
How Informal is the Informal Sector?

An analysis of the Setting and Characteristics of the Informal Sector in Morogoro, Tanzania

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ABSTRACT

This study was conducted in Morogoro Municipality to analyze the setting and characteristics of the Informal Sector (IS). Collection of primary data from 80 respondents was done using a questionnaire. The study results show that those most involved in the IS 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 study further shows that 55 % of the IS activities obtained capital from owners' own sources, and it was further revealed that 82.5 % of the businesses or activities operating in the IS in the selected wards were not licensed and rarely used any machinery. The results further show that 50% of the activities /businesses surveyed were owned by families. The study recommends that: a need for, addressing training needs for the IS and LGAs' **to intervene the IS's operations for better performance and contribution to the livelihood but also to allow the LGAs earn income in form of taxes.**

Keywords: 'Second Economy', 'Subterranean Economy', 'Hidden Economy', 'Underground Economy', Local Government Policy responses

INTRODUCTION

1.1 Background Information

Different terms are used to identify the IS including the 'Second Economy', 'Subterranean Economy', 'Hidden Economy', 'Underground Economy', 'Parallel Economy', 'Irregular economy', 'Shadow Economy', Black Economy (ILO, 1977; Gutmann, 1977; Maliyamkono and Bagachwa, 1990, Muhanga and Nombo, 2010). Regardless of the term used, at the core of the IS is the notion of "a non-structured sector that has emerged in the urban centers as a result of the incapacity of the modern sector to absorb new entrants" (Munbodh, 2003:4).

There is an apparent renewed interest in the informal economy worldwide, for a number of reasons, the most clear include the fact that a large share of the global workforce and economy is informal and because 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). The IS has a long and well charted history in developing countries. It should not however be misconceived that IS exists only in the developing part of the world. Literature (Tanzi, 1982) shows that it also exists in the developed world. The concept of the IS was introduced into international usage in 1972 by the International Labour Organization (ILO) in its Kenya Mission Report, which defined informality as a "way of doing things characterized by: (a) ease of entry; (b) reliance on indigenous resources; (c) family ownership; (d) small scale operations; (e) labour intensive and adaptive technology; (f) skills acquired outside of the formal sector; (g) unregulated and competitive markets." According to Martinusse (2006) the IS was born when growth in the organized economy contributed very little to absorbing the rapidly growing workforce in many developing countries. The International Labour Organization (ILO) in the early 1970s defined IS as simply all activities that largely operate outside the system of government benefit and regulation (Kent and Mushi, 1995). The IS was interpreted as individuals or groups of people engaged in legitimate enterprises (either subsistence or small scale), some of which may be regulated by the state, (i.e. cooperatives) but the vast majority are considered to be operating outside the legal framework of the state.

Generally the IS is regarded as a group of production units which form part of the household sector. Household enterprises are units engaged in the production of goods and services, which are not constituted as separate legal entities independently of the household or household members that own them. They do not have a complete set of accounts which would permit a clear distinction between the production activities of the enterprises and the other activities of their owners, or the identification of any flows of income and capital between the enterprises and owners. Household employees that are exclusively engaged in non-market production are excluded from the scope of the IS. Agricultural activities, e.g. fishing, bee-keeping, are included in the IS when the purpose of production is the market, on the condition that the other requirements mentioned above are fulfilled

(Muhanga and Nombo, 2010).

Tanzania's official National Accounts according to **Bagachwa and Naho (1995)** suffer from two serious weaknesses with respect to IS; these are incomplete coverage as well as inaccurate estimates of the activities covered. This arises because many of the activities, especially those in the IS, are either misreported or under-recorded. It is however reported by O'Riordan (1996) that the IS is a rapidly expanding sector which by 1991 was believed to account for 22% of total employment in Tanzania, eighteen years later (2009) the sector was reported to stand at 48.1 percent in terms of its share of employment in Tanzania (Osoro, 2009). It is in the record that there is a notable increase in Labour Force in Tanzania Mainland (for Persons Aged 15 Years and Above) and a mismatch with available formal employment opportunities hence most of the entrants to the labour market rely on the IS (NBS, 2014).

It is obvious that for the IS to realize its potentialities effective policy responses towards the sector has to be in place, so that the sector could contribute towards employment and hence income generation. It is against this background that this study was conducted in Morogoro Municipality to analyze the setting and characteristics of the IS.

