

REPOA Brief



The monetary cost of complying with employment regulations: The experience from the hotel industry

By Emmanuel Maliti

Key messages

Due to seasonality, the tourism sector operates less than 10-month a year, whilst the employment regulation compels businesses to issue 12-month employment contracts. Such regulation costs an annual average of TZS 5.5 million per hotel, summing up to TZS 9.9 billion annual cost to the entire hotel industry.

The regulation compelling businesses to pay overtime to employees working during public holidays costs individual hotels TZS 3.3 million, summing up to TZS 6.0 billion annually for the entire hotel industry.

To stay compliant with the regulation on the nine-working hour, on average costs a hotel (located in national parks) TZS 1.2 million monthly, summing up to TZS 3.7 billion annually for all the hotels located in national parks.

Absence of unpaid leave provisions also amplify operating costs. Using Covid-19 as an example, the compliance costs for the entire industry is likely to have reached as TZS 24.5 billion in the case where hotels were closed for 6 months.

Introduction and Background

The employment regulatory regime in Tanzania is governed by the Employment and Labour Relations Act [Principal Legislation] and its respective Employment and Labour Relations (General) Regulations, 2017. The two employment regulatory regimes have over the years remained insensitive to the nature of the tourism business. They disregard the seasonality nature of tourism, for instance by, compelling employers to contract employees for 12 months – despite the sector operating for less than 10 months a year. Due to seasonality, the tourism sector is sensitive to costs associated with underutilization of capital assets and human resources during off-peak seasons.

This Regulatory Impact Assessment (RIA) quantifies the cost that hotel business operators incur from complying with the existing employment regulatory regime. Survey data were collected from 160 hotels across the 8 geographical zones in Tanzania. Regions that represented each of the geographical zones include Arusha (Northern zone), Iringa (Southern highland zone), Dodoma (central zone), Kigoma (Western zone), Mbeya (Southwest Highlands zone), Mwanza (Lake zone), Mtwara (Southern zone), and

Dar es Salaam (Eastern zone). To analyse the survey data, the RIA applied the standard cost model which uses different criteria to quantify and aggregate the costs businesses incur to stay compliant.



The context: employment regulations and their respective implications to the hotel businesses

This RIA attends specific clauses under the Employment and Labour Relations Act [Principal Legislation] and its respective Employment and Labour Relations (General) Regulations, 2017. Clause no. 11 of the latter compels an employer to pay an employee for 12 months period, despite the seasonality of the tourism business which is less than 10 months a year. Clause no. 17-24 requires an employer to pay overtime of three extra hours each day to security guards working at night. For hotels in the national parks and game reserves (camps, and lodges), the eight hours mark around 2 am (midnight) making it safer for the drivers to bring security guards back home the next morning. By staying until 5 in the morning the security guards count additional 3 hrs as overtime.

Clause 25 requires an employer to double the employee's basic wage for each hour worked on public holidays - even though public holidays are days in which tourism businesses are mostly active and compensate for losses from other days of the week. Clause 29(2a) does not allow for unpaid leave provision, a situation that proved to be a serious concern at the time of Covid-19 when most employers closed businesses and ultimately became financially constrained to meet expenses like salaries.

Findings

The cost of 12-month employment regulation

The average annual compliance cost to the 12-month employment regulation business is TZS 5.5 million per hotel summing up to TZS 9.9 billion to the entire hotel industry. Close to a half of the surveyed hotels (43 per cent) perceived that regulation as negatively impacting on their operational costs 'to a great extent'. Combining the proportion of respondent hotels that did mention the impact of the regulation to the business cost as 'to a great extent' and 'somewhat' - gives a 77 per cent of the hotels being affected by the regulation. For the service-based businesses such as hotels, the payroll is the primary cost of producing the service as it absorbs between 30-50 per cent of revenue. Only 6 per cent of the surveyed hotels perceived the regulation to have no effect on costs.

