171/189	155/189	161/190	159/190	155/190

Source: World Bank Doing Business Reports

**Table 3: Global Competitiveness for Zimbabwe**

Global Competitive Index	Rank	Overall index
2010-2011	136/139	3.30
2011-2012	132/142	3.33
2012-2013	132/144	3.34
2013-2014	131/148	3.44
2014-2015	124/144	3.54
2015-2016	125/140	3.45
2016-2017	126/138	3.41
2017-2018	124/137	3.32

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### 3.0 Stylised Facts on the Role and Impact of Labour Market Institutions

The impact of labour market institutions on labour market outcomes and macroeconomic performance has been and remains the subject of intense research and interest among scholars and policymakers. Labour market institutions are generally defined as policies, rules and regulations that interfere with wage and employment determination. Common examples include trade unions, minimum wages, employment protection rules and legislation, social security, unemployment insurance and active labour market policies. A number of scholars have blamed labour market institutions for having contributed to high unemployment in a number of countries. This view has provided intellectual backing for policy proposals calling for labour market flexibility.

Other scholars however view labour market institutions as important institutions that seek to overcome market failures and to improve welfare in society. Blanchard (2002), notes that "it is generally agreed that 'the labour market will not function well without proper institutions,' that is, without an appropriate mix of regulations, taxes, and subsidies affecting the relation between workers and employers." This is in light of increasing recognition that imperfect information and bargaining power are inherent to labour markets (Barr, 1998; Agell, 1999; Gregg and Manning, 1997).

The effects of labour market institutions in developed countries has been extensively studied and documented. In developing countries however there is still limited literature on this important topic. Djankov and Ramalho's (2009) in their survey of the literature on the effects of labour market institutions observe that studies of developing countries' labour market regulations largely began around 2004, with scholars making use of the newly available World Bank doing business data. Since then there has been an increase in studies on developing countries.

In a survey of studies of India, Latin American countries, and cross-country comparisons Djankov and Ramalho (2009) find that most of literature reviewed support the hypothesis that labour market regulations have adverse effects on employment and productivity. These effects are particularly strong for India and more mixed for Latin America. Cross-country studies also tend to find that labour-market regulations reduce investment and employment. From a cross country perspective Djankov and Ramalho (2009) also find statistically-significant positive correlation between the Doing Business Employing Workers Indicator (DB EWI) indicators with both the share of the informal economy in total GDP and the level of unemployment. Vandenberg (2010) also used the DB EWI measures to examine labour market regulations in 90 countries (including 7 African) and find little effect on unemployment.

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In a review of low-income countries (LICs) and former LICs by Natataraj et al. (2012) using a combination of both qualitative and quantitative analyses finds that minimum wage increases contribute to heightened self-employment and informal employment, and decrease formal employment, particularly for women, with little net effect on overall employment. Betcherman (2014) on the other hand conducts a review of studies on the effects of minimum wages and employment protection legislation (EPL) and finds that the negative impact of both minimum wages and EPL on unemployment is usually more muted than previous surveys indicated. Interestingly, Betcherman (2014) argues that in countries such as India, while employment protection rules may reduce employment, other constraints such as electricity, tax administration and corruption are more important.

Other scholars have argued that studies on African countries that include (un)employment statistics may be problematic owing to the poor quality of (un)employment statistics. Unemployment statistics are of poor quality and the distinction between unemployment and underemployment is not clear. In many low-income African countries, recorded unemployment is low. This reflects the fact that most Africans are simply too poor not to work. Hence, the problem is not so much unemployment as underemployment in the informal sector (Goluband Hayat, 2014). Therefore, while it may be good to evaluate the effects of labour-market regulations on formal versus informal employment, but there is simply a dearth of credible data to undertake systematic studies within and between African countries.

Still other scholars have argued that the limited available cross-country studies of African labour market institutions (Rama, 2000; Fox and Oviedo, 2013) may suggest that minimum wages and labour market regulations are not a major constraint on employment creation in Africa, unlike in other regions, despite often highly restrictive statutory provisions. Fox and Oviedo (2013) use the DB EWI data along with firm-level data from World Bank Enterprise Surveys. They find that the DB indicator is not strongly correlated with employment creation within SSA. This finding is in line with results from the World Bank Enterprise Surveys, that labour market regulations are viewed as much less onerous than other aspects of the business environment such as infrastructure, access to finance, and corruption. On the other hand, Fox and Oviedo (2013) also point out that firms say that they would boost hiring if labour market regulations were relaxed.

Findings from literature by scholars such as Rama (2000), Fox and Oviedo (2013) and Betcherman (2014) suggest that labour market regulations may be important but they are of lesser importance than other critical binding constraints such as infrastructure, corruption, policy instability. They also argue that many domestic firms in low-income countries may be able to routinely disregard labour market institutions owing to weak inspections. However, foreign firms may feel more compelled to abide by labour market regulations which may discourage foreign firms from investing in low income countries with strict employment protection rules.

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## 4.0 The Structure of the Labour Market

One of the key labour market developments observed throughout the world in recent years is the phenomenon of labour market segmentation: the division of the labour market into separate submarkets or segments, distinguished by different characteristics and behavioural rules. Segmentation may arise from particularities of labour market institutions, such as governing contractual arrangements (segmentation along permanent/temporary nature of employment contracts), from lack of enforcement (segmentation along formal/informal line), as well as types of workers concerned (such as migrant and non-migrant workers).

There is also a growing recognition that there is a fundamental duality within the informal sector, whereby some people work in a lower tier because they can do no better, while others work in an upper tier into which entry is restricted because of human capital and financial capital requirements (Fields, 1990). For instance, some analysts maintain that in Mexico and other Latin American countries, self-employment in the informal sector may be more attractive for a majority of workers compared to work as wage employees in the formal sector (Maloney, 2003, 2004).

The labour market in Zimbabwe is dual and can be dichotomised into a relatively 'modern' formal segment and a relatively 'backward' and 'disadvantaged' informal segment. The informal segment is unregulated and is not directly affected by labour market policies and regulations (institutions). The informal sector includes a range of heterogeneous economic activities, from unpaid labour to a number of unregulated salaried jobs. Hausmann (2004), typifies the informal segment as: a) own-account workers employed in their own informal sector enterprises, most commonly measured through firm size; b) employers employed in their own informal sector enterprises; c) contributing family workers, irrespective of whether they work in formal or informal sector enterprises; d) members of informal producers' cooperatives; e) employees holding informal jobs in formal sector enterprises, informal sector enterprises or as paid domestic workers employed by households; f) Own-account workers engaged in the production of goods exclusively for own final use by their household.

An increasing tax burden or labour regulations such as minimum wage is formally predicted to drive less productive firms out of the formal sector, and consequently the size of the informal sector expands (Rauch, 1991; Loayza, 1996). Informality is also the result of modern enterprises evading mandated protections through subcontracting to unprotected workers, a process accelerated by heightened global competition in labour intensive manufactures (see Portes et al, 1989). In contrast, Dessy and Pallage (2003) argue that an increase in taxes may increase the size of the formal sector by financing the provision of a productive public infrastructure.



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It has been observed that informality has negative implications, mainly through inferior working conditions, lack of formal insurance against illness, unemployment and/or old age, as well as low productivity levels for firms operating therein (Mondragon-Velez et al, 2010). It has also been observed that informality discourages investment and weakens the overall competitiveness of the economy, because a number of informal enterprises are stuck in a low productivity trap (Palmade and Anayiotos, 2005). It is argued that being outside the regulatory framework implies informal enterprises can afford to be less productive than their competitors in the formal sector. It also implies that they are locked out of markets for finance, technology, and other resources that would enable them to close the gap. It has also been shown in literature that informal firms do not always “grow up” and join the formal sector. In many cases especially in developing countries they can remain stuck in an informality trap, excluded from markets for finance and forced to evade taxes and other regulations to compete with their more productive formal competitors.

However, another school of thought argues that the informal labour markets in developing countries promote growth by reducing the impact of regulation. The informal labour markets operate outside the tax and regulatory framework of the country, not paying taxes or social security contributions, violating minimum wage laws and not complying with employment protection regulation. Therefore, it is argued that they are the engine of growth in developing countries because their existence allows firms to operate in an environment where wage and regulatory costs are much lower.

In Zimbabwe, the shrinking of the formal economy through deindustrialisation has resulted in a boom in the non-formal economy through informalisation with the 2014 Labour Force Survey showing that the share of informal employment to total employment rising from 84.2 percent in 2011 to 94.5 percent in 2014. The 2014 Labour Force Survey has revealed that 81 percent of the working age population is employed. The national employment to population ratio stood at 81 percent. Ninety-four percent of the currently employed persons who are 15 years and above were informally employed. Ninety-eight percent of the currently employed youth aged 15 - 24 years and 96 percent of currently employed youth aged 15 - 34 years were in informal employment.

