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WP 44

WORLD EMPLOYMENT PROGRAMME RESEARCH

Working Papers

International Labour Office, Geneva

WEP 2-46/WP.44

WORLD EMPLOYMENT PROGRAMME RESEARCH

Working Paper No. 44

5/26/94

International Employment Policies

EMPLOYMENT PLANNING WITHIN THE CONTEXT OF ECONOMIC REFORMS: A TANZANIAN CASE STUDY

by

Michael Hodd

Working Papers are preliminary material circulated to stimulate discussion and critical comments

December, 1993

International Labour Office Geneva

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ISBN 92-2-109278-X

First published 1994

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Printed by the International Labour Office, Geneva, Switzerland

PREFACE

A large and increasing number of developing countries are currently carrying out economic reform programmes, typically encompassing stabilization measures (aimed primarily at reducing current account deficits in the balance of payments and fiscal deficits) or structural adjustment (reforms in micro- and macro-economic policies to ensure more efficient use of resources), or a combination of both. These stabilization and structural adjustment measures in most cases have been introduced following recommendations of the IMF and the World Bank, respectively.

The implementation of reform programmes carries implicit and explicit effects on the levels and composition of employment as a consequence of changed levels of labour demand in the economy. Through an analysis of reform policies and measures introduced and an assessment of their positive and negative effects on employment and poverty levels it would be possible to identify ways of better incorporating employment concerns in the economic reform process and promoting employment-intensive growth consistent with the aims of the reform.

To assist governments in ensuring that employment considerations are fully taken into account while planning for or implementing economic reforms the Employment Strategies Branch has undertaken a review of selected country experiences of which this study on Tanzania forms a part (the other studies cover Indonesia and Chile) to draw lessons from an analysis of how these countries have planned for and implemented reform programmes in terms of their effects on employment. More specifically these country studies cover two areas of investigation: (a) quantification of the implicit and explicit effects of the programme on employment, and (b) an evaluation of the performance of those bodies of government directly and indirectly responsible for employment considerations in government planning. Based on the results of the country studies a synthesis paper will be prepared which will suggest possibilities for a more analytical role for employment planners in the economic reform programme and identify specific interventions in policy formulation which could assist in mitigating the negative effects on employment and promote expansion of new productive employment consistent with the objectives of the reform programmes.

This Working Paper by Michael Hodd assesses the impact on employment of a comprehensive structural adjustment programme adopted in 1986 by the Government of Tanzania and the response of relevant employment institutions to changes in employment levels.

The paper singles out the lack of baseline information and time series data on employment, absence of regular surveys and modelling capacity as the main hindrance to the anticipation of employment effects of the economic reforms. The assessment of employment loss is limited to consideration of planned job cuts in the civil service, and forecasts of job losses in the parastatals. Attention is concentrated more on the job opportunities likely to result from private sector expansion than on employment problems. The paper concludes that the employment problem is essentially one of low-income activities among most of the

labour force and that there is little open unemployment and under employment. Modern sector employment, where income is over four times that in the low income activities growing at only half the rate of the labour force, and only a small proportion of the total labour force is employed in the sector. The shortage of skilled labour is said not to present any constraint on growth and expansion because of the under-utilization of labour and capacity in the economy and the release of some skilled labour from the public sector.

To overcome the lack of basic data on employment, apart from the surveys of the labour force and the informal sector now being undertaken, it is expected that more information on the employment profile will now be collected annually to fill the gaps.

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ABBREVIATIONS

BUDMOD	Budget Forecasting Model
CCM	Chama Cha Mapinduzi (political party)
CGE	Computable general equilibrium
ERB	Economics Research Bureau
ERP	Economic Recovery Programme
ESAF	Enhanced Structural Adjustment Facility
ESAP	Economic and Social Action Plan
ESAURP	Eastern and Southern African Universities Research Programme
GDP	Gross domestic product
HRPD	Human Resources Planning Division
IDA	International Development Association (World Bank)
ILO	International Labour Office
IMF	International Monetary Fund
IPC	Investment Promotion Centre
MACMOD	Macroeconomic Forecasting Model
MIGA	Multilaterial Investment Guarantee Agency
MLYD	Ministry of Labour and Youth Development
MSTHE	Ministry of Science, Technology and Higher Education
NBC	National Bank of Commerce
NESP	National Economic Survival Programme
NMC	National Milling Corporation
OTTU	Organisation of Tanzania Trade Unions
RIMSIM	Revised Minimum Standards Model
SAF	Structural Adjustment Facility
SAM	Social accounting matrix
STAMICO	State Mining Corporation
TAC	Tanzania Audit Commission
UNDP	United Nations Development Programme
URT	United Republic of Tanzania

SUMMARY

Employment Planning within the context of Economic Reforms: a Tanzanian case study

1. Objective

The aim of the study is to report on the extent to which Tanzania has been able to quantify and forecast the impact of the structural adjustment programme on employment levels in the short, medium and long term; and to assess the degree to which training, rehabilitation, and employment facilitating institutions have been able to respond to the employment changes.

2. Tanzanian economic background

The economy registered good performance on most conventional indicators in the 1960s, experienced some slow-down in the 1970s and experienced severe problems with negligible growth and falling levels of income per head in the first half of the 1980s. In 1985 the economy was characterized by extensive state ownership, regulation and control.

3. Economic reform

After some piecemeal attempts at reform in the early 1980s, the government committed itself to a comprehensive structural adjustment programme in 1986. The foreign exchange market, interest rates, prices and imports have all been extensively liberalized. Agricultural marketing in foodstuffs has been opened-up to private traders, and real prices to producers of export crops have been raised. Some elements of cost recovery have been introduced in education. Foreign investment has been encouraged. The budget deficit has fallen as a percentage of GDP, and bank borrowing to finance the deficit is projected to be negative in the current financial year.

At the end of 1992 the financial sector had not been opened up to competition, there has been little state divestment, and no retrenchment of civil service employees. However, action in all these areas is imminent. Licences have been issued to private and foreign banks which are expected to open for business early in 1993. 50,000 civil service retrenchments are to be made over the coming two and a half years. Enterprises in the state-owned (parastatal) sector are to be privatized, liquidated and reformed, with 30,000 job losses anticipated over five years.

An important feature of the reform programme is that it has been gradual, with no sudden liberalization of areas such as prices or the exchange rate. These have been phased and the liberalization process will have been spread over ten years or so by the time the final elements of parastatal restructuring are completed.

These tactics have allowed agents in the economy to anticipate changes and to adjust by reallocating resources within the context of a steady expansion of the economy, reducing the unemployment that sudden, complete liberalization would have generated. It does need

to be borne in mind, however, that the public sector retrenchments have yet to be implemented, and they pose the most serious employment threat.

The main indicators have shown significant recovery over 1986-91. GDP and GDP growth have been positive in every year. Export crop production has expanded at 7.5% a year. Although export volumes have expanded, export revenues have shown little growth as world prices have fallen. Investment as a proportion of GDP has risen. The rate of inflation has shown a marginal fall.

The reforms have been credited with the improvements by some observers. However it has been argued by others that they are the result of better climatic conditions, a more favourable world trading environment and improvements in regional political stability, combined with increased aid flows.

The growth improvements are expected to have had a significant positive effect on employment in the small-scale agriculture and non-agricultural sectors and in the private formal sector. In the state-owned sector, the employment effects of higher output expansion rates are expected to have been minimal.

Considering specific reform measures, exchange rate depreciation has positively assisted small-scale agricultural employment; financial reform has had a negligible employment effect to date; contractionary fiscal policy has curtailed employment expansion; exchange control and trade liberalizations have raised employment in the small-scale sector and in the private formal sector; agricultural reforms have boosted employment in farming; minimum-wage adjustment have had a negligible employment effect; civil service retrenchments and parastatal re-structuring will have a profound negative impact on wage employment; social service cost-recovery measure have had no perceptible impact on employment; increased foreign investment is expected to expand wage employment significantly.

4. Employment problems

The first comprehensive survey of the labour force in 1990/91 revealed that only a small percentage of the labour force was unemployed (3.6 per cent) or under-employed (4.1 per cent). Most wage employment was in the public sector, either in government (32.6 per cent) or the parastatals (18.3 per cent). Most of the active labour force is engaged in small-scale (traditional) agriculture.

The labour force is currently growing faster that formal sector employment, and this has reversed the transformation process whereby the proportion of the labour force in high productivity employment was rising, albeit very slowly.

There are relatively few fully unemployed in the economy, and the employment problem is rather one of the predominance of low income employment, and slow growing high income employment in the formal sector.

5. Employment responses

Anticipation of employment effects of economic reforms have been hampered by lack of baseline information, absence of regular surveys as reforms have unfolded, and no current modelling capacity. Some projections have been possible by extrapolating recent output trends in the economy and linking these to employment, and by considering the employment implications of sectoral plans.

Following recommendations of an ILO mission in 1981, alternative responses to the economic crisis, such as efforts to improve parastatal efficiency without job losses and modest devaluations, were attempted in the early 1980s, but they were considered unsuccessful.

Employment loss assessment has been limited to consideration of planned job cuts in the civil service, and forecasts of job losses in parastatals.

The main emphasis of plans introduced toward the end of the 1980s was on restoring economic growth, with the expansion of the private sector seen as the main source of employment expansion.

Private sector employers do not perceive employment problems under structural adjustment as seriously affecting their prospects. Serious skill shortages are yet to emerge, and there has been no downturn in economic activity to date, though this may emerge with the public sector retrenchments. The labour union organisation is adjusting to a new role independent of the party and the government. It does not anticipate having any influence over the broad structural adjustment policies that will affect its members, but does hope to have an effect on such items as the severance terms for public sector retrenchees.

In 1991 the government commissioned a report on employment policy which details initiatives in the rural sector, the urban informal sector, education, vocational training, parastatal management, small enterprises, labour-intensive works, redeployment programmes for retrenchees, youth employment, women's employment, disabled employment, and manpower planning. These initiatives are expected to form the core of the government's employment policy, which is currently in the final stages of formulation.

Civil service retrenchments are to be phased over three years, and the parastatal restructuring over five years. The government has signalled its intention to provide redeployment schemes for the first tranche of public sector retrenchees, but has yet to decide on how, and to what extent, it should expand tertiary training.

Training, credit provision, infrastructure and appropriate technology are identified as areas where government initiatives are necessary if output and employment are to continue to expand.

6. Conclusions

Two conclusions are reasonably clear. Firstly, the Tanzania economy has undergone a steady process of reform, which can be expected to continue over the next three to five

years. At the end of this period the financial sector should be fully liberalized, the parastatals extensively privatized or liquidated and government employment trimmed.

Secondly, there has been a significant improvement in economic performance compared with the first half of the 1980s. One view attributes the improvements to the efficiency gains of the market orientated reforms, the other argues that they are due to improved external circumstances and the resumption of aid flows.

What is apparent is that there are significant employment implications to the structural adjustment programme. In the public sector there are expected to be 80,000 job losses. The position in the rest of the economy is difficult to judge because of poor information and lack of forecasting capacity. It is likely however, that formal sector jobs are growing at only half the rate that the labour force is expanding.

Given the lack of resources from external assistance in the early 1980s, the government has responded as well as could be expected after committing itself to a structural adjustment programme Baseline studies have been implemented as a prelude to improved labour market monitoring on a regular basis. Forecasting by use of economic modelling has been neglected and is an area where better capacity would have helped provide a stronger analytical background, and enhanced ability to anticipate the effects of structural adjustment on employment.

Formulation of an employment policy has been somewhat delayed. Training, plans for re-skilling public sector retrenchees, provision of credit, and infrastructure, are areas where bottlenecks to expanding employment are most likely to arise.

1. INTRODUCTION[1]

1.1 Objective of study

The aim of the study is to report on extent to which Tanzania has been able to quantify and forecast the impact of the structural adjustment programme on employment levels in the short; medium and long term; and to assess the degree to which training, rehabilitation, and employment facilitating institutions have been able to respond to the employment changes.

In particular, the report gives attention to:

- extent to which anticipation of the impact of reforms has been possible, and identification of the agency responsible for employment planning,
- examination of whether the government considered alternative routes to economic reform,
- degree to which forecasts and estimates were possible, and if so, their accuracy,
- reaction of interest groups (employers, trade unions) to employment changes,
- identification of strategies formulated for dealing with the employment changes,
- consideration of how government has reacted as employment effects have developed,
- whether positive employment effects of economic reforms have been identified,
- if it has been possible to stimulate enterprises in expanding sectors, and to direct labour toward these sectors,
- consideration of losses incurred through lack of assessment and appropriate forecasts and associated response.

1.2 Organisation of the study

The study begins with a brief review in Chapter 2 of Tanzania's economic history up to 1985. This provides the background against which comprehensive economic reforms were initiated in 1986, and it allows an assessment of the degree of adjustment that was required

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[1]The author is a staff member at the Economics Department, S.O.A.S., University of London. Field work on the study was carried out in Tanzania in September, 1992, December 1992 and July, 1993. The author would like to thank Mrs. Andrea Singh and Mr. Beda Ngallapa at the ILO Office in Dar-es-Salaam for their valuable assistance.

in changing to a system where there was more emphasis on the private sector, less government intervention and control, and reliance on market prices to allocate goods and resources.

