Policy Note

Sustaining Job Creation and Improving the Quality of Jobs in Tanzania

May, 2009
SUSTAINING JOB CREATION AND IMPROVING THE QUALITY OF JOBS IN TANZANIA

EXECUTIVE SUMMARY

1. Tanzania’s labour markets are characterized by relatively higher employment and activity rates compared to other countries in East Africa. Both measures have improved since 2001. Concerns have been mounting about unemployment and job quality, especially for urban youth, where close to 40 percent of secondary education leavers are unemployed and more than 40 percent of the new jobs created for all young people outside of agriculture are unpaid.

2. The analysis of recent trends and future prospects highlights three challenges:

   (a) Creating up to 850,000 jobs annually for young people entering the job market, whilst the country must wait until 2017 to benefit from the so-called “demographic bonus”, brought about by the decline in the dependency ratio.

   ![Figure i: Population projections, 2003-2025 (NBS)]

   (b) As agriculture’s weight in employment has started declining, the country must sustain a policy and institutional environment that supports high employment creation by formal firms.
(c) Addressing the medium term employment challenges of the permanence of a large informal sector, which currently accounts for almost a third of new employment, will require policies that increase the productivity of the urban and peri-urban economic systems, leading to higher employment quality and formalization.

Figure iii: Employment creation by type of employer, 2001-2006

3. The paper suggests three policy priorities:

(a) Sustaining the private sector’s employment creation potential with a conducive legal/institutional environment for the labor market.

(b) Supporting productivity growth in urban areas. Key elements of such a strategy are skills and urban infrastructure; and

(c) Addressing the employability gap which increasingly affects young people. While young people benefit from broader interventions aimed at raising labour demand and productivity growth at the national economy level, they face special vulnerabilities related to the transition into paid employment, often with important gender effects.
4. This note provides empirical evidence of the key characteristics of the labor market in Tanzania, based on the 2001/02 and 2006 ILFS, and provides a rationale for focusing on the policy areas mentioned above. Two subsequent policy notes will discuss in detail the ongoing process of labour market institutional reform and will suggest ways of addressing the challenges of youth employment creation.
INTRODUCTION

1. A defining characteristic of Tanzania’s labour markets compared to other low income countries in Sub-Saharan Africa or in East Asia is having high activity and employment rate (Table 1). As a result, unemployment, an indicator that is difficult to interpret in low income countries, stands at a low 5 percent, but remains a cause of concern at the policy level, because of its prevalence among urban youth.

2. Together with youth unemployment, signs of the growing informalization of the urban economy, and evidence that the robust growth experienced in the last few years has not reduced poverty as much as expected have put the spotlight on “quality” employment creation. These concerns have been reflected in the Fourth Phase Government target for employment creation of “1 million new jobs between years 2005-2010” and the New Employment Policy recently approved by Parliament.

3. With the economy growing at least at 5 percent it is possible, though challenging, to meet the employment target of generating 1 million “good jobs” according to a definition of good jobs which combines information on job security and earning more than a living wage (Box 1). This will require sustaining the current pace of employment growth while continuing to increase the share of good jobs in the total. However, demographic change entails that a large number of jobs will offer low pay and low security, and youth unemployment will remain high 1.

4. With these concerns in mind, this note uses the latest Integrated Labour Force Surveys (ILFS) to look more closely at how Tanzania has been doing in terms of creating jobs, and thereafter identifies key policy areas for further research, with the goal of supporting an adequate pace of employment creation and productivity growth.

5. First, the note describes the challenge of employment creation in the context of an evolving labour supply (section 1). It then looks more closely at the trends in the relation between growth and employment creation (section 2). In section 3, it identifies the key labour market features that shape the challenges of employment creation today. Finally, section 4 discusses policy priorities for sustaining employment and productivity growth.

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1 This point is also made in the National Employment Report (MLEYD 2007)
Box 1. Employment Targets and the Quality of Employment Creation in Tanzania

In the literature there is ample debate on how to identify job quality. In the case of Tanzania, policy documents emphasize concerns for insecure jobs and for low paying jobs, two (non-exclusive) categories of jobs which are typically characterized by low productivity and tend to be considered “bad jobs”. Such jobs are unlikely to provide a pathway out of poverty and to offer decent working conditions, but they are a key element of the livelihoods of some segments (or even the vast majority) of the population.

A parent note by the World Bank suggested that these quality concerns could be integrated in the operationalization of the Government’s target. In particular it suggested combining information on the security of labor market attachment as collected by the ILFS and earning more than a minimum wage (for both wage employees and self-employed workers) to arrive at an operational measure of “good jobs”.\(^2\) Based on past performance, with the economy growing at least at 5 percent it was estimated that it was possible, though challenging, to meet the employment target of generating 1 million “good jobs” according to this definition. This would require sustaining the economy’s current pace of employment growth while continuing to increase the share of good jobs in the total.

The note emphasized the need to keep in focus both these objectives, stressing that creating 1 million “good jobs” over the period to 2010 according to this operational definition would be equivalent to creating 3.2 million jobs overall. Broad based job creation and striving to increase the quality of jobs should therefore not be seen as conflicting goals.

