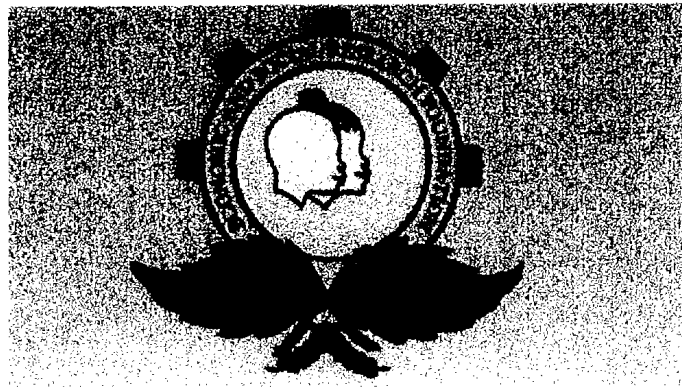


ISSN 0856-6291

**ECONOMIC AND SOCIAL RESEARCH FOUNDATION
(ESRF)**



**Economic Reforms and
Labour Market
Institutions in Tanzania**

Policy Dialogue Series No. 008

ISSN 0856 - 6291

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Labour Market
Institutions in Tanzania**

Policy Dialogue Series No.008

Economic Reforms and Labour Market Institutions in Tanzania

Published by: Economic and Social Research Foundation
P.O. Box 31226 ● 51 Uporoto Street
Dar es Salaam, Tanzania.

Printed by: *Change Publications Ltd.*

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ABBREVIATIONS

ATE	Association of Tanzania Employers
ERB	Economic Research Bureau
ESRF	Economic and Social Research Foundation
ILO	International Labour Organisation
EAMAT	Eastern Africa Multidisciplinary Advisory Team
TFTU	Tanzania Federation of Trade Unions
SSA	Sub-Saharan Africa
SAPs	Structural Adjustment Programmes
TFP	Total Factor Productivity
LDCs	Less Developed Countries
LFS	Labour Force Survey
ERP	Economic Recovery Programme
GDP	Gross Domestic Product
OTTU	Organisation of Tanzania Trade Unions
TCCIA	Tanzania Chamber of Commerce, Industries and Agriculture
CTI	Confederation of Tanzania Industries
TEXMAT	Textile Manufacturers' Association of Tanzania
TFA	Tanzania Farmers' Association
JUWATA	Jumuiya ya Wafanyakazi Tanzania (Tanzania Workers' Association)
NPF	National Provident Fund
PPF	Parastatal Pension Fund
LGPF	Local Government Project Fund

TU	Trade Union
NUTA	National Union of Tanzania Workers
USA	United States of America
GOT	Government of Tanzania
IMF	International Monetary Fund
WB	World Bank
PER	Public Expenditure Review
RTCs	Regional Trading Companies
OGL	Open General Licence
NGOs	Non-Governmental Organisations

PREFACE

This report is a summary of presentations and deliberations of a one day National Seminar jointly organized by the International Labour Organisation (ILO), the Economic and Social Research Foundation (ESRF) and the Economic Research Bureau (ERB) that took place on 23rd July, 1996.

Four papers were presented at the workshop. Mr. Willem van der Geest from the ILO presented a paper which he jointly authored with Dr. Ganeshan Wignaraja of the Commonwealth Secretariat, London. The paper was titled "**Adjustment, Employment and Labour Market Institutions in Sub-Saharan Africa in the 1990s: A Survey**". The second paper was presented by Professor Samwel M. Wangwe, Executive Director of the ESRF. His paper focused on "**Structural Adjustment and Employment in Tanzania: An Overview, Perspectives and Recommendations**". The third paper was a joint presentation by Drs Godwin D. Mjema and Joseph L. Shitundu, Research Fellows with the Economic Research Bureau (ERB) of the University of Dar es Salaam. The subject of their presentation was on "**Employment and Labour Markets During Adjustment: The Case of Tanzania**". The fourth paper titled "**Formal Sector Employment Reduction and Trade Union Responses**" was presented by Mr. T.M. Kasilati, Director of Economics and Planning, Tanzania Federation of Trade Unions (TFTU).

The Workshop was opened by Hon Sebastian Kinyondo, M.P; Minister for Labour and Youth Development. It was attended

by high ranking **ILO** officials, government officials, representatives of Trade Unions and the employers' organisation. Other participants came from the World Bank, the **IMF**, **NGOs** and the academia.

The overall chairman of the workshop was Prof. V.P. Diejomaoh, Director, International Labour Office, East African Multi-disciplinary Team, Addis Ababa. The other supporting chairpersons were Prof. Joseph Semboja, Director, **ERB** and Mr. Salmon Odunga, Permanent Secretary, Ministry of Education and Culture. Professor Robert Mabele of the **ERB** was the main discussant with a specific role of identifying the key issues which emerged from the discussions as well as the implications of those issues for policy making.

ECONOMIC REFORM AND LABOUR MARKET INSTITUTIONS IN TANZANIA

1.0 Introduction

The objectives of the workshop were fourfold. First, to discuss the empirical and institutional characteristics of labour markets in Tanzania and in Sub-Saharan Africa (SSA) generally and to examine how these have changed during the structural adjustment period. Second, to examine the relationship between economic reforms and demand for labour and review employment changes. Such examination entailed a discussion on: how real wages have changed overtime; what has happened to productivity overtime; and what has happened to human capital formation and training. Third, to draw policy recommendations in relation to the design and implementation of policy reforms. Specifically to recommend how the policy reform process should be managed with a view to shedding more light on the direction of the policy process embracing governments and the major stakeholders, notably the trade unions and employers' organisations or their representatives.

Fourth, to share policy experience with other countries from the SSA undergoing the reform process.

2.0 Adjustment, Employment and Labour Market Institutions in the 1990s:

A Survey By

Mr. Willem Van Der Geest, ILO/Geneva

2.1 Scope and Context

The paper was an output of an **ILO** project which had been undertaken in Eastern and Southern Africa. In his introductory remarks, Mr. Van Der Geest disclosed that the workshop was one in a series of five workshops which had been conducted since February 1996, in Kenya, Uganda and Zambia. It was pointed out that another workshop was to be held in Zimbabwe.