Chapter 3 then examines progress since 1986, and details the economic reforms that have be introduced as part of the current structural adjustment programme. This chapter gives an indication of how rapidly the changes are forcing the economy to adjust, particularly the rate at which labour is expected to be released from declining sectors and re-absorbed into other.

After a review in Chapter 4 of current employment problems Chapter 5 focuses on the responses to employment issues as the structural adjustment programme has unfolded, giving particular emphasis to problems arising from lack of information, absence of forecasting capacity and response delays.

2. ECONOMIC POLICY AND PERFORMANCE TO 1985

2.1 Introduction

This chapter begins by examining the main features of Tanzania's economic performance from 1960 to 1985, dividing the years into three periods from the viewpoint of the main economic indicators. A broad analysis of the factors affecting this performance is followed by a brief account of the economic strategy followed, and its effects. Tanzania changed its strategy in 1986, and a section examines the build-up to this watershed.

2.2 Economic performance 1960-85

Table 2.1 sets out the principal economic indicators since Independence. The 26 years since 1960 can be divided into three periods as summarized in Table 2.2. The first 10 year which span up to 1969 was a period of positive economic growth, averaging 6 per cent a year, with significant increases in GDP per head, averaging 3.3 per cent per year. The inflation rate, as measured by annual changes in the consumer price index, was modest, but with indications of an acceleration to double figure annual price rises in the latter half of the period. The share of GDP devoted to investment averaged 14 per cent. The balance of trade in the balance of payments was in overall surplus. During these first eight years, Tanzania performed on these main indicators better than the average for the whole of Sub-Saharan Africa, and even better when compared with the Low-income group of African countries (see World Bank, 1981 and World Bank, Annual).

For the second period from 1970 through to 1979, Tanzania experienced growth of GDP which averaged 4.9 per cent per year, which allowed an increase of GDP per head of 1.8 per cent. Inflation increased to 10.5 per cent. The development effort increased, with 20 per cent of GDP being devoted to investment. The trade balance was in continual deficit, averaging -$190 million a year. This second period was characterized by external difficulties occasioned by an increase in the international price of oil in 1974, drought in 1974 and 1975, and the end of the East African Community in 1977.

However, the decade also included substantial increases in world prices for coffee and tea in 1976 and 1977. These opposing factors virtually cancelled out leaving Tanzania's net barter terms of trade, on average, more-or-less unchanged for the ten years. Nevertheless, Tanzania again performed better than the average for Sub-Saharan Africa and for the Low-income African group, as regard GDP and GDP per head growth, but slightly worse for price stability. Tanzania's investment to GDP ratio was twice that achieved by other African Low-income countries (see World Bank, 1981). Other Low-income African countries had trading deficits as a percentage of GDP approximately one percentage point greater than that averaged by Tanzania over the period (see World Bank 1981).

Table 2.1 Tanzania: main economic indicators 1960-85

Year	GDP growth % p.a.	GDP/head growth % p.a.	Inflation rate % p.a.	Invest-ment % of GDP	Trade balance $s(mn)
1960	5.5	2.8	2.1	13	49
1961	6.5	3.8	2.5	14	24
1962	9.1	6.6	3.2	11	18
1963	6.3	3.7	0.6	12	49
1964	5.5	2.9	-0.6	11	61
1965	3.3	0.6	5.0	13	32
1966	12.8	10.1	9.8	14	40
1967	4.0	1.2	12.2	17	32
1968	5.2	2.4	15.6	17	8
1969	1.8	-1.1	16.4	15	22
1970	5.8	2.9	3.5	20	-38
1971	4.2	1.2	4.7	24	-83
1972	6.7	3.7	7.6	21	-44
1973	3.1	0.0	10.5	20	-74
1974	2.5	-0.6	19.2	19	-261
1975	5.7	2.5	25.6	19	-297
1976	6.6	3.4	6.9	19	-65
1977	14.7	11.5	11.6	17	-108
1978	-3.5	-6.8	11.4	19	-517
1979	3.1	-0.3	13.8	21	-415
1980	3.5	0.1	30.3	19	-506
1981	-1.7	-1.7	25.6	20	-448
1982	-3.3	-6.7	28.9	19	-539
1983	-0.4	-3.4	27.1	16	-336
1984	2.5	-0.9	35.8	16	-369
1985	2.9	-0.6	32.1	21	-541

Source: IMF, *International Financial Statistics* (Monthly)

The six years up to 1985 show a marked down-turn in all the indicators for Tanzania. GDP growth averaged 0.1 per cent per year, with GDP per head declining at -2.5 per cent per year. Inflation averaged close to 30 per cent per year, investment slipped to 19 per cent of GDP over the period, and the trade balance was in continuous deficit at an average of -$456 a year. For this period, data in World Bank (Annual) would indicate that GDP and GDP per head growth rates in Tanzania were lower than for the average for Sub-Saharan Africa Low-income countries. Although this group of countries experienced falling GDP per head since 1980, it was, on average, falling at a slower rate than in Tanzania. However, as much as can be judged from the patchy coverage available, Tanzania's price stability was better than that of the rest of Africa.

Table 2.2 Tanzania: economic indicators by period

Year	GDP growth % p.a.	GDP/head growth % p.a.	Inflation rate % p.a.	Invest-ment % of GDP	Trade balance $s(mn)
1960-69	6.0	3.3	6.7	14	34
1970-79	4.9	1.8	11.5	20	-190
1980-85	0.6	-2.2	30.0	19	-456

Sources: IMF, *International Financial Statistics* (Monthly).
ERB, *Tanzanian Economic Trends* (Quarterly).

Investment as a percentage of GDP was sustained at a higher rate in Tanzania than it was in the Low-income Sub-Saharan African group. Tanzania's trade deficit as a percentage of GDP was a couple of percentage points worse. Tanzania, in common with all Low-income African countries, sustained the impact of the second major rise in oil prices in 1979 over this period. Further, Tanzania shouldered the burden of the military excursion into Uganda in 1979, and a subsequent period of peace-keeping occupation.

Following generally acknowledged good performance in the 1960s and early 1970s, there was clearly serious cause for concern at the performance of the economy in the first half of the 1980s.

2.3 Analysis of Tanzanian economic performance 1960-85

There has been much written concerning the impact of external conditions as against the consequences of domestic policy measures (see Bagachwa, 1992, Green *et al.*, 1982, Green 1984; Singh, 1986; ILO 1985, Ellis, 1984; Sharpley, 1983 and Lele, 1983).

Although the impact of drought, the war with Uganda, the oil price rises in 1973 and 1979, and the collapse of the East African Community clearly impaired Tanzania's economic performance, it is the view of Lele (1983) that poor domestic economic policies were largely to blame. In particular, in the absence of the external factors, it is felt Tanzania's performance would still have been inferior to that of the Sub-saharan average.

2.3.1 Economic strategy 1960-85

Tanzania followed a largely mixed-economy strategy up to 1967. Agricultural production was predominantly in the private sector, but the marketing of key crops, mostly for export, was handled by state-owned corporations, a system inherited from the colonial period.

The manufacturing sector was almost all privately-owned, although many light manufactures were imported from Kenya and all heavy manufactures and transport equipment imported, mostly from Europe.

The construction industry was privately owned, but the main utilities (water, electricity, post office and telecommunications) were state or municipal responsibilities. The railways were run by the state, while road transport was a mixture of municipal and private operations.

The financial sector was privately-owned, with a strong element of overseas ownership in banking and insurance. Retailing and distribution, restaurants and hotels were all private. Public administration was modest in its employment levels, but began to expand its share of overall employment after independence in 1961. This is reflected in that all wage employment grew at 3.7 per cent a year 1964-74 and at 4.2 per cent 1974-82, but services wage employment in these periods grew at 5.8 per cent and 8.2 per cent a year, respectively (see URT, Economic Survey, various years).

The Arusha Declaration in 1967 signalled a major change in strategy. Most of the financial sector, large-scale manufacturing, and plantations were taken into public ownership. At a later stage, wholesale and retail distribution was taken over by the state, although some private outlets did survive. A drive for industrial development saw the establishment of many new state-owned (parastatal) enterprises until these numbered some 400 by 1985.

An attempt was made to reorganise agriculture by grouping small household farms into villages and encouraging collective production.

The allocation of resources between sectors and the level of earnings were set by the government for all the areas under its control, which comprised some 70 per cent of non-subsistence production. A policy of reducing inequalities led to the compression of earnings differentials. Prices were either held fixed (such as the exchange rate and interest rates) or set by a Commission. Some 3,000 wholesale and retail prices were determined by the Commission during the 1970s.

Foreign investment was discouraged and virtually ceased. Tourism was not encouraged, and numbers of visitors did not expand significantly.

Public expenditure increased dramatically as a result of emphasis on an administered economy, expanded enrolment in education and a more comprehensive provision of health services.

External support rose with increased commitments from countries sympathetic to Tanzania's egalitarian ideals and aspirations to be self-sufficient and self-reliant. Some large infrastructure projects were funded by Eastern bloc countries. China built a new railway from the port of Dar es Salaam through the poorly-serviced South-West of the country to Zambia. The Soviet Union contributed significantly to higher education with scholarships for overseas study.

The employment problem has not been characterized by high levels of unemployment. Estimates (such as ILO 1982) suggest that these are modest with around 3 per cent of household heads in the labour force falling into this category. Other household members, engaged in job search, had higher open unemployment rates of around 6 per cent for males and 20 per cent for females (see Barnum and Sabot, 1976 and Sabot, 1974). Although

policies to reduce unemployment are considered highly desirable, the employment problem was perceived more in terms of a limited availability of higher-income formal sector wage employment (6.9 per cent of the total labour force in 1980) and the predominance of low-income activity in non-wage agriculture and non-wage non-agricultural activities (93.1 per cent).

The rate of growth of wage employment was 2.3 per cent for 1974-80 (see ILO, 1982), compared with a population growth rate of 3.3 per cent, and with no great change in the participation ratio, the proportion of the labour force in formal sector wage employment was falling.

2.3.2 Effects of economic policies 1960-85

The reorganisation of the agriculture sector did not produce the desired effects. Villagisation dislocated production, and the government found it had not the resources to deliver water, electricity, roads, schools and clinics, as the government intended, to the new clusters of rural dwellings, and certainly not in the amounts clearly expected by the population in the countryside. Collective production was never properly established.

Pricing policy in agriculture favoured food crops at the expense of export crops. This, together with an inability to maintain real producer prices and poor performance by marketing bodies, caused export earnings to fall.

The manufacturing sector, state-owned and confused as to whether its objectives were to maximize employment, minimize prices to consumers, or make surpluses, performed poorly. The only parastatals to cover their running costs by the beginning of the 1980s were the monopolies such as electricity, posts and telecommunications, the Central Bank, the main commercial bank, the insurance companies, the cigarette factory and the brewery.

The financial sector failed to operate on sound banking principles. Credit was extended on the basis of government directives, much of it to parastatal marketing boards and cooperatives for crop purchase. A large proportion of the loan portfolio was not covered by collateral, and was non-performing. The monopoly position of the banks led to poor service to customers.

The commitment to expansion of public administration, health and education soon led to budget deficits that were funded by borrowing from the banking system. Inflation accelerated, and with interest rates fixed, real interest rates became negative. This discouraged saving and led to an excess demand for loans. Successful loan applicants invariably channelled the funds into real estate or other unproductive investments.

Inflation rates faster than those of Tanzania's trading partners caused the currency, traded at a fixed official exchange rate, to become overvalued. This discouraged exports and import-competing sectors. Much effort went into securing foreign exchange through the import-licensing procedures, and those able to import had opportunities to command considerable premiums on the imported goods.

The need for multiple permissions to open a business and keep it operating led to considerable scope for corrupt practices (see Maliyamkono and Bagachwa, 1990) which defeated the objective of moving to greater equality, and served to limit the size of the private sector investment.

The strategy of compressing salary differentials improved equality, but encouraged out-migration of highly-skilled professional manpower.

Attempts to introduce effective universal primary education foundered on lack of resources as the government budget became stretched, and the sheer size of the expansion led to shortages of adequately trained teachers.

The policy in health was successful in extending para-medical services to rural areas, but it, too, suffered from budgetary constraints which resulted in clinics with no drugs or other medical supplies.

Infrastructure investment suffered from budget constraints and the road system in particular had reached an appalling level of disrepair by the mid-1980s.

2.4 The impetus for economic reform

The problems of the socialist development strategy enshrined in the Arusha Declaration had become clear by the end of the 1970s. Successively the IMF, World Bank, the United States and finally the Dutch and Scandinavians urged reform. In the case of the Americans, British and later the Dutch, this was reinforced by refusal to make new aid commitments until changes were made.

These pressures were reinforced by a technocracy that had undergone post-graduate training overseas, mostly in the west, and risen to senior positions in key ministries and the university (see Hodd, 1987).

By the mid 1980s, three possible candidates to succeed President Nyerere, Edward Sokoine, Salim Salim and Ali Hasan Mwinyi, had all, at one time or another introduced liberalizing measures (see Bagachwa, 1992). When Nyerere resigned in 1985, and was succeed by Mwinyi, the stage was set for a change in economic strategy.

