

Shock-absorbing? Development of the Informal Sector in Tanzania: Challenges and Prospects

Simon J. Maziku

Sociology Social Policy and Criminology, University of Stirling, Scotland

s.j.maziku@stir.ac.uk

Shock-absorbing? Development of the Informal Sector in Tanzania: Challenges and Prospects

This paper addresses the development of the informal sector in the context of economic, institutional, and legal challenges in Tanzania. Secondary data from studies covering 1991-2015 period in over 160 countries; and Tanzania government survey reports, and employment policies was re-analysed. The findings show global expansion of the informal sector from 17 percent of GDP in 2012 to 32 percent in 2018. Tanzania has an average of 55 percent informal sector, the second highest in Sub-Saharan Africa behind Zimbabwe and the highest in East Africa. Tanzania labour force survey of 2014 reported 31 to 43 percent informal sector GDP contribution. While the variations reveal complexity of the informal sector, the sector provides employment to the surplus labour force. However, unemployment remains a policy concern and the 1997 and 2008 employment policies have not created adequate capacity of the formal sector to absorb excess labour force. Hence, the informal sector has been acknowledged as a shock-absorber of 800,000 new entrants into the labour market annually. Two schools of thought underpin the informal sector, the dual model and neo-Marxist theory attributing to *exploitation*, while the institutional and legal frameworks highlight *accumulation* for the development of the informal sector.

Keywords: informal sector, informal economy, employment policy, Tanzania

Introduction

Over the years the informal sector has received mixed perceptions: as a shadow; an underground, hidden economy; black economy; cash economy; transient sector; extra-legal; second economy; and informal economy (De Soto, 2000; Schneider, 2005; Schneider et al., 2010; Buehn and Schneider, 2012; Dell’Anno et al., 2018). These labels suggest that the informal sector is concealed from official accounts, and a reason for economic and policy concerns, particularly in many developing countries. The legitimacy of the informal sector is distinct from illegal or criminal activities (Medina and Schneider, 2018).

Hart (1972) is credited with having coined the informal sector concept in their International Labour Organisation (ILO) report on increasing productive employment in Kenya. Lewis (1954) attempted to distinguish the informal sector concept into three categories: formal urban; informal urban, and; rural subsistence, although they did not locate the informal sector explicitly. De Soto described entrepreneurs working in the informal sector as “informals” (De Soto, 2000, p.166). However, their classification has not been much adopted in the informal sector discourse. The informal sector, informal economy, and urban informal sector, have been influential and are used interchangeably, referring to activities occurring on the fringes of mainstream economy and legal frameworks (Bienefeld, 1975; De Soto, 1988).

Madina and Schneider (2018) emphasise that knowledge of the informal sector size is instructive for policy formulation to address problems of the informal sector towards better contribution to economic growth. However, defining and measuring the informal sector concept is problematic, owing to variations of labour force size (people actively working in the sector), start-up and working capital, level of technology, size of Gross Domestic Product (GDP) contribution, and governance issues. This study adopts Medina and Schneider’s (2018) definition of the informal sector, as consisting of economic production of goods and services which are concealed from official authorities for institutional, regulatory, and financial purposes. Thus, the informal sector could be defined as economic activities, individuals, or households engaged outside the formal government enterprise-registration and tax systems. Therefore, the informal sector is defined as “non-farm, small scale and self-employed income generating activities based on low level of organization, low capital and low technology” (URT, 2008, p.5).

The variations of informal sector characteristics occur over time and across different countries where informal sector activities take place (Arvin-Rad et al., 2010). Nevertheless, conventional attributes of the informal sector include, small enterprise *size*, inefficiency, low productivity, poor technology, small capital, lack of property rights, formal registration, and poor access to financial credit (Mhando, 2018). Ninety-four percent of operators do not have access to credit from financial institutions. As a result, the *National Bureau of Statistics (NBS, 2016)* recommends the “government to create an enabling environment for informal sector owners to access adequate capital that will transform their business into formal enterprises” (*NBS, 2016, p.61*). In contrast, the formal sector is defined as that part of the economy consisting of higher productivity, paid labour, and capital intensive. In the formal sector, capital flow increases the prospects for investments and job creation which ideally should encourage people to move from the informal to the formal sector (Harris and Tadaro, 1970; Feld and Schneider 2010; Schneider and Williams, 2013).

Tanzania Context

Until the mid-1980s, the informal sector received less policy attention in Tanzania because it was deemed as a transition economy, and its operators were viewed as disorganised and tax-evaders (Maliyamkono and Bagachwa, 1990). However, for the last five decades to date, the sector has been absorbing a significant proportion of the surplus labour force. Medina and Schneider (2018) and the NBS (2016) placed the sector at 52 and 31 percent, respectively. This reveals a significant workforce available for work, but the formal economy does not have the capacity to provide employment opportunities (URT, 2008; NBS, 2014; NBS, 2016).

In contrast the agriculture sector employs 52 percent of the economically active population aged 15 years and above in Tanzania. The sector is excluded from the informal sector account (NBS 2019). Hassan and Schneider (2016) have argued that the larger agriculture sector encourages more people to work in the informal sector, therefore implying that the informal sector in the Tanzanian context refers to non-agricultural activities or enterprises, individuals or households, with an employment size of below 5 people (NBS, 2014). It has been suggested that the informal sector could be acknowledged as a shock-absorber of the excess labour force of the formal economy when agriculture employment is excluded (Sanyal and Bhattacharya, 2009; Günther and Launov, 2012; Ngalawa and Viegi, 2013). Shock-absorbing describes the informal sectors’ capacity to absorb the surplus labour

market supply, employing people who cannot find work in the formal sector, and who are not engaged in agriculture.

The Tanzania integrated labour force survey (ILFS) report acknowledges the informal sector as a provider of economic opportunities for people “who cannot be absorbed by the formal sector” (National Bureau of Statistics Tanzania (NBS 2014, p.53). This underlines the dual theoretical framework of the informal sector coexisting alongside the formal economy (Lewis 1954). The dualism concept is further discussed in the theories of the informal sector, explaining how the sector has changed over time and continues to contribute to economic growth, and development.

