A STUDY ON THE INFORMAL SECTOR WITH A VIEW TO FORMALISATION

Submitted by

The Institute of Management and Entrepreneurship Development (IMED)

July, 2016

FINAL REPORT
<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Description</th>
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</thead>
<tbody>
<tr>
<td>ADARWA</td>
<td>Rwanda Association of Carpenters</td>
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<tr>
<td>ADAT</td>
<td>Artisans Development Association of Tanzania</td>
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<tr>
<td>ADF</td>
<td>African Development Foundation</td>
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<tr>
<td>ALAT</td>
<td>Association of Local Authorities Tanzania</td>
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<tr>
<td>ATAMIMORWA</td>
<td>Rwanda Association of Bicycle Drivers</td>
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<tr>
<td>BARA</td>
<td>Business Activities Registration Act</td>
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<tr>
<td>BEST</td>
<td>Business Environment Strengthening Programme for Tanzania</td>
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<td>BOT</td>
<td>Bank of Tanzania</td>
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<tr>
<td>BRELAA</td>
<td>Business Registration and Licensing Agency</td>
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<tr>
<td>CBO</td>
<td>Community Based Organisation</td>
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<tr>
<td>CDO</td>
<td>Community Development Officer</td>
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<tr>
<td>CIBA</td>
<td>Council of Indigenous Business Associations</td>
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<td>COPCOM</td>
<td>Rwanda Association of Construction Materials Dealers</td>
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<td>COSTECH</td>
<td>Commission for Science and Technology</td>
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<td>CRDB</td>
<td>CRDB Bank</td>
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<td>CSO</td>
<td>Civil Society Organisation</td>
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<tr>
<td>CTI</td>
<td>Confederation of Tanzanian Industries</td>
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<td>DANIDA</td>
<td>Danish International Development Agency</td>
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<tr>
<td>DCED</td>
<td>Donor Committee for Enterprise Development</td>
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<tr>
<td>DED</td>
<td>District Executive Director</td>
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<td>DFID</td>
<td>Department for International Development (U.K.)</td>
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<td>DPG</td>
<td>Development Partners Group</td>
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<td>FBO</td>
<td>Faith Based Organisation</td>
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<td>FERWACOTAMO</td>
<td>Rwanda Federation of Motorcyle Drivers</td>
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<td>FODECO</td>
<td>Rwanda Association of Second Hand Dealers</td>
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<tr>
<td>GAMa</td>
<td>Ghana Metropolitan Authority</td>
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<tr>
<td>GEA</td>
<td>Ghana Employers Association</td>
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<tr>
<td>GNAFF</td>
<td>Ghana National Association of Farmers and Fishermen</td>
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<td>GPRTU</td>
<td>Ghana Private Road Transport Union</td>
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<td>GUTA</td>
<td>Ghana Union of Traders</td>
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<td>HQ</td>
<td>Head Quarters</td>
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<tr>
<td>ICLS</td>
<td>International Conference on Labour Statistics</td>
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<td>IFC</td>
<td>International Finance Company</td>
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<td>ILO</td>
<td>International Labour Organisation</td>
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<td>KENASVIT</td>
<td>Kenya National Association of Street Vendors and Informal Traders</td>
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<td>KIBA</td>
<td>Kumasi Informal Bakeries Association</td>
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<tr>
<td>KSH</td>
<td>Kenyan Shilling</td>
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<td>LGA</td>
<td>Local Government Agency</td>
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</table>
MCN Municipal Council of Nakuru
MFIs Micro-Finance Institutions
MGc dc Ministry of Gender, Community Development and Children
MIT Ministry of Industry and Trade
MITM Ministry of Industry and Trade
MKURABITA Mpango wa Kurasi misha Ras limali na Biashara Tanzania
MoF Ministry of Finance
MoLE Ministry of Labour and Employment
MoU Memorandum of Understanding
MSEA Micro and Small Enterprise Agency
MSME Micro, Small and Medium Enterprises
NBS National Bureau of Statistics
NCBD Nakuru Central Business District
NEDF National Entrepreneurship Development Fund
NGO Non-Governmental Organisation
NIGP National Income Generating Programme
NMB National Micro Finance Bank
NPF National Policy Forum
NPFA National Peasant Farmers Association
NSGRP National Strategy for Growth and Reduction of Poverty
NSTHA Nakuru Street Traders and Hawkers Association
OECD Organisation for Economic Co-operation and Development
PMO-LE Prime Minister’s Office – Labour and Employment
PO-RALG President’s Office - Regional Administration and Local Government
POVNET Network on Poverty Reduction
PPP Public-Private Partnership
PSD Private Sector Development
PSO Private Sector Organisation
RALGA Rwanda Association of Local Government Agencies
RCA Rwanda Cooperative Agency
Rfr Rwandese Franc
REPOA Research for Poverty Alleviation
SACCOs Saving and Credit Co-operative Societies
SELF Small Enterprise Loan Facility
SHG Self-Help Groups
SIDO Small Industries Development Organisation
SME Small and Medium Enterprises
SYTRAMORWA Rwanda Association of Motorcycle Drivers
TAFOPA Tanzanian Food Processors’ Association
Tan Trade Tanzania Trade Development Authority
<table>
<thead>
<tr>
<th>Abbreviation</th>
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<tr>
<td>TBS</td>
<td>Tanzanian Bureau of Standards</td>
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<tr>
<td>TCCIA</td>
<td>Tanzanian Chamber of Commerce, Industry and Agriculture</td>
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<td>TGT</td>
<td>Tanzania Gatsby Trust</td>
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<td>TIB</td>
<td>Tanzania Investment Bank</td>
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<td>TIC</td>
<td>Tanzanian Investment Centre</td>
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<tr>
<td>TNBC</td>
<td>Tanzania National Business Council</td>
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<tr>
<td>TOL</td>
<td>Temporary Occupational Licence</td>
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<tr>
<td>ToR</td>
<td>Terms of Reference</td>
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<tr>
<td>(T)PSF</td>
<td>Tanzanian Private Sector Foundation</td>
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<td>TRA</td>
<td>Tanzanian Revenue Authority</td>
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<tr>
<td>UBAMALI</td>
<td>Umoja wa Baba na Mama Lishe</td>
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<tr>
<td>UNDP</td>
<td>United Nations Development Programme</td>
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<td>UNIDO</td>
<td>United Nations Industrial Development Organisation</td>
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<tr>
<td>UNIWA</td>
<td>Union of Informal Workers Association</td>
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<tr>
<td>URT</td>
<td>United Republic of Tanzania</td>
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<tr>
<td>UTA</td>
<td>Used Tyres Association</td>
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<tr>
<td>UWAWADA</td>
<td>Umoja wa Wafanya Biashara wenye Ulemavu Dar es Salaam</td>
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<tr>
<td>VIBINDO</td>
<td>Dar es Salaam Society for Informal Sector</td>
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<tr>
<td>VPO</td>
<td>Vice President’s Office</td>
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<td>WDF</td>
<td>Women Development Fund</td>
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EXECUTIVE SUMMARY

0.1 INTRODUCTION

Informal enterprises represent 66% of non agriculture employment in sub-Saharan Africa, 80% of employment and 39% of GDP and 90% of the 3.16 million businesses in Tanzania (URT, 2012). Almost half (47%) are owned by youth while 52% are owned by women. The sector enables the poor to obtain power and control over their own means of subsistence (Muller, 2004) and to flexibly start the entrepreneurial journey at a very basic level. Despite many initiatives taken to address it, millions of people operate in a vicious cycle of low productivity, poor access to technology, workspace, finance and other services; insecurity, lack of rights, and low incomes, etc. With this in mind, BEST-Dialogue commissioned the Institute of Management and Entrepreneurship Development (IMED) in mid 2015 to critically examine the nature of business informality and bring fresh insights into the formalisations agenda: Specifically, the study sought to:

(i) Critically examine the concept, nature and causes of business informality
(ii) Take stock approaches, initiatives, experiences, challenges and lessons in promoting business formalisation
(iii) Bring fresh insights into the business formalisation agenda
(iv) Recommend pragmatic and practical measures for formalising the informal sector.

The methodology adopted was qualitative-descriptive, integrating literature review, a survey of 179 informal operators in Tanzania, field visits to Ghana, Kenya, Rwanda and Tanzania to undertake interviews and focus group discussions with informal operators and their associations, local and central governments, etc. The data was analyzed qualitatively and quantitatively to form the basis of this report. The report have been presented to several workshops and conferences for enrichment and validation.

0.2 NATURE AND CAUSES OF INFORMALITY

The term informal business is used to refer to businesses whose activities are not included in the law, they are operating outside the formal reach of the law; or the law is not applied or not enforced; or the law discourages compliance because it is inappropriate, burdensome, or imposes excessive costs (ILO, 2002). The informal economy is highly heterogeneous, in terms of type of activity, profile of operators, meaning attached to the activity, dynamism, degree of informality, etc (Utouh, 2012; Wangwe and Mmari, 2014). It is characterized by ease of entry, reliance on indigenous resources, family ownership, small scale of operations, labour-intensive technology, skills acquired outside the formal school system and unregulated and competitive markets (Hart, 1973; ILO, 2002). Commonly used criteria in identifying informal firms are size, legal personality, registration and licensing, type of workspace and employment arrangements (Maloney, 2004). A distinction is sometimes drawn between de-jure (legal) formalisation and de-facto (practice) formalisation (Nelson, 2003).
According to the exclusion model, businesses are rendered informal by legal requirements that are too complex, costly and/or culturally alien. While modern regulations were implanted from Western developed economies, developing countries have many tiny enterprises that cannot meet the cost of compliance (de Soto 2000) as well as high degrees of informalization of political and economic markets whereby people make deals on the basis of informal reciprocal relationships rather than formal procedures (Ninsin, 1991; Hyden, 2004; Anuwa Amarh, 2015). It is also argued that large firms and policy makers may deliberately seek to sustain informality as a cost reducing mechanism enabling corporations to increase competitiveness through dependence on cheap, non compliant suppliers and distributors (Castells and Portes 1989). Given the informal operators do not live by the law, they need protection, and some politicians take advantage of this vulnerability to trade protection with votes (Sarkar, 2006; Mahvish and Majid, 2014; Chatterjee, 2004).

According to the rational exit model, a segment of business operators consciously decide to be informal to benefit from avoidance of rules, regulations and taxes as well as the convenience and flexibility offered by operating informally (Nelson, 2003; Maloney 2004, Chen, 2012, Olomi, 2001; Ssendi, 2014). Rational exit is partly possible because of weak enforcement of regulations.

The dual economy model casts the informal sector as a unique segment of the economy, characterized by low levels of skills, poor technology, low productivity, low incomes and therefore inability to comply with the standards of the “modern” economy. The poor and low skilled people find the informal sector the only option for securing their livelihods (Lewis, 1954; ILO, 1972; Chen, 2009; Chowdhurry, 2007). Initial views of the dual economy assumed that it was a temporary phenomenon that would disappear as the modern sectors expanded (Lewis, 1954). However this has not happened. Recent research findings (see La Porte, 2014; Kickpatrick, 2014; Rothenberg, 2016) as well as this study have established that the dual economy perspective explains informality for a large part of the economy in developing countries. A majority are unable and unwilling to formalize due to very low levels of scale and productivity.

0.3. FORMALISATION APPROACHES, EXPERIENCES AND RESULTS

Overview of generic approaches to business formalisation
The study has established that different approaches have been used in different countries to reduce the proportion of the informal economy with different results. These include (i) building awareness, capacity and productivity of operators (ii) providing workspace, (iii) simplification of regulations and/or development of special policy, regulatory and institutional framework for micro enterprises and (iv) enforcement of regulations

Direct and Indirect Formalisation
The conventional approach to formalisation has been a direct one, whereby the government, its agency or a local government deals directly with the businesses to provide formalisation
related interventions - training, information, allocating, constructing and managing workspace; simplifying regulations and enforcing regulations. Recent research reports marginal impact of regulatory reforms on formalisation on informality (Kickpatrick, 2014; Rothenberg, 2016). Also, this study has established that attempts by the governments to provide workspace, training, finance and other forms of capacity building have not had much impact. As well, governments have not been successful in delivering a scalable workspace provision model for the growing number of micro enterprises. Government owned premises are encumbered by uneconomic pricing, politicisation and rent seeking.

The research team observed an emerging, indirect approach to formalizations, whereby the state, its agency or the local government empowers business associations to partner in improving traceability, control and access to resources and services that informal enterprises need (capacity building, premises, markets, etc) and instituting self regulation mechanisms within the associations or cooperatives. Rwanda is a clear leader in indirect formalisation, among the countries studied and thriving cooperatives of informal operators with elaborate databases and investing in quality premises can be observed in almost every sector. Kenya has instituted a policy, regulatory and institutional framework, which provides for stepped up formalisation starting with traceability through registration with associations, followed by location in recognized premises and finally registration/licensing with mainstream government entities. The framework includes a special micro and small enterprises Act, Micro and Small Enterprise Agency (MSEA), Registrar of associations, etc.

Strong associations are able to create a mutually re-enforcing dynamic among the four pillars of business formalisation: to police members, influence policy makers, provide or influence availability of premises and markets, contribute to capacity building, which in turn attracts members and strengthens the association.

0.4. CONCLUSIONS AND RECOMMENDATIONS

0.4.1 Conclusions

The study has generated a number of important lessons and conclusions.

*To achieve large scale (inclusive) formalisation, a different approach is needed.* What is referred to as the informal sector will remain a significant part of the economy for many years to come and we must find appropriate ways of managing it as it is. Transformation of a large part of the informal economy cannot be achieved through a narrow, legalistic approach to formalisation. It needs to consider at least four key pillars – (i) building awareness, capacity and productivity; (ii) facilitating access to premises and markets; (iii) having right regulations for micro enterprises and (ii) effective enforcement for large numbers of micro enterprises.
The use of indirect formalization through empowering associations and cooperatives to deliver these formalisation services to their members is far more effective and efficient compared to use of formal government institutions. The cost structure of government institutions as well as their capacities does not match the task of engaging with a large number of tiny businesses with very low levels of productivity. As well, the use of associations resolves challenges related to under pricing and rent seeking in workspace managed by the government. Direct formalisation will work for only a small part of the economy and leaves out the base of the pyramid. Indirect formalisation has greater potential of being inclusive and reaching the base of the private sector pyramid (See below).

Due to failure of past formalisation attempts, a paradigm shift is taking place in terms of designing specific policy and regulatory framework for micro enterprises. Adoption of indirect formalisation - working through associations and cooperatives (pooled formalisation) generates a mutually re-enforcing dynamic among the key formalisation pillars. The association/cooperative acts as a hub that creates a mutually re-enforcing dynamic with the key formalisation pillars, to deepen formalisation through capacity building, advocacy, self regulation, provision of premises, etc all of which positively impact the association. Interesting examples exist for Tanzania to adopt.

The absence of an appropriate enabling policy and legal framework for managing micro enterprises is exposing the informal operators to many challenges and risks, including a high level of unpredictability (hence inability to save and plan), taxtortion (illegal taxes, levies and rents), limited access to premises (as investors are scared of investing in premises designed for them), limited access to finance (as they are outside the legal framework). Unmanaged informality is also contributing to informalisation of the formal economy, and is a threat to order and security. As well, opportunist politicians are taking advantage of the void of a policy and regulatory framework to use informal operators as their “vote banks”, an approach that does not help anyone in the long run.

0.4.2 Recommendations
**Policy and regulatory framework**

Based on the findings of the study, it is recommended that Tanzania and other countries should consider designing a dedicated policy, regulatory and institutional framework for micro enterprises and promotion and facilitation of indirect formalisation. Key aspects of the policy should include:

(i) To recognize indirect formalisation and redefine formal business to one that is “traceable”, even if it is through the databases of the associations

(ii) To empower associations of micro enterprises to register members, provide self regulation and act as a platform for business development and other services, including insurance, social security

(iii) To introduce special business permits issued by LGAs for businesses that are indirectly formalized with a flexible schedule by mobile phone

(iv) More inclusive urban planning framework that provides for operations of micro enterprise

(v) Institutional framework (roles) and capacity building of LGAs to support indirect formalisation

**Access to workspace**

Provision of workspace and construction of business premises for food vendors, street traders and other informal operators should be given high priority in all urban areas. The model for building structures for micro enterprises should change in favour of ownership by the operators through their own associations or other private sector investors. This is apparently the most effective way of managing political interference, rent seeking and making such investments attractive to investors.

Some of the successful engagement of local government and cooperatives in Rwanda has been catalyzed by a Business Formalisation Challenge /competition involving local governments and government agencies in undertaking pooled formalisation and self regulation in their respective sector/jurisdictions. It would be useful for stakeholders in the business environment reform arena to introduce such a competition in other countries.

**Further research**

The findings of the study have shed some light on lessons and potentially workable models for large scale business formalisation. However, there is a lot that needs to be better understood in order to design appropriate formalisation policy. Some of the aspects that demand further research include:

- Examining the potential of informal enterprises for self regulation in different sectors
- Studying the ability of informal operators to pay for rent, and establishing optimal levels and mechanisms for pricing workspace/premises
- Piloting indirect formalisation as part of action research in some sub-sectors, in partnership with interested local governments
1. INTRODUCTION

1.1 Background

The concept of informality has evolved substantially since the 1970’s, when the term “informal sector” was coined for the first time, to today’s broader notion of the “informal economy” as agreed at the 2002 International Labour Conference\(^1\). To date, the informal sector remains a prominent characteristic of many economies, with millions of entrepreneurs operating and pursuing their livelihoods in conditions of informality. The informal sector accounts for 82 percent of non-agricultural total employment in South Asia, 66 per cent in sub-Saharan Africa, 65 per cent in East and South-East Asia (excluding China) and 51 percent in Latin America\(^2\). In Tanzania, the sector accounts for 80 percent of employment, 70 percent of the services consumed by the poor and 39 per cent to GDP\(^3\). It absorbs over 62.5% of the urban labour force annually versus 8.5% by the formal sector and more than 80% of operators are self-employed without employees\(^4\).

Despite many efforts to promote formalization, informality in Tanzania, as in many other developing economies, flourishes. Yet, by operating outside the legal framework, informal enterprises are effectively delinked from formal market mechanisms, a situation that denies them the legal recognition, freedom of operation and ready access to strategic opportunities and services, including finance, institutionalized markets and protection by state law enforcement. While local governments impose levies on informal business activities, formalizing invites additional costs of fixed registration and licensing as well as annual income taxes. The additional costs that come with greater visibility and compliance are an added disincentive for formalisation.

Business informality in some developing countries and Tanzania in particular is made worse by the socialist history, which engendered a business environment that is overly difficult even for medium and large enterprises. Rather than being short, simple, and cheap, the regulations are numerous, complex, lengthy, and expensive to comply with. In many cases, compliance involves physical visits to multiple government agencies and an opaque process with a high degree of discretionary powers by government officials and frequent need to pay bribes. It is therefore natural that entrepreneurs at the bottom of the pyramid, who dominate the informal economy, would find it far more difficult and expensive to comply with.

Because of its sheer size and diversity, attempts to understand and address opportunities and challenges of informality require a segmentation approach. A large majority of informal operations are in street trading (Lyons and Msoka 2009). Street-trade refers to all non-criminal commercial activity dependent on access to public space including market trade, trade from

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\(^2\) ILO, (2013). Transitioning from the informal to the formal economy, International Labour Conference Report
fixed locations and hawking (Lyons and Brown, 2009). The Institute of Liberty and Democracy (ILD, 2005) estimated that 55% of small businesses in Dar es Salaam, Tanzania, were in commerce, with 30% in services and only 15% in manufacturing. The street-vendor population of Dar es Salaam city alone was estimated at 700,000 or 16% of the population in 2010 (Lyons and Msoka, 2010). Businesses in this segment include retail of a wide range of products through hawking, street side sites, roadside stalls, etc.

1.2 The research issues

The fact that informality is not decreasing suggests that formalization efforts are not quite effective. Apparently government initiatives to promote formalization in some economies including Tanzania have largely been re-active, uncoordinated and not clearly informed by evidence. For the most part, central and local governments view informal operators as a problem and “undesirable”. Despite what governments say, their actions suggest that they do not see the positive potential of informal entrepreneurs. Local governments have mainly attempted to harass and relocate informal entrepreneurs to designated areas which are often far off their markets. Needless to say these efforts have not worked. Central government formalization efforts have been largely influenced by the narrow desire to bring informal enterprises into the tax net, and this only pushes micro enterprises into informality.

There is no evidence that international experience and insights from volumes of research on the subject have been digested and translated into pragmatic formalization measures. At the same time, informality is a complex subject. There are multiple and overlapping segments of informal enterprises, influences and actors. Actors have varied understanding and views of what informality is, why it exists and what needs to be done about it. Cultural values and ideological empathy may also play a role in influencing conceptualization and formalization action, both by the informal operators, influencers (including donors) and policy makers. It is possible that the formalization agenda is being pushed without an informed and shared understanding of its nature, complexity, influences and international best practices in tackling it.

Informality therefore needs to be analyzed in context, in order to get a fuller understanding of why it exists and therefore how it can be tackled. The answer to the “problem” of informality may lie in “thinking outside the box” of conventional institutions and come up with simple pragmatic solutions. It may also be that some countries have already developed simple formalization solutions that could be adapted to Tanzania.

Effective action on formalization therefore requires answers to the following questions:

i) What explains the increasing informality?

ii) What useful insights can be gleaned from existing research on formalisation in Tanzania and other countries to inform pragmatic formalisation measures?

iii) What have been central and local government policy makers’ understanding and approach towards formalisation and what have been the results?
iv) What lessons and best practices on business formalisation exist at national and international level and how could they be adapted to Tanzania?

1.3 Objectives of the study

The Business Environment Strengthening for Tanzania (BEST) - Dialogue Programme is supporting a series of activities that will identify methodologies and measures for making it easier and cheaper to formalize businesses with a view to creating an environment that is more supportive of survival, stability, profitability and growth of informal micro enterprises. The study is expected to bring fresh insights into understanding the phenomenon of business informality and find simple mechanisms to address the problems associated with it. Taking a participatory approach, the study sought to question assumptions about the history, nature, influences and solutions to informality.

The main objective of this study was to investigate pragmatic measures which can be applied to address the problem of business informality and its negative. More specifically, the study intended to:

i) Take stock of studies on formalisation in Tanzania and other developing countries
ii) Take stock of government programs, initiatives and approaches to formalisation in Tanzania and other countries, along with the underlying assumptions
iii) Examine the history and rationale for complex and costly business formalisation in Tanzania and other developing countries
iv) Examine and document experiences, lessons, success stories of countries that have been able to successfully transform their informal sectors, and draw lessons that will inform Tanzanian policies
v) Propose cost effective mechanisms for registering and licensing informal enterprises in Tanzania

The project is divided into three phases. The first phase entailed extensive mapping and review of the business formalisation literature, programs and stakeholders to start drawing insights and provide a basis for a more in-depth engagement with selected key stakeholders. The second phase entailed engagement and consultation with actors to better understand initiatives approaches, experiences and lessons as a basis for coming up with possible formalisation solutions. The next phase will focus on facilitating dialogue with policy makers to influence formalisation decisions and if possible to support implementation as part action research.
1.4 **Approach and Methodology**

**Overall approach**
The study entailed an integrative and holistic approach, encompassing literature review, interviews and focus group discussions with key public and private sector actors in Tanzania, Kenya, Rwanda and Ghana and a survey of informal operators in Tanzanian cities and municipalities with a large concentration of these enterprises. The limited survey was intended to capture the characteristics relevant to formalisation, in order to be able to make robust, evidence based recommendations. Given the concentration of informal operators in street trading and food vending, and also the challenges in managing these, the field study focused mostly on these segments. This has enabled focused identification of challenges, experiences, lessons and workable measures.

**Literature review**
The researchers collected and reviewed important studies on the subject to draw up insights, take stock of understandings and interpretations, as well as proposed policy measures. This was followed by identification, documentation and analysis of past and existing actors and initiatives dealing with formalisation in Tanzania. These include government ministries, policies, agencies, NGOs, projects/programs, etc. The critical analysis focused on their objectives, assumptions, approaches, successes/failures and lessons learnt in light of existing body of knowledge. The findings from the literature review formed the basis for the decision to focus on street trading and food vending, as well as specific research issues and study countries.

**Study areas and respondents**
The study areas in Tanzania were Dar es Salaam (all three municipalities), Moshi Municipality, Mwanza city, Mbeya city and Dodoma municipality. In all locations, the study included focus group discussions, open ended interviews and surveys of informal traders and food vendors. In three urban centres (Dar es Salaam, Mwanza and Moshi), interviews were held with
representatives of the local government, Tanzania Revenue Authority, Tanzania Chamber of Commerce, Industry and Agriculture (TCCIA), and leaders of associations of informal operators.

