

**AN ASSESSMENT OF THE LOCAL AUTHORITIES' POLICY RESPONSE TO
THE INFORMAL SECTOR IN SELECTED WARDS IN MOROGORO
MUNICIPALITY**



BY

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**A DISSERTATION SUBMITTED IN PARTIAL FULFILMENT OF THE
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ABSTRACT

This study was conducted to assess the local authorities' policy responses to the informal sector in selected wards in Morogoro Municipality. The study was conducted in Kingo ward, Kiwanja cha Ndege ward, Saba Saba ward and Mji Mkuu ward. Specifically the study had the following objectives: (a) To characterize /define the informal activities and the local authorities and the informal sector (IS) relationship, (b) To assess policy awareness of those involved in the IS, (c) To assess people's perceptions on informal sector and (d) To assess the local authorities policies and support towards the informal sector in the selected ward(s) in Morogoro region. The study is based on a survey made in Kingo, Mji Mkuu, Kiwanja cha Ndege and Sabasaba wards in Morogoro Municipality plus the Morogoro Municipal Council offices. Both checklist and questionnaires were used to collect information from the 80 respondents and 4 Ward Executive Officers. Data analysis entailed a number of descriptive statistics and cross tabs. Results revealed that those most involved in the informal sector had low level of education and no business skills, using family labour, willing to operate businesses at times and locations convenient to customers. The study further revealed that 55 % of the informal sector 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 and 50% of the activities /businesses surveyed were being owned by families. The study revealed a very low level of policy knowledge among those involved in the sector (only 1.3 %) and 53.8% seemed to prefer to operate on informal basis and only 46.2 % would go for formalization of their activities if given an opportunity with 48.1 % of the respondents having the view that the Informal Sector is not receiving support at all from the government. The study recommends that: there is a need for LGAs' to boost efforts on

policy responses towards the informal sector , addressing training needs for the Informal Sector and Local Government Authority's intervention to the Informal Sector for regulating purposes. Overall the study asserts that informal sector has a valuable contribution to the well being of the urban dwellers in Tanzania.

DECLARATION

I, **Josephat Kilima Mtapa**, do hereby declare to the Senate of the Sokoine University of Agriculture that, this dissertation is my original work and has not been nor is it being submitted for a degree award to any other university.




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The above declaration is confirmed;



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10 . 11 . 2009

Date

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DEDICATION

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LIST OF ABBREVIATIONS AND ACRONYMS

ILO	-	International Labour Organization
IS	-	Informal Sector
LGAs	-	Local Government Authorities
MDGs	-	Millennium Development Goals
SAPs	-	Structural Adjustment Programmes
UNDP	-	United Nations Development Programme
URT	-	United Republic of Tanzania
WEO	-	Ward Executive Officer

CHAPTER ONE

INTRODUCTION

1.1 Background Information

The Informal Sector (IS) is a widely known but yet imperfectly studied phenomenon. It is referred to also as "the Second Economy, Subterranean Economy, Hidden Economy, Underground Economy and Parallel Economy" (ILO, 1977; Maliyamkono and Bagachwa, 1990).

The IS has been given a number of interpretations by different authors (ILO, 1977; Gutmann, 1977; Tanzi, 1982). Regardless of the term used, at the core of the sector is the notion of "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).

In Tanzania and certainly in Africa in general the IS is not a new phenomenon but the latest manifestation of the older economic dichotomies. There has recently been a growing international interest in what is called the informal sector as a mechanism of employment and income generation in developing countries. According to Maliyamkono and Bagachwa (1990) recognition or acknowledgement of the economic value of the informal sector by Tanzanian government came shortly after the economic decline which forced the government to reappraise its perceptions and policies towards local, indigenous technologies and enterprises.

By the early 1980s it was clear that the state had over stretched itself and the expected benefits of socialism had not been achieved. In a climate of prolonged economic decline

the government introduced the first of its Structural Adjustment Program¹ designed to reduce fiscal deficits and promote economic growth. However, due to a combination of factors, not least shortages in consumer goods, high unemployment (especially among the youth), a decline in real wages, closure and privatization of the once state owned enterprises hence retrenchment, witnessed a growing number of people forced to engage in alternative and or additional methods of income generation.

Promoting the informal sector is a very crucial activity for Tanzania in the process of moving from state controlled economy to a market economy (open economy). There is a need of having open controlled economy rather than open uncontrolled economy. This study therefore attempts to assess the size and scope of IS in selected wards in Morogoro region and looking at the local authorities policy responses towards creating conducive environment for IS.

1.2 Informal Sector in Tanzania

According to Kent and Mushi (1995) the informal sector has a long and well charted history in developing countries. The ILO in the early 1970s defined informal sector as simply “all activities that largely operate outside the system of government benefit and regulation”.

The informal sector 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

¹ Under the influence of the International Monetary Fund and the International Donor community the government of Tanzania initiated the economic liberalization programme as part of the continuing process of structural adjustment.

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 employes that are exclusively engaged in non-market production are excluded from the scope of the informal sector. Agricultural activities, e.g. fishing, bee-keeping, are included in the informal sector when the purpose of production is the market, on the condition that the other requirements mentioned above are fulfilled.

It is reported by Bagachwa and Naho (1995) that the official National Accounts of Tanzania suffer from two serious weaknesses: incomplete coverage as well as inaccurate estimates of the activities covered. This arises because many of the activities, especially those in the informal sector, are either misreported or under-recorded. It is however reported by O'Riordan (1996) that the I.S. is a rapidly expanding sector which by 1991 was believed to account for 22 % of total employment in Tanzania.

1.3 Definition of Terms

Concepts in social sciences are context-sensitive; they denote different things to different people and at different times and places. In undertaking this study a number of terms that are used in day to day conversations have been specifically used to quantify outsourcing and other aspects related to it. For the purpose of this study the following terms are defined/interpreted:

Informal sector 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. For the purpose of this study, Informal Sector did not include urban agriculture activities and live stock keeping. The study was conducted in urban wards where agriculture and livestock keeping was not carried out.

Local authorities for the purpose of this study referred to elected section of government which runs a small area of the country. This included the municipal council and its administrative organs.

Local authorities' policy responses shall refer to the policies put in place by the local authorities to either encourage or discourage the informal sector activities. Policy response covers the inclusion of policy goals advanced by local government authorities with respect to issues related to IS i.e. content of the final policy outcome, more specifically, the degree to which the policy content addresses the I.S.

1.4 Problem statement and Justification

This section presents problem statement (1.4.1) and justification (1.4.2) of this study.

1.4.1 Problem statement

Formal sector in Tanzania is estimated to be capable of only absorbing between 7% and 10% of the new entrants to the labor market (Kent and Mushi, 1995), leaving a lot for the informal sector. According to Muhanga (2005), due to the complexity of the state employment in Tanzania, the big employing sector has collapsed and paved the way for a private sector to fill the gap. The private sector in Tanzania is too young to accommodate many of the retrenched employees and more and more of the young and able bodied

persons who complete schools, colleges and universities every year but can not find employment.

Despite the vast potential of the informal sector and the recognition or acknowledgement of its economic value by the government in terms of being a mechanism of employment and income generation, it is not clear now whether the local authorities (i.e. municipal councils) create conducive environment for the informal sector to operate. This study, therefore, attempts to assess the current status of the informal sector and the local authorities' policy responses.

1.4.2 Justification

The focus on the informal sector, the sector that contributes in minimizing the unemployment problem, contributes to the reduction of poverty which is the goal of the National Strategy for Growth and Reduction of Poverty (abbreviated as MKUKUTA in Kiswahili), Tanzania Development Vision 2025 and the Millennium Development Goals (MDGs) (URT, 2005). This study will also contribute towards improving the quality of informal sector and policy approaches by the local authorities.

Informal sector improvement is inline with the efforts of Tanzania's government to empower its people through its famous Program to Formalize the Assets of the Poor of Tanzania and Strengthen the Rule of Law (abbreviated as MKURABITA in Kiswahili). The research findings will assist policymakers in improving urban management capacity and specifically on the policy aspects that will benefit informal organizations and the urban poor.

1.5 Objectives of the Study

1.5.1 Main objective of the study

The main objective of this study was to assess the informal sector and the local authorities' policy responses in selected wards in Morogoro Municipality.

1.5.2 Specific objectives

Specifically the study addressed the following specific objectives:

- i.) To characterize /define the informal activities and the local authorities and the informal sector relationship
- ii.) To assess policy awareness of those involved in the IS
- iii.) To assess people's perceptions on informal sector
- iv.) To assess the local authorities policies that support the informal sector in the selected ward(s) in Morogoro region

1.6 Research Questions

This study is aiming at giving answers to the following research questions:

- (i) How are those engaged in the IS organizing their activities, and what kind of relationship exists between IS operators and the local authorities?
- (ii) Are there policies in place to create and support the IS in the municipality? Are those involved in the sector aware of that?
- (iii) What perceptions are those engaged in the informal sector have towards the sector and the LGAs in general? If one was to choose between formal and informal sector
- (iv) What kind of support do LGAs give to the IS?
- (v) Are there any records /information with respect to informal sector activities in local authorities offices i.e. on the number of people engaged in IS from the respective WEO?