This paper aims to contribute to better understanding of the development and continuity of the informal sector in the face of economic, legal, and institutional challenges in the Tanzanian context. To achieve the aim, this study, has three objectives: review the informal sector theoretical framework(s) underpinning the development of the sector; analyse Tanzania’s national employment policies of 1997 and 2008 (URT, 1997; URT, 2008) to establish their implications on growth of the informal sector, and; identify economic, legal, and institutional challenges, and the prospects¹ of the informal sector in Tanzania. The research addressed three research objectives, as outlined below:

- How do theories underpin the development of the informal sector in Tanzania context?
- How has Tanzania’s national employment policies influenced the development of the informal sector?
- What are the economic, legal, and institutional challenges, and the prospects of the informal sector in Tanzania?

Structure of the Paper

The second section reviews the informal sector literature, identifying theoretical frameworks explaining the development of the informal sector and how it sustains change. Section three presents the methodology and describes the methods used to review and analyse

¹ Chances or opportunities for success (Soaness and Stevenson, 2009, p.1153)

secondary data from: the ILFS; formal sector employment and earnings survey (EES); Household Budget Survey (HHBS), and; National Employment Policies (NEP) documents. The results are displayed and discussed in section four. The last section summarises key findings and draws a conclusion.

Literature Review

To understand the tenacity and function of the informal sector it is imperative to review key theories to locate relevant theoretical frameworks supporting the development of the sector in the context of Tanzania. De Soto (1988) observes that the informal sector operates in the fringes of state regulations. The sector became renowned in the 1970s in many developing countries (Hart, 1972, 1973). One of the reasons is based on utility function in terms of employment opportunities the sector provides (Hart, 1973). As a result, the sector was acknowledged for its contribution to economic growth and development (Fields, 1975).

The Informal Sector and Poverty reduction

During the 1980s the sector did not receive much scholarship attention. However, it gained popularity in the 1990s due to poverty reduction policies. The sector was considered the “economy of the poor” (Gunther and Luanov, 2012, p.88) and became the focus of international and national policy agendas (Amora and Quintin, 2006; Bennet and Estrin, 2007; World Bank, 2007). As a result, there has been a burgeoning body of empirical work on the size and development of the informal sector (Feld and Schneider 2010; Schneider 2011; Schneider and Williams 2013; Schneider 2015, Hassan and Schneider 2016; Schneider 2017; Medina and Schneider, 2018; Williams and Schneider 2016).

Despite of the vast body of scholarship, understanding the characteristics and causes of the informal sector has been the subject of much debate. There are theoretical attempts to explain the push and pull factors of why people enter the sector (Lewis 1954; Harris and Torado, 1975). Gunther and Luanov (2012) highlight the dual structure of the informal sector comprising of voluntary and involuntary individuals. The voluntary workforce is not encouraged to obtain formal jobs, while the involuntary workforce is also trapped in the informal sector but if given an opportunity would move into a formal sector. Gunther and Luanov (2012) observe that the dualism of the informal sector is the cause and effect of poverty.

Informal Sector Theories

The dual model, the neo-*Marxist*, legal, and institutional theories aid our understanding of the informal sector. Raj and Sen (2016) classify these frameworks into *exploitative* and *accumulation* schools of thought. The dual and neo-Marxist address the exploitative views of the informal sector, explaining that the sector is fundamentally exploitative. The legal and institutional frameworks underpin the drive for *accumulation* in the informal sector

The Dual Model

Lewis (1954), Harris and Tadaro (1970) conceptualised the dual model framework, theorising that excess labour supply is common in developing countries because of underdeveloped formal economies with high unemployment. Using an economic perspective, they distinguished the formal and informal sectors as dual economies. They identified the informal sector's characteristics as being: low wage; labour intensive; inefficient, and; with low marginal productivity. Hence, Lewis (1954) asserts that the informal sector represents a form of underdeveloped economy and that the sector should disappear with structural and economic transformation. Godfrey (2011) contends the disappearance view, arguing that the informal sector sustains because of poor formal sector growth.

Raj and Sen (2016) discuss the dual economy, saying that, as the formal sector grows due to economic expansion, the informal sector tends to shrink. In contrast to the disappearance view, the reduction of the informal sector argument is empirically supported (Abdallah, 2017). In their study, La Porta and Shleifer (2014) found compelling evidence that formal economic expansion reduces growth of the informal sector (La Porta and Shleifer, 2014). Medina and Schneider (2018) observe that in countries such as US and UK which have larger formal sectors, their informal sectors are smaller at 8 and 11 percent, respectively. Countries with smaller formal economies such as Bolivia and Tanzania have larger formal sectors of 60% and 52% respectively

Labour market segmentation

The labour market segmentation theory explains the impact of the dual model, namely that people enter the informal sector involuntarily because they are rationed out of the formal sector employment (Contini, 1981). Consequently they are pushed into the informal sector. Gunther and Luanov's (2012) study found 45 percent of people working in the informal sector entered it unwillingly in order to escape unemployment. Some scholars have established that a

higher unemployment rate and low official gross domestic product (GDP) are key drivers of people working in the informal sector (Feld and Schneider, 2010; Schneider and Williams, 2013; Williams and Schneider, 2016). The comparative advantage argument holds that people enter the sector voluntarily as a result of the better income opportunities that the informal sector offers compared to those in the formal sector. The comparative labour market advantage underpins the view that people enter the informal sector because of “income or utility maximisation” (Gunther and Luanov, 2012, p.89).

The dualism and complexity of the informal sector is well documented. It has been observed that it consists of double tiers, the lower and upper, with the lower, representing people who have been rationed out of the formal labour market, and the upper tier comprising of those voluntarily entering the sector because it offers relatively higher income than the formal sector (Fields, 2005; Paulson and Townsend, 2005). Henley and Carneiro (2009) move beyond the dualism debate, and while acknowledging the complexity of the informal sector, they argue that not all informal sector workers are displaced from the formal sector because others enter the informal sector seeking better financial opportunities, flexibility and better choice of working hours.

