

**Q4 2016**

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# **TANZANIA**

## **LABOUR MARKET RISK REPORT**

INCLUDES THE BMI OPERATIONAL RISK INDEX



# Tanzania Labour Market Risk Report Q4 2016

INCLUDES THE BMI OPERATIONAL RISK INDEX

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## Part of BMI's Industry Report & Index Series

Published by: **BMI Research**

Copy deadline: September 2016

ISSN: 2056-113X

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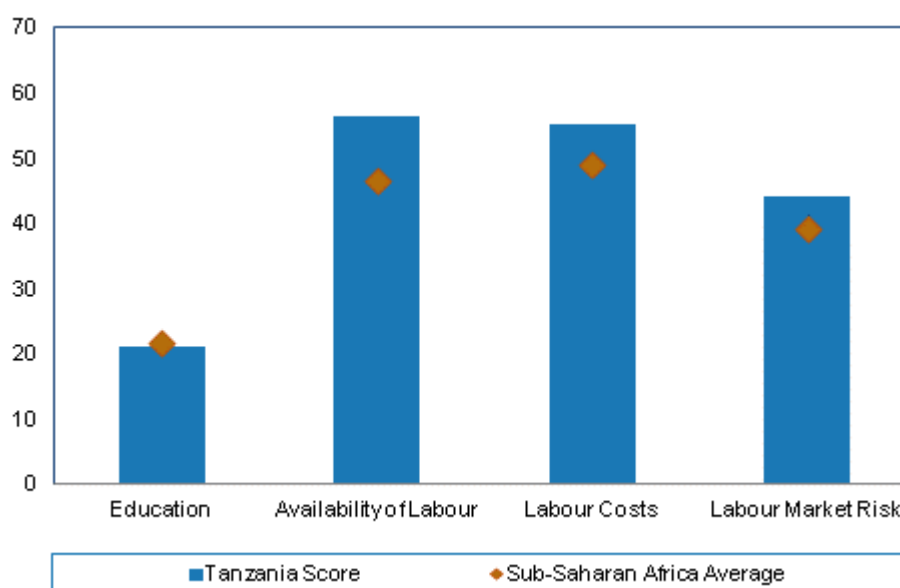
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## BMI View

**BMI View:** With one of the most competitive labour markets in Sub-Saharan Africa (SSA), Tanzania offers a relatively low level of labour risk to investors and businesses. Benefits include flexibility in hiring and firing workers, a high percentage of working-age citizens and women employed in the workforce, and increasing education attainment levels in the workforce. However, businesses face a moderate level of risk in the poor quality of the country's educational sector. Despite rapid growth in enrolment rates as well as educational facilities, a scarcity of state funding has constrained the development of secondary and tertiary education, resulting in a limited supply of high-skilled and technical labourers. This necessitates high training costs and the import of foreign labour. As a result of these factors, BMI has awarded Tanzania a score of 44.2 out of 100 for Labour Risk, ranking the country 12th regionally, behind Kenya and Rwanda, but ahead of Mozambique.

### Labour Market Remains Regionally Competitive

Tanzania & SSA Regional Average - Labour Market Risk



Note: 100 = Lowest risk; 0 = highest risk. Source: BMI Labour Market Risk Index

**Education (21.1/100):** Education is a key component of the government of Tanzania's development agenda such that the country has made significant gains in improving access to and equity of primary education.

However, many challenges persist related to retention, completion and transition to secondary education, the quality of education, actual learning outcomes and the relevance of skills that graduates bring to the economy. Additionally, many children enrolled in school drop out before completing primary education, especially girls. Significant deficiencies in educational attainment levels within the workforce are magnified by the wide gender, regional and socio-economic disparities in access to quality general and tertiary education. This is largely a product of limited resources, particularly at the tertiary education level, which produces a negligible number of graduates with skilled degrees. As a result, firms face a shortage of well-educated workers with technical knowledge. Businesses looking to fill technical positions will face additional training costs and may have to import skilled foreign labour which raises operational costs.

**Labour Costs (55.1/100):** Risk from the country's underdeveloped education sector is moderated by relatively low labour costs. Benefits to firms include a stable labour-management environment, a competitive severance package and a limited number of paid annual holidays. Official unemployment is also very low by regional and global standards, however, vulnerable employment remains high posing a risk of potential unrest as a result of a dearth of employment opportunities. Youth unemployment is also at least double the national rate, particularly among educated Tanzanians, leaving the potential for instability in the future. Furthermore, it highlights the lack of formal on-the-job-training in the workforce, raising training costs and limiting labour mobility. Average wages remain competitive by regional standards, though costs are pushed up by burdensome labour-related tax requirements and low relative productivity levels. Businesses also benefit from a relatively flexible system for hiring foreigners and the improving ease of hiring workers from EAC regional counterparts.

**Availability of Labour (56.4/100):** Tanzania's most significant advantage in the domain of labour risk lies in the availability of its labour. Benefits to investors include the fact that Tanzania has the highest rate of female participation in the workforce as well as the largest percentage of the working age population in employment in SSA. Increasing labour mobility within East Africa will improve the availability of labour over the medium term. Tanzania is, however, characterised by a low urbanisation rate and the country's average life expectancy declined considerably with the HIV/AIDS epidemic and a poor healthcare system. This raises risk of absenteeism and high staff turnover, lowering productivity and raising labour costs. However, government initiatives aimed at addressing the spread of HIV/AIDS and improving responses to water-borne diseases have resulted in a gradual recovery of life expectancy averages, which will serve to lower the risk associated with worker productivity and wellbeing in the long term.

**Table: Tanzania - Labour Market Risk**

	<b>Education</b>	<b>Availability of Labour</b>	<b>Labour Costs</b>	<b>Labour Market Risk</b>
Tanzania Score	21.1	56.4	55.1	44.2
Sub-Saharan Africa Average	21.7	46.5	49.2	39.1
Sub-Saharan Africa Position (out of 48)	22	3	17	12
Global Average	49.1	49.8	52.2	50.3
Global Position (out of 201)	173	54	87	147

*Note: 100 = Lowest risk; 0 = highest risk. Source: BMI Labour Market Risk Index*

**BMI's** Operational Risk Index quantitatively compares the challenges of operating in 201 countries worldwide. The index scores each country on a scale of 0-100, with 100 being the lowest risk state. The entire index consists of 20 sub-index scores and 79 individual surveys and datasets, which all contribute to the headline score. A full methodology can be found at the end of the report.

# SWOT

## SWOT Analysis

### Strengths

- Tanzania has near-universal access to primary education, which boosts the availability of the labour force with basic skills.
- Tanzania has one of the highest regional net enrolment rates for secondary education, which widens the availability of educated workers.
- Competitive labour costs at the regional level decrease employment costs for businesses.
- Ease in hiring foreign workers mitigates limited skills in the workforce.

### Weaknesses

- A lack of resources for secondary and tertiary education hinders the quality of education received by students.
- Limited access to healthcare means Tanzania's labour force suffers from a number of health problems that reduce productivity.
- A scarcity of technical workers increases the need to bring in foreign workers.

### Opportunities

- The introduction of compulsory secondary education will help to boost education levels in the medium term.
- An increasingly well-educated youth population is entering the country's workforce, meaning investors will be less reliant on importing foreign workers at additional cost.