1.7 Organization of the Dissertation

This dissertation is organized in five chapters. The first chapter presents an introduction to the study, highlighting some key issues justifying the research to be an important area for this kind of study. The second chapter presents a critical review of the existing literature. Chapter three covers the methodology used by the study. Chapter four presents results and discussion of the findings obtained in the study, while the summary of results, conclusions, policy implications and recommendations are presented in chapter five.

CHAPTER TWO

LITERATURE REVIEW

2.1 Overview

This chapter presents literature covering pertinent issues related to the informal sector as an income generation and employment creation strategy. The chapter commences with giving a description of the concept and practice of IS (section 2.1), the same section reviews issues related to IS. Section 2.2 explores literature on the concept of IS, its historical background, origin and size; section 2.3 gives an overview of the characteristics of the IS, and a discussion on urban poverty and informal sectors is in section 2.4. Section 2.5 presents IS as an alternative source of employment in Tanzania, section 2.6 discusses the regulatory frameworks and the IS in Africa , section 2.7 is on how the Informal Sector is perceived by different actors in the economy; section 2.8 reviews issue related to the Informal Sector, retrenchment and rightsizing in Public Institutions. Section 2.9 presents literature on the importance of the Informal Sector 2.10 and section 2.11 summarizes the key lessons from the literature review.

2.2 The Concept of Informal Sector

This section reviews the literature on the historical background, the origin and the size of the IS.

2.2.1 The concept of informal sector

The informal sector is an economic activity that is neither taxed nor monitored by a government; and it is not included in the government's Gross National Product (GNP); as opposed to a formal economy. Although the informal economy is often associated with

developing countries-where up to 60% of the labor force (with as much 40 % of GDP) works, all economic systems contain an informal economy in some proportion. The English idioms "under the table" and "off the books" typically refer to this type of economy. The term black market refers to a specific subset of the informal economy in which contraband is traded - where contraband may be strictly or informally defined.

Informal economic activity is a dynamic process which includes many aspects of economic and social theory including exchange, regulation, and enforcement. By its nature, it is necessarily difficult to observe, study, define, and measure the informal economy. No single source readily or authoritatively defines informal economy as a unit of study.

To further confound attempts to define this process, informal economic activity is temporal in nature. Regulations (and degrees of enforcement) change frequently, sometimes daily, and any instance of economic activity can shift between categories of formal and informal with even minor changes in policy. Given the complexity of the phenomenon, the simplest definition of informal economic activity might be any exchange of goods or services involving economic value in which the act escapes regulation or similar such acts.

The informal economy under any governing system is diverse and includes small-scale, occasional members (often street vendors and garbage recyclers) as well as larger, regular enterprises. Informal economies include garment workers working from their homes, as well as informally employed personnel of formal enterprises.

Informal sector is interpreted as individuals or groups of people engaged in legitimate enterprises (either subsistence or small-scale), some of whom may be regulated by the

state, (e.g. co-operatives and Nguvu kazi groups) but the vast majority are considered to be operating outside the legal regulations of the state (Kent and Mushi, 1995).

The above definition rejects the inclusion of certain activities such as crime and domestic labor. Crime cannot be included because such acts have no regulated counterpart against which they may be compared. Of course, by their nature, informal economic activities escape regulation and may then become criminal. Domestic labor, such as childcare and cooking, cannot be included when performed in the natural course of daily living and to one's own benefit. Such activities can easily be performed for others and exchanged for goods and services with economic value and depending on broader conditions; these can be either formal or informal economic activities. However, when performed for personal benefit they have no external economic value (they cannot be exchanged).

Statistics on the informal economy are unreliable by virtue of their nature, yet they can provide a tentative picture of its relevance; for example, the informal employment makes up 48% of non-agricultural employment in North Africa, 51% in Latin America, 65% in Asia, and 72% in sub-Saharan Africa. If agricultural employment is included, the percentages rise, in some countries like India and many sub-Saharan African countries beyond 90%. Estimates for developed countries are around 15%. In developing countries, the largest part of informal work, around 70%, is self-employed, in developed countries wage employment predominates. The majority of informal economy workers are women. Policies and developments affecting the informal economy have thus a distinctly gendered effect (Charmes, 2000). According to ILO (1972) the Informal Sector is regarded as "the non-structured sector that has emerged in the urban centres as a result of the incapacity of the modern sector to absorb new entrants".

2.1.2 Historical perspective

Governments have tried to regulate (formalize) aspects of their economies for as long as surplus wealth has existed which is at least as early as Sumer (Portes and Haller, 2005). Yet no such regulation has ever been wholly enforceable. Archaeological and anthropological evidence strongly suggests that people of all societies regularly adjust their activity within economic systems in an attempt to evade regulations. Therefore, if informal economic activity is that which goes unregulated in an otherwise regulated system then informal economies are as old as their formal counterparts. The term itself, however, is much more recent. The optimism of the modernization theory school of development had led most people in the 1950s and 1960s to believe that traditional forms of work and production would disappear as a result of economic progress in developing countries (Portes and Haller, 2005).

As this optimism proved to be unfounded, scholars turned to study more closely what was then called the traditional sector. They found that the sector had not only persisted, but in fact expanded to encompass new developments. In accepting that these forms of productions were there to stay, scholars started using the term informal sector, which is credited to the British anthropologist Keith Hart in a study on Ghana in 1973 but also alluded to by the International Labour Organization in a widely read study on Kenya in 1972 (ILO, 1972).

Since then the informal sector has become an increasingly popular subject of investigation, not just in economics, but also in sociology and anthropology. With the turn towards so called post-fordist modes of production in the advanced and developing countries, many workers were forced out of their formal sector work and into informal employment. In *The*

Informal Economy: Studies in Advanced and Less Developed Countries, Alejandro Portes and his collaborators emphasized the existence of an informal economy in all countries by including case studies ranging from New York City and Madrid to Uruguay and Colombia (Portes and Haller, 2005).

Arguably the most influential book on the informal economy is Hernando de Soto's² which was published in English in 1989 as *The Other Path* with a preface by Peruvian writer Mario Vargas Llosa (de Soto, 1989). De Soto and his team argue that excessive regulation in the Peruvian (and other Latin American) economies force a large part of the economy into informality and thus prevent economic development. While accusing the ruling class of 20th century mercantilism, de Soto admires the entrepreneurial spirit of the informal economy.

In a widely cited experiment, his team tried to legally register a small garment factory in Lima. This took more than 100 administrative steps and almost a year of full-time work. Whereas de Soto's work is popular with policymakers and champions of free market policies like *The Economist*, many scholars of the informal economy have criticized it both for methodological flaws and normative bias.

In the second half of the 1990s many scholars started to consciously use the term "informal economy" instead of "informal sector" to refer to a broader concept that includes enterprises as well as employment in developing, transition, and advanced industrialized economies.

² This book was first published as *El Otro Sendero* in 1986

2.1.3 IS: origin and size

The concept of the informal sector was introduced into international usage in 1972 by the International Labor 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) labor intensive and adaptive technology; (e) skills acquired outside of the formal sector; (g) unregulated and competitive markets”. The informal sector was born when “growth in the organized economy contributed very little to absorbing the rapidly growing workforce in many developing countries” (Martinusse, 2006).

The informal sector was internationally defined as a concept of labour force by the 15th International Conference of Labour Statisticians held in Geneva (ILO, 1993). The Informal Sector is a very varied and heterogeneous sector operating in a number of fields providing services at low cost and within the reach of the consumers. Many of the persons working in that sector have low levels of education and have learnt some elementary skills on the job. However, these small enterprises are providing more than 50% of the employment in the non-agricultural sector and thus contributing in minimizing the unemployment problem (Munbodh, 2003).

According to UNIDO *et al.* (2002), the most recent data on the size of the Informal Sector in Tanzania is from the 1991 National Informal Sector Survey, which showed that there were about 2 370 000 people engaged in informal production of goods and services at any time in the year. The origin of this informal sector, which was a marginal part of the previously state-run economy, lies in the closure and privatization of a large number of publicly-owned large enterprises and the reduction in the payroll of the government,

following from the Economic Recovery Program. These meant that suddenly tens of thousands of people lost their government-related jobs and could find no other work because the formal private sector barely existed and has not been able to absorb those retrenched and the new job seekers. Unsurprisingly therefore, the growth of businesses operating informally in Tanzania has been high as people do whatever they can to ensure their survival.