The Zimbabwean economy is dominated by agricultural and informal employment. The industrial sector, which is historically deemed highly productive, employs the smallest share of sub-Saharan Africa's labour force. The informal segment is characterised by underemployment or disguised unemployment. Table 4 shows the employment and unemployment rates for Zimbabwe over the period 2012-2017. The share of employment from the agricultural sector has increased slightly from 66.4 percent in 2012 to 67.5 percent in 2017. Industry's contribution to total employment declined from 8.3% in 2012 to 7.3% in 2017. Employment in the services sector has remained largely stagnant and was at 25.2% in 2017. The country faces a serious

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problem of under-employment. Under-employment basically means that the country has abundant labour which is not being productively utilised. The country faces a scarcity of regular wage employment for all who would like wage jobs and are capable of performing them. Would-be wage employees cannot afford to remain unemployed and continue to search so they find it better to create their own self-employment opportunities in the informal economy. Banerjee and Duflo (2007, p. 162) rightly observe that "Nothing seems more middle class than the fact of having a steady well-paying job. While there are many petty entrepreneurs among the middle class, most of them do not seem to be capitalists in waiting. They run businesses, but for the most part only because they are still relatively poor and every little bit helps. If they could only find the right salaried job, they might be quite content to shut their business down."

As shown in Table 4, the unemployment rate for the country is estimated at 5.3% in 2017. It is argued that in a many developing countries such as Zimbabwe that do not provide unemployment insurance and other welfare benefits many individuals cannot afford to be openly unemployed. They are instead forced to eke out a living in the informal economy. The problem in Zimbabwe is therefore not unemployment but rather underemployment caused by the lack of decent and productive work. This problem of underemployment is shown in the high levels of vulnerable employment as shown in Table 4. The unemployment rate alone is therefore a poor measure of the extent of the labour market challenges.

**Table 4: Zimbabwe Employment and Unemployment Rates, 2012-2017**

	2012	2013	2014	2015	2016	2017
Employment in agriculture (% of total employment)	66.4	66.6	67.2	67.1	67.2	67.5
Employment in industry (% of total employment)	8.3	7.9	7.4	7.3	7.4	7.3
Employment in services (% of total employment)	25.2	25.6	25.4	25.6	25.4	25.2
Employment to population ratio, 15+, total (%)	78.3	78.3	78.2	78.4	78.3	78.3
Employment to population ratio, 15+, total (%) (national estimate)	59.4	-	80.5	-	-	-
Labour force participation rate, total (% of total population ages 15+)	82.9	83	83.1	83.2	83.3	83.6
Labour force participation rate, total (% of total population ages 15+) (national estimate)	66.8	-	90.8	-	-	-
Unemployment, total (% of total labour force)	5.3	5.2	5.1	5.2	5.2	5.3
Unemployment, total (% of total labour force) (national estimate)	5.4	-	11.3	-	-	-
Vulnerable employment, total (% of total employment)	65.9	74.9	74.4	74.3	74.3	74.5
Wage and salaried workers, total (% of total employment)	33.6	24.3	24.8	25	25	24.9

Source: World Development Indicators, World Bank.

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## 5.0 Institutional Framework for Wage Determination in Zimbabwe

Hiring and firing as well as compensation of employees and other employer-employee relations within the formal segment are governed by formal institutions; while activities within the informal segment of the market are outside the ambit of formal institutional coverage. There are however differences in terms of employment and wage determination processes between the public sector, parastatals and the private sector. Wage determination in the public sector differs from standard bargaining in the private sector. In the public sector wage determination is often a non-market process which is a prerogative of the government while in the private sector wages are determined through a process of collective bargaining. Public servants are grouped into associations and government consults with these associations, without necessarily being bound by the outcomes.

Zimbabwe has a fragmented labour framework governing industrial relations. Workers in the Private Sector and State owned enterprises are covered under the Labour Act [Chapter 28:01]. The Labour Act provides for collective bargaining in the private sector as well as in state owned enterprises (SOEs) but the same rights are denied to civil servants. The Public Services Act Chapter 16:04 only gives them the right to consult. Civil Service employees, for the past two decades, were at most “consulted” over their terms and conditions of employment, with the real determination being done by the employer, represented by the Civil Service Commission.

The Constitution of Zimbabwe is the supreme law in Zimbabwe governing labour relations. Zimbabwe adopted a new Constitution on 22 May 2013 (Constitution of Zimbabwe Amendment (No. 20) Act, 2013). The new Constitution now provides for the right to strike except for members of the security services. Section 65 provides for labour rights as follows:

- Except for members of the security services, every person has the right to form and join trade unions and employee or employers' organisations of their choice, and to participate in the lawful activities of those unions and organisations.
- Except for members of the security services, every employee has the right to participate in collective job action, including the right to strike, sit in, and withdraw their labour and to take other similar concerted action, but a law may restrict the exercise of this right in order to maintain essential services.
- Every employee is entitled to just, equitable and satisfactory conditions of work.

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## 5.1 The Public Sector

Zimbabwe's public sector labour legislation is fragmented. The Public Service Act [Chapter 16:04] covers members who render direct services to government except the security services, the judiciary, Parliament and intelligence services. The Act establishes the Public Service Commission (now Civil Service Commission) which is the employer representative of Government. The Act provides for the recognition of employees' associations or organisations (s24). Sections 20(1) of the Public Service Act, Chapter 16:04 passed in 1995 states that the Commission (this is the Civil Service Commission which is the employer representative of Government) shall be engaged in regular consultations with recognised associations in regard to the conditions of service of members of the Public Service who are represented by the recognised associations or organizations concerned which currently are as follows: i) Zimbabwe Teachers Association (ZIMTA); ii) Progressive Teachers Union of Zimbabwe (PTUZ); iii) Teachers Union of Zimbabwe (TUZ); iv) College Lecturers Association of Zimbabwe (COLAZ); v) The Public Service Association (PSA) which is made up of 4 other unions which are; Government Workers Association (GWA); Professional and Technical Officers Association (PTOA); Administrative and Executive Officers Association; Civil Service Employees Association (CSEA). Trade unions are not recognised, but staff associations. Associations' duty is to recommend and consult. There are no provisions for collective bargaining. Decision about the conditions of work is the sole responsibility of employer as provided for in the Constitution and Public Services Act.

Following the numerous 1996 strikes, the engagement of the Government and the staff associations was legislated through the promulgation of Statutory Instrument 141 of 1997 Public Service (Public Service Joint Negotiating Councils) Regulations, 1997. In terms of the above regulations nine members from the Apex Council (a council representing all recognised associations and organisations that is formed for the purpose of conducting negotiations on conditions of service) and nine members appointed by the Minister (responsible for Public service) to represent government (employer), constitute the Joint Negotiating Council plus a Chairperson appointed by the Minister.

The main functions of the Apex Council include:

- To bring all civil servants under one umbrella as one family employed by the Civil Service Commission (CSC);
- To discuss issues of conditions of service and their welfare with the employer;
- To lobby for better working conditions particularly salary increments paid in line with the Poverty datum line for the least paid worker as well as other benefits;
- To speak as one voice through their representatives in the National Joint Negotiating Council (NJNC);
- To recommend action to force the employer (government through CSC) to accede to their demands;

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- To establish synergies, strategic alliances with industry and commerce and other regional and international civil service unions (associations).

The National Joint Negotiating Council (NJNC) comprises members drawn from the Apex Council and from Ministries and Government Departments. The roles of the NJNC as stated in Section 4 of Statutory Instrument 141 of 1997 include:

- Receive representations from both sides represented in the Joint Council on any matter concerning employment in the Public Service.
- Review and negotiate salaries, allowances and conditions of service in the Public Service.
- Conclude and enter into agreements concerning salaries, allowances and conditions of service for submission to the Minister responsible for public service for his/her consideration.

The role of the associations ends with consultation alone and they do not have the final say in terms of the final outcome of salaries and allowances. The final say on salaries, allowances and benefits, according to Section 203 (4) of the Constitution rests in the President. Section 203(4) states that in fixing the salaries, allowances and other benefits of the civil service, the CSC must act with approval of the President given on the recommendation of the responsible Minister for Finance in consultation with the Minister responsible for the Public Service. Following the directive of the President, the CSC can then enter into any agreement with the employees.

The Health Services Act Chapter 15:16 covers (members) employees in the Health Sector. The Act establishes the Health Service Board and recognises the right of employees to form associations or organisation and engage in consultations with the Board if so recognised by the Minister. The Board in consultation with the Minister has power to fix conditions of service for the health service employees (s13). The right to strike is not recognised in terms of this Act or service regulations as the Health sector is classified as an essential service.

The Health Service Board serves government workers in the health sector. It is governed by the Health Services Act. The Chair of the NJNC currently chairs HSB. The Board works in consultation with the Minister of Health and its functions include:

- Appointing persons to offices, posts and grades in the Health Service;
- Creating grades in the Health Service and fixing conditions of service for its members;
- Supervising and monitoring health policy planning and public health;
- Inquiring into, and dealing with, complaints made by members of the Health Service;
- Supervising, advising and monitoring the technical performance of hospital management boards and State-aided hospitals;

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- Setting financial objectives and framework for hospital management boards and State-aided hospitals;
  - Handling appeals in relation to disciplinary powers exercised by hospital management boards, over members of the Health Service;
  - Assisting in resource mobilisation for the Health Service; and,
  - Exercising any other functions that may be imposed or conferred upon the Board in terms of the Act or any other enactment.