The areas from where data was collected are shown in Table 1.1

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<th>Tanzania</th>
<th>Ghana</th>
<th>Kenya</th>
<th>Rwanda</th>
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<td>Accra Metropolitan Authority</td>
<td>Nairobi County</td>
<td>Kigali City</td>
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<td>Kinondoni Municipal Council</td>
<td>Ga West Assembly</td>
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<td>Temeke Municipal Council</td>
<td>Ga East Assembly</td>
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<td>Moshi Municipal Council</td>
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<td>Mwanza City Council</td>
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**Data collection**

Data was collected through a survey questionnaire for the 179 micro enterprises and interview checklists for the senior officials and leaders of government agencies, development programs, associations of micro enterprise operators, and local governments.

The research team made a visit to Rwanda from 21st to 26th September, 2015 where meetings and interviews were held with a range of stakeholders from the public sector (Ministry of Trade and Industry, Rwanda Development Board, Development Bank of Rwanda, Workforce Development Agency, Rwanda Cooperative Agency, Kigali City Council, University of Rwanda Entrepreneurship Centre, etc) private sector (Private Sector Federation, a number of associations of micro enterprises.

The team made another visit to Kenya between and 5th and 10th October, 2015 where meetings were held with Government Agencies (Micro and Small Enterprise Agency, Youth Development Fund), Local Authorities (Nairobi County), associations of informal operators (Kenya Alliance of Street Vendors and Informal Traders, Kenya Private Sector Alliance (KEPSA), leaders and traders at various markets (Muthuruwa market), researchers at the University of Nairobi, etc.

Lastly, the team made a visit to Accra, Ghana, from 25th to 30th January 2016, where meetings and interviews were held with a range of stakeholders from the public sector (municipal assemblies, Ghana Planning Commission, etc.) private sector (Ghana Association of Employers, Ghana Association of Traders Unions, Ghana Private Road Transport Association, Ghana Market Women Association, etc.)

**Data analysis and report writing**
The qualitative data was analyzed through a thematic approach, while the quantitative data was analyzed through descriptive statistics. The key findings have been integrated into a synthesis of experiences and lessons, which has been used as a basis for policy recommendations.

**Validation and dissemination**

The final phase of the study will be influencing policy. This will entail engaging private sector organisations, donors and central and government agencies to assess viability of the proposed mechanisms. It may also be possible for the researchers to work in partnership with selected local governments or government agencies to support implementation of the proposed measures. The key findings have been synthesised into shorter articles, which have been presented to the following audiences for dissemination, critical feedback, enrichment and validation.

(i) A stakeholder workshop in Dar es Salaam on 1st March 2016  
(ii) BEST-Dialogue Steering Committee in Dar es Salaam on 11th March, 2016  
(iii) Research for Development REPOA) Annual Research Workshop in Dar es Salaam, Tanzania on 7th April, 2016  
(v) Youth Entrepreneurship Strategy Workshop organized by UNCTAD in Dar es Salaam on 25th June, 2016

The feedback and suggestions made have been reflected in this report.

Also, efforts are under way to publish the findings in international journals. A paper has been prepared for this purpose and is under review.
2.0 THE NATURE OF BUSINESS INFORMALITY

2.1. Introduction
An understanding of informality and its nature is crucial for informing policy and guiding pragmatic actions to address the challenges of the informal sector. In this section, we examine the nature, scale, causes and implications of informality.

2.2. Defining Informality
Informality is an economic phenomenon that has its roots in private commercial activities taking place outside the legal and regulatory realm and thus beyond the reach of the government (Tillman, 2014). Various terms and expressions are used to refer to the economic informality, all of which try to capture the idea that a “large share of economic units and workers remain outside the regulated economic activities and protected employment relationships” (Chen, 2005). Labels used to describe informality include the 'hidden', and 'underground' economy (Fields, 1975), irregular economy (Ferman and Ferman, 1975), extra-legal economy (de Soto, 2000), informal sector (Hart, 1973) and the informal economy (ILO, 2002).

Djankov et al. (2002) classified the informal sector into: (i) underground enterprises, (ii) subsistence enterprises, and (iii) unofficial enterprises. Underground enterprises engage in criminal activities, while “subsistence enterprises” result from ‘coping strategies’ adopted by families to militate against external shocks (unemployment etc)”. Unofficial enterprises are those that try to hide and actively avoid paying taxes or complying with rules and regulations. Feige (1990) proposes a different classification of the “underground economy” in which he distinguishes four sub-forms: (i) illegal enterprises comprising the production and distribution of illegal and banned goods; (ii) unreported economy where much of the transactions are not recorded (cash economy) and so not taxed; (iii) unrecorded economy where enterprises are not captured by the national statistical accounting systems; (iv) the informal economy as economic activities “that bypass the costs of, and are excluded from the protection of, laws and administrative rules”.

The Organization for Economic Co-operation and Development (OECD) (1997) characterized the informal sector as those enterprises that either: a) do not have a legal work site, usually working instead out of private residencies, b) have a low level of capital investment, and c) are managed by family members either in total or in part. Charmes (1993) uses three criteria when defining informal activities. Size of the activity is listed as the most important criterion, keeping of accounts, registration and legal status. In 1993, the International Conference on Labour Statistics (ICLS) adopted an international statistical definition of the informal sector to refer to employment and production that takes place in unincorporated small and/or unregistered enterprises. The enterprises are not included in the law, which means that they are operating outside the formal reach of the law; or they are not covered in practice, which means that although they are operating within the formal reach of the law, the law is not applied or not
enforced; or the law discourages compliance because it is inappropriate, burdensome, or imposes excessive costs. In 2003, the ICLS broadened the definition to include various types of informal employment outside informal enterprises.

Basic business licensing entails a series of steps. In Tanzania, the applicant first obtains an introduction letter from the local government (mtaa) office, which is presented to the tax authority for tax clearance and issue of a tax identification number. Issuance of the tax clearance certificate is preceded by a process of income tax assessment. The TIN along with a completed license application form are submitted to the city/municipal or district trade officer. The trade officer issues a license after ensuring that the applicant has fixed and proper business premises, a title to the land/land license or lease agreement for the intended business. The annual business license fee starts from Tshs 50,000/-. 

Another (optional) level of business formalisation entails registering a business name with the Business Registration and Licensing Agency (BRELA). This accords the owner the right to use a unique name, but does not give legal personality. Business name registration starts by filling an application form, business name search, and reservation, payment of registration fee and issuance of the registration certificate. Business name registration has recently been streamlined, and it is supposed to be doable online, or through the Tanzania Chamber of Commerce (TCCIA) offices at each regional headquarters. Registration fee is Tshs 15,000, and annual maintenance fee is Tshs 5,000/-. 

Company incorporation is an even higher level of formalisation. Incorporation has been simplified by having shorter forms at the BRELA website. It is company incorporation that confers a separate legal status to the business. This formalisation framework is more or less similar in the other three countries (Ghana, Kenya, and Rwanda) that formed part of this study.

Some stakeholders define informality differently though. The major informal sector surveys conducted in the 1990 (URT, 1991; URT, 1995) defined informal businesses as those employing not more than 5 workers. Depending on which of these criteria is used, the proportions of the estimated 3.16 million enterprises in Tanzania (URT, 2012) that are informal vary from less than 1% to 10% Table 2.1.

Table 2.1 How the proportion of informal firms changes with definition used

<table>
<thead>
<tr>
<th>Organisation/Study</th>
<th>Definition of Formal</th>
<th>Proportion of informal businesses using 2010 MSME Survey data</th>
</tr>
</thead>
<tbody>
<tr>
<td>National Bureau of Statistics</td>
<td>Incorporated</td>
<td>Less than 1%</td>
</tr>
<tr>
<td>1991 National Informal Sector Survey and 1995 DSM Information Sector Survey</td>
<td>Employ 5 or more people</td>
<td>About 11%</td>
</tr>
<tr>
<td>2010 MSME Study</td>
<td>Registration by BRELA</td>
<td>About 4%</td>
</tr>
<tr>
<td>Common Usage</td>
<td>Local Government Business Licence</td>
<td>About 10%</td>
</tr>
</tbody>
</table>

Source: Computed from various survey reports (URT, 1991; URT, 1995; URT, 2012)
The most common approach to defining informality in practice has been licensing and registration. Other criterion includes size, workspace, ownership, workforce, visibility, purpose, technology and sector, as shown below. Table 2.2 shows the different identifying features of informality.

**Table 2.2: Defining characteristics of informal enterprises**

<table>
<thead>
<tr>
<th>S/N</th>
<th>Criteria</th>
<th>Identifying informal enterprises</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Legal compliance</td>
<td>• Don’t have business license&lt;br&gt;• Not registered with the Registrar&lt;br&gt;• Don’t have Tax Identification Number&lt;br&gt;• Not incorporated</td>
</tr>
<tr>
<td>2.</td>
<td>Work place</td>
<td>• Home of enterprise owner&lt;br&gt;• No fixed location/premises&lt;br&gt;• Outside registered land</td>
</tr>
<tr>
<td>3.</td>
<td>Ownership</td>
<td>• Own-account (self employed)&lt;br&gt;• Household ownership&lt;br&gt;• Controlled by the owner&lt;br&gt;• No separate set of accounts</td>
</tr>
<tr>
<td>4.</td>
<td>Workforce</td>
<td>• Family labour&lt;br&gt;• Paid domestic workers&lt;br&gt;• Undeclared workers&lt;br&gt;• Casual labour</td>
</tr>
<tr>
<td>5.</td>
<td>Visibility</td>
<td>• Unrecorded in national statistics</td>
</tr>
<tr>
<td>6.</td>
<td>Purpose</td>
<td>• Subsistence&lt;br&gt;• Product destination – at least some to the market&lt;br&gt;• Employment generation for owner&lt;br&gt;• Flexible work arrangement by season, opportunity, role in family</td>
</tr>
<tr>
<td>7.</td>
<td>Size</td>
<td>• Too low level of operation to justify the cost&lt;br&gt;• Not more than 10 employees&lt;br&gt;• Very low level of capital</td>
</tr>
<tr>
<td>8.</td>
<td>Systems/Technology</td>
<td>• Simple technology&lt;br&gt;• Labour intensive&lt;br&gt;• No complete set of accounts</td>
</tr>
<tr>
<td>9.</td>
<td>Sector</td>
<td>• Nonfarm activities</td>
</tr>
</tbody>
</table>

Source: Various publications and reports

**Informality as a multi-dimensional Continuum**

The informal business activities and operations differs widely in terms of income (level, regularity, seasonality), status in employment (employees, employers, own-account workers, casual workers, domestic workers), sector (trade, agriculture, industry), type and size of enterprise, location (urban or rural), social protection (social security contributions) and employment protection (type and duration of contract, annual leave protection). It is possible to find a business that is legally formal (de jure formal) but not compliant to law or good
practice (de facto formalisation) (Nelson, 2002). Informality and informality is therefore a continuum, rather than a dichotomy. Enterprises have different degrees of informality, as defined by different de-jure and de facto dimensions, as shown in Table 2.3.

Table 2.3: Informality is Multi-Dimensional and a Continuum

<table>
<thead>
<tr>
<th>Criteria</th>
<th>Dimensions of informality/formality</th>
</tr>
</thead>
<tbody>
<tr>
<td>Registration and Licensing</td>
<td>a) No fee or levy paid anywhere</td>
</tr>
<tr>
<td></td>
<td>b) Part of an economic group registered at local government</td>
</tr>
<tr>
<td></td>
<td>c) Pays some local government fee or levy</td>
</tr>
<tr>
<td></td>
<td>d) Has Tax Identification Number</td>
</tr>
<tr>
<td></td>
<td>e) Has a Business Licence</td>
</tr>
<tr>
<td></td>
<td>f) Is a Ltd Liability Company but does not fully comply to company law</td>
</tr>
<tr>
<td></td>
<td>g) Is a Ltd Liability company that is complies with the company law</td>
</tr>
<tr>
<td></td>
<td>h) Has a sector licence (e.g. Mining, Food Processing, etc)</td>
</tr>
<tr>
<td>Premises and land</td>
<td>a) Operates from the street</td>
</tr>
<tr>
<td></td>
<td>b) Operates from home</td>
</tr>
<tr>
<td></td>
<td>c) Operates from untitled rented premises with no contract</td>
</tr>
<tr>
<td></td>
<td>d) Operated from untitled premises, with a contract</td>
</tr>
<tr>
<td></td>
<td>e) Business operates from titled premises with a formal rental contract</td>
</tr>
<tr>
<td>Employment and size</td>
<td>a) Works alone (own account)</td>
</tr>
<tr>
<td></td>
<td>b) Only uses household labour</td>
</tr>
<tr>
<td></td>
<td>c) Has one or few employees, no contract, no minimum wage</td>
</tr>
<tr>
<td></td>
<td>d) Has 5, 10 or more employees, no contract, no minimum wage</td>
</tr>
<tr>
<td></td>
<td>e) Has employees with contracts and minimum wage, no social security</td>
</tr>
<tr>
<td></td>
<td>f) Has employees with minimum wage and social security</td>
</tr>
<tr>
<td>Business practices</td>
<td>a) Business transactions mixed with personal/family</td>
</tr>
<tr>
<td></td>
<td>b) Does not keep any record</td>
</tr>
<tr>
<td></td>
<td>c) Keeps some records, no accounts</td>
</tr>
<tr>
<td></td>
<td>d) Business transactions separate from personal/family</td>
</tr>
<tr>
<td></td>
<td>e) Has accounts, but noted audited</td>
</tr>
<tr>
<td></td>
<td>f) Has audited accounts</td>
</tr>
</tbody>
</table>

2.3. Significance of informality

The informal sector accounts for a large part of GDP the employment, services consumed by the poor as shown in Figure 2.1.
Urban populations in most developing economies rely mostly on informal employment, and this trend is growing. For example, in 2006, 529,175 of Dar es Salaam households, or 57 percent, engaged in informal activities compared to 223,707 in 2001.

A large majority (84 percent) of informally occupied people use self-employment as their primary activity. The 2010 survey (URT, 2012) shows that 36 percent engage in informal self-employment because they don't find other work. “Other common reasons include the fact that the sector provides good income opportunities and that these businesses do not require much capital”.

With regard to location, the survey shows that 23.7 percent of men using informal self-employment as their main activity do not operate from fixed locations. A further 14.3 percent undertake these activities in their own or at a business partner’s home, where they have a special business space. By contrast, 23.8 percent of informally self-employed women work within their own home or business partner’s home with a special business space.

2.4 Distribution of informal economic activities

In terms of sector distribution, informal enterprises are mostly concentrated in services.
Table 4.4 shows the number of micro and small enterprises and their relative percentage in the different ISIC categories. The categories are then aggregated to the broad sectors of trade (T), services (S), manufacturing (M), and other (O) services.

Table 4.4: Micro and Small Enterprises by sector

<table>
<thead>
<tr>
<th>ISIC sector</th>
<th>Number</th>
<th>%</th>
<th>Broad sector</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture, forestry, and fishing</td>
<td>13,178</td>
<td>0.4</td>
<td>O</td>
</tr>
<tr>
<td>Mining and quarrying</td>
<td>3,684</td>
<td>0.1</td>
<td>M/O</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>429,050</td>
<td>13.6</td>
<td>M</td>
</tr>
<tr>
<td>Electricity, gas, steam, air conditioning supply</td>
<td>9,849</td>
<td>0.3</td>
<td>S</td>
</tr>
<tr>
<td>Water supply, sewerage, and waste management</td>
<td>1,843</td>
<td>0.1</td>
<td>O</td>
</tr>
<tr>
<td>Wholesale, retail trade, repair of motor vehicles</td>
<td>1,750,897</td>
<td>55.4</td>
<td>T</td>
</tr>
<tr>
<td>Transportation and storage</td>
<td>14,404</td>
<td>0.5</td>
<td>S</td>
</tr>
<tr>
<td>Accommodation and food service activities</td>
<td>836,564</td>
<td>26.4</td>
<td>S</td>
</tr>
<tr>
<td>Information and communication</td>
<td>1,791</td>
<td>0.1</td>
<td>S</td>
</tr>
<tr>
<td>Professional, scientific, and technical activities</td>
<td>9,845</td>
<td>0.3</td>
<td>S</td>
</tr>
<tr>
<td>Administrative and support service activities</td>
<td>8,742</td>
<td>0.3</td>
<td>S</td>
</tr>
<tr>
<td>Public administration, defence, social security</td>
<td>2,670</td>
<td>0.1</td>
<td>S</td>
</tr>
<tr>
<td>Other service activities</td>
<td>80,370</td>
<td>2.5</td>
<td>S</td>
</tr>
<tr>
<td>Total</td>
<td>3,162,886</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

The table shows clearly that informal enterprises are hugely over represented in services and especially trade and repair services.

2.5. Causes of Informality

There has been a lot of theorising on the causes of business informality. However, there are three main perspectives: the exclusion model, the rational choice model and the dual economy model.

**The exclusion model**

According to the *exclusion model*, businesses are rendered informal by legal requirements that are too complex and costly for them. Developing countries especially are characterised by business regulations which are out of reach for the scale and characteristics of a large proportion of their enterprises (de Soto 1989, 2000; Nelson & de Bruijn 2005) and the culture of society (Hyden, 2004; Heili, 2014). Hyden (2004) argues that, developing economies are dominated by informal institutions of power and informalization of political and economic markets with people making deals on the basis of informal reciprocal relationships, in addition to following economic, rational and formal procedures. This view is echoed by many authors who acknowledge predominance of informality in economic, political and social markets in many developing countries (Ninsin, 1991; Utouh, 2012; Hyden, 2004; Anuwa Amarh, 2015). Heili (2014) has argued, for example, that:
There is a fundamental disconnect between informal (indigenous) and formal institutions (transplanted from outside) based on conflicting belief systems, i.e. “personalized” vs. “impersonalized”, manifesting in informal institutions. This mismatch appears as inconsistent enforcement of formal institutions and implementation of policies. The informal institutions, derived from the African belief system, are not providing the necessary legitimacy to formal institutions and thus to governance. A lack of legitimacy arises because informal institutions do not adequately complement formal institutions. Inconsistency over time weakens the credibility of formal governance systems, causing unpredictability in polity environment (Heili, 2014).

The problem of exclusion has a historical root. Business regulation evolved from ancient civilisations as a mechanism to bring order and to levy taxes. Over time, more formal, complex and costly regulations evolved to match the scale and scope of business activities, technology as well as cultural values. As more economically advanced nations colonized less developed ones, they imported their enterprises and transplanted their culturally alien, complex and costly regulations. The colonialists delegated management of economic activities that did not fit their framework (therefore informal) to local governments, or local chiefs. Till this day, although informality persists in developed economies (including former colonies), it is far more predominant in developing countries, where the “modernized” part of the economy is still relatively small and the respective nations are yet to create an appropriate regulatory framework for majority of enterprises.

Part of the problem lies with underdeveloped state institutions. Government agencies and departments in many developing economies are pre-occupied with power and control over the enterprises, rather than facilitation. This encourages operating underground, as businesses attempt to dodge regulators. As well, corruption in the administrative system, which thrives in the context of unrealistic compliance demands, high level of discretion and lack of transparency in the regulatory and administrative system, contributes to informality (ILO, 2002).

According to the structuralism view, the informal sector functions as a cost reducing mechanism for the formal capitalist enterprises, which enables them to increase competitiveness (Castells and Portes 1989). Through dependence on informal suppliers and distributors, larger firms are able to avoid labour and other compliance costs they would otherwise incur if the employees and transactions of their informal suppliers and distributors were handled by them directly. This may lead larger firms to support policy measures that sustain informality.

Informality has political dimensions as well. It is acknowledged that because people dependent on the informal sector for their livelihood do not live by the law, they need political protection. Some politicians take advantage of this vulnerability to trade protection with votes (Sarkar, 2006; Mahvish and Majid, 2014). The high concentration of informal operators in urban areas makes them a “viable vote banks” for politicians (Chatterjee, 2004). Since vulnerability is central for extorting votes, narrow political interests may not seek or embrace solutions that substantially reduces it.
**The rational exit model**

A segment of business operators consciously decide to be informal after weighing the costs and benefits of formalisation. Benefits of informality include avoidance of rules, regulations and taxes as well as the convenience and flexibility offered by operating informally (Nelson, 2003; Maloney 2004, Chen, 2012, Olomi, 2001; Ssendi, 2014). Within the informal economy, there are dynamic people, who take advantage of the low entry and exit barriers to flexibly explore opportunities, skills and talents and to start the entrepreneurial journey at a very basic level. For this reason, the informal economy is also referred to as an “incubator” for entrepreneurship. Informal economy also thrives in developed economies, and not just among the poor or low income. Some see it as “the product and driver of advanced capitalism and the site of the most entrepreneurial aspects of the urban economy, led by creative professionals such as artists, architects, designers and software developers” (Jonatan and Lantz, 2009).

Weak enforcement makes it possible for a large number of firms to consciously opt to operate informally. State institutions in many developing countries have low capacity for inspection and control relative to the huge size of the informal economy (hundreds of thousands or millions of micro enterprises) making it relatively easy for firms to opt out of regulations. Some government officials and politicians double as informal entrepreneurs, and benefit from being unregulated and under-taxed. Many use informal labour at home and in their enterprises. It is therefore not in their interest to achieve effective formalisation of the economy. This contributes to weak enforcement (Muller, 20004; Ahmed, 2011).

**The dual economy model**

According to this model, the informal sector is a, unique segment of the economy, characterized by low levels of skills, poor technology, low productivity, low incomes and therefore inability to comply with the standards of the “modern” economy. The poor and low skilled people find the informal sector the only option for securing their livelihoods (Lewis, 1954; ILO, 1972; Chen, 2009; Chowdhury, 2007). The low awareness, capacity, productivity and growth of most informal operators trap most of them in a vicious cycle of low income-low growth-poverty and informality (Wangwe and Mmari, 2014). For this reason it is inappropriate to assume that every micro enterprise will grow to a formal or substantial size (La Porte, 2014).

Initial views of the dual economy assumed that it was a temporary phenomenon that would disappear as the modern sectors expanded (Lewis, 1954). However, the second economy has remained stubbornly large. One of the reasons is that modern business practices are engendering economic structures that make it increasingly harder for micro enterprises to flourish and graduate from their marginalisation. Among the growing practices of lead firms are concentration of ownership and control, demanding larger volumes, delegating more activities to main suppliers and placing greater importance on standards and certification. It is also noted that profits and returns along value chains are increasingly gravitating towards logistics, branding, marketing and design activities and away from production activities. These
tendencies create an infertile and hostile environment for small economic actors seeking access to modern market value chains (Lewitt, 2008).

Rothenberg et al (2016) recently used nationally representative survey data on micro, small, and medium-sized firms to determine which of the theories theory best explains the persistence and scale of Indonesia’s informal sector. They found that most of the informal firms were very small, micro firms, paying very low wages, relatively unproductive compared to large firms, and managed by individuals with low educational attainment, predominantly supplying products to local markets, and had not recently attempted to expand their operations. They further established that many did not register their businesses either because they had no desire to expand or borrow from formal financial sources.

La Porta and Shleifer (2014) compared productivity of informal firms to that of formal firms in 31 countries and established huge variations as shown in Figure 4.8

Figure 2.2: Proportion of value added per employee in informal firms compared to formal ones

This very low level of productivity is seen as one of the main reasons most informal firms have neither the ability nor desire to formalize.

The South African government has since 2005 officially recognized the existence of the “Second economy”, which its Economic Development Department defines as “the range of activities that are often marginal, outside the regulatory net and survivalist in character.” This amounts to official acceptance of the dual economy thesis.

None of these perspectives alone, fully explain informality. Rather, they are complimentary descriptions of the highly complex, dynamic and heterogeneous phenomenon. Some perspectives more accurately describe certain segments of the informal economy than others.

The exclusion model largely describes enterprises which are unable to formalize due to complexities and cost of formalisation. These are potentially formalizable through simplification of regulations (Anuwa-Amarh, 2015). The rational exit model largely describes enterprises that could formalise, but chose to remain informal because they can get away with it (weak enforcement). The dual economy model largely describes enterprises which belong to the “second economy” and cannot meet the regulatory system of the “first” economy (Lewitt, 2008). These are largely not “formalisable” under existing framework.

2.5. Implications of informality
Informality has a number of advantages and disadvantages to the public, the informal entrepreneurs and formal large firms.

