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AN ANALYSIS OF THE INFORMALITY OF THE INFORMAL SECTOR IN URBAN SETTINGS: A CASE OF SELECTED WARDS IN MOROGORO, TANZANIA

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ABSTRACT

Understanding the extent of the informality of the sector has a profound influence on regulating and transforming the sector in urban settings. Despite the usefulness of understanding how informal is the informal sector in urban settings, very little has been empirically documented on the informality of the informal sector in urban settings in Tanzania. It is against this background that a cross-sectional study was conducted in Morogoro Municipality to analyse the settings and characteristics of the informal sector. The study specifically assessed the informality of the informal sector by analysing the characteristics and settings of the urban informal sector. An index of the score was constructed to measure the informality of the informal activities. A questionnaire was used to collect primary data from 80 respondents obtained through a multistage sampling technique. The findings reveal a higher level of informality from the businesses studied. The findings show that those most involved in the informal sector had low levels of education and no business skills, and generally use family labour, willing to operate businesses at times and locations convenient to customers. The findings further show that 55 % of the informal sector activities obtained capital from owners' sources, and it was further revealed that 82.5 % of the businesses or activities operating in the informal sector in the selected wards were not licensed and rarely used any machinery. Results further show that 50% of the activities /businesses surveyed were owned by families. The findings further indicate that of the surveyed businesses only 17.5% (95% CI: 15.0 to 19.9) had their businesses falling under low level of informality, 40.0 % (95% CI: 37.2 to 43.1) on a medium level of informality and 42.5 % (95% CI: 39.5 to 45.9) on the high level of informality. The surveyed businesses in selected wards in Morogoro municipality possessed a variety of characteristics indicating the various levels of informality. The study recommends further studies to assess the informality of the informal sector and the development of appropriate policy responses to accommodate the needs of the informal sector by the local governments.

Keywords: *'Informal sector, informality of the informal sector; urban settings; underground economy; Morogoro-Tanzania*

Paper type: *Research paper*

Type of Review: *Peer Review*

1. INTRODUCTION

At the core of the informal sector is the notion of "a non-structured sector that has emerged in the urban centres as a result of the incapacity of the modern sector to absorb new entrants" (Munbodh, 2003). Globally, there is an apparent renewed interest in the informal economy, for several reasons, the clearest include; the fact that a large share of the global workforce and economy is informal; but also the informal economy is growing in many contexts and appearing in new places and guises (Muhanga and Nombo, 2010; Chen, 2012; Horn 2009; Vanek *et al.* 2012; Muhanga, 2017).

It is reported that more than 60 percent of the world's employed population is in the informal economy. This is estimated to get close to 2 billion people who work informally and make their living in the informal economy. These people are mostly located in emerging and developing countries, the majority are lacking social protection, rights at work and decent working conditions (ILO, 2018). In Tanzania, the informal sector was the second main

employing sector after agriculture by employing 10.1 % of the employed persons, followed by other private sectors with 8.6%, where agriculture employed 75.1% (URT, 2007; TRA, 2011). O’Riordan, (1996) and Osoro, (2009) are reporting that the informal sector is a rapidly expanding sector in Tanzania; whereby by 1991 it accounted for 22 % of total employment, 48.1 % in 2009. According to NBS, (2014), there is a notable increase in Labour Force in Tanzania Mainland (for Persons Aged 15 Years and Above) which doesn’t match with formal employment opportunities available hence reliance on the informal sector for the significant proportion of the entrants to the labour market.

It should not, however, be conceived that the informal sector exists only in the developing world. Its existence is also reported in the developed world (Tanzi, 1982). It is, however, reported that the need for the informal sector has a long and well-charted history in developing countries. It is further reported that the concept of the informal sector appeared in the international usage in 1972 in the International Labour Organization’s (ILO) Kenya Mission Report. This report defined informality as a “way of doing things characterized by (i) ease of entry; (ii) reliance on indigenous resources; (iii) family ownership; (iv) small scale operations; (v) labor-intensive and adaptive technology; (vi) skills acquired outside of the formal sector; (vii) unregulated and competitive markets (ILO, 1972).

