

Organization of the Report

The report has **FOUR** substantive sections:

- Review of the process of setting minimum wages for the private sector in Tanzania
- A critical review of the new Wage Order
- Findings on the impacts of the new Wage Order
- Recommendations

Why fix minimum wage?

- Labour markets cannot assure a 'fair wage' to each occupation, and in particular to unskilled labour. Market efficiency is economically desirable but may not be socially desirable in this regard.

Thus, the primary objective of the minimum wage legislation is to improve the standard of living of the lowest-paid workers and their families and those who are least able to formulate their interest in a collective forum.

Why fix minimum wage in Tanzania?

- Remunerations for unskilled labour are inelastic to changes in business performance and cost of living
- Many countries have legislation on minimum wage, Tanzania has also ratified the ILO Conventions on minimum wage-fixing
- Other objectives including income distribution, poverty reduction, etc.

Why Multiple Minimum Wage Rates in Tanzania?

- Profits differ significantly between sectors
- Working conditions vary by sector
- Options for fiscal policy measures to subsidize cost of living are operationally impracticable in Tanzania
- Wage bargaining forums are either weak or non existent

What might have been the objectives of the introduction of sectoral minimum-wage setting in Tanzania?

- social protection of vulnerable workers against the increasing cost of living
- to increase wage incomes and improve distribution of the same, particularly low wage earners, in line with the increasing social and economic investments, extraction of Tanzania's natural resources, and growth of the economy
- to make local employees earn a 'fair' wage from their labour services given the perceived profit rates of local and foreign investments that vary by sector, scale and scope.

Provisions of the Labour Institutions Act (2004) on Minimum Wage-Setting

The functions of the Wage Boards are:

- To conduct an investigation on minimum remuneration and other conditions of employment;
- To promote collective bargaining between registered trade unions, employees and registered employers' associations;
- To make recommendations to the Minister on minimum wage and conditions of employment.

Is the Labour Act clear on minimum wage setting?

- The Act is clear on the determination and setting of minimum wages.
- Many of the prevailing problems with regard to the new Wage Order (2007), as we demonstrate later, originate from weak management of the implementation of the labour Act rather than weaknesses in the Act itself. However, a few amendments to the Labour Institutions may be necessary in order to accommodate a base national minimum wage rate as we discuss next.

The need for an overall base national minimum wage

- To form a base upon which sectors can negotiate their wage premiums over and above it
- To ensure that all formal business activities are covered by the minimum wage legislation. This might also include some of the employers in the informal sector

Determination of the base national minimum wage

- Ideally, the base rate would exclusively be determined by objective criteria that guarantee minimum subsistence level or wage earning above the national poverty line.
- By examining the factors that should be taken into account in the determination of minimum wage, as provided by the Labour Act, it is observed that three out of the nine factors enlisted are purely an issue of technical exercise from the national data base. The factors are cost of living, minimum subsistence level and poverty alleviation

Computation of the base national minimum wage

Computation of the base national minimum wage rate should be clear, simple, transparent, and reflexive of the available and reliable national data base as follows:

- In 2002, minimum wage rates for rural and urban workers were set at Tshs 35,000 and 48,000, respectively
- By then, the rates were 12 percent and 17 percent of the real GDP per capita, respectively
- Logically, the ideal base minimum wage in Tanzania was the one for rural workers upon which a premium was determined to supplement urban workers
- We take it that the rates were correctly determined and set given the then prevailing inflation, per capita GDP, cost of living, etc.

Computation of national base minimum wage cont.

- A very simple way is to ensure that always minimum wage remains more or less in the same proportion with real per capita GDP – to reflect changes in economic conditions or level of development, and then compensate for loss of purchasing power due to inflation or the value of money

Computation of base national minimum wage cont.

- In 2007 per capital GDP had grown to Tshs 360,363 and inflation averaged 6% annually between 2002 and 2007
- Applying the formula, and taking the 2002 rural minimum wage as the base, we find that by 2007 national base minimum wage would be **Tshs 58,456**; implying that the difference of Tshs 23,456 as compared to 2002 is borne from inflation (15,000) and real per capita GDP growth (8,456).

The setting and announcement of the 2007 minimum wage rates: The pros and cons of the process

- The setting of the new minimum wage rates began with the appointment of Wage Boards.
- The wage boards accomplished their assignment using the following methodology: **meetings and discussions; questionnaires; documented information e.g. websites, publications, national data base**, etc; and finally analysis and preparation of the proposals on minimum wage rates and other conditions of work

Merits cum strength of the process

- The boards worked to set minimum wage rates by sector for the first time in Tanzania; and therefore, they have set the foundation for building upon for improvement. Actually, the wage boards should be applauded for the pioneer work on sectoral minimum wage-setting in Tanzania and the East and Central African region in general.
- There are very few countries that have adopted this approach in Africa and none in the region; and as such, the Wage Boards had limited, if none, experience to learn from during the process.