**SWOT Analysis - Continued**

**Threats**

- Growing unemployment, particularly among the youth population, has the potential to cause discontent.
  - Persistent inequality along regional and socio-economic lines for access to education means investors will be constrained as to where they are able to operate.
  - A new law by the Tanzanian government to enforce USD2,000 fees for work permits to other African countries means the country is likely to see its migrant stock population reduce in the medium term, leading to a decreased availability of workers.
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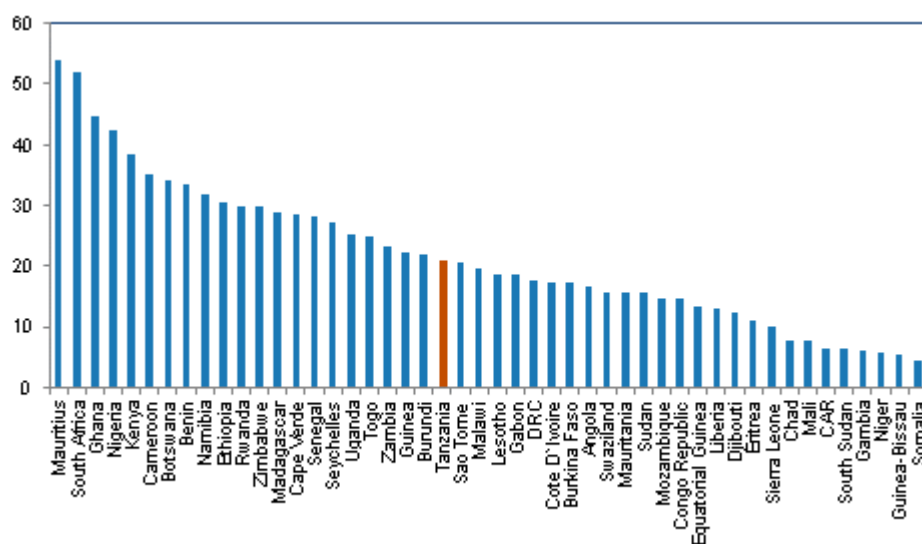
## Education Analysis

### Education

***BMI View:** Education is a key component of the government of Tanzania's development agenda, such that the country has made significant gains in improving access to and equity of primary education. However, many challenges persist related to retention, completion and transition to secondary education, the quality of education, actual learning outcomes and the relevance of skills that graduates bring to the economy. Additionally, many children enrolled in school drop out before completing primary education, especially girls. Significant deficiencies in educational attainment levels within the workforce are magnified by the wide gender, regional and socio-economic disparities in access to quality education. This is largely a product of limited resources, particularly at the tertiary education level, which produces a negligible number of graduates with skilled degrees. Businesses looking to fill technical positions will face additional training costs and will have to import skilled foreign labour which raises operational costs. Consequently, we score the country 21.1 out of 100 for Education, ranking Tanzania 22nd in Sub-Saharan Africa (SSA) and a low 173rd out of 201 countries worldwide.*

## Education Levels Lagging Behind Regional Peers

### Sub-Saharan Africa - Education Risk



Note: 100 = Lowest risk; 0 = highest risk. Source: BMI Labour Market Risk Index

### Latest Education Analysis

- In a key policy shift, from January 2016, primary and secondary schooling will be free for all Tanzanian children. Furthermore, the Tanzanian government has warned that it will impose fines on parents who fail to ensure their children attend school. This move will ease the burden of tuition payments for most low-income families and boost the skills development in the labour force over the long term. There remains a need to further improve access to quality education by providing adequate learning materials and reduce widespread practice of child labour, that negatively affects attendance. Furthermore, this move further diminishes the government's fiscal capacity to improve the quality of education in public institutions.
- In May 2016, several members of parliament urged the government to seek ways to effectively transform the current education system and develop a sustainable structure that addresses the skills mismatches in the market and is globally competitive. Debating the education, science, technology and vocational training ministry's budget estimates, a section of legislators attributed the poor education system to the department's failure to devise a structure that is clear, involving consultations with key stakeholders.
- In May 2016, the Ministry for Education and Vocational Training presented a budget of TZS1.39trn, a considerable portion of which will be directed towards improving deteriorating infrastructure for 33 schools. Improvements in infrastructure will boost the education system over the long term. In addition, the ministry outlined plans to further expand vocational training and tend to the needs of disabled children. In the short term, the ministry plans to acquire facilities such as Braille machines and wheelchairs. This will improve the availability of labour in the medium- to long-term and reduce the government's welfare burden by empowering special needs students.

## General Education

Primary and secondary education in Tanzania is free, however, due to widespread poverty; many households struggle to pay for uniforms, testing fees and school supplies, making it unattainable for some low-income families. Risks are heightened by the prevalence of child labour in the country, which negatively impacts retention and attendance rates. Though improvements in access to education will increase the proportion of the labour pool with a formal education, deficiencies in quality and resources exacerbate the skills shortage in the country as literacy and numeracy levels remain low. This state of affairs necessitates considerable training costs and the import of foreign workers, particularly for firms looking to recruit semi-skilled to skilled labour.

In mainland Tanzania, pre-school education caters to children aged five-to-six years old, lasts two years and is mainly provided by private entities; attendance is not compulsory. Primary education is compulsory and lasts seven years; however, due to the shortage of classrooms, late entrants are common. Education is free in theory up to secondary school level in Tanzania, although the completion rates to the last grade of primary are low (66.65%) as poorer parents are unable to afford uniforms, school materials and examination fees. Furthermore, most schools in rural areas do not have books and classes are overcrowded, reducing the quality of learning outcomes.

The completion of the primary school cycle is marked by sitting the Primary School Leaving Examination, which is mainly used for secondary school selection purposes. Secondary education in Tanzania follows the Cambridge model of ordinary and advanced levels where private schools also write international exams and public schools follow the national equivalent. Secondary education is divided into two cycles: the first cycle, of four years' duration, prepares students for the Certificate of Secondary Education Examinations; the secondary cycle, lasting two years, leads to the A-level examination. Graduates of primary education may also follow two-year craft courses offered at post-primary vocational training centres.

The extension of free access to education to include secondary school education will increase enrolment rates over the medium term. However, serious challenges are evident in the implementation due to underfunding and poor planning, which results in congested classrooms, wide regional disparities, limited facilities and shortage of qualified teachers. The pupil to teacher ratio currently stands at 43.44 in primary school, higher than Zimbabwe (35.9) and lower than Kenya (56.6). Poor learning environments disrupt the process of skills development, such that firms looking for workers with basic literacy and numeracy skills will continue to face restricted recruitment options.

Tanzania has made considerable progress over the past decade in terms of enrolment rates, but learning outcomes have been declining as schools battle to cope with larger numbers of children. The increase in education access has not been met with increase in supporting infrastructure and learning materials as well as an improvement in effective resource allocation. To address this, Tanzania, with support from international donors such as USAID and the World Bank among others, is adopting a new approach to solving development challenges in education under the 'Big Results Now in Education' programme. The program is expected to fast-track quality improvements in primary and secondary education to ensure that students are not just going to school but actually learning.

The Big Results Now in Education programme includes financial rewards for school performance, early grade student assessments, targeted support to underperforming students, recognition incentives for teachers and ensuring that funds reach schools in a timely manner. The USD416mn programme is being supported by the Tanzanian government's own financing and from funding provided by the governments of UK, Sweden, and the International Development Association (IDA). The traditional approach to project planning and budgeting has been replaced by a more rigorous process of planning, implementation and monitoring. This will enable Tanzania to reform its institutions for more productive investments in human capital development.

During 2012, US assistance to Tanzania increased access to basic education for almost 285,000 students, more than half of whom were girls and also provided secondary school scholarships for 700 girls from disadvantaged communities. Additionally, USAID supported an adult literacy programme, which empowered 3,600 Maasai women to start their own businesses and secure land rights.