It is reported further that between 1991 and 1995, the increase in the number of people engaged in the Informal Sector in Dar es Salaam was around 9.5% (URT, 1995). The growth has been characterized by an increasing number of young female operators, who dominate the 10-39 years old age group of operators and are mostly found in the trade/restaurant/hotel sub-sector (URT, 1995). Reflecting a regrettable straining in gender relations, a significant proportion of these are single heads of households with children and dependants, implying that they are the poorest households, for whom participation in the informal sector is the only means of survival. It is estimated that more than 50% of the non-agricultural employment in Africa is found in the Informal Sector (Munbodh, 2003).

Table 1: Share of the IS in various sub-sectors

Informal Sector As Share Of	Latin America/ Caribbean (%)	Africa (%)	Asia (%)
Non-agricultural employment	57.0	78.0	45-85
Urban Employment	40.0	61.0	40-60
New Jobs	83.0	93.0	N/A

Source: Charmes (2000)

Xaba *et al.* (2002) reported that whereas in 1990, 21% of SSA's 227 million labour force was working in the informal economy; by 1998 it was estimated to comprise 40-60% of urban employment.

2.1.4 Types of informal sector activities

The Informal Sector covers a wide range of labor market activities that combine two groups of different nature. On the one hand, the Informal Sector is formed by the coping behavior of individuals and families in economic environment where earning opportunities are scarce. On the other hand, the Informal Sector is a product of rational behavior of entrepreneurs that desire to escape state regulations.

The World Bank (2009) is describing the Informal Sector activities as follows:

1. Coping strategies (survival activities): casual jobs, temporary jobs, unpaid jobs, subsistence agriculture, multiple job holding;
2. Unofficial earning strategies (illegality in business):
 - 2.1. Unofficial business activities: tax evasion, avoidance of labor regulation and other government or institutional regulations, no registration of the company;
 - 2.2. Underground activities: corruption - activities not registered by statistical offices.

2.3 Characteristics of the IS

McLaughlin (1990) claims that the Informal Sector is characterised by "(a) the use of family and unpaid labour (apprentices) and reliance on manual labour rather than on sophisticated machinery and equipment; (b) flexibility, allowing people to enter and exit

economic activities in response to market demand; (c) simple and sometimes precarious facilities; (d) the ability to improvise products from scrap materials; (e) a willingness to operate businesses at times and locations convenient to customers; and (f) a tendency to locate smaller markets out of the reach of the larger firms. Buberwa and Madamo (1991) documented that the capital sources in the Informal Sector is 80% made up of the peoples own savings.

McLaughlin (1990) also finds that (i) mini and micro enterprises only provide a means of subsistence through the production of goods and services on a small scale with lower quality and prices, and (ii) small and medium enterprises are associated with higher levels of education of the entrepreneurs, higher levels of income and a longer time in business. O'Riordan (1996) is of the view that the IS offers flexibility in terms of location, hours of work and mobility hence making it attractive for those needing to supplement low incomes.

2.4 Urban Poverty and the Informal Sector

According to URT (2005) urban poverty is evident in households with low and unreliable incomes, the unemployed, urban vulnerable groups and those in the informal sector. Urban poverty has brought to the spotlight stress on urban public facilities and services. The urban poor live in congested, mainly un-surveyed areas, overcrowded residences and on streets (especially street children). These areas lack safe and reliable water and have poor waste management and lighting. Trade liberalization has prompted an influx into the urban areas of a vast number of petty traders mainly youth aged 20-29. The PHDR (2002) estimates 92 % of these have primary level education but no formal skills training. They lack capital and business premises. In many municipal areas the informal sector includes

also men and women engaged in sand mining, quarrying and lime making to support the growing construction industry.

The main policy challenge is how to support and regulate the urban informal sector in order to promote employment, productivity, and income for the poor, and at the same time ensure a safe, healthy and socially acceptable environment. Informal sector enterprises, especially those located in residential areas, pose real health hazards for the urban community, particularly for the urban poor who can least afford the high cost of health care. The policy dilemma appears to be how to contain the adverse environmental impacts of many of the activities of the urban informal sector without disrupting livelihoods, and causing social distress; how to promote environmental awareness and guarantee the right to the city, while at the same time protecting the vulnerable groups in the informal sector, especially women, children, and apprentices, from harm and exploitation.

2.5 IS as an Alternative Source of Employment in Tanzania

Socialism in Tanzania was based on the Indian model of economic development as it was increasingly based on public control through interventionist policies (Kent and Mushi, 1995). This resulted into the state assuming an ever increasing influence on economic policy, a concept commonly referred to as '*wider Keynesianism*' (Bierstecker, 1990 and Schott, 1992). Moshi and Maenda (1994) argue that one of the principal difficulties of this approach, especially one perceived to be ideologically loaded is that the state over – estimates its capability to manage and as a consequence, over stretches itself by thinly spreading its resources over an increasing number of activities, projects and programmes. This was the case in Tanzania.

According to Kent and Mushi (1995) following a climate of prolonged economic decline that resulted into high unemployment (especially among the youths) and decline in real wages, the government had to introduce Structural Adjustment Programs (SAPs) in 1980s. The dominant employer (the government) found itself in economic crisis; a growing number of those who were employed by the government were forced to engage themselves in alternative and /or additional method of income generation. SAPs subjected the public sector employees into retrenchment hence decline in formal sector employment.

The decline of wages in the formal sector forced the government to acknowledge the potential of the informal sector as a mechanism for providing employment and subsistence income.

2.6 Regulatory Frameworks and the IS in Africa

The regulatory frameworks in many African countries reflect a colonial legacy of exclusion. Many regulations appear more concerned with controlling and obstructing than with facilitating and channeling efforts of informal sector traders. This kind of regulation exacerbates underdevelopment. It has been observed that, “in countries where settler interests were dominant... a barrage of laws and regulations controlling labour flows and African urban settlement was instituted to ensure that African labour was dependent on formal sector employment. At the same time,, educational, agricultural, taxation and land policies were instituted to ensure that Africans did not develop independent market-oriented activities” (Mhone, 1996: 11-12).

It is reported by Xaba *et al.* (2002) that in Ghana, when hawkers wish to trade on the streets they have to secure permits to erect a stall. The local authority has to approve this,

but to grant such approval a plan has to be submitted - even if only a crude trading structure is being constructed. Once approved, the stall cannot be inherited, transferred, leased, exchanged or assigned. In a study on the laws relating to street vending in Accra, Ghana, the regulatory environment has been noted as an impediment to the provision of meaningful support by the State to the informal sector (Arthur, 1995). The Accra Metropolitan Assembly (Hawkers Permit) By-Laws 1995 regulates the legal status of Ghanaian street vendors.

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 (ILO, 1998).

2.7 Informal Sector Perception by Different Actors in the Economy

The informal sector is perceived differently by different actors in the economy, from the governments and its agencies, economists and academicians, to those involved in the sector. Srinivas (2009) is of the view that, for local governments who are responsible for the development and management of cities in developing countries, the informal sector represents a dilemma. It presents both advantages and disadvantages that need to be taken into account when designing policies targeted at the sector.

According Rukmana (2007), the businesses that comprise the informal sector, typically operating on streets and in other public places, are often seen as eye-sores and undesirable activities. Thus, conflicts arise between urban authorities trying to keep their cities clean

and the urban informal sector operators who need space for their activities. In many cases, authorities forcibly evict informal sector activities in the name of urban order and cleanliness. Yet, such eviction does not address the problem with the informal sector. It only relocates the problem and even exaggerates the conflicts between urban authorities and the informal sector operators. Often many operators return to their places a few days after being evicted by the urban authorities.

A liberal thought, held by authors such as Henrique de Soto, suggests that the informal economy is an excellent example of a well-functioning market-economy, based on the rules of supply and demand. Also, due to its flexible and highly adaptive nature the informal sector is better able to respond to external shocks:

"... micro enterprises and the informal sector can be among the most dynamic and healthy sectors in developing countries. They fill an essential role in providing jobs for large numbers of urban workers and adapting both to general patterns of economic growth and to negative shocks. Not only do the informal sector entrepreneurs survive in the face of government subsidized large scale industrialization, their flexibility and adaptability have allowed them to provide essential goods and services. They provide these goods and services because of their competitiveness, proximity to markets, and their low unit costs" (Nsana *et al.*, 1994: 2),

The Marxist thought argues that the informal economy is a pool of exploitative elements. Exploitation occurs particularly between the different economically stratified layers of society, as well as gender. The informal economy is particularly being exploited, as some of the theorists argue that the formal sector enjoys this rich source of cheap and

unorganized labor. In fact because of this, these authors argue, the formal sector is deliberately unwilling to develop the informal sector and to aid their organization and fight for labor rights: "The informal sector is now an arena of competition, exploitation, and struggle between the desperate 'chronic poor' and the others "(Lugalla, 1997: 442).