2.5 Summary

After good performance in the 1960s, Tanzania's economic performance steadily deteriorated from 1970 up to 1985. Although external factors such as drought, war, regional disintegration and the oil crises have contributed to this, it can be rightly argued that poor domestic policies have been a major contributing factor.

Adverse effects have resulted from government intervention in the economy which led to an inefficient state-owned sector. The setting of prices without reference to market valuations, gave rise to parallel markets and opportunities for economic advantage through rent-seeking.

Employment was mainly in the low-income mainly agricultural non-wage sector, with only 6.9 per cent in higher-income wage employment. Wage employment was growing more slowly than the labour force.

Government sector employment (in administration and state-owned enterprises) was the category of wage employment that increased most rapidly. Curbs on high levels salaries served to encourage out-migration and the pursuit of salary supplements through corruption.

Tanzania gradually came under pressure to change these policies as their effects became apparent and the international community exerted influence through aid conditionality.

3. ECONOMIC REFORMS SINCE 1986

3.1 Introduction

This chapter looks at the sequencing and extent of the liberalizing economic reforms which were undertaken with a new seriousness and commitment after the signing of the IMF agreement in 1986.

It begins with a section on general economic performance in this period, and then goes on to detail developments that have taken place in the development strategy, external finance, the exchange rate, interest rates, fiscal policy, foreign exchange allocation, international trade, the agriculture sector, price control, wage regulation, state-owned enterprises, social service provision and foreign investment.

3.2 Economic performance after 1986

Table 3.1 Tanzania: economic indicators 1986-91

Year	GDP growth % p.a.	GDP/head growth % p.a.	Inflation rate % p.a.	Invest-ment % of GDP	Current A/C $ mn.
1986	3.3	0.5	32.4	18	-577
1987	5.1	2.3	30.0	29	-654
1988	4.2	1.4	31.2	29	-646
1989	3.3	0.5	26.0	25	-655
1990	3.5	0.7	20.0	29	-778
1991	3.8	1.0	28.0	..	-804

Sources: IMF, *International Financial Statistics* (Monthly).
ERB, *Tanzanian Economic Trends* (Quarterly).

The main economic indicators are presented in table 3.1. The most impressive feature is the way in which a positive rate of growth of GDP has been sustained. This is in contrast to the period 1980-85 when GDP fell in three of the years. GDP per head was also positive in every year, although for the period the average indicated a modest rise of 1 per cent a year. Direct comparison with the period immediately before the reforms is presented in table 3.2.

Table 3.2 Tanzania: economic indicators by period

Year	GDP growth % p.a.	GDP/head growth % p.a.	Inflation rate % p.a.	Invest-ment % of GDP	Trade Balance $mn.
1980-85	0.6	-2.2	30.0	19	-456
1986-91	3.9	1.1	28.0	26	-685

Sources: IMF, *International Financial Statistics* (Monthly).
ERB, *Tanzanian Economic Trends* (Quarterly).

The inflation rate has not shown much change compared with 1980-85. It averaged a couple of percentage points less at 28 per cent a year, and this is markedly worse than the 7 per cent or so in the 1960s and the 11 per cent of the 1970s.

The investment rate has recovered sharply to 26 per cent of GDP as compared with 19 per cent for 1980-85. There is little doubt that it is the improvement of donor support as compared with 1980-85 that is responsible. The figures for merchandise trade would tend to bear this out, with the deficit running at -$685 million a year 1986-91, significantly greater than the -$456 million of 1980-85.

The balance of payments position is the least encouraging aspect of the recovery. Export earnings have increased only slightly since 1985. However, this is due to falling prices for Tanzania's export crops on world markets. Volumes of exports have in fact increased substantially, with the aggregate index showing an expansion of 7.5 per cent a year (derived from Table 3.3). This is all the more impressive in the context of the Tanzanian transport system which has been in such poor shape, severely hampering the freighting of goods to processing points and then on to the ports.

There was considerable scepticism that Tanzania would be able to make a rapid recovery in export crop production after such a long period of poor incentives to farmers (see Bevan et. al., 1986, 1990), but these fears have proven unfounded.

The figures for the main export crops are shown in Table 3.3. Coffee and cotton are the most important, generating 31 per cent and 40 per cent of export revenue respectively in 1991, followed by tea, tobacco and cashews (10 per cent, 10 per cent, and 7 per cent), with sisal contributing a little over 1 per cent. Coffee, cotton, tea and tobacco have all shown marked improvements in ouput growth since the IMF agreement in 1986. Even the rate of contraction of the sisal sector has been slower, and it is only in cashews where growth has been lower after the onset of reforms than before.

Table 3.3 Tanzania: agricultural exports (1,000s tonnes)

Year	Coffee	Cotton	Sisal	Tea	Tobacco	Cashews
1980	43.5	31.5	48.9	13.3	8.5	9.1
1981	67.9	44.5	57.5	15.4	11.0	25.2
1982	54.8	38.9	50.7	12.0	10.1	17.2
1983	50.7	39.8	26.8	16.6	5.4	10.5
1984	55.5	28.9	21.5	11.1	4.6	33.5
1985	44.0	22.1	15.5	11.7	7.7	23.6
1986	50.4	31.7	15.1	9.5	7.1	17.8
1987	48.3	42.2	13.8	14.0	8.2	11.2
1988	38.7	51.7	11.2	11.9	9.8	16.3
1989	49.9	48.0	8.6	10.1	7.7	9.1
1990	57.5	39.2	6.0	16.8	6.0	11.0
1991	57.3	65.8	6.9	17.9	10.2	18.5

Source: ERB, *Tanzanian Economic Trends*, (Quarterly).

Table 3.4 summarises the growth rates of the main sectors. Only in the unreformed financial sector and public administration have growth rates been significantly below the rate of population growth (2.8 per cent) after 1985.

Table 3.4 Real GDP growth rates

Year	AFFH	M&Q	MAN	E&W	CON	WRHR	T&C	FIRB	PA
1980	0.9	-5.5	-4.9	15.8	6.0	0.0	11.3	6.2	1.4
1981	4.0	2.1	-11.2	4.3	-4.5	-4.0	-9.1	1.9	11.4
1982	1.3	0.0	-3.3	0.7	4.5	-2.1	2.5	6.8	0.1
1983	2.9	-9.8	-8.7	-1.7	-41.0	-2.1	-13.0	4.3	-0.3
1984	4.0	6.9	2.7	6.3	20.2	1.1	0.6	5.9	0.1
1985	6.0	-6.5	-3.9	5.0	-8.9	0.8	1.8	11.2	1.9
1980-85	3.2	-2.1	-4.9	6.7	-3.9	-1.1	-1.0	6.0	2.4
1986	5.7	-11.5	-4.0	18.0	17.3	11.1	-0.3	0.0	-10.8
1987	4.4	-3.2	4.5	7.4	49.2	5.2	5.6	2.2	0.6
1988	4.5	-7.4	7.1	-1.7	11.9	4.0	3.5	1.3	3.1
1989	4.6	0.7	7.1	-11.8	-27.1	9.7	1.2	3.5	3.9
1990	6.6	18.7	-0.5	1.2	9.2	-0.8	2.0	1.5	2.2
1991	4.6	45.5	2.1	4.5	2.7	4.0	2.9	3.2	1.9
1986-91	5.1	7.1	2.8	2.9	10.5	5.5	2.5	1.9	0.1

Source: ERB, *Tanzania Economic Trends,* (Quarterly)

Note: (AFFH: Agriculture, forestry, fishing and hunting; M&Q: mining and quarrying; MAN: manufacturing; E&W: electricity and water; CON: construction; WRHR: wholesale, retail, hotels and restaurants; T&C: transport and communications; FIRB: finance, insurance, real estate and business services; PA: public administration and other services)

Despite the improvements in output since 1986, this is unlikely to have been reflected in improved employment levels in all sectors. The main sectors where employment can be expected to have increased are small-scale agriculture and privately-owned large-scale agriculture; construction; wholesale, retail hotels and restaurants; privately-owned small-scale transportation. For the rest, predominantly the state-owned sector, the increases in output have been the result of better capacity utilization and more intensive use of existing employees. This is also shown in the negligible growth documented in public administration where output is valued at the cost of inputs (mainly labour) in real terms.

3.3 Development strategy

In July 1987 the government launched a new Five Year Development Plan which was closely co-ordinated with the 1986-89 Economic Recovery Plan (ERP). It aimed at increasing agricultural growth from 0.6 per cent per annum to 5 per cent, and industrial growth which was -5.2 per cent in 1985 and 2.0 per cent in 1986, to 6.4 per cent.

In mid-April 1989 the government launched a revised Five Year Plan. It appears to have been more of a government public relations exercise than a serious development plan. While President Mwinyi stressed the socialist and self-reliant aspects of the Plan, the Plan itself depended on an expansion of the private sector, and export-led growth. Whereas the most optimistic independent statistics for sub-Saharan Africa put future maximum growth at 3.2 per cent, the Five Year Plan aimed to increase growth to 6 per cent a year on the mainland and 4 per cent a year on Zanzibar.

Tanzania's three-year Economic Recovery Plan came to a close at the end of 1989. The government expressed its intention to make the second ERP place more emphasis on nutrition, education, health and water although continued aid rested upon the reform of marketing boards and parastatals.

In February 1990, President Mwinyi presented the second recovery plan, the Economic and Social Action Plan (ESAP) 1989/90-1991/92 which emphasized social policies as a necessary part of adjustment. Its aim was to increase export and food production and rehabilitate physical infrastructure, particularly transport and communication, and complete the state withdrawal from the economy, leaving the government responsible for education, health, and infrastructure.

3.4 External aid

Within a month of the 1986 IMF agreement, Tanzania's debts with its multi-lateral and bi-lateral donors were rescheduled. This covered its repayments of the principal interest arrears falling due between in the year to October 1987 which were believed to amount to a minimum of $600 million, although the actual figures were not made public. By the end

of 1986 the World Bank had agreed $96 million worth of loans, $50 million credit from the IDA and $46.2 million from the Structural Adjustment Facility (SAF) for Sub-Saharan Africa. This special facility was payable over 50 years, including 10 years grace, at an interest rate of 0.5 - 0.75 per cent.

In July 1988 $800 million had been pledged to Tanzania at the Paris Club, in November the IMF disbursed (SAF) SDR 31.1 million ($42 million) and in December the World Bank/IDA granted a loan of SDR103.6 million ($137 million) which was interest free and repayable over 40 years.

Following the 1986 devaluation the IMF had released the first two SAF tranches worth SDR 21.4m ($27.5m) in the first year and SDR 32.1m ($41.3m) in the second. The IMF refused however to release the third and final tranche facility of the 18 month agreement. Negotiations for this and a second SAF were difficult, it is thought, on two grounds. Firstly because of Tanzania exceeding IMF ceilings on domestic money supply and concern over the effect of this on inflation and secondly because of the government's reluctance to implement parastatal reform.

In February 1990 the IMF finally approved the third and final drawing of SDR 21.4 million ($28.3 million) under the 3 year SAF signed in October 1987.

The IMF SAF expired in October 1990 and it was not until August 1991 that a new enhanced structural adjustment facility (ESAF) agreement, worth SDR182 ($247 million) granted over 3 years, was reached. During the months of negotiating the new agreement an IMF review team arrived in Tanzania in May 1990 and reportedly expressed concern over the limited extent of devaluation and the continuing reluctance of the government to carry out parastatal reform. Before their arrival President Mwinyi had expressed his own concern over the rise in hardship, and resulting increase in corruption and robbery, because of devaluation.

Following the 1990 budget the Paris Club met and pledged $980 million for 1991/2. Foreign aid represented 30 per cent of GDP.

In January 1992, after the Club had met for the fourth time since the IMF programme began, a secretariat communique said it had given Tanzania "exceptional treatment" in view of the country's high debt burden, poverty and reform efforts, although precise figures were not released.

The increased net flows of external finance were clearly a major factor in economic recovery. The employment impact of this aid (as argued in Section 3.2) was greatest in the non-state-owned sector. Thus the impact on wage employment will have been slight, but the effect on self-employment, particularly in agriculture, would have been greater.

3.5 Exchange rate

In April 1986 the government adopted a more flexible exchange rate policy. Between then and mid-October the shilling depreciated by 61 per cent. From mid-April until the eve of the budget the Government let the shilling slide from Tsh 17.47 per $ to Tsh 29.40. In

the budget it was devalued by a further 36 per cent, being pegged at Tsh 40 per $. This was the first major exchange rate adjustment since June 1984. President Mwinyi said that the IMF's aim was to reduce the shilling to Tsh 150 per dollar within the 18 month agreement. By the end of October 1986 the shilling was at between Tsh 45-46 per dollar while the parallel market was down from Tsh 180 to Tsh 140 per dollar.

During 1987 the shilling was devalued 55 per cent against the dollar. Between December 1987 and February 1988 the shilling depreciated 15 per cent, by July 18th it was worth Tsh 107, which was closing the gap with the parallel market rate of Tsh 160-180.

In November 1987 the shilling was devalued 18 per cent from Tsh 98 to Tsh 119 per dollar while on the parallel market the Tsh was worth 250. In mid-1989 the shilling was devalued a further 5 per cent from Tsh 138 to 145 per dollar which was less than expected given an inflation rate of 29 per cent, some way above the budget estimate of 20 per cent. On December 4th 1989 the shilling was devalued by 24 per cent from Tsh 145 to 190 per dollar.

