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Wage subsidies can encourage women's formal employment in Zambia

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Key messages

- A wage subsidy program that targets women can increase their participation in the formal sector, as well as increasing production and household income.
- The number of women employed in the Zambian formal sector is low, contributing to the low level of women's empowerment in the country.
- Focusing the wage subsidy program in sectors that are female-labour intensive can increase women's employment formality and economic empowerment.

Efforts to increase women's employment formality in Zambia

Improving women's empowerment is a priority for the Zambian government. Through its development road map, the Seventh National Development Plan (7NDP) for 2017 to 2021, the government aims to design and adopt policies that will increase women's participation rate in the formal sector.

Under the 7NDP, the number of women working in the formal sector has increased by 28.6% but the government is aiming for a 45% increase by 2021. The increase in women's formal sector employment has been very slow. Women continue to be concentrated in the informal sector where they are not fully empowered, nor do they benefit from higher wages, social security and other entitlements.

The analysis

To identify an effective wage subsidy program to increase women's employment in the formal sector, the research team used a Computable General Equilibrium (CGE) model to simulate four wage subsidy scenarios with different financing options:

1. **Wage subsidy** to encourage female workers in the formal sector: the government provides funding to formal sector businesses to reduce their labour cost of employing a woman.
2. The wage subsidy is financed through **corporate** taxation
3. The wage subsidy is financed through **household** taxation
4. The wage subsidy is financed through **indirect** taxation

The CGE model was calibrated to a Social Accounting Matrix (SAM) for Zambia, developed by the team using data from the 2010 Supply Use Tables.

Implementing a wage subsidy program to encourage women's formal sector employment could have a variety of positive effects, depending on the design and how it is implemented:

- Increase women's formal sector participation, improving their employability.
- Improve women's well-being, especially those forced into the informal sector but possessing the necessary skills for work in the formal sector.
- Benefits to the economy, including: increased production in various sectors, increased household income, especially for women.

A team of local PEP researchers sought to investigate how a wage subsidy program can encourage women's formal employment in Zambia, and the larger economic effects thereof.



Key findings

A wage subsidy to reduce the labour costs of employing a woman in formal employment can increase labour supply and household incomes. Additionally:

- **More women work in the formal sector**
- **The number of skilled female workers in the informal sector is reduced as that of skilled women in the formal sector increases.**
 - The number of female workers in the informal sector falls, the effect is strongest for skilled women.
 - However, working while studying increases the chance of feeling matched for the job by 2%, but reduces the likelihood of being matched for the job by 12%.
- **Women working in the informal sector experience an increase in the relative wage rate**
 - The number of female workers in the informal sector falls, the effect is strongest for skilled women
- The cost of employing female workers in the formal sector is relatively cheaper so **most female-intensive industries are able to produce more.**
 - May lead to lower prices for local goods and services sold on the domestic market.
 - Production also increased in industries that depend on imported inputs, this increase in demand may be the cause of the observed increase in import duties.

- Rural and urban **household total income increases** in all scenarios.
 - Due to increased labour incomes as more female workers enter the formal sector.
 - Rural households benefit more than urban households because informal wages are higher.
 - May improve household welfare.
- **GDP at market prices increases.**

However, government expenditure increases, thereby decreasing the overall government balance if the subsidy is financed by increasing deficit.

- A wage subsidy funded through an increase in taxes would reduce the crowding out of private investment, providing a budget neutral approach.
- A wage subsidy financed through a corporate tax reduces the government deficit the least and financing through indirect taxation reduces the government deficit the most.

Conclusions and policy implications

Despite the challenges of running budget deficits and the negative effects that a wage subsidy may have on government revenues, **a wage subsidy can result in positive effects in the economy if it is carefully implemented and introduced directly in the formal sector.** The benefits of the subsidy outweigh the cost on welfare grounds. In particular, **the subsidy promotes female empowerment** as more women have access to formal work, offering better income and other entitlements than informal work.

Given the constrained fiscal position of Zambia, policymakers may choose to mobilise funds from external sources or transfer a certain amount earned from payroll taxes towards employing women in the formal sector. **Policymakers should consider implementing the wage subsidy in female labour intensive sectors**, such as the wholesale and transport, accommodation, financial and education sectors. Implementing the subsidy in sectors that already employ a large number of female workers will increase the success of the program.



Photo: USAID