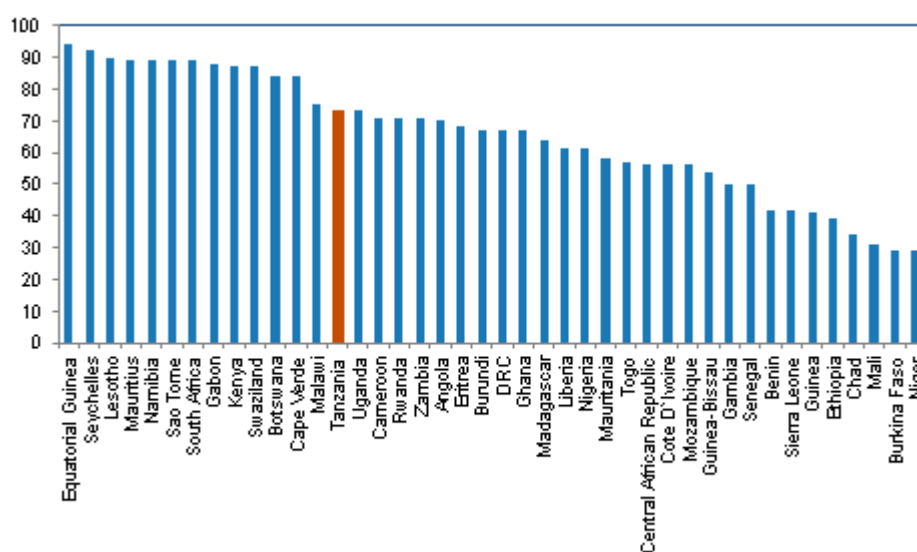
Education expenditure currently stands at 17.3% of total government spending (the equivalent of 3.5% of GDP.) This is low in comparison to Ethiopia's 27% of government expenditure on education and Kenya's education expenditure of 20.6%. The over-reliance on aid organisations to supplement the education sector highlights the deficiency in resources and presents a risk of the unsustainable nature of the state's drive to ensure universal access to education that is not met with improvements in quality. Furthermore according to the 2016-2017 education budget and strategy tabled before parliament, the education ministry aims to allocate 45% of the budget to the higher learning education, which is a key disadvantage with respect to skills development. This will raise the likelihood of poor educational outcomes in basic education as primary education remains underfunded and consistently poor literacy rates.

## Primary Education

Tanzania has achieved significant progress in raising the basic skills of its population, particularly among the nation's youth. According to UNESCO, in 2015, literacy rates for ages 15-24 stood at 87.3%, underlined by significant gender parity, whereas for those aged 65 and older literacy rates were a low 47.6%, with females twice as likely to be illiterate as their male counterparts. This highlights significant improvements in access to education and skills development. Businesses will benefit from an increasing number of workers with basic skills over the medium- to long-term. However, some regional and socio-economic gaps remain, despite the country having largely closed the gap in primary educational attainment between male and female students.

## Uncompetitive Levels Of Literacy, Numeracy Compared To Regional Peers

SSA - Literacy Rate



Source: UN

With a literacy rate of 73%, Tanzania places 14th regionally for this indicator, ranking jointly with Uganda and marginally above Rwanda. Although the country scores higher than the majority of African countries, progress in increasing literacy levels in the population has been constrained by limited state resources and

pervasive poverty, which have led to a notable decline in the country's educational performance, characterised by growing illiteracy and failing school attendance rates. According to the World Bank, 34.7% of children aged seven to 14 years are employed or economically active. Endemic poverty is the biggest contributor towards the number of children out of school, where in 2013 this figure stood at 1.7mn up from an estimated 770,000 in 2005, according to UNESCO. Within the population, the mean years of schooling stands at just 5.8, ranking the country 13th in the region for this indicator, below Kenya (6.1 years), meaning many children achieve only the basic primary education that is compulsory under the law and do not progress to secondary school. Consequently, a small proportion of Tanzania's labour force has received basic education, resulting in a dearth of skilled workers in the labour market.

However, the Tanzanian government has sought to reverse poor education outcomes by increasing public expenditures on education from 2.2% of GDP in 2002-2005 to 3.5% in 2015 and by improving access to primary education, beginning with the implementation of the Primary Education Development Plan. Since 1991, net primary school enrolment has increased from 49.0% to 83.5%, meriting a rank of 26th regionally, marginally ahead of Kenya (83.58%) and well behind Rwanda (93.4%). The system has also helped largely eliminate gender inequality in access to primary education, enabling employers to increasingly benefit from a growing population of young workers, male and female, endowed with basic literacy and numeracy skills. Nevertheless, conditions in the education sector are uneven and the quality of education is an issue of concern. Net primary school and gross primary school enrolment rates for the period 2010-2015 have continued to decline, mostly because of increasing dropouts at higher grades.

Significant room for improvement remains in the quality of education received by Tanzanian children due to a scarcity of resources and teachers, with an average of one textbook for every five students and an average classroom size of 66 students in state schools as of 2011. Progress is also needed in attendance and completion rates, the latter being only 62%, which may restrict the capabilities of young workers. Despite the introduction of free primary education for all, poorer children also remain at a disadvantage vis-à-vis more privileged children due to various fees necessary to receive education, while pupils living in rural areas experience more difficulty in accessing school facilities than children in urban areas.

### **Secondary Education**

Tanzania performs poorly at the regional level for its secondary education system, with among the lowest net enrolment rates in the region for secondary school (32.2%) and for female secondary school enrolment (30.8%). Significant improvements have been made in recent years to increase access to secondary school, but shortages in funding translate into a lack of facilities and other resources, constricting

secondary school attainment rates. A small proportion of the Tanzanian workforce has received a secondary education, necessitating high training costs and the import of foreign workers for firms over the medium- to long-term.

One of the main challenges facing the secondary education subsector is the persistently high dropout rate. The rate is higher at O-Level compared to A-Level, with many students still unable to afford the cost of educational material despite the provision of free education by the government. Furthermore, endemic poverty in the country has meant that many students drop out of school in order to become economically active or employed and help support their families. Challenges remain with regard to retention and performance of girls at all levels of education as early pregnancies and marriage continue to contribute significantly to school dropouts among girls in both rural and urban areas. This highlights a dearth of skilled female workers over the medium to long term, restricting the pool of skilled workers and recruitment options for businesses seeking to fill skilled gender specific roles.

The school curriculum in Tanzania has been criticised for being too examination-oriented with no provision for local flexibility and adaptability. Consequently, students resort to rote learning with few opportunities for practical activities related to the labour market, leaving them unprepared for later employment. Most graduates of O-level and A-level do not have the sufficient knowledge and vocational skills that are needed in both formal and informal sectors of the economy. For example, subjects such as ICT and English as well as other foreign language skills are not well provided for, meaning businesses will struggle to communicate with their employees or will be required to provide them with additional training.

The development of the country's secondary education system is constrained by inadequate resources, particularly in the realm of funding. According to UNESCO, government expenditure on secondary education per student stands at USD244, one of the lowest levels of funding in the region. As a result, the secondary education system is characterised by a shortage of schools, textbooks and teachers, and low access to water and sanitation. Specifically, education infrastructure suffers from a lack of school buildings, while those that do exist are in poor condition. Teachers receive inadequate salaries, thereby limiting the quality of teaching. However, from January 2016, the government has made secondary education compulsory, which will likely improve children's access to higher education and overall educational attainment in the Tanzanian workforce. Additionally, institutions within different regions of the country are stepping up to enhance the accessibility and quality of secondary education. For example, an estimated 21 secondary schools will be built in the coastal region, while new programmes will be introduced into existing schools.



Yet many students are not equipped at the primary level to continue to secondary education, further lowering the availability of workers with a secondary education background. Primary school students are obliged to pass the Primary School Leaving Exam in order to continue on to secondary education. In 2013, 49.4% did not pass, equivalent to more than 400,000 students. Critics argue that the exam should be used to assess pupils rather than a selection mechanism for secondary school, which would likely increase secondary school educational attainment. Meanwhile, in 2012, a reported 397,126 secondary school students wrote the national Form Four examinations, of which 61%, or 240,903 students, failed - a state of affairs that is attributed to poor reading, writing and mathematics skills attainment from the primary school level. As a result, businesses may face a scarcity of well-educated workers, necessitating imports of foreign labourers.