It was not until March 4th, 1991 that the shilling was further devalued, by 1.75 per cent, which changed the rate from Tsh 196.6 to Tsh 200.10 per dollar. From March until the end of June there were several further unannounced adjustments. By then the overvaluation had declined, and the official rate was now Tsh 225.9 while the parallel rate was Tsh 325. In late 1991 the official shilling was worth Tsh 230 per dollar while the parallel market was Tsh 365.

In November 1991 the shilling was devalued 1.7 per cent, which was the first adjustment since June. During February and March 1992 the shilling was devalued 19.3 per cent in a series of small adjustments taking it from Tsh 233.9 to Tsh 290 by the beginning of April.

By March the parallel market rate, which had risen steadily over the second half of last year was Tsh 390 while the official rate remained unchanged.

In April 1992, the government opened Foreign Exchange Bureaux, which were able to set their own buying and selling rates. Foreign exchange could be freely sold, and could be purchased by bona fide travellers up to a limit of $3,000. The bureaux began trading at a rate of around Tsh 400 = $1 in September, and virtually eliminated the parallel market.

The Bank of Tanzania now holds weekly foreign exchange auctions where a maximum spread between the bureaux rate and the official rate is set, and which in the long term is aimed at unifying the bureaux and official rates. In addition, currency declaration procedures at entry points were scrapped and small traders in the border regions were free to import goods not exceeding $500 in value.

The exchange rate adjustments have allowed scope for increased prices to producers of agricultural export crops. This has been a key factor in increasing agricultural output, and with this increase, a rise in self-employment in agriculture, and a reduction in under-employment. By making imported manufactures more expensive it has encouraged domestic production of substitutes, although the employment effect of this will be slight as most

reasonably sophisticated manufactures are produced in the state-owned sector (see Section 3.3). The trade and exchange liberalizations have also been instrumental in contributing to output increases by reducing the bureaucratic costs and delays in obtaining inputs and spare parts. Again, for reasons outlined above, the employment impact has probably been slight.

3.6 Interest rates

At the time of the 1986 IMF agreement interest rates in Tanzania of between 10 per cent to 15 per cent were negative in real terms due to an inflation rate of around 44 per cent. This discouraged people from buying government bonds and forced the public sector finance by inflationary monetary expansion. It also meant the hoarding of scarce consumer goods or land speculation which gave a much higher return than leaving money in a bank account. To counter this the government planned to increase real interest rates by the end of a two-year period. An increase in the interest rate to 30 per cent following the agreement had no real impact until inflation fell to below 30 per cent in 1987.

By August 1991 the Bank of Tanzania had announced that commercial banks were to be allowed to set their own interest rates providing that the maximum lending rate is no more than 31 per cent and the 12 month saving deposit rate was above the expected inflation rate.

The impact of financial liberalization on employment was likely to be slow. In a longer term it should encourage domestic saving and channel investment toward productive activities rather than land-holding and commodity hoarding.

However the financial sector had not yet seen the establishment of private banks (although Standard Chartered and Meridien have obtained licences to begin operations in 1993), and the state-owned sector, undergoing restructuring in a period of tight monetary policy, is currently able to extend only limited credit.

3.7 Fiscal policy

In May 1987 pre-budget emergency tax measures were necessary in order to make up a short-fall in 1986/7 revenue arising partly because of the rising import costs due to devaluation. Sales tax on cigarettes, beer, and soft drinks were increased by between 14-23 per cent, to yield an estimated Tsh 2.4 billion. In the 1988 budget in order to raise Tsh 7.5 billion of new taxes as part of a recurrent expenditure of Tsh 70.21 billion, secondary school fees were increased 50-100 per cent; the price of visas for visitors, fees on government auctions, vetinerary and other government services raised; and tax on cigarettes and alcoholic drinks were put up 15-25 per cent. In addition to this the income tax bands were narrowed from 20-75 per cent to 15-55 per cent, and the import duty structure was also modified.

Expenditure in the 1989 budget remained roughly constant in real terms with a total increase of 19 per cent and inflation of at least 20 per cent. Revenue was increased by putting education charges up 25-45 per cent; car and trading licences up 100 per cent; land rents up 50 per cent; alcohol tax 25 per cent; cigarette tax 50 per cent; airport tax 100 per cent for foreigners and 67 per cent for residents; and six new toll roads were created.

Real government expenditure rose in 1990 by 2.6 per cent while the budget deficit was estimated at Tsh 4.8 billion ($24.9 million) which, at under 1 per cent of GDP, was well within the IMF recommended limit of 3 per cent. In the budget the government made a commitment to keeping real interest rates positive; announced its intention to sell government-owned residential properties; make excise and sales taxes more uniform with lower maximum rates; raise the income tax threshold; increased the bank interest income threshold; and reduce capital gains tax on property and land sales.

A year later, however, spending had fallen in real terms since total expenditure, estimated to be Tsh 228 billion, implied a nominal rise of only 17 per cent. A Tsh 7 per litre Road Fund Levy was announced on the price of fuel; and an unspecified increase in excise duty on petroleum products was proposed which would raise an extra Tsh 3 billion. At the same time corporation taxes were reduced by 5 per cent; a new car benefit tax was introduced of Tsh 80,000 annually on each (light) vehicle owned by a commercial parastatal or private company, and an annual licence of Tsh 50,000 on television satellite dishes was announced. Revenue was increased by selling government bonds to public and financial institutions to raise an estimated Tsh 6 billion. Continued high inflation and negative interest rates meant that this proved to be a disappointing source of revenue for the government which, unlike government borrowing from the banking system, is a source of revenue without subsequent inflation implications. The principal buyers of government bonds and securities continued to be the National Provident Fund and the National Insurance Corporation, while private investors continued to make more lucrative gains by putting money into physical assets such as urban property.

Contractionary fiscal policy (as well as a tight monetary regime) of themselves would have reduced output and employment in the short period. This effect is most marked in the private sector, but the unwillingness of the government to continue funding parastatal deficits was expected to lead to output and employment losses in the state-owned sector as well.

3.8 Exchange controls

Following the 1986 IMF agreement foreign exchange retention schemes were greatly extended. These schemes encouraged industries which had previously suffered from a shortage of imports due to lack of foreign exchange by allowing exporters to remain in possession of a proportion of their foreign exchange earnings, rather than handing them over to the central bank.

Exporters of traditional cash crops had been benefitting from a retention scheme since 1982. By September 1986 they had accumulated $30 million under the scheme, which was 10 per cent of the total export earnings for the period. In 1984 the scheme was extended to non-traditional exports, such as textiles and cigarettes, and by September 1986 $13.8 million had been retained. In September 1986 non-traditional, non-industrial exporters of goods such as prawns, farm products, horns, and live birds were allowed to retain 50 per cent of their foreign exchange earnings and by November this had amounted to $790,000.

Freer access to foreign exchange, it was argued, encouraged socially undesirable expenditure by, for example, making the import of luxury goods easier. In view of this, in 1987 the Ministry of Trade and Industries was reported to be concerned that the foreign

exchange being kept under the retention schemes was not being used for essential items such as raw materials and spare parts. The Bank of Tanzania announced it would be more cautious in lending to persons involved in rent-seeking and speculation. Nonetheless during the year the scheme continued to be extended. The Ministry of Energy and Minerals introduced new licences for small-scale gold and gemstone mining which allowed them to retain 70 per cent of their foreign exchange earnings for essential imports, and legalized the existent wide-spread selling to private dealers, which broke the monopoly of the State Mining Corporation (STAMICO). In all, between 1986-1988, $29 million of goods were imported under the retention schemes.

By 1991, as outlined in Section 3.5, the government had committed itself to eliminating the parallel market in foreign exchange. This involved the dismantling of the strict and largely unenforceable laws which aimed to control foreign exchange transactions and holdings. It was no longer an offence for nationals to hold foreign exchange for more than 24 hours without selling it to a state bank; and independent foreign exchange bureaux were established which would be free to set their own rate. These proposals were reflected in the Foreign Exchange Act 1992, approved by parliament in January 1992, becoming law in March, with the bureaux opening at the end of the year.

These liberalizations have had positive employment effects, particularly in the private sector and in small-scale activities. The figures for output increases in the mining sector are considered to exaggerate real output improvements as they reflect a greater proportion of small-scale production being marketed through official channels and hence being recorded.

3.9 Trade liberalization

In 1988 Tanzania introduced an Open General Licence system, (OGL) and in July 1989, the Bank of Tanzania raised the ceiling on the value of goods which could be imported under the OGL system from $.5 million to $1 million per importer per year, and by early 1991 scrapped the limit altogether, although goods worth more than $1 million still had to be accompanied by 3 competing quotes from would-be suppliers. At the same time the scheme was further extended in 1991 to exclude only goods such as live horses and sheep; works of art and antiques; items produced locally, including crude petroleum; food and raw materials. In the budget of 1991 the minimum value of imports actually requiring a licence was raised from Tsh 10,000 ($44) to Tsh 114,000 ($500). A year earlier export procedures for small businesses, responsible for 17 per cent of Tanzania's foreign exchange in 1989, had been streamlined.

By easing the output-compressing effects of import shortages, and by reducing rent-seeking activities these reforms should increase employment. But as argued earlier (Section 3.5) this effect may be negligible in the state-owned sector.

3.10 Agriculture sector reform

Producer prices for export crops were increased in 1986 but much less so than in the budget in the previous June.

In mid 1987 producer prices for food crops were increased between 25-50 per cent Tsh.

In 1988 producer prices were increased by about 35 per cent, but with inflation running at 30 per cent these increases were moderate in real terms. In January 1989 maize prices increased 16 per cent, elsewhere the rise was as much as four-fold because of shortage in supply. Between December and February meat prices doubled. In 1986 food marketing was liberalized which meant farmers were then able to sell their crops legally to private companies rather then the National Milling Corporation (NMC).

During 1990 the government further reformed agricultural marketing and distribution. It announced that the marketing and distribution of cotton, coffee, and cashews was to be liberalized, and several loss-making parastatals closed. Using an IDA loan of $200 million loan approved in April, the marketing board system was restructured reducing the role of coffee, cotton, and cashew marketing to the administration of sales, not purchasing, and the NMC was dismantled. Cotton processing was opened up to private firms and government processing enterprises were given autonomy in management and finance. By the end of the year farmers were legally able to sell directly to private traders, as well as to cooperatives and the NMC. This extended the previous reform which allowed farmers to sell directly to the NMC and by-pass cooperatives.

Reforms in the agriculture sector have contributed positively to output (see table 3.3), and as most production is in the small-scale household sector, there will have been a similar positive effect on employment, particularly via a reduction in under-employment.

3.11 Price decontrol

The signing of the 1986 IMF agreement was followed by increases in producer prices, devaluation, and higher electricity prices, which in turn led to rises in government controlled consumer prices. The price of maize meal, the basic staple, more than doubled; and sugar rose 52 per cent, wheat flour 46 per cent and rice flour 31 per cent. The price of clothing, textiles, and farm implements rose on average 160 per cent and cement rose 70 per cent. Although urban consumers bore the brunt of these increases, many of these products had only been available on the black market at costs which far exceeded the controlled price.

In the second half of 1988 subsidies on rice and wheat were lifted, pushing the price of rice up 71 per cent following a poor harvest.

By the time price controls on cotton yarn, matches, salt, cooking oil, and detergents were scrapped in June 1987, the National Price Commission, which had been responsible for setting the prices of over 3,000 goods in the 1970s, was responsible for pricing only 12 items. Most of the remaining controlled prices were decontrolled in the first half of 1991. These included sugar, cement, beer, tyres, corrugated-iron sheeting, bicycles and foam mattresses. The price of petroleum products and chemical fertilizers remained controlled, although the subsidy on fertilizer was reduced so that from mid-June farmers had to pay 45 per cent of the cost, rather than 22 per cent as previously.

Price decontrol of final goods should have positive effects on output and employment (although there may be adverse distributional effects). Removal of subsidies on inputs such as fertilisers will lead, in the long-run, it is argued, to a better distribution of resources and hence greater output and employment. However, in the short-run there may be a reduction in output and employment in the sector where the subsidy is removed, before other sectors are induced to expand.

3.12 Minimum wages

On July 1st 1987 the minimum monthly wage was raised from Tsh 810 to Tsh 1,260. It is estimated that this was equivalent to only six days of purchases for the average family. A year later the minimum wage was increased again, this time from Tsh 1,370 to Tsh 1,644 and civil servants' salaries were raised by 10-20 per cent In early 1990 the government rejected a call by the trade union movement for an increase in the minimum wage to Tsh 2,000 per month, but in the budget in June the minimum wage was increased 26 per cent, from Tsh 1,645 ($11.40) to Tsh 2,075 ($14.40).

In the 1991 budget the minimum wage was increased by 40 per cent. After inflation, this increased it to the equivalent of $15.50 per month which put it to its highest level in real terms since 1984. Despite this large increase the minimum wage at this level was no more than an income supplement to the secondary incomes of public sector workers (see Maliyamkono and Bagachwa, 1990). Later in the year the newly independent OTTU called for the minimum wage to be increased five-fold.