The **ILO** project initiative was conceived in the context of a broad review of economic policy changes in **SSA**, changes characterised by a shift from highly regulated economies to those which were more market oriented. It is in the context of that project that the **ILO** had redefined and identified areas of priority for cooperation with Tanzania. These areas are:

- (a) To alleviate poverty through the support of national programmes of employment promotion and income generation.
- (b) To strengthen national capacity in human resources development in the areas of management and skills development.
- (c) To advance tripartism through strengthening capacities of social partners and the effective implementation of their redefined roles; and

- (d) To improve the working environment, conditions and social protection.

2.2 The Reforms and Impact

Conceptually, an important distinction has to be drawn between policy reforms that are primarily designed to promote competitive markets for goods and services within the economy and those that are oriented towards forging institutional changes in the conditions and context within which markets function. Indeed, the competition-enhancing components of the Structural Adjustment Programmes (SAPs) have been at the core of the programmes implemented throughout the 1980s, whereas the institutional change-oriented components have only gained momentum in SSA in more recent years.

The institutional components of SAPs tend to affect employment and the demand for labour directly and hence a greater focus on the labour market impact of adjustment is called for. These components include:

- Civil service and parastatal reform, which typically include contraction of public sector employment forming part of a wider programme to reduce fiscal deficits.
- Privatization, which transfers ownership and/or managerial control from public sector to the private sector and, often, though not always, includes a reduction of employment.
- Induced labour market flexibility involving a

change in institutional set-up of labour market through legal changes. These may affect the rights of workers. For example, with regard to hiring and firing, job security, appeals before courts, etc. Frequently, the role and position of representative organisations also changes as part of a wider restructuring of industrial relations.

2.3 Adjustment and Employment: Some Recent Research Findings.

A synthesis of seven country case studies which analysed the changes in employment, incomes, hiring standards and poverty during adjustment produced the following results:

- Employment in the rural areas did not deteriorate during adjustment given slower growth of labour supply, whereas unemployment sharply increased in urban areas with significant increase in informal sector activity.
- The extent to which overall household incomes declined under adjustment depended on the level of non-wage factor income (which includes self-employment and the informal sector) and the impact of the reduced provision of government services.
- Living standards did not fall across-the-board during adjustment ; there were instances of improvements. For example, in rural areas of Ghana. But there were also sharp falls in living standards in urban areas of Côte d'Ivoire.

- In the case of Côte d'Ivoire, a fall of overall formal employment as well as a reduction in real wages was observed. Further, some reallocation of labour towards other sectors did take place as well as movement of labourers into agriculture. Hence, some labour market flexibility was also observed.
- Public sector continued to dominate the formal sector employment in Kenya even though a major drop in real wages took place. The expansion of employment was primarily in the informal sector.

2.4 Key Characteristics of SSA's Labour Market

- **High rate of growth.**

The total labour supply in 1995 in SSA is estimated at 228 million persons of which 38 per cent are female. It is projected to increase to 250 million by the year 2000.

- **High and diversity of employment categories.**

The labour market is characterised by a predominance of urban employment with little rural based employment. Urban employment is diverse by racial and blue versus white collar categories. Public sector employment has been more dominant than private sector in many SSAs

economies particularly those which have pursued state - led economic policies.

- **Protected wage employment**, characterised by employment and legal constraints and with effective barriers to entry. It remains the largest group, comprising some 35 percent of the total wage earners in the six plot surveys undertaken in the urban areas of different countries.
- **non-protected wage employment**, is continuous and usually based on contracts of employment but experiences low barriers to entry and hence is fiercely competitive. It comprises the second largest employment category, varying between 21 and 35 percent of the total wage earners in the surveys done for the different countries.
- **marginal self-employment**, with low labour productivity and without established production premises or capital, varying between 14 and 34 percent of the surveyed wage earners, constitutes a third distinct category.
- **irregular employment** is characterised by severe job insecurity, varying between 4 and 11 percent of the surveyed wage earners.
- **self employment** with some, though limited, working capital and assets, typically involving small family units, comprising approximately 7 percent of the surveyed wage earners is yet

another characteristic of the labour market.

- **Productivity growth** rates are either zero or negative or very low at the regional, national and firm levels. SSA recorded zero TFP (total factor productivity) growth in the period of the survey. Tanzania's TFP growth was negative (-1.6). At firm level, enterprises in Ghana, Kenya and Tanzania depict technological capability levels that are below those of similar sized enterprises in other LDCs.

2.5 Adjustment and Changing Structure of Employment

- **Decline in Formal Employment.**

Evidence shows that there is a decrease in formal sector employment. This could be associated with the retrenchment in the public sector. This declining trend is observable in Ghana, Kenya, Uganda, Tanzania, Uganda, Zambia and Zimbabwe.

- **Decline in formal employment in the manufacturing sector**

It is observed that less and less people are working in this sector because of the de-industrialization phenomenon. This phenomenon is associated with the fact that the SAPs tend to ignore the

structural problems facing the SSAs economic. It is also further explained by SSA's low technological capabilities. The increased competition from imports, rising interest rates and higher raw material prices for agricultural goods also tends to discourage investors and thus reducing the potential of employment creation.

- **Expansion in informal sector employment**

Trade liberalisation, coupled with the relaxation of urban local government regulations, impacted positively on informal sector activities and, consequently, on employment. Indeed, there are strong linkages between the formal and the informal sector. Whereas some of the linkages are competitive others are complementary.

2.6 The Changing Terms of Employment in Sub-Saharan Africa

- **Rural-urban wage gap**

A common feature of most African economies is the existence of a large rural-urban wage gap. This gap could partly be attributed to differences in reason such as costs of training and the quality of labour. Another explanatory factor is that rural labour markets of unskilled labour are more competitive than the markets of semi-skilled labour in the urban areas. During the adjustment period, the indicator for urban-to-rural

wages has increased for Kenya and Zimbabwe but has declined for some countries such as Botswana, Ghana and Malawi.