Despite the potentiality of the informal sector in terms of employment and income generation, Tanzania’s official National Accounts according to Bagachwa and Naho (1995) suffer from two serious weaknesses concerning the informal sector; these are incomplete coverage as well as inaccurate estimates of the activities covered in the respective sector. This observation by Bagachwa and Naho (1995) implies that there is little that is known concerning this sector. The situation has sometimes resulted, among others, into ineffective policy responses to the informal sector by LGAs as observed by Muhanga and Nombo (2010). This has sometimes arisen from the fact that many of the activities in the informal sector are either misreported or under-recorded.

Incognisant of the vast potential of the informal sector and the recognition or acknowledgment of its economic value by the government of Tanzania; in terms of being a mechanism of employment and income generation, there are currently several efforts by various development partners, Local Government Authorities (LGAs) inclusive. These efforts include those targeting at formulating policy responses to accommodate the informal sector. For these attempts to significantly succeed, it is very crucial to empirically analyse the setting and the characteristics of the informal sector. Obviously, for the informal sector to realise its potentialities effective policy responses towards the sector should be in place. Such policies to be effective in regulating and transforming the sector in urban settings, there is a need to understand the extent of the informality of the sector. In this context, it is obvious that understanding the extent of the informality of the sector has a profound influence on regulating and transforming the sector in urban settings. Despite the usefulness of understanding how informal is the informal sector in urban settings, very little has been empirically documented on the informality of the informal sector in urban settings in Tanzania. The understanding of the setting and the characteristics of the informal sector is an ingredient in formulating effective policy responses by the LGAs which will contribute to the creation of a conducive environment for the informal sector to operate. This becomes important at the moment where governments, Tanzania inclusive, have been advised and considered worthwhile to put in place simplified bureaucratic procedures to encourage informal enterprises to register and extend legal property rights for the assets held by informal operators to set free their productive potential and convert their assets into real capital (de Soto, 1989, 2000; Fergus, *et al.*, 2007). This can be achieved, among others, by analysing the setting and characteristics of the informal sector. It is against this background that this study was conducted in Morogoro Municipality to analyse the informality of the informal sector in urban settings in Tanzania.

1.1 Theoretical Debates on the Informal Sector

To analyse the informality of the informal sector in urban settings in selected wards in Morogoro-Tanzania, this study had to analyse settings and characteristics of the informal sector. The Legalist school of thought and the Voluntarist school were used to guide the study. Numerous variables characterizing the informal sector were adopted and employed to analyse the Informality of the Informal Sector in Urban Settings in Tanzania.

1.2 The Legalist school

The Legalist school sees the informal sector as comprised of “plucky” micro-entrepreneurs who choose to operate informally to avoid the costs, time and effort of formal registration and who need property rights to convert their assets into legally recognized assets (de Soto 1989, 2000). The Legalists focus on informal enterprises and the formal regulatory environment to the relative neglect of informal wage workers and the formal economy per se. But they acknowledge that formal firms what de Soto calls “mercantilist” interests—collude with government to set the bureaucratic “rules of the game” (de Soto 1989). They argue that governments should introduce simplified bureaucratic procedures to encourage informal enterprises to register and extend legal property rights for the assets held by informal operators to unleash their productive potential and convert their assets into real capital.

1.3 The Voluntarist school

The Voluntarist school also focuses on informal entrepreneurs who deliberately seek to avoid regulations and taxation but, unlike the legalist school, the Voluntarist school does not blame the cumbersome registration procedures. The Voluntarists pay relatively little attention to the economic linkages between informal enterprises and formal firms but subscribe to the notion that informal enterprises create unfair competition for formal enterprises because they avoid formal regulations, taxes, and other costs of production. They argue that informal enterprises should be brought under the formal regulatory environment to increase the tax base and reduce unfair competition to formal businesses. From the Legalist and Voluntarist schools of thought, this study adapted the idea behind the individuals’ rationale towards a preference for operating their business activities informally. This study investigated whether the owners of surveyed informal activities chose to operate informally to avoid the costs, time and effort of formal registration.