In well-functioning, competitive labour markets, the setting of minimum wages above the market rate reduces employment. However, in Tanzania minimum wage rates are a poor indication of labour cost to the employer as housing, transport and meal allowances often pay a significant part in the total remuneration package. In the private sector, the legislation is virtually impossible to enforce, with employers resorting to part-time and casual employees if minimum rates are above market rates. In the public sector, where the minimum wage raises incomes in the lower categories, the government has maintained employment levels. All-in-all, minimum wage legislation has probably had minimal effect on employment.

3.13 Government sector

The government sector is currently responsible for 42 per cent of all modern sector wage employment (see chapter 4). Employment in this sector has grown more rapidly than GDP since 1966, and there has been concern regarding over-manning.

There have been several exercises designed to audit employment in the government sector, and to decide on reasonable manning levels. In 1985, 12,750 civil servants were retrenched (Bagachwa, 1992), but many of these were subsequently re-engaged. A census of employees in 1988 revealed 16,000 ghost workers. In 1991 a similar audit in the political party, CCM (in the Labour Force survey, URT, 1992, the employees of CCM are classified in the government sector), revealed 700 ghost workers. In 1992, CCM, in an effort to bring expenditures into line with revenues (the deficit in 1991 was Tsh 36 million) retrenched an estimated 18,000 full-time employees (of a total of 21,000).

The government is committed to retrenching 50,000 employees, 10,000 by mid 1993, and a 20,000 in each of the following years. These employment losses will represent 20.5 per cent of 1990/91 government employment (see Chapter 4), and 8.2 per cent of all formal sector wage employment.

3.14 Parastatals

In 1987 it was announced in parliament that parastatals would be given the power to set their own salary structures in future. This followed attacks on the Presidential Standing Committee on Parastatals, responsible for parastatal pay and conditions, for keeping prices of parastatal products too low.

In 1985, President Mwinyi had threatened parastatals with disciplinary action if they did not improve their auditing within two years. But by 1987 only half of parastatals had up-to-date audited accounts. A year later the Tanzanian Audit Commission (TAC) reported that in mid-1987 50 per cent of all parastatals were making losses. Figures released in April 1990 by the Audit Corporation showed that in the year July 1986 to July 1987 120 parastatals had made surpluses over Tsh 5 million ($78,000), these included the NBC, Bank of Tanzania and the Tanzanian Cigarette Company, and 105 had deficits of over Tsh 5 million, including the NMC, the Morogoro Shoe Company, and Musoma Textile Mills. Most of these figures for surpluses and deficits did not make realistic provision for capital costs.

During 1988 parastatals increased their borrowing by 60 per cent, increasing the money supply and so adding to inflationary pressure. During 1989 parastatal salaries kept abreast of inflation increasing, on average, 30 per cent. No clear-cut plans for parastatal reforms were announced until the end of 1990 when the Head of the Planning Commission announced that it was government policy to close down unprofitable parastatals.

The reluctance of the government to act upon this announcement or implement other parastatal reforms reflected well-founded fears of the political impact of job losses, given the rise of the political opposition in Tanzania. External pressures from donors helped forced the government to take parastatal reform seriously. In January 1992 a Commission for Parastatal Reform under George Mbowe, director general of the East African Development Bank, was established to review the remaining public enterprises and decide which should be kept and which sold, and where there should be private investment, and/or share issues. It is expected to recommend reform, privatization and liquidation of parastatals, with significant job losses, early in 1993.

Various figures have been suggested for the job losses that will result from privatization and reform of the parastatal sector. Some are as high as 100,000, but the 30,000 is considered a reasonably realistic figure. This will represent 17 per cent of 1990/91 employment in the parastatals and 3.8 per cent of all formal sector wage employment.

3.15 Social services

The signing of the 1986 IMF agreement committed the government to accepting the principle of cost-recovery for government services. Tanzania had previously prided itself on

its human development record, and imposing charges on education and health services was a significant symbolic break with Tanzania's socialist past.

In the late 1980s concern was growing over the impact these changes were having, especially on the poorer members of the population. At a meeting with the World Bank in 1989, Prime Minister Warioba requested more help for low-income groups who were suffering from the side-effects of reform. This concern was reflected in the second ERP which sought to emphasize welfare development.

In 1988 the Minister of Education announced plans for the government to limit its role in education to building schools and supplying materials. The cost of actually providing education was to be shared by district and town councils, village governments and parents. Students would now be responsible for their own university subsistence allowances. Primary school fees were imposed and parents were charged Tsh 200-600 for the enrolment of a child. A year later, because of acute shortages of school materials, parents were made responsible for buying text books. This followed a budget in which education charges were increased by 25-45 per cent, and an announcement earlier in the year that primary school enrolments had fallen from 80 per cent in 1984 to 70 per cent in 1989.

In contrast to its education policy, the government was less vigorous in implementing charges for health care. In 1989 the Minister for Health, decided not to implement a Tsh 20 (13 US cents) flat rate charge on patients using state hospitals, although Tanzania was in need of $55 million of drugs each year and had a budget allocation which supplied only one tenth of this. In 1991 Tanzania received a $70 million loan from the World Bank and IDA for drug purchasing and distribution and $67.5 million to be spent on rehabilitating 750 of Tanzania's schools.

In the 1991 budget the government reaffirmed its commitment to its policy of cost-recovery on public services such as education and health, although no detailed implementation proposals were announced.

Cost recovery in education and health is unlikely to have a major impact on employment in the short to medium-term. In the long period it is suggested these policies will be a factor increasing the cost of having children, leading to slower population growth rates, and eventual slower growth of the labour force, lowering the rate at which employment needs to be created.

3.16 Foreign investment

The aim of the new Investment Code was to revive Tanzania's overall investment ratio which had plunged to 12 per cent in 1983 from 26 per cent in 1979, recovering to 24 per cent by 1987. Its main proposals were to open all the major sectors of the economy to investments of $500,000 or more which would then benefit from concessions on duty and sales tax on imported capital goods; reduced corporate tax from 50 per cent to 45 per cent; and allow registered companies to pay tax on behalf of ex-patriate staff.

The Code had been expected since the IMF programme began. Proposals were presented in 1989, and, after the CCM had made some minor adjustments, such as insisting

on putting domestic investors on an equal footing with foreigners, were made law in April 1990. The main features are:

- Priority areas of investment to include agriculture, natural resources, and tourism and transport
- Small-scale retailing and service industries to be reserved for local ownership
- Full and fair compensation to be paid for any forced re-acquisition
- After tax profits to be transferable out of the country, providing there is an adequate supply of foreign exchange.
- Foreign ownership allowed up to 100 per cent but joint ventures to be encouraged.
- Fiscal incentives - 40 per cent corporate income tax for the first seven years (current rate is 55 per cent for foreigners and 50 per cent for residents.)
- Zero import duty and sales tax for imported equipment and approved supplies of spare parts.

The government also announced that it would be joining two World Bank agencies, the International Centre for the Settlement of Investment Disputes, and the Multilateral Investment Guarantee Agency (MIGA). In addition to this the government set up an Investment Promotion Centre (IPC) to streamline application procedures. Between July and December 1990 IPC approved 58 projects totalling a planned investment of Tsh 19.3 billion ($100 million).

If these projects are realized, there will be a significant expansion of formal sector wage employment. The projects range across a variety of sectors (see Bagachwa 1991). For some projects (in agriculture and manufacturing) the low wage rates in Tanzania are a substantial inducement to investors, and capital-labour ratios are very low. Mining projects are based on the accessibility of appropriate natural resources, and have very high capital-labour ratios. Capital-labour ratios in the transport sector are also high. Overall, 19,590 jobs are expected to be created by the approved investments. If realized, this would expand 1990/91 formal sector employment levels by 2.5 per cent.

3.17 Summary

Economic reforms have taken place steadily, and while there has been impatience in some quarters at the slow rate of implementation, there has been significant economic improvement, political stability has been maintained, and general support for the programme has been achieved.

The measures are reforms directed toward allowing markets to allocate investment, set prices and determine incomes. Liberalization has been considerable in the areas of foreign exchange (where some adjustment remains to bring auction-set official exchange rates

in line with market-set foreign exchange bureaux rates), price regulation, producer prices, marketing and interest rates.

By late 1992, the main sectors where substantial reforms were still pending were the parastatal sector, the financial sector, and cost-recovery in social services.

The growth improvements are expected to have had a significant positive effect on employment in the small-scale agriculture and non-agricultural sectors and in the private formal sector. In the state-owned sector, the employment effects of higher output expansion rates are expected to have been minimal.

Considering specific reform measures, exchange rate depreciation has positively assisted small-scale agricultural employment; financial reform has had a negligible employment effect to date ; contractionary fiscal policy has curtailed employment expansion; exchange control and trade liberalizations have raised employment in the small-scale sector and in the private formal sector; agricultural reforms have boosted employment in farming; minimum-wage adjustment have had a negligible employment effect; civil service retrenchments and parastatal re-structuring will have a profound negative impact on wage employment; social service cost-recovery measure have had no perceptible impact on employment; increased foreign investment is expected to expand wage employment significantly.

4. EMPLOYMENT: CURRENT PROBLEMS

4.1 Introduction

This chapter examines first the occupational structure of the Tanzanian labour force, and then goes on to consider how the labour force and employment are growing. A section then reviews structural features that are limiting the expansion of high productivity employment

4.2 Employment structure in 1990/91

The first comprehensive survey of the labour force and its occupational structure was undertaken in 1990/91 by the Ministry of Labour, and preliminary results have been available from late 1992 (see URT, 1992a).

Taking all those in the population above the age of 10, the total was 15,600 thousand (see table 4.1). Of this total, 27.5 per cent are not economically active, because they are engaged in housework, students, sick, or for some other reason; 66.8 per cent were fully engaged; 2.9 per cent were under-employed (that is, working less than forty hours a week); and 2.6 per cent were unemployed. The unemployment rate was therefore 3.6 per cent (2.9 per cent for men and 4.2 per cent for women).

Table 4.1 Tanzania: labour force 1990/1 ('000s)

	Fully employed	Under-employed	Un-employed	Not econ'ly active	Total
Male	5,212	243	165	1,978	7,578
Female	5,212	222	241	2,327	8,001
Total	10,424	465	406	4,305	15,600

Source: URT, 1992, *Labour Force Survey*

Of the 1,017 thousand in wage employment (see table 4.2), 32.6 per cent were working for the government, 18.3 per cent for parastatals, 4.1 per cent in small-scale agriculture, 17.9 per cent in the informal sector, and 27.0 per cent in the private sector.

Table 4.2 Tanzania: wage employment 1990/1 ('000s)

	Gov't wage	P'statal wage	Trad'l agric. wage	Informal sector wage	Private sector wage	Total
Male	237	146	34	133	226	776
Female	95	40	7	49	49	240
Total	332	186	42	182	275	1,017

Source: URT, 1992, *Labour Force Survey*

Of all those economically active (see Table 4.3), 9.3 per cent are in wage employment, 14.1 per cent in the informal sector, 0.6 per cent are in formal private sector self-employment, and 76.0 per cent are in small-scale (traditional) agriculture.

Table 4.3 Tanzania: employed 1990/1 ('000s)

	Total wage employment	Informal sector self	Other private sector self	Trad'l agriculture	Total
Male	776	847	47	3,759	5,455
Female	241	660	15	4,517	5,433
Total	1,017	1,534	61	8,278	10,890

Source: URT, 1992, *Labour Force Survey*

4.3 Employment growth

The absence of regular surveys make it difficult to be precise over the way in which the labour force and employment have been changing. Estimates suggest, however (see ILO 1991) that the labour force is increasing at approximately 300,000 a year. In the mid-1980s formal sector employment was expanding at perhaps 30,000 a year, but had slowed to an annual increase of under 10,000 a year by the end of the 1980s.

This implies that the labour force was growing at around 2.6 per cent a year while growth of formal employment fell from 2.7 per cent a year in 1985 to 0.9 per cent a year by 1989.

As an order-of-magnitude check, taking the improved, post-1986 sectoral growth rates for the economy (see table 3.4),and the distribution of employment by employer and sector (see table 4.4), and assuming employment growth rates at half the rate of output growth, this would give 16,000 new formal sector wage employment jobs a year - a 1.5 per cent annual growth rate.

Table 4.4 Wage employment by employer and sector, 000's

	AFFH	M&Q	MAN	E&W	CON	WRHR	T&C	FIRB	PA
Govt.	12.4	-	2.8	7.0	21.3	6.2	6.9	6.8	268.1
Paras	11.9	0.5	53.7	5.3	9.3	18.5	44.2	15.5	26.9
SS Ag	41.5	-	-	-	-	-	-	-	-
IS	2.1	0.3	28.6	-	28.1	61.3	13.9	-	48.3
PR FS	13.4	2.4	41.0	-	29.7	72.1	28.7	2.4	85.3
Total	81.3	3.2	126.1	75.3	88.4	158.1	92.7	24.7	428.8

Source: URT, 1992, *Labour Force Survey*

Note: (AFFH: Agriculture, forestry, fishing and hunting; M&Q: mining and quarrying; MAN: manufacturing; E&W: electricity and water; CON: construction; WRHR: wholesale retail, hotels and restaurants; T&C: transport and communications; FIRB: finance, insurance, real estate and business services; PA: public administration and other services.
Govt: government; Paras: parastatals; SS Ag: small-scale agriculture; IS: informal sector; PRFS: private formal sector).