Neo-Marxist Perspective

From a neo-Marxist perspective, Sanyal and Bhattacharya (2009) claim that the informal sector is a surplus labour economy. They observe that the sector workforce is alienated and experiences exclusion from the capitalistic economic system, such that capitalism tends to secure its resources “minus the people who traditionally survive on it” (p.37). This implies that in spite of the informal sector operators making a significant contribution to economic growth, they are excluded from access to financial capital, and therefore their enterprises remain small-scale and are likely to operate outside the mainstream economy.

Institutional and Legal Frameworks

The institutional and legal frameworks provide a contrasting lens to the dual economy and neo-Marxist models of understanding the informal sector. The legal framework proponents have theorised that people opt to work in the informal sector because of rigid rules, regulations and laws in the formal sector which create burdens to entrepreneurs (Lyons et al., 2014). De Soto (1989) argued that the informal economy thrives because it avoids the cost of formalities such as the time and effort required for formal registration. De Soto (1989) found that 60

percent of the population in Peru worked outside the legal framework. Other studies reveal that a significant proportion of informal sector micro-entrepreneurs consistently enter the sector as a response to the burden of state regulations (Raj and Sen, 2016; Medina and Schneider 2018), suggesting that people work in the informal sector to avoid tax, and circumvent formal regulations and rules.

However, Slemrod and Weber (2011) note that tax avoidance in the informal economy is an invisible phenomenon, the extent of which is not well established because of definition and measurement problems, coupled with a lack of understanding of the income and tax compliance of the informal sector operators. Therefore, concerns are raised that such a large segment of the economy operating outside the legal and institutional framework deprives the state of tax income (De Soto, 1989, p.166). As such, Godfrey (2011) recommends creating institutions which incentivise the removal of barriers to formalisation and provide possibilities for the transition of the informal sector to the formal economy.

Formalisation of the Informal Sector

This has led to international policy initiatives for developing countries to formalise the informal sector in line with the UN sustainable development goal 8 (ILO, 2018). La Porta and Shleifer (2014) found that many of the informal sector enterprises do not formalise or are not willing to formalise because of the fact that they have lower productivity compared to the formal sector enterprises. Another view supporting lack of formalisation is their small size, and lack of access to technology (see also, Raj and Sen, 2016). While formal legal and institutional bureaucracies hinder formalisation of informal enterprises, property rights are viewed as an important criterion for the registration of informal enterprises into the formal sector.

De Soto (1989) has been critical that most informal sector entrepreneurs lack property rights and registration which makes it difficult for them to collateralise their land for accessing financial credit. Hence this limits the growth of the informal sector enterprises and their transition to the formal economy. De Soto (2000) argued that while informal enterprises avoid the cost of formality, there are costs of operating in the informal economy, highlighting that avoiding the formal sector comes with a cost. Working in the informal economy, entrepreneurs pay 10-15% of their annual income to commissions and bribes and this is common across Latin America. De Soto concluded that it is more expensive and hassle ridden for extra-legal entrepreneurs than those working in formal enterprises (De Soto, 2000).

There are arguments that informal sector entrepreneurs are less concerned with state bureaucracies because they do not deal as much with formal procedures. Raj and Sen (2016) contend that the legalist perspective does not promote formalisation of the informal sector, and they argue for relaxation of institutional and legal barriers. They emphasise the need for reforms in property rights which will grant informal sector operators access to lands and property rights. The legalist perspective recommends policy reforms to the informal economy, meanwhile promoting growth of the manufacturing sector in the informal economy.

Method

This section describes the method used to collect, review and analyse the background information, literature reviewed in preceding sections; and the data analysed and presented in the results and discussion of finding sections. Secondary analysis research design underpins this review, referring to re-analysis of secondary data which addressed the research questions and aim (de Vaus 2014, p.361). The study re-analysed secondary data collated from Tanzanian government surveys and policy documents, including, Integrated Labour Force Survey (ILFS, 2014); Formal Sector Employment and Earnings Survey (FSEES, 2016); Tanzania Mainland Household Budget Survey (THBS 2017-2018) and National Employment Policies (1997 and 2008).

Academic literature on the informal sector was carefully considered based on key terms such as: informal sector; urban informal sector; informal economy; shadow economy, and; Tanzania. The studies were selected because they analysed empirical data on Tanzania (Maliyamkono and Bagachwa 1990; Kitine 1993; Bagachwa and Naho 1995a; Bagachwa and Naho 1995b). Another set of informal sector studies used in this paper covered many countries including Tanzania (Buehn and Schneider 2012; Dell'Anno, et al 2018; Medina and Schneider, 2018). Table (1) summarises the findings of some informal sector studies and their contribution to Tanzania's GDP, their publication years 1990-2018 and data from 1968-2018.

Table 1: Tanzania Informal Sector (GDP) Estimation from 1968-2015

Author and publication year	Period of data used	Contribution to GDP (%)
Maliyamkono & Bagachwa (1990)	1975-1986	7-31
Kitine (1993)	1984-1990	25-30
Bagachwa & Naho (1995a)	1968-1990	6-31
Bagachwa & Naho (1995b),	1968-1990	20-46
Buehn & Schneider (2012)	1999-2007	57
Dell'Anno, et al (2018)	2005	55
Medina & Schneider (2018)	1991-2015	52

Findings and Discussion

Informal Sector -Tanzania

During the 1980-1990s people working in artisanal and small-scale gold mining in Tanzania were labelled as 'illegal' miners (*Wachimbaji haramu*²). While street traders identified as street 'hawkers' were labelled as (*Wamachinga*³), and street food vendors were known as (*mama ntilie*). Informal sector operators experienced tension with city, municipal and town authorities, often leading to confrontation, rounding up and displacement. However, there have been changes to the negative labels and perceptions of informal sector operators. *Mama ntilie* are now recognised as *Mama lishe* and *Wachimbaji haramu* (illegal miners) as *Wachimbaji wadogo* (small-scale miners), suggesting that the sector began to be acknowledged for GDP contribution to the Tanzania economy. However, Brown et al (2015) discusses the

² Wachimbaji haramu in Swahili language refers to artisanal and small-scale miners who are perceived as illegal because of operating outside the state regulation, particularly gold mining.