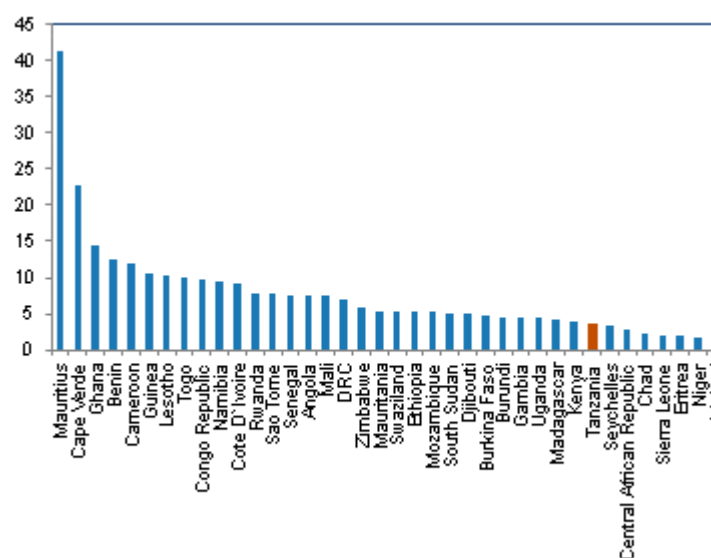
## Tertiary Education

The most significant labour risk in Tanzania's education system is derived from the tertiary education sector. Although the number of students and universities has increased considerably over the last decade, enrolment rates remain low, suggesting businesses will be heavily reliant on importing foreign workers to fill high-skilled positions. Additionally, tertiary education is characterised by a severe lack of funding and resources, leading to a low quality of education for those who do attend and a scarcity of well-educated and qualified labourers in more sophisticated economic sectors. As a result, Tanzania receives a score of 19.6 out of 100 for Tertiary Education, ranked 24th regionally, well behind Kenya and Rwanda, marginally ahead of Mozambique.

The tertiary education system has significantly increased in size, from only three public universities in 1995 to a total of 32 public and private institutions that served around 140,000 students in 2012. By 2015, the number of universities and higher-learning education facilities has risen to over 40, reflecting burgeoning demand for tertiary education in the country. However, the quality of higher public education is very low, and the country's private universities are generally unaffordable for most Tanzanians. The poor quality of education is largely the result of a shortage of resources; between 2009 and 2010 and 2014 and 2015, the budget for higher education has been estimated at TZS3.603bn, of which TZS3.178bn will be supplied by the state while the remainder will come from development institutions. A significant portion of this funding is spent on financial aid for students, which has accounted for as much as 50% of state expenditure on higher education. Additionally, many Tanzanian universities are burdened by overcrowding, limited teaching facilities, poor infrastructure and a lack of staff and teaching resources, translating into generally low quality education even for university graduates. Students also encounter difficulties in the university application process, as poverty prevents many from visiting institutions or accessing a computer, though government programmes are working to facilitate this process.

## Skilled Labour Pool Remains Limited

### SSA - Gross Tertiary Enrolment Ratio



Source: World Bank

The underdevelopment of Tanzania's tertiary education system is exemplified by its gross enrolment ratio of only 3.7, one of the lowest in the region, ranking behind regional peers such as Kenya (4.0), Uganda (4.4), Mozambique (5.2), Ethiopia (5.3) and Rwanda (7.9). This underperformance, particularly with East African peers, magnifies the uncompetitive educational attainment levels in Tanzania that have resulted in tertiary educational attainment for only 10% of the labour force. The country also produces one of the lowest numbers of skilled graduates in SSA, with only just over 200 science graduates and an average of 140 engineering, manufacturing and construction graduates on an annual basis. Businesses in advanced manufacturing, engineering and service industries, requiring workers with technical and advanced skills face a severe shortage of skilled labour in all fields and high labour costs due to the need for extensive training and the import of foreign workers. However, Tanzania has signed a Mutual Recognition Agreement with Uganda and Kenya that enables engineers from any member state to work legally across all three countries, allowing companies to recruit skilled foreign labourers with limited difficulty.

Additionally, the availability of skilled workers will likely receive a boost from new government plans to train Tanzanian experts in the oil and gas sectors, in preparation for the beginning of natural gas production

in 2023. In May 2015, the government announced its intention to train 1,350 graduates in oil and gas geosciences, geology and minerals explorations, mining and minerals processing and mining environmental management by June 2016. These efforts will be supported by contributions from the private sector and foreign governments; for example, the Dutch government and **British Gas** have provided four processors to teach courses within the specified degrees, while offering full scholarships to 13 students registered in the Master of Science in Petroleum Geology programme.

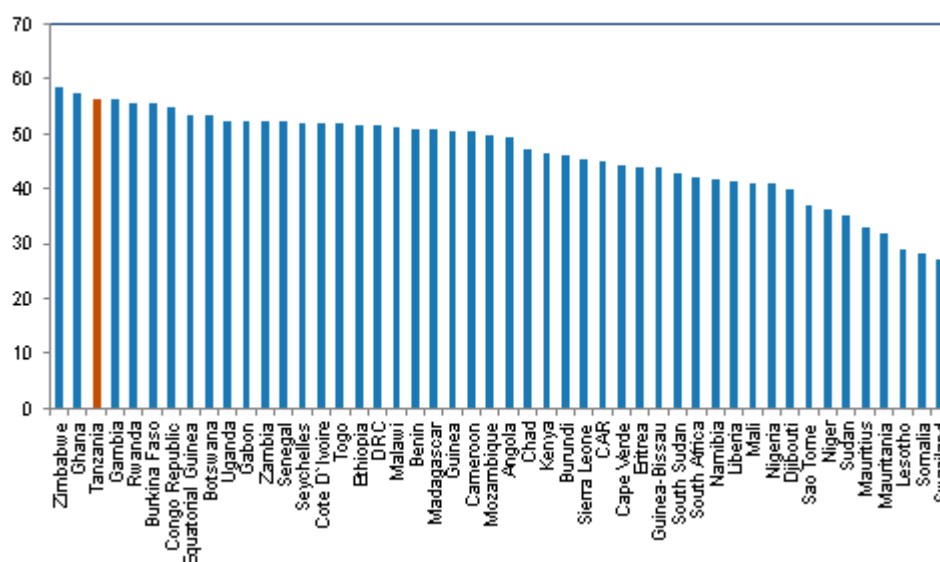
## Availability Of Labour Analysis

### Availability Of Labour

**BMI View:** Investors in Tanzania have the benefit of vast recruitment options particularly for low-skilled labour-intensive industries. The country has one of the largest working age populations in the region and high population growth rates which will support the availability of labour over the long term. Low urbanisation rates exacerbating regional disparities in hiring options, poor access to quality healthcare reducing productivity and a limited pool of skilled foreign workers pose the most significant risks to businesses. Tanzania's labour market is dominated by semi-skilled or unskilled labour, with the majority engaged in agriculture and other forms of vulnerable employment, indicating a dearth of formal on-the-job skills development. These factors necessitate considerable training costs and the import of foreign workers particularly for firms looking to fill technical roles. Due to these considerations, Tanzania scores 56.4 out of 100 for Availability of Labour, ranking the country third out of 48 states in Sub-Saharan Africa (SSA) and 54th out of 201 countries worldwide.