Source: World Bank (2008, a)

THE EVOLUTION OF LABOUR SUPPLY

6. **Labour supply trends suggest that a growing number of people, usually better educated than their parents, are going to be looking for jobs, especially in urban areas.** This is a favorable trend as a large cohort of young people put to productive use would raise output per capita. The experience of development in East Asia shows how important these effects can be if the cohort of young workers is in productive employment and has appropriate human capital (knowledge, skills, health) to be productive.

7. **The growth in labour supply.** With a population growth of about 2.6 percent, Tanzania is still at the early stages of the demographic transition.\(^3\) Its population is young, with the under-15 group accounting for 44 percent of the population in 2002. The current NBS population projections for the period up to 2025 show a steadily increasing population, with an average of 854,000 people a year becoming of working age between 2009 and 2025 (Figure 1).

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\(^2\) Note that for practical purposes a measure of “living wage” was adopted, which inflated the old minimum wage by the inflation rate.

\(^3\) Fertility rates have declined from 6.3 in 1991/92 to 5.7 in 2004-05; infant and child mortality has declined from 115 to 95 and from 192 to 154 between 1988-1991/92 and between 1991/92-2002, respectively.
8. The trends also show that the age group 0-14 of the economically inactive starts declining as a share of the population over 15 in 2017. A decline in the dependency ratio could open the door to enjoying some of the benefits of the so-called demographic bonus. Such bonus is due to having a large (but declining as a share of total population) young population that can be put to productive use, thereby raising potential output per capita, and to the potential for higher savings and investment per capita with the rising share of working age population.

9. For the demographic bonus to be realized, however, it will be important for the new entrants into the labour market to find employment. Just to have an order of magnitude consider that to keep the employment rate constant at its 2006 value of 85 percent could involve creating as many as 13 million jobs between 2007 and 2025, or roughly 720,000 jobs a year, against an average of some 630,000 jobs a year between 2001 and 2006.\(^4\)

10. **Educational level of the labour force.** In 2006, about half of the population in Tanzania had completed primary school (Figure 2), although many have no education (about one fourth of the population, almost one third in rural areas). Things are improving as the share of illiterate among the young is much lower, at 16 percent. Educational levels among the young have risen particularly in rural areas, where gender differences have declined significantly (Figure 3).

11. **Migration and the urbanization of the labour force.** Less than 5 percent of the population was urban in 1955, while the most recent census estimated the urban population at 23 percent in 2002.\(^5\) Rural-urban migration is not the main driver of urbanization and natural population growth plays a much greater role.

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\(^4\) Note that this figure is merely illustrative as the employment rate can be expected to decline in the development process, as more youngsters spend time in the educational system and as more workers can afford to retire from the labour market.

\(^5\) Further, a forthcoming study of the urban transition in Tanzania (World Bank 2008, b) suggests that the official definitions of urban areas underestimate the extent of the true urbanization, with peri-urban areas playing a much greater role in the urban transition than currently recognized.
12. Between 2001 and 2006 the share of migrants (defined as individuals who have not lived in their current area of residence since birth) rose from 23 to 29 percent. While much of the internal mobility is rural and temporary, mobility is also increasing across urban areas. About 30 percent of migrants 15 years of age and above moved from rural to urban areas. ILFS data shows that a higher concentration of migrants than non-migrants is in the informal sector (in urban areas about 37 percent of migrants are in the informal sector as opposed to 29 percent of non-migrants), and that migrants account for about 60 percent of workers in the sector.

13. Migrants have more years of education than non-migrants on average (Figure 4) and their educational level is rising. Both education and employment factors play an important part in the migration decision. Among the better educated migrants, job-related moves are more frequent. Almost 26 percent of migrants with some secondary education moved due to job transfers or for an arranged job, while only 3 percent of those with no education migrated for the same reasons. Migrants with more skills were also more likely to move in order to look for paid work or for reasons of better business opportunities, as well as for reasons of education and job training.

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6 Rural urban migrants on average appear to have stayed less in their current place of residence than rural-rural migrants. This might signify either that they are more likely to be temporary or that rural-urban migration has increased at a faster pace than rural-rural migration.
A MACRO PERSPECTIVE ON TRENDS IN GROWTH AND EMPLOYMENT CREATION

14. Between 2001 and 2006 the number of individuals employed (15 and over) increased from 14.7 million to 17.9 million, a rate of 4 percent per year. At the same time, value added grew at around 6.5 percent per year. This means that for each percentage point of GDP growth, the Tanzanian economy increased employment by close to 0.6 percent.

15. Gauging this performance against regional averages, the Tanzanian economy has generated jobs well above average both with respect to Sub-Saharan Africa and the rest of the world (Figure 5).\(^7\)

Figure 5: Employment growth and GDP growth in SSA countries, 2001-2006

16. Historical evidence shows that long run economic growth has been accompanied by both increased productivity and employment creation. In the short-term, few countries are able to achieve both at the same time (van Ark et al. 2004), such that trade-offs between productivity and employment growth do occur, and country performances in that respect can differ greatly. The international comparison suggests that Tanzania was able to achieve particularly labour-intensive economic growth.