4.4 Implications of current employment features

The first noticeable feature is the small proportion of the total employed labour force that is in formal sector employment. Taking total wage employment (1,017 thousand) less informal sector wage employment (182 thousand) less small-scale agriculture wage employment (61 thousand) from tables 4.2 and 4.3, total formal sector employment is 854,000. As a percentage of the employed labour force this is 7.8 per cent.

Although income differentials between the formal economy on the one hand and small-scale agriculture and the informal sector on the other have narrowed (see Bryceson 1986), they are still substantial. Taking agricultural GDP for 1991 (Tanzanian Economic Trends 1992) and (following Planning Commission, 1992) adding to it one-third of non-agricultural GDP as an estimate of informal sector income, we have an estimate of small-scale agricultural output and informal sector production. It is an overestimate, as agricultural output contains large-scale (formal) sector agricultural production. Nevertheless, even on this basis, formal sector incomes averaged Tsh 168,000 per person, while in the agriculture and informal sector they averaged Tsh 42,000 shillings per person. This is a fourfold differential.

Those countries that have developed from low-income status have done so via a process that has seen an increasing proportion of the labour force engaged in high-productivity formal sector employment, with labour moving out of low-productivity small-scale traditional agriculture. Even with the more rapid expansion of formal sector employment in the mid-1980, growth of the labour force was roughly at the same pace and transformation from low to higher-productivity employment as a share of the overall labour

force was imperceptible. With the lower growth of the late 1980s, the process has been reversed.

The second feature is the proportion of formal sector employment that is provided by the government sector (38.9 per cent), and by the parastatal sector (21.8 per cent). Together they are responsible for 60.7 per cent of all formal sector employment. Any freeze on expansion of employment in these sectors (as is expected after the anticipated retrenchments) will severely affect overall formal sector employment growth prospects.

4.5 Summary

The first comprehensive survey of the labour force in 1990/91 revealed that only a small percentage of the labour force was unemployed (3.6 per cent) or under-employed (4.1 per cent). Most wage employment was in the public sector, in government (32.6 per cent) or the parastatals (18.3 per cent). Most of the active labour force is engaged in small-scale (traditional) agriculture.

The labour force is currently growing faster that formal sector employment, and this has reversed the transformation process whereby the share of the labour force in high productivity employment was rising, albeit very slowly.

There are relatively few fully unemployed in the economy, and the employment problem is rather one of the predominance of low income employment, and slow growing high income employment in the formal sector.

5. EMPLOYMENT: RESPONSE TO STRUCTURAL ADJUSTMENT

5.1 Introduction

This chapter considers the reaction of the Tanzanian government to the employment implications of structural adjustment.

After identifying the government agency taking primary responsibility for employment policy, a section looks at the capacity of the authorities to anticipate the employment effects of structural adjustment policies. The attempts of the government to pursue alternative policies to deal with the economic problems of the early 1980s are next briefly reviewed. A section then examines the limited extent to which employment changes have been identified.

Both private sector employees and labour organizations have an interest in labour market developments, and their reactions to current trends and expected changes are examined. Then a section looks at the policies the government is expected to adopt to deal with employment changes, although these policies are still in the process of being finalized. Actual response to date is then detailed.

A final section looks at a series of areas where appropriate government response is critical in creating employment and facilitating expansion of the economy, and where delay might well prove costly.

5.2 Responsible agency

Employment policy is handled primarily in the Planning Commission by the Human Resources Planning Division. The Ministry of Labour and Youth Development has in the past concerned itself mostly with labour disputes, safety at work, conditions of service and the like. It has now expanded its role to include concern with employment issues, and it is actively engaged in providing an input to Planning Commission deliberations on employment issues.

5.3 Anticipation of impact of reforms

The Economic Recovery Programme (URT, 1986) addresses itself to tackling the economic crisis, which is described as the worst since Independence in 1961. The programme makes no explicit mention of employment, and following the analysis of the Tanzania Country Economic Memorandum (World Bank, 1984), priority is given to the policy measures required to reverse the declines in GDP per head experienced in the early 1980s.

A Five Year Development Plan (URT, 1987) Plan was presented in April 1987, to take effect from the beginning of July that year. It concentrated on the need to raise growth rates in agriculture (from 0.6 per cent in 1986 a year to 5.0 per cent a year up to 1992), industry (from -1.6 per cent to 6.0 per cent), communications, water and electricity (from -1.2 per cent to 4.0 per cent). The plan gave little direct attention to employment - the pressing need was seen to be to restore growth in GDP per head to provide the room to manoeuvre on social policy issues such as employment.

In mid-April 1989, a second Five Year Development Plan (URT 1989) was launched, to run to mid 1993. Again the emphasis was on restoring GDP growth, but the plan underlined the need to double export earnings. As far as employment expansion was concerned, no explicit policies were presented, although it was hoped that the expansion of the private sector, under the stimulus of liberalization, would be the vehicle for an expansion of formal sector wage employment.

The Human Resources Division has to date lacked the capacity to analyse or project in detail the employment impact of policy changes. This capacity can be expected to improve with the development of MACMOD, with the relatively recent recruitment of two well-qualified labour economists at the Ministry of Labour, and with the inception of the labour force monitoring project.

The Planning Commission has also been hampered in assessing the impact of reform by lack of comprehensive baseline data on the structure of employment. Comprehensive economic reforms got under way in 1986, and although the UNDP/ILO project (URT/85/011) on Developing Labour Market Information was in place, inevitable delays resulting from designing, planning and recruiting considerations led to the labour force survey being implemented in 1990/91, and the first results being available in the third quarter of 1992. Similarly for the mainland informal sector survey, which was implemented in 1991 with results available in 1992. These two studies provided the broad background on the employment position.

It is possible to generate projection of employment demands in three ways. Firstly, employment trends by skill levels in the various sectors can be extrapolated. However, Tanzania lacks the basic data required. Employment surveys were discontinued in 1985, and in any case they covered only the civil service, parastatals and private formal sector employment. Employment data for the informal sector and in small-scale agriculture were not included. Furthermore, extrapolating trends is unsatisfactory in principle when there are structural changes being undertaken which will tend to make past experience a poor guide to the future. However, some pattern of evolving employment trends might be observable if structural adjustment reforms are steadily introduced (for example, gradual adjustment of the exchange rate increasing employment in export sectors, or phased tariff reductions reducing employment in a import-competing industry). For want of better, in the Tanzanian context, attempting to project employment from the trends since 1986 in output by sectors might be a possible source of employment forecasts.

Secondly, economic models can be used to generate output and employment forecasts. Where employment is not explicitly projected, the models can usually be extended (see Harbison 1962, Rado and Jolly, 1966) to generate employment forecasts from output forecasts. Tanzania's current modelling capacity is reviewed in Appendix 1. None of the constructed models appear to be in regular use for forecasting at the present time. In particular, the SAM and CGE type of models have not been extensively developed, and they are potentially the most useful for dealing with structural changes in the economy. This is regarded in all quarters of government as a serious drawback in effective policy-making. Kenya, by way of comparison, has, in the Ministry of Finance, a two-gap supply constrained model for short-to-medium term forecasting, a detailed SAM, and an operational CGE model for projecting the effects of structural changes. There is justifiable scepticism of the

accuracy of forecasts and simulations generated by such models. Nevertheless, however much they may leave to be desired, they provide a basis for discussion of policy response, and experience in their use can lead to improvements in their design and construction. Above all, their use improves analytical capacity among policy-makers.

Finally, there can be sectoral anticipations of employment changes. These can come about because they are the direct effect of government actions (eg civil service retrenchments, parastatal liquidations), or structural changes which lead to sectoral plans for expansion (eg in the tourism sector where there are plans to increase hotel capacity).

In the Tanzanian context, ESAURP, 1993b has made some employment projections on the basis of extrapolating current trends. There are effectively no current model-based employment forecasts. At the sectoral level there are civil service and parastatal projections of job losses, and hotel and tourism projections of future labour demand.

The employment losses in the civil service are to be staggered (10,000 the first year, and 20,000 in each of the subsequent two years). Similarly, parastatal restructuring (see URT, 1993) is to be spread over 5 years. This will hopefully give time for training programmes and credit schemes for retrenchees to become well established so that these services can be extended to the bulk of those laid off. A further cushioning factor is that since 1980 almost all public sector employees have established 'second economy' incomes, either from small-scale farming or urban informal activities (see Maliyamkono and Bagachwa, 1990). It is hoped that severance lump-sum benefits together with training and credit access will enable retrenchees to expand these activities to compensate for the losses of their formal employment income and associated fringe benefits.

5.4 Alternative routes to reform

An international mission (ILO, 1982) addressed the problems raised by the economic difficulties by suggesting a limited set of reforms which fell short of the thorough-going market-orientated structural adjustment package ushered in after 1986.

The report suggested some short-term policies which proposed:

- improving agricultural output by increasing the supply of inputs, better transport, improved marketing and greater availability of consumer goods in rural areas to act as incentives for small farm production,

- maintaining price controls over basic commodities and exploring the possibility of an excess profits tax on uncontrolled goods,

- prioritisation of import licences to basic agriculture and industry, with non-basic industries closed down until the crisis eased,

- a substantial increase in aid, with better utilization through the scrutiny of long-term implications, and more emphasis on aid for recurrent spending,

- devaluation of the exchange rate to compensate for appreciation in the real effective rate, with consideration of a further devaluation of the package of short-term measures was not effective in restoring real GDP growth.

In the longer-term, the report suggested:

- continued priority to increasing agricultural output, via provision of consumer goods in rural areas and emphasis on small-scale production,

- industrial emphasis on basic consumer goods, agricultural inputs, exports, and enterprises where high levels of saving from surpluses were possible,

- urgent emphasis on transport improvement,

- absolute government priority for basic needs provision, with exploration of alternative funding methods,

- concentration on improvement in the level of utilization of current capacity, with emphasis on recurrent and maintenance spending, before new capacity is created,

- within the context of basic needs priories, trade policy to emphasize foreign exchange earnings to ensure essential imports are available

- more use of prices as a planning tool,

- pressure on the international community to increase aid without conditionality; improve the terms of trade; develop and transfer appropriate technology; increase technical cooperation and training; divert project aid funds to balance of payments support; provide aid for recurrent expenditures.

Tanzania made efforts to deal with the economic crises of the early 1980s along the lines suggest by the ILO, 1982 report, in the hope that these measures would avoid the major upheavals anticipated in a structural adjustment programme. Two initiatives (see URT, 1981, 1983), the National Economic Survival Programme (NESP), and the Tanzanian Government's own Structural Adjustment Programme (SAP), independent of the IMF and World Bank, introduced partial measures of economic reform, but were not successful in reversing the declines in real per capita income, restoring the availability of basic consumer goods, or stemming the expansion of parallel market activities (see Bagachwa 1992). A key factor was that these programmes, in the absence of an agreement with the IMF, did not attract external assistance, which dropped from $800 million a year in 1981 to $490 million a year in 1985.

Some critics of IMF and World Bank policies have questioned whether the improvement in leading indicators in Tanzania since 1986 are the result of structural adjustment policies, or whether they are due to external factors (climatic improvements) and the resumption of aid flows (see Bienefeld, 1990). The reality, however, was that Tanzania

experienced continuing deterioration from 1980-85, by the end of which time, all feasible alternatives to an IMF programme were perceived to have been tried and found inadequate.

5.5 Employment loss assessment

Projections of employment losses as a result of structural adjustment are limited at this stage to government plans to retrench within the public sector. A reform of the civil service is under way, and the government has indicated that 50,000 civil service jobs will be retrenched, 10,000 in the financial year to end June 1993, and 20,000 in each of the following financial years. Announcements of where the job cuts will fall is expected from the Civil Service Commission early in 1993. The state-owned enterprise (parastatal) sector is being prepared for reform. Enterprises are to receive no further central funding, and there is to be tightening of the allocations of import support and accumulation of tax arrears in the coming months. No new bank credit is to be extended to parastatals. A World Bank working group has prepared lists of parastatals for privatization and liquidation (utilities are excluded) and its projections suggest 30,000 jobs will be lost over the next five years.

In the private sector of the economy, assessment of employment developments has been hampered by the ending of employment surveys in 1985. It has not been possible, as a result, to relate the evolution of structural adjustment to employment changes. Assessments of employment changes in the small-scale non-agricultural (informal) sector have been restricted by the absence of regular informal sector surveys. The first comprehensive survey of the sector was undertaken in 1991, and the results published in 1992. It is expected that the resumption of employment surveys will include regular surveys of the informal sector. In small-scale agriculture, again there is no indication of employment trends. It is expected that this will improve with the introduction of regular surveys.

Manpower plans were prepared by the Planning Commission until 1987. However, they were limited to graduate employment in the public sector and presented comparisons of established posts in the public sector with the stock, wastage and supply of new trainees. As part of a report on tertiary training, ESAURP 1993b has prepared some manpower projections which it is understood highlight shortages in the period to the year 2000 on the basis of the continuation of current sectoral growth rates and with trained manpower demand increasing at half the rate of output increase (using the method of Harbison, 1962).