The wages and conditions of services negotiations in the health sector are determined by the Health Service Board Negotiation Panel (HSBNP). This Panel also has a structure with representatives from the Government and workers associations, also known as Apex. The Apex is made up of the various professional associations in the health sector.

The Judicial Service Act Chapter 7:18 applies to members (employees) in the administration of justice. The Act establishes the Judicial Service Commission, responsible among others for fixing conditions of service for its members (s5). The Act recognises the employees' right to freedom of association (s13) and consultations with regard to conditions of service (s11). The Act does not recognise the right to strike nor prohibit strike action and employees can use their constitutional right to strike.

The Defence Act, Prison Service Act and the Police Act govern members of the defence forces, prison service and police service, respectively. These members do not have the right to form trade unions or staff associations. The Conditions of service are imposed by the Defence Force Service Commission, Prison and Correctional Service Commission, Police Service Commission in consultation with the Minister responsible for Defence, Justice and Home Affairs, respectively. Section 65 (2) (3) of the Constitution of Zimbabwe prohibit these groups from enjoying the right to freedom of association and to strike.

The main challenge is the fragmentation of the legal framework within the public sector. This challenge can be addressed by harmonising these Acts with the main Labour Act to ensure that all workers in Zimbabwe are governed by one Act. This Act should allow the establishment of two negotiating structures, that is, one negotiating structure in the public sector and one in the private sector.

According to representations from the unions, the Government must align the Public Service Act with the Constitution and provide for collective bargaining for the respective civil service workers. The Ministry of Finance and Economic Development should strengthen its role in terms of timeous provision of yearly budget projections to parties involved in salary negotiations so that consultations are undertaken in a transparent manner, as opposed to the current scenario where negotiations and consultations are in most cases conducted in a vacuum.

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The existing system allows worker groups and organized professional associations to lobby for wage hikes in the absence of a formal process that accounts for cost of living growth and changes in the labour market in a haphazard manner. This has resulted in the public wage bill growth outstripping growth in economic growth which is not sustainable. Government could consider introducing an annual inflation adjustment. Periodic pay reviews should also be introduced whereby the Civil Service Commission (CSC) and the worker associations would negotiate adjustments to the pay scales in accordance with specific budgetary guidelines from the government. This process would allow authorities to make needed adjustments to the pay scales to accommodate changes in labour market conditions.

The following challenges exist within the institutional framework:

- There is lack of effective coordination among the key institutions being Ministry of Public Service, Labour and Social Welfare, CSC, NJNC and the HSB;
- Divergence of views within the Apex Council leading to lack of clarity on common positions and divisions thereof;
- There is no proper collective bargaining for civil service employees as compared with the private sector. For example, the output of the NJNC goes to the Minister as a recommendation; and,
- There is no coordination between the timing for salary consultations and the Budget process, thereby leading to anomalies in salary and conditions of service determination and outcomes (World Bank, 2013 and Uzhenyu, 2015).

## **5.2 The Private Sector**

Wage determination in the formal private sector has been the outcome of the activities of three key players – labour, employers and government, all with divergent and at times antagonistic objectives. Unions want to maximise wages, employers seek to minimize costs, while the government has often been viewed with suspicion by both sides, as its position has always been unpredictable. When Zimbabwe gained independence, minimum wages were unilaterally set by government from 1982 until 1988. The minimum wage structure was based on a two-tier system (domestic and agriculture, and industry and commerce) and was announced at the Workers' Day Rally on 1 May every year. However, in 1989, government allowed National Employment Councils (NECs) to negotiate within the range 5-16 per cent and in 1990, the negotiations started at 10 per cent, with the 'sky' as the limit. With the adoption of the Economic Structural Adjustment Programme (ESAP) in 1991, the collective bargaining arena was liberalized and NECs could negotiate any level of wage improvements according to what they had agreed on.

The Labour Act (Chapter 28:01) governs collective bargaining for all workers in the private sector and state enterprises (parastatals). It allows for the formation of trade



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unions as provided for in the Constitution under Section 21 (freedom of assembly and association). It provides structures and procedures for collective bargaining between employer or employer's organizations and worker's committee or trade unions.

Section 74 (2) of the Labour Act provides for trade unions and employers and employers' organisation to negotiate collective bargaining agreements (CBAs) on any conditions of employment which are of mutual interest to the parties. Section 74(3) (a) makes a provision for negotiating rates of remuneration and minimum wages for the different grades and types of occupations. This means that the workers and the employers can negotiate and agree on any issue as long as it relates to conditions of employment.

Collective bargaining in most sectors takes place at NEC level and in a few cases at company level through functional works councils. The negotiating committee carries out collective bargaining at NEC level and works councils at company level. NECs are a form of bipartite social dialogue platform at the industrial level. Section 57 of the Labour Act, states that the Minister of Public Service, Labour and Social Welfare may request any registered trade union and any registered employer's organisation to form an employment council and apply for registration (Madhuku, 2015). It comprises of equal representatives of employers drawn from a registered employers' organization or federation of employers' on one hand, and representatives of employees drawn from a registered trade union or federation of trade unions. The NECs play a critical role in Zimbabwe's industrial relations and social dialogue.

NECs are registered with the Registrar of Labour Relations in the Ministry of Public Service Labour and Social Welfare. By 2015 there were 45 registered NECs in Zimbabwe. The NECs receive their income through a statutory levy contributed by both employers and employees which is directly paid to the NEC. Some NECs also administer their own medical and pension schemes for their specific sector.

The major function of NECs is to negotiate, bargain and dialogue on labour market and welfare issues of a particular industry with a legal and registered Collective Bargaining Agreement (CBA) being the outcome (Nyamukapa, 2008). The CBA is a legally binding document, binding to all employers and employees falling within the scope of the industry, irrespective of whether the employers or employees belong to the respective trade union or employers' association. Section 75 of the Labour Act provides for an obligation to negotiate in good faith. Section 76 urges the employer to disclose his financial position hence inability to pay should be financially supported. Failure to negotiate in good faith is an unfair labour practice. Sections 80(2) and 82(1) (a) state that a CBA is considered legally binding when it first gets registered by the Registrar of Labour Relations and secondly when it is published by the Minister as a statutory instrument.

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Cross country evidence has shown that collective bargaining can help enterprises adapt to economic volatility and downturns through short-term adjustments and concessions on wages and other working conditions, while permitting a more expeditious alignment of wages with productivity gains when the economy recovers. In Germany for instance, strong industry-wide collective bargaining underpinned by close cooperation between the employers and employees made the timing of wage increases contingent on economic recovery explaining the low number of job losses during the crisis, in spite of a sharp economic contraction. As a result of the strong employer-employee cooperation employers kept their long term commitments to core workers and in return trade unions and works councils agreed to make concessions in terms of pay and working conditions.

To enhance efficiency in the collective bargaining structure, it is imperative to allow decentralized wage setting while keeping coordination to help the macroeconomic adjustment. A combination of national and firm-level bargaining helps to meet the twin objectives of achieving flexibility and coordination. Firm-level agreements can adjust wages to the specific conditions faced by firms. Industry-level agreements can set floors and, when needed, help the adjustment of wages and prices in response to major macroeconomic shocks.

The Wages and Salaries Advisory Board is chaired by the Director of Labour Administration in the Ministry of Public Service, Labour and Social Welfare. Its role is to make recommendations specifically for the domestic and unclassified sectors. As the name suggests, its role is purely advisory.

Whilst the institutional arrangements in the private sector are clear and sound, lately, it has been established that the CBA processes have faced a number of challenges in relation to the legislation. These include:

- Registration of a CBA takes long, which results in an impasse in implementation of agreed sectoral wages;
- Ministerial interference with the bargaining process where the Minister can solely give a directive for the CBA not to be registered;
- Some employers sometimes deliberately ignore directives from the NECs. For example, the Net One Court vs. Ministry of Labour and Public Services and the NEC case where the High Court made a decision pronouncing that an employer is not compelled to belong to an employment council;
- Lack of trust among the employers and the employees;
- The economic impasse resulting in a number of deadlocks and reference of cases for arbitration whose process takes forever long;
- Limited scope of NECs to wage negotiations only. NECs should also focus on dealing with the state of the economy and sectors, human resource development, issues of productivity and competitiveness.

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There is a consensus that institutional changes in national bargaining systems should be left primarily to their key actors, trade unions and employers. Many countries have already started a process of institutional transformation without abandoning collective bargaining at the sectoral level. They have recognised that bargaining agreements at the sectoral level can provide a framework for conditions of work and pay, while the actual terms and conditions for both individual firms and workers, agreed upon on firm level, can vary in accordance with competitiveness and productivity of the firm. However, in order to prevent a cost-cutting race to the bottom and to protect workers, a wage floor provided by sectoral agreements is indispensable.

Sectoral wage bargaining is especially appropriate for economies where small companies prevail. Negotiation costs become 'centralised' and harmful 'demonstration' effects or situations in which firms are bidding up wages against each other are avoided by sectoral wage increases that provide the function of constituting a 'fair' wage increase. Sectoral wage bargaining systems imply also a "peace-keeping" function by transferring wage conflicts between management and the workforce to a level above the firm. There are good reasons for leaving institutional changes in national bargaining systems primarily to their key actors, trade unions and employers rather than dictating a particular direction of reform that is not supported by empirical evidence. Refocusing sectoral collective bargaining to framework agreements which leave enterprises free to respond flexibly to market trends, provided they adhere to overall standards. The practice of administrative extension of agreements which impose inflexible conditions should be phased out.