17. The employment elasticity of close to 0.6 between 2001 and 2006 implies that labour productivity has increased by roughly by 2.5 percent per year. Looking at the growth of productivity, most sectors have experienced negative productivity growth, with the notable exception of agriculture. Overall productivity growth was driven by the

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\(^7\) If current GDP estimates are biased upwards, Tanzania would appear to do better in terms of creating employment per unit of growth, while productivity growth would be overestimated.
productivity increase in agriculture, and by the shift from agriculture to the other sectors. While losing relative shares of employment, agriculture saw a 3 percent rise in productivity per employed annually over the period, with the utilities and construction sectors also experiencing a 4 percent rise in productivity. The other sectors saw declining productivity but, because they still have higher levels of productivity than agriculture, their increasing weight in the economy contributed to higher overall productivity.

Figure 6: Change in employment share 2001-06, by sector size and sectoral value added

Source: National accounts and ILFS 2000/01 and 2006. The size of the “bubbles” reflects the size of sector employment.

18. The picture is that of an economy in which growth outside agriculture has been quite labour-intensive. Productivity gains have been driven not by within-industry improvements, but by the shift of employment out of agriculture. Because of its size, even with a declining share of employment, agriculture still produced 40 percent of new jobs in 2001-2006, equivalent to 1.2 million jobs.

LABOUR MARKET DEVELOPMENTS

19. Aggregate labour market indicators have shown little change over the period 2001-06 (Table 3) . The sectoral changes described in the previous section have been accompanied by the consolidation of other labour market developments. More detailed analysis reveals, however, an evolving picture, with significant differences in labour market performance by rural or urban areas, gender and age group.

Table 2: Activity, employment and unemployment rates, 15 and older (percentage)

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<tbody>
<tr>
<td>Activity Rate</td>
<td>88.3</td>
<td>89.6</td>
<td>79.4</td>
<td>86.6</td>
<td>91.0</td>
<td>90.8</td>
</tr>
<tr>
<td>Employment Rate</td>
<td>83.8</td>
<td>85.4</td>
<td>67.3</td>
<td>75.8</td>
<td>88.8</td>
<td>89.2</td>
</tr>
<tr>
<td>Unemployment Rate</td>
<td>5</td>
<td>4.7</td>
<td>15.2</td>
<td>12.5</td>
<td>2.4</td>
<td>1.7</td>
</tr>
</tbody>
</table>

Note that the small increase in the employment rate is statistically significant.
Note: unemployment rate includes those who do not have a job and would be available for work

20. Outside agriculture, the private sector has driven employment creation – formal which accounts for 8 percent of employment contributed almost 1/3 of overall employment growth, and informal which accounts for 12 percent of employment and contributed 27 percent of employment growth (Figure 7 and 8).

<table>
<thead>
<tr>
<th>Figure 7: Composition of employment by type of employer, 2006</th>
<th>Figure 8: Contribution to employment creation by type of employer, 2001-2006</th>
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</thead>
<tbody>
<tr>
<td><img src="image1" alt="Diagram of employment composition by type of employer, 2006" /></td>
<td><img src="image2" alt="Diagram of contribution to employment creation by type of employer, 2001-2006" /></td>
</tr>
</tbody>
</table>

21. The largest growth in employment outside agriculture has been in trade, restaurants and hotels (720,000 jobs) and the miscellaneous category of Public Administration and other services (530,000 jobs). The sectors with the largest percent increases were financial services, mining and quarrying, manufacturing, and transport.

Table 3: Changes in the sectoral structure of the economy, value added and employment, 2001 -2006

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<thead>
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</thead>
<tbody>
<tr>
<td>Agriculture, Forestry, Fishing</td>
<td>32.9</td>
<td>30.2</td>
<td>5.2</td>
<td>82.3</td>
<td>74.6</td>
<td>2.0</td>
</tr>
<tr>
<td>Mining and Quarrying</td>
<td>1.7</td>
<td>2.7</td>
<td>22.0</td>
<td>0.2</td>
<td>0.6</td>
<td>53.4</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>9.0</td>
<td>9.7</td>
<td>9.5</td>
<td>1.6</td>
<td>3.2</td>
<td>26.6</td>
</tr>
<tr>
<td>Electricity, Gas, Water</td>
<td>2.8</td>
<td>2.8</td>
<td>7.6</td>
<td>0.1</td>
<td>0.1</td>
<td>3.1</td>
</tr>
<tr>
<td>Construction</td>
<td>5.5</td>
<td>6.8</td>
<td>14.0</td>
<td>1.0</td>
<td>1.2</td>
<td>8.1</td>
</tr>
<tr>
<td>Trade, Restaurants, Hotels</td>
<td>16.7</td>
<td>16.0</td>
<td>6.2</td>
<td>8.3</td>
<td>10.9</td>
<td>11.8</td>
</tr>
<tr>
<td>Transport, Storage, Communication</td>
<td>7.0</td>
<td>7.5</td>
<td>9.2</td>
<td>0.8</td>
<td>1.4</td>
<td>26.0</td>
</tr>
<tr>
<td>Financing, Insurance, Real Estate, Busin.</td>
<td>12.7</td>
<td>11.2</td>
<td>4.1</td>
<td>0.2</td>
<td>0.6</td>
<td>54.5</td>
</tr>
<tr>
<td>Public admin and Community, Social, Pers.</td>
<td>11.6</td>
<td>13.1</td>
<td>10.8</td>
<td>5.5</td>
<td>7.5</td>
<td>13.1</td>
</tr>
</tbody>
</table>

Source: National accounts and ILFS 2000/01 and 2006

22. The growth in services, however, can be the sign of an increased concentration of workers in the urban informal sector due to the lack of alternatives. With the share of informal employment in urban areas rising by at least 22 percent in smaller cities, and 29 percent in Dar, this has been to some extent the case in Tanzania.