2. METHODOLOGY

A cross-sectional study was conducted in the selected wards in Morogoro Municipality. A cross-sectional research design allows data to be collected at a single point in time and used in descriptive analysis and for the determination of relationships among variables (Ritchie and Lewis, 2003; Given, 2008). The cross-sectional research design was considered favourable due to the nature of the study’s objectives, which needed data to be collected at a single point in time by using a structured questionnaire. Using across-sectional design both qualitative and quantitative data were collected. The choice of this design is based on being economical in terms of time, financial resources and nature of the study objectives (Kothari, 2004). The research site included Kingo, Mji Mkuu, Saba Saba, and Kiwanja cha Ndege wards which were randomly selected. Morogoro municipality is among the fast-growing urban areas in Tanzania, the wards selected are the ones forming the central part of Morogoro municipality hence justifying the choice of the study area. Data on which this paper is based were collected through a case study design whereby the researcher used Morogoro Municipality as a case study to determine how informal the informal sector was and what could be done to enable those involved benefit more. The data used in this study were from primary sources. Primary data were collected from individual household heads in the selected wards in Morogoro Municipality. Generally, information was collected on various aspects related to the informal sector and the general state of the affairs in the respective wards in Morogoro Municipality. The process of primary data collection involved the use of questionnaires and personal interviews.

Pre-testing of the questionnaire was carried out before the main investigation. Pre-testing of the research instrument covered a few individuals at Mbuyuni area. Some of the experiences gained during the pre-testing of the research instruments are worth noting. First, it was discovered that WEOs Offices just like other organizations have problems related to record-keeping hence some of the information needed could not be found hence some modifications in both the checklist and the questionnaire. Second, time allocated previously for data collection had to be adjusted due to the fact that data collection involved some Ward Executive Officers who often had a tight schedule.

The study population consisted of all households that are involved in the informal sector found in the selected wards. Information on the status of the informal activities, households that are involving themselves in the informal sector was obtained from Ten Cell leaders and the WEOs. The sampling frame consisted of the four wards and the sample consisted of 80 households involved in the informal activities. Purposive sampling was used

to obtain households involved in the informal sector. Patton (2002: 230) argues that “The logic and power of purposeful sampling lies in selecting information-rich cases for study in-depth”, which have the potential to yield insights and in-depth understanding rather than empirical generalizations. This form of participant selection focuses on selecting information-rich cases whose study will clarify the questions under study. The sampling unit was a household and respondents were the household heads or representatives. Selected households were considered to be representatives of the households involved in IS in the selected wards. Data analysis was done using IBM-SPSS which involved the calculation of descriptive statistics and cross tabs. Descriptive statistics such as frequencies and percentages were used to present some aspects assessed concerning IS in selected wards in Morogoro Municipality. The study used quantitative data to analyse the setting and the characteristics of the informal sector in selected wards in Morogoro Municipality. Quantitative data were used to calculate maximum and minimum scores, mean score, percentages and frequencies in various aspects of the informal sector along with the study objectives.

To measure informality, the settings and characteristics of the informal activities were analysed. The study had to identify the characteristics of the informal sector from the literature review (ILO, 1972; de Soto 1989, 2000) to formulate the indicators to measure informality. The Legalist school of thought and the Voluntarist school were the guiding theories; the analytical frameworks used to measure informality had to reflect these theories. For that matter, informality was measured by asking if the business activities were characterized by any of the following characteristics:-(i) reliance on indigenous resources; (ii) family ownership; (iii) labour intensive and adaptive technology; (iv) skills acquired outside of the formal sector; (v) source of capital (vi) choice to operate informally was based on avoiding the costs, time and effort of formal registration. Six (6) questions were asked, which required the respondents to simply say ‘yes’ or ‘no’ to indicate if their business had such characteristics. The responses were recorded as 1 and 2 for No and Yes respectively. This created a dummy variable. An index of scores was constructed to measure the level of informality. Informality was then categorised into levels; namely: - high level of informality, (scores above 5.0), medium level of informality (scores between 4.0 and 5.0) and low level of informality (scores below 4.0).

3. FINDINGS AND DISCUSSION

3.1 Socio and demographic characteristics of the respondents

Three aspects of socio-demographic characteristics namely sex, marital status and education level of the respondents are presented in Table 1. These aspects provide the background for other findings.