Some of the limitations related to the provisions in the Labour Act (Madhuku, 2015) include:

- The workers and employers cannot agree on terms or standards that are lower than those provided in the Labour Act;
- The Minister has the power to direct the Registrar to refuse registering of a CBA. The Minister can direct the Registrar not to register the CBA until his/her concerns are addressed;
- Renewed negotiations should be undertaken within a period not exceeding 12 months;
- Collective bargaining on any issue does not necessarily mean an increase in wages as the agreement may end with an agreement to maintain the "status quo".

In addition, employees intending to go on strike must have a dispute of interest. The dispute must have been referred to conciliation and a certificate of no settlement must be issued by the conciliator (Section 93). Once the certificate is issued, employees must choose either to refer the dispute to arbitration or engage in a strike action provided they are not in an essential service. An essential service is described

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as 'any service the interruption of which endangers immediately the life, personal safety or health of the whole or any part of the public' and must have been declared so by the Minister in the government gazette. Employees must give 14 days' written notice to the employer and the employment council and the trade union in the industry if any.

Overall, rules and regulations emanating from the various legislations governing the operations within the labour market are usually poorly implemented and most often impotent. As noted earlier, regulations only partly cover the entire market as the large informal segment remains uncovered. In the covered segment, regulations are only effective to a limited extent in terms of compliance in the public sector; in the private sector the compliance level is low due to poor monitoring and implementation. A noticeable practice and trend across sectors in Zimbabwe is the phenomenon of contract employment, whereby firms are not engaging on permanent employment with remuneration that is below industry standards. In addition, contract workers lack access to benefits accruable to permanent and/or core workers. The overall effects of these have been lack of motivation for improved productivity among workers and widening of inequality gap in the country.

## **6.0 Analysis of the Poverty Datum Line (PDL) in Wage Setting**

When Zimbabwe attained independence in 1980, workers had high expectations that the new government would immediately address the inherited challenges in the labour market. In response to a series of strikes by civil servants the government responded by promulgating the Minimum Wage Act in 1980 with the aim of promoting security of employment and raising the standards of living of workers (LEDRIZ, 2011). The employers however, responded by retrenching workers. In line with its policy of protecting employees, the government adopted an Employment Act in 1980 which ordered stoppage of retrenchments and that no retrenchment would take place without the Minister's approval. Again, as a way of circumventing employment protection regulations, employers responded by employing casuals.

In an effort to address with the wider issues of incomes, prices and conditions of service, and addressing the inherited anomalies, the government established the Riddell Commission of Inquiry in 1980 under the chairmanship of Roger Riddell. The Commission came up with a number of key recommendations. On the minimum wages issue, the Commission recommended that the basis for determining minimum wages should be solely on the needs of the workers and their families and not on the place of work or the type of the work performed. Therefore, whether the person is a domestic or a factory worker, the criterion of need should determine minimum wages. In this light, the criterion of need was embedded in the concept of the PDL.

The PDL referred to that income required to satisfy the minimum needs of a family given the size and composition within a defined environment in a condition of basic

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physical health and social wellbeing. In the case of Zimbabwe, the PDL was based on an average family of six, a father, mother and four children. Based on the above, the Commission recommended targeted income paths for both urban and rural workers. The Commission also worked on a set of four assumptions which included that:

- Attaining PDL was based on the remarkable economic performance of the first one and a half years of independence;
- The Commission assumed a real rate of growth of 10 per cent which would enable a 40 per cent per annum increase in the living standards of the lowest paid sectors of the workforce;
- The PDL was based on a sustainable redistributive policy focusing on both reduction in internal inequalities and redirection of the productive focus of the economy;
- Wage targeting was based on:
  - i. an inward looking development strategy with less focus of resolving balance of payments disequilibrium in the short term;
  - ii. a land reform programme that would reduce rural urban migration and boost agriculture production and viability.

The Commission also recommended that by mid-1984 (three and a half years later), that the minimum wage should be 90 per cent of the PDL and the remaining 10 per cent would be a flexible element to permit rewarding human capital investment (LEDRIZ, 2011). It also stipulated that the top salaries be frozen (in real terms) until the minimum wage targets were achieved.

Unfortunately, the propositions by the Commission could not be realised owing to the poor performance of the economy following a three year consecutive drought period of 1982-84 coupled with the global economic recession. All this affected the success of the Commission's wage targeting. As a result, the government backed down from the "target wage" path and based on the general findings and recommendations of the Riddell Commission and instead adopted a sliding scale mechanism, whereby those at the bottom of the earnings structure received higher percentage increases, and vice versa.

Maximum ceilings beyond which no increase was granted were also fixed by government. From this period until 1988, minimum wages were unilaterally set by government, on a two-tier system (domestic and agriculture, and industry and commerce) and were announced at the Workers' Day rally on May 1 every year. In 1989, government allowed National Employment Boards and National Employment Councils (NECs) to negotiate within the range 5-16 per cent and in 1990, the negotiations started at 10 per cent, with the 'sky' as the limit (Kanyenze, 1993).

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The PDL for urban areas was fixed at Z\$128 (at December 1980 prices) and the minimum wage was US\$85 in 1981. For commercial farms the PDL was pegged at US\$77 (60 per cent of the urban PDL).

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Overall, the assumptions and recommendations by the Riddell Commission show that the use of the PDL solely to determine minimum wages does not work as other factors have to be taken into consideration, for example redistribution of wealth and productive resources and levels of economic growth. In order to achieve long term sustainability of wages both in the public and private sectors it is critical for the parties to look at all the factors that are relevant to negotiations in a holistic and comprehensive manner. There are two sets of factors that allow an “integrative” approach to collective bargaining, namely external or push factors; and internal or permissive factors. It is however, the internal factors (the permissive factors – ability-to-pay variables) that should define the final outcome of collective-bargaining processes. This will help achieve sustainable outcomes that do not exacerbate unemployment.

## **7.0 Employment Protection Legislation (EPL)**

Employment protection legislation (EPL), also known as job security rules, refers to the rules governing the hiring and firing of employees (initiation and termination of employment). These rules include the kinds of contracts permitted, the conditions under which workers' employment can be terminated, and the procedures for termination, including severance requirements. EPL provides job security by restricting the ability of employers to hire workers on an explicitly non-permanent basis and/or by making dismissal costly. Governments introduced these rules for two reasons: to provide insurance for workers against the uncertainty of job loss and to ensure that employers meet some standard of social responsibility in the sense of assuring some commitment to employees (OECD, 2004). It is argued that EPL increase the costs for the employer of adjusting their workforce and therefore can create a barrier to hiring. It is also argued that the administrative and judicial procedures used to implement EPL may result in long delays, while also making these costs unpredictable and thus difficult to offset through lower wages obtained at the bargaining table. Under such conditions, overly stringent EPL may have a negative impact on hiring decisions. The key issue for policy is how to reconcile the employers' need for flexibility in hiring and firing with that of workers for employment security.

Experiences from successful Nordic countries show that it is important to ensure that EPL is effectively co-ordinated with unemployment benefits and active labour market policies (ALMPs). This helps to reconcile a high level of flexibility for employers with employment security for workers. The Nordic model shows that that moderately strict EPL, when combined with a well-designed system of unemployment benefits while strongly emphasising active labour market programmes are the key ingredients to creating a dynamic labour market while also providing sufficient employment security to workers. In Denmark for instance, they have combined relatively high unemployment insurance benefits with a strong “activation” and moderately strict EPL. This is often referred to as the ‘flexicurity’ model. Owing to its moderately strict EPL, the mobility of workers between jobs and the rates of both job

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creation and job destruction are relatively high in Denmark. Job losers however receive generous unemployment benefits and job-search support (OECD, 2004). The focus in most European countries (including Denmark) is on placing strong emphasis on facilitating labour market dynamism while providing support to mitigate income losses following lay-offs through fostering the rapid re-employment of job losers (OECD, 2004).

When regulations on regular contracts remain overly strict, employers tend to recruit mainly through temporary contracts and are reluctant to convert these contracts into permanent ones. The result is an increased concentration of labour turnover on work-force groups who are over-represented in temporary jobs, potentially trapping some of them into a future of “precarious” jobs that implies high levels of employment insecurity, as well as under-investment in human capital which wastes part of their productivity potential.

## **7.1 Severance pay**

Section 12C of the Labour Amendment Act, 2015 sets a minimum retrenchment package of two weeks' pay for every year served. In South Africa the minimum retrenchment package is at least one week pay for every year served and in Zambia it is not less than two months' basic pay. However, an area of contention between the employers and employees is section 12 of the Labour Amendment Act which states that where an employee is to be disciplined for misconduct the employer is obliged to terminate that employee's contract on notice and accordingly compensate the employee in spite of the fact that the employee is found guilty of the misconduct. The practice in most countries is that an employer has the right to discipline an employee found guilty of any misconduct including dismissal without the payment of a retrenchment package. This effectively means that retrenchment is the only lawful way of terminating an employment relationship.