³ Street vendors or traders selling a variety of merchandise from electronics to clothes mainly concentrated in urban areas.

property rights of street traders (*Wamachinga*) in the cities of Dar es Salaam in Tanzania and Dakar in Senegal. They highlighted harassments, evictions, and relocations of street traders from city centres to designated suburbs areas. As a result, in Dar es Salaam, the *Wamachinga* described themselves as “refugees” in their own country (Brown et al., 2015, p.2234). For South Africa see Crush (2017).

De Soto (2000) explored the role of street vendors in developing countries, established that, though the informal entrepreneurs are linked to poverty, the size and existence of the sector is significant and powerful economically (De Soto, 1989), signifying that the sector cannot be simply discounted as a reflection of dubious tax avoidance. Furthermore, Desoto contests the concept of defining informal sector enterprises based on the number of employees, as he argued that it obscures and weakens the significance of the informal sector activities in the economy. In the Tanzanian context, the importance of the informal sector reflects its spontaneous response to the underperformance of the formal sector. Research suggests the growth of the informal sector could be a response to: poor public services; the state of the country’s economy, particularly high inflation; labour market regulations, and; tax burdens (Dell’Anno, et al 2018; Medina and Schneider et al., 2018).

Considering poor transport services in the country, an intermediate means of transport (IMT) emerged in the 2000s in Tanzania (Muller 2005). Initially, informal sector operators used bicycles for passengers who could not access formal transport particularly from towns to remote rural areas and vice versa. The mode of transport has since changed as most operators adopt motorcycles popularly known as *Bodaboda*, and few use *Bajaji* or (*motorised rickshaws*). *Bodaboda* activity is dispersed throughout Tanzania. The adaptations demonstrate the informal sector’s expansion and its ability to embrace and sustain change. However, estimating the true size of the informal sector varies depending on definition of concepts and measurement of variables adopted.

Size and Expansion of the Informal Sector

Therefore, understanding the size of the informal sector is challenging because studies use direct measurements through household surveys, face to face interviews, or indirect financial or economic modelling estimation (Tanaka and Keola, 2017). Importantly, most studies estimating the size of informal sector have consistently demonstrated expansion of the sector worldwide, particularly in developing countries. Buehn and Schneider’s (2012) study in 162 countries using panel data between 1999-2007 found 17 percent of global average of the

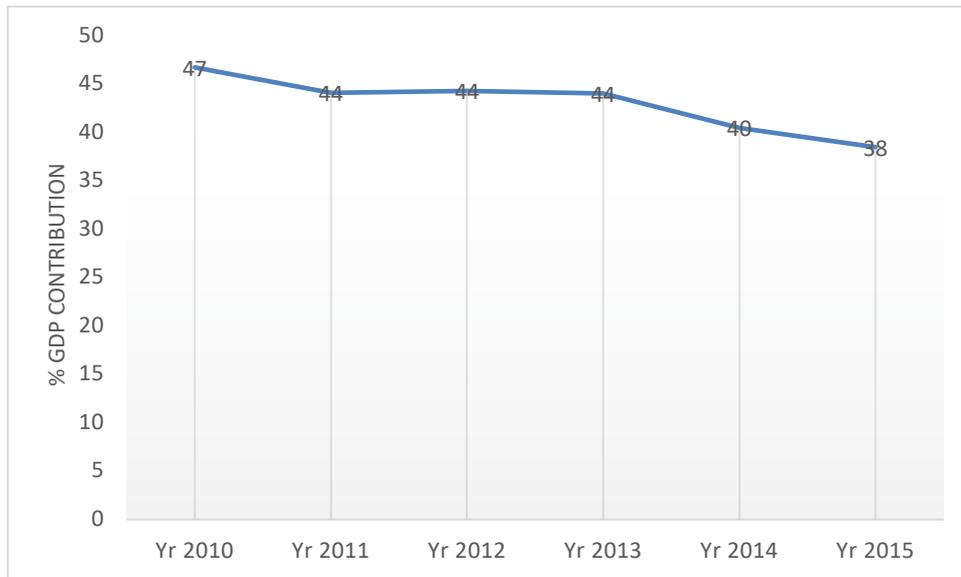
sector's share to official GDP. In Zimbabwe, Nigeria and Tanzania, Buehn and Schneider's (2012) estimation of the informal sector was 56 percent average contribution to GDP, the highest compared to other countries in the same period.

Medina and Schneider (2018) using data from 1991 to 2015 of 158 countries, found that the global average size of the sector was 32 percent. Bolivia and Zimbabwe had the highest at 62 and 61 percent of informal sector, respectively. Recent studies consistently show that Tanzania has the highest informal GDP contribution at an average of 55 percent in the East Africa region (Buehn and Schneider (2012); Dell'Anno, et al., (2018); Medina and Schneider (2018)). The Democratic Republic of Congo has 46 percent, the second highest, while Kenya has the lowest 33 percent.

Estimation of informal sector-size Tanzania

Tanzania's informal sector size has varied since the 1960s to date. Maliyamkono and Bagachwa (1990) using data from 1975-1986 estimated the informal sector size at 7-31 percent to GDP. They observed that there was growth of the sector during the same period. Bagachwa and Naho (1995) reported 6-31 percent of the sector's contribution to GDP during the 1968-1990 period. However, using a different estimation model, the contribution to GDP was 20-46 percent, higher than earlier estimations. Dell'Anno, et al (2018) estimates the sector at 55 percent of the GDP, a slight decrease from Buehn and Schneider's (2012) estimation of 57 percent. Figure 1 reveals that from 2010-2011 there was a slight decrease of the informal sector contribution to official GDP, which then remained constant from 2011-2013. From 2013 the informal sector size has been decreasing slightly, demonstrating, prevalence and capacity of the sector to adapt and contribute to economic growth and development in Tanzania.

Figure 1: Informal sector % contribution to Official Tanzania GDP



Source: Data adapted from Medina and Shneider et al., 2018

Informal Sector-Employment based survey data - Tanzania

In 2014 the Tanzania National Bureau of Statistics (NBS) conducted an Integrated Labour Force Survey (ILFS), which reported 20.2 million people were employed in all sectors of the economy; of whom the informal sector employed 6.3 million or (31.2) percent. 4.3 million or (21.7) percent of the 20.2 million worked in the informal sector as their main occupation; meanwhile 1.9 million or (9.5) percent of employed people worked as a secondary activity within the informal sector. The largest 74 percent of all operators were working in Dar es Salaam city and other urban centres in Tanzania. Geographically, 26 percent of the informal sector are in rural areas. The NBS (2014) observes that majority are concentrated in a secondary occupation in the informal sector.