Table 1: Socio-demographic characteristics of the respondents (n=80)

Variable	Category	Frequency	Percent (%)
Sex	Female	25	31.2
	Male	55	68.8
	Total	80	100.0
Marital Status	Married	48	60.0
	Single	19	23.8
	Divorced/separated	8	10.0
	Widowed	5	6.2
	Total	80	100.0
Education Level	No formal education	25	31.2
	Primary education	36	45.0
	P.E +Any Other training	11	13.8
	Secondary education	8	10.0

3.2 Sex of the Respondents

The respondents surveyed comprised 68.8% men and 31.2% women as presented in Table 1. The findings conform in a way with those by URT (1995) which reported an increase of women operators in the informal sector but still declaring the dominance of men in the sector.

3.3 Marital Status of the Respondents

The findings in Table 1 show that 60% of the respondents were married while 23.8% were single, 10 % separated or divorced and 6.2 % were widowed. These findings are typical characteristics of many areas in Tanzania whereby 60% of women and 50 % of men are married (NBS, 2005). This indicates that involvement in the informal sector has been in a way influenced by the responsibilities individuals are shouldering in their community. Married people have more responsibilities for their families compared to those who are single. In this regard, the informal sector is serving as a source of income. Studies indicate that to most of the urban poor the informal sector has for a long time in the absence of formal employment opportunities been a way to rescue them (ILO, 1972; The World Bank, 2009).

3.4 The education level of the respondents

Education has been regarded as a major determinant factor towards formal employment in Tanzania. This study focused on this variable to assess whether those in the informal sector have the same level of education as those in the formal sector. The findings in Table 1 indicate that 45.0% of the respondents had completed primary school, while 31.3% had no formal education, 13.8% had primary education plus other training and only 10% having secondary school education. The small percentage of the respondents having secondary school education may be due to the fact that after attending primary education, which is compulsory for all, could not either afford or continue with higher education. Furthermore, one has to pass the primary school leavers exam to be eligible to join the government-run school. Whereas those failing could join private schools that are generally fee –attracting and seem expensive and out of reach for the majority of poor households. Munbodh (2003) documented the relationship between education level and involvement in the informal sector. Formal employment to a larger extent at least requires secondary education in Tanzania (Mushi and Kent, 1995). This indicates that a significant proportion of those who ended their education journey at primary schools in Tanzania found their means of sustaining their living in the informal sector.

3.5 Age of the respondents

The findings from the study as presented in Table 2 revealed that females of the age group between 19 and 26 years are the one dominating the informal sector among the females, accounting for 11.25% of those operators in the informal sector (males and females). This age group (19-26 years) forms 36.05% of the females involving themselves in the informal sector in the selected wards. This group is mainly made up of girls who have just completed schools and could not find a way to formal employment. NBS (2014) reports a notable increase in labour force in Tanzania Mainland covering persons aged 15 years and above and a mismatch with available formal employment opportunities hence mostly relying on the informal sector.

Table 2: Age of the respondents’ distribution in percentage (n=80)

Sex	Age brackets				
	19-26	27-34	35-42	43-49	50 and above
Male	12.5%	13.75%	20%	15%	7.5%
Female	11.25%	6.25%	7.5%	2.5%	3.75%

3.6 Settings and Characteristics of the Informal Sector

Table 3 presents the findings concerning the types of businesses found in the selected wards which are related to the informal sector. The study found that food vending accounted for 26.4 %, followed by carpentry (13.8%), Tailoring (12.6%), Welding (12.6 %), Laundry work (dhobi) (9.2%), shoe shining (9.2%), shoemaking (6.9%), selling of second-hand clothing (mitumba) (4.6 %) and seat cover making accounting for 4.6 %. The types of businesses found in the selected wards have been significantly influenced by the location of the business in the study area.

The selected wards of Kingo, Kiwanja cha Ndege, Saba Saba and Mji Mkuu form the core urban part of the Morogoro Municipality.