The new section 12C of the Labour Act applies to the retrenchment of one or more employees unlike the repealed old section 12C of the Labour Act which applied only to the retrenchment of five or more employees. In terms of section 12C (2) of the Labour Act, unless the employer and employees concerned, or their representatives, agree to better terms, the employer has the right to pay the affected employees a minimum retrenchment package of not less than one month's salary or wages for every two years of service as an employee or the equivalent lesser proportion of one month's salary or wages for a lesser period of service. Section 3 of the Labour Amendment Act allows the employer to apply for exemption if he cannot afford to pay the minimum package.

In terms of section 12C (3) of the Labour Act, should an employer allege financial incapacity and consequent inability to pay the minimum retrenchment package timeously or at all, the employer has the right to apply in writing to be exempted from

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paying the full minimum retrenchment package or any part of it either to an employment council or, if there is no employment council, the retrenchment board. If the employment council or retrenchment board fails to respond to the request for exemption within fourteen days of receiving the notice, the application is deemed granted.

If the employer succeeds in an application to be exempted from paying the full minimum retrenchment package, the employer can retrench the concerned employees and such employees can leave empty handed. Also due to bureaucracy that normally characterize the operations of employment councils and the retrenchment board, once fourteen days elapse from that date the employment council or retrenchment board receives the employer's written application for exemption, that application for exemption will stand granted by operation of the law as provided for in terms of section 12C(3) of the Labour Act.

## **7.2 Dismissals**

In terms of section 12(4a) of the Labour Amendment Act No. 5 of 2015, an employer's right to terminate an employee's contract of employment on notice is now strictly limited to four scenarios namely; (a) termination in terms of an employment code or, in the absence of an employment code, in terms of the model code made under section 101(9); or (b) the employer and employee mutually agree in writing to the termination of the contract; or (c) the employee was engaged for a period of fixed duration or for the performance of some specific service; or (d) pursuant to retrenchment, in accordance with section 12C. Outside the aforementioned four instances, an employer does not have any legal right to terminate a contract of employment on notice. The common law right that existed formerly in favour of employers to terminate a contract of employment on notice is now a thing of the past as it was abolished by section 12(4a) of the Labour Amendment Act No. 5 of 2015 with effect from 17 July 2015.

## **7.3 Paid annual leave**

The Labour Act allows employees 180 days (sick leave); 30 days (vacation leave), 12 days (special leave) and 98 days (maternity leave). Employers view this as excessive as they argue that an employee can potentially be on paid leave for 320 days out of the 365 days in a calendar year. Paid maternity leave is granted once during a period of twenty-four months calculated from the day the previous maternity leave was granted, and the law limits the number of times maternity leave can be availed to a worker while working for the same employer to three. On the other hand, in South Africa women are entitled to four months maternity leave without pay. However, if they had been contributing to Unemployment Insurance Fund (UIF), they are eligible for a maternity benefit of up to a maximum amount of 60% of their remuneration which they claim from government.



**Table 5: Allowable annual leave days**

	<b>Zimbabwe</b>	<b>Zambia</b>	<b>South Africa</b>
Annual leave days	30 days on full pay	24 days on full pay	21 days on full pay
Sick leave days	90 days on full pay and another 90 on half pay Total 180 days	90 days on full pay and another 90 on half pay  Total 180 days	14 days on full pay
Maternity leave	98 days	120 days	120 days without pay
Special leave	12 days		
Total for female	320 days	324 days	155 days
Total for males	222 days	204 days	35 days

## 7.4 Overall payroll taxes

Minimum wages and payroll taxes both contribute to the labour costs facing employers of low-wage workers. When either is raised, employers must decide whether to retain those workers who have become more expensive to employ as a result. The highest marginal tax rate in Zimbabwe is currently 50 per cent and applies to earnings/incomes over \$20,001 per month. The National Social Security Authority (NSSA) contribution rate by both the employer and employee will be 3.5% making a total of 7%. The AIDS levy is also levied on taxable income at a rate of 3%. Table 6 shows a comparison of the allowable payroll deductions in Zimbabwe, South Africa and Zambia.

**Table 6: Allowable payroll deductions**

Zimbabwe	South Africa	Zambia
Pay as you earn (20%)	Pay as you earn (0.03%)	Pay as you earn (25%)
NSSA (3.5%)	UIF (1%)	Max Pension (\$25.18)
Tax free threshold \$300	Tax free threshold \$478	Tax free threshold \$323
Highest Marginal Tax Rate (50%)	Highest Marginal Tax Rate (34.6%)	Highest Marginal Tax Rate (27.5%)

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## 8.0 Public Sector Wage Bill and its Implications

Public sector employment accounts for a significant share of the labour force. Trends and developments in public sector wages have an impact on the labour market, competitiveness, public finances and the overall economy. As shown in Table 7, total government revenue including grants as a percentage of GDP declined from 28.2% in 2012 to 23% in 2017. On the other hand, total government expenditure as a percentage of GDP increased from 29.5% in 2012 to 37.6% in 2017. Total recurrent spending as a percentage of GDP increased from 24.7% in 2012 to 27.7% in 2017. The public wage bill as a percentage of GDP rose from 15.2% in 2012 to 20.1% in 2017. Zambia had a public wage bill of 10.1 per cent of GDP in 2014 while in Kenya it was 10.2 per cent of GDP as at 2011 (KIPRA, 2013; ZIPAR, 2016). Clearly therefore, the public sector wage bill is now compromising fiscal and debt sustainability, and jeopardizing growth by generating excessive deficits and crowding out growth-enhancing public investments. The public wage bill as a percentage of GDP ratio provides a measure of the share of the total measured domestic output that goes to covering the cost of engaging public service employees. Public sector wage bill as a percentage of total expenditures rose from 59.6% in 2014 to about 65.6% in 2017. The employment costs as a percentage of total expenditure ratio provides an indication of the burden of engaging public service employees poses to the budget and ultimately to taxpayers. Growth in the public sector wage bill has also far outstripped growth in real GDP.

It is noteworthy that a significant number of senior public servants have access to hidden allowances (e.g. petrol, travel allowances) and in-kind benefits (e.g. vehicles) on top of their regular pay, drawn from other budget line items. Existing figures therefore are likely to understate the actual public service wage bill. However, reducing the public sector wage bill is regarded as one of the most difficult austerity measures for governments to undertake (Shepherd 2003; Nooruddin and Vreeland 2010). It has been argued that expenditure on public sector employment provides a useful political role. It can help to assure political stability by providing work to educated people in urban areas and is a valuable source of patronage. Public sector jobs also serve as an important social insurance mechanism, particularly in small open economies vulnerable to shocks as they constitute a large share of non-agricultural employees in most developing countries (Rodrik 2000). Public sector jobs are also a source of patronage used to buy the support of vital constituencies (Shepherd 2003; Nooruddin and Rudra 2009; Nooruddin and Vreeland 2010). Given these political dynamics, it is unsurprising that governments try to protect spending on wages and salaries, even when they face heavy debt burdens (Mahdavi, 2004).

A civil service audit carried out between February and April 2015 with a view of establishing legitimately employed personnel, and weed out 'ghost workers' from the civil service payroll made recommendations for reforms to meet government's

target of reducing the wage bill from 80 percent to under 40 percent of revenue. This is however not enough as a physical head count of civil servants is open to manipulation and fraud. The government should make use of modern identification technologies which captures biometric data to improve payroll administration and weed out 'ghost employees.'

**Table 7: Government revenues and expenditures**

	2012	2013	2014	2015	2016	2017
Revenues and Grants (% of GDP)	28.2	27.7	26.5	23	21.7	23
Government Expenditure (% of GDP)	29.5	32.3	28.4	28.3	30.5	37.6
Recurrent Expenditure (% of GDP)	24.7	28.5	25.8	22.4	24.5	27.7
Recurrent Expenditure (% of Government Expenditure)	86.8	86.7	91	93.3	80.4	73.8
Capital Expenditure (% of GDP)	3.4	4.5	2.6	2.4	6	9.9
Capital Expenditure (% of Government Expenditure)	12.2	9.4	8.8	7.4	19.7	26.2
Public Sector Wage Bill (% of GDP)	15.2	15.4	16.3	16.0	17	20.1
Public Sector Wage Bill (% of Government Expenditure)	59.6	57.7	64.2	62.1	65.5	65.6
Growth in Public Sector Wage Bill (%)	9	9.8	10.2	-0.2	24.5	5.8

**Source:** Own calculations based on Ministry of Finance data.

## 9.0 The Role of Trade Unions

Trade unions play a crucial role in labour markets as they provide checks and balances on the excessive market power of firms. Scholars such as Freeman and Medoff (1984); Kuhn (1985) and Allen (1984) have emphasised the positive role that unions can play in enhancing operations and labour relationships within establishments. They argue that legally protected unions can freely express their members' preferences in the workplace, improving communication between employers and employees, inducing managers to alter methods of production and adopt more efficient personnel policies. In turn they can also reduce potential transaction costs associated with turnover, training and recruiting, monitoring and enforcement in the workplace.