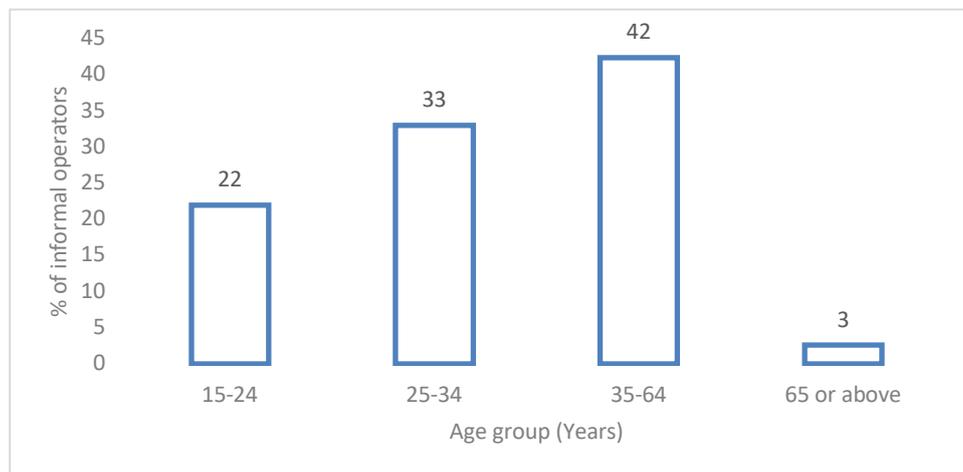
One of the key variables in measuring the informal sector size was informal sector household in addition to *currently employed* people presented earlier. A household was categorised as engaged in the informal sector if at least one household-member was working in the sector. Based on this criterion, the findings show that Tanzania had 10.2 million households in 2014 compared to 8.4 million in 2006. Findings revealed 42.5 percent of households were engaged in the informal sector compared to 39.5 percent in 2006. This was a 3 percent increase in informal sector households (NBS, 2014).

However, using the household approach, the informal sector size was 42.5 percent, higher compared to 31.2 percent obtained using the employment approach in 2014, meaning that a household with at least one informal sector operator is counted only once regardless of the number of operators living in the household. It could be argued that the household approach underestimates the size of the informal sector activities in the economy, whereas estimating the informal sector size using persons employed in the sector appears to be consistent with most recent estimations (Buehn and Schneider 2012; Dell’Anno, et al 2018; Medina and Schneider, 2018). While a household is an important unit in estimating the size of the informal sector, gender, age and education are key factors in understanding the role of these characteristics in the informal sector.

Gender, Age and Education of informal sector operators

The ILFS 2014 revealed that more than half of informal sector workers in Tanzania are Females. In terms of age the findings as in Figure 2 shows a total of 55 percent of people working in the sector are in the age group 15-34 years. whereas adults in 35-64 age group are 42 percent, implying that most young people are engaged in the informal sector.

Figure 2: Demographic-of Informal sector operators in Tanzania



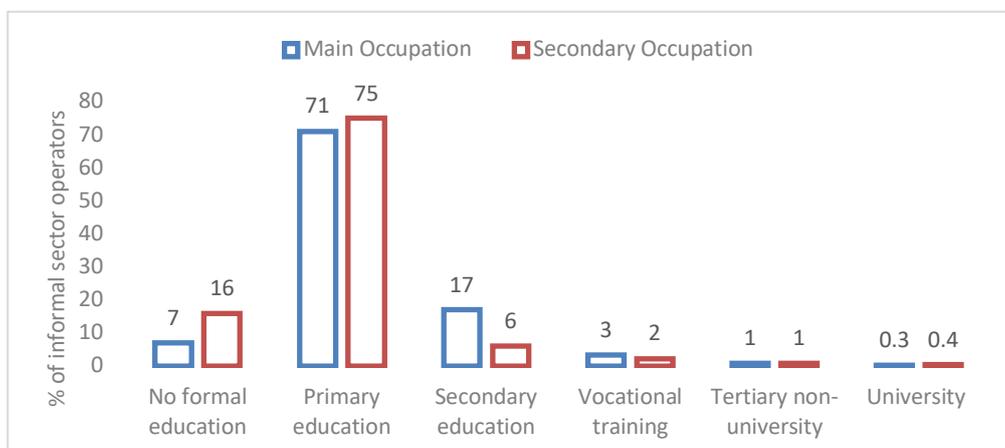
Source data adapted from ILFS 2014

Education Qualifications of informal sector operators

The level of education is a useful indicator of whether education qualifications could be considered as a push factor for people working in the informal sector. Figure 3 below shows the education and skills qualifications of people working in main and secondary occupations

in the sector, showing that the informal sector absorbs an average of 73 percent of people with primary education in the main and secondary occupation of the informal sector.

Figure 3: Education and skill levels of Informal sector



Policy Response to unemployment problems in Tanzania

Demographic evidence demonstrates that most economically active young and adult population aged 15-64 years with a low level of education and skills qualifications in Tanzania are engaged in the informal sector. In terms of education and skills qualifications, further statistical analysis is required to establish any association between education qualifications and informal sector employment in Tanzania. Overall, the informal sector retains its importance in economic growth and national employment policy in Tanzania.

With the benefit of hindsight, it can be seen that the policy interventions in 1970s and 1980s in Tanzania led to an unfavourable policy environment towards the informal sector. This was a major constraint and a challenge to policy makers in adopting a positive approach towards promoting positive environment and formalisation of the sector. Despite the growth of the informal sector, high unemployment has remained one of the policy concerns in Tanzania. The capacity of the formal sector to provide employment for the active labour force has been limited. This could be one of the factors which pushed many people into the informal sector in the 1980s and has continued. For instance, the 1988 National Census found that the informal sector employed 63 percent of the economically active urban labour force (aged 15-64 years), while the formal sector absorbed only 9 percent during the same period. Furthermore, about 30 percent of the labour force was either unemployed or underemployed (URT 1988).