Table 2.8: Implications of informality

<table>
<thead>
<tr>
<th>Group</th>
<th>Advantages</th>
<th>Disadvantages</th>
</tr>
</thead>
<tbody>
<tr>
<td>Informal Operators</td>
<td>1) Offers a livelihood opportunity for a majority of the poor</td>
<td>1) They are locked out of the formal markets for and business development services including access to finance</td>
</tr>
<tr>
<td></td>
<td>2) Possibility to flexibly test skills and opportunities without having to make hefty investments</td>
<td>2) Difficulties in accessing the legal and judicial systems</td>
</tr>
<tr>
<td></td>
<td></td>
<td>3) Lack secure property rights</td>
</tr>
<tr>
<td>Society/ Policy</td>
<td>1) It is a source of employment for a majority of the population in the absence of formal sector jobs</td>
<td>1) Work in the informal sector is not decent (lack of contracts, unsafe working conditions, lack of social security, insurance, etc)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>2) Lack of crucial data for economic policy making</td>
</tr>
<tr>
<td></td>
<td></td>
<td>3) Limits the tax base</td>
</tr>
<tr>
<td>Formal sector</td>
<td>1) Provide some services (raw materials, distribution of goods, etc)</td>
<td>1) Unfair competition in the market</td>
</tr>
</tbody>
</table>

The case for business formalisation is based on the drawbacks of informality and benefits of formalisation show in Table 2.8. However, in practice, policy makers are unable to force all business to formalize because they know that they are not yet in a position to formalize. The result has been a vague policy stance towards informality.

2.6 Conclusion
Business informality is a complex and dynamic phenomenon that has legal, economic, cultural and political dimensions. There are many overlapping segments and explanations of informality. This has contributed to difficulties in coming up with a common definition and clear policy on what to do about informality. Different segments of informal economic activities are likely to respond differently to the same policy measures. The next chapter examines business formalisation approaches and strategies from the literature.

3. BUSINESS FORMALIZATION
3.1 Is formalization important?

From the perspective of the state, formalisation is a means to better capture economic activities and actors into government statistics; increase government control over the activities and actors; expand the tax base; improve quality (decency) of employment, order, hygiene and security. Formalisation is also seen as a way of creating a level playing ground with the formal economic actors and ensuring decent work. Stakeholders also argue that formalisation will benefit informal operators by making it easier to access formal markets (formal large customers, finance), recognition and protection by state agencies and eventually business growth.

Registration and licensing subsumes that the activity in question is volitional, permanent and large enough to justify the cost involved. However, informal activities are dominated by survivalists engaged in informal economic activities that are very small in size, low or no profit, part-time or seasonal with low productivity and limited potential for growth. Most are in business out of necessity and would gladly take jobs in the formal sector if these were available to them (Toroka and Wenga, 1997). While a few may eventually graduate into serious entrepreneurs, few consciously aspire to sustain or grow what they are doing (Olomi, 2001; La Porta, 2014). Other informal operators are just trying out an idea, and intend to sustain it if it works out. Yet, others are employees of other formal entities working on salary or commission basis. Some informal operators change occupations by season (e.g. from farming, street trading, casual work) in response to opportunities. This flexibility is strength of the informal economy that is not as widely available to the formal sector.

Informal business operators with these qualities have low or no long term commitment to the activity and the career. They are just “hanging on” on some activity (Olomi, 2001). For this group, compliance to conventional registration and licensing formalities does not make business sense. It is either too soon, expensive, complex or unnecessary. The supposed benefits of formalization do not apply to this group at their current status/level. Even if legalistic formalisation could easily and freely be attained, many would still not be interested. Forcing them to formalize will kill their businesses, compromising the jobs that they sustain and services that they render to the community. On the other hand, some informal entrepreneurs are engaged in activities with some potential to grow, but find informality a convenient way of exploring their abilities and markets and managing costs and uncertainty as they try to establish their businesses. Some are full time employees or operate other formally established businesses. Some may benefit from formalisation now, but do not perceive that the benefits outweigh the costs and risks of formalisation for them, either because of low awareness, weak enforcement of laws and regulations or a combination. For many, formalisation is possible and

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can be beneficial. For others, the process is too rigid, complex and costly to justify compliance (Utouh, 2002).

3.2 Strategies used to formalize informal enterprises

In order to advance towards MSE formalization, integrated and long term strategies are required that simultaneously address the multiple causes of informality, incorporating issues related to administrative, tax and labour regulations, access to social security and private sector development strategies. Initiatives to promote formalization should include strategies to enhance productivity, improve norms and regulations, generate incentives for formalization and enhance government’s capacity to enforce compliance. It is important that the transition to formality makes good business sense to the operators (ILO, 2014).

The following table summarizes the main strategies used to formalize the informal economy, as documented in the literature.

<table>
<thead>
<tr>
<th>Table 3.1: Possible initiatives for promoting formalisation of MSEs</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Strategies</strong></td>
</tr>
<tr>
<td>Building capabilities and productivity of micro enterprises</td>
</tr>
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<td></td>
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<tr>
<td>Building cooperation</td>
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<td></td>
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<td></td>
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<tr>
<td>Simplification of regulations</td>
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<tr>
<td></td>
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<tr>
<td>Differential regulations</td>
</tr>
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</tbody>
</table>


3.4 Overview of Specific Strategies

**Regulatory simplification**

Of the various approaches to formalisation, regulatory simplification is the most common. This is also the one that has received most attention in terms of evaluation. Most countries in the World have been engaged in extensive simplification of business regulations, partly inspired by
the World Bank Doing Business Reports which rank countries annually according to ease of doing business. All the countries visited (Ghana, Kenya, Rwanda, Tanzania) have implemented several programs intended to simplify business regulations, including those related to formally starting a business and paying taxes. The reforms have included automation of name search, online registration (Tanzania, Rwanda and Kenya), mobile phone registration (Kenya), online and single payment of registration fees (Kenya, Tanzania, Rwanda), Rwanda has been so successful in reforming its business regulations that it ranks number 2 in Africa in terms of the World Bank Ease of Doing Business and number 14 in the World in terms of ease of starting business. Tanzania has, among others, reformed its business laws to allow for single shareholder limited liability companies. Tanzania and Ghana have developed special pension products for individual business operators.

In 2007, a Business Activities Registration Act (BARA) was enacted in Tanzania, with the intention of registering (formalising) every business using registrars of businesses at each local government authority. It has proven impossible to implement due to, among others, the need for massive technical and institutional public sector capacity at all levels to manage the registration and compliance for millions of micro enterprises. Rwanda Revenue Board tried to register all micro enterprises in 2014, only to delete them half way after realising that it was almost impossible given their limited resources, and it would not be cost effective any way.

Regulatory simplification measures undertaken in the past 15 years in most African countries have not substantially reduced the proportion of businesses that operate informally. This was acknowledged in discussions with stakeholders in all three countries studied. Even Rwanda, which has made tremendous improvements in terms of ease of starting business, has not reduced its informal sector (as defined by registration and licensing) substantially. In 2009 alone, following substantial reforms in the company incorporation procedure, 3028 new companies were formed, more than the previous 5 years combined (World Bank 2015). Yet, over 90% of businesses in Rwanda are still informal.

The literature shows that low impact of regulatory simplification is not unique in Africa. Recent experimental studies conducted in several countries in Asia and South America shows that only a small fraction of the informal economy responds to regulatory simplification.

<table>
<thead>
<tr>
<th>Formalization initiative, research team, country</th>
<th>Results</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 One stop shop- combining municipal, state and federal business registration procedures in urban areas. Bruhn (2011), Kaplan and Seira (2011), Mexico</td>
<td>Business registration increased by about 5%, mainly due to wage earners opening new business</td>
</tr>
<tr>
<td>2 One stop shop in less populous municipalities Bruhn and McKenzie (2013), Minas Gerais, Brazil</td>
<td>Firms registering declined in the first 2 months, with no subsequent increase</td>
</tr>
<tr>
<td>3 One-stop shop in 6 cities, Gardenas and Rozo (2009), Mexico</td>
<td>Business registration increased by 5%</td>
</tr>
<tr>
<td></td>
<td>Offer a subsidy for the cost of municipal license to informal firms. Alcazar et al (2010), Lima, Peru</td>
</tr>
<tr>
<td>---</td>
<td>-------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>5</td>
<td>Deliver brochures on process and benefits of formalization, waive registration fee and send a municipal inspector, Andrade et al (2013), Brazil</td>
</tr>
<tr>
<td>6</td>
<td>Provide information and reimburse registration costs for informal firms, De Mel et al (2013), Sri Lanka</td>
</tr>
<tr>
<td>7</td>
<td>Deliver brochures with information to informal firms, Giorgi and Rahman (2013), Bangladesh</td>
</tr>
</tbody>
</table>

Source: Kirkpatrick, Colin, 2014

A recent study (Rothenberg, et al 2016) evaluated the impact of Indonesia’s one-stop-shops for business registration, a large-scale program that attempted to reduce registration costs. Findings showed that the program had no effects on either the firms’ informality rates, or the probability that workers were informally employed. The researchers attributed that to the fact that the dual economy theory best explains why so many firms in Indonesia are informal, and this cannot be changed through simplification of regulations.

No scientific studies on the impact of regulatory simplification in Africa could be found. However, the World Bank (2015) reported that in 2009, following substantial reforms in company incorporation procedures, 3028 new companies were incorporated in Rwanda, more than during the preceding 5 years combined. Although this number looks big, it is a small fraction of the micro enterprises operating informally.

What these findings suggest is that regulatory simplification is not working for the majority of micro enterprises, and the main reason seems to be that such efforts are undertaken within the box of the received regulatory framework which is designed for the mainstream businesses.

**Differential Regulations for Micro Enterprises**

In the 1980s and 1990s, Brazil implemented a series of measures to encourage formalization and promote formal employment in micro and small. A significant landmark was the creation of a special law for microenterprises (Estatuto da Microempresa) in 1984, providing for differential treatment of microenterprises in terms of tax and labour obligations and in relation to access to credit and business development services. The laws provided for differential legal treatment at the different administrative levels, by streamlining, eliminating or reducing administrative, tax, social security and credit obligations. In 1990, an autonomous small and micro enterprise development agency - SEBRAE (Serviço Brasileiro de Apoio às Micro e Pequenas Empresas) was created. Financed through part of the social contributions collected on formal sector wages, SEBRAE became the single most important public agency specialized in small enterprise promotion.
A key component of Brazil’s policy framework for the formalization of micro and small enterprises is encouraging **MSE participation in public procurement**. MSEs wanting to participate in public procurement must be fully formalized. Law 10735 (2003) requires that banks to use 2% of demand deposits to finance low-income individuals and micro entrepreneurs. Also, in 1999, Brazil streamlined its procedures for low-value exports, introducing a simplified customs clearance procedure (*Despacho Simplificado de Exportação, DSE*) for exports worth up to US$50,000.

Micro and small enterprises that opted for the differential regime saw their tax contributions reduced by between 20% and 50%, depending on the type of economic activity performed and the levels of sales. Under *Simples Nacional*, the employees working in micro and small enterprises continue to enjoy the same rights and benefits as other formal wage earners. In 2011, more than 3,400 enterprises or 26% of all exporting micro and small enterprises used the simplified customs clearance procedure to realize almost BRL104 million in sales abroad. That same year, micro and small enterprises accounted for 62% of Brazil’s exporting firms and 1% of exports.

There is no evidence of a substantial reduction of the informal sector in Brazil, following enactment of special regulations for micro enterprises. This suggests that special regulations alone may not substantially impact formalisation.

**Building Capacity and Productivity of Micro Enterprises**

Most developing countries provide some form of capacity building (organisation, training, finance) to informal operators and their associations to enhance their productivity and growth. However, there is scanty evidence of substantial impact of these initiatives. This may be attributed to the sheer large number of informal operators, the unstable nature of their operations and the limited capacities of public and civil society organisations involved.

One of the most interesting microenterprise promotion initiatives has been a local language programming targeting informal micro enterprises implemented in Uganda from 1993 with the support of the International Labour Organisation (ILO). The ILO undertook capacity building and support for segment specific market research using local languages, expanded to 3 and then 34 radio stations. An evaluation of the program revealed that by 2004:

- The programmes were running for up to 7 years with no donor funding
- 33% of radio stations were running small business programmes
- 55 regular business and livelihood programmes running
- 74% of micro enterprise operators regularly listened to the programs and 95% reported that they were beneficial.
- A total of 7 million listeners (74% of adults in mid to low income group) followed small business radio programmes.
- 96% of listeners 56% rated the programmes as highly beneficial
The programmes focused on promoting knowledge, skills and attitudes required to successfully operate micro and small enterprises, guidelines for compliance and reporting barriers and mistreatment of micro enterprise operators. It registered substantial impact including enhanced recognition and protection enterprises, increase stability, productivity and incomes. In a night market in central Uganda, it was established that:

- Income of 60 small scale farmers protected and increased by 50%
- 43 additional farmers entered the market. Women stone crushers in South Western Uganda
- Income of 80 stone crushers increased by between 40-60%

Among market traders in Western Uganda, it was established that there was up to 100% increase in income of 80 to 100 food vendors due to improved facilities and sanitation, attributable to the radio programmes.

3.5 Conclusion
It can be concluded that business formalisation is a useful agenda that however needs to be approached with great care. It is particularly important to consider that the informal economy operators are heterogeneous and that their ability and potential to comply and benefit from compliance with regulations will vary much. For this reason, approaches to formalization must also vary addressing the different challenges that face micro enterprises. There is growing empirical evidence suggesting that regulatory simplification does not work for a majority of micro enterprises. Capacity building through mass media can potentially impact a large part of the micro enterprises. The next chapter examines the informal economy in Tanzania in detail, in order to provide a rich context for the subsequent analysis.
CHAPTER 4: THE INFORMAL SECTOR IN TANZANIA: STREET TRADING AND FOOD VENDING

4.1 Introduction
At the beginning, the focus of this study was on informality and formalization in general. However, for the purpose of establishing deeper and specific insights about informality, the empirical phase focused on street trading and informal food vendors (jointly referred to as street-vendors) owning to their significance and dominance in the urban areas. It is estimated that 55% of small businesses are in commerce, with 30% in services and only 15% in manufacturing, with a similar breakdown in other urban areas of Mainland Tanzania (ILD, 2005). The street-vendor population of Dar es Salaam city for instance, is estimated to comprise close to 700,000 (Lyons and Msoka, 2008). The study explored the main characteristics of the respondents based on data collected from major cities of Tanzania (Dar es Salaam, Arusha, Mbeya, Mwanza and Dodoma). This chapter presents the profile, experiences and challenges facing operators as a basis for further reflection on feasible formalisation measures.

4.2 Key Segments of Street Trading and Food Vending Activities

The study revealed that there are various types of informal traders and food vendors. In terms of workspace, there are:

(i) Weekly market traders. Traders rotate in the markets with each market being active once a week. Each operator is allocated a fixed slot at each market. Each market has a leadership which ensures there is order at the market and that it is kept clean. Traders and food vendors pay a small fee to pay those who clean the market after it is used. Most markets have associations of traders. In Mwanza city, there is an umbrella association of mobile market traders (Umoja wa Wafanya Biashara Minadani).

(ii) Permanent open sites. There are some areas that have been designated as semi-permanent sites for informal traders (e.g. Mlango Mmoja in Mwanza). Some operators have put up some permanent structures, whereas others display and sell their goods from the ground. These are required to pay a small annual fee (e.g. Tshs 40,000/- per year, compared to Tshs 80,000/ per year for a regular license). However, they must belong to an association, and the association must have a TIN number, through which they pay the income tax.

(iii) Designated streets. In addition to weekly markets, some LGAs have designated some streets which are supposed to function as open markets on specific times of selected days (typically weekends and evenings). However, the operators currently operate throughout the day and have flooded non designated streets.

(iv) Street traders operating illegally as hawkers, from pavements or both.
The informal operators are mostly low income people with limited means. While a few graduate to the formal sector after some years, others are trapped in the informal economy for decades, and maybe for a lifetime. Below is a typical example of informal operators, who has remained at a relatively low scale for 15 years.

Mananga came to Mwanza in 2000. He started selling shoes in weekly markets (magulio) for three years, after which he learnt that he could make more money by specialising in school children shoes. Since 2008, he orders shoes from Uganda, which he mostly sells at both a permanent site at Mlango Mmoja. He has one assistant who sometimes sells the same shoes along streets during the peak season. He sells most of his shoes when schools open (especially January), and he is under employed most of the rest of the year. His sales in January can reach Tsh 2,000,000, while in April, it can be as low as Tshs 20,000/- He looks forward to the day when he can travel to Nairobi to buy shoes in larger amounts on his own. Mananga says that their Mlango Mmoja Traders Association requires them to contribute Tshs 10,000 every month. However he and others are not contributing because they are unsure of being able to operate even in the next few weeks.

Similarly, there are many different types of food vendors, depending on the products they offer and the markets that they target and how the service is delivered. The main types are in Table 4.1.

**Table 4.1 Types of Food Vendors**

<table>
<thead>
<tr>
<th>Segment</th>
<th>Defining characteristics</th>
</tr>
</thead>
</table>
| Staple food and bites vendors for low income clients | - This is where over 90% of food vending is concentrated  
- Mostly informal, sometimes casual, part time or seasonal, sometimes just doing it to keep themselves busy  
- Typical products: maize meal, rice, cooked banana, chips with beans, meat, chicken, fish and vegetables  
- Main motive is survival, owners mostly not committed to activity in long term  
- Owner-operated, with no employees or assisted by family member  
- Serving mainly low income people by roadsides, in neighbourhoods or near markets, bus terminals, colleges and construction sites  
- Low levels of education (primary or lower)  
- Limited awareness of or access to critical services  
- Typically no formal employment experience  
- Some have developed from street food vending  
- They make brown bread, chapattis, buns, half cake, etc  
- They sell to restaurants, households, offices both by order and drop in clients  
- Operate informally from home or semi formally from stalls/shops |
| Specialized bites vendors for business and medium and high income clients |  |
Typically have 1 to 4 assistants or employee
Motive could be income supplementation, growth or creating employment for others
Defined location for production, which sometimes serves as outlet
Limited awareness and access to critical services, including training, finance
Education typically up to secondary education
Typically have 5 or more employees
Typically formalized (to be able to issue receipts) but in practice informal practice prevails
Defined location, although many operate from home or other business premises

Caterers for ceremonies workshops, meetings, offices

Source: IMED (2011) and focus group discussions with women groups

4.2.3 Personal Characteristics of Informal Operators
In line with other similar studies in Africa (e.g. Jimu, 2004; Murray, 1991), women are over represented in informal activities that are less demanding in terms of entry barriers as well as low growth potential and low profitability.

The majority of those engaged in trading and food vending were youth below the age of 35. Since selling on the street is a tedious and energy-consuming activity, it is mainly the active and youthful population who get involved. It is however interesting to observe the presence of many females at the age 60 and above.

Table 4.2: Age and Gender of Informal Sector Operators by Type of Activity

<table>
<thead>
<tr>
<th>Age Group</th>
<th>Male</th>
<th>Female</th>
<th>Total</th>
<th>Trading</th>
<th>Food vending</th>
</tr>
</thead>
<tbody>
<tr>
<td>Below 20</td>
<td>5.4</td>
<td>3.2</td>
<td>4.4</td>
<td>2.7</td>
<td>5.9</td>
</tr>
<tr>
<td>20-35</td>
<td>49.5</td>
<td>61.9</td>
<td>53.4</td>
<td>59.5</td>
<td>51.2</td>
</tr>
<tr>
<td>35-60</td>
<td>45.2</td>
<td>33.7</td>
<td>39.1</td>
<td>37.8</td>
<td>40.2</td>
</tr>
<tr>
<td>61 and above</td>
<td>0.00</td>
<td>1.6</td>
<td>0.6</td>
<td>0.00</td>
<td>1.2</td>
</tr>
<tr>
<td>None response</td>
<td>0.00</td>
<td>1.6</td>
<td>2.5</td>
<td>0.00</td>
<td>1.2</td>
</tr>
<tr>
<td>Total</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
</tbody>
</table>

With respect to education, the findings show that the majority of respondents had attained primary or secondary education whereby less than 3% attained post secondary education. Only 4% of the respondents had no formal education. The findings suggest that, although the level of education of informal operators is low, they are largely literate with basic education.

Table 4.3: Education Level by Gender and Type of Activity

<table>
<thead>
<tr>
<th>Education Level</th>
<th>Male</th>
<th>Female</th>
<th>Trading</th>
<th>Food Vending</th>
</tr>
</thead>
<tbody>
<tr>
<td>No formal education</td>
<td>4.3</td>
<td>4.9</td>
<td>4.1</td>
<td>4.8</td>
</tr>
<tr>
<td>Primary education</td>
<td>60.9</td>
<td>54.1</td>
<td>58.1</td>
<td>59.1</td>
</tr>
</tbody>
</table>
Street vendors sell a wide range of products (Figure 4.1).

Interviews with selected street vendors revealed that the major factors that influenced the choice of the products sold were demand for the products and ease of storing, packing and unpacking the products.

The food vendors were mostly selling snacks and variety of food at the fixed food stalls (Figure 4.2). Some were selling cooked food in the street while others were selling coconuts, beverages and eggs.
4.3 Sources of Street Vendors’ Merchandise

The major sources of street vendors’ merchandise were wholesalers, local manufacturers, importers and retailers (Figure 4.3). This shows that informal business operators are linked to the formal economy as they produce for, trade with, distribute for and provides services to the formal economy. Since informal operators act as distributors of and suppliers to formal business operators, they play an important role in the value chain of formal enterprises.

Figure 4.3: Sources of Vendors’ Merchandise
Informal traders are the best customers of importers and wholesalers. In Kariakoo, the biggest shopping centre in Tanzania, interviewees estimated that for instance, wholesalers depend for more than 60% of their sales from street traders and they are among the reasons as to why the sector grows every day.

Some traders avoid import duties and VAT and sell products at very low prices via informal traders, thus presenting unfair competition to their counterparts. This is done in different ways. Some importers import their merchandise through informal routes without paying taxes, and sell directly to street traders from unlicensed businesses. Others may import legally, but resale on sub-wholesale to the informal traders. It was reported that there are shops in Mwanza city which operate mainly as outlets for street traders, and they don’t issue any receipts to the later. They appear as small shops, but they are handling large volumes and replenishing stocks very frequently. The existing environment penalizes businesses that are formalising by allowing unfair competition from those who remain formal. There are no mechanisms for operators who have no premises to pay any kind of tax. Most informal traders try to remain informal even after their businesses have grown, in order to benefit from lower taxes/fees. There are even formal businesses that are informalising by selling most of their merchandise informally through street traders (some located next to their shops) paid on commission. While informal trading has been mainly observed at the retail level, there is now a growing informalisation of wholesale trade.

4.4 Motivation for starting business

The study shows that almost 87% of the respondents established and owned the business they were running. While the majority of businesses were sole traders, a few were family owned (2%) and partnership (6%). A majority of the respondents reported they either started informal business because they had no opportunity for further education or because the business was the only way for them to meet their personal and family obligations. The reasons given by the respondents are quite similar to reasons established in other African countries. For instance, a survey of urban informal economy in Ghana by Eben (2015) reported that most traders were in business because of preference of being ones’ boss, absence of formal work and opportunities to earn extra income. Mutullah (2003) pointed out that street vending attracts those who have limited opportunities for obtaining formal employment and it minimizes chances of social exclusion and marginalization.

Therefore, it is important to note that informal traders and food vendors include not only survival activities but also activities with growth potential.

Figure 4.4: Factors that motivated the respondents to start business (%)
4.5 Ownership and Use of Communication Devices

The majority of respondents owned the mobile phones (including smart phones), radio and TV. When they were asked about the use of communication devices, they noted that they use them to communicate with their families and customers.

Figure: 4.5 Ownership and use of communication devices by Street vendors

- Ownership
- Use
This high level of ownership and use of mobile phones show that it is potentially possible to register businesses and for them to pay levies or taxes through that medium.

4.6 Membership to Business Associations

Only 7% belonged to business associations. Limited membership to business association was reported to be due to lack of awareness of the value of business association and the unpredictable future of their operations. When asked about their incentive for joining the association, those who were members of associations expected to benefit from access to loans, to be supported in social problems and access training.

Table 4.4 Membership to Business Association

<table>
<thead>
<tr>
<th>Are you a member of any of business association?</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>No</td>
<td>152</td>
<td>95.6</td>
</tr>
<tr>
<td>Yes</td>
<td>7</td>
<td>4.4</td>
</tr>
<tr>
<td>Total</td>
<td>159</td>
<td>100.0</td>
</tr>
</tbody>
</table>

The low level of participation in mainstream associations can be explained by the same factors that explain low level of licensing and registration. Most business associations, such as Tanzania Chamber of Commerce, Industry and Agriculture only admit businesses that are licensed. Even associations of informal operators demand regular fixed contributions and subsumes that the activity is long term. Some operators were not even aware of existence of associations of informal operators.

4.7 Access to Premises by Street Vendors

About 44% of street vendors operated under a rented permanent building while 20% operated under temporary sheds and 33% in the open space. The study indicates the daily, weekly and monthly rents vary across various businesses (Table 4.5). It appears that most respondents pay rents ranging from TZS from 10,000-30,000/ per month paid on monthly basis (Figure 4.6). There are a few cases where informal business operators pay less than TZS 10,000 per month. However, some operators pay rents on daily basis ranging from TZS 500-10,000/=. There are a few cases where street vendors pay weekly rent ranging from 500-10,000/=. Even though the rents charged appear to be relatively affordable, the majority of respondents reported that they were expensive as compared to the volume of their businesses.