It has been a common phenomenon to find the businesses reported in Table 3 under the informal sector conducted in locations convenient to the customers, this is evident from the studies by Munbodh (2003) and McLaughlin (1990). The types of businesses found to reflect the needs of the urban population in a way. It is obvious that many youths particularly single or generally people living alone normally would not prefer to cook hence buying from vendors. Also, the same people and especially youths do not have time for laundry. They find it convenient to have them washed at a fee hence the expansion of the informal laundry services.

Table 3: Types of businesses found in the selected wards (n=80)

Type of activity	Frequency	Percent (%)
Carpentry	12	13.8
Laundry i.e washing clothes (<i>dhobi</i>)	8	9.2
Food vending	23	26.4
Selling of second hand clothing (<i>mitumba</i>)	4	4.6
Seat cover making	4	4.6
Shoe making	6	6.9
Shoe shining	8	9.2
Tailoring	11	12.6
Welding	11	12.6
Total	80	100.0

3.7 Business location for the informal sector

Business location is an important aspect that distinguishes the formal sector from an informal one (McLaughlin, 1990). In this study, the respondents were asked how they decided on-premises for their businesses/activities. The study revealed that 68.8% of the respondents were willing to operate businesses at times and locations convenient to customers, and only 31.2 % regarded it as important to have their business in located in areas convenient to their businesses. It has been a common phenomenon to find the businesses under the IS conducted in locations convenient to the customers. The findings support what has been reported by Munbodh (2003) and McLaughlin (1990).

3.8 Business skills

Effective production in any activity depends on, among other factors, the skills of those who are involved in that particular activity. This study found it worthwhile to elicit information on the kind of formal business skills possessed by those involved in the informal sector in the selected wards in Morogoro Municipality. The study revealed that 75% of the respondents did not possess any business skills, while 25% had business skills. However, the sector is boosted by the experience, adoption, and innovation of those involved in it.

3.9 Source of labour

Human resource is one of the most critical resources in any activity, as offices, machines and any other non-human resources cannot become productive except for human efforts (labour). The findings from the study revealed that 57.5% of labour source was from the family members; whereas 23.7% accounted for own labour source (this signifies the fact that the owner of the enterprise is handling all the activities on his/her own) and 18.8% of the activities had hired labourers. Other studies (McLaughlin, 1990; O'Riordan, 1991) have identified similar trends concerning the source of labour in the informal sector, whereas it has been a common phenomenon to have family labour (labour force from family members) contributing significantly to the labour used in the IS. The details are presented in Table 4.

Table 4: Source of labour used in the informal sector (n=80)

Labour Source	Frequency	Percent (%)
Employees	15	18.8
Family labour	46	57.5
Own	19	23.7
Total	80	100.0

3.9 Source of capital for the business

Opening up any business activity requires capital. This study took interest to investigate the sources of capital for the informal sector activities. The study revealed that 55% of the informal sector activities were financed from own sources, whereas 33.8 % obtained capital through assistance from friends or relatives, 6.2 % through a loan(s) from a friend(s), and 2.5% through a loan(s) from Micro-Finance Institutions. Findings from this study conform to the findings made by O'Riordan (1996) which reports that the operators in the IS mainly obtain capital from their sources to start their businesses. Table 5 presents the details.

Table 5: Source of capital for business/activity in the IS (n=80)

Source of capital	Frequency	Percent (%)
A loan from MFI	2	2.5
A loan from a friend	5	6.2
Assistance from a friend or relative	27	33.8
Own sources	46	57.5
Total	80	100.0

3.10 The legal status of the business

Among the cardinal legal requirements for opening up any business, is to have a business license. In the course of analysing the characteristics of the informal sector activities in selected wards in Morogoro Municipality, the study investigated about the legal status of such businesses, that is, aspects of licensing of the respective businesses. It was found out that 82.5% of the businesses operating in the IS in the selected wards were not licensed and only 17.5% had licenses. These findings qualify the activities surveyed as being in the informal sector basing on the definitions provided by various scholars. These findings concur with those by ILO (1998), where ILO reports that most informal traders do not (or are unable to) comply with regulations concerning registration, licensing, tax payments, occupational safety, health, and working conditions. This inability is ascribed to several factors, including cumbersome bureaucracies, high costs, unreasonable demands, ambiguous regulations and negative state attitudes to workers in the informal economy. The World Bank (2009) also points out to the fact that the informal sector is an unofficial business which is evading tax, avoiding labour regulations and other government or institutional regulations, with no registration of the business.