### Large Workforce Diminished By Low Life Expectancy

Sub-Saharan Africa - Availability Of Labour Risk



Note: 100 = Lowest risk; 0 = highest risk. Source: BMI Labour Market Risk Index

### Latest Availability Of Labour Analysis

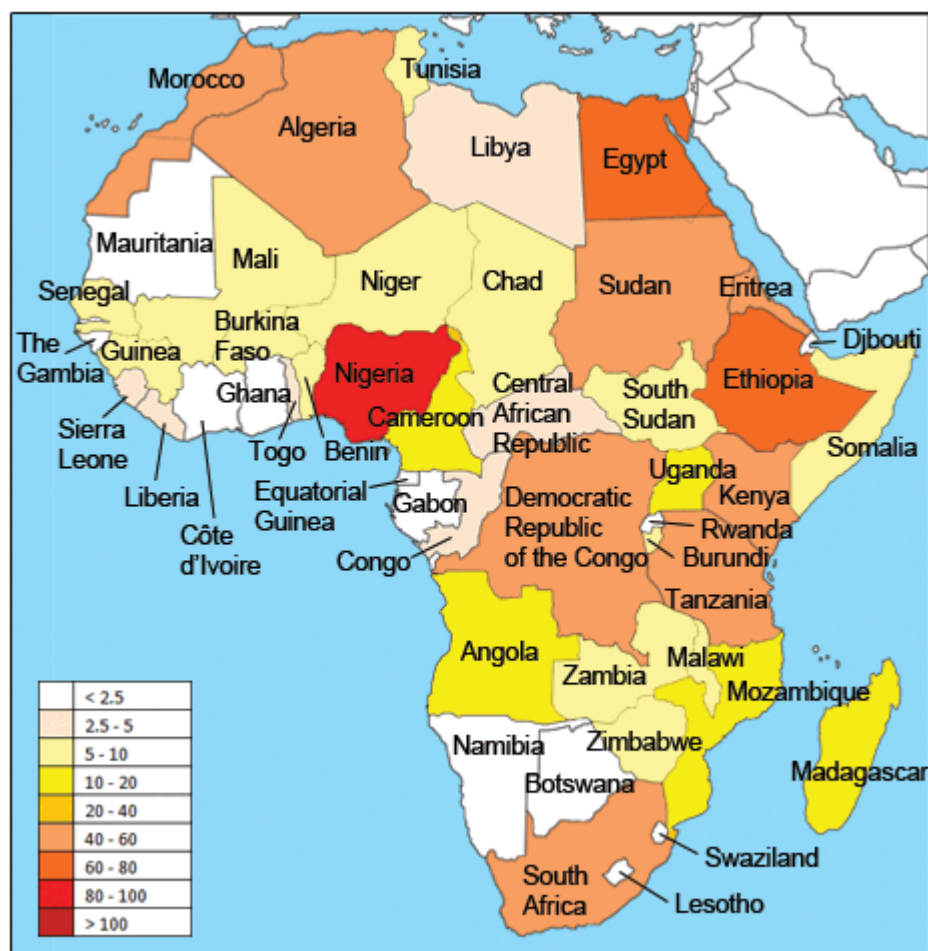
- Businesses in Tanzania continue to face productivity-related challenges emanating from a poor healthcare system, raising risk of absenteeism and high staff turnover due to illness. We highlight, however, that access to healthcare services may improve as the country's National Health Insurance Scheme (NHIS) gains traction. While the government has recognised the need to improve the situation and is implementing certain strategies to this end, the large funding gap and pre-existing structural issues will continue to hinder universal access to essential medical care.
- The Medical Stores Department (MSD) has expressed concern over Tanzania's growing drug shortage as a result of fiscal constraints where healthcare allocation for 2016 stands at 11.3%, short of the 15% target pledged during the Abuja Declaration. This raises the risk of the improper implementation of the healthcare reforms due to underfunding.
- The Tanzania Food and Drugs Authority (TFDA) has approved the new dosage for Swiss drug-maker **Novartis**' anti-malarial drug, **Coartem**. This will help in lowering absenteeism due to illness with improved access to anti-malarial medication. Nevertheless, Tanzania will remain vulnerable to diseases such as malaria, cholera and typhoid, given poor sanitation and weak access to healthcare throughout the country, as seen in the cholera outbreak in 2015 that persisted well into the first quarter of 2016.

### Size Of Labour Force

The size of Tanzania's labour force offers a number of significant benefits for investors. The country boasts the largest percentage of the working age population in employment and has a large working age population. Though the country also has a relatively high life expectancy by regional standards, worker health remains poor and productivity will likely face disruptions due to risk of absenteeism and high staff turnover. Taking these factors into account, Tanzania receives a score of 54.8 out of 100 for Size of Labour Force, meriting a rank of second regionally, behind Zimbabwe. It is the highest score of its neighbours representing a key competitive advantage for businesses, particularly those in labour-intensive industries.

## Large Working Age Population Boosts Recruitment Options

Africa - Working Age Population (mn)



Source: BMI, d-maps, World Bank

Investors benefit from considerable recruitment options due to the country's large working age population of 28.5mn, ranking it in fifth position regionally for this indicator, between South Africa (36.3mn) and Kenya (26.2mn). This figure will increase over time due to the country's rapid annual population growth rate of 3.2%. Tanzania's total population was estimated at just over 50mn inhabitants in 2015, of which over half were under the age of 18, offering businesses a young and growing working population. Tanzania also has the largest percentage of its working age population in employment in SSA, estimated at 86.3%, providing firms with a large supply of potential workers. Although there is a low rate of youth unemployment relative

to both developing and developed countries, most Tanzanian youths are engaged in informal agricultural work and many face limited work opportunities due to their lack of education. It is important to note that firms will still face a dearth of advanced and vocational skills due to lack of formal training among the majority of the workforce. According to the World Bank, vulnerable unemployment (unpaid family workers and own-account workers) as a percentage of total employment stands at a high 74%. This means that though unemployment is low (4.9%), most of those that are employed are not developing their skills in a manner that would add value to work in the formal sector. Businesses will have to accommodate considerable training time and costs, particularly in secondary and tertiary sectors.

At 66.0 years, life expectancy is high relative to SSA standards, where Tanzania ranks fifth in the region, not far behind regional leader Mauritius with 74.8 years. Life expectancy has increased substantially over the last several decades, rising from 46.7 years in 1970 to 50.5 in 1990. However, high rates of poverty continue to limit health outcomes; nearly 45% of Tanzanians do not reach the age of 40, while 22% of children are malnourished, presenting severe constraints on worker productivity and well-being. Access to healthcare is limited by poverty and a lack of state resources, worsening notable health challenges including a high incidence of HIV/AIDS. The HIV/AIDS epidemic adversely impacted life expectancy in the 1990s and early 2000s, though notable progress has been made in combating the disease since the implementation of a national plan in 2001.

Other major challenges to health in Tanzania include low-quality maternal healthcare and relatively high maternal mortality rates. Each day, an estimated 22 women die in childbirth; while for every mother that dies, another 20 women will likely develop a childbirth-related injury, infection or life-changing disability. In Dar es Salaam, expecting mothers often share a hospital bed with two to three other women, reflecting the dearth of healthcare resources and the limitations of health services. Through its contributions to a pooled fund for health in Tanzania, the World Bank has helped boost capabilities of health units at the grassroots level and contributed to better access to services and encouraging outcomes. The under-five mortality rate fell from 147 per 1,000 live births in 1999 to 81 per 1,000 live births in 2010, in part due to a rise in proportion of children under five sleeping under mosquito nets to around 73% by 2010 and increased vaccination coverage. This will support the country's high population growth rate of 3.2%, increasing the size of the labour pool over the long term.

Tanzania will continue to suffer from a shortage of essential medicines as a result of budgetary constraints that have led to inadequate allocations to the healthcare sector. Nevertheless, we uphold a positive outlook for Tanzania's healthcare sector over the coming years. Access to healthcare services will continue to improve as the country's National Health Insurance Scheme gains traction, with Tanzania one of a number

of Sub-Saharan African countries attempting to achieve universal health coverage through insurance-based models. The low proportion of the population covered by public health insurance (just below 15%), means that the majority of Tanzania's population seeks treatment at private healthcare facilities and pays out-of-pocket for medicines.