Table 4.5: Ownership of Business Premises

<table>
<thead>
<tr>
<th>Type of Premises</th>
<th>Nature of Ownership</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Owned by me</td>
<td>Rented</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Since permanent premises are a requirement for business licensing, formalization becomes a challenge. In line with the findings by Charles (2014) and Mutullah (2003), the issue of business premises is one of the factors encouraging informal traders to operate along the streets of the city. Lack of premises thus constrains informal businesses from both the regulatory and operational points of view, making it difficult for them to formalize. Although large formal enterprises are charged rent based on square metres occupied, the rent charged to most informal enterprises is based on estimate made by landlords and in most cases it is costlier. Besides the cost of rent, conditions for rent require entrepreneurs to pay in advance on semi-annual or annual basis.

Unfortunately, some places that could be affordable by street vendors are not easily accessible by customers and most rental properties are of low quality lacking infrastructure such as roads, water and sanitation facilities. As a result, most street vendors fail to rent premises that would allow them to register their businesses and become formal. Lack of premises also exposes informal operators to poor working conditions, theft and loss of productivity. Experience in major cities shows that storage and display space has to be rented from neighbouring residents or other entrepreneurs, a night watchman hired, and goods moved to and from the workplace every day.

Lyons and Msoka (2009) found that few available designated spaces in Tanzania were attractive to customers. A large proportion of stalls in the designated places are not visible to passers-by. Since the main marketing strategy by street vendors is to sell their goods to passer-by, if they decide to move to a specific location, they must adopt new strategy of attracting customers to the off-street markets. Unfortunately, street vendors are not prepared for the task. When the street vendors are relocated, new vendors come and take the territories left behind taking advantage of already established customer base.

<table>
<thead>
<tr>
<th></th>
<th>Column 1</th>
<th>Column 2</th>
<th>Column 3</th>
<th>Column 4</th>
</tr>
</thead>
<tbody>
<tr>
<td>Permanent building</td>
<td>2.5</td>
<td>44.3</td>
<td>0</td>
<td>46.7</td>
</tr>
<tr>
<td>Temporary shed</td>
<td>8.2</td>
<td>11.5</td>
<td>0</td>
<td>19.7</td>
</tr>
<tr>
<td>Open space</td>
<td>1.6</td>
<td>23.8</td>
<td>8.2</td>
<td>33.6</td>
</tr>
<tr>
<td>N</td>
<td>15</td>
<td>97</td>
<td>10</td>
<td>122</td>
</tr>
</tbody>
</table>
The market for street vendors is largely the pedestrians who pass by on their own businesses. In a few cases, especially when street vendors have done business in one spot for a long time, customer relations develop thereby expanding the market beyond the pedestrians. Some street vendors look for customers in offices, homes and beyond the urban areas where they are based.

There have been attempts to move street traders to particular designated places by government. However, when the city security officers move street traders from certain places the former relocate to other areas. When the enforcement becomes lax, the traders go back to their locations while the municipal councils do not have resources to patrol everywhere. Informal vendors were often found operating in areas where the local authorities did not want them to be. In some cases, are allowed to operate along the selected spaces were considered temporary and eviction occurred at the will of urban authorities. The informal traders’ coping strategy of investing very little to build temporary structures only compounds the problem, because the more temporary the structure is, the more likely the local authorities are to demolish it. On the other hand, investing in a structure that looks acceptable is no guarantee that it will not be demolished.

In the absence of a streamlined governance framework for informal business activities and sites, opportunist actors have taken the role of informal landlords, protectors and tax collectors. From our interviews with street traders, it is clear that there are many places in the urban areas which are “ruled” by opportunists, who must be paid daily, weekly or monthly by informal operators in a particular street or location. This “taxtortion” is practiced by one or multiple actors on a single business. Taxtortionists range from local government (mtaa) leaders,
security guards/police, owners or workers of adjacent properties, guys who claim control of a street, area or site. It is usual for initial occupiers of sites to “lease it out” to subsequent users regardless of whether they have a formal right to it. The daily rates range from Tshs 2000/- per week to Tshs 5,000/- per day. Around busy bus terminals and market centres, the charge is at least 1,500 per day. In return for the payment, the taxtortionists sometimes alert the informal operators of any impending inspection by officers from the local government. Places where this phenomenon was observed include the area adjacent to Mawasiliano Bus Terminal, in Dar es Salaam, former Mwenge Bus Terminal, Mbezi Makonde and Kariakoo.

4.8: Business Registration and Licensing

In this study we attempted to establish the number traders and food vendors who had business license and agencies which provided them with the license. The findings indicate that almost 97% of respondents did not have a business license while the rest had business license from City or Municipal Councils (Table 4.5). Although TRA does not issue business license, at least 0.6% of the respondents claimed that they had a license from TRA implying that they had TIN number.

The study shows that the majority of street vendors had never heard about a business license or felt that their businesses were too small to afford the cost of formalization (Table 4.5). Around 12% of the respondents knew about business license, but, they did not know how to get it. While others felt that the process of getting the business license was complex, some respondents reported that their businesses were seasonal. There were some who were still testing their business concepts before they register. In view of this, it is clear that limited awareness about the cost and process of registering the business contributes to informality of street vendors.

<table>
<thead>
<tr>
<th>Why Street Vendors don't have Business License?</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>I never heard of a business license</td>
<td>53</td>
<td>34.4</td>
</tr>
<tr>
<td>I know about a business license, but I don’t know how to get it</td>
<td>19</td>
<td>12.3</td>
</tr>
<tr>
<td>The process of getting a license is too cumbersome for me</td>
<td>7</td>
<td>4.5</td>
</tr>
<tr>
<td>My business is too small to afford the cost of formalization</td>
<td>53</td>
<td>34.4</td>
</tr>
<tr>
<td>This business is seasonal</td>
<td>12</td>
<td>7.8</td>
</tr>
<tr>
<td>I don’t own this business</td>
<td>2</td>
<td>1.3</td>
</tr>
<tr>
<td>I am still trying to find out if the business will work</td>
<td>7</td>
<td>4.5</td>
</tr>
<tr>
<td>It is not a serious business</td>
<td>1</td>
<td>.6</td>
</tr>
<tr>
<td>Total</td>
<td>154</td>
<td>100.0</td>
</tr>
</tbody>
</table>

With respect to business registration, the study indicates that none of the respondents was registered with BRELA. The reasons for not registering with BRELA (Table 4.6) show that the operators either do not know about the process (88%) or feel that their activities are just too small for the bother (7.6%).
Table 4.6: Business Registration

<table>
<thead>
<tr>
<th>Have you registered with BREL A?</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>No</td>
<td>160</td>
<td>100.0</td>
</tr>
<tr>
<td>YES</td>
<td>0.00</td>
<td>0.00</td>
</tr>
</tbody>
</table>

If no, what the main reason?

<table>
<thead>
<tr>
<th>Reason</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>I never heard about BREL A</td>
<td>132</td>
<td>83.5</td>
</tr>
<tr>
<td>I don’t know how to register a business</td>
<td>8</td>
<td>5.1</td>
</tr>
<tr>
<td>The process of registration is too cumbersome to me</td>
<td>3</td>
<td>1.9</td>
</tr>
<tr>
<td>The cost of registration is too high</td>
<td>2</td>
<td>1.3</td>
</tr>
<tr>
<td>My business is too small to be registered</td>
<td>12</td>
<td>7.6</td>
</tr>
<tr>
<td>No response</td>
<td>1</td>
<td>0.6</td>
</tr>
</tbody>
</table>

Paying income tax and obtaining a taxpayer’s identification number is a requirement for obtaining a business license. Since the tax rates are perceived as being too high by street traders they would act as a disincentive to formalize. The most critical issue is the requirement for up front tax payment, before the business even starts. The reason tax officials give for such an imposition is that micro and small entrepreneurs cannot be relied on to faithfully report their earnings.

The issue of tax compliance was further analyzed particularly on the willingness to make pay and the modality of tax payment. At least 60% of the respondents expressed readiness to pay taxes. Out of these about 39% said they were willing and able to pay taxes on monthly basis. Others were willing to pay taxes on daily and/or weekly basis. This implies that if a proper tax system is designed and an affordable tax charged to informal traders, some would pay taxes. The government can therefore design a mechanism of integrating street vendors into tax system by for example introducing the mobile phone tax remittance on daily, weekly or monthly basis.
### Table 4.7 Street Vendors Tax Preference Payment Modality

<table>
<thead>
<tr>
<th>Would you be able and willing to pay tax to the government?</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>No</td>
<td>62</td>
<td>38.5</td>
</tr>
<tr>
<td>Yes</td>
<td>96</td>
<td>60.8</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>158</strong></td>
<td><strong>100.0</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>If yes, what is your preferred payment modality?</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Daily</td>
<td>33</td>
<td>35.1</td>
</tr>
<tr>
<td>Weekly</td>
<td>10</td>
<td>10.6</td>
</tr>
<tr>
<td>Monthly</td>
<td>36</td>
<td>38.3</td>
</tr>
<tr>
<td>Every day when I do business</td>
<td>9</td>
<td>9.6</td>
</tr>
<tr>
<td>As planned by the government</td>
<td>6</td>
<td>6.4</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>94</strong></td>
<td><strong>100.0</strong></td>
</tr>
</tbody>
</table>

However, given the low productivity of most informal operators and the general lack of record keeping and costing, it is hard to determine businesses that make profit and therefore should be subject to income tax. The result is that loss making and profitable informal operators are treated in the same way.

### 4.9 Challenges of Street Trading and Food Vending

Respondents were asked to state the three most critical challenges they were facing in running their businesses aside from premises. As shown in Table 4.8, the most critical challenges were failure of their customers to repay debts, harassment by state, high taxes and prevention from doing business in some areas.

#### Table 4.9: The top ranked key challenges facing street vendors

<table>
<thead>
<tr>
<th>Challenges</th>
<th>Ranked #1</th>
<th>Ranked #2</th>
<th>Ranked #3</th>
<th>Total Frequency</th>
</tr>
</thead>
<tbody>
<tr>
<td>Failure of customers to pay debts</td>
<td>29</td>
<td>15</td>
<td>0.00</td>
<td>44</td>
</tr>
<tr>
<td>Small capital</td>
<td>22</td>
<td>11</td>
<td>14</td>
<td>47</td>
</tr>
<tr>
<td>Harassment from government security guards/police</td>
<td>39</td>
<td>9</td>
<td>6</td>
<td>54</td>
</tr>
<tr>
<td>Prevented from doing business in some areas</td>
<td>11</td>
<td>26</td>
<td>3</td>
<td>40</td>
</tr>
<tr>
<td>High tax/levies from government</td>
<td>11</td>
<td>3</td>
<td>4</td>
<td>18</td>
</tr>
<tr>
<td>Inflation</td>
<td>1</td>
<td>11</td>
<td>13</td>
<td>25</td>
</tr>
<tr>
<td>Shortage of customers</td>
<td>6</td>
<td>19</td>
<td>15</td>
<td>40</td>
</tr>
</tbody>
</table>

The results show that the major challenge facing by street vendors is eviction by government authorities. The most common form of harassment was confiscation of the vendors’ products and goods. Some vendors had been beaten by city police, and/or prevented from selling their goods in certain locations. They reported during the interview that they were constantly
harassed by the authorities through both planned and unplanned evictions aimed to clean the city. In some cases security officers take their goods and/or demand money and food vendors for them to be allowed to operate. Confiscation and destruction of stock and demolition of structures situated in previously tolerated trading areas results into heavy losses for street traders. Sometimes, informal operators end up spending long hours or days in court, paying hefty fines or suffering physical assault. In the big cities, clashes between police and street traders when the former attempt to confiscate street vendor’s goods, coerce, beat and expel them from the streets to less desirable parts of the city is a common occurrence. When asked about their coping strategy, all respondents attested that they had to regularly bribe the authorities in order to carry out their business on the streets.

Some importers and wholesalers of imported products are also retailing at the same or lower prices compared to retailers who are buying from them. Also, unpredictability of the stance of the government towards the informal sector operators. The stance changes depending on who is the leader at regional or district level and also how close the elections are. Authorities relax the stance close to elections and often evict traders after the elections. This makes it very hard for operators to plan.

Harassment of informal traders is pervasive across African cities (Lonrenço-Lindell, 2004). It has been observed in countries like Zimbabwe (Skimmer, 2008), Zambia (Transberg Hansen, 2004) and South Africa (Rogerson and Hart, 1989). Actually, in most cities vendors are viewed as a problem that has to be controlled rather than production units that contribute to the urban economy.

Existing research suggests there is continuum from large scale, sustained evictions of street traders, to sporadic event-driven evictions (Skimmer, 2008). Although there are instances of lower level ongoing harassment of vendors, and finally some examples where street traders have been integrated into urban plans, most cities around the world tend to adopt one of two stances towards street trade: trying to eliminate it or turning a blind eye to it (Bromley, 2000). Either stance has a punitive effect: eviction, harassment, and the demand for bribes by police, municipal officials and other vested interests. Around the world, few cities have adopted a coherent policy or set of regulations towards street trade.
4.10 Services Needed by Street Vendors

As shown in Table 4.10, street vendors need business advice, linkage to customers and suppliers, market information, business advice, credit and training. It appears that very few access the services. The services identified are mostly business development services needed by small and medium enterprises. The services identified are mostly business development services needed by small and medium enterprises.

Table 4.10: Type of services needed by street vendors

<table>
<thead>
<tr>
<th>Which services do you need?</th>
<th>No</th>
<th>Yes</th>
<th>%</th>
<th>No</th>
<th>Yes</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business advice</td>
<td>14</td>
<td>115</td>
<td>71.9</td>
<td>142</td>
<td>88.8</td>
<td>11.4</td>
</tr>
<tr>
<td>Credit</td>
<td>55</td>
<td>104</td>
<td>65.0</td>
<td>152</td>
<td>95.0</td>
<td>8</td>
</tr>
<tr>
<td>Link to lenders</td>
<td>69</td>
<td>91</td>
<td>56.9</td>
<td>148</td>
<td>92.5</td>
<td>12</td>
</tr>
<tr>
<td>Link to suppliers</td>
<td>75</td>
<td>85</td>
<td>53.1</td>
<td>152</td>
<td>95.0</td>
<td>8</td>
</tr>
<tr>
<td>Market information</td>
<td>79</td>
<td>81</td>
<td>50.6</td>
<td>154</td>
<td>96.3</td>
<td>6</td>
</tr>
<tr>
<td>Training need</td>
<td>56</td>
<td>104</td>
<td>65.0</td>
<td>137</td>
<td>85.5</td>
<td>23</td>
</tr>
</tbody>
</table>

Figure 4.7 Nature of harassment street vendors by local authorities

<table>
<thead>
<tr>
<th>Nature of harassment by local authorities</th>
<th>Frequency</th>
</tr>
</thead>
<tbody>
<tr>
<td>Public health officers constantly find fault just to make us pay fine/penalty</td>
<td>1</td>
</tr>
<tr>
<td>Damage of utensils after refusing to pay tariff which was raised suddenly</td>
<td>2</td>
</tr>
<tr>
<td>Demolition of my booth</td>
<td>3.1</td>
</tr>
<tr>
<td>Public health officers destroyed food after finding it with dirt</td>
<td>3.1</td>
</tr>
<tr>
<td>Prevented to sell goods in some areas</td>
<td>15.3</td>
</tr>
<tr>
<td>I was beaten when found selling goods without receipt</td>
<td>21.4</td>
</tr>
<tr>
<td>Confiscation of my products after being caught doing business in unauthorized areas</td>
<td>53.1</td>
</tr>
</tbody>
</table>
This suggests that capacity building of informal traders should be the integral part of the any initiative aiming at promoting formalization. In view of this, promotion of growth and formalization of informal enterprises must ensure that adequate business development services are offered to informal business operators.

Respondents were asked to give their opinions on what should be done by the government to facilitate smooth operation and transition of their businesses (Table 4.11).
Table 4.11: Opinions of Street Vendors on how to facilitate Smooth Operation of their Business

<table>
<thead>
<tr>
<th>Opinions</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Government should give us loans</td>
<td>33</td>
<td>24.4</td>
</tr>
<tr>
<td>Allocate us to specific business area</td>
<td>53</td>
<td>39.3</td>
</tr>
<tr>
<td>Government should find us market</td>
<td>7</td>
<td>5.2</td>
</tr>
<tr>
<td>Government should reduce tax</td>
<td>6</td>
<td>4.4</td>
</tr>
<tr>
<td>Vendors should be valued and respected</td>
<td>7</td>
<td>5.2</td>
</tr>
<tr>
<td>Security for our businesses against theft and swindling</td>
<td>4</td>
<td>3.0</td>
</tr>
<tr>
<td>Government should remove business hurdles</td>
<td>8</td>
<td>5.9</td>
</tr>
<tr>
<td>The government should control the increase in price of goods</td>
<td>6</td>
<td>4.4</td>
</tr>
<tr>
<td>Government should simplify the process of getting license</td>
<td>2</td>
<td>1.5</td>
</tr>
<tr>
<td>Infrastructures should be improved</td>
<td>2</td>
<td>1.5</td>
</tr>
<tr>
<td>The government should enact law that protect vendors/small traders</td>
<td>2</td>
<td>1.5</td>
</tr>
<tr>
<td>Vendors should be given numerous training</td>
<td>2</td>
<td>1.5</td>
</tr>
<tr>
<td>Government should restore Mwenge bus station</td>
<td>2</td>
<td>1.5</td>
</tr>
<tr>
<td>None response</td>
<td>26</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>160</td>
<td>100.0</td>
</tr>
</tbody>
</table>

A number of interesting ideas were given. However, most respondents zeroed on access to finance and workspace. Informal operators were also asked to suggest their ideas on what should be done to facilitate their formalization. As indicated in Table 4.12, operators mostly emphasised secure workspace, manageable levies/taxes, simplified compliance requirements and affordable credit.

Table 4.12: What should be done to encourage business formalization?

<table>
<thead>
<tr>
<th>Opinions</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Procedures to get license should be simplified</td>
<td>15</td>
<td>10.1</td>
</tr>
<tr>
<td>The government should allocate to specific areas for business to avoid disturbance from municipal security guard</td>
<td>68</td>
<td>45.9</td>
</tr>
<tr>
<td>Government should give us concessionary loan</td>
<td>14</td>
<td>9.5</td>
</tr>
<tr>
<td>Government should reduce taxes/levies</td>
<td>18</td>
<td>12.2</td>
</tr>
<tr>
<td>The Government should first strengthen businesses then consider formalization</td>
<td>5</td>
<td>3.4</td>
</tr>
<tr>
<td>Vendors should be made aware of the importance of formalizing business</td>
<td>2</td>
<td>1.4</td>
</tr>
<tr>
<td>Our security should be strengthened</td>
<td>1</td>
<td>.7</td>
</tr>
<tr>
<td>We should be given business training</td>
<td>11</td>
<td>7.4</td>
</tr>
<tr>
<td>Corruption should be stopped</td>
<td>2</td>
<td>1.4</td>
</tr>
<tr>
<td>Government should not use excessive force against small traders/vendors</td>
<td>1</td>
<td>.7</td>
</tr>
<tr>
<td>Government should formulate policies that guide and foresee small businesses</td>
<td>5</td>
<td>3.4</td>
</tr>
<tr>
<td>Government should establish a good system of paying tax</td>
<td>1</td>
<td>.7</td>
</tr>
<tr>
<td>The government should control the rise of rent on premises</td>
<td>3</td>
<td>2.0</td>
</tr>
<tr>
<td>Preventing the use of foreign currency</td>
<td>1</td>
<td>.7</td>
</tr>
<tr>
<td>Government should use ethical officials to deal with traders/vendors</td>
<td>1</td>
<td>.7</td>
</tr>
<tr>
<td>Total</td>
<td>148</td>
<td>100.0</td>
</tr>
</tbody>
</table>
During the interviews and focus group discussions with Informal operators told the research team that even if businesses that are operating informally comply with the legal requirements, it does not automatically change their disadvantaged position vs. more established formal ones. The leader of the largest informal operators in Tanzania had this to say

*Legal compliance does not automatically enable a micro enterprise access opportunities available to the formal operators - workspace, markets, credit, technology, skills, etc. ........Providing access to an appropriate legal and administrative framework, facilities and markets for micro enterprises is a way of creating a level playing field with their larger, formal counterparts” (VIBINDO, September 2015)*

What is implied in these views is that the existing framework is inappropriate for a segment of the operators, and creating a framework that works for them is not only important, but it is a way of providing a level playing field with larger businesses.

### 4.11 Conclusions

There are a few characteristics of street traders and food vendors that may support the case for their compliance with existing laws and regulations above findings. These are their level of literacy (mostly have at least primary education) and their close interaction with the formal sector as buyers and distributors of the former’s products. All other features disfavour compliance with the existing business registration and licensing framework. Most operators are not even aware of the formalisation framework and even the institutions involved in formalisation, such as Business Registration and Licensing Agency (BRELA), the revenue authority and local governments do not seem to be trying to educate, attract or force a majority of them to comply because they know that they are unable to meet the requirements. The capital base and scale of operations of most of them are way lower than what the regulatory framework subsumes. Most do not have fixed premises that are demanded in the licensing process. The scale and model of business can afford to pay very small frequent payments, rather than annual or quarterly. Their immediate challenge and needs are very more basic (secure premises, capital) and not compliance.

These findings are in line with emerging views on business formalisation. For example, La Porta and Shleifer (2014) recently argued that the productivity of informal firms is too low for them to thrive in the formal sector. Lowering registration costs neither brings many informal firms into the formal sector and that they rarely transition to formality.
5. BUSINESS FORMALISATION IN TANZANIA

5.1 Introduction
There have been many organisations with the agenda of promoting business formalization in Tanzania. These include Government Ministries, Departments and Agencies; Formalisation Programs, research and knowledge management institutions and private sector organisations. These have championed several initiatives to formalize informal enterprises in Tanzania. Below are the most important formalisation related institutions and experiences.

5.2 Policy framework for dealing with informality
Although informal enterprises employ over 70% of the population and generate over 30% of GDP, there is no national policy on informal sector. However, formalization or issues concerning formalization or the informal economy are captured in the National Employment Policy 2008. The Policy deals with the informal sector in section 5.3 where the stated main policy objective is "to transform the informal sector so that it provides decent employment and increase productivity". Policy statements in support of this objective state that:

a. The government in collaboration with other stakeholders shall continue to pursue initiatives leading towards transformation of the informal sector to achieve the goal of decent work and productive employment for all and become formal.

b. The informal sector operators through their organizations shall be empowered to easily access financial services, skills training and business development services to enable them generate sustainable incomes and productive employment

This is one good step towards providing guidance and coherent on business formalisation. However, these policy statements are a small part of the employment policy and are not preceded by or based on adequate analysis and understanding of the nature, issues, actors and causes of informality that would permit informed policy statements and strategies. For example, the policy does not distinguish between the different segments of informal enterprises and how policy responses will differ. This may explain why, despite this policy statement, there is still inadequate coherent and coordinated action in managing informality and promoting formalisation. There is still inconsistent and unpredictable handling of street vendors and food vendors in different localities and at different times because no policy or law provides for how they should be managed.

The 2003 SME Development Policy (URT, 2003) did not have any specific strategies to promote formalisation, although some of the strategies including simplification of regulations are said to have implications on informality. As far as trade is concerned, the ministry intends to mobilize
small businesses to formalize so that they can support export lead growth which is the main focus. MITM define formalization as the process of creating conducive environment for identification and formalizing the large existing segment of informal sector. They acknowledge that the process is so complicated because of the speed to which informal sector is growing as well as heterogeneity of the sector. The ministry welcomes ideas from researchers on which proper way might be used to facilitate voluntary formalization and reduce business informality.

There is an apparent assumption that a large part of informal operators has the potential to grow and/or become formal in the conventional sense. As a result of lack of policy, informal operators face a highly unpredictable environment, because how they are handled can change very frequently, with changes in leadership at regional, municipal, ministerial or local government leadership, election calendar or an impending visit by a respected foreign leader. Some of the local government leaders we talked to said they have resigned to responding to whims of politicians on what to do with the informal economy.

5.3 Institutional framework for managing informality

Tackling informality is closely intertwined with poverty reduction; private sector development, youth development, employment, empowerment, gender, decent work, human rights and micro enterprise development, all of which fall under different ministries. The following are the key institutions engaged in formalisation efforts.