At independence and shortly thereafter in Tanganyika and later Tanzania, Secondary education was considered to be the key to future salaried employment in the formal sector, but with the ever increasing numbers of young people who were unable to progress to secondary education, the stark reality was that they were forced to choose between agriculture, or employment/self-employment in the informal sector.

Tanzania and the world at large over the last 30 years has witnessed growing international interest in what is called the 'informal sector' as a mechanism of employment and income generation in developing countries. The economic value of the informal sector was not recognized or acknowledged by then by the government of Tanzania perhaps for ideological reasons, the economic decline forced the government to reappreciate its perceptions and policies towards local, indigenous technologies and enterprises. According to Kent and Mushi (1995), enterprises that were once despised and discriminated against are now actively supported and promoted, for they are increasingly being considered to be the principal mechanism for economic survival for ever greater numbers of people.

In recent years, the Government of Kenya has embarked on a new economic development strategy which emphasizes job creation in the IS through self-employment and apprenticeship training (e.g. the "Jua Kali" (Republic of Kenya, 1986). Informal

apprenticeship training takes place at ordinary workplaces in the IS and makes production tasks part of the instruction as a means for acquiring technical skills (Bas, 1988).

2.8 Informal Sector, Retrenchment and Rightsizing in Public Institutions

The Civil Service Reforms (CSR) implemented in Tanzania from 1991-2000 has in a way contributed to the growth of the IS. Civil service reforms aimed at “smaller, affordable, well compensated, efficient and effective performing civil service” (Caulfield, 2004: 233). “Public Service Reform/Civil Service Reform then sought to make Government lean and affordable through cost reduction and containment measures, rationalizing the state machinery, divesting non-core government operations, retrenching redundant staff, removing ghost workers from the payroll, freezing employment and adopting measures to control the wage bill and other personnel-based expenditure ”(Mutahaba and Kiragu, 2002: 52).

CSR started in the 1980s in advanced capitalist democracies as a response to the realization of poor performance of civil service as evidenced by expanded government size, over expenditure in wage bills, unaccountability of civil servants etc. The poor performance problems called for reform strategies. However, the strategies for dealing with this problem varied between nations considerably in scope, orientation, and accomplishments (Lane, 1997). Following its global spread, CSRs were increasingly being adopted in several African countries and in most cases were closely linked to structural adjustment efforts.

Civil service reform in Tanzania was the result of “serious problems of overstaffing, low pay and under resourcing of basic services and crowding out of operational spending which resulted in the decline of real wage levels and the quality of government, collapse in

services and a growth in maladministration and corruption" (Clarke and Wood, 2001: 71). The implemented civil service reform program had various aspects contained in it namely the creation of autonomous executive agencies in some ministries, improving local governments, retrenchment (rightsizing), pay reform, capacity building, recruitment process, and wage cost cut. In the implementation of the program according to Caulfield (2004), there was a reduction of 27% of civil servants in 1992-2000 (i.e. from 355 000 personnel to 260 000) and improvement of salaries to the upper echelons (Clarke and Wood, 2001). The main concern was to reduce government expenditures. In implementing such reforms, governments attempted to reduce the costs of civil service by trying to reduce the size of the government.

Initially, cost reductions in civil service were generally translated into retrenchment measures for governments to reduce its size with the hope that the resulting savings could be used to increase the salaries of those expected to remain in service and as well to attract and retain sufficient numbers of able people to providing better capacity for discharging core functions such as policy analysis (Cokery and Land, 1997).

Retrenchment focused on poor performers, volunteers from central and local government, ghost workers and retrenchment of surplus employees identified by local government manning level (NORAD, 1995).

The result of the whole retrenchment process was the reduction of the civil service work force from 355 000 in 1993 to 270 000 in 1997. The employment in the civil service was successfully reduced by approximately 50 000 employees or 18.5% of the total and by the end of the reform program in 1999, a total of 80 000 government employees were removed

from the government payroll, comprising 60 000 bona fide redundancies and about 20 000 ghost workers who were deleted from the payroll (Ntukamanzina, 1998). Informal sector expansion is linked to retrenchment where as those who lost jobs in the formal sector are finding ways of surviving in the IS (Kent and Mushi 1995; Xaba *et al.*, 2002).

2.9 How Widespread is the Informal Sector?

Although the literature on outsourcing in higher education is limited, the process has been studied and implemented a great deal in other sectors, including industries. The lessons learned from these other sectors can inform decision making in higher education. The existence of the IS is not only limited to Tanzania and Morogoro in particular, In many developing countries, the formal sector can provide employment only to a small segment of the population. For this reason, informal sector has received a great deal of attention as a viable alternative source of employment.

In view of the pivotal role of the informal sector in enhancing economic development and creating employment in Kenya, an assessment of traditional apprenticeship training was made to understand the dynamics of entrepreneurial and self-employment skill acquisition in the informal sector (Republic of Kenya, 1989; House *et al.*, 1990).

2.10 Importance of the Informal Sector

The informal sector plays an important and controversial role. It provides jobs and reduces unemployment and underemployment, but in many cases the jobs are low-paid and the job security is poor. It bolsters entrepreneurial activity, but at the detriment of state regulations compliance, particularly regarding tax and labor regulations. It helps alleviate poverty, but in many cases the informal sector jobs are low-paid and the job security is low. The size of

the informal labor market varies from the estimated 4-6% in the high-income countries to over 50% in the low-income countries. Its size and role in the economy increases during economic downturns and periods of economic adjustment and transition (World Bank, 2009).

The IS is a rapidly expanding sector which in 1991 was believed to account for 22% of total employment throughout Tanzania (O'Riordan, 1996). The flexibility the IS offers in location, hours of work and mobility makes it attractive for those needing to supplement low incomes. Women account for 36% of operators and 34% of employees within the IS. However, women's position within this sector is poor. They are concentrated in just a few areas of activity, namely restaurant/hotel sectors and more than 90% of female operators are sole owners/operators. They have less time to spend on their activities and draw considerably less profit from their enterprises than do other operators.

Problems women face in entering and sustaining IS enterprises are socio-cultural and economic in nature. In general they relate to women's low social status, and include restricted legal rights, access to education/training and to planning of services. The Tanzania Informal Sector Survey (TISS) found that women are over-represented in groups with no education and among those whose skills are self-taught. Obstacles notwithstanding, women have shown their willingness and determination, time and time again, to resist the constraints encountered (Bahoum, 1989; Leonard, 1989).

Activities within the IS vary considerably but, in general service-type enterprises predominate, while manufacturing accounts for between 17% and 47% of enterprises in Sub-Saharan Africa (O'Riordan, 1996; Bagachwa and Stewart, 1992). About 80% of the

capital sources of the IS are “own savings”. Both men and women are concentrated in the same two sectors within the IS: manufacturing/handicraft and trade/restaurant (some 72% of all sole operators). But, whereas men are spread across all IS activities women have little or no representation in sectors such as transport and construction. Those working within IS enterprises comprise employees, apprentices, family laborers and marginal owner-operators. As their status within the Informal Sector differs so we can expect their circumstances, the constraints faced and the economic potential of enterprises to vary.

The increase in IS enterprises is associated with coping strategies of households hard hit by the repercussions of structural adjustment policies. In this respect, income from IS enterprises is viewed as a particularly significant contribution to sustaining poorer households. It is an important source of income among women, the urban poor, marginal farmers and the landless. Indeed, with unemployment and underemployment becoming endemic in the formal sector, the IS often becomes the last refuge of the economically and socially deprived and alienated. Some argue that as a result of structural adjustment policies adopted in recent years the IS is becoming the critical means of economic survival, particularly for marginalized groups.

In Latin America, the urban informal sector was the primary job generator in the 1990s. An average of six out of every ten new jobs were created by micro-enterprises, own-account workers and domestic services. Informal sector employment grew by 3.9% per annum while formal sector employment grew by only 2.1 % in that region (ILO, 2002).