In 2015, per capita spending on healthcare reached a value of USD42.10 of which the government contribution was only 39%, leaving individuals to bear the brunt of paying the remainder. Due to endemic poverty and generally low wages among workers, many are unable to access quality healthcare services. Health expenditure as a percentage of GDP is forecast to decrease, however, from 5.2% in 2015 to 4.5% in 2020 and 3.7% by 2025. Government expenditure on health accounted for 39% of total healthcare expenditure in 2015, and we see this percentage increasing over the long term to 43% by 2025. Nevertheless, private health expenditure will continue to provide the lion's share of healthcare expenditure, responsible for 61% of total health spending in 2015, yet forecast to decrease to 58% by 2025 as the government increases its commitment to the sector. Despite the government's increasing commitment to improving healthcare provision, over the long term, the majority of Tanzania's healthcare spending will take place in private facilities, leaving it out of reach of the average worker. This raises the necessity for firms to contribute to their employees' healthcare cost or risk losing productivity due to illness-related absenteeism and high staff turnover.

The introduction of compulsory health insurance in Tanzania will increase uptake of the scheme, driving growth in the healthcare sector and improving access to healthcare. Tanzania has the largest proportion of the working age population in employment in SSA at over 86%, meaning that uptake of the scheme will occur faster than many of its regional peers. Nevertheless, severe inefficiencies within the health system continue to drain already limited resources, thereby lowering the quality and accessibility of healthcare. For example, it is estimated that for every USD100 spent on the storage, distribution, prescription and usage of drugs, citizens only receive USD15 worth of medication.

Tanzania's healthcare system is currently experienced additional pressure due to the ongoing refugee crisis in neighbouring Burundi. Currently, an estimated 50,000 Burundian refugees have taken shelter along the shores of Lake Tanganyika, while at least another 26,000 refugees are housed elsewhere. Within the former community, a large-scale cholera outbreak has presented a major challenge to the local healthcare system, necessitating emergency supplies from UNICEF to address the crisis.

## Composition Of Labour

The composition of Tanzania's labour force is not particularly conducive to business activities, despite high female participation rates, the dearth of skilled labour presents significant obstacles for firms. The country



has low urbanisation rates and a limited migrant stock which reduce the availability of skilled labour to businesses. Furthermore, the majority of the working-age population is employed in subsistence agriculture, meaning workers are generally low-skilled compared to more urban inhabitants. Consequently, we give the country 58.0 out of 100 for the Composition of Labour pillar of our Index, ranking Tanzania 15th in the SSA.

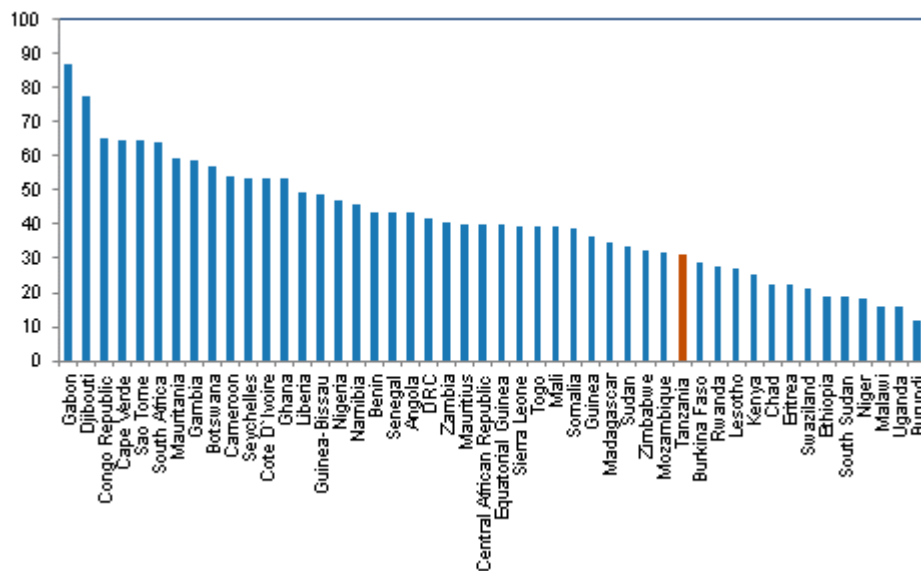
The native population of Tanzania consists of more than 120 ethnic groups, of which the Sukuma, Haya, Nyakyusa, Nyamwezi, and Chagga have more than 1mn members. The majority of Tanzanians, including such communities as the Hehe, Sukuma, and Nyamwezi, are Bantu-speaking groups. Other Bantu-speaking communities include refugees from Mozambique. Groups of Nilotic or of related origin include the nomadic Maasai and the Luo, both of which are found in greater numbers in neighbouring Kenya. Swahili and English are the official languages of Tanzania. However, the former is the national language.

The benefits of Tanzania's abundant labour force are somewhat moderated by the country's modest urbanisation rate, with just 30.9% of Tanzanians living in cities, the 12th-lowest in SSA. The country's largest urban centre is Dar es Salaam, which is Tanzania's largest and richest city and an important regional economic centre. With a population increase of 5.6% a year from 2002 to 2012, Dar es Salaam is the third-fastest growing city in Africa (ninth fastest in the world), after Bamako and Lagos. The metropolitan population is expected to reach 5.12mn by 2020, increasing the availability of workers to businesses. The city is also the educational centre of Tanzania and home to many of the country's best known universities, including the University of Dar es Salaam, which is the oldest and second-largest university in Tanzania after the University of Dodoma.

Urbanisation has become a major development challenge in Tanzania. Planned residential areas are rare, although land itself is in abundance. In the city of Dar-es-Salaam and other major cities, unemployment is higher than in the rural areas, basic infrastructure and the provision of social services have become highly insufficient to meet the demands of users and there is inadequate provision of recreational facilities, sewage systems, water drainage channels and environmental protection. This state of affairs exacerbates the health challenges that Tanzanians face as diseases such as cholera and other communicable disease are prone to spread more rapidly under such circumstances. Intra-city transportation presents a serious challenge to commuters due to poor road networks and the absence of intra-city mass rail transport systems, raising risk of delays in commute time which reduces productive time at work.

## Urban-Based Firms Face Recruitment Constraints

SSA - Urbanisation Rate (% Total Population)



Source: World Bank

Dodoma is the capital of Tanzania and has a population of 2mn, of which just 321,194 is urban. Situated at an elevation of 3,729 feet in a sparsely populated agricultural region, it is a market centre for peanuts (groundnuts), castor beans, sunflower seeds, gum, corn (maize), rice, wheat, coffee, tea, tobacco and sorghum. Coffee and sisal are cultivated in the north of the region, and cattle-raising is an important source of income throughout the remainder of the region. Consequently, the majority of the population is employed in subsistence agriculture and less accessible compared to the population of the more urban Dar es Salaam. There are two universities in Dodoma: St John's University of Tanzania, owned by the Anglican Church of Tanzania, and the University of Dodoma, currently with 22,000 students. The latter is projected to have a total of 40,000 students in three- to four-years' time, providing businesses with a more educated labour force in this region in the medium term.

