

**Economic and Social Research Foundation  
(ESRF)**

**Investing in Poverty Reducing Employment**

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## **1. Status of Employment in Tanzania**

The current status of employment raises much concern. According to the Labour Force Survey (1991), 80% of the labour forces were engaged in agriculture. Only 7% (seven) of the labour forces were engaged in formal wage employment. Considering the structure of the Tanzania economy and the structure of employment and sources of incomes in Tanzania it is clear that the employment and poverty problem gravitates around problems of low productivity and low incomes. Most of the huge majority (more than 90%) of the population that does not have formal sector jobs are women and is not “unemployed”. They work in agriculture and in the rural and urban informal sectors, sometimes self-employed on the family *shamba*, in artisanal production or in selling services, and sometimes earning some wage payments unrecorded in surveys. The problem for most of this large majority is that they do not have opportunities to derive a satisfactory income from their economic activities. The main challenge of employment is to create opportunities for this majority of the self-employment to earn a decent income by facilitating a rise in productivity in their various economic activities. Such rise in productivity has a relationship with investment.

## **2. Contribution of IPRE**

### **2.1 Conceptual aspects**

The demand for labour is a derived demand. A producer’s desire to increase output is the most important source of employment growth. A necessary condition for increasing output is an increase in the quantity and/or productivity of inputs (broadly defined). In the short-run investment may not be the key to a producer’s output growth. Many informal sector operators begin with very little capital labour-intensive technologies. A farmer may require improved seed varieties or increased fertiliser to increase production. A lack of skilled labour or slow export growth may be the constraint to a firm’s growth.

In the long-run, however, investment in new capital and increases in productivity (which requires investment in new technology, in R&D, in training) are the main sources of output and employment growth. This is true conceptually and empirically. In most growth regressions including those that focus on SSA, investment is the largest and most robust determinant of economic growth – an important cause of SSA’s slow economic growth is low levels of investment. Investment is the most important source of long run output and employment growth. Empirical evidence supports the link between investment and output growth. The influence of investment on employment and poverty reduction is determined by the level of investment, the capital-labour ratio, efficiency of investment, income distribution, and sectoral and regional composition of growth.

### **2.2 Empirical findings**

Empirical studies have estimated the average impact of economic growth on poverty and inequality in a range of countries. Recent empirical work using a data set by Deininger and Suire (1996) show that across a range of countries, on average a 1% increase in aggregate incomes implies a 1% fall in income-poverty. Of more importance here is the fact that different patterns of investment and different patterns of growth, in different countries, have had different effects on employment and poverty. Many studies findings indicate that employment and distributional outcomes differ between countries according to different patterns of investment and growth. Patterns of investment influence the resulting patterns of growth and employment.

## 2.3 Findings relating to Tanzania

Findings from IPRE studies have thrown further light on these relationships by establishing that:

- Historical links exist between investment, growth, employment and poverty in Tanzania:
  - In the pre-reform period, output stagnated but investment and employment continued to grow. The result was low investment productivity, declining labour productivity and falling real wages. Employment growth could not be sustained. The pre-reform rural economy was depressed by marketing and price controls, overvalued exchange rate and poor infrastructure.
- The post-reform period has been characterized by:
  - reduced public sector employment
  - shift to informal employment and self employment
  - recovery of real wages
  - stagnation or slow growth of investment
  - increased Foreign Direct Investment (FDI)
  - increased productivity of investments
- The sectors in which investment has a high potential for creating poverty reducing employment include agriculture, tourism, public works and micro and small enterprises in various sectors. The role of policy is to influence investment levels and allocations which in turn influence the pattern of employment creation towards poverty reduction.
- Education and investment in training are important for poverty reduction.
- Policies for poverty reducing employment are not gender-neutral, they affect men and women differently.
- Good governance (including participation) is important for promotion and employment growth.
- Globalisation comes with more intense competition which implies threats (e.g. loss of jobs for firms which fail to compete) and opportunities (e.g. creation of new jobs for firms which penetrate new markets and expand). Globalisation presents an opportunity for capital inflow (FDI) whereby new jobs can be created with new capital and with technologies and management techniques which can enhance the capacity to compete and gain market shares in the competitive domestic or export markets.
- Privatisation can result in retrenchment of the formerly over staffed parastatals or can expand operations to the extent of creating additional jobs. Efficient operation can also enhance the chances of survival in a competitive environment. The post-privatisation phase is more important in impacting on enterprise prospects.