The positive outcomes from the union's collective voice are constrained to positive and cooperative relationship between management and organized labour. Black and Lynch (2001) and Bloom and Van Reenen (2011) find that negative union productivity effects are driven by unionized plants with traditional management systems, while positive effects are found among those (few) union establishments that adopt "best-method" human resources practices such as incentive pay. As Kuhn (1998) and others have argued, negative productivity effects have been typically found in environments of union and management conflict. In countries

where unions have had a positive effect on productivity such as Argentina, the unions had access to financial information of the employers which is then used during bargaining. Access to this information allows unions to better internalize the cost of increasing wages, providing incentives to engage contracts that benefit both workers and employers (Anner, 2008). Hence, unions are better able to internalize their externalities, facilitating their input in production process decisions

Trade union membership in Zimbabwe has generally been on the decline owing to deindustrialisation and informalisation. Table 8 shows the ZCTU membership as well as the union density (%) over the period 2006 to 2017. While union membership stood at 244,622 (25.7 percent of contributors to the National Social Security Authority – NSSA) in 2006, it increased by 2.3 percent to 250,131 (26.3 per cent of contributors to NSSA) in 2007. Since 2007 union membership has been on a decline. Union membership declined to 137,754 (12.2 per cent of NSSA contributors) in 2013 and 89,818 (7.5 per cent of NSSA contributors) in 2017.

**Table 8: ZCTU Membership and Union Density.**

Year	Total ZCTU Membership	Total NSSA Contributors	Union Density (%)
2006	244,622	953,120	25.7
2007	250,131	950,372	26.3
2008	242,883	961,106	25.3
2009	241,998	959,181	25.2
2010	219,160	1,000,361	21.9
2011	168,099	1,047,348	18.1
2012	182,058	1,089,836	16.7
2013	137,754	1,131,357	12.2
2014	116,425	1,172,891	9.9
2015	107,673	1,210,340	8.9
2016	96,434	1,233,106	7.8
2017	89,818	1,201,304	7.5

**Source:** LEDRIZ unpublished data.

The downward trend of union density since 2007 has been driven at a sectoral level, primarily by declining membership numbers in the key sectors of the economy such manufacturing and mining sectors.

## 10.0 Wages, Productivity and Unit Labour Costs

Table 9 shows minimum wages across a number of sectors, the Poverty Datum Line (PDL) and the per capita income levels over the period 2011-2018. There are significant variations across sectors, with the agriculture being the lowest paying sector while the banking sector is the most rewarding.

**Table 9: Trends in minimum wages (\$), 2011-2017**

Sector	2012	2013	2014	2015	2016	2017	2018
Agriculture	59.00	65.00	72.00	72.00	72.00	75.00	75.00
Banking	633.49	633.49	636.00	636.00	636.00	636.00	636.00
Cement and Lime	298.10	314.50	328.70	338.50	338.50	345.30	355.60
Clothing	155.09	166.57	166.57	166.57	166.57	166.57	166.57
Construction	258.72	276.32	310.76	310.76	310.76	310.76	310.76
Commercial			246	246	253	253	253
Detergents, Edible Oils and Fats	192.24	202.81	202.81	202.81	212.88	212.88	212.88
Engineering	240.00	270.00	275.40	275.40	275.40	275.40	275.40
Food Processing	242.35	246.89	246.89	246.89	246.89	259.44	264.63
Hotel and Catering	175.00	186.00	275.00	275.00	275.00	275.00	275.00
Soft Drinks	211.00	237.00	241.74	241.74	241.74	241.74	241.74
Baking	-	230.00	235.00	241.00	244.00	248.00	255.00
Poverty Datum Line (PDL)	539.8	504.05	506.25	491.25	478.9	509.05	-
GDP Per Capita (current US\$)	968.16	1,026.39	1,031.10	1,033.42	1,029.08	-	-

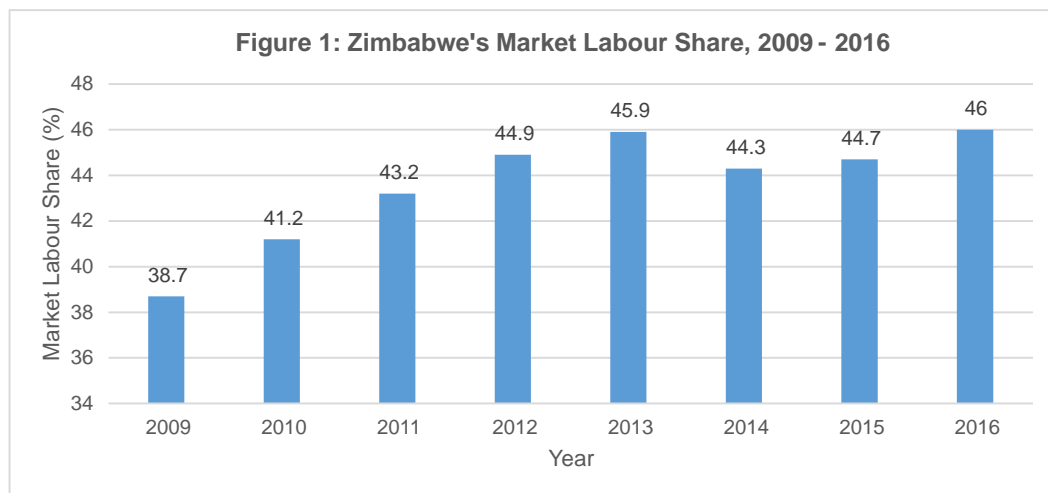
Table 10 shows a regional comparator analysis of the minimum wages in the construction sector as at 2017. Zimbabwe offers the highest minimum wage at US\$310 followed by South Africa at US\$242.88 and Namibia at US\$214.72.

**Table 10: Minimum Wages in Construction Sector (Selected Countries)**

	Zimbabwe	South Africa	Namibia	Mozambique	Zambia	Botswana	Malawi
Minimum Wage in US\$ (2017)	310.76	242.88	214.72	89.34	108	102.08	30

**Source:** 2018 Position Paper of the Construction Industry Joint Industrial Commission (JIC).

The market labour share for Zimbabwe has been fairly stable averaging about 44% over the period 2009-2016. The labour income share (or labour share) is the part of national income allocated to labour compensation, while the capital share is the part of national income going to capital. As shown in Figure 1, the labour share rose from 38.7% in 2009 to 46% by 2016. The increase in the labour market share is reflective of rising wage compensation. This rise is not in line with trends in total factor productivity (see Table 11).



**Source:** Own calculations based on ZIMSTAT data.

Table 11 shows the trends in total factor productivity (TFP) for Zimbabwe, South Africa, Mauritius, Mozambique and Botswana over the period 2006-2010. TFP is a measure of factor competitiveness. Zimbabwe has lagged behind the other countries in terms of TFP as shown in Table 10. The TFP level for Zimbabwe reached a peak of 0.29 in 2009 and declined to low of 0.16 in 2011 before rebounding to 0.20 in 2013 and slightly declined to 0.20 in 2014. This is on account of a number of factors that include inadequate infrastructure and R&D investments at national level as well as obsolete plant and machineries at firm level among others. Capital accumulation and technological innovation are the best ways to improve productivity.

Table 11: TFP level at current PPPs (USA=1), 2006-2014

Year	Zimbabwe	South Africa	Mauritius	Mozambique	Botswana
2006	0.25	0.74	0.80	0.43	0.83
2007	0.26	0.74	0.83	0.43	0.74
2008	0.19	0.70	0.78	0.42	0.70
2009	0.29	0.66	0.77	0.41	0.60
2010	0.23	0.63	0.72	0.38	0.59
2011	0.16	0.59	0.69	0.33	0.59
2012	0.18	0.57	0.68	0.31	0.55
2013	0.20	0.55	0.66	0.33	0.53
2014	0.20	0.53	0.67	0.34	0.57

**Source:** Feenstra, Robert C., Robert Inklaar and Marcel P. Timmer (2015), 'The Next Generation of the Penn World Table' *American Economic Review*, 105(10), 3150-3182, available for download at [www.ggd.net/pwt](http://www.ggd.net/pwt)

The country also suffers from high unit labour costs. As shown in Table 12 unit labour costs are generally high in the country. According to the 2015 CZI Manufacturing Sector survey the percentage of labour costs to direct costs is 22 percent while total employee cost as a percentage of total input costs is 28 percent.

Table 12: Nominal Unit Labour Costs

	2012	2013	2014	2015	2016
Total Economy	0.45	0.46	0.45	0.45	0.46

**Source:** Calculations from ZIMSTAT

However, labour costs cannot be considered in isolation as a determinant of competitiveness. Switzerland, for example, ranks at the top of the World Economic Forum's Global Competitiveness Index (GCI). Switzerland has an outstanding business environment, rich technical and management skills and excellent location. It can sustain a large manufacturing industry which is not based on natural resources, despite its relatively very high costs of labour. Other important key determinants of the country's investment environment include: policy quality and predictability, administrative capacity, human, institutional and governance capital, physical and financial infrastructure, and location.