- **Falling Real Wages**

Real wages in the formal wage sector have fallen since the early 1970s. For example, monthly real wages in Sierra Leone in 1987 stood at less than 6 per cent of the peak wage level of 1970, whereas the Tanzania, in 1991, the real wage level stood at 25 per cent of the peak level of 1974. A person's monthly urban formal wage could only buy three days' essentials in Sierra Leone and only two weeks essentials in Tanzania. The erosion of real wages is also evident in Ghana, Kenya, Zambia and Zimbabwe.

- **Scarcity of Quality of Labour Force**

Available evidence points to the prevalence of three separate though related sources of skill shortage in SSA. Educated entrepreneurs and technically qualified workers are in short supply; enterprises invest too little in training; and enterprises lose skills as employees often leave their jobs to join other firms or establish their

own enterprises.

2.7 Impact of SAPs on Labour Market Institutions

2.7.1 Tripartite Consultations under Adjustment

Tripartite consultations in SSA were written about and discussed in the 1970s, but they dropped off the agenda of policy makers during the 1980s and 1990s. The reason, among others, is that the process of economic policy decision making during the 1980s became increasingly "closed" and characterized by limited, if any, consultation between the various economic interest groups, including employers' organisations and trade unions. However, it has to be emphasized that the potential benefits of consultation are manifested in corporate and informal sector efficiency thus pointing to the need for these consultative institutions to make inputs into the economic decision making processes. The process could also serve to determine how policy reforms adopted at the macro-level can be made to generate desired positive impacts at the decentralised micro-levels of the enterprise or household-based production units.

2.7.2 Impact of Adjustment on Trade Unions

Three features characterise SSA's trade unions under impact of Adjustment:

- The degree of unionisation is low and tends to cover a wide range of employees. The highest degree of organised labour tends to be found in

mining (both public and private), public utilities and services, including banks, the postal services, other non-privatised utilities and the civil service. It is likely that agreements concluded by organised labour and the relevant employers will tend to affect the terms and conditions of employment throughout the sector, i.e. including non-organised workers.

- The diversity of unionised workers implied that the conditions of work and their earnings would also be diverse. The greater the spread of earning levels, the less likely the underlying distribution of earnings will worsen on account of trade union action or membership; indeed the income distribution may well improve.
- The income distributional changes in response to an effective implementation of the minimum wage is difficult to predicted with certainty.

2.7.3 Impact of Adjustment on Employers' Organisations

In the context of adjustment measures, the importance of the government role which used to impact employers has tended to diminish. Two outcomes involving employers' organisations are bound to arise:

- The scope for bilateral consultations between

- employers and employees will improve;
- The employers' organisations will give preference to bipartite consultations through separate exchanges with government and with trade unions.

2.8 Policy outcomes:

The following are the deemed policy outcomes:

- The need for policy analysis for the purpose of employment impact assessment;
- The need for proactive policy responses to adjustment from various social partners involved in the management of the labour market;
- The need for Ministries of Labour to broaden the scope of their activities beyond their traditional tasks of labour market regulation, labour market inspection, monitoring and exchange of labour and market information. Amongst possible new activities of the Ministries of Labour may be an active role in the formulation of programmes to alleviate the social impact of adjustment;
- The need to establish safety-nets such as social

security funds to mitigate the social costs of adjustment. However, these safety nets should not be seen as a substitute for the design and implementation of adjustment programmes which contribute to the creation of jobs and skills;

- The need to put emphasis on training as a way of improving productivity as well as of building up technological capability. The development of local institutions for industrial training should be the point of departure;
- The need for trade unions to improve their policy analysis and monitoring capacity to cope with the emerging socio-economic reforms and thus be able to dialogue more effectively with other stakeholders. Trade unions could also deliver services to their memberships such as training, extension of credits to help members start or expand small and medium scale enterprises etc.
- The need for employers' organisations to improve their service delivery to private sector enterprises. This may take the form of provision of management training, legal advice, counselling, etc.

3.0 Employment and Labour Markets During Adjustment:

The Case of Tanzania

By

Drs. G. Mjema and Dr. J. Shitundu

3.1 Background and Context of Economic Reforms in Tanzania

The following features are characteristic:

- Countries that have undertaken economic reforms have done so with the expectation that the reforms would help to address internal as well as external imbalances that have tended to constrain economic performance.
- For Tanzania specifically, reforms were considered necessary to address a near economic crisis situation of the early - to - mid 1980s.
- The "standard" reform package, as is often prescribed, consists of, among other things, devaluation of currencies, government expenditure reduction, rolling back of the social and economic function of the government and greater reliance on market forces. Judging at least from policy statements, the **GOT** and the **WB/IMF** were concerned about the dismal performance

of the Tanzanian economy and accepted that **SAPs** would, among other things:

- (a) arrest the state of economic decline and achieve economic growth of at least 5 percent per year;
 - (b) deal with inflation and confine it to single digit levels, and
 - (c) restore internal and external equilibrium.
- The **GOT/IMF/WB** policy statements did not specifically address how the **SAP** would affect employment. Their initial concern was focused on how to improve macroeconomic aggregates and arrest the decline of the economy.
 - The 1986/87 Budget Speech, however, gave the first hint that labour would be negatively affected by the reforms in the light of the measures that were being introduced to streamline the government ministries and restructure the parastatals.
 - Furthermore, in the **ERP₁** document, the **GOT** expressed its determination to limit the wage bill while the **ERP₂** was even more elaborate on how the government would freeze employment and retrench its labour force.

- At the same time, the **WB's PER** targeted at least some 40,000 employees for retrenchment but the **GOT** statements were not specific on the number of employees to be retrenched.
- Prior to the introduction of the reforms, the **GOT** enjoyed a near monopoly in the internal trade system. Commodity shortages of the 1980s were partly due to the controls which the government had imposed on the trade market.
- The reform measures partly helped to increase producer prices for traditional commodities. Likewise, when the government allowed private traders to take an active role in domestic trade, commodity shortages started to ease.
- Reforms in foreign trade resulted in the creation of alternative windows for foreign exchange such as the **OGL** and the own funds importation incentive. The government acceded to devalue the shilling and also accepted to maintain some kind of a managed floating exchange rate.
- The government accepted to lower import tariffs for purposes of encouraging foreign imports and to curb tax evasion.
- Another reform measure aimed at privatization

of the state owned sector is still on going but a variety of privatization methods have been used. So far about 120 parastatals, out of more than 400, have already been sold.