Weaknesses

- There was no consideration given to the technical merits of the methodology adopted
- Two of the basic tasks to be performed were either partially treated or not completely addressed by any of the eight sectors (i.e. identification of principles + criteria for setting minimum wages at sector level).
- More face-to-face negotiations at the sector and sub-sector level were needed.
- Sample selection was inefficient
- Many employers did not attend the minimum wage forums but sent their representatives who are also their employees and thus constituting a dual interest in the process.
- Lack of effective bargaining in the process of fixing minimum wages in Tanzania is actually the major problem and the mother of many of the bottlenecks borne in the process.
- Weak or lack of bargaining forums at firm level.

The New Minimum Wage Order (2007): A critical review

General Observations:

- The sub categories of the minimum wage sectors are vaguely defined and difficult to establish the implied boundaries
- The new wage rates were not set on the basis of any objective criteria
- The new Wage Order is neither exhaustive nor clear on all economic activities
- The variation of wage rates by age groups has been unnecessarily introduced
- The Order is not clear nor inclusive of all sectors with regard to fringe benefits

Have employers generally complied with the new minimum wage rates?

- The results of the analysis show that there has been a drift in wages rather than a jump – in the sense that many employers reacted by guaranteeing an increase in their respective minimum wage which did not necessarily ensure full compliance.
- Those who had done significant adjustments to the minimum wage before the new order suffered the less; and those who had not would suffer most if they had fully complied with the Order.
- Therefore, the wage drift means that each employer made a marginal increase, and depending on the level of minimum wage at the time when the new wage order was enforced, some moved close if not to full compliance, and other are still far from full compliance because they were paying less.

Are the new minimum wage rates low, normal or high?

- The fact that this study is being done when the new Minimum Wage Order has been announced and already in force is a daunting and challenging exercise. On one hand, the study cannot recommend that the Wage Boards be asked to re-determine and reset minimum wages because a considerable number of employers (more than 50%) have already implemented the Order. On the other hand, it is difficult for this report to recommend that the Order be reinforced as it is because there are obvious observations and indications that some employers cannot afford to pay.
- In fact, in recognition of the said inability to pay, the Minister for Labour, through the powers entrusted in him, granted exemptions to some employers who had asked for the same and satisfied the conditions set for the exemptions. Surely then, the way forward is tricky and a delicate decision

Are the new minimum wage rates low, normal or high? Cont.

- This report is set in such away that the recommendations will not generate further distortions and complains, but a compromise between the various stakeholders of the minimum wage. It is not an attempt to determine and set new wage rates to replace those announced earlier, as most people might have expected, but rather, a compromised and simplified version of the 2007 Wage Order, which is more realistic and accommodative of the exemption regime.
- Thus, this report comes with recommendations to amend the 2007 Order in view of the concerns and complains that were raised immediately after its announcement in November 2007. The recommendations do not constitute 'optimal minimum wage rates' but rather a second best scenario; more efficient outcomes are expected in the next reviews when much of the required information and procedures are also expected to be in place.

- The proportion of the minimum wage to the average wage in an economy is commonly used to determine whether a given minimum wage rate is high or low; the bench mark being fifty percent. It is also used as an indicator of level of wages and income distribution between the lowest-paid and other categories of employees.
- The method is used in many countries as a measure of wage distribution.
- We would want to use this indicator to gauge whether the new minimum wage rates in Tanzania are low, average or high. We do the analysis at two levels: first is to look on the distribution of the absolute proportions by sector around the bench mark of 50% for the minimum wage – average wage ratio; and second is to make an assessment of the proportions relative to other countries that bear some sort of similarities with Tanzania.
- The analysis will be augmented by a general comparison of the new sectoral wage rates with what would have been a new national minimum wage rate had the old rate of 48,000 been amended to reflect changes in the cost of living (inflation) and economic conditions (per capita GDP growth). In fact, a new single rate generated by updating the old one (48,000) would be Tshs 79,596 in 2008.

Table 4: Assessment of the new minimum wages in relation to Sector Average Wages and what would have been a single wage national rate

Sector	Average wage 2007	Average effective Minimum wage 2007	Average effective minimum wage as a % of average wage (2007)	Proposed rates as per the New Minimum Wage Order (Average)	The new minimum wage rates as a % of the 2007 average wage	Ranking of the new minimum wage rates by sector before enforcement of the new Order	Comparison of the 2007 effective minimum wage rate with what would have been a single urban rate (i.e. Tshs 79,596)
Health services	181,252	83,592	46.1	100000	55	High	Above
Agriculture services	129,499	52,074	40.2	65000	50	Normal	Below*
Trade, Industry and Commerce	182,184	79,064	43.4	115000	63	High	Slightly below
Transport and Communication	277,073	106,506	38	270000	139	Very High	Above
Mining	632,907	144,581	23	350000	55	High	Above
Fishing and Marine services	330,983	80,125	24.2	240000	73	Very High	Slightly above
Domestic and hospitality	118,494	67,734	57.2	94000	79	Very High	Below
Private security	100,851	51,800	51.4	92500	92	Very High	Below

Health services cont.

Experience from other countries shows that compliance is a decreasing function of the ratio of minimum wage to the average wage.

- In Latin America, evidence from twelve countries in 1998 point to a significant effect with regard to compliance: in countries where minimum wage was less than thirty percent of the average wage (e.g. Argentina, Bolivia, and Chile) minimum wage legislation was breached in only ten percent of cases
- but in countries where minimum wage was sixty percent or more of the average wage, the incidence rate of the violations of the minimum wage provision was more than 35%.