### **3. Poverty Reduction Strategy Progress – coverage, gaps and progress**

#### **3.1 Three key considerations**

The poverty reduction strategy is based on three considerations. *First*, the strategy is viewed as an instrument for channelling national efforts towards broadly agreed objectives and specific inputs and outputs. The elaboration and implementation of the strategy is an ongoing process. *Second*, the poverty reduction strategy is to a large extent, an integral part of ongoing macroeconomic and structural reforms that are being supported by Tanzania's multilateral and bilateral partners. *Finally*, in keeping with the concerns of the stakeholders, and guided by the overarching orientation of Vision 2025 and the NPES, the focus of the poverty reduction strategy concentrates on efforts aimed at (i) reducing income poverty; (ii) improving human capabilities, survival and social well-being; and (iii) containing extreme vulnerability among the poor.

#### **3.2 Action needed in four areas**

It is recognized that economic growth is a powerful means of reducing income poverty. Because of this, a key objective of the poverty reduction strategy will be to promote accelerated and equitable growth. PRSPs are meant to provide a link between growth and poverty reduction. In this context, poverty reduction would result from a high level of growth and a growth that is also pro-poor and widely shared in society.

It is envisaged that to reduce poverty requires action in four strategic areas. *First*, the Government will continue to maintain sound macroeconomic policies and intensify the implementation of reforms aimed at bolstering market efficiency, notably in agriculture, and raising factor productivity. *Second*, while the budgetary expenditure will continue to be restrained because of macroeconomic considerations, special efforts will be made to channel the limited Government resources toward the support of key programs and social services under the poverty reduction strategy. *Third*, the Government will put increased emphasis on reforms aimed at promoting export oriented expansion and diversification of the “pro-poor” sectors, with a view to enabling the poor to share increasingly in the benefits of globalisation. *Fourth*, efforts will be made to raise steadily investment as a percent of GDP from 15 per cent to approximately 17 per cent, including through initiatives focusing on bolstering private investment in the cultivation of traditional and new crops, small and medium size enterprises, and informal sector activities.

#### **3.3 Employment concerns marginalized**

The PRSP focused on initiatives to strengthen growth prospects in pro-poor sectors, strengthen prioritisation, increase resource allocation to priority sectors, develop an effective framework for monitoring poverty and elaborating strategies for intervention in key sectors. In PRSP document of October 2000 the employment concerns are not addressed specifically except in terms of attention given to economic growth and promotion of private investment.

#### **3.4 Some key sector had no developed strategies**

At the time of producing the first PRSP in October 2000 not all sectors had elaborate sector development strategies. It was understood that in the course of implementation, further work would be needed to prepare outstanding sector strategies. It is in this

context that during 2000/2001 the Government prepared sector development strategies for basic education, agriculture and rural development and reviewed the strategies of the other priority sectors with a view to identifying action plans for pursuing the PRSP objectives.

### **3.5 Progress made in addressing some gaps**

The PRSP progress report of August 2001 has made several improvements. These include:

- Continued consolidation of the macroeconomic situation through prudent monetary and fiscal policies, in the context of substantially enhanced budgetary support for education, health, and other priority areas, and guided by the Medium – Term Expenditure Framework (MTEF) and the Public Expenditure Review (PER) yearly exercises.
- Carrying out a new Household Budget Survey (HBS) and an Integrated Labour Force Survey (ILFS), as part of a broader ongoing effort to improve understanding of the status of poverty in Tanzania.
- Elaboration of development strategies for the education and agricultural sectors; amplification of strategies for other sectors and cross-cutting areas (HIV/AIDs, governance, environment, gender and employment); and costing of interventions, notably those for FY 2001/02.
- Tracking of the income and social indicators of poverty, and adoption of measures, including in the context of the Tanzania Social Action Fund (TASAF), to alleviate rural income poverty and provide relief to vulnerable groups.