2.11 Summary of Key Lessons from the Literature Review

From the literature review the following can be concluded:

- 1. The concept of the informal sector was introduced into international usage in 1972 by the International Labor Organization (ILO) in its Kenya Mission Report.**
- 2. The informal sector is an economic activity that is neither taxed nor monitored by a government; and it is not included in that government's Gross National Product (GNP); as opposed to a formal economy.**
- 3. The Informal Sector is much more often associated with developing countries where it is estimated to account for a greater share of its labour force and significantly contributing to GDP, but there is a general consensus that in all economic systems (whether developed or developing) proportions of informal sector can be traced.**
- 4. Informal economic activity is a dynamic process which includes many aspects of economic and social theory including exchange, regulation, and enforcement. By its nature, it is necessarily difficult to observe, study, define, and measure the informal economy.**
- 5. The informal economy under any governing system is diverse and includes small-scale, occasional members (often street vendors and garbage recyclers) as well as larger, regular enterprises. By their nature, informal economic activities escape regulation.**

6. Statistics on the informal economy are unreliable by virtue of their nature
7. IS as an alternative source of employment in Tanzania and the rest of the developing countries.
8. The main policy challenge in most of the developing countries is how to support and regulate the urban informal sector in order to promote employment, productivity, and income for the poor, and at the same time ensure a safe, healthy and socially acceptable environment
9. The regulatory frameworks in many African countries with respect to the Informal Sector reflect a colonial legacy of exclusion. Many regulations appear more concerned with controlling and obstructing than with facilitating and channeling efforts of informal sector traders.
10. Informal Sector is perceived differently by different actors in the economy, such perception range from that possessed by the governments and its agencies, economists and academicians, to those involved in the sector.

CHAPTER THREE

METHODOLOGY

3.1 Overview

This chapter describes the methodology used to conduct this study. This chapter is divided into five sections. Section 3.2 presents research design, the sources of data used in this study are explained under section 3.3, whereas section 3.4 presents the survey instrument and reports on the process of data collection. The study area location is described in section 3.5 of this chapter, section 3.6 describes the profile of the study area, section 3.7 presents sampling procedures, and section 3.8 describes the method of data analysis employed in the study.

3.2 Research Design

The study employed a case study design. Through case study the researcher assessed the informal sector and the local authorities' policy responses in selected wards in Morogoro Municipality

3.3 Data Sources

The data used in this study were from both primary and secondary sources. The survey covered collection of both qualitative and quantitative information.

3.3.1 Primary data

Primary data were sought from various individual household heads in the selected wards in Morogoro Municipality, namely Kingo, Kiwanja Ndege, Saba Saba and Mji Mkuu. The information collected from these heads of households were on various aspects related to IS

in relation to policy issues and the general state of the affairs in the respective wards in Morogoro Municipality. The process of primary data collection involved the use of a checklist, questionnaire and personal interviews.

3.3.1.1 Checklist designing

The checklist presented in Appendix 5 was designed to capture both qualitative and quantitative information from the Ward Executive Officers (WEOs).

3.3.1.2 Personal interviews

The checklist was complemented with personal interviews; the researcher had personal interviews with the Ward Executive Officers and the Municipal Economist. The checklist used is attached as Appendix 5.

3.3.1.3 Development and Pre-testing of the research instruments

A questionnaire was developed and pre-tested. Pre-testing of the questionnaire was carried out in September 2007 before the main investigation. Pre-testing of the research instrument covered some few individuals at Mbuyuni area. The major 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.

3.3.2 Secondary data

Secondary data used in this study were from various reports and publications. Most of these publications and reports were obtained at various Ward Executive Offices (WEOs) and the Morogoro Municipal Council Offices. The use of various scholarly or research reports to review some of the basic facts has been adapted from the studies by Coate (1993) and Lipsey and Wilson (2000).

3.4 Instrumentation and the Data Collection Process

The major instruments used in the collection of primary and secondary information were questionnaires and checklists. The checklist and the questionnaire were designed for the purpose of collecting data intended to address the four objectives of the study. The checklist and the questionnaire used were prepared in such a way that they both enabled to collect various information that were required to address the research questions that were intended for this study (section 1.5). The checklist that was administered to the Ward Executive Officers in the selected wards mainly comprised of some general enquiry on some aspects related to the informal sector, particularly on the policy issues and on some cross cutting issues.

The actual data collection commenced in October 2008 ending in November 2008. The data collection task was accomplished by the researcher, given the nature of the sensitivity of the information to be collected the task had to be handled by the researcher himself. The researcher had to acquaint himself with the questionnaire prepared for data collection and

the checklist items. In some cases it was very difficult to get respondents due to the fact that some had an ill feeling towards the research. Lack of appropriate information and poor record keeping in the Ward Executive Offices in Morogoro Municipality is worth noting.

3.5 Location of the Study Area

This study was conducted in selected wards in Morogoro Municipality. Kingo, Mji Mkuu, Saba Saba and Kiwanja cha Ndege wards were randomly selected for this study. Resources consideration to the researcher (time and financial aspects) contributed to selection of Morogoro Municipality as a case study. Fig.1 presents the geographical location of the study area.

3.6 Profile of the Study Area

Table 2 below presents the profile of the study area, that is information pertaining to population, number of households, houses and streets in Kingo, Mji Mkuu, Saba Saba and Kiwanja cha Ndege wards in Morogoro Municipality.

Table 2: Morogoro Municipality Profile

Ward	Population		Households	No. of houses	Streets
	Male	Female			
Kingo	2 113	2 119	846	381	17
Mji Mkuu	2 009	2 118	745	309	15
Kiwanja cha Ndege	6 496	6 372	2 938	913	13
Saba Saba	1 490	1 529	554	306	12

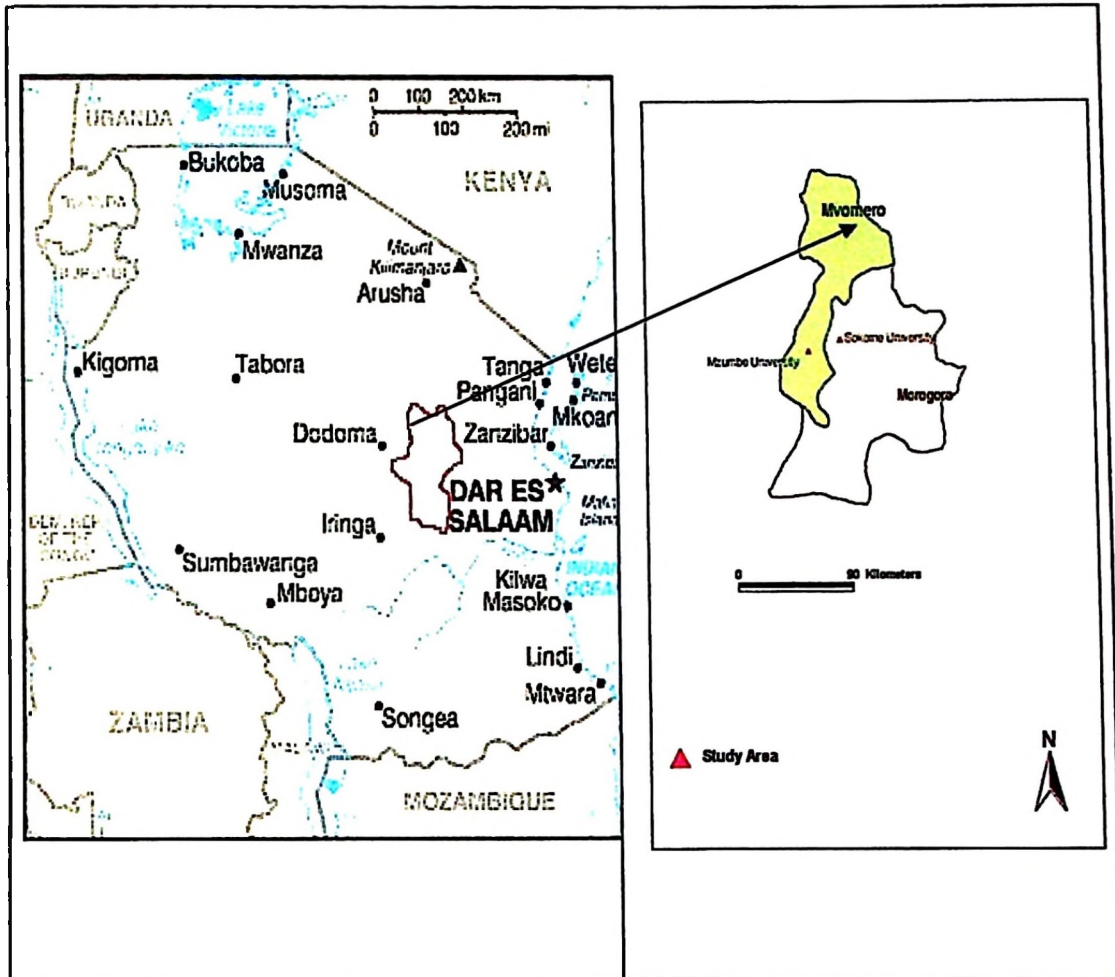


Figure 1: A map showing geographical location of the study area.

3.7 Sampling Procedures

The study population consisted of all households that are involved in the informal sector found in the selected wards. Information of the status of the informal activities, households that are involving themselves in IS was 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.

3.8 Data Analysis

Data analysis was done using SPSS which involved calculation of descriptive statistics and cross tabs. Descriptive statistics such as mean, frequencies, ratios and percentages were used to present some aspects assessed with respect to IS in selected wards in Morogoro Municipality.