Health services cont.

- This would imply that retaining 80,000 as a single minimum wage for the health sector in Tanzania, and build capacity for bargaining at the firm level, would ensure more compliance and an effective minimum wage rate in the sector.
- After all who is the minimum wage targeting? Definitely not midwives, nurses or medical assistants who can self-negotiate on their own or through their trade unions as they are usually paid above the minimum wage, but the unskilled category that will find it difficult to negotiate a fair deal.

Health services cont.

- Thus, the recommendation with regard to the minimum wage rates in the health sector is clear; either drop the upper band rate and retain Tshs 80,000 as the minimum wage which would constitute about 44% of the 2007 average minimum wage in the sector, or 31% of the current (2008) effective average wage in the sector; or find ways of clearly identifying employers of the sector by their sub categories and enforce further the new minimum wage rates to increase compliance. The first option appears to be more practical and achievable with relatively less costs.

Agricultural services

- Before the new Wage Order came into force, the average wage rate in the Agricultural sector was Tshs 129,499, and the average effective minimum wage was 52,074 constituting about 40% of the average wage in the sector.
- If one looks on the ratio of the minimum wage to average wage by then, she would mistakenly recommend no change in the minimum wage rate of the sector.
- But if one looks on the wage rate itself i.e. Tshs 52,074, it is observed that the rate was below the minimum rate that would prevail if a national base rate had been set or the previous minimum wage (35,000) in the sector had been just updated (Tshs 58,456). Clearly, the need to adjust minimum wage in the sector was timely.

Agricultural services cont.

- The new Wage Order set a rate of Tshs 65,000 as the minimum wage for the agricultural sector, constituting about 50% of the 2007 average wage in the sector (Tables 4&5).
- By May 2008, average wage in the sector had reached Tshs 255,070; and effective average minimum wage in the sector had reached Tshs 75,366, constituting about 36.6% of the average wage.

Agricultural services cont.

- There are two emerging observations here: one is that the agricultural sector is the lowest paying in terms of wage incomes in Tanzania; and second is that the new rate was appropriately set by considering its role as the major employer in Tanzania.
- Compliance with the new minimum wage rate in the sector was 82.2% by May 2008, the highest among all the sectors.
- *Clearly, the emerging recommendation with regard to the new wage rate for the agricultural sector is to retain and carry out no change in the 2007 new minimum wage rate of the sector.*

Trade, industry and commerce

- The average wage and effective average minimum wage in the Trade, Industry and Commerce sector before the Wage Order of 2007 were Tshs 182,184 and 79,064, respectively (Tables 4&5).
- By then, the effective average wage rate was 43.3% of the average wage in the sector.
- The 2007 Minimum Wage Order fixed a minimum wage rate of Tshs 80,000 for small and medium firms and Tshs 150,000 for potential employers in the sector.

Trade, industry and commerce cont.

- The problem of defining and drawing boundaries between sub categories within the minimum wage sectors is needless to discuss here again; definitely, the cut off point and incentives for self-selection by employers in the sector are not clear.
- The new rates of minimum wage for the trade, industry and commerce sector have an average of Tshs 115,000 per month, which is 63% of the 2007 average wage in the sector; definitely the rate was on the high side.

Trade, industry and commerce cont.

- Now given that the ratio of the effective minimum wage to the sector average wage was 43.4%, it would have been plausible to fix a minimum wage rate for the sector around Tshs 80,000 and build capacity for negotiation at the firm level to take care of the many differences considered to exist between employers in the sector. This would be an effective way of setting minimum wage in the sector.

Trade, industry and commerce cont.

- After the new Wage Order came into force, the average wage of the trade, industrial and commerce sector increased to 309,505. The effective minimum wage increased and reached Tshs 139,798 constituting about 45.2% of the average wage in the sector.
- This proportion is on the high side compared to many other countries who are business competitors in the manufacturing sector with Tanzania i.e. Thailand, Indonesia, Pakistan, Philippines, etc. For example Indonesia pays US \$ 43 as minimum wage compared to the industrial sector in Tanzania that pays a minimum of US \$ 69 far above the Indonesian rate. Compliance with the new minimum wage rates in the sector had reached 56.7% by May 2008.
- Clearly, one would not recommend a minimum wage rate higher than Tshs 80,000 in the trade industry and commerce sector, but rather capacity building for bargaining at the firm level.

Trade, industry and commerce cont.

- The issue of remuneration to trainee employees did not come out in the 2007 Wage Order.
- The industrial sector typically employs many low-paid unskilled workers.
- The majority of new applicants in the sector require the ever minimum qualifications that may only be accepted in a few other sectors.
- As such, they need some form of training cum orientation before they become fully productive. This is typical of the textile industry particularly garmenting.
- The Wage Order should consider the training as a cost to the employer because the worker cannot be fully productive during training.

Trade, industry and commerce cont.