Response was called for from stakeholders for supplementary programmes, to be developed jointly by the Government and international and other stakeholders, to address the urgent problems of :

- (a) rural income poverty;
- (b) unemployment among youths and women;
- (c) poor rural roads, impending access to farms and markets; and
- (d) child labour and out-of-school children aged eleven.

The Government has indicated that there are intentions to develop the supplementary programme over the coming months, to respond to these pressing problems. In this context, this is a good opportunity to make contribution on employment and integrate concerns of decent work into PRSP.

The Government has addressed agriculture and rural development which are largest employers of the majority of the poor. The Government has prepared Agriculture Sector Development Strategy (ASDS) as an instrument for stimulating growth and reducing poverty. The strategy document is the product of a participatory consultative process at the national and grassroots levels, encompassing farmers organizations, agribusiness representatives and development partners. The ASDS has been designed with the objectives of increasing profitability and productivity of agriculture and livestock as a means to reducing rural poverty through improvement of farmers' incomes and promotion of food security. Together with the formulation of the ASDS, the government

has embarked on the preparation of a Rural Development Strategy (RDS) that is aimed at providing a coherent framework for addressing issues (such as rural unemployment, environmental degradation, HIV/AIDS, gender, youth, infrastructural development, governance, and capacity building) that bear heavily on rural poverty.

The Government recognizes that stronger performance of the agricultural sector will be key in realizing the intended acceleration in real GDP growth and the needed reduction in poverty. In order to achieve the needed growth, public and private investments will have to complement each other.

The ongoing work to monitor the implementation of the poverty reduction programme has, as noted earlier, highlighted the gravity of under-employment and unemployment, especially among youths and women in urban as well as rural areas. The government believes that a durable solution to this problem requires sustained efforts to strengthen the performance of the agricultural and private sectors. Accordingly, the government is resolved to proceed forcefully with the reforms aimed at supporting these key sectors. In addition to such reforms, the government has also implemented specific measures to improve employment prospects:

- The National Employment Promotion Services Act has been enacted, paving the way for establishment of pilot labour exchange office in Dar es Salaam. Similar offices will be opened in other urban areas in 2001/02.
- The Government (through Vocational Education Training Authority) has taken steps to strengthen skills training by introducing competence-based education and training, which stresses trainees' experience as well as academic qualifications. To reinforce the ongoing efforts in this area, the Government intends to embark on a review of the role of Folk Development and Community Development Colleges.
- In collaboration with international partners under the National Aids Control Programme, HIV/AIDs seminars on guidance and counselling were given to youths in various work places and locations in the country.
- A time-bound programme for eliminating child labour has been prepared and will be adopted soon.
- A National Youth Council has been established as an autonomous statutory body to advise government on matters relating to youth development.
- The government has embarked on various initiatives aimed at increasing financial support for small employment-creating business. These include an ongoing review (scheduled to be completed before the end of 2001) of micro-credit schemes for the youth, women and other groups, with a view to rationalizing them and increasing their effectiveness.
- The government, in collaboration with ILO, has prepared Country Action Programme for Employment Promotion. This programme is based on IPRE studies. This programme will be implemented in collaboration with the private sector.
- In order to increase employment opportunities for the poor and enhance their productivity and competitiveness in the rural and urban areas, the Government

intends to develop programmes for the promotion of small scale industry in the formal and informal sectors as well as other types of micro enterprises. To this end, it has designed a demand-driven district-based skills training programme for employment promotion. The programme will be implemented in various sectors under the coordination of the Ministry of labour, Youth Development and Sports, and in collaboration with other ministries as well as public and private training institutions across the country. The budget allocation for this programme is Tshs. 100 million in FY 2001/02, and will be reviewed in the context of sector MTEF for the subsequent years.