3.11 Business ownership

Business ownership was another aspect considered important in this study. The informal sector is considered as a subset of household enterprises or unincorporated enterprises owned by households. Table 6 presents the findings concerning business ownership.

Table 6: Distribution of respondents according to activity/ business ownership (n=80)

Business ownership	Frequency	Percent (%)
Owned by family	40	50.0
A different entrepreneur	1	1.3
Jointly owned	1	1.3
Individually owned	38	47.5
Total	80	100.0

The findings presented in Table 6 revealed that 50% of the activities /businesses surveyed were owned by families (this involved inherited properties and run by members of the family in an extended sense), 47.5% is owned by individuals (initiated by the current owners and being managed by them), joint ownership (by different individuals who do not have family ties) accounting for only 1.3% and 1.3% accounted for the activities owned by a different entrepreneur. Similarly, issues of ownership of businesses in the IS are reported by McLaughlin (1990) and Mushi and Kent (1995). Generally, IS enterprise itself is dominated by sole proprietorship and the business management is embodied in one person.

3.12 The informality of the informal sector in Morogoro municipality

The minimum and maximum scores on the informality of the informal sector were 3.00 and 6.00 respectively with the mean score being 4.7 (95% CI: 4.65 % to 4.76%) with Standard Deviation of 0.84 (95% CI: 0.8% to 0.9%) as indicated in Table 7.

Table 7: Scores on the informality of the selected informal sector businesses (n= 80)

Scores	Frequency	Percent (%)	95% Confidence Interval	
			Lower Bound	Upper Bound
3.00	6	7.1	5.6	8.6
4.00	26	32.9	29.9	35.8
5.00	34	42.5	39.4	45.6
6.00	14	17.5	15.2	20.1
Total	80	100.0	100.0	100.0

The findings further indicate that of those who were interviewed only 17.5% (95% CI: 15.0 to 19.9) had their businesses falling under low level of informality, 40.0 % (95% CI: 37.2 to 43.1) on a medium level of informality and 42.5 % (95% CI: 39.5 to 45.9) on the high level of informality. The categories of informality are presented in Table 8.

Table 8: Levels of the informality of the informal sector (n=80)

	Frequency	Percent (%)	95% Confidence Interval	
			Lower Bound	Upper Bound
High level of informality	612	42.5	39.5	45.9
Medium level of informality	576	40.0	37.2	43.1
Low level of informality	252	17.5	15.0	19.9
Total	1440	100.0	100.0	100.0

Other studies (Muhanga, 2017; Bulmer, 2018; Yu and Ohnsorge 2019) have identified the fact that a significant proportion of GDP and employment (of which self-employment is more than a half) is found in the labor and business that is hidden from monetary, regulatory, and institutional authorities in emerging market and developing economies. This is what is also found in this study in terms of the characteristics of the surveyed businesses in selected wards in Morogoro municipality.

4. CONCLUSION AND RECOMMENDATIONS

It is obvious that the IS is having a large share of the workforce in Tanzania. Furthermore, the sector has a significant job, income generation potential and stimulation of socio-economic growth in both urban and rural areas. Despite having that share yet, contributes marginally to tax revenue generation. In terms of settings and characteristics, most of the business activities surveyed in this study relied on indigenous resources; owned by the family members; most businesses operated on a small scale; labour intensive; most of the operators acquired skills outside of the formal sector and the business activities were not registered. These observations qualify what is mostly described in literature related to IS. It is recommended that the LGAs and microfinance institutions work

hand in hand to improve the conditions in which the IS operates in Morogoro, for LGAs it is imperative to create policy responses to the sector which is becoming dominant in the urban areas in terms of being a mechanism of employment and income generation. Microfinance institutions also have a role to play towards the creation of a conducive and supportive environment to the informal sector by providing soft loans to those involved. This study therefore recommends further studies to assess the informality of the informal sector and the development of appropriate policy responses to accommodate the needs of the informal sector by the local governments.

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