Some individual sectors have begun to generate their own manpower projections. A notable example is the tourism sector where liberalizing reforms and tourism developments elsewhere in Africa are expected to generate a sharp increase in demand for Tanzanian tourism. A significant shortfall in trained manpower is projected, at present training levels, up to the year 2000.

A resumption of manpower forecasting, but on a more comprehensive basis than previously (ie including the private sector, the informal and small-scale agricultural sectors and covering a wider range of skills) is anticipated.

5.6 Interest group reaction

5.6.1 Small-scale farmers

Small farmers are in principle able to exert pressure through the primary co-operatives, the co-operative unions, and the Ministry of Agriculture, Livestock Development and Cooperatives. However, in the context of a single-party state (see Bates, 1981), where the ruling regime seeks the support of urban and military interests (30 per cent of the total population) as the key to remaining in power, small farmers' needs tend to get overlooked. This should change with the introduction of multiparty elections in 1995.

If structural adjustment succeeds, via higher producer prices and increased output (for which the evidence is explored in Chapter 3), then the rural community can be expected to endorse the programme. Indeed the main opposition party, CHADEMA, has an economic programme with a set of policies which imply pressing on more rapidly with structural adjustment reforms (a similar phenomenon was observed in Zambia where the MMD opposition proposed faster and more radical liberalization policies than the incumbent UNIP government - and secured a resounding victory at the polls).

5.6.2 Private sector employers

Employers, at this stage, appear to give labour problems low priority. Given the modest size of the sector (27 per cent of paid employment), employers feel there will be an adequate supply of labour from civil service and parastatal retrenchees to meet most anticipated requirements. While it is observed that expatriate labour costs four times as much as a local equivalent, private sector employers are not anxious about the impact on their cost structures of filling skill requirements from abroad. There is, however, some concern among private sector employers regarding the impact of the civil service and parastatal retrenchments, particularly among those who produce for the domestic market. In general, though, this is swamped by the general optimism generated by the initial impacts of the reforms on business prospects.

The main Chamber of Commerce in Dar es Salaam is in disarray, with a dispute over whether privatized parastatals should be reserved for African entrepreneurs rather than overseas or local Asian investors. It has been observed that private sector operatives, taking advantage of business opportunities under liberalization have been adopting a 'low profile' (Bryceson 1993).

5.6.3 Trade Unions

The main trade union body (JUWATA) was previously an organ of the single political party CCM. In these circumstances, the trade union movement had a limited role in the formulation of employment policy. In 1992, with the preparations for multi-party elections, JUWATA became an independent body, the Organization of Tanzanian Trade Unions (OTTU). It is adjusting to its new role of representing the interests of its members (who support it through subscription) rather than acting as a liaison body between the government (over which CCM has been constitutionally supreme) and the work-force.

The organizational structure inherited by OTTU from JUWATA is very centralized, all subscriptions being remitted directly to OTTU. There are sections to deal with the various groups of workers, but no local union organization collecting subscriptions and remitting a proportion to the central body. Key worker groups (such as the teachers) are planning their

own unions, which they anticipate will be affiliated to OTTU, but clearly this heralds a major change in the structure of the labour movement.

OTTU is strongly opposed to the current proposals for civil service and parastatal retrenchments, but feels powerless to reverse the decisions. It appears to be directing its efforts toward lobbying for satisfactory severance arrangements.

An example of the ineffectiveness of OTTU is provided by the retrenchments at the Williamson Diamond Mine in Shinyanga region. This mine is currently owned 51 per cent by the mining parastatal STAMICO and 49 per cent by a foreign investor, De Beers. De Beers wish to expand their ownership to 75 per cent to give them a controlling interest. A condition demanded by De Beers is that 700 employees be retrenched from a total work-force of 3,000. Termination benefits of between Tsh 300,000 to Tsh 700,000 ($US 750 to $US 1,500), the equivalent of one to two years' salary, have been settled, in addition to statutory rights. OTTU was not involved in the negotiations, and wished to have other options explored (such as OTTU or the employees being allowed to purchase shares; the provision of retraining). A Presidential Directive of 1970 established Bodies of Management in parastatals with worker representation, but the relevant body was not consulted. OTTU feels powerless to respond with industrial action. A security force of 700 is in operation at the mine and the 1958 Mining Act (an item of colonial legislation) demands that dismissed workers be expelled from the mining compound within 24 hours.

5.7 Strategies for dealing with employment changes

In 1990, the Tanzanian government, through UNDP, requested that ILO undertake an Employment Sector Review Mission. A twelve strong team began work in January 1991, and presented its report in March. The report recommended the following:

- rural sector attention (as it contains 65 per cent of the labour force) through credit schemes; infrastructure improvements; business training; land settlement,

- urban informal sector support (as it employs 60 per cent of the urban labour force) through credit schemes; security improvements; skill training; encouraging business associations; improved monitoring,

- education measures including changes in the durations of the various levels (primary, secondary, higher); improved monitoring; more effective vocational training; expansion of primary and secondary enrolments in both private and state institutions; end of university residential system; expanded entrepreneurial components in education,

- vocational training initiatives, with emphasis on flexibility and participation in planning by employers; concentration on the training needs of the informal sector; establishment of a body to advise and monitor on training,

- parastatal management improvements, by raising financial discipline; clarifying government relations with parastatals; generating a productivity culture,

- small enterprise encouragement through setting up a policy task force; allocating land; improving skills; encouraging sub-contracting; providing tax incentives; encouraging exports; providing credit; encouraging business associations,

- labour-intensive works to alleviate unemployment and under-employment and low-incomes in vulnerable regions,

- redeployment programmes for public service retrenchees through an advisory council; labour exchange bureaux; technical assistance; redeployment funding; effective severance packages; monitoring of retrenchees,

- youth employment generation through the development of a youth employment policy; improved general education; vocational and business training; credit schemes; a business advisory service; integration of youth schemes in overall employment policies,

- women's employment generation through credit schemes; technology improvements relating to home-work, child-spacing and child-care; health; skill improvements; legal reforms,

- disabled employment generation through widening and effectively implementing legislation; skill training; employer incentives; funding for disabled organizations,

- manpower planning through establishing an employment department at MLYD; revising the Human Resources Deployment act; strengthening the Labour Department at MLYD; strengthening manpower planning at the Planning Commission; formulating a National Employment Policy; strengthening labour market information; establishing a Human Resource Action and Coordination Council; technical assistance.

It was recommended that 20 per cent of the $106.2 million budget for the 1994-98 UNDP country cycle be allocated to employment problems. It is anticipated that this report, formulated at the end of 1992, a draft of which is currently being circulated around the ministries, will form the core of the government's employment policy.

This document is expected to recommend:

- promotion of the informal sector,

- promotion of labour-intensive public works programmes,

- improving the institutional framework for monitoring employment trends, labour market demands, forecasting and dissemination of information

- severance packages for public sector and parastatal retrenchees, with skill retraining programmes and lump-sum payments.

Implementation of these policies will, to a degree, be conditional on donor support.

5.8 Government response to employment changes

5.8.1 Employment losses

The government has reacted positively to the major changes anticipated by the civil service retrenchments and the expected job losses in the parastatals. The 1992 Budget indicated that allowance would be made for severance packages for the initial 10,000 civil service retrenchees in the 1992-3 financial year, although details of the package have not as yet been finalized. It is expected, however, that there will be lump sum payments of two years' salary for those with 10 years service, as well as statutory benefits such as pension rights, and the opportunity to undergo retraining programmes. The severance arrangements for the remaining civil service retrenchees and the those losing their jobs in the parastatal sector are under discussion, but it is hoped that funding from bi-lateral donors will enable all retrenchees to receive similar benefits.

5.8.2 Employment creation

There is little question that certain sectors of the economy, stimulated by liberalization, are expanding rapidly, or are planning to do so. In the formal sector, these are tourism; private road transport; primary product exports (particularly fish); financial services; office automation. In the small-scale sector there is rapid expansion of building materials manufacture (cement blocks, tiles); timber products, especially for construction; metal products, again particularly for construction; road transport; production of fruit, vegetables, dairy products and poultry.

The labour force appears well aware of opportunities in these sectors. To a considerable degree, the output expansions of the past six years have involved the more efficient usage of installed capacity and available labour. Where redeployment of resources has been required, much of the skilled labour has come from the parastatal and government sectors where labour has been underemployed and has been engaged in secondary activities in the expanding sectors.

In the near future, however, it is expected that the slack will all be taken up, and skill shortages will emerge as a severe constraint on further growth unless training is expanded. The ESAURP, 1993b study indicates that tertiary training in Tanzania is well below the levels in neighbouring countries (half the level in Malawi, in relation to the size of the labour force, one quarter the level in Kenya).

The Ministry of Science, Technology and Higher Education (MSTHE) is anticipating moving to a more decentralized system of allocating resources to training. In the first place,

budgetary considerations and wide divergencies between private and social rates of return have led to consideration of more private financing of training (ESAURP, 1993b). Secondly, training institutions will be encouraged to respond to demand in their provision of courses. Fee recovery from students is expected to be a key element in providing financial incentives for training institutions to restructure their course offerings.

This system appears to show signs of working well where there is good information on labour market opportunities, and students who are able to finance their training from private sources on the basis of high expected private rates of return. Computer skills and and the training of drivers for the transport sector are two examples where private training institutions have expanded rapidly in response to demand for places.

However, where information is not readily available on career opportunities, either because the market is comparatively thin (eg fish processing), or because future prospects are not easy for labour market entrants to assess (eg tourism), there is a need for the government to act to improve information with forecasts of labour demands, and to act on these forecasts to restructure the amount and composition of training to meet this demand. There will still be the need for the government to make grants or extend loans to students who do not have the private resources to fund their training. Availability of course places and finance will largely determine the amount and composition of training, and it is important that the government (which is responsible, at present, for the bulk of tertiary training) makes forecasts of manpower demand to guide its tertiary training provision.

The first steps have been taken in this direction by the survey of tertiary training provision for the HRPD of the Planning Commission, and undertaken by ESAURP, 1993b. The resumption of manpower projections, but on a more comprehensive basis, is expected as part of the new programme for better provision of labour market information.

As yet, no formal programme has been adopted for strengthening training provision, and this is expected to be delayed until the construction of manpower forecasts.

5.9 Losses associated with lack of forecasts and appropriate response

It is not really possible at this stage to identify the extent of losses due to lack of forecasting and appropriate policy response. These can be expected to be in the future, particularly if retrenchees prove difficult to absorb into productive activities, or if skill shortages impair growth.

The key areas where government response can be expected to have an impact on employment is in the retraining of retrenchees; training of labour market entrants; provision of credit; appropriate technology; and infrastructure.

5.9.1 Training

Although structural adjustment began in earnest in 1986, the government was hampered by lack of baseline information and forecasting capacity in restructuring training for the new economic environment. The attempts to develop an alternative strategy to

structural adjustment in the early 1980s resulted in reduced external assistance which was instrumental in failure to consolidate labour market information and forecasting capacity. It is noticeable that all the current initiatives in these areas (the Labour Force Survey, Informal Sector Survey, Tertiary Training Survey, MACMOD and BUDMOD) are all predominantly funded by external assistance.

As has been argued earlier, skill shortages do not appear to have seriously constrained economic expansion in the view of private sector employers. Although the retrenchments in the civil service and parastatal sectors will continue to release some skilled labour for private sector and informal sector expansion, the expansion and re-structuring of training, and the provision of re-training for retrenchees will become urgent if skill shortages are not to restrain growth.

In view of the limited base (3 per cent of the economically active labour force) from which the private formal sector is expanding, the anticipation is that most new entrants to the labour market will continue to be absorbed in small-scale agriculture and the informal sector. Civil service and parastatal retrenchees are also expected to be absorbed in these sectors, though with a greater proportion entering urban informal sector activities, partly because they are currently mostly located in urban areas, because it is judged that many are already involved in the informal sector via secondary activities (see Bagachwa and Maliyamkono, 1990), and because they will have a modest capital sum and the opportunity for appropriate training.

Facilitating the movement of retrenchees into suitable alternative activities will be a social and political priority over the next five years. It will be important to study the evolution of this process with tracer studies of retrenchees from the first cohorts losing their formal sector jobs in the period to the end of June 1993 (ESAURP has a current research proposal with this objective).

5.9.2 Credit

Credit has been identified as a key constraint in small-scale agriculture, informal sector activities and the private formal sector - all areas to which the government is looking for an absorption of the labour force. The financial sector has yet to be opened up to competition from private domestic and foreign institutions. Moreover, the present state-owned institutions have not been re-structured so that they can effectively extend credit to productive enterprises in a liberalized financial environment. Finally, as a result of a general paralysis in the financial sector, Tanzania has been slow to initiate comprehensives schemes for the extension of small-scale credit to agriculture and the informal sector (see Nyagatera, 1992).

5.9.3 Infrastructure

Preoccupation with rehabilitating the dilapidated road system has absorbed most of the government's attention with regard to infrastructure since 1986. In the past two years, most trunk roads and several urban centres have been repaired. With the liberalization of

road transport, Tanzania now has the basis of an efficient road transport system, which is of paramount importance in an economy where employment is predominantly in agriculture and which has a large geographical area.