The cost of regulation on overtime during public holidays

About 77 per cent of the surveyed hotels consider that the regulation on working during holidays increase operating costs. The annual number of public holidays in Tanzania is around 17 days comprising of 8 religious holidays, 3 national holidays, 2 commemorating the anniversaries of national leaders, and the last 4 holidays are for the other national importance. The annual compliance cost that the hotel businesses incur to meet Clause 25 (paying double salary for working during public holidays) is estimated at an average of TZS 3.3 million per hotel. It sums up to TZS 6.0 billion for the entire hotel industry in Tanzania. This is a significant loss of resources as traditionally, changes in the number of hours worked, and changes in the average compensation of employees drive changes in hotels' labour costs.

The cost of complying with the regulation on working hours

This particular regulation largely affected hotel businesses located within the national parks and game reserves (camps, and lodges). The monthly compliance cost that an individual hotel incurs from paying overtime of three hours to security guides working in camps and lodges located in national parks and game reserves is estimated at TZS 1.2 million. It sums up to TZS 3.7 billion per year for the entire hotel businesses in Mainland Tanzania.

About 36 per cent of the surveyed hotels cited negative cost implications from complying with the regulation, with 31 per cent citing negative implication on profitability when complying to the same. Increased payroll bill is the primary mechanism through which overtime regulation increases the costs of operating a hotel business. To minimise the adverse effects of the regulations, some of the businesses have entered into agreements with their employees to work in shifts.

The cost of complying with the employment regulation on paid leave

The absence of unpaid leave regulation was severe during covid-19 pandemic where some businesses had to continue paying employees using money from other sources. The monthly compliance cost from the employment regulation on paid leave for circumstances beyond employers' ability (covid-19, for example) is estimated at TZS 4.1 billion, rising to TZS 24.5 billion if one takes an assumption that half of the accommodation businesses are closed for 6 months. About 80 per cent, 79 per cent and 74 per cent of the surveyed hotels perceived that the paid leave regulation does respectively negatively affect cost, revenue, and profitability to 'a large extent'.

Policy recommendations

As stated by IFC and World Bank (2012), if compliance costs are high in a country, policymakers need to know which regulatory regimes cause most of the burden to businesses and should therefore pinpoint areas for reform. This RIA responds to that argument by explicitly identifying the magnitude of the compliance costs.

Findings from this RIA lead to four key reform recommendations:

- 1.Regulations need to permit shift working hours to minimise business exposure to overtime-related costs.
- 2.The need to exempt tourism sector from the regulation on 12 months employment period.
- 3.The need to set the hours of work for security guards different from that of the other employees.
- 4.The need to allow employers to give off days in lieu of the public holidays that the employee worked.

The proposed reforms are reasonable and offer a balanced approach. They are in line with the seasonality nature of the tourism business whilst at the same time do not negatively affect the welfare of employees. In other words, if such reforms are implemented, the Government will be meeting its several developmental objectives, including advancing the business environment and protecting workers' rights.

References

IFC and World Bank (2012). Tax compliance cost surveys using data to design targeted reforms. IFC and World Bank

United Republic of Tanzania (undated). Employment and Labour Relations Act [Principal Legislation]. Dar es Salaam: United Republic of Tanzania.

United Republic of Tanzania (2017). Employment and Labour Relations (General) Regulations. Dar es Salaam: United Republic of Tanzania

REPOA Resource Centre

Our Resource Centre provides a good environment for literature research, quicker, easier access and use of knowledge and information. It has full internet connection for online library to support Master's & PhD candidates, researchers and academicians with free access to latest journals, books, reports, webcasts, etc.

Opening Hours

Tuesday to Friday from 10:00am to 1:00pm, 2:00pm to 05:00pm. The online library is open throughout, 24 hours.



157 Migombani/REPOA streets, Regent Estate,
PO Box 33223,
Dar es Salaam, Tanzania.
Tel: +255 (22) 2700083
Mob: +255 (0) 784 555 655
Website: <https://www.repoa.or.tz>
Email: repoa@repoa.or.tz

Branch Office
2nd Floor Kilimo Kwanza Building 41105 Makole
East, Kisasa, Dodoma, Tanzania

@REPOA 2023

This study is part of a broader research and policy advocacy programme 'Evidence Based Policy Making on Economic Governance in Tanzania', implemented by REPOA and Funded by the United Kingdom's Foreign and Commonwealth Development Office (FCDO). Its contents are sole responsibility of REPOA.