The study used qualitative data to assess the informal sector and the local authorities' policy responses in selected wards in Morogoro Municipality. Content analysis was employed to analyze qualitative data where by the information provided by the respondents was summarized and organized as provided by the respondents on relevant aspect of Informal Sector in the selected wards. Qualitative data was used to calculate percentages and frequencies in various aspects of the Informal Sector along the study objectives. Statistical Package for Social Science (SPSS) software was used in data analysis.

CHAPTER FOUR

RESULTS AND DISCUSSION

4.1 Overview

This chapter presents empirical findings of the study and observations made during the field surveys and discussion. The chapter is made up of six sections. Section 4.2 highlights relevant socio-demographic characteristics of the respondents; section 4.3 points out to some of characteristics of the informal activities, sections 4.4, 4.5, 4.6, 4.7., 4.8, 4.9 and 4.10) present empirical findings of the study and discussion basing on the four objectives of the study, responses to the research questions of this study are also given under these sections.

4.2 Socio-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 3. These aspects provide the background for other findings.

Table 3: Socio-demographic characteristics of the respondents (N=80)

Variable	Frequency	Percent
Sex		
Female	25	68.8
Male	55	31.2
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
Primary education plus other training	11	13.8
Secondary education	8	10.0
Total	80	100.0

4.2.1 Sex and age of the respondents

The sample of the respondents surveyed comprised of 68.8% men and 31.2% women as presented in Table 3. The findings are conforming in a way with URT (1995) which reported an increase of women operators in the Informal Sector, but still declaring the dominance of men in the sector.

Table 4: 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
Total	23.75	20.0	27.5	17.5	11.25

The findings from the study 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.

4.2.2 Marital status

The results in Table 3 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 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 are indicating that to most of the urban poor the Informal Sector has for a long time been a way to rescue them (ILO, 1972; The World Bank, 2009).

4.2.3 Education level of respondents

Education has been regarded as the most important 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. An inquiry was made to the respondents on their levels of education. The results in Table 2 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. 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).

4.3 Characteristics of the Informal Activities and the LGAs

This section discusses the findings with respect to specific objective 1.5.2, (i) of the study. Similarly the section is aiming at giving answers to research questions 1.6. (i) and 1.6, (iv) of the study. The discussion presented under this section is on the characteristics and organization of the activities under the IS in the selected wards, perceptions of those engaged in the informal sector towards the sector and the LGAs in general and the relationship between LGAs and IS, availability of the IS information or records in the WEO's Offices.

4.3.1 Types of businesses found in the selected wards

Table 5 presents the findings with respect to the types of business 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 %), Laundryman (dobi) (9.2%), shoe shining (9.2%), shoe making (6.9%), selling of used clothing (mitumba) (4.6 %) and seat cover making accounting for 4.6 %.

Table 5: Types of businesses found in the selected wards

Type of activity	Frequency	Percent
Carpentry	12	13.8
Laundryman (dobi)	8	9.2
Food vending	23	26.4
Selling of used clothing (mitumba)	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

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 Mji Mkuu are forming the urban part of the Morogoro Municipality. It has been a common phenomenon to find the businesses 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.

4.3.2 Business location

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 the majority of the respondents (68.8%) 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 the argument made by Munbodh (2003) and McLaughlin (1990).

4.3.3 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.

4.3.4 Source of labour

Human resources is one of the most critical resource in any activity, as offices, machines and any other non human resources would not become productive except for the human efforts (labour). The findings from the study revealed that 57.5% of labor source was from the family labour; whereas 23.7% accounted for own labour source 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 contributing significantly for the labour used in the IS.

Table 6: Source of labour used in the IS (N=80)

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

4.3.5 Source of capital for the business

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 obtained capital from own sources, whereas 33.8 % obtained it 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 Informal Sector mainly obtain capital from their own sources to start their businesses.

Table 7: 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

4.3.6 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) is also pointing out to the fact that Informal Sector is unofficial business which is evading tax, avoiding labor regulations and other government or institutional regulations, with no registration of the business.

4.3.7 Business ownership

Business ownership was another aspect considered important by this study. The informal Sector is considered as a subset of household enterprises or unincorporated enterprises owned by households. Table 8 presents the findings with respect to business ownership.

Table 8: 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 8 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 Informal sector enterprises itself is dominated by sole proprietorship and the business management is embodied in one person.

4.4 Contribution of IS to the Household Income

This study took initiative to establish what income is being obtained from the Informal Sector activities and its contribution to the household income. Due to rise in the cost of living, failure of salaries in some cases to meet the actual living costs and lack of employment, the IS has been regarded as the most important source of income generation to most of the households in the urban areas.

4.4.1 Annual income from IS

Table 9 presents the findings from the study conducted in Kingo, Saba Saba, Mji Mkuu and Kiwanja cha Ndege wards in Morogoro Municipality.

Table 9: Household Annual income obtained from IS

Income level	Frequency	Percent
Less than T. Shs 100,000 pa	8	10.0
T. Shs 100,001-200,000 pa	6	7.5
T. Shs 200,001-300,000 pa	9	11.25
T.S hs 500,000 -750,000 pa	6	7.5
T. Shs 751,000 -1,200,000 p.a	7	8.75
T. Shs 1,200,001-1,500,000 pa	3	3.75
More than 1,500,001 pa	17	21.25
No records	31	38.75
Total	80	100.0

4.4.2 Level of Income obtained from the IS

In the course of analyzing the characteristics of the informal sector activities in selected wards in Morogoro Municipality, the study investigated into the economic value of the informal sector. Table 10 presents the findings from the study. The results indicated that 61.3 % of the respondents just earned income sufficing for subsistence only, followed by 7.5 % who acknowledged having income enough to enable them to execute some development projects and only 31.3 % had little savings from the informal activities/business. World Bank (2009) viewed the informal sector being formed by the coping behavior of individuals and families in economic environment where earning opportunities are scarce. This seems an option mainly for survival whereas majority are only receiving income for subsistence only.

Table 10: Level of Income from IS Activities

Adequacy of income	Frequency	Percent
Subsistence only	49	61.3
Income enough for development purposes	6	7.5
Enough income to save	25	31.3
Total	80	100.0

4.5 Availability of Information with Respect to the IS Activities in the Study Area

A checklist was used to elicit information from the key informants of this study (key informants list and the checklist are attached as Appendix III and IV respectively) on the activities of IS in their respective wards. The key informants were asked on aspects of presence of government regulatory mechanisms for the IS activities through the local government authorities in their wards, number of households involved in IS, and availability of any other records in the WEOs with respect to IS activities. The study revealed that 89% of the WEOs offices lacked information on the number of households or individuals who are involving themselves in IS; only 10% had very basic information which mainly emanated from the loan processes initiatives by some banks.

The situation is inline with how Munbodh (2003) had observed and hence defined the informal sector as an economic activity that is neither taxed nor monitored by the government; and is not included in the calculation of that government's Gross National Product (GNP); as opposed to a formal economy.

4.6 Policy Awareness of Those Involved in the IS

This section discusses the findings with respect to specific objective 1.5.2, (ii) of the study and the research question 1.6, (ii) of the study. The discussion presented under this section is on the assessment of the LGA policies in place to create and support the IS in the municipality and awareness of those involved in the sector. The study regarded awareness on policy issues as a very important aspect towards the well being of the informal sector. The study investigated on the issues of policy awareness among those involved in the informal sector by specifically finding out if any among those involved were aware of any policy existing governing the informal sector in the selected wards.

The study found out from the key informants and through questionnaire interviews that even the concept of policy itself was not clear to some WEOs and respondents in the surveyed wards. The study revealed a very low level of policy knowledge among those involved in the sector (only 1.3 %), while the majority (98.7%) lacking knowledge on policy issues related to the sector. Nwaka (2005) reported how the informal sector has evolved in Nigeria over the last 50 years; the extent to which government policies and programs have facilitated or constrained the sector. The findings of this study show lack of policy direction on the IS in the Morogoro Municipality.

4.7 People's Perceptions on Informal Sector

This section discusses the findings with respect to specific objective 1.5.2, (iii) of the study; similarly the section is aiming at giving answers to research question 1.6, (iii) of the study. The discussion presented under this section is on the people's perceptions on the informal sector in the selected wards in Morogoro Municipality.

4.7.1 Preference on informality of business activities

This study attempted to assess whether those in the IS would, if given any chance, prefer to formalize their activities. The intention was to find out whether informality was an outcome of the lack of access to opportunities towards formalization due to certain constraints such as bureaucratic arrangements in most of the developing countries. The study revealed that 53.8% seemed to prefer to operate on informal basis and only 46.2 % would go for formalization of their activities if given an opportunity due to avoidance of tax and maximization of profit. This finding in a way is inline with World Bank's (2009) argument that tax evasion has been an entrepreneur tendency to prefer informality.