1.2 Problem Statement and Objectives

Incognizant of the vast potential of the IS and the recognition or acknowledgement of its economic value by the government in terms of being a mechanism of employment and income generation. There are currently a number of efforts by various development partners, Local Government Authorities (LGAs) inclusive to formulate policy responses to accommodate the IS. For these attempts to succeed it is very crucial to analyze the setting and the characteristics of the IS. The understanding of the setting and the characteristics of the IS is an ingredient in formulating effective policy responses by the LGAs which will contribute to the creation of conducive environment for the IS to operate.

The study intended to determine how informal the IS was and what could be done to enable those involved benefit more. Through case study the researcher analyzed the setting and the characteristics of the IS in selected wards in Morogoro Municipality. This paper, therefore, analyses the setting and characteristics of the IS in Morogoro, Tanzania.

1.3 A Review of the IS in Tanzania

The informal sector is regarded as an oxymoron – in one hand it is an unorganized 'nuisance' sector whose members, for example, do not pay any form of tax, on the other, it provides jobs and increases incomes of the most vulnerable groups in a city – the very low income group.

The IS has often been described as economically stagnant and unproductive, as encompassing the unskilled and the uneducated and politically inactive. For local governments who are responsible for the development and management of cities in developing countries, the informal sector has been looked upon as representing a dilemma. It presents both advantages and disadvantages that need to be taken into account when designing policies targeted at the sector (Srinivas, 2009). Recently, nevertheless, research agendas have changed from focusing merely on the size of the IS to the dynamics at play within it (see TRA, 2011, ESRF, 2010).

It has strongly been noted that the IS has a significant job, income generation potential and stimulation of social economic growth in both urban and rural areas. According to the Integrated Labour Force Survey of 2006 (URT, 2007) the IS was the second main employing sector after agriculture by employing 10.1 percent of the employed persons, followed by other private sectors with 8.6 percent, where agriculture employed 75.1 percent (TRA, 2011). However, the social, economic and political realities of the IS translate to a complicated operational reality for business formalization and the tax administration (TRA, 2011).

It is evident that the IS is growing as indicated by the 2006 Integrated Labour Force Survey (ILFS) that in 2006, 40 percent of all households in Tanzania Mainland were in IS activities as compared to 35 percent in 2001. In 2006, the urban IS employed about 66 percent of the people for whom the IS work is the main activity and only 16 percent of those for whom it is the secondary activity. In contrast, 34 percent of the people for whom IS work is a main activity are in rural areas and 84 percent for whom this work is a secondary activity. This suggests that the IS is a source of employment for majority poor Tanzanians (URT, 2007).

Since 2000/2001 Tanzania Mainland has experienced a notable increase in Labour Force for Persons Aged 15 Years and Above from 15,490,730 to 20,654,795 in 2010/11. According to NBS (2014) the total number of employees in the formal sector (FS) in Tanzania Mainland was 1,858,969 in 2013; this is an increase of 308,951 employees from 1,550,018 recorded in 2012. It is therefore clear that the IS has a large share of the workforce and contributes significantly to economic growth in Tanzania. TRA, (2011) and ESRF (2010) point out that the IS could be an important contribution to the Gross Domestic Product of Tanzania when taxed substantially.

Generally scholars have changed their outlook and regard IS as more dynamic, productive, and as a political challenger to the state, as well as an alleviator of the state. States in developing countries have also started to view the IS as more than just an underground, clandestine, surreptitious part of society, and regulations and policies have changed towards it (see TRA, 2011, ESRF, 2010; Chen, 2012; Horn 2009; Vanek *et al.* 2012). It is therefore obvious that the IS in Tanzania is not a passive sector due to its socio-economical and political significance to the society.

THEORETICAL DEBATES ON INFORMAL SECTOR

The Dualist school

The Dualist school sees the informal sector of the economy as comprising marginal activities—distinct from and not related to the formal sector—that provide income for the poor and a safety net in times of crisis (Hart 1973; ILO 1972; Sethuraman 1976; Tokman 1978).

The Dualists subscribe to the notion that informal units and activities have few (if any) linkages to the formal economy but, rather, operate as a distinct separate sector of the economy and that the informal workforce—assumed to be largely self-employed—comprise the less advantaged sector of a dualistic or segmented labour market. They pay relatively little attention to the links between informal enterprises and government regulations. But they recommend that governments should create more jobs and provide credit and business development services to informal operators, as well as basic infrastructure and social services to their families

The Structuralist school

The Structuralist school sees the informal economy as subordinated economic units (micro-enterprises) and workers that serve to reduce input and labour costs and, thereby, increase the competitiveness of large capitalist firms (Moser 1978; Castells and Portes 1989).