- In an attempt to reduce government expenditure, the government resolved to stop bailing out inefficient parastatals. Thus the practice of giving subsidies and other subventions to ailing parastatals was stopped.
- In line with reduction of government expenditure, the **WB/IMF** encouraged Tanzania to embark on measures that would ultimately reduce the size of public sector employment. So far this measure has been implemented to a reasonable degree.

3.2 SAPs and the Labour Market in Tanzania.

The following are some of the impacts of **SAPs** on the labour market in Tanzania:

- The Tanzanian Labour force, as defined in the **LFS 1990/91**, includes the economically active persons between the age of 15 and 64 years. This age group has been growing at the rate of 2.8% annually between 1978 and 1993. However, since 1993, this age group has been

growing at a higher rate of 3% annually, higher than the population growth rate of 2.8%.

- Females outnumber males in the labour force. However, males are dominant in urban areas while females are dominant in rural areas.
- Most of the labour force (92%) is engaged in informal sector activities while the formal sector is quite small (8%).
- The formal sector employment has increased rapidly over the last three decades. The increase also continued during adjustment. For example, at the beginning of the **ERP**₁, in 1986, the formal wage employment recorded about 692,787 persons whilst around mid **ERP**₂, in 1991, the number had risen to 800,000 persons. However, due to the economic crisis of the early 1980s and the retrenchment exercise that has taken place, there has been a slow-down in the growth rate of formal wage employment.
- During the **ERP**, some formal sectors increased employment while others decreased. For instance, the transport and construction sectors did increase employment. On the other hand, the manufacturing sector experienced

some stagnation in its employment level. The ongoing privatization of the industrial parastatals does not, however, give a clear picture of the net impact of employment levels in the manufacturing sector. The agricultural formal wage sector is another sector which reflected a declining formal wage employment picture. The sector's formal employment, which stood at 116,475 in 1986, drastically declined to only 38,900 employees in 1991. This serious decline was a result of the collapse of large scale state-owned farms during the economic crisis period.

- The public administration and services sector had, since the early 1970s, overtaken the agricultural sector as the largest employer in the formal sector. The sector's employment continued to grow even during adjustment. For instance, a year before the **ERP**, in 1985, the sector's formal employment had reached 239,907 persons or 36.2% of the total formal employment and growing at an annual rate of 10.9%. In 1991, this sector's employment stood at 800,000. The growth continued up to 1993 when it started to decline as a result of:
 - (a) abolition of automatic employment guarantees for university graduates which commenced in 1991;

- (b) a hiring freeze introduced in 1992/93 in the civil service, and
 - (c) retrenchment of about 50,000 civil servants and 30,000 parastatal workers between 1992/93 and 1994/95 respectively.
-
- The ability of the formal sector to create new jobs has thus dwindled. The sector can create less than 10,000 jobs annually against the estimated 700,000 job seekers each year. This means that the informal sector becomes an important alternative source of employment for the majority of job seekers. The private sector too is expected to play an important role.
 - During adjustment there has been a proliferation of informal sector activities particularly in trade, small scale mining and traditional agricultural. It is now recognised that the informal sector's contribution to **GDP** has been grossly underestimated.
 - Women's share in total labour force, i.e. 50.2%, is almost equal to their share in total population which is 51.3%. Their participation is however higher in the rural areas (73.7%). However, women dominate in the less skilled employment categories, particularly in the rural/agricultural sector.
 - Generally, women have increased their partici-

pation in informal sector activities during adjustment mainly as a means to subsidize the eroded household's income.

- Due to their lower education levels, women occupy lower employment categories which have suffered more from retrenchment. It is their low level of education rather than a deliberate employment policy that has led women to be more affected by the retrenchment exercise.
- Overall, real wages have fallen quite rapidly between 1980 and 1990. For instance, the average real wage fell by 60% from Tshs. 374/- per month in 1981 to only Tshs 148/-per month in 1986 at 1976 prices. By June 1996, the real minimum wage of Tshs 17,500/- per month was able to cover 7 days basic needs for a household of 6 persons. The failure to reduce the inflation rate to single digits during adjustment has left the real wages at very low levels with the civil service wages being the lowest.
- Comparatively, the agriculture and the public administration sectors continued to have lower wages. The service sector: finance, transport, communications, commerce and mining sectors had comparatively higher wages.

- Earnings in the informal sector are not exactly known. While some would argue that earnings in the informal sector are higher than those of the formal sector, various allowances and bonuses paid on top in formal sector wages, when combined, leave a formal worker with a higher take home than the informal worker.
- On the average, women earn less in most industrial sectors. This is mainly because they occupy lower employment categories which are less skilled and thus lowly paid. No deliberate wage discrimination policy against women was observed.

3.3 Employment policies and labour practices during adjustment

Employment and income policies:

- The country does not have an explicit employment policy (except for the 1993 draft). However, the government had some close monitoring and controlling system in planning, training and allocating manpower as well as in the control of wages, taxes and prices.
- The Africanisation efforts have paid off. By

1988, the overall localization of University and advanced diploma holders was about 94% according to ILO (1992).

- Whereas the evolved income policy shows that prior to SAPs there were equity considerations, the SAPs portray increased income inequalities as both job-creation and equity issues were not given priority in the programme.

- **The Legal Framework of the Labour Market:**

- Most of the labour laws in Tanzania date back to the colonial era. However, some of the laws have been affected by the policy reforms under the SAP. They include:

- (i) **Wage Settlement Systems**

- Before SAP, the government used to overshadow both the employers and the employees in setting minimum wages. As a result, the minimum wage did not change significantly between the 1970s and 1980s despite numerous demands from the employees' organisations.
- With SAP, there has been more conflict of interest between employers and employees. There is an enhancement of a free/flexible wage settlement system rather than collective bargaining. The basic minimum wage is no longer binding to

institutions and, with increased job-seekers and short fall in jobs, some employers manage to pay even below basic minimum wage.

(ii) Minimum wage laws and levels

- Real wages are still very low despite some recovery.
- Minimum wage laws continued to be in force even during the SAP period but they are rarely effective.
- Some companies do not pay high minimum wages because of the introduction of flexibility in setting minimum wage in parastatals and private companies.