4.7.2 Preference and choice of the IS

Another aspect considered to be important in this study was the aspect of preference in terms of economic activities one would choose if such choice existed. The intention was to find out if the Informal Sector just emanated from the economic environment where earning opportunities are scarce. Findings are presented in Table 11. Majority had preference on self employing in the IS (63.8%), followed by 30% who preferred being employed in the formal sector and 6.2% whose decision was to be determined by the earnings to be obtained.

Table 11: Distribution of respondents according to preference on IS

Preference	Frequency	Percent
Self employing in the IS	51	63.8
Employed in the formal sector	24	30.0
Earning is the determinant	5	6.2
Total	80	100.0

4.8 Assessment of the LGA's Policies and Support towards the IS in the Study Area

The main policy challenge is how to support and regulate the urban informal sector in order to promote employment, productivity, and income for the poor, and at the same time ensure a safe, healthy and socially acceptable environment. Informal sector enterprises, especially those located in residential areas, in some cases have been regarded to pose real health hazards for the urban community, particularly for the urban poor who can least afford the high cost of health care. The policy dilemma appears to be how to contain the adverse environmental impacts of many of the activities of the urban informal sector without disrupting livelihoods, and causing social distress; how to promote environmental awareness and guarantee the right to the city, while at the same time protecting the vulnerable groups in the informal sector, especially women and children from harm and exploitation.

4.8.1 Local Government Authority's support to the IS

It is estimated that the proportion of the urban work force engaged in the informal sector is highest in sub-Saharan Africa, and accounts for more than 50% of urban employment in two-thirds of the countries surveyed in 1999 (Nwaka, 2005). This study considered it important to investigate the aspect of LGAs' support to the IS given the importance of the sector to most of the urban dwellers. Table 12 presents the findings from the selected wards in Morogoro Municipality. The results revealed that 48.1 % of the respondents were of the view that the Informal Sector is not receiving support at all from the government, 29.1% seemed not to know anything with respect to what the IS is receiving from the LGA, 22.8 % acknowledged the support but regarded it as not being enough.

Table 12: Perceptions on IS support from the government (N=80)

Perception on LGAs support to the IS	Frequency	Percent
Yes but not enough	18	22.8
Not at all	38	48.1
No knowledge on government support to IS	23	29.1
Total	80	100.0

4.8.2 Stakeholders' perception towards the LGAs responses to the IS

Informal Sector is perceived differently by different actors in the economy, such perception range from that possessed by the governments and its agencies, economists and academicians, to those involved in the sector (those operating the businesses) Stakeholders in the IS for the purpose of this study included government officials and its agents (i.e. those taxing the businesses, Ward Executive Officers etc), economists and academicians and those operating the businesses. The study confined itself to analyzing the perceptions of those operating the businesses. Table 13 presents the findings.

Table 13: Stakeholders' perception towards the LGAs responses to the IS (N=80)

Perception	Frequency	Percent
Very useful	2	2.6
Less useful	32	67.4
No knowledge on LGA responses	46	30.0
Total	80	100.0

The stakeholders interviewed 67.4% (those operating businesses for this purpose) regarded LGA s responses to the IS as less useful , followed by 30% who seemed to know nothing about existence of such responses and only 2.6% who claimed to have had very useful responses from the LGAs with respect to their businesses. Those who claimed that the

responses were less useful claimed that such responses were only concerned with aspects of harassment to the IS operators i.e. allocation of business premises which are not conducive for their businesses and chasing them around. The findings are inline with the study by Nwaka (2005) which pointed out to the low level of support and regulation of the urban informal sector by the LGAs hence resulting into such negative perceptions from those involved in the sector. The study revealed that the local authority had no specific policy responses with respect to the IS, what only existed addressing issues related to the Informal Sector is only reflected in the Morogoro Municipality By-Laws. Morogoro Municipality By-Laws are directing the IS operators on where to conduct their businesses and some other aspects related to cleanliness.

4.8.3 Stakeholders perception towards the LGAs policies towards the IS

Opinions differ widely on what should be the appropriate attitudes and policies towards the informal sector. This study took initiative to assess the attitudes of the stakeholders on their perception on the LGAs policies and support towards the IS in the study area. Table 14 presents the findings of the same from the study.

Table 14: Stakeholders perception towards the LGAs policies towards IS (N=80)

Stakeholders perception	Frequency	Percent
Discouraging	17	21.3
Encouraging	2	2.6
Not clear	22	27.5
No knowledge on LGAs policies towards the IS	39	48.8
Total	80	100.0

4.9 Problems Facing the IS

The study found a number of challenges facing those operating their businesses under the informal arrangements. Problems/ challenges ranged from lack of capital which accounted for 53%, followed by harassment by the LGAs organs accounting for 33%, lack of business skills 6%, and limited access to loan facilities 8%. Such challenges are reported by other studies as an hindrance towards the growth of the sector in other parts of the developing world (Nwaka, 2005; ILO, 1972).

4.10 Summary of the Major Findings

This sub section highlights the results of the study. The results presented under this section are organized according to the objectives of the study. The results are summarized as follows:

4.10.1 Characteristics of the informal activities and the LGAs- IS relationship

Operators of the Informal sector activities/businesses surveyed majority had low level of education majority having primary education and the highest qualification being secondary education, lack of business skills among those involved in Informal Sector is another feature. The Informal Sector activities/businesses surveyed also are characterized by usage of family labor. The study reveals that the majority of the business/activities in the selected wards were operating at times and locations convenient to customers. The study further reveals that majority of the IS activities obtained capital from owners' own sources. It was found that majority of the businesses or activities operating in the IS in the selected wards were not licensed.

4.10.2 Policy awareness of those involved in the IS

Lack of policy awareness prevailed to both the WEOs and those involved in the informal sector in the selected wards. The study revealed a very low level of policy knowledge among those involved in the sector, also the majority of the government agents (i.e. the WEOs) are lacking knowledge on policy issues related to the sector too.

4.10.3 People's perceptions on informal sector

The study revealed that majority seemed to prefer to operate on informal basis and only few would go for formalization of their activities if given an opportunity. This is due to bureaucratic and lengthy procedures towards formalization of business, little knowledge on the side of some of the operators with respect to legal requirements for opening up a business and also a tendency of some of the entrepreneurs towards escaping taxes.

4.10.4 Assessment of the LGA's policies and support towards the IS in the study area

The results revealed that majority of the respondents were of the view that the Informal Sector is not receiving support at all from the government, others seemed not to know anything with respect to what the Informal Sector is receiving from the LGA, others acknowledged the support but regarded it as not being enough.

CHAPTER FIVE

CONCLUSIONS AND RECOMMENDATIONS

5.1 Overview

This study assessed the informal sector and the local authorities' policy responses in selected wards in Morogoro Municipality, Kingo, Mji Mkuu , Saba Saba and Kiwanja Ndege wards located in Morogoro Municipality which represented the rest of the wards in Morogoro. This study was aiming at coming up with findings with respect to its four objectives which were (a) To characterize /define the informal activities and the local authorities and the informal sector relationship, (b) To assess policy awareness of those involved in the IS, (c) To assess people's perception on informal sector, and (d) To assess the local authorities policies and support towards the informal sector in the study area.

The study further answered the following research questions (a) How those engaged in the IS are organizing their activities, and what kind of relationship exists between IS operators and the local authorities? (b) Are there policies in place to create and support the IS in the municipal? Do those involved in the sector are aware of that? (c) What perceptions do those engaged in the informal sector have towards the sector and the LGAs in general? If one was to choose between formal and informal sector, (d) What kind of support the LGAs are giving to the IS? and (e) Are there any records/ information with respect to informal sector activities in local authorities offices i.e. on the number of people engaged in IS from the respective WEO?

5.2 Conclusion

It has been observed that despite the likely contribution made by the informal sector towards the well being of the most of the urban dwellers in Tanzania towards promoting employment, productivity, and income for the poor, the main policy challenge is on how best to support and regulate the urban informal sector which is existing and at the same time ensure a safe, healthy and socially acceptable environment exists. The study concludes that:

Informal sector activities/businesses surveyed are characterized by low level of education among its operators, majority having primary education and the highest qualification being secondary education, lack of business skills among those involved in Informal Sector is another feature. Usage of family labor dominated the Informal Sector activities/businesses surveyed. The study reveals that the majority of the business/activities in the selected wards were operating at times and locations convenient to customers. The study further reveals that majority of the IS activities obtained capital from owners' own sources. It was found that majority of the businesses or activities operating in the IS in the selected wards were not licensed.

The surveyed wards revealed lack of policy awareness prevalence to both the WEOs and those involved in the informal sector in the selected wards.

Preference to operate on informal basis was the best choice among those IS operators found in the selected wards due to the need to maximize profit and do away with bureaucratic procedures to register businesses.