- We would want to introduce a separate rate for trainees for the industrial sector to create incentives to employers to recruit and train unskilled people that could otherwise find it difficult to get a job in the formal private sector.
- If we state that all other conditions of work including fringe benefits are binding, and set a rate of 75% of the minimum wage in the sector for trainees; we would have a minimum wage of Tshs 60,000 for newly recruited unskilled employees in the sector. The figure would appropriately be above the earlier-on recommended national minimum wage of Tshs 58, 456.
- However, it should be stated categorically that the in-door training period for which the rate is applicable should not exceed six months and should be endorsed by the respective employee's trade union at the firm level.

Transport and communication

- The 2007 Wage Order shows a minimum wage of Tshs 350,000; 230,000; 300,000; and 200,000 for aviation services, clearing and forwarding, telecommunication, and inland transport, respectively. On average the sector has to pay a minimum wage of Tshs 270,000 per month, which is equivalent to US \$ 231. This rate is higher than the general minimum wage rates in Africa including South Africa and many other countries in Asia including Pakistan, Philippines, Indonesia, Thailand, etc.

Transport and communication cont.

- In 2007 before the new minimum wage order, the transport and communication sector had an average effective minimum wage rate of Tshs 106,506 which was 38 percent of the average wage in the sector (Tables 4&5).
- The 2007 new minimum wage (average) for the sector was set at Tshs 270,000 which by then would be 97% of the average wage in the sector. This would clearly be too high both in absolute and relative terms.

Table 6: Average and Minimum Wages in the Transport and Communication Sub-sectors

<i>Sub-sector</i>	<i>Average wage</i>		<i>Average effective minimum 2007</i>	<i>Minimum as % of average 2007</i>	<i>Average effective minimum 2008</i>	<i>Minimum as % of average 2008</i>
	<i>2007</i>	<i>2008</i>				
<i>Aviation services</i>	319,615	769,857	118,976	37	397,250	52
<i>Clearing and forwarding</i>	399,870	845,033	118,976	30	222,500	26
<i>Telecommunication</i>	223,378	445,000	108,127	48	146,000	33
<i>Inland transport</i>	165,429	200,254	79,945	48	117,750	59
<i>Whole sector</i>	277,073	565,036	106,506	38	220,875	39

Transport and communication cont.

- Table 6 shows a decomposition of the transport and communication sector by the sub categories of employers in terms of average and minimum wages in the sector before and after enforcement of the new minimum wage order. It is observed that the new rate of Tshs 350,000 prescribed in the Wage Order for the sub-sector of aviation services is consistent with the actual level of wages as indicated by the ratio of minimum wage to average wage and the average effective minimum wage in the sector. The same situation is observed in the clearing and forwarding sub-sector.
- The wage rates for the last two sub categories of employers are inconsistent with the actual conditions prevailing in the sector as we indicate next.

Transport and communication cont.

- In the telecommunication sub-sector We observe that the effective average minimum wage in the sector is far below the rate of Tshs 300,000 that is prescribed in the new Wage Order of 2007.
- It is also an indication that many employers in the sub-sector have not yet complied with the new rate. In fact the survey data shows that none of the respondent of the survey from this sub category had complied with the new Wage Order.

Transport and communication cont.

- Ideally, we would want to set a rate that is close to the sector general wage level which is 41% of the average wage.
- But this has to reflect a compromise because the new wage rate for which some employers have complied is Tshs 300,000.
- Fixing a rate of Tshs 200,000 per month will constitute 44.9% of the average wage in the sub-sector. This rate is generally plausible as it takes on board compliance issues, the 2007 rate set by the new wage order, the minimum wage – average wage ratio, and consistence with other minimum sectors and other countries with minimum wage legislation.

Transport and communication cont.

- The average wage in the inland transport sub-sector was Tshs 165,429 in 2007 before the new wage order.
- The effective average minimum wage was Tshs 79,945 which constituted about 48% of the average wage.
- When the new wage order was enforced, the average wage of the sector increased to Tshs 200,254; and the effective minimum average wage increased to 117,750 about 59% of the sub-sector average wage.

Transport and communication cont.

- It was earlier on indicated that compliance with the new wage rate in the inland transport sub-sector saw employment falling by 8%.
- At the same time, average effective minimum remuneration was only Tshs 117,750 by May 2008 although the rate was close to 60% of the average wage of the sub-sector.
- It is also noted that compliance was only 20% by May 2008. Clearly then, something must be done to correct for the prevailing legislated minimum wage for the sub-sector.
- The inland transport sub-sector however should be uniquely treated when applying the minimum wage – average wage ratio. This is because by the nature of the operations in the sector, most workers in the sector fall in the same cadre of employees. This implies that the average wage should not be significantly different from the minimum wage

Transport and communication cont.

- Thus the current average wage of Tshs 200,254 is a general indicator of what should be the minimum wage in the sub-sector. Since a new wage rate of Tshs 200,000 was announced, and has been some how implemented by a few employers; there has to be a compromise; and not just setting 'optimum' minimum wage rate however we might want to define it.
- Thus setting a minimum wage rate of Tshs 150,000 for the inland transport sub-sector would be more realistic and compliance enhancing than the current rate of Tshs 200,000.