Government Ministries and Departments

Within the central government, there is no particular ministry or agency charged with formalisation of the economy. This may be because of the multifaceted nature of informality. The Property and Business Formalisation Program (PBFP-MKURABITA) is a Government initiative seeking to establish a legal and institutional framework which can facilitate effective formalization of extra legal real estate and business assets. It is located under President’s Office purposively to give it the power needed to overcome entrenched positions and resistance from conventional management of property and the economy.

Several ministries and departments are involved in managing informality and facilitating formalization. The Prime Minister’s Office - Labour and Employment (PMO-LE) Department is responsible for coordination of employment related policies and initiatives, including for informal workers. The Presidents’ Office (Local Government and Regional Administration) is responsible for policy guidance, oversight and coordination of local government authorities at city, municipal and district council levels, which are responsible for management of the local economy, including licensing of (LGAs) which are in turn responsible for licensing, physical planning and location, markets, and day to day management of informal operators. The ministries responsible for youth and gender are automatically associated with the informal enterprises because of the huge concentration of these groups in the informal economy. It is now recognized that promoting decent employment in the informal economy and supporting graduation of informal enterprises are key strategies for empowering these groups. For the
same reason, the ministry that deals with empowerment recognizes that most of those who need economic empowerment are to be found in the informal economy. The Ministry of Industry and Trade is responsible for development, oversight and coordination of SME related policies and well a number of relevant agencies including SIDO and BREL.

**Government Agencies**

Several agencies’ work entails regulation or facilitation of informal businesses and their graduation to formal. The Business Registration and Licensing Agency (BREL) are responsible for registration of business names, company incorporation and issue of some licenses. BREL is recognized as the official registrar of businesses, and therefore must be engaged in any changes relating to how businesses are legally registered. The *National Economic Empowerment Council (NEEC)* is mandated to provide Tanzanians with the opportunity to participate in economic activities, to encourage and promote savings, investments and meaningful economic participation, to promote and support business ventures pioneered and run by Tanzanians. A key role of NEEC is to facilitate unlocking of regulatory and administrative impediments to economic empowerment of the poor, and are therefore a key factor in formalisation efforts. The *Small Industries Development Organisation (SIDO)* is a government agency and the largest organisation for MSME development with branches in all regions. It should therefore be an important partner in formalisation efforts. The *Vocational Education and Training Authority (VETA)* is both a provider and regulator of vocational training in the country. Most of its graduates do not find employment in the formal sector, and therefore join the informal sector. VETA accredits apprenticeship learning and its centres also offer out of school training to different groups including those in the informal economy. Tanzania Revenue Authority is responsible for developing and implementing tax policies, including providing for as many economic actors as possible to be in the tax net.

The management of the informal economy is currently left to local governments. All local governments have offices that deal with trade, and community development. It is not quite clear which department is responsible for the informal sector in general. The Community Development Department supports establishment and strengthening of economic groups, especially among women and the disabled. In some LGAs the department also manages credit schemes for these groups. Likewise the youth and culture department supports formation and strengthening of youth groups and in some cases, it manages credit schemes for youth. However, these departments are under staffed, and their activities can reach only a small fraction of the informal operators. Each LGA also has a trade section, which is responsible for issuance of business licenses. None of the departments has an exclusive role for managing the informal sector. In some urban areas (e.g. Mwanza), an inter departmental task force for dealing with informality has been established. Kinondoni Municipality in Dar es Salaam is the only LGA among the urban areas studied that have a dedicated desk for dealing with informal sector and markets development.

In Tanzania, the trade department in LGAs used to provide training to business operators, although this could reach only a tiny fraction of the informal operators. However, this
department has now been relegated to a section under the finance department. The trade and community development officers have been reassigned to work under finance department to support revenue generation (issue and inspection of licenses). The cooperative department is supposed to support formation and strengthening of cooperatives, including their supervision to ensure they are properly governed. All departments in LGAs are severely under staffed and underfunded relative to what they are supposed to do.

**Private Sector Advocacy Organisations (PSOs)**

There are over 100 business associations in Tanzania, whose responsibility is to advocate for their member’s rights and provide such services as business information and advice. Tanzania Private Sector Foundation (TPSF) is the apex body for the private sector though which dialogue on cross cutting issues takes place with the government. VIBINDO, which is effectively the national representative of the informal operators, is also a member of TPSF. The main forum for dialogue at national level is the Tanzania National Business Council (TNBC), which brings together by 20 key public sector bodies and 20 key representatives of the business community under the Chairmanship of the President of the United Republic of Tanzania.

Some associations are almost exclusively for formal (licensed) businesses, whereas others are almost exclusively for informal (unlicensed) ones. Tanzania Chamber of Commerce, Industry and Agriculture (TCCIA), the largest association of formalized businesses with over 10,000 members, has district and regional chapters. Although its members are mostly licensed businesses, some are registered groups of informal operators. The Association of Tanzanian Employers (ATE) has decent work as one of their agendas and is therefore relevant to formalisation agenda. Viwanda na Biashara Ndogondogo (VIBINDO) Society is the largest organisation of informal sector operators in the country with over 30000 members.

Three types of associations are noted. The first is association of licensed businesses in trade, manufacturing or agribusiness. The most prominent one is TCCIA, a multi-sector and multi-level organisation. The second group is made of associations of specialized sub-sectors, such as porters, taxi drivers, motor cycle drivers and furniture makers. Among these there are fairly well established and registered operators, such as taxi drivers. For example Dar es Salaam International Airport Drivers Association has its own by-laws, providing for scheduling of taxis, fair guide, treatment of clients luggage, etc. The association has a very up-to-date and easily retrievable database which enables the leadership to easily and quickly identify and deal with defaulters.

The third group is made of associations of informal traders and street vendors. Many such associations exist but are generally less developed. VIBINDO brings together a majority of street traders, Umoja wa Wafanya Biashara Walemavu (UWAWADA) is for disabled small traders, Umoja wa Wauza Mitumba (UWAMI) brings together small scale traders dealing with second hand clothes, Umoja wa Baba na Mama Lishe (UBAMALI) is an association of male and female
Research and knowledge management organisations
There are a number of research, consulting and information management organisations that play a key role in analysing and developing government policies relating to formalisation. **Tanzania Trade Development Agency (Tan Trade)** provides information and linkage to local and international markets. **Commission for Science and Technology** (COSTECH) is the national science and technology promotion agency, which should support information management efforts. REPOA and the Economic and Social Research Foundation (ESRF) are research organisations focused on generating evidence for development policy and have had formalisation as a key priority area. Similarly some University centres have expertise and interest in the subject of formalisation. These include the Institute of Development Studies and the Department of Economics at University of Dar es Salaam, Ardi University and Mzumbe University. These should also be engaged in formalisation initiatives.

5.3 Negative consequences of undermanaged business informality
The study has established that inappropriately managed business informality is a threat to development in many ways. Unpredictability means that it very hard for operators to plan, save, invest and grow. In Mwanza for example, the team interviewed a trader who said that their association (Umoja wa Wafanya Biashara wa Mlango Mmoja) decided that each member should save Tshs 10,000/- every month. However, none is saving because they are unsure of their being allowed to operate in the future. This means that while the business environment enacted is hostile. Meanwhile, in Rwanda where the environment is predictable, operators are consistently saving and in the process strengthening their associations and their ability to leverage finance, business premises and respect and partnerships from other stakeholders, including the government.

In the absence of a policy, politicians use informal operators as their vote banks; making decisions that earns them cheap popularity but which have negative consequences in the long run (Joshi, 2002). A typical example is that some politicians have been observed telling traders not to vacate areas where they are not allowed to operate, or to refuse paying market rates for
workspace put up by the local government. This contributes to discouraging LGAs and investors to construction premises. Also, in the absence of a policy framework on micro enterprises, urban planning does not take them into account. As well, the formalisation agenda lacks a clear champion, both at national and LGA level.

Due to erratic handling of informality, informal traders are competing directly with formal retailers. It was reported in several urban areas that some importers, wholesalers and retailers are changing their business models to deal mostly with informal traders to whom they do not have to issue of tax receipts. Representatives of formal traders estimate that 60% of wholesale trade in Dar es Salaam and Mwanza is with street traders. Also, about 60% of respondents in our survey reported to be buying from wholesalers. Some stakeholders also believe that informal traders are a main conduit for illegally imported goods for which VAT and import duty are not paid. Informal traders with cost tax advantage locate next to or in front of formal shops, and some formal shop owners are said to have been forced to close or change business. There are also wholesale shops doubling as retailers, thereby undercutting retailers. This problem extends to the processing sector. In Moshi, it was reported that some small scale formal beverage processes have reverted to informal operations after realising that they could not compete with the informal ones due to the burden of taxes (VAT, excise duty, SDL, etc) that goes with being formal, making it impossible to compete in the same market. Therefore, the formal economy is being informalized, due to weak management of the informal trade. Improved management of informal trade should include ensuring that their supply chain is known and is compliant to taxes.

Unmanaged informality is a threat not only to government but also formal sector operators who fear retribution from the informal operators when viewed as threatening their interests. Formal traders in some of the urban areas visited are even scared of talking about the challenges that informal operations present to them. This scenario is hurting the overall business environment, making cities uncompetitive and unattractive to investors. In the absence of a streamlined governance framework for informal business activities and sites, opportunist actors have taken the role of informal landlords, protectors and tax collectors from informal traders.

5.4 Business formalisation initiatives, approaches and experiences

The following are the key initiatives taken to formalize informal enterprises in Tanzania.

5.4.1 Simplification of business registration and licensing

There have been a number of regulatory reforms aimed, among others, at simplifying the requirements for official recognition of micro enterprises. The following are some of the examples of these reforms:
Special Licences for the tiniest enterprises

From the early 1980s, the Tanzanian government froze employment and real wages had deteriorated to the extent that employees could not make ends meet. They had to resort to either full time, evening or weekend activities to supplement their wages. There was also an increase in the influx of people to urban centres. In response, the government enacted the 1983 Human Resources Deployment Act, which required every able bodied person to be productively engaged. To facilitate that engagement, the law provided for local authorities to issue minor licenses for which they paid a one off annual fee. They did not have to pay any taxes. The “nguvu kazi license” also served as a means of identifying gainfully engaged during crackdown on loiterers, who were forced to go back to their respective villages. The license was issued by the Community Development Department in the local government. Nguvu kazi license could only be issued to operators who had temporary premises. Mwanza City Council decided to establish weekly markets (magulio), in the outskirts of the City to accommodate additional nguvu kazi traders. In Dar es Salaam, the nguvu kazi license led many people to erect temporary premises haphazardly and then apply for the license. As the number of nguvu kazi operators increased, more business operators were hiding behind the license to avoid the conventional licensing and paying taxes. Some local governments started issuing nguvu kazi licenses of shorter durations, so that the fee could be paid several times in a year.

As part of the Business Environment Strengthening for Tanzania (BEST) Programme reforms, the requirement for annual renewal of business license was scrapped in 2004. The nguvu kazi license was also scrapped, with policy makers arguing that since licenses could be renewed free of charge, the minor license was no longer needed.

Waiver of business license fees

The license fees abolished in 2004 were re-instated in 2014, without re-instating the minor license. This might mean that informal micro enterprises now face a more challenging environment compared to the 1983-2004 period. There is need to examine their experience after 2014.

Simplified tax schedule for SMEs and income tax waiver for the smallest enterprises

A key challenge in regulating micro and small enterprises is that they do not systematically record transactions, and therefore have no reliable financial reports. To circumvent this problem, Tanzania Revenue Authority introduced pre-assumptive tax, based on estimated revenue. While this makes life easy for tax collectors, it is a big problem for micro enterprises. A large majority have very low levels of productivity and an unknown proportion must be operating at a loss, sometimes without realising. Yet, they have to pay the assessed tax,
whether they make or lose money. This is one of the most unfortunate injustices to the poor informal entrepreneurs.

In July 2000, the Tanzania Revenue Authority (TRA) introduced a new simplified tax schedule for small taxpayers (as well as simplified balance sheets and tax declaration forms), as part of a drive to make it easier for informal sector operators to formalize and start paying taxes.

Table 5.1 The TRA income tax schedule for ‘small taxpayers’

<table>
<thead>
<tr>
<th>Annual Revenue</th>
<th>Income Tax</th>
</tr>
</thead>
<tbody>
<tr>
<td>0 - 4,000,000</td>
<td>0</td>
</tr>
<tr>
<td>4,000,001 – 7,500,000</td>
<td>150,000</td>
</tr>
<tr>
<td>7,500,001 - 14,000,000</td>
<td>165,000</td>
</tr>
<tr>
<td>14,000,001- 20,000,000</td>
<td>385,000</td>
</tr>
</tbody>
</table>

As shown above, enterprises with less than Tshs 4 million in turnover per year were exempt from income tax. Such a revolutionary act would mean that some of the smallest enterprises do not need to worry about the visibility that comes with registration and licensing as they do not have to pay taxes. However, a quarter of the assessed tax has to be paid in advance of starting a business, which is a very big disincentive. As well, since almost all informal enterprises do not keep reliable records or accounts, they have no way of avoiding taxes when confronted by tax officials, even if they don’t make any profits. This measure does not appear to have had significant effect on formalisation, as evidence by continued expansion of the informal economy.

Since 2013, MKURABITA has been undertaking a study on taxation of MSEs. The study is examining the context of MSEs in relation to accounting and taxation and lessons and good practice from Tanzanian and international experience in order to recommend a suitable framework for the country’s MSEs. The results are yet to be translated to policy.

Simplification of company formation procedure

Since 2008, MKURABITA has championed development of two laws that will make it easier for small businesses to acquire limited liability and therefore reduce risk exposure of the owners. The first is a law that allows single shareholders to form a limited liability company (Single shareholder law).

The Business Laws (Miscellaneous Amendments) Act of 2012 amended the Companies Act No. 12 of 2006 (Act)\(^7\) to make it easier to form and operate a limited liability company. There is a simple, 3 page sample articles of association are attached to the Act. Two signatures of directors and director and secretary are equal to a seal on documents executed for the
company. It is much easier to dissolve a company without having to go to court and it is easier to restructure a company. The amendments also introduced a concept of a single individual shareholder holding a 100 per cent shareholding, and being the only director. However, the regulations for this act are yet to be gazetted. Apparently however, the simplified MEMARTS are already posted on the BRELA website and are being used. The provision for single shareholding awaits publication of the regulations. Apparently, there has been no study on the effectively of the simplified MEMARTS on business formalization. It is not quite clear whether and how the single shareholding company provision will in practice enhance formalisation.

The second law is designed to allow limited liability partnerships, so that partners may benefit from limited liability. This law is still in the process of approval, under the Ministry of Industry and Trade.

**Online business name search and registration**

From 2013, BRELA has developed an online database of registered names. This should make it possible for applicants to do name search on their own and BRELA officials to quickly confirm availability of the name, thereby cutting down the time and cost used on name search. It is possible to register business names and companies online.

5.4.2 **Provision of business premises**

One of the key constraints to formalisation is availability of affordable work space for SMEs. Issue of licenses is conditional on approval of the location, premises and facilities, although these differ by type of business. There have been attempts mostly by local authorities to construct premises for street traders, fishmongers, food vendors, etc. Examples include the Magogoni Fish Market, Makumbusho Centre in Kinondoni District (mixed use) and Machinga Complex in Ilala (targeting street traders). At present, Kinondoni District Council is collaborating with VIBINDO Society (organisation of informal sector operators) to construct a business centre at Mburahati market.

**Construction of business complexes by local governments**

There have been a few experiences of local governments investing in commercial complexes that target street traders. The most recent example is the Machinga (Hawkers’) Complex, built by Ilala Municipal Council after advocacy efforts by VIBINDO Society. The complex is a 6 storey concrete structure with small rooms/cubicles. This was completed in 2008. The smallest room is 8 sq metres. The building has not helped ease the problem of space for traders. First, their businesses are too small for the minimum space (and hence cost) in the complex. Secondly, the complex is build far from pedestrians and bus terminals and therefore there is an insufficient
market, even for the bigger traders. The result is that the market has remained idle for over 5 years. Ilala Municipal Council plans to lease out the space to any interested user, regardless of what they plan to do there in order to repay the bank loan taken to build it.

**Construction of street food vendors sheds by local governments**

The Municipal Councils in Dar es Salaam have built seven food vendor sheds at various parts of the city including University and Magomeni. The buildings were constructed with a grant from a project called National Income Generating Program (NIGP). An association of food vendors was established and the buildings were handled to it. Over the years, some of the initial members have migrated to other activities or died. They have either rented out or transferred the space to their offspring, relatives or paying clients. While the members pay a small fee to the association, the original occupiers charge up to 10 times of that for new users. It is now unclear who owns the premises. The original clients, under their association, claim ownership, while the municipal councils or institutions where they are located claim ownership of the land (and hence the premises).

**Construction of markets by local governments**

Locating informal operators in formally recognized markets is a step towards legal recognition of the operators who lack the conventional business license and registration. All local district, municipal and city councils have earmarked some areas as permanent markets. Some of these have walls, roofs and stalls built up by the local authority. Others are just open markets. For example, in Kinondoni Municipality, traders are allowed to operate from 25 markets.

Following such recognition, the operators in these markets often form groups. These receive advisory support and members can even access loans administered by the local government. In some cases, the local authority has entered into agreements with private individuals to build structures around the market, creating a cost free perimeter wall. While some of the markets are working as expected, others have remained idle, even as some traders (including food vendors targeting them) squat in unauthorized sites, sometimes blocking traffic. A good example is Mbezi Juu Market, along Five Star Road, close to Massana Hospital in Mbezi Beach. The market is virtually empty, while fruit vendors are operating along Goba Road next to Massana hospital. There are two reasons for this state of affairs. First most of the market stalls were allocated to people who are not traders (mostly neighbours) who may have applied for the slots in the hope of starting a business or sub-leasing to others at a higher rent. Secondly, law enforcers are not doing anything to stop traders from operating along Goba Road. There may be several other markets in Dar es Salaam with a similar fate.
Construction of premises through Public – Private Partnership (PPP)

PPP offers a great opportunity for LGAs, which tend to have underutilized but centrally located land, to deliver virtually unlimited workspace to its business operators. However, realisation of this potential has been problematic. Mwanza City Council has been contemplating to put up a multi-storey complex at its Central market. Since the city does not have the capital, it was decided to seek a private sector partner. However, after some exploration, the investor pulled out, and decided instead to build a shopping mall (Rock City Mall) outside the CBD. The reason cited by the investor was that initial consultations showed clearly that the traders currently occupying the market stall were paying very little rental and were unwilling accept economic rental fees needed to make the investment viable.

The urban councils are in a dilemma because the existing traders in its markets pay very little (typically not more than Tshs 10,000/- per month), compared to Tshs 200-250,000/- charged for small privately owned stalls or shops in the major cities. It will be very difficult to charge an economic fee for the traders because they resist, and politicians will be on their side.

Kinondoni Municipality has entered into an agreement with VIBINDO Society to construct a modern market at the Mburahati market under a PPP arrangement. The private sector contribution to the project is provided by DANIDA, whereas Kindondoni Municipal Council is using its own internally generated funds and a loan from Tanzania Investment Bank (TIB). The project is currently under construction. The two parties have agreed on the rental, as well as on ownership and management. A special purpose vehicle is to be established to manage the project. This project will generate important lessons for replication of the model.

Establishment of weekly markets (magulio)

In order to provide temporary workspace to micro enterprises, some local governments have established weekly rotating markets, whereby traders move from one market to another. At each market, each trader is allocated a specific slot/area, which has a unique number. The traders form an association which provide much of the coordination and governance (penalties for contravention of group by laws). In Mwanza, these traders only contribute a small fee (Tshs 200/- day) to keep the market clean. Food vendors are considered part of the market, as they move with it.

Establishment of street markets (evenings and weekends)

A common way of addressing shortage of trading space for traders has been to turn some streets or street sides to markets in selected hours. In Dar es Salaam, there was a time Lumumba Street was used as a market on Sundays. In Moshi Municipality and Mwanza City,
they have tried to allow traders to operate on selected streets in the evenings (4.00pm to 8.00pm), when most of the conventional shops have closed and traffic has eased, and on Sundays. The problem has been that whenever this is done, the traders will gradually overflow to other streets and work full time. This happens particularly close to national and local elections during which time politicians prevent local government officials from taking any stringent measures against street traders. Since these elections happen every 3-4 years, it has been impossible to sustain it.

5.4.4 Regulating through private sector organisations

Relative to the large number of micro enterprises in the informal sector, it is close to impossible to have regulatory bodies with the reach and capacity to cost effectively register the millions of micro enterprises. Three approaches have been used to circumvent this challenge. These are delegated registration, pooled registration and self regulation.

Delegated registration

One of the constraints to registration of business names and incorporation of companies is that the Business Registration and Licensing Agency (BRELA) operate only from Dar es Salaam while its services are needed throughout the country. Tanzania Chamber of Commerce, Industry and Agriculture (TCCIA), the largest private sector organization with chapter’s at all regional headquarters and in at least 90 of the 140 or so districts. In 2013, TCCIA entered into a partnership with BRELA, under which the former uses its district and regional chapters to collect applications for business name registration for onward processing with BRELA in Dar es Salaam through the head office. The collaboration has shown that while private sector association can help reach more people, they also need capacity building and oversight in order to avoid the same issues that arise when public sector workers are handling registration.

Pooled registration

Given the difficulties of dealing with thousands of informal micro enterprise operators, several local governments are encouraging and even facilitating them to form economic groups through which they can get training, finance, advice and other services from both the local government and other development stakeholders. This is one of the activities of the community development department at municipal, district and ward level. Some local governments are registering these groups, as a way of formally recognizing them. While some local governments just register these in their records, others have gone a step further by issuing a registration certificate to the group. This serves the same purpose that a formal license serves in terms of enabling the group (and its members) to access finance, government protection and other support services.

Self regulation
Industry self-regulation occurs when a group of businesses polices itself. Through self regulation, the group monitors its own adherence to legal, ethical, or safety standards, rather than have an outside, independent agency such as a third party entity monitor and enforce those standards. Regulations are needed to protect interests of different stakeholders, including maintaining order and a level playing field for all businesses. Micro enterprises which are members of a group have to comply with government policies, laws and regulations as well as additional “by-laws” within a particular group. Such “by-laws” may relate to registration, agreed price range, fees or contributions to the group or a cause; adherence to rosters or schedule, cleaning, etc. There are some examples of successful self regulation in some associations. The following are some of the examples observed:

Table 5.2 Some examples of self regulating associations

<table>
<thead>
<tr>
<th>Association</th>
<th>Elements of self regulation</th>
</tr>
</thead>
<tbody>
<tr>
<td>VIBINDO Society</td>
<td>• Every member must be registered and given an Identity Card. VIBINDO has a dedicated “registration” officer called mama BREA</td>
</tr>
<tr>
<td>Chama cha Wafanyabiashara wa Magulioni Mwanza</td>
<td>Cleaning workspace after market hours</td>
</tr>
<tr>
<td>Chama cha Wafanya Biashara Mlango Mmoja (Mwanza)</td>
<td>• Not cleaning ones space attracts a fine of Tshs 5000 (if repeated offense).</td>
</tr>
<tr>
<td></td>
<td>• Fighting (suspension or expulsion),</td>
</tr>
<tr>
<td></td>
<td>• Using abusive language (fine depending on severity)</td>
</tr>
<tr>
<td></td>
<td>• Being drunk (reprimand)</td>
</tr>
</tbody>
</table>

Mwanza city has witnessed intermittent clashes between traders and the government over the years. In 2006, Mwanza Regional Business Council (MRBC) facilitated a process at which the private sector actors came up with a proposal of empowering street traders to regulate themselves, including ensuring that each trader paid taxes. The proposal was that TRA or the City Council to print and number reflective vests and make these available for hire by street traders at a fixed monthly fee (they suggested Tshs 20,000/- then) paid in advance. The vests would be in different colours and would identify areas where those wearing are permitted to trade.

This fee would be all inclusive of any taxes, fees, etc. It was estimated by then that the City had 20,000 traders, and therefore this would have generated Tshs 400,000,000 per month, enough to gradually provide for better premises and relocate as many of them as possible from the street. The street traders would also have an association with a secretariat, and they would themselves police street trading to ensure only those with authentic vests and numbers were allowed to trade.

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8 http://www.yourdictionary.com

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This proposal was however not accepted by the government side. Nobody knows for sure why this was the case, as all officials in the public sector say they think it was a good idea, but don’t recall having heard of it. Outside the public sector, it is speculated that the proposal was not accepted because the government might have feared that given the large number and audacious nature of the informal sector operators, they would be too powerful and difficult to control, if they become more organized. They might have feared also that organized street traders will tend to shut off new entrants, which might lead to clashes and insecurity. There are also actors with the view that the agenda was being pushed mainly by the formal traders who wanted to manage unfair competition from their informal counterparts.