23. Employment growth was concentrated in urban areas. The period between 2001 and 2006 saw some sign of other incipient structural shifts, with the share of wage
employment in urban areas rising by 3 percent, and a decline of urban workers who reported own farm or \textit{shamba} as primary jobs. At the same time, the share of unpaid family labour and of self-employed (with or without employees) remained virtually unchanged.

24. Urban areas, despite accounting for less than a quarter of the total population have been the main drivers of employment growth. Between 2001 and 2006, more than 50 percent of the increase in employment originated in urban areas. As the result the share of urban employment increased from 18 to 25 percent. In particular, Dar es Salaam’s contribution to new employment was 28 percent of the total, even though it accounted for 5 percent of overall employment in 2001 (9 percent in 2006).

25. \textbf{Rural areas have seen stable employment rates, but growing underemployment.} The prevalence of small holding agriculture (79 percent of rural employment) and the sector’s capacity to absorb “surplus labour” have guaranteed stable employment rates. Yet 14 percent of workers in rural areas were underemployed (up from 8 percent in 2001)\textsuperscript{9} and roughly three fourths of them worked on their own farms or \textit{shambas} in 2006. In both rural and urban areas most of the underemployed appear to be engaged in more than one economic activity and cite as reason for their underemployment either the inability to find more work (47 percent in 2006) or the seasonal nature of agricultural work (29 percent in 2006).

26. \textbf{In urban areas, unemployment is high for the youth and older women.} Unemployment appears to be very concentrated geographically in urban areas (Dar accounts for 50 percent of the country’s unemployed, up from 33 percent in 2001) and to be quite persistent, with 38 percent of the unemployed having not had a job for at least 2 years. The age group 15-25 has an unemployment rate 4 times the national average of 5 percent in 2006 and 3 times the unemployment rate of older urban workers.

27. Unemployment has declined for youth with no education. They also experienced a marked increase in activity rates.\textsuperscript{10} It increased, in contrast, among those with at least some secondary education of either gender (Table 5), who now represent 23 percent of the total unemployed (and as many as 37 percent of young male unemployed). There is some debate to the extent to which this represents “queuing” for better jobs (i.e. better off workers choosing unemployment rather than accepting low paying jobs). Based on unemployment rates by self-reported household income group, it is hard to distinguish a pattern in these data (and the bottom group\textsuperscript{11} is not the one experiencing the lowest unemployment rates) so more analysis based on more suitable data sources is needed.

28. Urban areas also saw an increase in women’s participation in market activities, particularly for the 25 and older age group. This increased participation has been accompanied also by increased unemployment driven by increases for those with no education and those with at least some secondary education. Regression estimates suggest

\textsuperscript{9} A person is classified as underemployed if the total number of hours worked during the week is less than 40 (which NBS considers to a normal working hours) and the person is available for more work.

\textsuperscript{10} This is likely to explain why the quality of jobs obtained by young people has declined.

\textsuperscript{11} The one who declares up to 50,000 TSh. a year as total household income and which covers approximately 60 percent of the population.
that the relative odds of unemployment are now 2.5 times higher for women compared to men when controlling for personal and demographic characteristics (Ruggeri Laderchi and Cojocaru 2008). In general women have longer durations of unemployment, and like youth they are more likely than adult males to be discouraged workers (i.e. think that there is no available work and thus not engage in active job search).

Table 4: Urban unemployment rates (15+), by age group and gender

<table>
<thead>
<tr>
<th></th>
<th>15-24</th>
<th></th>
<th></th>
<th></th>
<th>25+</th>
<th></th>
<th></th>
<th></th>
<th>All</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>No education</td>
<td>20.1</td>
<td>13.4</td>
<td>5.9</td>
<td>18.5</td>
<td>5.1</td>
<td>8.5</td>
<td>2.5</td>
<td>7.1</td>
<td>8.9</td>
<td>7.2</td>
<td></td>
</tr>
<tr>
<td>Incomplete Primary</td>
<td>16.8</td>
<td>22.3</td>
<td>12.2</td>
<td>19.1</td>
<td>4.7</td>
<td>10.3</td>
<td>2.1</td>
<td>9.1</td>
<td>10.6</td>
<td>8.1</td>
<td></td>
</tr>
<tr>
<td>Completed Primary</td>
<td>24.4</td>
<td>33.2</td>
<td>19.4</td>
<td>25.4</td>
<td>5.7</td>
<td>15.0</td>
<td>2.7</td>
<td>15.9</td>
<td>17.2</td>
<td>13.2</td>
<td></td>
</tr>
<tr>
<td>Secondary+</td>
<td>33.7</td>
<td>30.8</td>
<td>36.1</td>
<td>38.8</td>
<td>8.0</td>
<td>10.6</td>
<td>3.1</td>
<td>12.9</td>
<td>15.5</td>
<td>15.6</td>
<td></td>
</tr>
</tbody>
</table>

29. **Urban areas do not guarantee good jobs.** For those who have jobs, employment is not always a guarantee of a secure livelihood: 59 percent of wage workers and 68 percent of the urban self-employed in main economic activity reported earnings below the minimum wage. The share of urban non-agricultural workers reporting wages / earnings above the living wage also fell from 32 to 30 percent.