Table 13 shows the industry value added per worker for Zimbabwe, Zambia, South Africa, Malawi, Mozambique, Botswana, SSA and the World over the period 2006 to 2017. Value added per worker is an important measure of worker productivity in an economy. Botswana has the highest value added per worker, followed by South Africa and then Zambia is third as at 2017.

**Table 13: Industry (including construction), value added per worker (constant 2010 US\$)**

	Zimbabwe	Zambia	South Africa	Malawi	Mozambique	Botswana	SSA	World
2006	4124.30	13947.85	27588.52	1324.16	5755.86	49459.98	11236.9	24828.05
2007	3930.91	14639.41	27606.12	1372.20	5970.353	45398.75	11209.62	25947.7
2008	3126.32	14490.48	26860.25	1581.33	6059.783	42398.9	10811.58	26089.05
2009	3428.35	14957.68	26620.03	1899.54	6257.078	28448.44	10240.79	24933.55
2010	4029.11	15202.29	29756.02	2048.81	6193.751	44338.42	10299.88	26671.69
2011	4904.15	13707.45	29978.26	2107.70	6169.185	40594.92	10392.96	27110.65
2012	5591.75	12552.52	30347.27	2082.13	5908.495	37739.18	10454.4	27297.72
2013	6066.92	12459.97	29994.07	2049.90	5861.352	41280.86	10577.95	27997.26
2014	6186.30	11862.23	29628.08	2090.33	5991.841	40303.43	10408.38	28688.32
2015	6092.83	11286.75	28329.68	2062.63	6663.934	35554.58	10157.65	29289.24
2016	5803.16	11250.72	28759.09	2022.0	6815.207	35978.66	9807.627	29979.8
2017	5894.87	11592.05	29068.29	1981.60	6916.93	33767.17	-	-

Source: World Development Indicators.

Table 14 shows the GDP per person employed over the period 2006 to 2017 for Zimbabwe, Zambia, Malawi, Mozambique, Botswana, SSA and the World. GDP per person employed measures output per unit of labour input and is a measure of labour productivity. As at 2017, South Africa had the highest level of labour productivity, followed by Botswana and Zambia.

**Table 14: GDP per person employed**

	Zimbabwe	Zambia	South Africa	Malawi	Mozambique	Botswana	SSA	World
2006	3435.92	6905.69	39324.9	2245.50	2201.99	36205.79	8258.10	27765.48
2007	3256.11	7286.92	40418.47	2378.61	2316.43	38196.9	8581.70	28836.13
2008	2634.81	7587.20	40086.35	2472.71	2426.76	39536.43	8775.19	29390.18
2009	2815.09	8352.58	40771.19	2584.71	2533.06	35410.4	8823.68	29101.72
2010	3190.92	9274.68	43332.29	2662.41	2656.98	40198.84	9070.75	30328
2011	3632.24	9201.73	44049.42	2691.27	2806.79	38875.46	9189.09	31172.04
2012	4028.44	9419.00	44009.74	2638.28	2973.40	37586.17	9242.64	31805.11
2013	4134.25	9559.02	43769.28	2666.53	3121.75	39135.92	9404.72	32454.57
2014	4141.08	9664.96	43772.26	2727.18	3343.86	39786.13	9588.54	33139.72
2015	4093.40	9605.22	42781.62	2713.49	3458.15	38165.6	9604.36	33829.96
2016	4016.48	9593.68	43002	2692.88	3477.31	38600.29	9513.92	34493.89
2017	3615.86	9490.29	42440.49	2645.84	3428.33	38022.84	9267.60	34609.41

Source: World Development Indicators.



Table 15 reports the trend in real average earnings index for the period 2009 to 2014. The earnings data includes all costs related to employing workers beyond the wage. The average real earnings index for the whole economy has markedly declined from 159 in 2010 to 95.7 in 2014. This seems to confirm that real average earnings in Zimbabwe have been more downwardly flexible than previously thought and have been surprisingly responsive to unemployment rates and the weakening economy in general. The fall in real average earnings also reflects a weakening economy.

**Table 15: Real Average Earnings Index (2009-2014)**

Sector	2009	2010	2011	2012	2013	2014
Agriculture	100	106.7	96.7	95.3	113.3	126.7
Mining	100	270.8	112.5	114.8	107.8	114.5
Manufacturing	100	130.7	108.3	112	104.9	105.3
Electricity & Water	100	98.7	171.7	107.3	121.8	98.9
Construction	100	182.5	98.6	128.1	131	66.9
Financial Services & Real Estate	100	223.2	111.1	124.7	131.7	78.5
Distribution	100	211.3	106.6	109.7	95.1	94
Transport & Communication	100	149.5	119.2	147	95.2	104.3
Public Administration	100	143.6	171.4	106	123.5	98.2
Education	100	142.6	157	98.9	100	100
Health	100	414.3	146	185.9	105.1	77.5
Private Domestic Services	100	435.8	12	135.2	105.9	104.8
Other	100	53.2	139	123.8	139.9	76.5
Total	100	159	119.7	113	111.5	95.7

Source: ZIMSTAT

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## **I I Conclusion and Recommendations**

The analysis revealed that unit labour costs and the public sector wage bill are generally high in Zimbabwe. The analysis also revealed that real wages are in fact flexible contrary to popular belief. While it can be argued that labour unions may constitute a significant source of labour market rigidities in Zimbabwe, however evidence suggests that, as with the regulations on hiring, firing, and working hours, this is unlikely to be a significant barrier to the expansion of decent employment. If for no other reason, this is because unions represent a small and diminishing portion of Zimbabwe's labour force. Union membership in the private formal sector is less than 20 per cent of total employment. Importantly, employers are able to resort to a number of strategies that include the use of contract employment.

Moreover, only a very small minority of firms (4.4%, according to the World Economic Forum, 2017-18 World Investment report) identify restrictive labour regulations as a major obstacle. Therefore, making employment protection rules more flexible than they are is unlikely to have a significant impact in terms of addressing Zimbabwe's overall competitiveness and employment challenges. Ultimately, infrastructure, policy instability, tax administration, and corruption are likely to be more binding constraints to the country's development than labour regulations. According to the 2017-2018 Global Competitiveness Report by the World Economic Forum (WEF), the most problematic factors for doing business in Zimbabwe include (in order of their importance): policy instability (19.3 per cent); foreign currency regulations (15.9 per cent); inefficient government bureaucracy (13.6 per cent); access to finance (10.5 per cent); corruption (9.2 per cent); government instability (8.8 per cent); inadequate supply of infrastructure (8.3 per cent); tax rates (4.6 per cent); restrictive labour regulations (4.4 per cent) and tax regulations (4.1 per cent) among others.

More comprehensive reform packages are likely to be more effective in reducing unemployment than 'piece-meal' labour market reforms (Belot and van Ours, 2004; Coe and Snower, 1997; Elmeskov et al., 1998; Fitoussi et al., 2000; Orszag and Snower, 1998). This would arise, in particular, in the presence of reform complementarity or, more generally, when policy changes interact with each other. Importantly, tripartite consultations and collective bargaining are the best way to determine labour market policies and to achieve positive labour market outcomes.

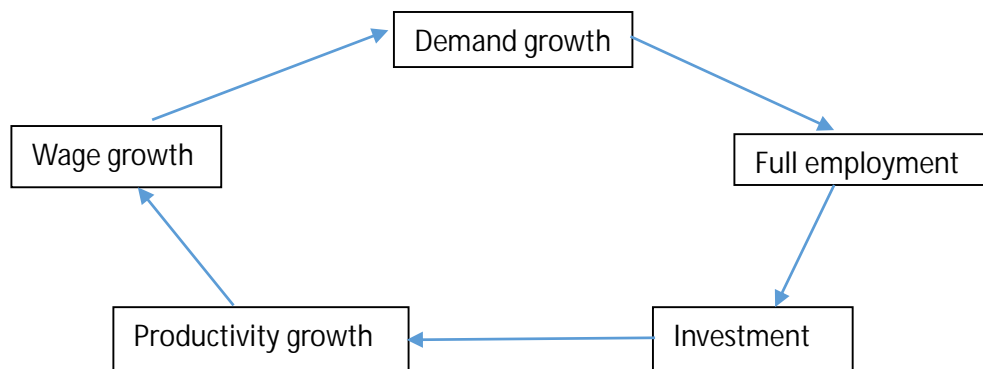
The policy implications and recommendations arising from the analysis include:

### **I I.1 Increase capital accumulation to improve productivity**

Capital accumulation and technological innovation are the best ways to improve productivity. Productivity growth should drive wage growth, which should fuel demand growth and transition the economy towards full employment. This provides

an incentive for investment, which should further drive productivity growth (see Figure 2). Public and private capital accumulation becomes important ingredients to improve productivity and labour market conditions in the country. Arestis and Biefang-Frisancho Mariscal (2000) showed that capital formation is an important variable in the determination of unemployment and wages growth.