Mining

- In 2007 the mining sector had an average wage of Tshs 632,907 and an average effective minimum wage rate of 144,581, which was 23 percent of the average wage.
- One can clearly see that the rate was on the lower side given the wage levels in the sector as gauged by the ratio of the minimum wage to average wage.
- The need for intervention would in this case be obvious.
- The new wage order has Tshs 350,000 as the minimum wage for the mining sector. This is a single rate regardless of the size of the employer. The new rate constituted about 55% of the 2007 average wage in the sector which would appear to be on the high side compared to the other sectors and other countries.

Mining cont.

- However, with the enforcement of the new Wage Order, the effective average minimum wage had reached Tshs 220,875 constituting about 32% of the average wage in the sector.
- The absolute wage increased but its ratio to the average wage declined, which indicates presence of a big ripple effect.
- Compliance in the mining sector by May 2008 was only 43.6%, which indicates that many of the employers in the sector are yet to comply with the new rates.
- If we use the minimum wage – average wage ratio criterion, the new minimum wage rate in the sector sounds ok; but the current low compliance rate has a message beyond the simple ratio of minimum to average wage. This is actually an issue of who is complying and who is not.

Mining cont.

- Clearly, the emerging recommendation with regard to the new wage rate in the mining sector is to retain the current minimum wage rate of Tshs 350,000 to be paid by big and international companies; and create a second lower rate to be paid by other employers in the sector.
- The sector umbrella organization of employers jointly with the sector trade unions should work out a comprehensive list of employers by their category in the sector. If this is achievable then, the issue now is the determination of the rate to be paid by the medium and small employers in the mining sector.

Mining cont.

- Before the new Wage Order, employers in the mining sector were paying an effective average minimum wage of 23% of the average wage in the sector.
- With the enforcement of the new Wage Order, the average wage of the sector has increased from Tshs 632,907 to 999,778; therefore paying the old effective minimum wage rate of Tshs 144,581 for small dealers in the mining sector would constitute only 14% of the current average wage in the sector.
- A plausible approach in this case would be to allow small employers to pay the same proportion of the average wage as they were doing before the new wage order. This implies that according to Tables 4&5, small employers pay 23% of Tshs 999, 778; which is Tshs 230,000 per month.

Fishing and Marine services

- The new Minimum Wage Order has three categories of employers in the sector of fishing and marine services. These are Passenger and Cargo Vessels, Fishing Vessels, and Vessel builders and others.
- The sub categorization of employers in the fishing and marine services is not justified neither by the type of activities done nor employers' ability to pay cum sector profitability and the level of wages.
- Having just one minimum wage rate for the sector, therefore, will do no harm to the welfare of the low-paid employees we would want to protect.

Fishing and Marine services cont.

- Before the new Minimum Wage came into force, the fishing and marine sector had an average wage of Tshs 330,983.
- The effective average minimum wage in the sector was Tshs 80,125, which was 24.2% of the then average wage of the sector. This was plausibly low compared to the general level of wages in the sector.
- The new Wage Order has an average minimum wage rate of Tshs 240,000 for the sector; which would be 73% of the then average wage of the sector. Clearly, this would be on the high side suggesting that the wage rate set for the marine and fishing sector is too high. As a result, by the time of the survey data collection for this study, virtually no employer among those surveyed had complied with the new wage rates in the sector.

Fishing and Marine services cont.

- The average wage for the fishing and marine services had increased to Tshs 423,750 in May 2008. The effective minimum average wage had also increased to 105,000 constituting about 25% of the average wage.
- Looking on the compliance rate so far and the effective average minimum wage, there is an indication that the new rates of between Tshs 196,000 and 300,000 for the fishing and marine services are not feasible.
- The current effective average wage might also be on the lower side because many employers have not yet implemented the new Wage Order. What then should be the minimum wage rate for the sector?

Fishing and Marine services cont.

- Ideally, we had wanted to set a minimum wage rate which most employers would be able to pay and comply to do so. This would imply that we set a rate which would not exceed 50% of the average wage of the sector.
- Assuming that we take the highest minimum, we would set it at 50% of the then average wage of the sector (330,983) to give us Tshs 165,500 as the new minimum wage for the sector.
- Expressing it in terms of the ratio of the minimum wage to the sector average wage, we would have a minimum wage which is 39% of the average wage in the sector. This is actually consistent with minimum wage rates we have set for the rest of the sectors.

Domestic Services and Hospitality

- The new Wage Order indicates two sub-sector categories for the domestic services and hospitality sector. The sub-sector categories are further subdivided into several groups of employers
- The sector had an effective average minimum wage of Tshs 67,734 which was 57.2% of the average wage by then. This implied that the wage rate was already on the high side using the minimum wage – average wage ratio
- But the sector was generally under paying relative to other sectors; and even more worse, the rate was below what would have been the national minimum wage had we adopted an adjusted single minimum wage rate
- Clearly, the need for adjusting the minimum wage in the sector was due.

Domestic Services and Hospitality

- The problem of drawing boundaries between categories of employers within sectors has already been discussed. The domestic services and hospitality is one of the sectors that suffer from the problem
- The grouping within the sub-sector of domestic services is difficult to implement and monitor; domestic servants know very little about the income of their bosses.
- One would rather set a single rate and leave the rest for negotiations. After all, if an effective bargaining forum is developed between the employer and the respective employees, there would be no need for intervention beyond just one sectoral minimum wage.
- Ideally then, setting one rate of minimum wage for the lowest-paid employees in the domestic services sub-sector is the concern here.