Unemployment in the formal sector continued to be dismal from the 1990s and throughout the 2000s. The 1990/1991 and 2000/01 Labour force surveys found that formal

sector employment in Tanzania was constant at 16 percent (ILFS, 2006). The Integrated Labour Force Survey (ILFS) of 2005/06 estimated that Tanzania's economically active population increased to 19 million from 16 million people in the 2000/2001 labour force survey. This represents a 4 percent annual growth rate of labour force equivalent to '800,000 new labour force entrants into the labour market each year' (URT, 2008, p.5).

However, most of the new entrants are absorbed in the informal sector because they have low education and skills. To promote formal sector employment the Tanzania National Employment Policy of 1997 was formulated to address effective use of labour force and natural resources towards poverty reduction. Specifically, it focused on two major areas: formal, and; self-employment. However, the policy was ineffective as it lacked the drive to promote the informal sector. Moreover, inconsistency and unreliability of labour market information constrained the effective implementation of the NEP 1997 policy.

As a result, the 2008 National Employment Policy (NEP) was put in place to address unemployment challenges in Tanzania. The overall objective of the policy was to stimulate national productivity, to enable people to freely choose and attain full, gainful productive employment to reduce unemployment, under-employment rates and to enhance labour productivity (URT 2008, p.10-11). The NEP 2008 objectives were to enhance competencies and skills for people working in the formal and informal sector particularly those in rural areas; and to establish an enabling environment for transformation of the informal to the formal sector and promote growth of the private sector (URT, 2008, p.11). The NEP 2008 policy was to foster economic growth which would provide efficiency allocation of investments to non-agriculture and agriculture, agro-processing industries, social services sectors and infrastructure sectors.

Despite the national employment policy initiatives in the 2000s, nonetheless economic growth has not provided substantial formal employment, or reduced unemployment in Tanzania. As result, the Tanzania Employment and Earning Survey 2016 established three consistent reasons of people working in the informal sector. As indicated in Table 2, the reasons include: need for additional family income; easy of entry, and; better income opportunities (NBS, 2016). Being unable to find other work ranked third for those in the main occupation, while it ranked fifth for those working in the secondary occupation of the informal sector. In secondary occupation, work flexibility ranks third as a more important reason than for gaining better income or being unable to find work.

Table 2: Reasons for working in the informal sector

Reason	Working in the Informal Sector- % of Importance	
	Main occupation (%)	Secondary occupation (%)
Need for more family income	38	65
Easy of entry (not much startup capital needed)	30	32
Better income opportunities	26	20
Unable to find other work	28	13
Work flexibility	15	22

Source: Tanzania Employment and Earnings Survey (NBS, 2016)

Operators working in the informal sector are concentrated in retail and whole sale trade, car and motorcycle repairs which account for 49 percent, the highest informal sector employment industry in Tanzania. In other sectors, food and accommodation services absorb 15 percent, manufacturing 12 percent, construction 7 percent, and artisanal and small-scale mining 5 percent, whilst transportation and storage employ 4 percent.

As discussed in the disappearance theory of the informal sector in the literature review, it could be argued that Tanzania National Employment Policies 1997 and 2008 assumed that the informal sector was in a transition phase, and that it would disappear through mainstreaming into the formal economy over a period of time. To the contrary, the informal sector continued to flourish consistent with the ILO (2002) view that the informal sector “can no longer be considered a temporary or residual phenomenon” (ILO, 2002, p.1). Recent empirical evidence supports this view, highlighting that the informal sector is not just a sector of poverty but is powerful and significant (Raj and Sen 2016).

The review of literature and empirical findings presented in the preceding sections show evidence on the growth and expansion of the informal sector in developing countries, particularly in Tanzania. This social phenomenon could be a result of macro and micro-economic policy environment in 1980s. Research in the 1990s showed that informal sector operators in Tanzania were viewed as “tax evaders, unproductive and disorderly persons” (Maliyamkono et al., 1990, p.32), reinforcing the stereotype in the policy circles during the

1980s and 2000s. The National Youth Employment Plan of 2007 refers to people working in the informal sector as doing “*dirt jobs*” (URT, 2007, p.27), implying the lack of support for the informal sector has continued for decades thereby impacting the government policy objective to transform the informal to formal sector. Thus, the informal sector has become the major employer of the economically active population, absorbing the excess labour force of the formal sector.

Conclusion

The informal sector concept has been influential, referring to activities occurring on the fringes of the mainstream economy, legal and institutional frameworks. The sector is non-agriculture, small-scale, low capital, poor technology, inefficient, and hidden from official accounts. Three main and consistent reasons for people working in the informal sector in Tanzania include the need for additional family incomes, easy of entry, and better income opportunities. Retail and wholesale trade, car and motorcycle repairs account for 49 percent, the highest informal sector employment industry in Tanzania.

Tanzania’s hostile policy environments on the informal sector in 1980s had implications on operators who were being stereotyped as *Wamachinga*, *Mama Ntilie* and *Wachimbaji-haramu*. New informal sector activities including *Bodaboda* emerged in 2000s as a response to poor formal sector performance, as a result, the informal sector expanded, thus the stereotype changed signifying acknowledgement of the importance of the sector. However, operators still experience harassments from city authorities because of lack of property rights, being viewed as tax evaders, and a lack of formal registration leads to exclusion from access to financial credit, raising policy concerns for countries with a large informal sector, such as Tanzania.

To address the policy challenges, defining and measuring the informal sector is essential for policy, but is problematic because of the nature of the sector. In the 1990s the informal sector became an international policy agenda because of its role in poverty reduction. As a result, a vast body of empirical work has suggested a variable informal sector size because of different measurement approaches, time frames and geographical locations used. A study using data from 1991-2015 covering 158 countries revealed the average global informal sector at 32 percent of GDP; almost double from 17 percent in 2012. Model estimation studies have consistently revealed 55 percent average informal sector GDP in Tanzania, the second highest in Africa after Zimbabwe, and highest in the east Africa region. An ILFS using household and

employment approaches put Tanzania's informal sector at 43 and 31 percent, respectively. Thus the informal sector size varies but remains significant in terms of employment and contribution to GDP in Tanzania.