5.4.5 Enforcement of regulations

Regardless of how friendly regulations and their administrative are, some people will contravene them. This is especially the case when contravention is one way of gaining competitive advantage (e.g. lower costs, ore customers, etc). Enforcement is therefore a must, if any framework for managing informal operators is to work. Different strategies have been used by local governments to deal with informal businesses. These include:

Evictions, penalties, arrests and confiscation of property by municipal councils

It is common for local governments to hire security personnel to evict, fine and/or arrest traders operating outside the allowed framework. This approach has had only limited and often temporary success mainly because politicians typically intervene to protect the street vendors. It has also been noted that in some areas, local government staff or in some cases, security personnel have an arrangement with informal business operators, whereby the later pay an agreed sum in return for informal protection from the former. The former will under the arrangement warn the later whenever an inspection was imminent, and the later will suspend operations to pave the way for the inspectors.

Collaborative inspection and enforcement

For many years, Moshi Municipal Council tried to get businesses that are judged as “formalizable” to license their operations. The common approach was to use municipal security. However, when they noted that this had limited effect, they enlisted the collaboration of the TCCIA Kilimanjaro. A day before the inspection, city officials would walk along streets to announce that TCCI and city officials would be visiting businesses to guide the ones without licenses on the process they should go through. The next day, municipal officers would do the visit, targeting mostly businesses that are apparently large and stable enough to be licensed,
but are not yet licensed, and guiding them on the process of getting a license and then taking their particulars. This led to an increase in licensed businesses.

5.5 Conclusions and Lessons from Tanzania

It is clear that, over the years, there have been many reform initiatives in Tanzania aimed at making it easier for businesses to become formal. However, little is known about the impact and lessons learnt from these. What is vivid is that informality still flourishes and is possibly growing, suggesting limited effectiveness of ongoing efforts. Formalisation initiatives have apparently not sufficiently being based on an understanding of the distinct segments of micro enterprises, their motives, abilities, scale of operation and therefore potential to comply with the conventional business regulatory framework. This “short gun” approach may be the reason for limited effectiveness of the initiatives in delivering substantial reduction in the size of the informal sector.

Some of the interesting lessons from Tanzania include:

(i) Special (nguvu kazi) license for micro enterprises that were judged to be too small for the conventional license was a good idea, but this was sadly abandoned without a replacement in 2004

(ii) Some local government authorities have introduced different modalities of somehow recognising informal operators, including issuing registration certificates for economic groups

(iii) Some informal groups have some forms of self regulation mechanisms although these are not recognized or supported by the central or local governments

(iv) Kinondoni municipal council has introduced a dedicated desk for informal sector facilitation, while Mwanza city has introduced a multi sector task force

(v) The introduction of simplified tax schedule for micro enterprises including having a threshold for annual turnover below which the operator does not pay taxes

The next chapter will examine business formalisation efforts in Ghana, Kenya and Rwanda.
6. BUSINESS FORMALIZATION IN RWANDA

6.1 Introduction
Business environment reforms in Rwanda are part of the pursuit of Vision 2020, which envision Rwanda becoming a middle income economy in which Rwandans are healthier, educated and generally more prosperous. Reforms implemented in the past 10 years (including simplification of business registration and licensing and making it possible to register on line from anywhere) has seen Rwanda become the # 2 global reformer and the 3rd easiest place to do business in Africa (1st is Mauritius which ranks 23rd globally, and 2nd is South Africa which ranks 35th globally). Among others, Rwanda has improved substantially in all the World Bank Doing Business Indicators.

Much of the red-tape previously hindering businesses have been substantially cut down, thanks to various initiatives over the last few years. As part of a series of reforms of the start-up process, in 2008 the government established the Office of the Registrar General to maintain an efficient business register and promote a competitive business environment. The new entity oversees the implementation of applicable commercial laws, such as the Companies Act, and the registration and deregistration of businesses. In May 2009 it set up a one-stop shop, streamlining company name searching, payment of incorporation fees, and tax and company registration procedures.

As a result of these reforms, company registrations surged. In 2008, Rwanda Commercial Registration Services Agency (RCRSA) was created, with a modernized and computerized business formalization simplified business registration procedure. If you have all the required documents, your business will be registered within 24 hours. In 2009 alone, 3,028 new limited liability companies were formed almost equivalent to the total for the previous 5 years, when 3,374 new limited liability companies had been registered.9 Rwanda’s Office of the Registrar General is focused on making its registration system completely paperless by promoting electronic registration services. Using online registration services also greatly reduces the opportunities for corruption and bribery. Where entrepreneurs have no need to interact directly with public officials, they are less likely to use informal payments or to face deliberate delays aimed at encouraging bribes.

Despite these impressive achievements, Rwanda’s informal economy plays an important role in the country’s livelihood. Despite far reaching reforms that has seen Rwanda become the 3rd

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9 World Bank Group, Entrepreneurship Database.
easiest place for doing business in Africa; its informal sector constitutes 90% of the enterprises. This is clear evidence that the Doing Business Reforms advocated by the World Bank in its annual survey has little if any impact on the informal sector! It is a small part of the informal economy that is formalizable using the conventional framework. In 2014, Rwanda Revenue Board embarked in an exercise to register market traders and other small scale traders operating from small stalls. However, within a year, they reversed the decision and deleted these micro operators after realising that they Board did not have enough resources to deal with them, and in any case the taxes that they could pay were not worth the effort needed to ensure compliance.

6.2 Policy, regulatory and institutional framework for informal sector management in Rwanda

According to Rwanda’s Vision 2020, the informal sector “will be developed in such areas as retail trade, repair workshops and garages, handicrafts and metalwork. The lower threshold for paying tax is a turnover of USD 2,237 per year. Major regulatory reforms have eased the business registration process but did not directly impact the informal sector. Micro enterprises complain that lack of information about where and how to register and the length of time required prevent them. There is a general minor license or permit that is issued to tiny unregistered micro enterprises by local authorities to allow them to operate. This license entails a one off payment of Rfw 25,000 per year. No taxes are paid by holders of such businesses.

Rwanda has not translated its desire to develop the informal sector into written policy. Street trading and street food vending is in fact outlawed in Rwanda and is not MUCH visible to a visitor in Kigali. The strategy adopted by Rwanda to transform informal enterprises into the formal sector is promotion of cooperatives and requiring informal operators to join and operate (and become traceable) through them. The local governments have been encouraging and supporting existing and would be informal operators to set up cooperatives and business premises. There is now a rapidly growing cooperative movement with primary cooperatives, cooperative unions and federations in different sectors (traders, bicycle operators, motor cycle operators, fruit and vegetable vendors, etc).

The policy for the Promotion of Cooperatives 2006 (law no. 31/1988) and the Rwanda Cooperative Agency have been established “to develop the cooperative sector to serve its members equitably, efficiently and empower them economically. Many successful cooperatives operate in Rwanda, including cooperatives of traditionally informal enterprises such as furniture makers, taxis, motorcycle operators, bicycle operators, porters and rubbish collectors. There have been some attempts to form associations of construction materials makers, second hand cloth merchants, street traders; street food vendors and street vegetable traders to form cooperatives, but these have not been as successful as the other types of businesses.
In order to promote best practices and to encourage LGAs in Rwanda to develop innovative solutions, Rwanda Association of Local Government Agencies (RALGA) has been organising ‘Innovation Competitions’ each year since 2008. This has stimulated innovations and focused actions in support of informal operators. Many groups of informal business operators have been supported to organize into cooperatives as a result.

6.3 Building associations to transform informality

Various associations have been established by informal operators enable the authorities to trace and support members easily. They demonstrate the following membership services that address many of the problems associated with informality/street trading:

- A centralized computer database with all members’ details, which helps in managing payments and behaviour of members. All issue members’ identification cards, which serves as evidence that they are gainfully engaged
- Some (e.g. motorcycle riders’ associations) have internal regulations and security staff who enforce regulations
- Some of the associations have income generating projects, which makes them less dependent on members’ contributions. All the established associations have modern office complexes that are rented out to generate income
- The associations work very closely with government departments, sharing information, dialogue on improving the investment climate, channelling public support and making contributions to society. Some have performance contract with the government, under which, in return for its members cleaning of one part of the city, they receive financial and non financial support from the city council
- Each member of the association contributes a weekly fee to the association (but only in the weeks that he/she is working), which is used to meet costs of common services (e.g. security, office, database management, advocacy, liaison with the government)

6.3.1 Specific Case Studies of Associations

Gisozi initiative

The Gasabo District is one of the three districts of Kigali City with a population of about 500,000 people. The local governments are responsible for implementing national policies, including those concerning the informal economy. Gisozi Sector in the Gasabo District held second place. They won the prize because they successfully mobilised ex-street vendors to become shareholders of a 500 shop commercial complex within a short period. Street vending was seen
as a problem in the District. The district tried to form a cooperative of the street traders so as to empower them to improve their lives and to improve safety, cleanliness and the environment for the traders as well as formal businesses.

A total of 1,653 street vendors were located in the Gasabo District of which 243 were in Gisozi sector. Extensive awareness raising and education was done by the local government to convince them to invest in the project. They were offered exemption from paying trade licence fees for a year and a grant of a 1.6ha plot of land as an incentive. A total of 74 vendors agreed to invest into the cooperative. Advice given included how to secure the first deposit, which was 35,000 Rfr (USD 56) each. Those unable to provide the initial deposit were linked to microfinance NGO that offered them credit. In April 2010, the members were granted provisional status by the district office and relocated to the newly allocated site where they built makeshift timber stalls to continue with business.

The construction costs were estimated at Rfr 156 million (USD 251,595), or Rfr 625,000 (USD 1000) per vendor. An arrangement was made with a commercial bank to provide a loan to a member who had deposited at least Rfr 200,000 (USD 325). The District guaranteed the loan. Members who could not contribute in cash were offered to rent space at a reduced rate. Construction of the market, with capacity for 350 vendors, was completed in December 2011. At a meeting between the district, a cooperative officer and 230 members in October 2010, the project was broadened to include a commercial complex for rental. The cooperative applied for a loan from Development Bank of Rwanda which agreed to provide a loan of Rfr 1,494,202,392 (USD 2,387,460) for the commercial complex with 500 shop spaces.

Sytramorwa: Inspiring Transformation from Bicycle Riders to a Formidable Association

The Federation of Motorcycle Operators (SYTRAMORWA) started in 2005 as ATAMIMORWA association started as bicycle riders. When they organized themselves into an association (with support of local government which worked closely with them), they were able to borrow small motorcycles. As they repaid, they got larger loans to buy larger motorcycles in 2009.

Over time, they managed to build a strong association with over 15,000 members two offices, a garage and other projects. The association has its own security officers, who monitor movement of motorcycles drivers and report those who break by-laws, who are instantly fined Rwf 3000 per offense.

The association has entered into an agreement with mobile companies who have provided reflective jackets with the unique number of the motorcycle driver printed on top. The association is paid for using these branded jackets. The association security has a computer based database of members. Security officers.
In addition, the association has established a number of other projects including a card wash, a layers’ project, a pay toilet, a diary cow project and a vegetable farm. All these projects are attended by members who succumb to serious disabilities from motorcycle accidents.

6.3.2 Other initiatives
Similar initiatives have been implemented by the Gasabo District for transforming informal enterprises into cooperatives. The cooperatives that have been formed include:

- FODECO (association of 2nd hand clothes vendors)
- COPCOM (association of construction materials dealers)
- ADARWA (association of carpentry related businesses)
- FERWACOTAMO (federation of associations of motor cycle drivers)

The government encourages and supports formation of the cooperatives and uses them to meet policy objectives. For examples:

- The poorest women fruit vendors who were formally operating in the street, and whose businesses were too small to pay commercial rent have been accommodated in a free market (nice building) where the rent has been paid for 2 years, after which they are expected to start paying
- The government channels billions of francs in grants into savings and credit cooperative societies owned by employees working in education and security sectors to enable them
to extend low interest loans to members for house construction and investment, as a way of motivating staff in these strategic sectors

- The Kigali City Council staff trains and mentors leaders of cooperatives and uses them as a bridge to their members in terms of communicating policy and getting feedback from the private sector.

The results are that there are several impressive structures in Kigali owned by these cooperatives.
The highest concentration of these markets is in Gisozi in Gasabo district where four big cooperatives, grouping about 1000 members combined, are operational. The majority were relocated from Gakinjiro, near Muhima prison, while others were hawkers. Duhahirane consists of 321 former street vendors. Adarwa cooperative with 157 carpenters owns a 3-storey building with 140 shops that cost Frw 1.8 billion construct.

6.4 Challenges and lessons learnt from Rwanda

Three main challenges have been faced. First, attempts to force all micro enterprises to register businesses failed after Rwanda Revenue Board found that it was not worthy for either the authority or the smallest enterprises. The Board eventually deleted market traders who had been registered. Secondly, some of the informal traders supported to create cooperatives are not viable. A good example is some groups of street food vendors who were relocated to a well built roadside building. The rent was paid by an NGO for one year, on the expectation that the members would be able to pay from the second year. When they were visited by the researchers, they indicated that they would not be able to pay the rent because their businesses are just too small. The third challenge relates to some of the associations which have been supported through local government guaranteed credit to build large commercial complexes, which are now half empty because of an apparent oversupply. These may end up being auctioned, unless the demand supplies situation changes.

The following are some of the other challenges and lessons learnt from Rwanda

i) Close involvement, education and sensitization of street traders was critical for getting understanding and buy in from street traders

ii) Very supportive and hand holding by local government made a huge difference and this was re-enforced by the competition. The downside is that major complex business decisions, including taking huge loans and investing in real estate business, were based on the views of public sector actors, rather than informed judgement by the street food vendors

iii) Incentives offered by the local government (1.6h land and exemption from licenses for one year) sweetened the deal, but also makes it hard to replicate and scale up
with the same model. It has become a precedent, other groups expect the government to extend similar support

iv) The fact that the local government guaranteed loans paid to the cooperative made it easier for the commercial bank to borrow

v) There is ample trust in cooperatives as a result of the zero tolerance towards corruption

vi) The real estate investment project is too complex for the street vendors to understand and make informed judgement at their level.

vii) The commercial complex is not fully occupied because of oversupply of space

6.5 Conclusions

Rwanda is doing many good things to support development of the private sector. The impressive regulatory and administrative reforms in starting business implemented in Rwanda have not impacted the informal economy, corroborating the findings from the literature which shows that legalistic reforms have little impact on this segment. Although integrating the informal and the formal economies is not stated as a specific policy or strategy, the government is doing a lot to ensure that this happens, in practice. The main approach is development of cooperatives of informal operators. This strategy is working because (i) zero tolerance towards corruption has engendered the trust in and governance of cooperatives in ways that does not discourage members (ii) there is active government support of cooperatives, including close engagement and a result based approach. The other approach is to issue a minor license that does not carry additional tax burden to micro enterprises that are too small to be registered formally. This is the equivalent of nguvu kazi license that was abolished in Tanzania in 2004.
7. BUSINESS FORMALIZATION IN KENYA

7.1 Overview of the informal economy in Kenya

Just like other Sub-Saharan countries, the informal sector in Kenya (referred to as “Jua Kali”) plays a key role in the social economic development of Kenya, creating over 600,000 jobs (89.7% of labour force)\(^{10}\). Most of the informal traders are 25 and 34 years old, with 70% being male and over half (51.7%) having secondary education and slightly above 5% have post-secondary education. Hawking is the most prominent informal sector activity.

7.2 Policy and regulatory framework on informal economy

Sessional Paper No 2 of 2005, titled “Development of Micro and Small Enterprises for Wealth and Employment Creation for Poverty Reduction”, recognized that in order to realize the positive potential of the informal sector to contribute to development, it required a dedicated framework for its handling. The Sessional Paper clearly identified the need to guide and regulate the handling of informal enterprises, including enacting appropriate laws, regulations and agencies that are specifically tailored to the nature and uniqueness the enterprises, which form a huge majority in the economy.

Subsequently, the government enacted the Micro and Small Enterprises Act, 2012 to provide for the promotion, development and regulations micro and small enterprises. The Act provides for the establishment of the Micro and Small Enterprises Authority (MSEA), a semi autonomous institution under the Ministry of Industrialization and Enterprise Development replacing the former MSME Department. The Act further provides for establishment of: i) Office of Registrar of Micro and Small Enterprises Association with the responsibility of giving identity, direction and to a large extent creating formal structures to address the informality in the MSE sector; ii) the Micro and Small Enterprise Tribunal to arbitrate disputes of MSE conveniently and at a reasonable cost; and iii) the Micro and Small Enterprise Fund to finance promotion and development of MSEs through access to affordable credit, research and development, and acquisition of technology and transfer.

7.3 Specialist institutions for handling micro enterprises

MSEA is mandated to formulate and review policies and programmes, promote and develop MSE sector, monitor and evaluate implementation of the policies and programs related to MSE development. It is also responsible to coordinate, harmonize and facilitate integration of various policies and programs directed at MSEs in Kenya. MSEA works with various organization

\(^{10}\) Economic Survey 2013
including training institutions, development partners, MFIs, Ministries, Trade Unions, PSOs, NGOs etc. It is developing a framework of **coordination of the key interventions aimed at promoting formalization**. MSEA developed a strategic plan (2013-2017) which includes a number strategic response aimed at facilitating accommodation of the hawkers and street vendors into formal economic activities.

From the interviews with MSEA, the research team learned that the MSEA Board represents both public and private sector. Its board is chaired by a person with substantial knowledge and experience in business and entrepreneurship development, the Principal Secretaries for MSEs, Finance, Industrialization and youth as well as seven persons are nominated and appointed by the Cabinet Secretary four of them nominated by the umbrella organization of the major national sectoral associations (manufacturing, traders, services and agri-business); one nominated by the most representative association of women engaged in MSEs, one nominated by most representative youth association and a person nominated by the association representing people with disability engaging in MSEs.

Informal to MSEA means not traceable. In order to address the challenge of traceability, MSEA registers businesses through their groups and associations. According to MSEA, an association is a registered group of not less than 35 micro-enterprises from any of the four sectors. Once the association is registered by the Register of MSEs, it becomes traceable together with its members. MSEA has engaged Business Development Officers to facilitate formation and registration of groups and associations. At least 30 associations had been established and their members registered.

With the support of MSEA, the government of Kenya resolved that at least 30% of the government procurement should be drawn from the MSE sector. Each MDA includes in its procurement plan, the proportion of the procurement from the sector for the purpose of encouraging formalization. Although most hawkers and informal traders do not meet the requirements for being suppliers to the government, the move has encourage some informal business operators to register their businesses while attempting to access government tenders.

In line with its strategic plan, MSEA envisages implementing a number of strategic responses aiming at promoting growth and formalization of informal enterprises such as (a) Facilitate MSEs to participate in county, national, regional and international exhibitions and trade fairs (b) Ensure implementation of MSE public procurement quota policy of 30% for youth, women and people with disabilities (c) Develop, upgrade/redesign worksites to adapt to the market needs, (d) Operatalize the MSE fund, link MSEs to financial institutions and strengthen MSE SACCOs (e) Enhance entrepreneurial and technical skills of MSE through training, incubation centres, supporting value addition, technology acquisition etc (f) Establish and implement legal, regulatory and operational mechanisms for the MSE sector through operationalization of the Office of the Registrar of MSE Associations, harmonization of the laws, rules and regulations relevant to MSE as well as operationalization of MSE Tribunal (g) documentation and transfer
of parcel land for the development of MSE worksites and industrial parks (b) Facilitating formation of new business associations and support strengthening of the existing ones so that informal enterprises are registered through associations

MSEA has made a number of innovative proposals to accommodate hawkers and food vendors into large cities like Nairobi. These include utilization of selected pedestrian routes, lanes, alleys, tunnels, footbridges etc. to serve as hawking zones. Footbridges over, and tunnels under busy highways do not only get pedestrians safely to the other side of the roads, but also provide small-time market venues. While in Nakuru, for instance, there are designed cubicles on the road reserves, in Mombasa, the City County blocks some roads on the weekends for traders. Negotiation between MSEA and Nairobi City Count are in progress for the City to provide some roads, parking spaces and designated areas for traders to operate on the weekends. MSEA plans to acquire big premises and sub-divide them into cubicles and shared premises/stalls for hawkers. Hawkers can access the premises and pay on daily, weekly or monthly basis depending on their willingness and ability to pay. This strategy will also entail utilization of plots and areas that have not been built in collaboration with the private sector.

7.4 Local Government Role in Promotion of MSEs in Kenya

County governments are the creation of the Constitution of Kenya 2010. Urban Counties operate under the auspices of the Cities and Urban Areas Act, the Devolved Governments Act and a host of other Acts. They are charged with the responsibility of providing a variety of services within its area of jurisdiction including regulating trade services (both formal and informal). According to Nairobi County Finance Bill, 2013, informal traders are defined as those who do not have permanent premises. These include hawkers, street vendors, small traders and service providers operating on the streets, veranda or temporary buildings. Permanent premises in Nairobi are identified by the plot numbers issued by the City.

Interview with the city County leadership revealed that before the recent developments in Kenya, informal trading activities were not incorporated adequately in the city’s land use framework and trading spaces for informal vendors, if provided, commonly lacked adequate infrastructure facilities. This led the traders to construct structures that are poorly serviced, unfriendly and environmentally unstable, from where they could generate as much money as possible before the next government crackdown. A number of steps have been taken by the City County including creating different types of markets and stalls to accommodate variety of traders including wholesale, hawkers, rented, developmental, self-constructed and open air markets; relocation of hawkers and street traders to these markets, as well as eviction and arresting of those who remain on the streets.

Informal traders and food vendors are not permitted to operate within the Central Business District (CBD) of Nairobi. When, in some occasions, informal traders attempt to penetrate the CBD areas, the Inspectorate Department (City Askaris) evict them from the area. The City
County insists that the rule of law must be upheld. Such laws facilitate the paying of rent and rates for revenue generation, maintenance of law and order on the streets, having healthy and clean environments which ensure safety of citizens. To a large extent however, these efforts are succeeding as there are very few informal trader and food vendors found in the streets of Nairobi CBD.

Informal business operators are provided with Temporary Occupational License (TOL) to operate in designed places. TOL enables the businesses to operate on the road reserves areas outside the CBD. The license is issued after the inspection by the City Askaris to ensure that the proposed area is safe leaving enough space for pedestrians. Those who have permanent premises are provided with a Single Business Permit which allows them to operation after paying an annual license fee to City County. The informal sector operators pay the TOL fee to the County which depends on the type of activity. Small informal traders for instance pay KSHS 2,500/= (TZS 50,000) per annum, and the fee is affordable by most traders.

The hawkers operating from specific designate areas are registered through their self-established groups/associations. The County identifies hawkers through their groups and this approach has been quite successful. The hawkers pay a daily market fee of about KSHS 50 (Tshs per day. Organizing hawkers in groups enables the County to identify genuine traders and design suitable areas for their businesses. Traders can register their businesses online and this has reduced influx of traders to Country office using Nairobi County self service portal (https://epayments.nairobi.go.ke/selfservice/login). They can access the simplified County’s Business Registration, fill it and pay the fee online or through a bank and print the trade license. However, this is not targeted to the smallest informal operators.

Table 7.1: Fees Charged by Nairobi County to Informal Sector

<table>
<thead>
<tr>
<th>Type of Informal Sector</th>
<th>KSHS</th>
<th>TZS</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 hawker with motor vehicle</td>
<td>7,000</td>
<td>140,000</td>
</tr>
<tr>
<td>1 hawker without motor vehicle</td>
<td>5,000</td>
<td>100,000</td>
</tr>
<tr>
<td>Small informal sector trader / service provider e.g. shoe shine, shoe repair, street vendor (newspapers, soda, sweets, cigarettes etc.)</td>
<td>2,500</td>
<td>50,000</td>
</tr>
<tr>
<td>Semi permanent informal sector trader: Up to 2 persons in veranda or temporary building</td>
<td>3,500</td>
<td>70,000</td>
</tr>
<tr>
<td>Other informal sector</td>
<td>2,000</td>
<td>40,000</td>
</tr>
</tbody>
</table>

Source: Nairobi County Finance Bill, 2013

Nairobi County has specific by-laws on hawking:
## Exhibit 1: Extracts from Nairobi City Bylaws on Hawking

- One can apply for a permit to the Town Clerk to conduct hawking, giving particulars of goods and place of hawking.
- A hawker’s assistant permit may be issued to a person employed to assist the permit holder who hawks refreshments and is physically disable or has loss of limbs.
- Any person without a valid permit or hawks in an undesignated area risks having their goods impounded.
- Each person engaging in hawking must have a budge and wears it at conspicuous place.
- Any person carrying out business must obtain a business permit by the 31st of March of current trading year or may be guilty of an offense.
- Permit fees are payable to the County and may be revised from time to time.
- Every applicant for a single business permit shall produce a certificate of proof of payment of County rates.
- Consolidated permits will be issued to traders who conduct different businesses within the same premises.