Domestic Services and Hospitality

- In principle, we would want to set a minimum wage rate which is above the minimum subsistence and accommodative of the cost of living and the general economic situation. This rate was earlier on found to be Tshs 79,596 if we had adopted a single national minimum wage rate.
- The new Wage Order correctly sets an average minimum wage rate of Tshs 78, 000 for the domestic services sub-sector. This should actually be set at 80,000 so that it is above what would be an updated single minimum wage rate in Tanzania.
- The rate is appropriate and arguable for domestic servants for the reason that employment in this sector should not be considered differently from other sectors. The fact that the worker may live under the same roof with the employer should not reduce remuneration to this category of employees; appropriate deductions from the salary should also apply as we argue next.

Domestic Services and Hospitality

- Most often, by its nature, domestic services require that the employee shares household facilities and meals with the household employing her or him. The new Wage Order counts this as a cost to the employer and recommends that should be deducted from the employee's wage accordingly.
- The same Order stipulates that employers should pay their employees fringe benefits ranging from housing benefits, medical services, food, etc.
- The Order is however silent on fringe benefit to employees in the domestic services sub-sector. This is an obvious bias.
- Ideally, some of the household facilities that an employee in the domestic service sub-sector enjoys should have been counted as fringe benefits.

Domestic Services and Hospitality

- If so then, the new Wage Order should not have introduced a 68% deduction from one's salary as costs to the employer for domestic servants. The rate is unrealistically on the high side. Housing and lunch, for example, should be considered as direct fringe benefits just like employees in any other sector.
- There are many issues with regard to this category; and as such, this report will just propose a ceiling on an involuntary rate to be deducted from the wage of a domestic servant. These deductions should not exceed thirty percent. This will guarantee a minimum earning of at least Tshs 56,000 to the lowest-paid employees in the sector.

Domestic Services and Hospitality

- The new wage rates for the sub-sector of hotels are clear and fairly reasonable with the current wage level in the sector.
- The issue here at hand is that of drawing boundaries between the identified groups of hotels cum employers. This could be easily done if we introduce the system of classification of hotels by stars.
- This would imply that hotels with 3 -4 stars pay the highest minimum wage rate (i.e. Tshs 150,000); and those with 1 – 2 stars pay the medium rate of Tshs 120,000; and the rest which do not qualify even for a single star pay the lowest rate of Tshs 80,000. Since this can easily be implemented, the new rates may therefore be retained. In fact the sector compliance with the new rates so far is 53.6%.

Private security services

- The new Wage Order indicates two categories of employers in the sector of private security services. These are international potential security and others; although it is not clear what is meant by 'international potential security'; presumably, these are international organizations.
- Accordingly, there are two wage rates for the two categories of employers: Tshs 105,000 and 80,000 per moth, respectively.
- Evidence from the survey data indicates that employees of security services companies are paid according to the rates set by the respective company and not the rates paid by clients. More over, security guards do not work in just one point of service throughout; they are constantly under transfer from one place to another; and therefore, in practice they work interchangeably among employers.

Private security services cont.

- By implication, setting one wage rate for low-paid workers in security services and build capacity for bargaining would be more effective in terms of social protection and increased wage incomes than setting multiple rates which will benefit the employers. Logically, creation of multiple rates sets wage ceiling for the lower categories.

Private security services cont.

- Prior to the new Wage Order, the security services sector had an average wage of Tshs 100,851 (Table 4).
- The effective minimum wage rate in the sector was Tshs 51,800 which constituted about 51.4% of the average wage of the sector.
- Looking on these figures, one might plausibly argue that there was no need of adjusting the minimum wage in the sector. But the last column of Table 4 indicates that the then prevailing effective minimum wage for the sector was below what would be the actual wage rate had adjustments for a single rate been carried out.
- The need for adjusting the minimum wage of the sector was clearly justified.

Private security services cont.

- In May 2008 after the enforcement of the new minimum wage order, the average wage in the private security services sector had increased to tshs 170,015;
- and the effective average minimum wage had reached Tshs 80,667 constituting about 47.4% of the average wage of the sector.
- The rate is within the range payable as minimum wage in the other minimum wage sectors in Tanzania and in many other countries.
- By may 2008, compliance with the new wage rates was 50%.
- Correctly, the new minimum wage order sets Tshs 80,000 as the minimum wage for the lower category of employers in the private security services sector.
- Plausibly then, this report proposes a rate of Tshs 80,000 as minimum wage for the private security sector

Implication of the proposed amendments on Level of wages by sector

- As indicated earlier, many countries that have minimum wage legislation have minimum wage rates that falls between 25% and 60% of the average wage
- With the proposed amendments in the 2007 Wage Order, Tanzania will pay on average a minimum wage which is about 36.4% of the average wage in the private sector
- The ratio is within the range paid by other countries and sufficiently effective to achieve the objectives of the minimum wage including promotion of investment growth, employment and competitiveness.