Together with the initiatives directed at strengthening employment prospects, the government intends to conduct a comprehensive study on poverty reduction in urban areas. This study, similar to the Rural Development Study, will be key in developing a coherent and effective response to the worrisome problem of urban poverty. Among the issues that will be examined in the study are (a) basic infrastructure and services in low-income urban areas, (b) financial and other problems of the informal sector, and (c) land and housing problems of low-income households.

The main objectives of employment are identified as: Enhance productivity and competitiveness, elimination of child labour, and increased availability of credit facilities for micro enterprises.

Among progress areas identified for the year 2001 in terms of action on employment are: The Micro-Finance Policy was developed and launched in February 2001 and the 1997 National Employment Policy is being reviewed by the Government.

Planned actions for the next 3 years include:

- Carry out job training programmes, including expanded education opportunities, and eliminating child labour.
- Strengthen the performance of saving and credit schemes.

#### **4. Further avenues for integrating employment concerns into PRSP**

##### **4.1 Reforms have helped but more needs to be done**

- Economic reform may have been accompanied by better allocation of resources, greater economic efficiency and higher growth but it has failed to deliver fully on the goal of raising standards of living, ensuring full employment and a large and steadily growing volume of real income and effective demand.
- Focus on decent work implies a major emphasis on enterprise development and the importance of creating an enabling environment for productive investment. Training and skill development and support for emerging SMEs are critical.
- A major concern is equality of access to employment and labour markets, especially gender equality. When an inquiry was made by the ILO into what the principal social problems in various countries were, the response was most instructive. To most countries the principal social problem are poverty and social exclusion and the simple answer to these problems is jobs. From self-employment, micro-initiatives and sustainable livelihoods to relatively secure source of income, employment is perceived as the best option to step out of poverty and as signified step into social



cohesion. The challenge of employment needs to be addressed seriously and appropriate investments be made to create poverty reducing employment.

## 4.2 Towards a comprehensive and integrated approach

- The poverty reduction strategy papers represent a higher stage of the policy process which started in the mid 1980s. The reforms in Tanzania during the 1980s and 1990s were, like in many African countries, based on the World Bank/IMF initiated Structural Adjustment Programmes (SAPs) as a precondition for receiving loans. The World Bank and the IMF argue that SAPs are necessary to bring a developing country from crisis to economic recovery and growth. The SAP policy reforms have reflected liberalization of policies towards a particular type of policy package. SAPs are mainly focusing on macroeconomic stabilization, public sector reform and liberalization of markets and trade. While Tanzania embarked on SAP, there were no strategies for taking care of the social dimensions of adjustment. It was widely believed that stabilizing the economy and the resulting growth would ultimately lead to poverty reduction. Critics of SAPs, pointed to the fact that SAPs' objectives were not addressing the social dimensions of adjustment and that the SAPs were not making any notable dent on poverty. The leading critic from this perspective was UNICEF (1987)<sup>1</sup>. In response, SAPs started to include some social dimensions. The Economic and Social Action Programme (1989 – 92) was partly an attempt to take on board the social aspects of adjustment. The social dimension, however, was introduced as an “add on” rather than being integrated in the policy making process. The fact that poverty is multidimensional and cross cutting was not appreciated at that time. It is in this context, that the concept of Poverty Reduction Strategy Papers (PRSP) has introduced a new dimension. PRSP attempts to integrate the poverty concern in the policy making process of indebted countries.
- The underlying principles of the PRSP (it is a “paper” within a process) are first steps in making development strategies truly responsive to the needs of the poor. The principles include:
  - (i) Country driven with governments leading the process.
  - (ii) Broad-based participation between governments, other actors in civil society, the private sector and the donor community in the adoption and monitoring of the resulting strategy.
  - (iii) Results oriented identifying and prioritizing desired outcomes and planning the way towards them. PRSPs are meant to provide a link between growth and poverty reduction. In this context, poverty reduction would result from high growth and a growth that is also pro-poor and widely shared.
  - (iv) Comprehensive view of poverty taking into account its multi-dimensional nature covering incomes, human capabilities (e.g. education and health) and empowerment in terms of command over resources and authority to make decisions and governance (fighting corruption, ensuring responsiveness to the needs of the poor and promoting accountability). According to Sen (1992)<sup>2</sup> poverty has five dimensions covering economic, social, political,