Source: [www.nairobi.go.ke](http://www.nairobi.go.ke)

### 7.5 The Role of Private Sector Organizations in the formalization agenda

There are three groups of hawkers and street vendors in Nairobi i) genuine traders operating on permanent and full time basis, ii) temporary traders, and iii) crooks. The research team visited the Kenya National Alliance of Street Vendors and Informal Traders (KENASVIT) to seek their opinions on the challenges facing their members, and gather their ideas on how best the informal sector could be organized. KENASVIT was established in 2006 as an umbrella alliance of seven core urban alliances in Kenya, namely: Nairobi, Mombasa, Kisumu, Nakuru, Eldoret, Machakos and Migori. The Alliance has over 15,000 members drawn from 140 local associations that form the 18 urban alliances. The mission is to organize and empower informal traders to improve their businesses through training, access to credit, dialogue with local authorities and other relevant organizations on appropriate by-laws and policies that give recognition to, and bring to an end harassment and discrimination against these traders. Members are street vendors, hawkers and market traders.

Organization of street vendors in Kenya began in 2006, when the hawkers demonstrated for 3 months continuously to register their concern about eviction and harassment by the City Askers. KENASTVIT approached the Minister for Industrialization and Enterprise Development to design an effective strategy that could be used to recognize and organize informal operators in the City of Nairobi. A team of members from the Government and KENASTVIT was tasked to collect data on street vendors, the nature of their businesses and potential sites for their operations for the Government to make the decision. The sites identified were mostly 15 kilometers away from CDB. KENASTVIT initiated a dialogue with the Government to develop the sites that were close to CBD and have the necessary infrastructure. After a long dialogue with the Government, the decision was made to develop the Muthuruwa market which is about 1km from the CBD. Development of the market took two years as the Government had to relocate some residents from the area and construct new structures suitable for hawkers. After completion of the Muthuruwa markets, allocation of the traders was done through associations. However, while the market could accommodate 6000 traders only, there were more than 13,000 traders who wanted to occupy the space. Finally, about half of the applicants...
succeeded to secure a space at the market. Those who missed the space occupied the open space in front of others.

KENASTVIT also initiated dialogue with the City County to relocate bus stop to Muthuruwa market and the decision was made. As a result, the inflow of customers increased and most members of the association are quite happy with the level of business. All traders in the market are required to pay market cess which covers rent, tax and other levies ranging from KSHS 50-100/= per day. According to KENASTVIT, this rate is reasonable and most traders afford to pay. Once they are registered in the market and pay market dues, they are neither required to be registered by the Office of Attorney General nor pay any other tax to Kenya Revenue Authority (KRA). Although initially, the empty space in the market belonged to the City County, traders gradually have been occupying the space and the market is now too much congested. So, the trading space lacks adequate infrastructure facilities, and is often inadequate to accommodate the high demand.

KENASTVIT is negotiating with the Nairobi Governor to block some roads and parks on weekends to allow them trade from those areas. Although KENASTVIT was quite positive about the move by the government of Kenya to organize informal vendors, some challenges were also reported including (a) Insufficient space in the designated markets, (b) Some traders go back to streets and bribe City Askaris (c) The conditions and terms of Youth Fund limit them from accessing finance from the Fund and (d) 30% tenders offered by the Government are hardly accessed by hawkers given the requirements of the tenders

The team was also given details on the progress that Nakuru Town has made in dealing with the issue of informality (see Exhibit 2)
Exhibit 2: Organization of Street Vendors in Nakuru

After a long struggle, on 13th August 2010, a Memorandum of Understanding (MoU) was signed between Nakuru Street Traders and Hawkers Association (NASTHA) and the Municipal Council of Nakuru (MCN). The MoU provided for establishment of a favorable working environment, with no arbitrary evictions, for street traders and hawkers operating within the Nakuru Central Business District (NCBD). Agreed actions included creating a database of traders to assist in increasing revenue to the Council, issuance of identity cards to prevent harassment from Council Askaris, and allocation of stalls on the Wakulima Market. Traders in the database would be given first priority in allocation of the stalls.

It was resolved that the traders would have containers to dispose of the waste generated by their business. They would also ensure they clean up their work station before closing the business for the day. Stationary street traders were to reduce the length of their tables to 3ft off the wall, to facilitate pedestrian movement. Although ensuring compliance with the payment of the market fees by the traders was a challenge, the Council reduced a blanket fee of Kshs. 360 per month to Kshs. 200 for the traders to afford.

Some achievements have been observed as follows:

i) Compliance with Council By-laws has improved. Any trader going against the By-laws is reported to NASTHA for disciplinary measures. The Association can even recommend stricter measures such as revocation of licenses.

ii) The Council has a list of genuine street traders. Any new trader wishing to be issued with a permit by the Council is requested to first pass through NASTHA for vetting and introduction to the respective offices.

iii) The relationship between MCN and the street traders has improved. Examples given to demonstrate this are as follows:
   - The Council has planted trees along some streets. Traders operating along these streets are taking care of the trees.
   - There is increased trust between the Council and street traders; and, the Council does not want this trust interfered with, but enhanced. This is because it understands the traders cannot be wished away; they are part of MCN society.

iv) The traders are paying the Council fee without being coerced. This has positively affected the budgeting process of MCN; and this budgeting process can include addressing improvement of services offered to street traders. The street traders can even demand so.

v) Construction of the Wakulima Market commenced immediately after signing of the MoU between MCN and NASTHA. The location of Wakulima Market was selected through consultations with the traders, through NASTHA. Previously, the MCN proposed two alternative sites which were considered unsuitable. One was outside the CBD which would have affected the businesses; and, the other was to be located where underground was a network of storm water drainage and sewage.

vi) Cleanliness and security of the CBD have been improved.

vii) Through their association, the traders can be represented in Government planning meetings; and, it is possible for the Government to plan and offer solid development services to the sector.

Source: Munandi (2012) & SMEA Interviews
7.6 Experience and Challenges still facing Street Traders and Food Vendors

Interviews with at least food vendors and three hawkers revealed that while the improved regulatory has helped them to settle down, and do business peacefully. For example:

Wanjiru, who specialized in selling fruits, is married with five children and her husband is a graphic designer. She started the fruit vending business three years ago and most of her clients are employees. Her daily sales is around Kshs. 2000/= while the rent is 6,300/= per month. The main motivation for business was to support her husband in meeting family obligations particularly educating their children. Although she sells fruits in different offices, she had a permanent room within CBD to process and stores the fruits and she has paid for a single business permit. She pays Kshs. 5000/= per year as license fee and nothing more is required by the government. She wears special uniforms and complies with the basic health standards as per the city by-laws. Her major challenges include: limited space at the City markets; sexual harassment and fluctuating demand.

While operators at Muthuruwa market refused to pay a daily market fee of Tshs 60/- and forced the city country to half it, one trader at the market reported to be selling about Kshs 3000/= and making a net profit of at least Tshs 300/= per day while paying the daily market levy of 30/= which he said was very affordable. The major customers for him were the passengers and pedestrian around the area.

It was observed that some of the space in market places is sub-leased by people who seize them early, sometimes using their influence.

At Fish Hawkers Association in Siaya County, there are 120 members operating at City Fish Market. The Treasurer reported that he belongs to three different groups so he can maximize his savings. One of the leaders of the association informed the team that most members sub-lease space from the landlord Ksh 2000/= per month while the landlord paying 2,500/= per month to City County for space big enough to accommodate 4-5 traders.

This is not limited to Kenya. In Tanzania, there is a tendency for people with money and influence, including politicians and civil servants to acquire low prized premises intended for micro enterprises and sub-lease them to private operators at a lower rate. As long as they are prized below market rate, there is bound to be rent seeking.
Group members at this market make a daily contribution of 50/= as market cess and 50/= to the group. The monthly contribution to the group is fixed and can be withdrawn anytime. Some group members belong to three groups within the market and three outside the market in order to maximize the savings.

Informal business operators in Kenya are not required or expected to register with the Registrar General (of the Companies), instead, they are issued a single business permit by the Counties allowing them to operate within the designated areas. Once they are registered they pay annual licensing fees to the County Government and this gives them recognition by the Government. This is because; they are too small for the requirements of the Registrar General. However, Kenya Revenue Authority (KRA) has initiated moves to expand the tax base by collaborating with County Governments to issue Personal Identification Number (PIN) to MSEs, and ultimately include them in the tax net. Despite the good intentions, this move risks driving hawkers and street traders back to informality.

7.7 Lessons from the Kenyan experience

The Kenya experience indicates that the country has managed to reduce the challenges of street vending to some extent due to a number of initiatives taken by both public and private sector. The major initiatives from which we can learn some lessons are:

i) Introduction of a policy (Sessional Paper No 2 of 2005) an Act, a dedicated regulator and promoter of micro enterprises (focusing on informal enterprises)

ii) Establishment of MSE Authority with the representation of both private and public sector. One of the major roles could be facilitation of establishment of legal mechanisms at national and LGA level for recognition and traceability of micro enterprises

iii) Initiation of street vendors’ survey to understand their profiles and relocate them accordingly.

iv) Facilitation of business registration through voluntary groups of street traders and food vendors.

v) A single business license through Municipal Councils.

vi) Provision of temporary occupational license by LGAs for traders to operate in specific designated areas

vii) Encouragement and support to form groups and business associations through which informal traders are registered (made traceable) and serviced.

viii) Simplification of business registration by enabling traders to make payment online and print their TOL.

ix) Use of technology to facilitate online business registration.

x) Utilization of specific designated road reserves, undeveloped plots and some roads under special arrangement. Where feasible PPPs can be established to facilitate development of work sites for informal traders.
vi) Creation of permanent and temporary business sites for street vendors including utilization of the road reserves, parking lots, some roads and city markets in collaboration with traders. The idea of business premises must go hand in hand with market development for the traders to locate to new places.

vii) Enhanced dialogue between traders and public sector increases participation of traders in decisions affecting their business, and this makes them more cooperative. This improves the relationship between traders and government enhancing their level of trust in each other.

Despite the progress made so far, there are still some challenges of addressing the issue of street vendors including inflow of more hawkers to urban areas due to high rate of unemployment, the space created still being insufficient, corrupt city askaris, low access to finance for hawkers, rent seeking in allocation/use of public premises still exists, limited informal sector’s voice.

8. BUSINESS FORMALISATION IN GHANA

8.1 Overview of the Ghanaian Economy

The economy of Ghana has a diverse and rich resource base, including manufacturing and exportation of digital technology goods, automotive and ship construction and exportation of diverse resources such as hydrocarbons and industrial minerals. Key sectors include petroleum, mining (gold, diamond, and bauxite), agriculture (cocoa, shea nut, yams, and maize), tourism (national parks, castles, forts), telecommunications (PCs, mobile phone assembly, mobile telephony), energy (hydro, wind), services (education, trade, etc.). Ghana’s Vision 2020 seeks accelerated economic growth and improved quality of life for all citizens, by reducing poverty through private investment, rapid and aggressive industrialization, and direct and aggressive poverty-alleviation efforts. Numerous reforms have been implemented in the past 20 years, in pursuit of the vision.

Statistics shows that the informal sector’s share of employment is over 80%. The main influences on the growth of the informal sector are increasing youth population, increasing urbanization, reduced role of the public sector in the business sector, low levels of skills/educational attainment, and a burdensome regulatory, administrative regimes and fees/taxes. High levels of inflation and energy shortages which limit the size of formal sector.

A recent survey of the informal economy (Anuwa-Amarh, 2015) reports that:
• Over 72% are youth (15-35 years) with a vast majority having at least secondary education
• Three quarters earn below the minimum wage
• Enterprises are concentrated in trade and services
• Preferred location is by the roadside
• Over 75% start with own savings
• 63% are own account/self employed
• Most (61.9%) are informed about the need to pay taxes and 83.1% agree that people who work and earn should pay taxes
• Critical needs are – technical skills, organisation and financial management, market access and access to loans

8.2 Policy, regulatory and administrative framework for the informal sector

The business registration and licensing framework in Ghana is not that different from Tanzania. Businesses can be registered as limited liability entities, cooperatives, partnerships or as business names. The local governments (assemblies) also register (to locally recognize) pre-cooperatives, and other economic groups. In terms of licensing, there are sector licenses issued by ministries and other regulating agencies, business operating licenses issued by municipalities and renewable every year and daily market toll receipts issued to market traders. These do not work for a large part of the economy.

Article 24 (1,4) of the 1992 Ghanaian Constitution implicitly legitimizes the functioning of the informal sector, by giving every Ghanaian “the right work under satisfactory and healthy conditions, without distinction of any kind. The only restrictions on the exercise of the right to work are those prescribed by law or those reasonably necessary in the interest of national security or public order or for the protection of the rights and freedoms of others” (quoted from Anuwa-Amarh, 2015). Based on this provision, Ghanaian stakeholders in the informal sector know that although no policy or laws exist to guide or regulate informal enterprises, the Constitution somehow recognizes that their operations are legitimate, so long as they do not infringe on laws, rights, security or public order.

The government and its agencies have taken a number of measures to make business regulations more accessible to informal operators. The following are among the measures.

1) Voluntary Social Security and National Insurance. In 2005, Ghana Social Security and National Insurance Trust (SSNIT) introduced a voluntary social security scheme whereby benefits are exclusively based on contributions. This was taken over by the National Trust Holding Company Ltd in 2012. This offers an unprecedented opportunity to
informal sector employers and employees, including those working part-time, seasonally or casually, to be part of the social security schemes.

2) **Simplification and streamlining of regulations and taxation.** In 2005, the Registrar General introduced a reform programme, which among others is seeking (i) reduction in the time and cost of registering businesses (ii) decentralisation of RGD to make it more accessible, collaboration/interface with Revenue Agency and Tax ID Number Centre. In 2009, the various tax agencies (Customs, Internal Revenue and VAT) were integrated into one, and ICT adopted to enhance information flow reduce compliance cost and enhance voluntary compliance

However, these efforts have not had any notable impact on reduction of the informal sector. Instead, it keeps growing up.

### 8.3 Private Sector Organisations

Ghana has many business associations, including apex organizations, which are fairly well established with large memberships. The associations relevant to the informal sector include the following:

1) **Council of Indigenous Business Association (CIBA)**,
2) **Ghana Union of Traders’ Association (GUTA)**,
3) **Ghana Cocoa, Coffee and Shea nut Farmers Association**,
4) **Ghana Private Road Transport Union of TUC (GPRTU)**,
5) **Greater Accra Markets Associations (GAMA)**
6) **Ghana National Association of Garages**
7) **Makola Market Women Association**
8) **The New Makola Traders Union**
9) **The Ga East Traders Association**
10) **The Greater Accra Tomato Traders Association**
11) **Accra Metropolitan Assembly (AMA) heads of departments social protection, planning, and market development departments**
12) **Tema Station Traders, Accra**
13) **Ghana Association of Employers**
14) **Trade Union Congress of Ghana**
15) **Ghana Peasant Farmers Association**

Unlike Tanzania, Kenya and Rwanda, Ghana does not have one apex organization for the private sector. Instead, many associations, some with overlapping interests and membership, try to
engage the government at different levels of their own. Sometimes, this inevitably causes problems. It is not uncommon to find different organizations pursuing the same or conflicting positions on the same issues in parallel. The government is sometimes confused by this uncoordinated approach and often takes advantage of it to ignore concerns raised by the private sector.

Each of the associations has policy advocacy as one of the agenda. However, they typically also offer other services to members. The services include:

1) Capacity building of members
2) Self regulation
3) Negotiation with the government – on producer prices, transport fares, wages and license fees
4) Sales agents for members services

Some examples of all of these are given in the sections that follow.

**Private Road Transport Union (PRTU)**

PRTU was established in 1981 and brings together over 10,000 passenger transport vehicle owners and drivers. The core functions are (i) acting as members agents in issuance of tickets (at a small fee), (ii) negotiating with the government on fares and communicating the same downwards to members, (iii) capacity building of drivers – especially training on road safety and customer care, (iv) regulating fares among the members (v) coordinating schedules and turns for vehicles (vi) monitoring compliance by drivers and vehicle owners with internal policies as well as government policies and regulations (including fares) and (vii) maintaining security at bus terminals. The branch level levies fines on defaulters and may even temporarily suspend operations for repeated default. Sometimes, the government buys vehicles and lends these to the association, which in turn lends to its members, collecting the repayment and paying back the government.

PRTU is a multi-level apex organization with member organizations at regional, district and branch (route) level). The Union is led by a secretariat of four full time staff and a Board of Directors (with Chair, Deputy Chair, General Secretary, and 2 Trustees. There are two deputy Secretaries, one for operations and another responsible for administration. The structure is
mirrored at the regional and the branch level, except at branch level the Industrial Relations Officer (IRO) is the lead full timer in charge of operations. At the branch level, the Secretary is full time, and his remuneration is an agreed proportion of the booking fee.

Its involvement in formalization includes the following:

(i) Communicating fares agreed with the government, government announcements and any guidelines downwards to members
(ii) Capturing members concerns and representing them to respective government bodies
(iii) Preparing and ensuring compliance to a schedule/time table for each vehicle in order to ensure orderly business for everyone
(iv) Ensuring that each member is using only properly certified drivers
(v) Monitoring behaviour of drivers and reporting any misdeeds to vehicle owners
(vi) Ensuring that members only charge the fares agreed with the government
(vii) Advising members to join voluntary pension and insurance scheme
(viii) Ensuring that members have the necessary government permits to operate a vehicle; and
(ix) Training members on security/good practice.

PRTU leadership reported that despite its existence, there are still transporters and drivers who try to operate outside their framework. For example, some drivers who work on fixed daily revenue target arrangement will hand over their vehicles to drivers unknown in the association, demanding higher targets than they have been given in order to pocket the difference without working. These unlicensed drivers use all forms of short cuts in order to reach the set targets, and are a major cause of accidents. To manage these and other problems the union has recruited security staff, which is also paid out of booking fees commission.

It appears that the Union has a big opportunity to further promote the formalization agenda, by for example training members on record keeping and costing, engaging private companies that can support members to prepare accounts, keep proper records and generally adopt good business management practices (employment contract, registration or incorporation as appropriate, job descriptions, etc.

_Ghana Union of Traders’ Association (GUTA)_

GUTA was established in 1989 (inspired by the association of passenger drivers and frequent strikes by traders resisting unfair license fees and taxes) mainly to negotiate and advocate for
an enabling environment for traders. GUTA is an apex organization with sector associations in different areas (hardware, spares, general retail, used clothes, electronics, etc.). It has over the years managed to successfully advocate for the government to lower unrealistic import duties and VAT through a combination of strikes and dialogue.

GUTA also managed to convince the Ministry of Trade and Industry to give it its current offices space free of charge, and to get the government to always engage and involve them in decisions affecting traders. Among other achievements was to increase the capital threshold for foreign investors in the trade sector, and to get the government to abolish pre-shipment inspection in favour of destination inspection.

GUTA does not engage in any form of self-regulation. The leadership is of the view that self-regulation is only possible with government support and legal backing. Although some of the issues it stands for also affect the informal traders, it is not directly addressing informal sector issues. The most vulnerable of the traders who do not have premises or business permits, are not members. The reason given by informal operators is that they do not know whether they will be allowed to operate even for the next two weeks. In fact there are conflicts of interests with the informal operators, who may not be paying taxes and therefore pose unfair competition to the more established members.

**Ghana Employers’ Association (GEA)**

GEA was established in 1958 and has over 1000 members, all employers. The core mission is advocacy and representation of employers in bargaining with government on labour issues, such as setting up minimum wage, labour laws and regulations, pension issues, etc. GEA has 20 interest groups/sub-sector represented, including agriculture, finance, utilities, commerce, manufacturing, transport, power, ICT, etc. It is affiliated to West African Organization of Employers. The representative of the informal operators on the organization is the Council for Indigenous Business Associations (CIBA) and the Union of Informal Workers Associations (UNIWA). GEA advocated for the voluntary pension funds designed for the informal sector.

The association is implementing a formalization project with CIBA and other associations. The project has two phases, a study and piloting formalization of formalisable enterprises dealing with hair dressing and music with Ghana Association of Beauticians and Musicians as a key stakeholder. The ongoing study will culminate into concrete policy proposals to government.

The team was informed that the ILO is coming up with guidelines on how employers’ organizations can support business formalization. It is looking at “holistic” formalization at the level of enterprises as well as at the level of associations that can potentially be their members. By holistic formalization, they mean both de-facto (practice) and de-jure (legal compliance).
Thus it includes registration, business permit/license, paying taxes, having a constitution, record keeping, maintaining bank accounts, external audit, written contracts, and employment contracts for workers, having staff with basic technical skills, health insurance, pension contribution, and job descriptions for staff.

GAE believes that for formalization to work, it must entail massive capacity building of informal operators and their associations, and a dedicated formalization institution. They will therefore pursue the agenda through a combination of advocacy and capacity building. There is a big potential for Tanzania and Ghana to learn from each other. It was agreed that IMED and GAE will share the findings from the two parallel studies, as well as the policy proposals. Both will also exchange lessons (even possibly visits) when the formalization initiatives are being piloted in Ghana and Tanzania respectively.

**National Peasant Farmers Association (NPFA)**

NPFA was established in 2005 through a project supported by Plan International, to bring together smallholder farmers (with less than 2 acres), with the aim to empower them to scale up production. The mission is to work with others towards achievement of conducive environment for agriculture development and growth of the small-scale farmers, through pro-poor agricultural policy advocacy, building and strengthening the entrepreneurial skills of members for wealth creation. Main activities are advocacy, provision of training and advisory services on good agronomical practices and entrepreneurship/farm management. Different donors sponsor most of the services.

Initially membership was only individuals, but as it grew, it has evolved an multi-level apex structure, with membership above branch level being of organizations. It has 38,000 members organized into 11,000 farmer groups and with regional and district chapters. NPFA belongs to the Ghana National Association of Farmers and Fishermen (GNAFF), which is established in the constitution of Ghana and given office accommodation by the government. GNAFF focuses mostly on provision of inputs to members. Because GNAFF cannot effectively play the role of advocacy (as a government established entity), stakeholders in agriculture formed the National Federation of Agriculture Producers (NFAP) in 2009, which is however still struggling as it lacks resources.

Many of the peasant farmers have graduated to commercial farming and some of the members have over 200 acres of developed land (though they agreed to keep the name to reflect their focus on supporting graduation of peasants to commercial farmers).
Ghana Association of Coffee, Cocoa and Shear Butter Farmers

The Ghana Cocoa, coffee and Shea-nut farmers association was officially founded in 1980 to campaign for better price of the crops, but the union can be traced back in 1948, when the colonial governor ordered the cutting down of the diseased Cocoa to save the healthy ones. The farmers formed an association to demonstrate against the decision.

The association now seeks to champion the cause of regulating good market price for cocoa, coffee and shear nut. It is working with Ghana Cocoa Board and Ministry of Agriculture for quality yield, exploring the market and advocating for good price of cocoa, coffee and Shea-nut. The association is working with Cocoa board to acquire the right fertilizer and inputs for the crops, promoting the wellbeing of the members and spreading awareness of crop diseases.

A key challenge facing the organization is the aging population of members with the average age being over 55. Most young people are not attracted to agriculture due to limited appreciation by the youth, lack of cash to start with and high risk (reliance on rain-fed agriculture). The association is encouraging young people to enter into “work for land” arrangement, under which landless youth agree to open up and plant a piece of land in return for ownership of its portion (e.g. if you develop 6 acres, you may be given 2 of them).

8.4 Local government role in managing informality

Three local governments were visited by the researchers. These are Accra Metropolitan Assembly (AMA), Ga East Municipal Assembly and Ga West Municipal Assembly. The local governments are organized in four levels (Municipal/District, Sub-Municipal/District, Zonal and Area Councils), each headed by a CEO and having several departments dealing with education, planning, health, roads, community development, finance, etc. In all local governments, two departments are responsible for the management/facilitation and regulation of businesses, including informal ones. These are the finance and community development departments.

Local governments have classified businesses according to type of activity and size, and different annual license fees are set every year in consultation with representatives of the private sector. The classifications are in some case a bit arbitrary, leaving the local government staff with much discretion in determining the final fee that a business should pay.

The finance department is responsible for setting and collecting both the business operating license fee and the daily market toll (which is sometimes delegated to the market leaders – also called market queens).
The department of community development is involved in direct organisation and capacity building of informal operators, through organisation of groups of women/micro enterprises, providing technical training in various trades, group formation and management, gender training, business skills training, information, linkage to finance. This service is provided through its field officers who are found both at assembly and sub-assembly levels. The main limitation of this service is that it focuses mostly on very basic needs and targets the very poor. The agenda is not to empower them to formalize and grow, but rather to eke out a living. The facilitators (community development officers) do not have the requisite awareness and skills to guide and empower them to grow and formalize. The second limitation is that it is not resourced and must rely very much on external funding, which is also erratic/unreliable.