Table 7: Minimum wages as percent of average wage

<i>Sector</i>	<i>Minimum wage as % of average wage in the sector</i>
<i>Health Services</i>	31.4
<i>Agriculture</i>	31.7
<i>Trade, Commerce and Industry</i>	25.9
<i>Transport and Communication</i>	41.2
<i>Mining Services</i>	29.0
<i>Fishing and Marine Services</i>	38.9
<i>Hospitality and Domestic Workers</i>	46.2
<i>Private Security</i>	47.1
<i>All Sectors</i>	36.4

- The variations by sectors, as indicated in Table 7, are justifiable on the basis of sector specific conditions and the general objective of ensuring that Tanzanians get a fair deal from the exploitation of the country's natural resources.

What do other countries pay? How much do Tanzanian potential trade competitors pay?

Table 8: Minimum wages in dollars in selected countries

Country	Minimum wage in US \$	Gross monthly wage (international dollars)
Tanzania	113.3*	157.00
Kenya	112.69	75.17
Malawi	20.41	33.92
Burundi	39.50	9.25
Zambia	79.51	95.58
Swaziland	81.91	114.08
Mauritius	89.12	143.83
Lesotho	100.75	69.10
Nigeria	73.12	131.08
Botswana	126.02	250.92
South Africa	144.09	231.67
Pakistan	34.99	117.67
Indonesia	43.02	82.58
Thailand	149.00	189.67
Philippines	163.30	195.16
Taiwan	561.95	954.58

- In the group of African countries indicated in the table, Tanzania has the highest minimum wage rate in dollars compared to all the countries in the list except Botswana and South Africa.
- However, one might argue that the biggest employer of low-paid workers in Tanzania is trade, industry and commerce (56.8%) sector which pays US \$ 68 per month.
- But even though, this rate is higher than what a few other African countries pay; and significantly higher than what potential competitors in Asia pay.
- In terms of purchasing power parity Tanzania pays better than many other African countries including the neighboring countries.
- In general then, minimum wages in Tanzanian are not smaller than what other countries pay

Table 9: Summary of the proposed amendments in the 2007 Minimum Wage Order

SECTOR	SUB-SECTOR	CURRENT MONTHLY RATE Tshs	PROPOSED NEW MONTHLY RATE Tshs
Health Services	1.Potential Hospitals and Pharmacies	120,000	
	2. Health Centres, Dispensaries, small and medium Pharmacies and Laboratory	80,000	80,000
Agricultural Services		65,000	65,000
Commercial, Industrial and Trading	1.Potential commercial, Industrial and Trading	150,000	Trainees 60,000
	2. Small and Medium Enterprises	80,000	All others 80,000
Transport and Communication	1. Aviation Services	350,000	350,000
	2.Clearing and Forwarding	230,000	230,000
	3.Telecommunication	300,000	200,000
	4.Inland Transport	200,000	150,000
Mining	1. Big and International companies	350,000	350,000
	2. Small mining employers		230,000
Marine and Fishing	1. Passenger and Cargo Vessels	225,000	
	2. Fishing vessels	196,000	165,500
	3. Vessel builders and others	300,000	
Domestic Services including Hotels	A. Domestic Services Employees employed by:		
	1. Diplomats and potential Businessmen	90,000	
	2. Employees employed by Entitled Officers for domestic Services	80,000	80,000
	3. Others	65,000	
	B. Hotels		
	1. Potential and Tourist Hotels	150,000	3 – 5 Stars 150,000
	2. Medium Hotels	100,000	1 – 2 Stars 120,000
Private Security Services	3. Restaurants, Geust Houses and Bars	80,000	Others 80,000
	1. International Potential Security	105,000	80,000
	2. Others	80,000	
All other (left-outs)		Left out	80,000

Findings on the Impacts of the New Minimum Wage Order

- In general the existing literature on minimum wage-fixing shows that there is no clear consensus on the impact of minimum wage legislation on many of the policy variables that minimum wage tend to address.
- Studies on the impact of minimum wage legislation and adjustment focus mainly on employment, wage incomes and distribution cum poverty, and inflation, business operations at firm level; and less on trade competitiveness, investment and growth, etc.

- The newly announced minimum wage rates by sector in Tanzania had been in force for about five months by the time the survey data for this report were been compiled.
- Surely, some of the impacts might be premature; but even though, we would want to know what has happened so far with the onset of the new system of sector wise minimum wage rates in Tanzania on one hand; and the status quo with regard to the widely spread pessimism that the new rates would have a big impact on employment, inflation, investment and the economy in general.

Impact on compliance and business operations at firm level

- The general compliance with the new minimum wage rates was 56.7% by May 2008
- The results show that both the categories of employers that have complied with the new wage rates and those who have not had a decrease in their business performance
- Logically, the symmetry of the results for both categories implies that the wage increases are not directly associated with the expressed decrease in business performance.