(iii) Job Security

- Job security has declined with SAP as a result of civil service reform, parastatal sector reform and the privatization process.
- There is freeze in extending loans to non-performing parastatals and institutions.
- Increasing use of casual employees, who have little job security.

(iv) Labour standards, health and safety regulations

- In Tanzania there are more than 15,000 industrial

establishments with the majority of them employing 5 to 10 persons. These rarely adhere to health and safety regulations. Hence there is decline in labour standards and safety and health requirements.

- With increased job-losses during **SAP**, more workers are worse exposed to individual industrial hazards given their greater involvement in informal sector activities.
- Between 4-5 workers out of every 1000 employees annually got involved in accidents while at work during 1987-1990 period. The construction, small scale and mining sectors recorded the highest rates of risk.

- **The functioning of Industrial courts**

The industrial courts have had an important role to play in industrial and trade disputes. However, there has been no change in the functioning of industrial courts with the adoption of **SAP** despite numerous amendments made on the Permanent Labour Tribunal Act No. 41 of 1967 and other similar legislations. It is notable, however, that various incidents of trade disputes have occurred at factory level. Most of the disputes did not follow procedures laid down by the Ministry of Labour and Youth Development. This has resulted in their not being officially recognised as trade union disputes. Examples of these include the Teachers Strike of November 1993 and the nation-wide strike called by **OTTU** in March 1994. These strikes were therefore less effective.

3.4 Response of Labour Market Institutions to Reform Measures:

- **Strengthening of Employers' Organisations.**

- During SAP, the national employers' association, ATE, together with specific sector employer organisations such as TCCIA, CTI, TEXMAT, TFA and MEIDA have become more organised and able to handle employers' interests better than in the past.
- Some employers, for example, have hailed certain reform measures like trade liberalization. However, domestic manufacturers such as CTI and TEXMAT have on several occasions raised their concerns on the negative impact of trade liberalisation reforms on domestic manufacturing.

- **Changes in the Unionisation of the Labour Force:**

- The workers' organisation or trade union has transformed itself from JUWATA, which used to be affiliated to the ruling Party's Government machinery, to OTTU and started struggling to become an autonomous body championing workers' rights.
- With the advent of multiparty rule in Tanzania, OTTU evolved into an independent body named

TFTU, to which eleven sectoral trade unions are affiliated.

- During SAP, the trade unions have been concerned with SAP's impact on workers as it relates to retrenchment, inflation, privatisation and the introduction of cost sharing in social service delivery. They observe that since these actions have particularly impacted employees in the lowly paid cadres, they have negatively affected incomes of the workers and, therefore, their welfare and that of their dependants.
- There is decline in the size and strength of trade unions.
- Officials of trade unions have responded to the reforms by informing the government of the negative impact the reforms have on the welfare of workers and have made the following proposals:
 - (i) to update and streamline the labour laws which appear to be too many;
 - (ii) the industrial court should function as an independent court and to apply laws that motivate employees;
 - (iii) to improve further the enabling economic environment and enhance transparency of decision making so as to attract more investment;

- (iv) to restructure institutions dealing with workers' welfare, for example, **NPF**, **PPF**, **LGPF** so that they can be more oriented towards improving workers' welfare.
- There have been changes in effectiveness of lobbying with respect to competition - enhancing policies. In this regard, it has been difficult to convince the government to implement the various proposals related to protection of local industries submitted by the **TCCIA**, **CTI** and **TEXMAT** through better and more effective tax administration.
- In response to Civil Service and Public Sector Retrenchment, the following actions have taken place:
 - (a) There has been greater enterprise development and training. Indeed, some success in the training of the retrenched has been made;
 - (b) Initiative has been taken to support indigenous business development. Because of increased job seekers during the period of the SAP, the government has established development funds (for women entrepreneurs, and youth) to assist in the promotion of informal sector activities beginning the 1993/94 financial year.

3.5 Impact of SAPs on Industry, Labour Market and Wages

The key question is whether SAPs have led to a de-industrialization process and shrinkage of both employment and wages. Evidence indicates the following:

- There has been an increase in industrial capacity utilization of between 30% and 50% during the SAP period as compared to the period before the introduction of the SAP which ranged between 20% and 30%.
- With respect to employment, a decline in public service sector employment has been noted. This could be attributed to the retrenchment exercise. The exercise is still on going and so is the parastatal sector reform.
- The decline in real wages was a process that started in the late 1970s but accelerated probably due to high inflation experienced during the 1980s.
- The reform measures have been received somewhat variably by different institutions. Measures like the selling off of parastatals and the retrenchment exercise have understandably been resisted by the labour unions since they have resulted in the loss of employment.

- The trade liberalization exercise has similarly not attracted the sympathy of local manufacturers since it has brought about unfair competition between locally manufactured and imported goods.

3.6 Recommendations

- There is need for the government to continue with the process of rationalization of its manning levels.
- There is need to support the informal and agricultural sectors. These sectors which have the greatest potential to generate employment opportunities. In the informal sector, however, the support could be directed specifically to the creation of a conducive regulatory framework.

4.0 General Discussion

The discussion was focused on the following:

- The need to reflect on the new market changes and their implications on training and retraining with specific focus on new labour skills and new ways of approaching human resource development.
- With reforms being focused on privatization,

the important to realise that the ownership of what once belonged to the state was shifting into the hands of private individuals needed to be clearly appreciated. With such a change, the socialist philosophy that underpinned the laws and regulations of industrial relations had also to change. Thus, for instance, Clause 15 of Mwongozo would not be acceptable in a private firm. In such a situation, it was critical that a decision is taken to reform the laws and regulations first and then proceed with privatization or promote privatization first and then change the labour laws and regulations. The latter process would almost certainly discourage would-be investors.

- There is need to make a distinction between the informal sector - as we define it - and the non-formal sector which is what is left behind in the economy after the formal sector has gone under.
- In many African countries, the statistics show that most people are somewhat economically engaged because nobody can afford to be strictly unemployed; so usually the statistics on unemployment under-record the status. Without getting correct information on unemployment statistics it is difficult to measure the extent and size of the problem.

