

## Comments on the PEP Research Proposal MPIA-20242

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**TITLE : Can a Wage Subsidy be used to Improve Women's Formal Employment in Zambia?**

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**COUNTRY:** ZAMBIA

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### A. General comments

The issue addressed by the authors is interesting: i.e. the empowerment of women which is embodied in the agenda of the Zambian government. Notably, the authors stress the fact that, in its development road map for the period 2017 to 2021, the Government aims to design policies that will increase the participation rate of women in the formal sector in order to empower them and reduce informalities.

However, it seems to us that the wage subsidy policy authors are contemplating here is not really included in this government agenda.

Anyway, it would be interesting to question the factors that have led to the limited participation of women in the formal sector (other socioeconomic factors...). Are these women already have a qualification? If this is the case, it would be necessary to clarify the different categories to be targeted and benefit from such a positive discrimination.

Indeed, one can imagine policies through which the Government gives incentives to companies who recruit young people or women. These policies could consist in the payment by the Government of part of the salaries or in the exemption of companies from certain taxes.

Financial incentives could therefore encourage businesses to hire and retain new employees.

But such policies are generally of limited duration and concern well-defined potential beneficiaries who should demonstrate a minimum of qualification acceptable by companies. We should also know the percentage of wage bill pertaining to that wage subsidy plan, out of the total government budget, in order to know what the optimal scale

of this initiative would be. Because, if the number of potential beneficiaries of wage subsidies is very high, this could not be affordable for the Government.

Authors should provide this kind of details if they apply in the case of Zambia.

Authors propose the financing of the subsidy program through an increase in income and profit taxes or through a deficit financing method. They should give precisions on the categories of agents that will bear this extra tax burden.

Finally, considering the following statement could help authors shaping the focus of their study and verify if it applies in the Zambia case:

“We argue that although wage subsidies may be successful at creating jobs in South Africa, they should not be seen as the primary or dominant policy instrument for dealing with the broader unemployment problem. To enhance the effectiveness of wage subsidies, they should preferably be linked to structured workplace training, be targeted to industries where employment will be responsive to changes in labor costs, and be focused on the youth. In the long run, addressing unemployment in South Africa requires policies that improve economic growth and the economy’s employment absorption capacity, that raise skills of new labor market entrants, that reduce labor market rigidities, and that promote effective job search, especially among the youth.”

*Justine Burns, Lawrence Edwards and Karl Pauw (2010). “Wage Subsidies to Combat Unemployment and Poverty: Assessing South Africa’s Options”*

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## B. Specific Recommendations

In order to improve their proposal, authors would consider the following suggestions:

- Analyze the structure of labor market, by gender, formal/informal, skilled/unskilled, and so present the background of empowerment of woman through positive policy discriminations, such as wage subsidies.
- Envision to build a new SAM or update the current SAM. The researchers should look for the availability of a more recent Supply and Use Table, as well as an Integrated Economic Account
- They should also give precise information on categories of women to be targeted for wage subsidy, and shock variables and transmission mechanisms in the model.