The Structuralists see the informal and formal economies as intrinsically linked. They see both informal enterprises and informal wage workers as subordinated to the interests of capitalist development, providing cheap goods and services. They argue that governments should address the unequal relationship between “big business” and subordinated producers and workers by regulating both commercial and employment relationships.

The Legalist school

The Legalist school sees the informal sector as comprised of “plucky” micro-entrepreneurs who choose to operate informally in order 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 in order to unleash their productive potential and convert their assets into real capital.

The Voluntarist school

The Voluntarist school also focuses on informal entrepreneurs who deliberately seek to avoid regulations and taxation but, unlike the legalist 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 in order to increase the tax base and reduce the unfair competition to formal businesses.

METHODOLOGY

The study was conducted in selected wards in Morogoro Municipality. Kingo, MjiMkuu, Saba Saba and Kiwanja cha Ndege wards were randomly selected for this study. 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 was collected through a case study design whereby the researcher used Morogoro Municipality as a case study to determine how informal the IS was and what could be done to enable those involved benefit more. Through case study the researcher analyzed the setting and the characteristics of the IS in selected wards in Morogoro Municipality

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, namely Kingo, KiwanjaNdege, Saba Saba and MjiMkuu. Generally information was collected on various aspects related to IS and the general state of the affairs in the respective wards in Morogoro Municipality. The process of primary data collection involved the use of questionnaire and personal interviews.

Pre-testing of the questionnaire was carried out before the main investigation. Pre-testing of the research instrument covered some few individuals at Mbuyuni area. The objectives of the Pre-testing of the research instrument were: (i) to pre-test both the checklist and the questionnaire, (ii) to determine the approximate time that will be needed to complete the data collection work, (iii) to ascertain the availability of data for the objectives of the

research and (iv) to determine the most efficient way of carrying out the main research. 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 IS found in the selected wards. Information of the status of the informal activities, households that are involving themselves in IS were obtained from Ten Cell leaders and the WEOs. Sampling frame consisted of the four wards and the sample consisted of 80 households involved in the informal activities. A multiple stage sampling technique was used in selecting households in each of the four wards. In the first stage strategic/purposive sampling was used to obtain households involved in IS. 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 SPSS which involved calculation of descriptive statistics and cross tabs. Descriptive statistics such as frequencies and percentages were used to present some aspects assessed with respect to IS in selected wards in Morogoro Municipality. The study used quantitative data to analyse the setting and the characteristics of the IS and in selected wards in Morogoro Municipality. Quantitative data was used to calculate percentages and frequencies in various aspects of the IS along the study objectives. Statistical Package for Social Science (SPSS) software was used in data analysis.

RESULTS AND DISCUSSION

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		Frequency	Percentages
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

Sex of the respondents

The sample of the respondents surveyed comprised of 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 IS, but still declaring the dominance of men in the sector.

Marital status

The results in Table 1 further show that 60% of the respondents were married while 23.8% were single, 10 % separated or divorced and 6.2 % were widowed. These results are typical characteristics of many areas in Tanzania whereby 60% women and 50 % men are married (NBS, 2005). This indicates that involvement in the IS 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 IS is serving as a source of income. Studies are indicating that to most of the urban poor the IS has for a long time in the absence of formal employment opportunities been a way to rescue them (ILO, 1972; The World Bank, 2009).

Education level of respondents

Education is regarded as a major determinant factor towards formal employment in Tanzania. This study focused on this variable to assess whether those in the IS have the same level of education as those in the formal sector. The results in Table 1 indicates that 45.0% of the respondents had completed primary school, followed by 31.3% with no formal education, 13.8% with primary education plus other training and only 10% having secondary school education. The small percentage 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 pass for higher education. Furthermore, one has to pass the primary school leavers exam to be eligible to join government run school. Whereas those failing could join private schools which are expensive and out of reach for the majority of poor households. Munbodh

(2003) documented the relation between education level and involvement in IS. Formal employment to a larger extent at least requires secondary education in Tanzania (Mushi and Kent, 1995).

Age of the respondents

The findings from the study as presented in Table 2 revealed that females of the age group between 19-26 years are the one dominating the IS among the females, accounting for 11.25% of those operators in the IS (male and female), this age group (19-26 years) is forming 36.05% of the females involving themselves in the IS in the selected wards. This group is mainly made up of girls who have just completed schools and could not find 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 IS.