Higher unemployment remains one of the policy concerns in Tanzania. The 4 percent annual growth rate of Tanzania's labour force, equivalent to 800000 new entrants into the labour market annually, overwhelms the capacity of the formal sector to provide employment for this labour force. In effect, Tanzania's national employment policies of 1997 and 2008 were put in place to address employment problems in the formal sector but have not translated into sufficient employment opportunities that would reduce unemployment and promote formalisation of the informal sector. Hence, the informal sector is acknowledged for absorbing a considerable proportion of the excess labour force, who are mostly the economically active population aged 15-64 years with low skills and education qualifications.

The dual theory that the informal sector would disappear as result of structural transformation and expansion of the formal economy is therefore challenged by these findings. The dual model explains exploitation as the cause, the neo-Marxists attribute accumulation as the driver for the growth of the informal sector. The labour segmentation theory underscores that people are involuntarily rationed out of the formal labour market into the informal sector. While the comparative advantage observes that people enter the informal sector voluntarily because of better income opportunities, choices and work flexibility. The legal and institutional frameworks provide a different view that people enter the informal sector to avoid the burden of state regulations, which raises concerns for tax avoidance, the extent of which is not well established, and is an area for further research.

The theoretical explanations help us to understand the complexity of the informal sector, and show that no single theory underpins this phenomenon. Empirical evidence points to the conclusion that the informal sector decreases with expansion of the formal economy. Thus, developing countries with smaller economies such as Tanzania and Zimbabwe have larger informal sectors. As a result of poor economic expansion, the informal sector has sustained in many developing economies.

References

- Abdallah, G. K. (2017) Differences between firms from the formal sector and the informal sector in terms of growth: Empirical evidence from Tanzania. *Journal of entrepreneurship in emerging economies*. [Online] 9 (2), 121–143.
- Amoah-Mensah, A. (2016) Street Vending and Competitive Advantage: Towards Building a Theoretical Framework. Qualitative report. [Online] 21 (9), 1651–.
- Anon (2011) A handbook on using the mixed survey for measuring informal employment and the informal sector. Metro Manila, Philippines: Asian Development Bank
- Arvin-Rad, H., Arnab K. Basu, A.K., and Willumsen, M. (2010). Economic reform, informal–formal sector linkages and intervention in the informal sector in developing countries: A paradox, *International Review of Economics & Finance*, 19(4), 662-670.
- Bagachwa, M.S. D., and Naho A. (1995). Estimating the second economy in Tanzania, *World Development*, 23(8), 1387-1399
- Bagachwa, M. S.D (2019). “The rural informal sector in Tanzania”, in *Farewell to Farms* (pp. 137-154). Routledge
- Bienefeld, M., (1975). The informal sector and peripheral capitalism: the case of Tanzania.
- Brown A, Msoka C and Dankoco A (2015). A refugee in my own country: Evictions or property rights in the urban informal economy. *Urban Studies* 2015, Vol. 52(12) 2234–2249
- Buehn, A. and Schneider, F. (2012). Shadow economies around the world: novel insights, accepted knowledge, and new estimates. *International Tax and Public Finance*, Vol. 19 No. 1, pp. 139-171
- Contini, B. (1981), Labour market segmentation and the development of the parallel economy: the Italian experience, *Oxford Economic Papers*, 33, pp. 401–412
- CRUSH, J. (2017) Comparing refugees and South Africans in the urban informal sector. Jonathan Crush (ed.). Waterloo, Ontario: Southern African Migration Programme.
- Dell’Anno, R. Davidescu, A.A., and Balele N P (2018). Estimating shadow economy in Tanzania: an analysis with the MIMIC approach. *Journal of Economic Studies*. 45 (1), 2018 pp. 100-113
- De Paula, A., Sheinkman, J.A (2007) *The Informal Sector*. Cambridge, Mass: National Bureau of Economic 13486. Available: <http://www.nber.org/papers/w13486> accessed [25 April 2022]
- De Soto, H. (1989). *The Other Path*. New York: Harper and Row.
- De Soto, H. (1989) The Informals Pose an Answer to Marx. *The Washington quarterly*. [Online] 12 (1), 165–172.
- De Soto. (2000). *The Mystery of Capital*. New York: Basic Books.

- Feld, L. and Schneider, F. (2010). Survey on the Shadow Economy and Undeclared Earnings in OECD Countries, *German Economic Review*, 11(2), 109–149.
- Fields, G.S., (2005). A guide to multisector labour market models. Paper prepared for the World Bank Labour Market Conference. Available: http://www.ilr.cornell.edu/directory/gsf2/downloads/Multisector_mar05.pdf accessed [21/04/2022]
- Fischer, G. (2013) Revisiting Abandoned Ground: Tanzanian Trade Unions' Engagement with Informal Workers. *Labour Studies Journal*. [Online] 38 (2), 139–160.
- Gadzalla, A. (2009). 'Survival of the Fittest? Kenya's Jua Kali and Chinese Business.' *Journal of Eastern African Studies*. 3(2), 202-220
- Godfrey, P.C. (2011). Toward a Theory of the Informal Economy, *The Academy of Management Annals* 5(1): 231–77.
2014. The Lewis Model: A 60-Year Retrospective, *Journal of Economic Perspectives*, 28(3): 71–88.
- Günther, I., and Launov, A. (2012). Informal employment in developing countries: Opportunity or last resort?. *Journal of development economics*, 97(1), 88-98.
- Hart, K. (1972). Employment, income and inequality: A strategy for increasing productive employment in Kenya. Geneva: ILO.
- Hart, K., (1973). Informal income opportunities and urban employment in Ghana. *Journal of Modern African Studies* 11 (1), 61–89
- Harris, J.R., Todaro, M.P., 1970. Migration, unemployment and development: a two-sector analysis. *The American Economic Review* 60 (1), 126–142.
- Hassan, M. and Schneider, F. (2016), Size and development of the shadow economies of 157 worldwide countries: Updated and new measures from 1999 to 2013, *Journal of Global Economics* 4:3
- Henley, A., Arabsheibani, G. R., and Carneiro, F. G. (2009). On Defining and Measuring the Informal Sector: Evidence from Brazil. *World Development*, 37(5), 992–1003. <https://doi.org/10.1016/j.worlddev.2008.09.011>
- Jason, A. (2008). Organizing informal workers in the urban economy: The case of the construction industry in Dar es Salaam, Tanzania, *Habitat International*, 32 (2), 192-202
- Ihrig, J. and Moe, K.S. (2004). Lurking in the shadows: the informal sector and government policy. *Journal of Development Economics*, 73(2), pp.541-557.
- ILO. (1972). *Employment, Incomes and Equality: A strategy for increasing productive employment in Kenya*: Geneva 1997
- ILO (2013) Measuring informality : A statistical manual on the informal sector and informal employment. Geneva, Switzerland: International Labour Office