- There existed a true trade union movement before independence. It was powerful and its powers resided in its members. However, trade unionism today has been transformed and **JUWATA**, **OTTU**, and now **TFTU** are, strictly speaking, not independent trade unions, their names notwithstanding.
- Creating institutions and regulations to enforce safety in the informal sector is fine, but the problem is that even the existing safety regulations in the formal sector are not enforced. The explanation given for such default is shortage of staff. However, the real reason resides in general ineffectiveness of the State due to incompetence, irresponsibility and corruption.
- Consultation and advocacy are very important; they could help the **SAPs** to succeed. For example, in the 1960s and 1970s, local musicians participated the sensitisation of the development programme by picking up various themes of development and putting them into music thus helping in disseminating powerful messages country-wide. Unfortunately, even in parliament, there is no clear discussion of the **SAPs** , only in passing and only once in a while. It is important for the people to know and

understand what the adjustment programmes are all about; their contribution and their negative implications.

- The position of minimum wage is tricky. It was left untouched at Tshs 5,000 for 10 years. Then on May Day 1996 the President announced that the legal minimum wage would be Tshs 17,000/-. The then Minister for Finance announced in parliament that the minimum wage had been raised to Tshs. 30,000/-. There has been confusion since then and no one is quite clear what the legal minimum wage is at present.
- During the **ERP**, the government was off-loading its workers onto the open labour market while, at the same time, purporting to raise the level of wages in its Civil Service given a residual and small and efficient civil service. To date none of these objectives have been achieved.
- Consultations between the government and employees is important. With **SAP**, women have become more impoverished and the quality of life of families have been falling. At the same time, the women's contribution in the informal sector has not been recognized. Yet it is from this contribution that women's role in subsidising household incomes is significant.

- The question of appropriate education should be addressed. What type of education do we need to fit future human resources requirements. At the level of vocational training we should change the curriculum to meet the needs of the labour market rather than its being supply driven. To that effect, there is need for upgrading the labour market information system.

4.1 Reactions to Comments

- The notion that functional employment would rise with the strengthening of the private sector has always been a crucial component of the **SAP**. What is needed are new skills to fit the current situation. In the formal sector, there are enough people to train and retrain in order to equip them with relevant skills.
- Tanzania has a very small formal sector. Therefore, there is need to balance and establish effective linkages between the formal and the informal sectors.
- The observation that laws and regulations under which privatization is being carried out are still anchored in the old system is a correct one. This observation must be addressed.

- The effects of liberalization on the economy, namely whether they promote or frustrate growth, is a matter for debate and further research.
- The government is retrenching excess employees so as to increase efficiency, but there is a danger of also retrenching the right people. There is need to ensure that the most able and creative people are retained.
- Transparency was necessary when addressing the issue of minimum wage. When the wage is not binding it becomes an issue of serious concern both for employees and employers.
- Is it possible to talk of shortage of staff when, at the same time, we talk of over-employment? The answer is yes. Precisely because there is shortage of specialized staff for certain areas of the formal sector while there is over-employment in others. What is needed is to identify which categories experience shortage of staff and which ones have over-employment so that a realistic balance is struck and retrenchment decisions become better informed.
- Distributions between the formal sector and

the informal sector-8% versus 92% -is very much out of balance. What is happening is that the figure for the informal sector is very high because it also includes traditional agricultural activities. This can be cross-checked with information on the national informal sector in order to come up with a balanced picture.

- It is too premature to judge whether or not liberalisation has brought about development or not. It is equally premature to conclude that reforms have brought about de-industrialization.
- What should be regarded to be the real problems facing the agricultural sector? Is it the policy measures of the **ERP** or the problems related to sectoral inefficiencies. Whichever the answer, there is need to determine ways of addressing these problems and to improve the capacity utilization in the agricultural sector.

4.2 Comments from the International Organisations

- It is obvious that the SAPs are unpopular in most parts of the world and particularly with labour organizations. Nevertheless, **SAPs** open up opportunities for consultation. Consultations have had a positive contribution towards the success of reforms. The World Bank is making greater efforts in this direction.

- The **SAP** is not a one shot affair. It is not a package of measures which should be taken up, implemented, and then dropped off. On the contrary, they constitute a continuous process. All countries that enter the process have to constantly and continuously restructure. For example, Ghana was once successful but it has experienced ups and downs. The World Bank has no ready made answers and it is still learning and setting objectives.
- There are many elements of **SAPs** involved and sequencing them is thus very important. In the case of Tanzania, sequencing has been the government's major weakness.
- **SAP** in Tanzania should be seen in terms of the agenda left to the government to fulfil. Privatisation has somewhat enabled the government to crawl out of its burdensome debt overhang but without full coordination with the other policy measures.
- It is not enough to compare the state of a country before and after **SAP**. The pertinent approach should be to compare a country pursuing the **SAP** with a country that is not pursuing the **SAP**. In any sector review within the **SAP**, care must be taken to reconcile the tension between the need to contain and reduce the fiscal deficit, on the one hand, and the need to continue increas-

ing expenditure on social services on the other hand.

- Privatisation was no less sophisticated in other places. In fact, in the U.K. it was not sophisticated at all. It involved "cut by x%" in one year. However, Britain had a safety net - the North Sea oil. But Tanzania can equally develop its natural resources to build up a safety net. If Tanzania is patient, new industries will create new jobs.

**5.0 Economic Reforms and Poverty Alleviation in
Tanzania**
By
Professor Samuel S. Wangwe

5.1 Economic Reforms: Objectives and Assessment

- While there has been an improvement in macro-economic stability, the sustainability of the current achievements is threatened by institutional and structural constraints. These include the persistence of the budget deficits and the balance of payment deficits. On the balance of payment deficits, the exports have not grown fast enough to catch up with the import side. On the budget side, we are still grappling with deficits, and the gap is filled by external financing.
- The on-going institutional reforms are still difficult since the institutions managing the reforms are themselves in the recovery process.
- In the area of financing and credit contraction, investments cannot pick up in a sustainable way if investment financing and financing of working capital is not in place or is inadequate. The newly constituted and the private sector banks are shying away from lending.