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

Sex	Age of the respondents				
	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

Setting and Characteristics of the Informal Sector

Types of businesses found in the selected wards

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

Table 3 presents the findings with respect to the types of business found in the selected wards which are related to the IS. 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%), shoe making (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 study area. The selected wards of Kingo, Kiwanja cha Ndege, Saba Saba and MjiMkuu 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 IS conducted in locations convenient to the customers, this is evident from the studies by Munbodh (2003) and McLaughlin (1990). The types of business found 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. In addition some people and especially youths do not have time to wash their clothes or find it convenient to have them washed at a fee hence the expansion of the informal laundry services and others.

Business location for the IS

Business location is an important aspect that distinguishes formal sector from an informal one (McLaughlin, 1990). Respondents in this study 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 important to have their business in locations 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 results support what has been reported by Munbodh (2003) and McLaughlin (1990).

Business skills

Effective production in any activity depends on, among other factors, skillfulness 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 IS 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 experience, adoption and innovation of those involved in it.

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 the 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 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 with respect to the source of labour in the IS, whereas it has been a common phenomenon to have family labour (labour force from family members) contributing significantly for the labour used in the IS. The details are presented in Table 4.

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

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

Source of capital for the business

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	6.3
Assistance from a friend or relative	27	33.8
Own sources	46	57.5
Total	80	100.0

Opening up any business activity requires capital, this study took interest to investigate into the sources of capital for the IS activities. The study revealed that 55% of the IS activities were financed from own sources, whereas 33.8 % obtained capital through assistance from a friend or a relative, 6.3 % through loan(s) from friend(s), and 2.5% through loan(s) from Micro-Finance Institutions. The results of this study conform to the findings made by O’Riordan (1996) which reports that the operators in the IS mainly obtain capital from their own sources to start their businesses. Table 5 presents the details

Legal status of business

Among the cardinal legal requirements for opening up any business, is to have a business license. In the course of analyzing the characteristics of the IS activities in selected wards

in Morogoro Municipality, the study investigated the legal status of such businesses, that is, aspects of licensing of the respective businesses. It was found 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 IS 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 a number of 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 IS is unofficial business which is evading tax, avoiding labour regulations and other government or institutional regulations, with no registration of the business.

Business ownership

Business ownership was another aspect considered important by this study. The IS is considered as a subset of household enterprises or unincorporated enterprises owned by households. Table 5 presents the findings with respect to business ownership.

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

Business ownership	Frequency	Percent
Owned by my 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 a extended sense), 47.5% being 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 enterprises itself is dominated by sole proprietorship and the business management is embodied in one person.

CONCLUSION

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 social economic growth in both urban and rural areas, despite having that share but yet contributes marginally to tax revenue generation. In terms of setting and characteristics, most of the business activities surveyed under this study relied on indigenous resources; owned by the family members; most businesses operated in 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 micro finance institutions work hand in hand to improve the conditions out of 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 creation of conducive and supportive environment to the IS by providing soft loans those involved.

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The Future Beyond Fossil Fuels

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ABSTRACT

This research was carried out to determine the viability of using the milk bush, Euphorbia tirucalli L., as a potential alternative source of diesel-grade oil for present and future sustainable uses. Thus, the variations in the liquid biofuel quantity of bark and phylloclade extracts of E. tirucalli were evaluated on the basis of the stem diameters of the trees and the ecological zones from which the samples had been collected (i.e. Dar es Salaam, Dodoma and Mbeya). Data analyses were conducted using SPSS (version 15) and Minitab (version 16) software. The results show that E. tirucalli oil yields increase with increases in stem diameter and for stems with the largest girth they ranged between 15% and 16% of the sample dry weight for stem bark samples and 14% to 15% of the sample dry weight for phylloclade samples. Thus high amounts of oil can be obtained by extraction from any above-ground part of E. tirucalli (stem bark or phylloclade) harvested from trees with different stem diameters. However, more quantities of oil were obtained from older trees with the largest diameters growing under wild conditions. With respect to zones, the oil yields decreased in the order of Dodoma > Mbeya > Dar es Salaam. The study recommends further studies on the enhancement of the yields of liquid biofuel from E. tirucalli stem bark and phylloclades.

Key word: Euphorbia tirucalli, biofuel, phylloclades, bark, energy