- Khanna, P. (2021) Impact of Trade Liberalisation on the Informal Sector—A Study for the BRICS. *Indian journal of labour economics*. [Online] 64 (1), 101–113.
- La Porta, R. and A. Shleifer. (2008). The Unofficial Economy and Economic Development, *Brookings Papers on Economic Activity*, 39(2): 275–363.
- La Porta, R. and A. Shleifer (2014). 2014. Informality and Development. *Journal of Economic Perspectives*, 28(3): 109–26.
- Lewis, W.A., (1954). Economic development with unlimited supplies of labour. *Manchester School* 22 (2), 139–191.
- Lyons, Brown, A., and Msoka, C. (2014). Do Micro Enterprises Benefit from the “Doing Business” Reforms? The Case of Street-Vending in Tanzania. *Urban Studies* (Edinburgh, Scotland), 51(8), 1593–1612.
- Maloney, W.F. (2004). Informality revisited. *World Development* 32 (7), 1159–1178
- Medina, L., A. Jonelis, and M. Cangul (2017). The Informal Economy in Sub-Saharan Africa: Size and Determinants, International Monetary Fund, WP/17/156.
- Medina, L. and Schneider, F. (2018) Shadow Economies Around the World: What Did We Learn Over the Last 20 Years? *IMF working paper*. [Online] 18 (17), 1–.
- Mhando, P. C. (2018) Managing in the Informal Economy: The Informal Financial Sector in Tanzania. *Africa Journal of Management*. [Online] 4 (3), 282–305
- Mitullah, T, N., and Riisgaard, L. (2021). Social Protection and Informal Workers in Sub-Saharan Africa: Lived Realities and Associational Experiences from Tanzania and Kenya. Roskilde University. <https://doi.org/10.4324/9781003173694>
- Muller, M. (2005). The political dynamics of the informal sector in Tanzania. *International Development, Roskilde*
- National Bureau of Statistics (NBS) [Tanzania] (2014). *Tanzania Integrated Labour Force Survey 2014*, Dar es Salaam, Tanzania: NBS
- National Bureau of Statistics (2016). *Formal Sector Employment and Earnings Survey, 2016*. Tanzania mainland. Ministry of Finance and Planning May 2016, Dar es Salaam. Tanzania.
- National Bureau of Statistics (NBS 2019) Tanzania Mainland Report. Key Indicators Report: 2017-18 Household Budget Survey, Ministry of Finance and Planning June 2019, Dar es Salaam. Tanzania.
- Paulson, A.L., Townsend, R.M (2005). Financial constraints and entrepreneurship: evidence from the Thai financial crisis. *Economic Perspectives* 3Q, 34–48
- Perry, G. E., Maloney, W. F., Arias, O. S., Fajnzylber, P., Mason, A. D., & Saavedra-Chanduvi, J. (2007). Informality: Exit and exclusion. Washington DC: The World Bank.
- Raj, R. S. N. and Sen, K. (2016) *Out of the shadows?: the informal sector in post-reform India*. New Delhi: Oxford University Press

- Rizzo, M. (2011) 'Life is War': Informal Transport Workers and Neoliberalism in Tanzania 1998-2009. *Development and change*. [Online] 42 (5), 1179–1206
- Rothenberg, Gaduh, A., Burger, N. E., Chazali, C., Tjandraningsih, I., Radikun, R., Sutera, C., & Weilant, S. (2016). Rethinking Indonesia's Informal Sector. *World Development*, 80, 96–113.
- Sanyal, K. and R. Bhattacharya (2009) 'Beyond the Factory: Globalisation, Informalisation of Production and the New Locations of Labour', *Economic and Political Weekly*, 34(2): 35–9.
- Schneider, F. (2005). Shadow economies around the world: What do we really know? *European Journal of Political Economy*, 21, 598–642.
- Schneider, F., Buehn, A., and Montenegro, C. E. (2010). New estimates for the shadow economies all over the world. *International Economic Journal*, 24(4), 443–461.
- Schneider, F. (ed.) (2011), *Handbook on the Shadow Economy*, Edward Elgar, Cheltenham
- Schneider, F., Buehn, A., & Montenegro, C. E. (2010). New Estimates for the Shadow Economies all over the World. *International Economic Journal*, 24(4), 443–461.
- Schneider, F. and C.C. Willams (2013), *The Shadow Economy*, IEA, London.
- Slemrod, J. and Weber, C. (2012) Evidence of the invisible: toward a credibility revolution in the empirical analysis of tax evasion and the informal economy. *International tax and public finance*. [Online] 19 (1), 25–53.
- Shukia, R. and Messo, I. (2020) Early childhood care in Tanzania: experiences of mothers working in the informal sector in high density urban areas. *Early child development and care*. [Online] 190 (11), 1738–1749.
- Tanaka, K. and Keola, S. (2017) Shedding Light on the Shadow Economy: A Night-time Light Approach. *The Journal of development studies*. [Online] 53 (1), 32–48.
- Turnham, S. B., and Schwarz, A. (1990). *The informal sector revisited*. Paris: OECD
- The United Republic of Tanzania (URT, 2007) *National Youth Employment Action Plan 2007*. Ministry of Labour, Employment and Youth Development. Dar es Salaam, Tanzania
- The United Republic of Tanzania (URT, 2008) *National Employment Policy 2008*. Ministry of Labour, Employment and Youth Development. Dar es Salaam, Tanzania
- Williams, C. C. and Schneider, F. (2016). *Measuring the Global Shadow Economy: The Prevalence of Informal Work and Labour*. Edward Elgar Publishing, UK