30. **Particular concerns have been raised over the informalization of the urban economy.** Often concerns for job quality are equated with concerns about the informal sector, even if that sector is a key element of urban livelihoods. This sector, though not necessarily expanding as a share of employment, is very large in urban areas, accounting for 39 percent of employment in Dar es Salaam, and for 30 percent in other urban areas: 2.2 million people worked in the informal sector in 2006, up from 1.5 million in 2001.

Box 2: Job quality in the informal sector – global evidence

The ILFS surveys offer mixed evidence in support of the idea that jobs in the informal sector are of lower quality and less desirable than those in the formal sector. This assumption has been challenged based on international evidence, particularly from richer developing countries such as Mexico and Brazil. It has been argued, in fact (Perry et al. 2007) that a dynamic part of the informal sector might choose to stay informal and that the options that certain workers (low skilled, in elementary occupation) have in the informal sector are no worse than those that they would have in the formal sector. Further, the informal sector has been found to play an important role as a stepping stone for youth entering the labour market.

Evidence from the ILFS shows that:

- Some indicators of job quality show little difference between the informal and the formal sector – 91 percent of those employed in the informal sector are considered to have a “reliable” labour market attachment, against 95 percent in the formal sector. Further, workers in the formal sector might have informal jobs (in terms of contractual arrangements for example): 37 percent of workers in the private formal sector have casual oral contracts

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12 This represented an increase for the wage workers and a decline for the self-employed.

13 The two ILFS surveys record a drop in the share of informal work out of non-agricultural employment (from 53 to 47 percent of the 15+) though this might be partly driven by changes in the questionnaires.
In terms of earnings being in the formal sector is associated with greater benefits for those working in larger firms. The formal sector premium is not necessarily visible for self-employed without workers. This might be due either to formality offering greater benefits to larger firms, or to self-selection, i.e. more successful entrepreneurs choosing to operate in the formal sector – a hypothesis which requires further work to understand the costs and benefits of formalization.

Young wage workers in the formal sector appear to earn less than the self-employed in the informal sector. The comparison however is difficult because earnings also compensate for capital as well as for the entrepreneurial risk, while formal sector wages might offer non-pecuniary benefits (such as in terms of respect of workers’ rights). In terms of hours of work, the informal sector offers on average fewer hours of work than the formal private sector (48 versus 56), though in both sectors hours tend to be longer in urban than in rural areas.

In terms of motivation for being informal, about only 30 percent of respondents cited positive (“pull”) reasons to have their main economic activity as opposed to “push” ones such as inability to find other work, additional income needs of the family or release from other employment.

Pull reasons are stronger and push reasons are weaker for the better educated. For example, at least 10 percent of each of we groups with some education report to be in the informal sector because it offers good income earning opportunities, against 4 percent of those with no education. Similarly, 35 percent of those with at least secondary education declare that they are in the informal sector because they cannot find other work, against 52 percent of those without education.

The majority of informal workers do not choose to locate in the informal sector because of its attractiveness but rather because they do not have better options. But for them job quality as captured by a number of indicators is not very different across sectors (Box 2). Important elements that emerge from modeling sectoral choices are that the personal characteristics of workers affect significantly their likelihood of working in one of the various segments of the labour market (government/parastatals, private formal sector, private informal sector, housework, and agriculture) and that the informal sector can offer better income opportunities than the formal sector, given worker characteristics.

There is international evidence, especially from Latin America, that the informal sector acts as a stepping stone for young workers. In the case of Tanzania the evidence from cohort analysis reveals more limited mobility out of the informal sector over time, although some urban men do experience a transition from the informal sector into the formal (Figure 9).

With long transitions into the labour market and long periods in low quality jobs, young people are one of the most vulnerable groups in the labour market. Young people experience an average lag of almost two years between school and work. The average school-leaving age (that is, the starting point of the transition into the labour market) for children and youth that have ever been in school, is around 16.7 years. The average age of entering into work for the first time is 18.5 years.

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14 Note that cohort disaggregation can just give an initial approximation of the potential dynamics at play
15 The relatively late average leaving age for school ever-entrants underscores the importance of the selection process associated with initial enrolment: those children with the opportunity to get into school in the first place tend to persist well beyond the primary level.
Figure 9: Share of employed across sectors within each age group (15+), percentage (inactivity is omitted category)

Table 5: School to work transition points, by sex and residence

<table>
<thead>
<tr>
<th>Background Characteristic</th>
<th>Children ever in school</th>
<th>Children never in school (aged 7+ years)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Beginning point of transition (average age of dropping out)</td>
<td>End point of transition (average age of entering into work for the first time)</td>
</tr>
<tr>
<td>Total</td>
<td>16.7</td>
<td>18.5</td>
</tr>
<tr>
<td>Sex</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Male</td>
<td>17.2</td>
<td>18.9</td>
</tr>
<tr>
<td>Female</td>
<td>16.6</td>
<td>17.5</td>
</tr>
<tr>
<td>Residence</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Urban</td>
<td>17.4</td>
<td>19.2</td>
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<tr>
<td>Rural</td>
<td>16.7</td>
<td>17.5</td>
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<tr>
<td>Residence, Sex</td>
<td></td>
<td></td>
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<tr>
<td>Male/Urban</td>
<td>18.1</td>
<td>20.1</td>
</tr>
<tr>
<td>Female/Urban</td>
<td>16.5</td>
<td>18.1</td>
</tr>
<tr>
<td>Male/Rural</td>
<td>16.8</td>
<td>17.9</td>
</tr>
<tr>
<td>Female/Rural</td>
<td>16.7</td>
<td>17.3</td>
</tr>
</tbody>
</table>