Water, electricity and telecommunications are now emerging as constraints, particularly the provision of these to informal sector enterprises. In addition, the informal sector suffers from lack of a stable environment in relation to the authorities as most enterprises do not have permanent, secure and protected sites from which to operate.

5.9.4 Technology

Technology is a legitimate area for government initiatives in the context of a market-orientated economic strategy, as significant externalities and information imperfections are likely to be present. It is anticipated that structural adjustment will alter relative factor prices, making capital more expensive and labour cheaper. The ending of financial repression, depreciation of the exchange rate and uniform tariffs extended to capital goods all serve to make capital (mostly imported) more expensive. The ending of minimum wage legislation, it is argued, will lower labour costs (although in the Tanzanian context, such legislation has been largely made redundant by inflation).

However, it may well be that labour-intensive processes incorporating current scientific knowledge, are not available, well-known, or adapted to local conditions in Tanzania. There is a need for suitable research and development capability to develop, adapt and disseminate appropriate techniques. As a first step, there is a project underway to evaluate current research and development capacity in Tanzania (ESAURP, 1993a).

5.10 Summary

Anticipation of employment effects of economic reforms have been hampered by lack of baseline information, absence of regular surveys as reforms have unfolded, and no current modelling capacity. Some projections have been possible by extrapolating recent output trends in the economy and linking these to employment, and by considering the employment implications of sectoral plans.

Alternative responses to economic reform, following ILO recommendations that fell short of thorough-going market-oriented policies, were attempted in the early 1980s, but they were perceived to be unsuccessful.

Employment loss assessment has been limited to consideration of planned job cuts in the civil service, and forecasts of job losses in parastatals.

The plans introduced in the late 1980s gave limited attention to employment problems, the main consideration being the hope that private sector expansion would lead to more jobs.

Private sector employers do not give high priority to employment problems under structural adjustment. The labour union organization is adjusting to its new role, independent of the party and the government. It does not anticipate having much influence over the broad

policies that will affect its members, but does hope to have an effect on such items as the severance terms for public sector retrenchees.

The government has commissioned a report on employment policy which details initiatives in the rural sector, the urban informal sector, education, vocational training, parastatal management, small enterprises, labour-intensive works, redeployment programmes for retrenchees, youth employment, women's employment, disabled employment, and manpower planning. These initiatives are expected to form the core of the governments employment policy.

Civil service retrenchments and parastatal restructuring are to be phased over three and five years respectively. The government has responded with redeployment schemes for the first tranche of public sector retrenchees, but has yet to decide on how, and to what extent, it should expand tertiary training.

Training, credit provision, infrastructure and appropriate technology are identified as areas where government initiatives are necessary if output and employment are to continue to expand.

6. CONCLUSIONS

6.1 The economy and structural adjustment

Tanzania experienced a good economic performance in the 1960s, but a steady slow-down in the 1970s. The first half of the 1980s, however, was characterized by falling income levels, rising inflation, shortages of everyday commodities, collapse of basic education and health services and decaying infrastructure.

After partial reforms in the early 1980s, the government came to an agreement on a comprehensive reform programme in 1986. This has led to a restoration of aid and rescheduling of debts. Extensive reforms have included successive devaluations resulting in a virtual float of the currency and relaxation of exchange controls; movement towards financial liberalization and positive interest rates; planned reduction in public spending; increased public revenue and smaller budget deficits; trade liberalization; competition in agricultural marketing; decontrol of prices; and the opening up of the economy to foreign investment.

The main items of reform still pending are civil service retrenchments; restructuring of the parastatal sector; and liberalization of the financial sector. The reforms have seen a substantial improvement in most of the main indicators with agriculture and industrial output expanding at rates that allow significant improvements in income per head.

6.2 Employment problems

The structure of employment is such that there is comparatively little open unemployment or underemployment. The employment problem is that most of the labour force is engaged in low-income activities. High productivity modern sector employment, with incomes over four times the level of those elsewhere in the economy, engages only a small proportion of the total labour force. Moreover, estimates suggest employment in this sector was growing more slowly than the labour force in the mid-1980s. Even with the improvements generated by the economic reforms, but with minimal growth in public sector employment, modern sector employment is still growing at only half the rate of the labour force.

6.3 Employment and structural adjustment

The government has been hampered by lack of base line studies and time series data on employment. A major research effort has been directed toward implementing a labour force survey and a survey of the informal sector. It is expected that data will now be collected annually to provide a profile of employment changes over time. The government currently lacks any capacity to generate employment forecasts or simulate the employment implications of policy changes. There are several modelling exercises in preparation, and a priority must be to ensure they are regularly updated and have the capacity to project employment. The government has commissioned a major review of employment issues, and is currently formulating an employment policy based on the report. The main area where lack of forecasts and delay in taking initiatives is expected to be costly is in the area of training. A completed census of tertiary training capacity has been undertaken, and this is

expected to reveal severe under-provision of trained manpower, under-utilization of current resources in training, and a miss-match between current supplies of skills and demands.

To date, lack of skilled labour, given the level of under utilization of both labour and capital in the economy and the release of some skilled labour from the public sector, has not been a constraint on expansion. However, there is a considerable lag between decisions to expand, and the eventual supply of, skilled personnel to the labour market. These delays could eventually prove costly in limiting the expansion of the economy. The other area of slow government response is in the financial sector where delays in restructuring the state-owned banks, opening up the sector to private domestic and foreign competition, and a lack of initiatives in providing effective credit schemes for small-scale enterprises, are all serving to slow the pace of economic recovery and employment creation. The government has at last managed to rehabilitate the bulk of the road transport system. In the medium term other aspects of infrastructure provision such as electricity, water and telecommunications appear likely to emerge as bottlenecks. In the longer term there is concern over the ability of Tanzania to establish modern labour-intensive technologies. A report on Tanzania's research and development capability is expected to recommend an expansion of capacity in this sector.

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APPENDIX 1

EMPLOYMENT FORECASTING IN TANZANIA

A1 Econometric models

These models either provide forecasts for some categories of employment, or generate output forecasts which could be used to derive employment projections. They are all variants on the theme that in the short to medium term, it is ability to generate domestic savings and availability of foreign exchange which determine the pace at which the economy can expand, and are essentially supply constrained, two-gap models drawing on the initial ideas of Chenery and Bruno, 1962 and Chenery and Strout 1966. There are other models of this type that have been estimated for Tanzania (Rashid, 1984, Hodd 1992), which are not described as they are essentially simpler versions of the models surveyed (in the sense of having either less sectoral detail or fewer variables explained), and are thus less useful for generating employment forecasts. In addition there is a demand-driven model by Kwack et al. 1984, which is not covered as it has not been possible to access its documentation.

A1.1 Clark model

Clark, 1965 developed a model with six producing sectors, with the exogenous variables being agricultural export volumes; prices of agricultural exports; value of manufactured exports; the degree of import substitution in manufactured products (determined by government policy); and government consumption expenditures. It was anticipated that manpower forecasts would be generated using the output projections from the model. This procedure is outlined in Rado and Jolly, 1965, and involves grafting the Tinbergen, 1964 equations (relating skill demands to GNP and GNP per head) onto the model.

A1.2 Revised minimum standards model

The World Bank runs a version of the Revised Minimum Standards Model (RIMSIM) for Tanzania. Developed in the early 1970s, this is essentially a planning model, with target levels of output set, and necessary levels of investment determined from capital-output ratios. Exports are endogenous, and imports are determined by the level of income and import requirements of investment (see Tarp, 1993). In principle this type of model (see Chenery and Strout, 1966) recognises two constraints to the growth of the economy. The first is that of domestic savings being insufficient (given any level of aid) for the investment levels necessary for the postulated levels of output. The second constraint is when foreign exchange earnings from exports (plus any net capital inflows) are insufficient to finance the components of investment or the intermediate products that have to be imported.

In practice, the possibility of a savings constraint is eliminated by forcing the government to meet any shortfall in domestic savings required by reducing government consumption expenditure. The model then indicates the levels of capital inflows (mostly aid) that will be required if the output levels are to be met.

Although in principle a planning model, RIMSIM effectively projects outputs (usually disaggregated into several sectors) as it is the practice to iterate by adjusting the projected output levels, if government spending is considered unrealistically compressed, or if the inflows of capital are not expected to be realised. The sector output levels could then be linked to labour inputs to generate employment forecasts.

A1.3 Lipumba, Ndulu, Horton and Plourde model

This model is an extension of the Chenery and Bruno 1962 model in which foreign exchange and domestic savings are the key factors in limiting expansion of the productive sectors. Thus world prices, the weather and the exchange rate determine export earnings, and these, together with net capitial inflows (mostly aid) determine overall foreign exchange availability. Available foreign exchange determines the level of imports. In principle availability of imports limits output as imported inputs are required by the productive sectors and imported capital goods are required for investment. The influence of imports in the model is not in actual fact a limiting factor on all sectors. There is a fairly direct link in manufacturing and construction, and an indirect link in agriculture.

Total employment is generated for two sectors, namely manufacturing and commerce, finance, hotels and restaurants. For the other six producing sectors identified by the model, employment is exogenous. A useful extension to the model for empolyment forecasting would be to add equations which would make engagement of the labour force in these sectors endogenous.

A1.4 MACMOD and BUDMOD models

This model is currently being developed (see Planning Commission 1992). Outputs of the main producing sectors and subsectors (51 in all) are, in the main, determined exogenously, and are intially supplied to the model. Exceptions to this are the 'other agriculture' sub-sector which is assumed to grow in line with population; the commerce sub-sector, which is assumed to grow in line with agriculture and manufacturing and mining; the electricity sub-sector which is taken to grow in line with population (for consumer usage), manufacturing output, and services output, each of these being weighted by expenditure shares in the base period.

As the write-up stresses, MACMOD is essentially a planning (or accounting) model at this stage of its development, with two objectives. Firstly to spell out the implications of particular sector and sub-sector growth rates on the balance of payments. Secondly to generate income and expenditure implications of these growth rates for BUDMOD. This latter model is designed to trace through the implications of the postulated output levels for government taxation and expenditure.

As with the RIMSIM model described above, if MACMOD is employed iteratively to give sector and sub-sector outputs consistent with balance of payments and budgetary constraints, output levels are effectively forecasts and could be used to generate employment projections.

A2 SAM and CGE models

These models are particularly directed toward the type of projections that are required in the context of structural adjustment. The econometric models emphasise the implications of world trading conditions, international assistance and government monetary and fiscal policy on the economy. Social accounting matrix (SAM) models have the capacity to examine the implications (including the impact on employment and the distribution of income) of policy changes which change the structure of the economy. CGE models are able to determine the pattern of relative prices as well as structural changes.

A2.1 Gunning and Padula

This is a model with substantial general equilibrium elements (Gunning and Padula, 1977). Eleven producing sectors are identified. Output in two (agriculture and mining) is exogenous. Eight sectors have their output determined by demand (domestic and export). For the remaining sector, manufacturing, for which 30 sub-sectors are detailed, output is determined by the investment remaining after the needs of the other ten sectors have been met (estimated by fixed incremental capital-output ratios). Any gaps between supply and demand in agriculture, mining and manufuacturing are met by imports (or by exporting).

Important features of the model are consideration of intermediate demands (based in the 1969 input-output table); allowance for exogenous technical progress in manufacturing via shrinking capital and labour coefficients; domestic demands determined by income elasticities; wage rates exogenous (except in the informal sector); prices determined on a cost-plus basis.

Empoyment is determined from labour coefficients and output levels in the producing sectors. Migration to urban areas is determined by the model, and informal sector earnings and informal sector employment are determined by supply and demand.

A2.2 Hodd model

This model (Hodd, 1986) used the 1969 Tanzanian input-output table in conjunction with the Kenyan SAM for 1976. Although this is not ideal, the use of the Kenyan SAM (similar data for Tanzania were not available) for patterns of resource usage and income determination, does have the virtue that it is from a geographically adjacent low-income country with reliance on a broadly similar mix of agricultural goods for export revenue.

The model is designed to evaluate the impact of structural adjustment measures such as exchange rate depreciation and government expenditure cuts. It details 45 producing sectors in the Tanzanian input-output table, and these sectors are, variously, aggregated to conform to the 28 producing sectors of the Kenyan SAM. Output changes are tracked through to employment changes in the 28 producing sectors by five categories of labour (unskilled and semi-skilled; skilled; office workers and semi-professionals; professionals; self-employed and family workers). A small econometric model of the agricultural sector is used to determine the impact of exchange rate changes on agricultural production. The

model is not general equilibrium in that prices are assumed fixed (with the exception of the agricultural sector where they are set by supply and demand).

A2.3 Lutayasire and Vos model

This model (Lutayasire and Vos, 1991) is described by the authors as a macroeconomic social accounting framework (MSAF), and it is effectively a SAM, but with considerable aggregation of sectors, based on data for 1976.

The model is used to evaluate the impact of aspects of the structural adjustment programme on incomes, namely an increase in agricultural production, and greater foreign aid. It is possible to calculate the impact on employment in the four producing sectors detailed, but there is no further disaggregation by skill level.

INTERNATIONAL EMPLOYMENT POLICIES

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ISBN 92-2-109278-X