**Local Government By-Laws**

Most Municipal Assemblies in Ghana have introduced by-laws that govern operation of all common income-generating activities conducted by the informal operators (urban farming, livestock keeping, food and beverage preparation and services, fruit and vegetable selling, quarrying, brick making, etc.). However, from the interviews with Municipal Assemblies and informal operators, it is clear that few are aware of the contents of these by laws and their enforcement is weak, erratic and inconsistent. It was reported that a major reason for weak and inconsistent enforcement is that, given their large numbers, informal operators are an important political constituency and therefore local and national politicians will always pretend to be on their side, especially when elections are approaching, by relaxing enforcement of by-laws that disallow business activities in streets or other areas not designated for business.

**Establishment of markets/businesses premises**

Various local governments (assemblies) have put in place markets, or other types of premises for micro enterprise operations. These markets tend to be of low cost/quality and able to accommodate a limited number due to space and facility (e.g. toilets, parking, etc.) limitations. Traders in Ga East Municipal Assembly complained that when the local government puts up structures, they don’t always consult and as a result they end up building ones which are inappropriate for them. A common mistake, they said, is to assume that all businesses want a four wall room of a particular size, while what some need is just a 2x2 metre space on the floor to display and sell their wares.

The local governments visited plan to expand business premises by building high-rise buildings in order to accommodate many traders. However, they face three main challenges in doing so. First, they do not have funds to build new markets or expand existing ones. One of the reasons
for lack of funds is that operators in existing markets pay very low rental and they always resist
increases. The government has put in place a Public-Private Partnership Law, under which
private capital can be used to build the premises. However, private investors are not ready to
invest in premises for informal sector operators because they are known to resist paying higher
rates than they are used to/have observed, and politicians are likely to submit to their
demands.

**Mobilization and engagement of communities**

Ga East Municipal Assembly has introduced an interesting mechanism for engaging the
community and these also impact informal operators in residential areas. People in different
localities are encouraged to form community/neighbourhood associations, through which they
elect a secretariat and organize monthly meetings to discuss/deal with any issues affecting the
community. In the process, they manage different social and economic activities, such as
cleanliness of the environment, repair of damaged roads, sewage or water pipes, identification
and reporting of suspicious strangers, warning and if necessary reporting business operators
who do not comply with Municipal Assemblies by laws or national laws.

8.5 Challenges and issues in managing informality and facilitating its transition to formal in
Ghana

The main barriers to effective support to graduation of the informal operators and their integration in
the formal economy in Ghana are as follows:

Absence of an informed vision and framework for the informal economy. There are broad
intentions of creating an enabling environment for as many firms as possible to formalize. However, this is yet to be translated into formal policy or strategy. Like in Tanzania, the existing policy framework is only responding to a fraction of the informal economy, leaving out the rest to unsystematic management by the local assemblies. Also, like in Tanzania, politicians are taking advantage of the situation by promising to protect the operators only when they need their votes.

The biggest challenge facing informal operators is lack of appropriately located, sized and
priced business premises. Existing premises are limited in number and space, old and
dilapidated. Attempts to build new bigger structures have not been successful for a number of
reasons (i) local governments are caged in the idea of a “four walled shop” which is way too
large, closed and too costly and inappropriate for the smallest traders who need it most (ii)
informal traders often resist paying market rates for space (sometimes with support of
politicians) and hence local government and private sector is not interested in investing in
business premises for them (iii) there is a continuous flow of informal traders to the extent that the need for space is practically insatiable.

8.6 Lessons from Ghana’s experience

(i) There are some strong associations that have, on their own, established strong secretariats, self-regulation mechanisms, strategic services to members and a strong voice in advocating for policy change. Interestingly, some of the associations combine formal and informal operators of different sizes, as long as they are in the same sector. A good example is the Ghana Private Road Transport Union which is regulating transport schedules, dress codes, use of licensed drivers, fares etc. and at the same time providing training. Ghana Employers Association is working through a smaller association to provide voluntary pension schemes for informal operators.

(ii) Some associations have managed to lobby the government to support them through free office space.

(iii) Some LGAs have interesting mechanisms for voluntary engagement of community to oversee activities of informal operators in their area.

(iv) Ghana conducted a comprehensive survey of informal enterprises in 2015, which provides valuable insights and information about the sector.

(v) Different sub-sectors will respond differently to different formalisation strategies. For example, porters, passenger transport operators and their drivers (taxis, buses) and market traders easily organize into associations or cooperatives and can easily self-regulate. Informal traders, have more difficulty organizing because their operations are least predictable and very unstable.

(vi) Association can be a powerful means of tackling the drawbacks of informality holistically. Associations automatically change informal operators’ legal status, while simultaneously enabling them to comply as a group, to be captured in government statistics and to access capacity building support. Association also gives informal operators the voice they need to advocate for their rights including an enabling business environment. It also empowers them to institute different forms of self-regulation.

(vii) There are some interesting models for empowering resource poor individuals in the informal sector. One example is the work for land arrangement, whereby landless youth prepare and plant a land area in return for ownership of part thereof.
9. SYNTHESIS OF KEY FINDINGS

9.1 Introduction
The study examined approaches and initiatives intended to increase the proportion of the businesses that are informal. This was done from the literature, as well as from field visits and interviews in the four countries where the empirical study was done. This chapter presents a synthesis of the key findings from the literature review and the four case study countries.

9.2 Nature of informality and its implications
There is overwhelming evidence that the dual economy perspective explains the existence of a vast majority of informal enterprises in developing economies. Our own findings corroborate other recent research findings (Rothenberg, 2014; La Porte, 2014; OECD, Kickpatrick, 2014) that has established that, for the most part, businesses are informal because they are too small, unestablished and unproductive to operate in the formal economy. Firms that are able to and but decide to remain informal and those that are willing but fail to formalize because of stringent regulations are relatively few compared to the vast number that is not able operate in the formal economy.

9.3 Approaches to formalisation
The findings show that different approaches have been used in different countries with different results. These measures can be categorized into the following.
   i) Building awareness, capacity and productivity of operators
   ii) Providing workspace
   iii) Simplification of regulations and/or development of special policy, regulatory and institutional framework for micro enterprises.
   iv) Enforcement of regulations

These approaches are used together, and can be viewed as the key business formalisation pillars.

9.4 Direct Vs Indirect Formalisation
The study has identified two major approaches in realising the objectives of formalisation. The conventional approach to formalisation has been a direct one, whereby the government, its agency or a local government deals directly with the businesses to provide formalisation related interventions - training, information, allocating, constructing and managing workspace; simplifying regulations and enforcing regulations. The study has identified an emerging, indirect approach to formalization, whereby the state, its agency or the local government empowers sector business associations to partner with the government to improve traceability, control and access to resources and services that informal enterprises need (capacity building, access to premises and markets, voice, etc). In an indirect formalisation, control over the informal
business activities is partly through self regulation mechanisms within the associations or cooperatives. Below we examine and compare the experiences and lessons from these two approaches.

9.4.1 Direct formalisation approaches and initiatives
In addition to simplification of business regulations, the countries studied have directly introduced direct services to micro enterprises, as shown in Table 4.1

Table 9.1 Direct formalisation approaches

<table>
<thead>
<tr>
<th>Approach</th>
<th>Tanzania</th>
<th>Rwanda</th>
<th>Kenya</th>
<th>Ghana</th>
</tr>
</thead>
<tbody>
<tr>
<td>Simplification of business regulations</td>
<td>√</td>
<td>√</td>
<td>√</td>
<td>√</td>
</tr>
<tr>
<td>Voluntary pension schemes for individuals</td>
<td>√</td>
<td></td>
<td>√</td>
<td></td>
</tr>
<tr>
<td>Training on technical or business skills</td>
<td>√</td>
<td>√</td>
<td>√</td>
<td></td>
</tr>
<tr>
<td>Construction and management of markets and business complexes</td>
<td>√</td>
<td>√</td>
<td>√</td>
<td>√</td>
</tr>
<tr>
<td>Capacity building including provision of credit</td>
<td>√</td>
<td>√</td>
<td>√</td>
<td>√</td>
</tr>
<tr>
<td>Enforcement of regulations</td>
<td>√</td>
<td>√</td>
<td>√</td>
<td>√</td>
</tr>
</tbody>
</table>

Regulatory simplification
Most countries in the World have been engaged in extensive simplification of business regulations, partly inspired by the World Bank Doing Business Reports which rank countries annually according to ease of doing business. All the countries visited (Ghana, Kenya, Rwanda, Tanzania) have implemented several programs intended to simplify business regulations, including those related to formally starting a business and paying taxes. The reforms have included automation of name search, online registration (Tanzania, Rwanda and Kenya), mobile phone registration (Kenya), online and single payment of registration fees (Kenya, Tanzania, Rwanda), Rwanda has been so successful in reforming its business regulations that it ranks number 2 in Africa in terms of the World Bank Ease of Doing Business and number 14 in the World in terms of ease of starting business. Tanzania has, among others, reformed its business laws to allow for single shareholder limited liability companies. Tanzania and Ghana have developed special pension products for individual business operators.

It is clear that regulatory simplification measures undertaken in the past 15 years in most African countries have not substantially reduced the proportion of businesses that operate informally. This was acknowledged in discussions with stakeholders in all three countries studied. Even Rwanda, which has made tremendous improvements in terms of ease of starting business, has not reduced its informal sector (as defined by registration and licensing) substantially. In 2009 alone, following substantial reforms in the company incorporation procedure, 3028 new companies were formed, more than the previous 5 years combined (World Bank 2015). Yet, over 90% of businesses in Rwanda are still informal.
The literature shows that low impact of regulatory simplification is not unique in Africa. Recent experimental studies conducted in several countries in Asia and South America shows that only a small fraction of the informal economy responds to regulatory simplification.

**Provision of workspace**

Local governments in the four countries own and manage several markets used by informal operators. They have also been trying to increase the number of markets, and in Dar es Salaam and Nairobi, there have been projects to construct large business complexes for informal operators. Except for Kigali, the local governments visited are overwhelmed by the very large number of operators for which they are unable to provide space. They are also very frustrated by the fact that whenever they put up markets or other structures in good locations, informal operators or employees including those connected to influential civil servants and politicians will immediately take up the space, with the intention of sub-leasing it to other users. Rather than give it back to the landlord, operators who graduate to formal businesses, or decide to close the business retain and sublease their space. This happens simply because the rental is set way too low compared to the market rates.

Meanwhile, operators who occupy some sites pay hefty fees to security personnel, earlier occupiers, owners and employees in adjacent buildings or local government officials. This suggests that informal operators can actually pay economic rent, which means that with the right governance and management framework, it is commercially viable to invest in appropriately designed and located premises for them.

**Capacity building**

All local governments have some form of capacity building (training, credit programs, support to formation and strengthening of groups of informal operators, etc). Interviews in all the four countries revealed that capacity building and credit programs designed for micro enterprises have been ad-hoc and not sustainable and not much impact is visible. This is mainly because while they are dependent on erratic government and donor funding and expensive facilitators, most informal operators do not perceive much value in them. When it comes to training, operators usually demand being paid to partake in training. They perceive that it is the agenda of the government, and not their needs, which are being addressed.

**Enforcement of regulations**

Enforcement of regulations is implemented mainly by local governments, which have hired special security personnel for this purpose. However, given the large number of operators, local authorities also contract private firms to collect levies and fine defaulters or operators who infringe by laws. In all cities except Kigali, this has led to persistent clashes between the law enforcement agents and operators. The enforcement agents are often accused of corruption, destruction of working tools and illegal confiscation of the operator’s wares. This harassment is one of the biggest complaints of informal operators.

9.4.2 Indirect business formalisation

95
There seems to be a paradigm shift towards indirect formalisation of informal businesses. Some of the indirect formalisation approaches in the four countries studied are shown in Table 4.3 below.

**Table 9.3 Indirect formalisation approaches**

<table>
<thead>
<tr>
<th>Approach</th>
<th>Tanzania</th>
<th>Rwanda</th>
<th>Kenya</th>
<th>Ghana</th>
</tr>
</thead>
<tbody>
<tr>
<td>Working with associations to support self regulation</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Group registration/registration certificate by LGA</td>
<td>✓</td>
<td></td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>LGA performance contracts with associations</td>
<td></td>
<td>✓</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Health insurance schemes</td>
<td>✓</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Subsidies for construction of offices</td>
<td></td>
<td>✓</td>
<td></td>
<td>✓</td>
</tr>
<tr>
<td>Free office space for associations</td>
<td></td>
<td></td>
<td></td>
<td>✓</td>
</tr>
<tr>
<td>Issue of credit to association for on-lending to members</td>
<td></td>
<td></td>
<td></td>
<td>✓</td>
</tr>
<tr>
<td>Government guarantee of association loans</td>
<td></td>
<td>✓</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Training on technical or business skills</td>
<td></td>
<td></td>
<td></td>
<td>✓</td>
</tr>
</tbody>
</table>

Rwanda is a clear leader in indirect formalisation, among the countries studied. Although there is no elaborate policy or act on micro enterprise or formalisation, it is well understood within the public and private sector that cooperative development is the way forward for tackling informality. With this in mind an institutional framework has been put in place in the form of the Rwanda Cooperative Act (2006) and the Rwanda Cooperative Agency (RCA). The country is consciously encouraging and even forcing every business operator who cannot get the conventional license to join a cooperative (at least 10 people are needed to form a cooperative) which is registered, with a database of members and a certain minimum level of self regulation and services to members. Associations are encouraged to develop workspace for their members. The local governments engage closely with the associations, supporting capacity building, access to finance, access to land and in some cases guaranteeing loans for construction of workspace owned by the cooperative. Government subsidies targeting a particular sub-sector are also channelled through the respective cooperative.

As a result of the government approach towards managing micro enterprises, there are fast growing cooperatives, some of which started from very humble beginning, but have now grown to have good database of members, strong secretariats, offices, and workspace for members, cooperative police and even office blocks for lease. The local government works closely with the cooperatives with which they have annual performance contracts. The cooperatives do organise training for members whether it is offered by government agencies, development partners or themselves. Though not as developed as in Rwanda, all the other three countries studied have active associations that are working with the local and central governments, as
well as development partners, to enhance organisation, traceability, capacity and access to important services to members. Table 4.4 summarizes shows what is being done by at least some sector associations in each of the countries.

**Table 9.4 Services offered by associations of informal workers to members**

<table>
<thead>
<tr>
<th>Local Authority/Functions</th>
<th>Tanzania</th>
<th>Rwanda</th>
<th>Kenya</th>
<th>Ghana</th>
</tr>
</thead>
<tbody>
<tr>
<td>Advocating for enabling environment</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Capacity building of members</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Market information</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Negotiating for bulk purchase of inputs</td>
<td></td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Negotiating for input prices/output prices and access to markets</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Jointly building premises with LGA</td>
<td>✓</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Security</td>
<td></td>
<td></td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Self regulation (self policing on order and compliance to by-laws, LGA and national laws)</td>
<td>✓</td>
<td>✓</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Access to pension schemes</td>
<td></td>
<td>✓</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Access to medical insurance schemes</td>
<td>✓</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Credit to members</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Traceability (Identity cards, databases)</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Representation in employment issues</td>
<td></td>
<td></td>
<td></td>
<td>✓</td>
</tr>
</tbody>
</table>

Ghana has several sector associations that have grown organically and established self regulations mechanisms and partnership with the central government or local government. King et al (2015) found that the Kumasi Informal Bakers Association (KIBA) had helped build the capacity of its individual members to introduce some degree of formality in their activities and performances, moving the bakers away from the informal spectrum towards the formal sector spectrum. They concluded that self-regulation through associations can to some extent effectively formalise the informal sector for sustainable development.

Tanzania has several associations that are delivering “formalisation” related services, such as ID cards, self regulation, medical insurance or finance to members. VIBINDO Society, the biggest association of micro enterprises and informal workers, provides ID cards, policy advocacy, medical insurance or finance to members. Market (including weekly markets – magulio) traders have basic forms of self regulation (payment of fees, cleaning, and behaviour at the market) and provide security in markets. Motor vehicle drivers have agreed on schedule of operations, fare, and code of conduct which are strictly enforced. UMANTIDA (food vendors) has basic standards of hygiene, a cleaning schedule and daily fees. Kenya similarly has many associations that are promoting formalisation related services.
9.5 Development of a special regulatory framework for micro enterprises

Realising the limitations of regulatory simplification and other direct formalisation approaches, some countries have started creating a special regulatory framework for micro enterprises. Mexico and Kenya have in the past few years’ pioneered policy, regulatory and administrative frameworks for micro enterprises that takes into account their unique characteristics. In Mexico, a special law for microenterprises (Estatuto da Microempresa) was enacted in 1984, providing for differential legal treatment at the different administrative levels, by streamlining, eliminating or reducing administrative, tax, social security and credit obligations. In 1990, an autonomous small and micro enterprise development agency – SEBRAE was created. Kenya Sessional Paper 2 of 2005, and the Micro and Small Enterprises Act of 2012 and micro enterprise regulations provide a framework for management of this segment of the economy. The Micro and Small Enterprises Agency (MSEA), responsible for designing appropriate policy measures for managing informality has been established. MSEA is actively involved in engaging and coordinating business development services providers, financial institutions and local governments to provide appropriate products and services to associations and micro enterprises.

The key feature of the policy and regulatory framework for micro enterprise in Kenya are (i) reliance on indirect formalization, (ii) changing the definition of formal to from compliant to licensing or registration regulations to “traceable” and (iii) introduction of a single business permit with a single payment of local government levy that can be settled in small installments. Members are registered in associations rather than the government. The local governments issue the single business permit to persons registered by the associations. The framework recognizes that micro enterprises cannot be subjected to the same regulations as their larger counterparts, and the best option is to find mechanisms for achieving the objectives of formalization (traceability, control, capacity building, order, etc). MSEA envisions stepped up formalization, beginning with being traceable through an association, getting formally recognized premises and finally registration, with in-built incentives to move to the next level. One of carrots to fuller formalization is access to government procurement. The MSE Act has also provided for and led to establishment of the Registrar of Micro and Small Enterprises Association, Micro and Small Enterprise Tribunal and Micro and Small Enterprise Fund, all of which are working synergistically towards indirect formalization.

9.6 Conclusion
Simplification of existing regulatory framework does not seem to be working for the micro enterprises because their scale and productivity are too low to justify operating in the formal economy. Government attempts to directly build capacity provide finance, workspace or to regulate micro enterprises are apparently not effective. There is an apparent paradigm shift towards designing dedicated policy regulatory framework for micro enterprises that relies on indirect formalisation, under which business associations or cooperatives are empowered to take greater responsibility for registration, (self) regulation, capacity building, finance and provision and management of premises. The emerging approach is likely to be more sustainable
and scalable than the conventional reliance on direct formalisation, where the government has
to deal with millions of micro enterprises directly.

Strong sector associations are able to create a mutually re-enforcing dynamic among the four
pillars of business formalisation: A strong sector association is able to police members,
influence policy makers, provide or influence availability of premises and markets, contribute to
capacity building, which in turn attracts members and strengthens the association.

Figure 1 Mutually re-enforcing formalisation pillars

10. SUMMARY OF LESSONS, CONCLUSIONS AND RECOMMENDATIONS

10.1 Lessons and Conclusions
The study has generated a number of important lessons and conclusions. To achieve large scale
(inclusive) formalisation, a different approach is needed. What is referred to as the informal
sector will remain a significant part of the economy for many years to come and we must find
appropriate ways of managing it as it is. Transformation of a large part of the informal economy
cannot be achieved through a narrow, legalistic approach to formalisation. It needs to consider
at least four key pillars – (i) building awareness, capacity and productivity; (ii) facilitating access
to premises and markets; (iii) having right regulations for micro enterprises and (ii) effective
enforcement for large numbers of micro enterprises.

The use of indirect formalization through empowering sector associations and cooperatives to
deliver these formalisation services to their members is far more effective and efficient
compared to use of formal government institutions. The cost structure of government
institutions as well as their capacities does not match the task of engaging with a large number
of very small and unstable businesses. As well, the use of sector associations resolves challenges related to under pricing and rent seeking in workspace managed by the government. Direct formalisation will work for only a small part of the economy and leaves out the base of the pyramid. Indirect formalisation has greater potential of being inclusive and reaching the base of the private sector pyramid (See below).

![Diagram](image)

**Figure 10.1: Reaching the base of the pyramid through indirect formalisation**

*A paradigm shift in managing informality is emerging*
Due to failure of past formalisation attempts, a paradigm shift is taking place in terms of designing specific policy and regulatory framework for micro enterprises. Adoption of indirect formalisation - working through sector associations and cooperatives (pooled formalisation) generates a mutually re-enforcing dynamic among the key formalisation pillars. The association/cooperative acts as a hub that creates a mutually re-enforcing dynamic with the key formalisation pillars, to deepen formalisation through capacity building, advocacy, self regulation, provision of premises, etc all of which positively impact the association. Interesting examples exist for Tanzania to adopt. The ability of existing sector associations and attitudes of key stakeholders towards empowering millions of micro enterprises to this extent need to be examined and developed.

*Government may not be the right developer or landlord for micro enterprises*
The common practice of pricing government owned premises below economic rates and the tendency to politicise rental payable by micro enterprises are major barriers to construction of business premises, a major impediment to formalisation. The findings show that It is best to have premises for informal operators owned by themselves or purely private sector operators to be able to charge economic rent (make it attractive to investment) and avoid rent seeking.

*Absence of policy framework for managing informality is damaging*
The absence of an appropriate enabling policy and legal framework for managing micro enterprises is exposing the informal operators to many challenges and risks, including a high level of unpredictability (hence inability to save and plan), taxtortion (illegal taxes, levies and rents), limited access to premises (as investors are scared of investing in premises designed for them), limited access to finance (as they are outside the legal framework). Unmanaged informality is also contributing to informalisation of the formal economy, and is a threat to
order and security. As well, opportunist politicians are taking advantage of the void of a policy
and regulatory framework to use informal operators as their “vote banks”, an approach that
does not help anyone in the long run.

*Both incentives and penalties (enforcement) are needed to realise formalisation*
Once a realistic and easily framework for legally operating a business is in place, it is essential to
have tangible effective enforcement to and make movement to the next level of formalisation
desirable though incentives (e.g. premises, access to finance, government procurement, certain
forms of capacity building, etc).

### 10.2 Recommendations

**Policy and regulatory framework**
Based on the findings of the study, it is recommended that Tanzania should follow the steps of
Kenya and Mexico in designing a dedicated policy, regulatory and institutional framework for
micro enterprises and promotion and facilitation of indirect formalisation. Key aspects of the
policy should include:

- **(vi)** To recognize indirect formalisation and redefine formal business to one that is “traceable”, even if it is through the databases of the sector associations
- **(vii)** To make membership to a registered sector association with a self regulation mandate and agreement with the government mandatory for any business that does not have a license
- **(viii)** To introduce special business permits issued by LGAs for businesses that are indirectly formalized with a flexible schedule by mobile phone
- **(ix)** More inclusive urban planning framework that provides for operations of micro enterprise
- **(x)** Institutional framework (roles) and capacity building of LGAs to support indirect formalisation
- **(xi)** Non politicisation of micro enterprise related issues

**Access to workspace**
Provision of workspace and construction of business premises for food vendors, street traders
and other informal operators should be given high priority in all urban areas. The model for
building structures for micro enterprises should change in favour of ownership by the operators
through their own associations or other private sector investors. This is apparently the most
effective way of managing political interference, rent seeking and making such investments
attractive to investors.

**Short term measures**
In the short term, even before the policy and regulatory framework is in place, some LGAs may
start working with existing sector associations to introduce some form of registration, ID cards
recognized by the LGA, self regulation and a single license fee payable flexibly. The Rwandan
experience shows organized associations may attract different corporate partners. The formalisation initiatives can be partnership among LGAs, TRA, an association of informal operators and a development program/project that will focus on building organisational and self regulation capacity of the association. It may also entail management and development of workspace. The easiest sub-sector to deal with are ones with homogeneous operators e.g. Motorcycle drivers).

Some of the successful engagement of local government and cooperatives in Rwanda has been catalyzed by a Business Formalisation Challenge /competition involving local governments and government agencies in undertaking pooled formalisation and self regulation in their respective sector/jurisdictions. It would be useful for stakeholders in the business environment reform arena to introduce such a competition in Tanzania.

10.3 Further research

The findings of the study have shed some light on emerging opportunities and models for business formalisation. However, there is a lot that needs to be better understood in order to design appropriate formalisation policy. Some of the aspects that demand further research include:

- Examining the potential of informal enterprises for self regulation in different sectors with a gender perspective
- Studying the nature, scope, extent and effects of taxtortion
- Detailed study of the experience of Brazil in implementing a special regulatory framework for micro enterprises and drawing up lessons for Tanzania and other countries
- Piloting indirect formalisation as part of action research in some sub-sectors, in partnership with interested local governments
- Large scale survey of informal sector in specific sectors in Tanzania to better capture the number, characteristics and potentials

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