Source: UCW calculations based on regression analysis of Tanzanian ILFS 2006/06

34. Young people access low quality jobs – most of the new employment among urban youth was in non-agricultural unpaid family work, which in 2006 accounted for 21 percent of total urban employment for this age group (Figure 10).

Note that unpaid family labour does not include household tasks such as fetching water and wood – the latter are identified separately as “housework”.

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35. Tanzania’s performance in creating jobs and in increasing the share of good jobs has been in line with its short term employment goals. The analysis here indicates that the non-agricultural private sector will be even more important in providing jobs in the future. Many of these jobs will be informal. Therefore, addressing the challenge of sustaining job creation while improving the quality of jobs in Tanzania calls for a focus on the three interrelated priorities:

(a) strengthening the capacity for employment creation by the formal sector by ensuring a conducive legal/institutional environment;
(b) supporting productivity growth in the informal sector;
(c) addressing the employability gap which increasingly affects young people.

36. Tanzania has started labour market reforms (Box 3). The impact on firms of those reforms has not yet been assessed, but the way firms will fare in this new institutional environment is crucial. As non-agricultural employment creation ultimately requires firms to grow and increase their demand for labour, particularly larger firms which are most capable of growing and creating more jobs and offer higher returns for workers’ education (World Bank 2008, c), this is an important area for policy analysis.
Box 3: Institutional reforms in the labour market

Over the past 5 years the Government of Tanzania with the support of Development Partners has enacted a number of reforms to Tanzania’s labour regulatory framework. Those include the Employment and Labour Relations Act, the Labour Institutions Act and the Social Security Bill. To date 6 new institutions have been established: the Commission for Mediation and Arbitration, the Essential Services Committee, sectoral Wage Boards, a Labour Court, Labour Administration and Inspection, and the Labour, Economic and Social Council. In addition, three new bills are currently at a rather advanced stage of preparation, including the Occupational Safety and Health Bill, the Workers Compensation Bill, and the National Employment Promotion and Services Bill.

Little analysis to date has considered how the new regulatory framework and the way it is implemented will affect different aspects of economic activity, such as the pace of job creation or the incentives for formalization of economic activity. The recent experience of introducing a set of sector specific minimum wages suggests that changes in the institutional set up can have far reaching and unanticipated consequences for different stakeholders.

37. The latest Investment Climate Survey helps identify elements of the business climate which are most relevant to firms (Table 9). For most firms institutional factors such as labour market regulation and the administration of justice are not seen as a major or severe constraint.\(^1\)\(^7\) This seems a useful complement to the findings of the latest Doing Business report which gives Tanzania a low rank in terms of its “employing workers” index (140 out of 181 countries) regulations.\(^1\)\(^8\) In fact, the DB report looks at the letter of the law while the Investment Climate Survey looks at firm perceptions of their constraints.

Table 6: Share of firms who see a particular constraint as a major or very severe obstacle, by firm size

<table>
<thead>
<tr>
<th>Constraint</th>
<th>1-4</th>
<th>5-19</th>
<th>20-99</th>
<th>100+</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Labour Regulations</td>
<td>0</td>
<td>4</td>
<td>8</td>
<td>11</td>
<td>5</td>
</tr>
<tr>
<td>Telecommunications</td>
<td>6</td>
<td>7</td>
<td>5</td>
<td>6</td>
<td>6</td>
</tr>
<tr>
<td>Functioning of the courts</td>
<td>5</td>
<td>4</td>
<td>9</td>
<td>11</td>
<td>6</td>
</tr>
<tr>
<td>Political instability</td>
<td>14</td>
<td>12</td>
<td>5</td>
<td>6</td>
<td>10</td>
</tr>
<tr>
<td>Customs and Trade Regulations</td>
<td>8</td>
<td>10</td>
<td>24</td>
<td>22</td>
<td>14</td>
</tr>
<tr>
<td>Transportation</td>
<td>11</td>
<td>15</td>
<td>15</td>
<td>22</td>
<td>15</td>
</tr>
<tr>
<td>Access to land</td>
<td>9</td>
<td>19</td>
<td>17</td>
<td>19</td>
<td>17</td>
</tr>
<tr>
<td>Inadequately educated workforce</td>
<td>8</td>
<td>17</td>
<td>22</td>
<td>22</td>
<td>17</td>
</tr>
<tr>
<td>Business licensing and Permits</td>
<td>14</td>
<td>18</td>
<td>21</td>
<td>11</td>
<td>17</td>
</tr>
<tr>
<td>Crime, theft and disorder</td>
<td>12</td>
<td>19</td>
<td>17</td>
<td>25</td>
<td>18</td>
</tr>
<tr>
<td>Tax administration</td>
<td>17</td>
<td>20</td>
<td>24</td>
<td>19</td>
<td>20</td>
</tr>
<tr>
<td>Corruption</td>
<td>15</td>
<td>19</td>
<td>27</td>
<td>17</td>
<td>20</td>
</tr>
<tr>
<td>Macroeconomic instability</td>
<td>26</td>
<td>21</td>
<td>21</td>
<td>19</td>
<td>21</td>
</tr>
<tr>
<td>Practices of competitors in the informal sector</td>
<td>24</td>
<td>28</td>
<td>34</td>
<td>22</td>
<td>29</td>
</tr>
<tr>
<td>Tax rates</td>
<td>20</td>
<td>34</td>
<td>45</td>
<td>56</td>
<td>36</td>
</tr>
<tr>
<td>Access to finance (availability and cost)</td>
<td>50</td>
<td>43</td>
<td>38</td>
<td>28</td>
<td>42</td>
</tr>
<tr>
<td>Electricity</td>
<td>86</td>
<td>84</td>
<td>97</td>
<td>100</td>
<td>89</td>
</tr>
</tbody>
</table>