**Figure 2: The 1945-80 Virtuous circle growth model**



Source: Palley. T (2015)

## 1.1.2 Adopt growth-friendly tax reforms to lower labour costs

It has been found that high taxes on labour income depress labour supply and can reduce firms' labour demand by driving up the cost of labour (due to high employers' contributions or payroll taxes). Tax reforms can impact economic growth also via private investment and productivity (Arnold et al., 2011; Bouis et al., 2012). A more growth-friendly tax system can be achieved by shifting the tax burden away from direct income toward consumption, immovable property and the environment. Personal and corporate income taxes, as well as social security contributions, are the most distortive taxes as they have sizable adverse effects on labour use, productivity and capital accumulation. Shifting the tax mix away from such taxes and towards recurrent taxes on immovable property (the least distortive to the labour market) and consumption taxes should thus raise living standards (Johansson et al., 2008) and help to lower the labour costs.

It is therefore imperative to reduce labour taxes on labour in general as a way of reducing non-wage labour costs. It has been shown that high tax rates on labour income tend to depress labour supply and effort, by driving a wedge between marginal productivity and the reward for work. To the extent that high personal income taxes and consumption taxes translate into higher wages, as wage earners succeed in shifting the tax burden onto employers, the resulting increase in labour cost will have adverse effects on employment. Finally, a high tax burden on labour creates an incentive to resort to the shadow economy.

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### **I 1.3 Promote transition to formality**

Improving labour market outcomes also entails dealing the high levels of informalisation. The government should reduce informal employment by lowering the cost of transitions to formality through the creation of an enabling policy and regulatory environment that reduces barriers to formalization, while protecting workers' rights and increasing the benefits of being formal by promoting a greater awareness of the advantages and protection that come with formalization (business development services for MSMEs, access to the market, productive resources, credit programmes, and training and promotional programmes to upgrade informal economy units).

Zimbabwe can learn from countries such as Colombia and Brazil that have successfully reduced the levels of informalisation significantly through well-coordinated policies. According to the ILO (2013), in Colombia, for instance, Act No. 1429 provides MSMEs with incentives to formalize their structures through tax reductions and to create new employment, particularly for vulnerable groups such as young workers under the age of 28. Measures to increase productivity include modernizing the institutional framework for MSMEs, improving their access to financial markets and providing assistance for technological development.

In 2010, the General Act on MSMEs in Brazil created the legal concept of 'individual micro-entrepreneur' and simplified registration, with a single contribution giving access to social security, medical care and maternity leave. A certificate issued to formal individual micro-entrepreneurs facilitates their access to markets and credit. It is estimated that 3 million workers have been formalized in this way. In Chile, the 2006 SME Act constitutes an important step towards a more enabling environment for the formalization of MSMEs and introduces a series of changes in the regulatory framework and in SME support services.

### **I 1.4 Resuscitate the National Productivity Institute (NPI)**

To ensure that wages are linked to productivity, the government should resuscitate the National Productivity Institute (NPI) as a basis of coming up with national and sectoral scientific benchmarks to guide productivity bargaining. The NPI is a tripartite organisation with representation from the government, employers' and employees' organisations established to promote a productivity culture and consciousness in Zimbabwe. The NPI should develop, disseminate knowledge and experiences in productivity, for promoting consciousness and improvement in productivity, with the objective of strengthening the performance and competitiveness of the economy as well as of improving the working conditions and quality of life. A fully functional NPI should provide an empirical, reliable and credible database for decision making including collective bargaining purposes. Other objectives of the NPI should include: to improve the productivity and economic performance of the economy; to

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promote the development of efficient and internationally competitive Zimbabwean industries; to facilitate adjustment to structural change; and to promote productive employment of resources. For effectiveness and national ownership of the NPI and its outcomes, there is need to inculcate social dialogue and inclusiveness principles.

### **I 1.5 Strengthen the Tripartite Negotiating Forum (TNF)**

It is imperative for the country to prioritise and expedite the strengthening of the Tripartite Negotiating Forum (TNF). The TNF would need to be legally instituted as well as supported by an independent secretariat. The capacity would also need to be strengthened with extension of issues beyond labour market issues but also broad development issues. Participation in the TNF should be broadened to include all the key stakeholders and coverage should extend beyond labour market issues. "Successful social dialogue structures and processes have the potential to resolve important economic and social issues, encourage good governance, advance social and industrial peace and stability and boost economic progress." (ILO, Social Dialogue, 2007). The TNF should be a basis for negotiating a social contract that promotes a balanced approach between security of workers and flexibility in the labour market.

### **I 1.6 Reforming the NECs to focus on non-wage issues**

It is critical that the role of the NECs be realigned so that they do not just focus on wages but also consider issues of human resources development, productivity and competitiveness (permissive factors) at both the sectoral and national levels. Additionally, NECs should:

- Facilitate the development of social plans through social dialogue. Social plans incorporate re-training, re-skilling and re-deployment programmes of retrenched workers. This will ensure employment security and integration of retrenched workers into the mainstream economy. Lessons can be drawn from the South African experiences on social plans.
- Strengthen monitoring and compliance mechanisms of sectoral agreements.
- Design strategies for strengthening value chains and systems in their particular sectors as a way of encouraging and promoting the integration of the informal sector.

### **I 1.7 Adopt Integrative Collective Bargaining in both Public and Private Sectors**

An integrative collective bargaining process must be adopted to ensure long term sustainability of wages both in the public and private sectors. This approach entails considering all the factors that are relevant to negotiations in holistic manner. There

are two sets of factors that allow an “integrative” approach to collective bargaining, namely external or push factors; and internal or permissive factors indicated in Table 16. What is critical in integrative bargaining is that while the external factors are used by workers to push for a favourable outcome, for that outcome to be sustainable, it must be within the limits set by the internal factors, hence their reference as permissive factors, that is, the ability to pay.

When wages are set using the external /push factors only, they may result in inflationary pressures and consequently an unsustainable scenario. A case in point lately was when wages were determined through arbitration without much consideration of the permissive factors thus, resulting in many companies failing to pay these wages. Therefore, integrative collective bargaining limits such challenges especially when it is done in a transparent, socially inclusive (social dialogue) manner.

**Table 16: Integrative Bargaining - External Versus Internal Factors**

<b>External/Push Factors</b>	<b>Internal/Permissive Factors</b>
<ul style="list-style-type: none"> <li>i. Variables derived from outside the company or sector where negotiations are taking place, but impact on the well-being of the workers or sector.</li> <li>ii. Examples include inflation, PDL, Food Poverty Line (FPL), comparative indicators (e.g. inter-industry and inter-country comparisons), among others.</li> <li>iii. They impact on workers’ well-being and hence are used to push for a favourable outcome.</li> </ul>	<ul style="list-style-type: none"> <li>iv. Factors derived from the sector or industry or firm where negotiations are taking</li> <li>v. They indicate the ability to pay</li> <li>vi. Examples include: productivity, profitability, rate of return on investment, among others.</li> </ul>

**Source:** Table derived from WB Discussion Document: Public Service Employment and Wage Bill Issues and Options Paper, January 2013.

### **I 1.8 Link public sector wages to performance**

In particular, public sector wages (including parastatals and local authorities) should be linked to levels of performance, competencies and productivity. This will require clear mechanisms for measuring performance index for the various grades of employment and sectors. The two dimensions of job evaluation and performance should form a basis for pay determination. The wage structure should contain basic pay, which reflects the value of the job; productivity-based pay (bonus), which acts as a variable payment to compensate for productivity (performance); and a seniority element to compensate for long service, loyalty and experience.

Institutions originating from the various legislations governing the operations within the labour market are usually poorly implemented and most often ineffective.

Regulations partly cover the entire market with the large informal segment being uncovered. In the covered segment, regulations are only effective to a limited extent, in terms of compliance, in the public sector; whereas, in the private sector the compliance level is low, due to poor monitoring and implementation.

### **I I.9 Alignment of the Public Service salary negotiations with the National Budget Process**

There is need to ensure that the public service salary negotiations are synchronised with the national budget process. The fact that the Public Service wage bill is part of the expenditure component of the national budget, outputs from the salary consultations should inform the national budget expenditures. Thus, there is need to institute a framework to set the time frames for wage setting that allows inputs from consultations to be incorporated in the national budget. This institutionalised framework should be respected by all parties and helps to ensure transparency during the salary consultations. It further limits distortions in salary determination and keeps wage bill expenditure in line with national income.

### **I I.10 Harmonisation and effective coordination of institutions dealing with wage determination in the Public Sector**

The various institutional frameworks for wage consultations and bargaining for various sub-sectors in the civil service are noble and should be maintained since each sub-sector has peculiar needs and interests. However, what is required is to ensure effective coordination between the Ministry of Public Service Labour and Social Welfare, CSC, NJNC and HSBNP. This will limit divergence of views and ensures clarity of purpose. In order to do this, the NJNC and the HSBNP should be merged as the centre voice for workers in the public sector on common issues of basic salaries and allowances since the two institutions have similar bipartite structures. Specific sectoral interests can be dealt with by the sectoral associations.

### **I I.11 Reforming Labour Legislation in the Public Sector**

Given the plethora of legislation governing the public sector which are also a source of lack of coordination within the public sector, there is need to harmonise these Acts with the main Labour Act. This process was once spearheaded by the tripartite social partners in 2010 but was abandoned. There is need for the social partners to revisit this process. Harmonisation of these Acts should also inform harmonisation of the institutions dealing with salary negotiations.

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