- Trade liberalization has negative aspects in it. Imports have been allowed to compete, sometimes positively, sometimes unfairly with local products. Local products have been out-competed on unfair grounds and others on fair grounds. But liberalization of trade, especially marketing, has helped to keep the prices from going up. Prices have not been rising as fast as they would have been if there had not been competition in the market. We have yet to see proper investment in marketing and trading activities.

5.2 Reforms and Poverty Alleviation

- From various studies there is no simple agreement on the impact of reforms on poverty. Taking stock of studies done, there is agreement that Tanzania is a very poor country and that 50% of its population lives below the absolute poverty line. Poverty has become a rural phenomenon. However, in the 50% group, the poor have become poorer and those who had been the better of the poor have become much better. There is no agreement on where the poor are, what they do etc. We are dealing with scanty data which can be used to argue either way; that the poor are better, or that the poor are worse off. The challenge put to us is to do more studies.

- Incidence of poverty in Tanzania has been associated with low productivity in agriculture, low rainfall, poor soils, environmental degradation and population pressure on the land and other natural resources.
- Land is a resource that determines the basis of differentiation especially in the rural areas. Therefore, problems relating to land tenure have to be addressed without delay.
- Social services are an important aspect when addressing poverty; the user charges that have been introduced in education and health services by way of cost sharing are meant to help out the government. The idea is that, those who are able to pay should pay and those without the ability to pay should have free access to such services. However, mechanisms for managing this process have not been put in place.
- Formal sector employment is regarded as survival strategy to cope with the failures of the informal sector. It is important to understand the relationship between the two sectors and how one responds to the failures of the other. Many who work in the informal sector are also in the formal sector; those in the formal sector have ventured into the informal sector and have

squeezed out those who have traditionally been operating in the informal sector. The two sectors should be encouraged to operate in a complementary rather than in a substitutive way.

- The SAP is yet to integrate the poor in a meaningful way by way of a policy framework, a framework that will mitigate some of the adverse effects of the SAP.
- The character of the informal sector has changed; people in middle upper classes rather than the poor are active participants in the sector.
- The role of the informal sector has to be clearly understood. Is it to erode the formal sector; is it to prepare these people for competition or is it there simply as a survival strategy. If the latter is the case, this could have serious adverse impact on the society in future. Therefore we should not be complacent with apparent short run capacity which absorbs the shock from the formal sector. It is high time that the formal sector faced squarely the problems which confront it.
- Economic reforms have had both positive and negative impact on poverty; the impact depends on where the poor populations are and

the kind of activities they undertake. The challenge for us is to undertake micro-level studies, to determine the disaggregated impacts of poverty rather than go by generalised impacts per se.

- If the lesson of the 1970s is that the sustainability of basic needs and social economic objectives were limited by the neglect of the macro-economic sectoral considerations, then the lesson of the 1980s and 1990s is that the sole focus on macro-economics can be equally dangerous.
- The informal sector has played a very important role despite not being promoted by public policy. It has grown almost by default and it is only recently that the government has given thought to come up with a policy which addresses basic questions such as why there has been retrenchment in the formal sector.
- The challenge for the government is to come up with a policy to consolidate the survival strategies for individuals at household level and to devise a way of eliminating poverty. To this effect, creating a Ministry responsible for Poverty and the Environment is a move in the right direction.

6.0 General Discussion

The discussion focused on the following comments and issues:

- The informal sector has probably more to it than just a survival strategy. It is there to stay and has always been. Actually, 98% of the human resource is involved in the informal sector.
- The informal sector has no platform for advocacy.
- The informal sector is the main supporter of livelihood for most people in the formal sector. Only about 2% of the people in the formal sector are not involved in the informal sector.
- Problems associated with economic reforms are that they are externally initiated and externally motivated. They have no local support when the external support stops. As such, they are bound to collapse.
- It is true that the poor are in the rural areas, but to what extent can we have a regional dimension of poverty?
- People who succeed in the informal sector are those in the formal sector and who have more time to concentrate on the informal sector.

- Youths are the ones bearing the brunt of unemployment. It is very difficult for them to get involved in the informal sector since they do not have access to capital and premises.
- The government should be clear about what it intends to do about youth unemployment. There seems to exist a serious gap in information between what is happening and what the government knows.
- Can the informal sector turn the economy around? We know of no country in the world that has taken off as a result of developing the informal sector.
- A survey done on the Tanzania situation came up with an unambiguous position that **SAP** has raised the standard of living. Both environmental degradation and dampo syndrome have nothing to do with the **SAP**; they merely reflect on individual and family disposition.
- The poor do not own the informal sector; those selling goods in the streets do not own them but peddle them around on behalf of someone else in the formal sector.

7.0 Formal Sector Employment Reduction and Trade Union Responses

By

Mr. T.M. Kasilati

Director of Economic & Planning, TFTU

7.1 Reforms and Impact

- The **SAP** is inevitable but not in the conditions in which it was conceived for Tanzania.
- Since 1964, the Trade Union (**TU**) has grown tremendously. It started as **NUTA** - a direct tool of the government and was later conveyed into the arm of the ruling party. So the character of **TU** was compradorial.
- The education system is not geared towards self employment and the restructuring exercise has also aggravated the problem.
- Government economic action lacks clear objectives.
- The **SAP** is reducing employment opportunities. A great deal is said about great the success of the **SAP** but the number of people employed is declining.

7.2 Trade Union's Response

- A workers' Council was formed in 1993. It first met in 1994 but only to face a crisis.
- Taking action against falling wages has not been successful. Calling for strikes has sent the message home.
- However, strikes have been successful at plant level by locking managers out.
- The trade unions have been able to send the government to court and have been awarded a decision for a minimum wage of shs. 84,000/= per month but the government has declined to endorse the decision..
- On the question of equity and income distribution, people are definitely poorer now than they were in the sixties and seventies.
- Linking Adjustment Programmes with the rural areas is inevitable because economic life of the workers depends on what happens economically in the villages.