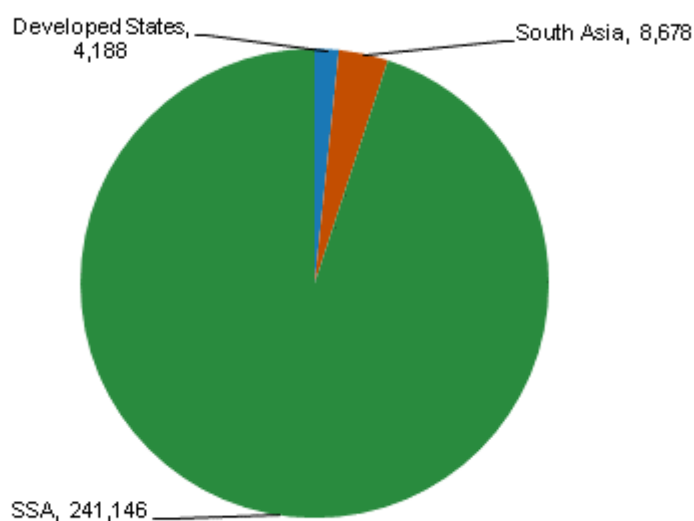
Tanzania's migrant stock population has reduced significantly in the past decade from 900,065 in 2000 to 312,778 in 2013, depleting the size of the country's labour force. Migrants from developed states such as Canada, Germany, Italy, the UK and US have a decreasing presence in Tanzania, falling from 22,354 in 1990 to 4,147 in 2013. This has reduced the availability of educated labour in Tanzania and meant that

businesses are more reliant on importing workers at additional cost. However, Tanzania has seen rising investment from Chinese firms interested in the country's mineral deposits. Migrants from South Asian countries rose from 3,597 in 1990 to 12,462 in 2010, before falling again to 8,523 in 2013. These workers tend to be of mixed skill but generally well-informed on the industry in which they work.

The majority of Tanzania's migrants come from other SSA countries, such as Mozambique, Kenya, the Democratic Republic of the Congo, Burundi and Malawi. These workers tend to be of a similar skill level to Tanzanian workers and therefore serve to widen the labour pool as opposed to contributing to its overall skill level. Businesses benefit from Tanzania's membership with the East African Community (EAC) as it allows for the improved mobility of labour among member states and expands the scope of available labour, particularly for skilled positions.

### Majority Of Migrants From Neighbouring States

Tanzania - Migrants By Region Of Origin, 2015



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Source: UN

Under a new law that came into force in October 2014, generally, foreign workers are forced to seek work permits at a cost of USD2,000 each, making them unattainable to many workers. In addition, many applicants have to wait for up to five months to obtain the documents, meaning they have no choice but to

leave the country. This new law creates additional complications for businesses looking to employ foreign workers and will serve to decrease the size of the labour force over the medium term.

Tanzania's job market has also expanded owing to the large presence of refugees fleeing conflict in neighbouring countries. For example, the Nyarugusu camp outside of the western city of Kasulu houses some 65,000 Congolese migrants, freeing the supply of cheap labour while creating competition with Tanzanian workers. More recently, the political crisis in Burundi has led over 90,000 Burundians to seek refuge in Tanzania, while illegal immigrants from Ethiopia pass through the country on their way to prosperous African nations like South Africa. As a result of these population pressures, efforts by the Tanzanian government to curb foreign participation in the labour force may be stifled in the short term.

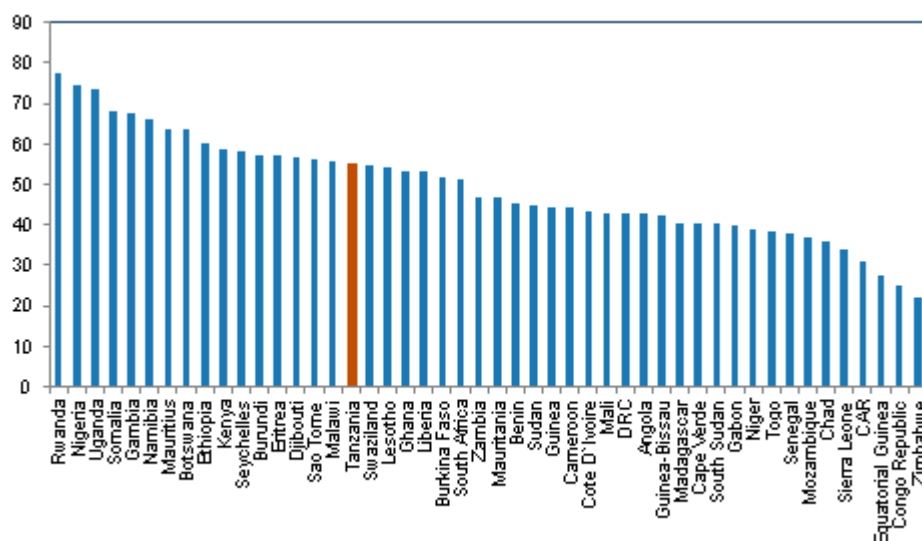
## Labour Costs Analysis

### Labour Costs

**BMI View:** The key risks to investors entering Tanzania are the relatively high minimum wage relative to productivity and onerous labour-related taxes, both of which increase employment costs for businesses. Businesses benefit from moderately flexible wage determination structures and low severance pay entitlement, which somewhat mitigates the high cost of employment and offers flexibility to workers in terms of the hiring and firing of their employees. Overall, we score Tanzania 55.1 out of 100 for Cost of Employment; a score that ranks it lowly both from a global and regional perspective, in 17th place out of 48 states in the SSA and 87th out of 201 countries globally.

### Businesses Face Regionally Uncompetitive Labour Costs

#### Sub-Saharan Africa - Labour Costs Risk



Note: 100 = Lowest risk; 0 = highest risk. Source: BMI Labour Market Risk Index

### Latest Labour Costs Analysis

- Consumer price inflation in Tanzania will average just below 7.0% annually over the course of our 2016-2025 forecast period, broadly in line with historical trends. For instance, the prospect of continued exchange rate depreciation in light of a wide current account deficit will pose a persistent risk to the

inflation outlook. Food, which accounts for almost 48% of Tanzania's CPI basket, will also continue to be a key driver of inflation over the coming years. In a region historically vulnerable to drought, food price inflation arguably poses the single biggest risk to our inflation outlook. This will raise the general cost of living for workers and exert upward pressure on wage expectations.

- In May 2016, the High Court in Tanzania dismissed a lawsuit filed by 121 former **Tanzanite One** workers regarding the firm's decision to terminate their employment. The case, led by the Tanzania Mines and Construction Workers Union (TAMICO), was dismissed on the basis that the employees were involved in an illegal strike at the mines and that they also allegedly rejected a mediation meeting with the employer. This highlights the ability of employers to seek fair legal mediation of labour-related cases. It simultaneously shows the propensity of the heavily unionised workforce to engage in strike action.

## Costs And Flexibility Of Labour

Tanzania is placed in the middle of the regional pack for costs of labour, owing to its above-average labour tax rate and high average wage costs - particularly relative to productivity. Benefits to firms include the relative ease in hiring foreign workers, a low annual leave entitlement and a low redundancy notice period, which all provide flexibility to businesses in the country. Taking these factors into account, Tanzania receives a score of 55.2 out of 100 for its Labour Costs, ranking 20th regionally, ahead of Kenya and Mozambique, but well below Rwanda and Nigeria.

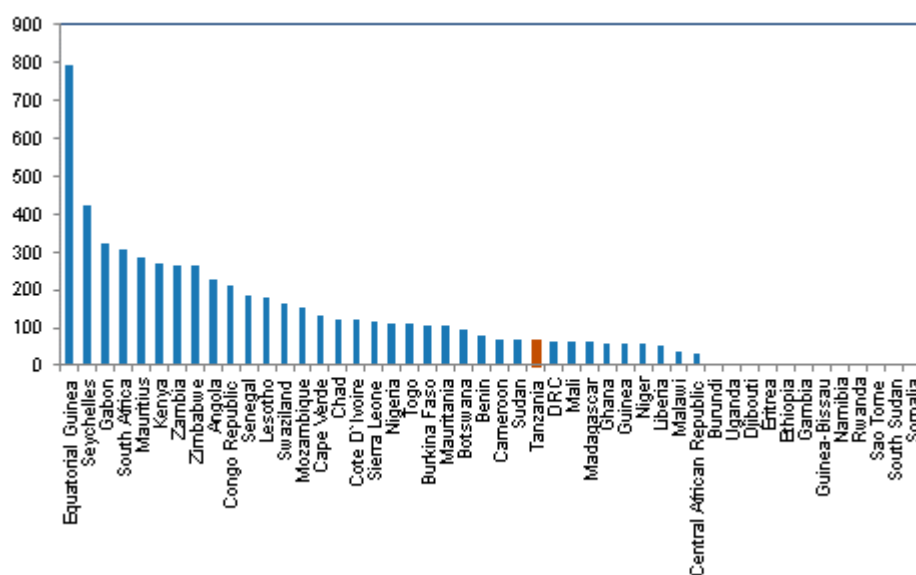
In addition, notable advantages come in the form of the flexibility of Tanzania's labour force, where factors such as its low number of paid holidays, secure labour-management environment, less time-consuming redundancy notice periods and regionally competitive severance packages mitigate labour costs. While official unemployment remains low, the actual rate of unemployment is likely higher than reported and could stimulate social unrest due to limited job creation, particularly among the nation's youth population, raising risks of supply chain disruption. Consequently, Tanzania performs relatively well for Flexibility of Workforce, ranked 12th in the region with a score of 55.1 out of 100.