Adjustment with A Human Face  
<sup>2</sup> Sen, A., Development as Freedom, 1999

transparency and protective security. Poverty reduction is supposed to mean processes that improved the capabilities and functioning of people in these five dimensions. This broad concept of poverty has been adopted in major recent development reports such as World Bank (2000)<sup>3</sup> and UNDP (2000)<sup>4</sup>

- (v) The successful design of PRSPs was linked to support from the donor community that was expected to take the form of debt relief; poverty reduction support credits and direct transfer of resources to communities and local government.
- Reducing inequality, improving socio-economic security, strengthening basic rights and democratic governance and developing sound institutions are necessary for the efficient functioning of markets. They can all be made mutually supportive. In terms of policy outcomes the whole would be greater than the sum of its parts because an integrated approach would allow for greater policy coherence.
  - It is important that everything is connected. The traditional dichotomy between economic and social policies has often led to poor policy choice and explains the general failure to assess the likely social impact of economic policies. One consequence has been an under-investment in social capital. The core concepts of efficiency and productivity have been applied almost exclusively to the economic sphere little appreciating that capturing the economic benefits of social policies would contribute to redressing the under allocation of resources for social development. Investment is therefore needed in the productive sectors as well as in the social sectors.
  - The single overriding goal of the ILO in the next decade and beyond is to promote opportunities for people to obtain decent and productive work, in conditions of freedom, equity, security and human dignity. The Decent Work agenda is an attempt to move towards an integrated development strategy, which links work and social dialogue with employment policies and social protection. The concept of decent work can contribute to an integrated approach to policy, covering a strategic part of the overall development agenda. It can serve as useful companion to the Comprehensive Development Framework which is the basis of the PRS process. CDF underlines the centrality of a shift towards a more participatory, country driven approach to poverty reduction a process which entails learning by doing. The World Bank and the ILO, with different mandates, perspectives and skills, can make contributions by working on how to integrate the agendas of poverty reduction and decent work. Both are founded on
    - ownership
    - participation and the significance of good governance
    - institutions matter
    - empowerment
    - need to promote sound economic policies
    - security and how to help people overcome economic and social risks
    - opportunity and the centrality of productive employment in reducing poverty.

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<sup>3</sup> World Bank: World Development Report, 2000.

<sup>4</sup>UNDP: Human Development Report, 2000

- World Bank which is championing PRSPs and ILO which is advocating decent work can collaborate in several areas:
  - improving policy analysis within a more coherent framework and extending joint knowledge base on development.
  - bringing together the decent work and poverty reduction agendas in specific countries.
  - improving capacity to measure policy outcomes and impacts on women, men and children through an indepth inquiry into what is happening to families and communities.

#### **4.3 Build bridges for SMEs: towards attaining competitiveness and gaining influence**

- The development of SMEs has been recognized in PRSP and IPRE as an important source of employment. More needs to be done to realize their employment potential in the context of a competitive economy and the growing knowledge economy. The knowledge economy and the informal economy are both growing but bridges need to be built between them. This will entail finding ways of effectively promoting the growth and transformation of SMEs with SME organisations able to offer mutual self-help, shared services (e.g. training) and greater voice with public authorities. Ownership means voice. Voice means organisation and organisation means influence. Links in production chains between organisation of SMEs and those of the large enterprise can be helpful.