7.3 Trade Union: The Way Forward

The Trade Unions should take some action in the following areas:

- Labour Laws have been undermined and employers would wish to throw them out. We would like to revisit them but the employers do not want them altogether.
- The Employment Policy Draft has not addressed the issues of concern to the Unions.
- The link between trade union and informal sector should visualise the informal sector not only as the salvation of retrenched from the formal sector but also as an instrument of solidarity.
- Trade unions should be engaged in formulation and funding of projects. However, most trade unions have liquidity problems, and, as such, can be dictated upon.

8.0 General Discussion

The following comments and questions were raised:

- locking out employers is not an achievement; it is disorder.
- trade union efforts at employment creation should be commended. But experience has shown that trade union capacity to fund projects is not sustainable.

- The mutiny of 1964 had nothing to do with wiping out the trade union. The Prime Minister at the time was in fact one of those who created the first national trade union at the time of independence.
- Problems with workers' discipline started with the Mwongozo of 1971 which was misinterpreted to mean that workers could do whatever they liked and not be disciplined.
- It was not clear how the trade union felt about the problems of external debt.

8.1 Comments from Labour and Employers' Organisations

- How can trade unions look for ways and means of widening the tax base while there is no mechanism to ensure equity in tax system. Sometimes those who earn more are not necessarily the ones who pay more tax.
- Literacy programmes are non-existent and literacy levels have fallen. In Kenya, for example, girls are being taken out of school and encouraged to go into the informal sector. Parents who cannot afford to pay for their children's education ask their children to drop out from schools.

- In hospitals, gloves and injection needles are sold to patients. Doctors and nurses have become merchants of medical services. The SAP has thus impoverished the people.
- The investment policy in Tanzania should encourage the government to provide infrastructure and get out of the business of running parastatals.
- The labour laws should be updated in favour of the workers.
- Co-opting leaders of trade unions into government in 1961 was a process of 'wiping' out the trade union.
- The erosion of the economy's vibrancy started in 1969 not 1986.
- **GDP** has been increasing; not all of us have become poorer; inflation does not make all people poor, some gain and some lose. When you complain about high prices somebody else is smiling about the same prices.

8.2 Reaction to Comments

- I am a trade unionist and do not see the other side.
- If everybody is involved in the struggle, there are better chances of making progress to our union demands.

By

*Professor R. Mabelle**Economic Research Bureau-UDSM*

- One of the issues raised by the Minister for Labour and Youth Development is that the data base is very shaky and therefore difficult to draw firm conclusions from. There is need to strengthen the data base for all sectors.
 - **Privatization** - this is not simply the handing over of formerly nationalised assets to foreigners. There is need to think of the indigenous people. Ear-marking shares to be sold to the local people is one way of ensuring the participation of the local people in the fruits of privatization.
 - **Liberalization** - there must be concern for protecting local industries. Measures are taken even by developed countries like the **USA** to protect their own industries. For example, where a local textile mill cannot buy cotton locally, it is not fair for such mill to be exposed to competition, especially when it is working with obsolete technology.
 - **Retrenchment** - The retrenchees should be helped to take off with the lump sum money they receive. For example, through training,

credit schemes, and other means.

- The issue of some gaining and some losing has to focus on how best to distribute the gains so that the beneficiaries continue to make more gains.
- Role of consultation, transparency and advocacy: This is to help to distribute the gains. The public is not aware of when and how the gains are made and distributed.
- The goals and objectives of development programmes should be spelt out and the people should be informed in good time. For example, at lower levels of government, people are not made to understand what is going on even when new policy changes are made. There is therefore need for more transparency and consultations in planning and implementation of policy changes.
- Characteristics of the labour force: those employed in the informal sector help to increase employment opportunities by increasing productivity in agriculture. Most people are employed in the rural areas where poverty abounds. Therefore, if we are to raise productivity, our focus should be in the rural areas. Low productivity leads rural people to migrate into urban areas.

So the main strategy for making a headway in development and alleviating poverty is to increase productivity in rural areas. The central problem that needs to be addressed is how best to increase such productivity. Or how to provide an enabling environment for the people to increase productivity.

- Issues on social dimension of employment : one has no access to social services because of being unemployed; hence the need to devise ways of helping the unemployed to find employment. However, before securing employment, there should be some schemes such as social insurance to act as safety net for the unemployed.

10.0 Summary, Conclusions and Recommendations

By

*Willem van der Geest, ILO Geneva and Dr. G. Ruigu,
ILO/EAMAT*

- The World Bank reinforces the importance of consultation in the economic reform process, but little is said on how that consultation should take place. In Zambia, consultation from statutory boards was not effective. As a result, a suggestion was made to institutionalize such consultation in the budget process where important decisions are taken. Employers' associations take active part in consultation. There is need to see a possibility of forming similar structures in Tanzania, although there are clearly other ways of doing consultation. For example, Kenya has a different modality.
- With trade liberalisation, the focus is on the importance of globalization and increased productivity; but conclusions for Tanzania are rather diffuse.
- Civil Service Reform is said to be necessary since there is over-staffing which needs to be cut back by 30% to 40%. More should be done and the pace should be quicker than is the case at present. The trade unions would clearly take a different position, but the two positions have

usually been unresolved.

- Employment policy: after the **ILO** mission to Tanzania, the government got interested in forging an employment policy, but there were delays at the ministerial level. At the moment, there is lack of information, and the government position is not clear.
- Research findings to the effect that 50% of the economy functions at the level of the informal sector is clearly not acceptable. There is no barrier into the informal sector and the percentage is probably higher.
- On poverty, there is an unsatisfactory policy response on the part of the government. The government is saying one thing and researchers are saying another.
- With a growth rate of about 3%, very little or no impact can be made on reducing poverty. Sub-Saharan Africa needs to grow at the rate of 5% - 6% to make an impact. Growth is not an end in itself; the nature of growth is important in generating employment. The generation of employment is necessary and its focus should be on industries that are labour intensive.

- Privatisation is a hotly debated issue and is taking place in an environment that is not quite ready for it. The process of preparing for it needs to be looked into. For example, the type and size of enterprise to be privatised should be considered. Presently, the government's emphasis is on foreign investment because foreigners have the capital. But since charity begins at home, it is important for Tanzanians to be part of that process too. When Japan was taking over American firms, the Americans were complaining. That is natural, but it should not stop the indigenous people from investing.