According to the World Bank, the average minimum wage in Tanzania stands at USD68.20, which is low by global standards, however, it is uncompetitive on a regional comparison where Rwanda and Ethiopia have no stipulated national minimum wage. The minimum wage is determined separately for each economic sector and ranges from TZS70,000 monthly for hotel employees to TZS350,000 for workers in the mineral industry. Despite the country's relatively competitive minimum wage, the labour force underperforms in terms of relative productivity, where regional counterparts such as Rwanda and Uganda rank higher. This means that employers will gain more value for each additional unit of labour over time in comparison to regional counterparts, meaning labour-intensive industries will find countries such as Ethiopia more appealing due to higher rates of marginal productivity per additional unit of labour and a large working age population. The minimum wage has been steadily eroded by rising inflation, prompting government officials to increase the minimum wage in 2012. An additional raise may occur in the short- to medium-

term. In May 2015, the government reiterated its intention to increase wages and lower the monthly income tax taken from salaries, known as Pay As You Earn (PAYE), which currently stands at 10%. However, as no concrete salary increases had been announced at the time of publication, it is unclear the extent to which this decision will increase operational costs for employers.

## Comparatively Low Minimum Wage Costs

SSA - Minimum Wages (USD/Month)



Note: As applicable to the worker assumed in the case study. Source: World Bank 'Doing Business'

The country's labour tax and contributions consist of 10% on gross salaries payable by the employer and an additional skills development levy of 5% on gross salaries, raising direct labour costs. The risk for Tanzania's low value added per worker relative to its rising minimum wage is moderated somewhat by other indicators. A relatively low severance pay entitlement of 5.3 weeks, and redundancy notice period of four weeks, ranks Tanzania 10th and ninth in the region respectively for these indicators and offers greater flexibility to employers when it comes to hiring and firing practices.

The flexibility of Tanzania's workforce is one of its most significant labour advantages. Firms do not have access to a large international migrant stock; however, a number of other positive indicators enable firms to be more productive while lowering costs by regional standards. For example, the process of hiring foreign

workers in the country is relatively simple, enabling businesses to mitigate the risk of low skill by employing more qualified foreign workers.

Tanzania and Zanzibar ascribe to their own labour laws, but trade unions are generally weak throughout national territory. In 2012, around 13% of workers in the formal sector were covered by unions, notably by the Trade Union Congress of Tanzania, while only 5-8% of agricultural workers were unionised during the same time. In Zanzibar, approximately 40% of the workforce is unionised under the Zanzibar Trade Union Congress, but workers are restricted from joining mainland-based labour unions. Workers are legally able to strike and cannot be fired for participating in a lawful strike, but are not permitted to strike within sectors integral to the wellbeing of the population, such as electricity, health services, water and sanitation and fire fighting. The right to collectively bargain exists for private sector workers on the mainland, while disputes are overseen and concluded with the assistance of the Commission for Mediation and Arbitration, lowering the likelihood of prolonged conflict between labour and management.

A number of strikes have taken place in recent years. In 2012, doctors, nurses and teachers went on strike to protest for better salaries and working conditions, though the strikes were ultimately called off. During the same year, strikes also occurred following changes to the social security law that took away the right for labourers to withdraw their contributions before retiring. These events pose risk to businesses in these sectors, which may face disruption to their business activities.

In the last several months, Tanzania's transport network has been adversely affected by labour activities, incurring delays for businesses. In particular, firms involved in copper exports from Zambia and the Democratic Republic of the Congo suffered transport delays owing to the importance of the Tanzania-Zambia Railway Authority (TAZARA) railway for transporting copper to the Port of Dar es Salaam. Unionised workers of TAZARA went on strike in late 2014 to protest the fact that they had not received their salaries for the past five months. However, the High Court of Tanzania, Labour Division declared the strike as illegal in January 2015 and demanded that workers resumed their responsibilities.

Finally, Tanzania's bus drivers went on strike in April 2015 to exert pressure on the government to provide drivers with government recognised employment contracts from employers. As of April, none of the 36,000 bus drivers in Tanzania possessed a permanent and pensionable job from their employers, excluding drivers of government vehicles. Due to the relatively high frequency of strikes, firms face a growing risk from unionised action, which may disrupt business activities, lengthen trading times and increase operational costs.



**Table: Tanzania - Regulations Governing Flexibility Of The Workforce****Contracts**

Fixed-term contracts prohibited for permanent tasks?	Yes
Maximum length of a single fixed contract (months)	0 - Not allowed at all for 'our worker' (however, no limit for professionals and managerials cadres.) Fixed employment could also be for 'a specific task'

**Working Week and Absences**

Maximum working days per week	6
Premium for overtime work (% of hourly pay)	50
Paid annual leave (average for workers with 1, 5 and 10 years of tenure, in working days)	20
Paid or unpaid maternity leave mandated by law?	Yes
Minimum length of maternity leave (calendar days)	84

**Redundancy**

Dismissal due to redundancy allowed by law?	Yes
Notice period for redundancy dismissal (average for workers with 1, 5 and 10 years of tenure, in salary weeks)	4
Severance pay for redundancy dismissal (average for workers with 1, 5 and 10 years of tenure, in salary weeks)	5.3

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Source: World Bank 'Doing Business'

## Methodology

### Labour Market Risk Index Methodology

**BMI's Risk/Reward Indices** provide a comparative regional ranking system that evaluates the ease of doing business and the operational risks and limitations for potential investors in a given market. Our Labour Market Risk Index quantitatively compares the challenges of operating in 201 countries worldwide. The index scores each country on a scale of 0-100, with 100 being the lowest risk.

Each country has a headline Labour Market Risk Index score, which is made up of three categories of analysis, further broken down into sub-categories. Each category and sub-category is scored out of 100, with 100 the best.

The overall Labour Market Risk score is calculated from the average of the **Availability of Labour**, **Education** and **Labour Cost** sub-component scores.

**Education:** the education sub-component focuses on general and tertiary schooling. Scores are based on enrolment at each level of education and interest in technical subjects, such as science, manufacturing, construction and engineering. This gives an indication of the talent pool available in a country, and emphasises higher value technical skills.

**Availability of Labour:** the availability of labour score takes into account the size of the workforce, the quality, age and health of the labour pool and its composition (both with regards to the nationality of workers, and their occupations).

**Labour Cost:** this sub-component assesses worker flexibility and the cost of hiring in a particular country. It includes factors such as the minimum wage, severance pay and unemployment. The scores are calculated to reward the countries with the lowest cost of hire.

**Table: Weighting Of Indicators (%)**

<b>Indicator</b>	<b>Weighting</b>
<b>Education</b>	<b>33 of which</b>
General Education	50
Tertiary Education	50
<b>Availability of Labour</b>	<b>33 of which</b>
Size of Labour Force	50
Composition of Labour	50
<b>Labour Cost</b>	<b>33 of which</b>
Costs of Employment	50
Flexibility of Workforce	50

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Source: BMI