Note: ICA sample

\(^1\)\(^7\) Note that this type of constraints is often found not to be a major one, at least until other types of reforms have been implemented (see Fox and Sekkel 2008).

\(^1\)\(^8\) Note that as the adequateness of the employment indicator of the Doing Business is the subject of much debate, more work is needed to analyze in practice the features of the institutional environment which are most binding, particularly given gaps between employment regulation and implementation.
38. An interesting element emerging from Table 9 is that institutional constraints are relatively more important for larger firms. It is possible that institutional constraints might have an indirect effect by discouraging firms’ growth thereby limiting labour demand, and also by reducing the productivity growth and export orientation which a recent review of evidence from SSA (Kingdon et al. 2004) found to be associated with firms’ growth.

39. Follow-up work to this note will review recent and ongoing institutional developments and assess how they shape the environment for sustained employment creation. Understanding the types of constraints faced by smaller and informal firms is an important part of this follow-up work. As shown by the table above, smaller firms might be experiencing different constraints than their larger counterparts, suggesting that other elements of the institutional environment might be more binding for them. In particular, access to land and skills appear to rank higher as constraints for micro-operators than for larger firms.

Supporting productivity growth, particularly in the informal sector

40. Productivity growth has accounted for about 40 percent of the growth between 2001 and 2006 though doubts vis-à-vis the nature of national accounts suggest that this might be an upper bound. Given the significant role of the informal sector in Tanzania, raising productivity in the sector by addressing its specific constraints would result in higher pay and better jobs for more people.

41. Raising productivity involves addressing a broad agenda, ranging from skills creation to infrastructure to factor market regulation. Skills creation to support innovation is a central requirement for productivity growth in all sectors, including agriculture. This has already been highlighted in the national policy agenda: the National Employment Policy (NEP) lists as a first specific objective to “enhance skills and competencies for those in the formal and informal sector especially in rural areas.” (p. vii).

42. The implementation of policies and reforms addressing skill creation, however, appears patchy and incomplete and there is no specific action plan to implement those policies. There are growing concerns about the quality of schooling in both primary and secondary education (Wedgewood 2005, Mbelle 2008, World Bank 2008, d) while the effectiveness of tertiary education, which is often very expensive on a per student basis, and its ability to respond to market demands, still needs to be assessed. In addition to more rigorous analysis, there is also anecdotal evidence that private firms have difficulties in finding workers with the right skill profile.19

43. The informal sector is underserved. The quality of skills provided by public institutes raises widespread skepticism according to a recent review (Johanson 2008). Traditional apprenticeships are therefore the largest source of skills for the sector, and while capable of keeping up with innovations in some sectors (e.g. car maintenance) they appear to

19 Further, there does not appear a strong case to link growing unemployment among secondary school leavers to “queuing”, giving some indirect support to concerns for the quality of skills.
provide little mobility to the trainees, both geographically and across sectors (e.g. enhancing chances of moving to formal jobs). Informal operator organizations, which are vigorous in other countries, are not active in Tanzania.

44. As far as other constraints to productivity growth in the informal sector, current policy efforts through the MKURABITA program focus mostly on land registration among other formalization measures (Box 4). These measures are expected to facilitate access to finance especially for smaller operators and facilitate the redevelopment of urban land and provision of the key productive infrastructure needed for firms to grow.

**Box 4: MKURABITA, the Property and Business Formalization Program**

MKURABITA, the Property and Business Formalization Program, seeks to facilitate the transformation of property and business entities in the informal sector into legally held and formally operated entities in the formal sector. The central thrust of the program is to increase access by poor people to property and business opportunities by formalizing their property rights. The program also aims to develop capital formation initiatives tailored to the needs of the informal sector. The activities which have been designed based on successful international experiences with formalization, and particularly the case of a large program in Peru implemented in the 1980s and 1990s. A report by the informal sector umbrella organization VIBINDO is skeptical on the effectiveness of MKURABITA in addressing the sector’s constraints, mostly because the challenges faced by the sector are systemic and go beyond formalization. The program was also found to be known only to small percentages of the informal operators, and to face significant shortages of resources.