Generally the IS operators in the selected wards were of the view that the Informal Sector is not receiving support at all from the government, others seemed not to know anything with respect to what the Informal Sector is receiving from the LGA, others acknowledged the support but regarded it as not being enough.

5.3 Recommendations

The recommendations presented under this section are inline with the major findings from the study.

5.3.1 Addressing training needs for the IS

Improvement of the business environment for the informal enterprises through special legislation or by introducing special development zones for the IS should go hand in hand with interventions that address training needs for those involved in the sector. Such initiatives are more likely to have an impact on productivity and growth of the IS businesses.

Training interventions in the IS are more likely to be successful if they are supported at both the macro- and micro-levels. At the macro-level, training interventions for the IS should be part of the national training policy which is regularly reviewed and reformulated according to labor market demands and training needs of the country. Macro-level interventions should help create an enabling environment in terms of policies and infrastructure. Intervention efforts at the micro-level require the full cooperation and participation of IS craftsmen through their representatives.

5.3.2 LGAs' efforts on policy responses

Much efforts should be directed towards formulation of policies that will direct the growth of the IS being an alternative to the formal employment and source of income to the majority living in the urban area. Policy issues should be made transparent to the stakeholders. The LGAs response to the sector current seems much more pragmatic and promotional.

5.3.3 Government support to the IS

There should be purposeful attempts by the Government to include the IS in their development programs, making it an integral part of national development policies. Access to loan and less bureaucratic procedures towards formalization should be part of such purposeful attempts.

5.3.4 LGA intervention to the IS

This study recommends that IS needs the support from the government just like any other sector. What is needed is not less government, less control, or mindless deregulation of economic and planning activities, but rather a more enlightened, more participatory, and more equitable form of state intervention that eliminates needless restrictions, and provides a more appropriate and flexible regulatory framework that is compatible with local conditions and yet reasonably efficient and environmentally sustainable. A fair tax system will also encourage many informal sector operators to feel obliged to pay such taxes.

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APPENDICES**Appendix 1: Checklist for the WEOs****Checklist for the Ward Executive Officer**

- What are the policies in place for the Informal Sector?
- How many People in this ward are engaged in Informal Sector activities?
- How is the government regulating the Informal Sector in this ward through the local authorities' arrangement?
- How many HHs in your ward
- How many of these are involved in informal Sector?
- As Ward Executive Officer what directives, about Informal Sector do you administer i.e directing Informal Sector people or advice on advice them on loan issues, follow up taxes.
- What are Local Government policies in place fro Informal Sector in your ward?
- Local Government assists Informal Sector? Are there strategies for this?
- Any record on Informal Sector at Ward Executive Offices?

Appendix 2: List of key informants

No.	Institution /person	Position (s) held	Remarks
	Morogoro Municipal Council Offices	Municipal Council Economist	
	Ward Executive Offices	Ward Executive Officers	Provided information on various aspects related to informal sector in their respective wards

Appendix 3: Questionnaire**SOKOINE UNIVERSITY OF AGRICULTURE
DEVELOPMENT STUDIES INSTITUTE**

Questionnaire for the household' respondents for the assessment on the current status of the informal sector and the local authorities' policy responses in Morogoro Municipality.

Principal investigator: Mr. Mtapu J.K

Respondent ID
Date of the interview.....

Ward

A: General information

1. Sex of household head: (tick where appropriate)
 1. Male ()
 2. Female ()

2. Education level of the household head:
 1. No formal education ()
 2. Adult education ()
 3. Primary education ()
 4. Secondary education ()
 5. Secondary education plus other training ()
 6. Diploma ()
 7. University education ()

3. Marital status of the respondent
 1. Single ()
 2. Married ()

3. Divorced /Separated ()
4. Widowed ()
4. Household size:
1. 2 to 5 people ()
2. 6 to 9 people ()
3. 10 or more people ()
5. Annual income of the HH:
1. Less than Tshs 100,000.00 p.a ()
2. Tshs 100,001.00 – 200,000.00 p.a ()
3. Tshs 200,001 – 300,000.00 p.a ()
4. No records ()
6. Who is the major income earner in the HH:
1. Wife ()
2. Husband ()
3. Other (specify) ()
7. What is the main occupation of the HH head:
1. employed in the formal sector ()
2. Informal sector ()
- (Asses whether the occupation being mentioned falls under formal or informal)*
8. Do you have children attending school?
1. None ()
2. 2 ()
3. 4 ()
4. 6 ()

9. At what Level:

- 1. Primary school only ()
- 2. Primary and Secondary ()
- 3. Primary and University ()
- 4. Secondary and University ()
- 5. University only ()

10. Do you have any Business Skills?

- 1. Yes ()
- 2. No ()

11. Which of these assets do you own?

- 1. A farm ()
- 2. A house ()
- 3. A vehicle ()
- 4. TV ()
- 5. Refrigerator ()
- 6. Bicycles ()

12. Have you ever approached a Bank or MFIs for loan application

- 1. Yes ()
- 2. No ()

If yes did you get the loan?

- 1. Yes ()
- 2. No ()

If No what made you not get the loan:

- 1. I had no collateral ()

2. Interest was very high I decided not to continue with the processes ()
 3. Procedures were very lengthy ()

13. Have you ever received a loan for your business

1. Yes ()
 2. No ()

If YES from where

1. MFI ()
 2. SACCOS ()
 3. Bank ()

If NO Why not?

1. I had sufficient fund to start my business ()
 2. I don't know where to get the loan ()
 3. Conditions for the loan are difficult ()

B: Characteristics of the economic activities

Source of Labour used:

1. Employees ()
 2. Family labour ()

2. Do you use any machinery in your activities

1. Not at all ()
 2. Rarely ()
 3. Yes ()

3. Where do you operate your activities

1. Locations convenient to customers ()
 2. Location 5 convenient to my business ()

4. Activity you are engaged in provides income for

1. Subsistence only ()
 2. Income enough for other developmental purposes ()

5. Who owns the activity you are engaged in?

1. Owned by my family ()
2. A different entrepreneur ()
3. Jointly owned ()

6. Do you know any requirements for opening up a business?

1. Yes ()
2. No ()

If yes, can you list requirements for opening up a business ()

7. Would you prefer to maintain your business the way it is?

1. Yes ()
2. No ()

Would you like to formalize your business?

1. Yes ()
2. No ()

8. What are the factors that hinder formalization of your business?

9. What are the legal processes involved when opening a business? (One has to mention these two: 1) a process of registration of the business name , and 2) a process of licensing with a competent authority

C: Informality of the informal sector in selected wards in Morogoro region

1. Where did you get the capital to kick start this business:

1. A loan from MFIs ()
2. A loan from a friend ()
3. Assistance from a relative / friend ()
4. Own sources ()

2. How long have you been engaging yourself in this activity?

1. Less than 2 years ()
2. More than 2 years ()
3. 5 years ()
4. I don't remember ()

3. What were you doing before starting this activity:

1. Employed in the informal sector ()
2. I was attending college ()
3. I was in the Village when I came and started business ()

4. If you were to choose would you prefer doing this activity

2. Yes ()
3. No ()

5. Is your business licensed?

- Yes ()
- No ()

6. How do you keep the income obtained from your business?

1. I have a bank account ()
2. I keep at home ()
3. Other ways mention them ()

D: Attitudes towards the informal sector:-

1. What is your preference in term of economic activity to engage yourself:

1. Self employing in the informal sector ()
2. Employed in the formal sector. ()

2. Why did you decide to engage your self in this activity?

1. I simply chose this activity ()
2. I had no other option for the economic activity to engage myself ()

3. Do you think the informal sector is receiving support from the government:
1. Yes; but not enough ()
 2. Not at all ()
 3. I don't know ()
4. How do you perceive the local authorities responses to the IS:
1. Very useful ()
 2. Less useful ()
 3. I don't know ()

E: Policies in place to create and support the informal sector in the municipal

1. Ever been visited by the local authority leaders:
1. Yes ()
 2. No ()
- If yes how frequently
1. Never been visited ()
 2. Visited several times ()
 3. Rarely ()
2. What was the purpose of the visit of the local authorities' officials' ()
1. Mobilizing funds for development activity i.e building ward sec school ()
 2. Educating the IS participants on loan available at the MFI ()
 3. Policy issues ()
 4. Cleanliness issues around the business premises ()
3. How do you find the local authorities policy towards the IS
1. Discouraging ()
 2. Encouraging ()
 3. Not clear ()
 4. I don't know ()

4. Do you know of any local authority policy on IS put forward by the local authorities

1. Yes

2. No

If yes Mention:

5. Are there any instructions that are received from the local authority on the kind of business that you are engaged in?

1. Yes ()

2. No. ()

If Yes Specify