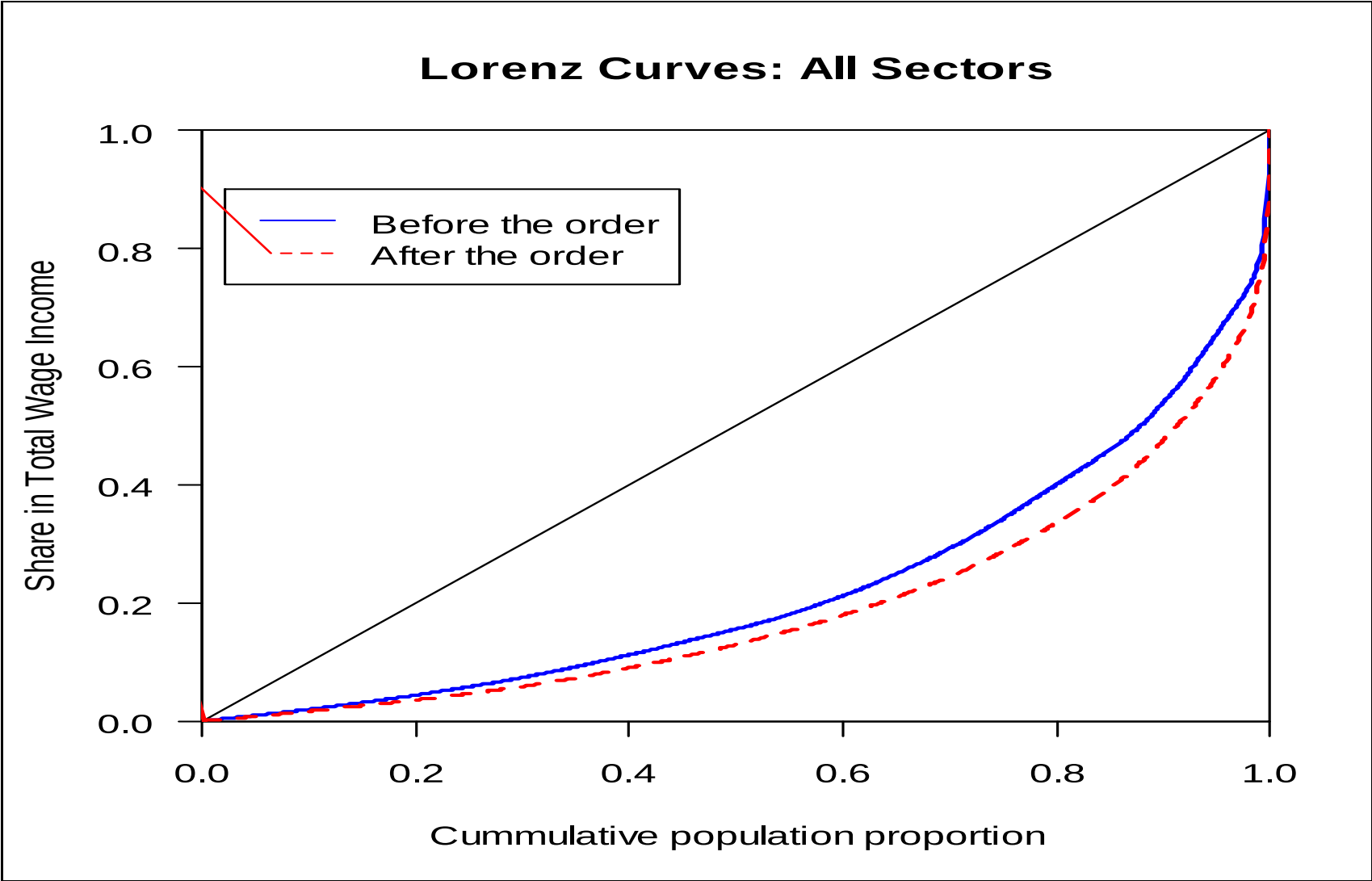
Impact on Employment

Analysis of the impact of minimum wage by sector in Tanzania gives varying results across the different minimum wage sectors. Two main observations are drawn from the results of analysis.

One is that employment increased in only two sectors namely mining and agriculture. The rest of the sectors have recorded marginal decreases in employment, the highest being security services.

Much of the explanation with regard to the negative results has more to do with the seasonality of economic activities of the respective sectors rather than the new wage rates per se.

Figure 1: Lorenz Curves before and after enforcement of the new Minimum Wage Order for Firms Which Have Fully Implemented the Order



Impact on inflation

- Measuring the impact of wage rise on inflation requires time series data on a number of covariates that could not be available or compiled in such a short period of time, let alone the fact that the changes had been effective for about five months before the survey
- The little evidence available in developing countries shows that the minimum wage has no or very little impact on prices because the proportion of low-wage workers' income to total workers' income is not big enough to substantially influence the overall price level in the economy.

- In Tanzania, the proportion of the labour force employed in the formal private sector is small. The available evidence shows that more than 68% of the labour force in Sub Saharan Africa is engaged in agricultural activities; and many of them do not earn a wage, but instead, survive by selling or consuming their own farm output.

Impact on trade competitiveness

Before the new Wage Order, Tanzania had comparative advantage over all its trade partners, except Pakistan and Indonesia, as far as cost of labour is concerned. But with the enforcement of the new Wage Order, Tanzania is now more expensive than Kenya, Pakistan and Indonesia; and nearly offsetting the comparative advantage with South Africa and Thailand. After the new Wage Order, the sector has had to pay on average US \$ 98.56, a change by 53.7%. This implies that the comparative advantage in labour cost-competitiveness of the manufacturing sector in Tanzania would be halved if the new Wage Order is enforced