Source: Vibindo (2008) and MKURABITA website (www.mkurabita.go.tz)

45. While the regularization efforts under MKURABITA might contribute to increased productivity, for example if security of property rights diminishes the riskiness of business for informal operators, and facilitates their access to credit by using land titles as collateral, other specific constraints remain. Those include the need for specific skills – including in specific business areas such as financial literacy and management which can hamper the effectiveness of access to credit. They also include biases against informal activities often implicit in urban regulations on zoning (Lyons and Msoka, 2007) and in the broader urban agenda (e.g. land regulation, Box 5).

**Box 5 The broader urban agenda and employment creation**

Cities offer the benefits of agglomeration and specialization but also the challenges of managing congestion and providing the services and infrastructure needed for cities to function efficiently. A forthcoming World Bank report on urbanization underscores that efficient cities are critical to Tanzania’s strategies for economic growth and poverty reduction. The report makes the case that the three main challenges to Tanzania’s urban areas are (a) lack of adequate infrastructure within and between urban and periurban areas, (b) deeply flawed land management systems, and (c) a lack of awareness of the magnitude and implications of the urban transition. Each of these three dimensions has implications for employment creation by both the formal and the informal sector:

Infrastructure: Urban agglomerations create the potential for greater economic efficiency and productivity, but infrastructure, services and connectivity are needed to realize that potential. Indeed, firms aim to be close to labor and product markets, and to access urban services and infrastructure. Appropriately investing in
urban infrastructure is an essential ingredient of growth in employment and productivity, as shown by experience of countries like Korea, Brazil, India, and China.

Land management: Land use planning mechanisms in Tanzania have failed to regulate effectively urban development. Informal development predominates in both urban and peri-urban areas. Appropriately managing land use and planning urban and peri-urban development will also cut down costs, as rehabilitating informal developments is more expensive than developing new areas.

Lack of awareness of the magnitude and implications of the urban transition: official government definitions of “urban” underestimate the extent of urbanization in the country by underlaying the role of peri-urban areas. Planning with the far reaching consequences of the ongoing urbanization process in mind helps mainstreaming the urban agenda into other sectors, for example by thinking jointly about land use and infrastructural development which leads not only to more efficient cities but to a more conducive environment for employment creation.

Source: World Bank (2008, b)

46. The Rural Investment Climate Assessment (World Bank 2007,b) suggested that better access to roads and rural finance would have the strongest impact on enterprise employment growth. The study also called for reducing transaction costs and taxes for non-formal enterprises, as well as continuing business registration reform.

Addressing the employability gap which increasingly affects youth

47. Employability of youth is at the forefront of policy debates. Concerns have been raised vis-à-vis the quality of general education as most school leavers are insufficiently qualified in mathematics, science and technology. There is a need to provide the 'basic skills' required to adapt flexibly in the modern labour market.

48. A recent analysis for Sub-Saharan Africa as a whole (World Bank 2008, e) emphasizes the need for a comprehensive strategy including a stable macro-economic environment, encouraging and supporting entrepreneurship in the formal and the informal sector, expanding rural job opportunities both in agriculture and outside, improving education and skills, and addressing demographic issues.

49. In addition, the special challenges that youth face need to be recognized and this can mostly be linked to the transition in the labour market. Some solutions to those challenges have been highlighted in a global review (Betcherman et al. 2007) on programs for youth which suggested that the most successful programs among those evaluated rigorously adopted a comprehensive approach and provided multiple services (e.g. information and counseling, entrepreneurship and self-employment activities, and local skills development). Entrepreneurship projects in general were also found more successful than average, while training programs often were less successful. An important element which emerged from the stocktake is that few of the African experiences reviewed had been properly evaluated, so that it was hard to assess the benefits and compare them with costs. This is an important dimension of experimenting with different projects before scaling them up, which should be taken into consideration.

50. Follow up work to this note will look more closely at the challenges faced by youth and how they can be addressed.
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The analysis in this paper relies mostly on ILFS data and on the following definitions. The definitions are aligned to the international definitions adopted in the National Employment Report (MLEYD 2007). In particular:

Employment is measured on the basis of current activity data and refers to having done any work for pay, profit, barter or home use over the previous week or not having done any work over the previous week but having a job, or own farm or enterprise to which one would definitely return to.

Unemployment is measured on the basis of current activity data and refers to (a) not having done any work for pay, profit, barter or home use over the previous week and not having such work to return to; and (b) being available for work over that period. The data reported are therefore based on the relaxed international definition of unemployment which does not require also that individuals have actively sought work to qualify as unemployed. The relaxed definition accounts for the long term unemployed who become discouraged. Analysis of both definitions overtime shows consistent trends, with the exception of rural areas, where unemployment is very low, but where the relaxed definition shows a decrease while the strict one shows stagnation.

The informal sector is defined as a subset of household enterprises or unincorporated household enterprises which (a) are not separate legal entities independent of the households or household members who own them, (b) employ less than 10 workers paid on a continuous basis, (c) who do not have a complete set of accounts which permit a clear distinction of production activities of the enterprises from the productive activities of their owners, or flows of capital between the owners and the enterprises.

The data used are from the Integrated Labour Force Survey for 2000-01 and 2006. Those two surveys cover: a household roster, household information including assets and access to services, and detailed individual information on employment over both a 12 months and a 1 week recall.