21ST ANNUAL RESEARCH WORKSHOP

Towards Inclusive Business Formalization: A Study on Experiences and Lessons in Business Formalization

By

Donath R. Olomi & Goodluck Charles

Day 2 Paper ***KM3***

Presented at REPOA's 21st Annual Research Workshop held at the Ledger Plaza Bahari Beach Hotel, Dar es Salaam, Tanzania; April 6-7, 2016

TOWARDS INCLUSIVE BUSINESS FORMALISATION:
A NEW PARADIGM IN HANDLING BUSINESS INFORMALITY?

Submitted to

9th International Conference on African Development 2016

Dr. Donath R. Olomi
Institute of Management and Entrepreneurship Development (IMED), P.O.Box 35036 Dar es Salaam, Tanzania, olomi@imedtz.org, 255 754 296 660, Tanzania

Dr. Goodluck Charles
University of Dar es Salaam Business School, P.O.Box 35046 Dar es Salaam, goodluck@udbs.udsm.ac.tz, 255 754 371, Tanzania
The Institute of Management and Entrepreneurship Development (IMED)

March 2016

Acknowledgements

Funding for this research was provided by the Business Environment Strengthening Programme for Tanzania - Dialogue (BEST-Dialogue)

TABLE OF CONTENTS

ABSTRACT.. **Error! Bookmark not defined.**

1. INTRODUCTION 4

2. LITERATURE REVIEW 5

3. BUSINESS FORMALISATION FRAMEWORK AND PROFILE OF THE INFORMAL ECONOMY IN TANZANIA.. 12

4. EMPIRICAL STUDY OF FORMALISATION APPROACHES, EXPERIENCES AND LESSONS...................... 16

5. CONCLUSIONS, LESSONS LEARNT AND RECOMENDATIONS 22

REFERENCES.. 25

ABSTRACT

Despite past efforts in addressing business informality, millions of mostly poor people are still engaged in economic activities that are unrecorded, legally unrecognized and unprotected, with poor access to basic workspace and business services. Using a descriptive-qualitative method through literature review, interviews and focus group discussions in 6 cities and municipalities in Ghana, Kenya, Tanzania and Rwanda, the study examined the nature of business informality and lessons from past formalisation initiatives to capture new insights and ways of making formalisation more inclusive. Findings suggest that the informal sector has a small layer that responds to simplification and enforcement of regulations and a larger one, constituted by people who are so poor and operations so small that a different framework is needed for managing them.

The study has established that a paradigm shift has apparently started taking place in the form of special policy and regulatory frameworks for micro enterprises and use of indirect or group formalization, under which business associations facilitate traceability (registration), control (self regulation) and access to resources and services (capacity building, premises, markets, etc) for members. Informal economy theory and policy development need to take a segmentation approach and explore the merits and workings of these approaches.

Key words:
Business informality, indirect business formalisation, Group formalisation, Inclusive business formalisation, Second economy, Self regulation

1. INTRODUCTION

1.1 Background and research issues

The economic activities that are considered informal because they operate outside the law account for a significant part of incomes and employment in most developing countries. They represent 82 percent of non-agricultural 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[1]. In Tanzania, the sector accounts for over 60 percent of employment, 70 percent of the services consumed by the poor and contributes 39 per cent to GDP[2]. It absorbs over 62.5% of the urban labour force annually versus 8.5% by the formal sector[3].

The informal sector enables people from all walks of life to *obtain power and control over their own means of subsistence (*Muller, 2004) and to flexibly explore their talents, skills and opportunities by starting the entrepreneurial journey at a very basic level. However, these activities are unrecorded, legally unrecognized and unprotected. Most operators grapple with hostility, unpredictability and lack of property rights. They face poor access to workspace and basic services and are characterised by low levels of productivity, incomes, growth and poor quality of jobs. Informal firms do not directly pay tax and may present unfair competition to the formal ones.

For these reasons, there have been many attempts to reduce the proportion of the economy that is informal (ILO, 2002). Formalisations attempts have, however, had very limited success. Growing research evidence shows that informality does not decline proportionately with GDP growth, or even economic transformation. For example, despite substantial growth and transformation of the Indonesia's economy from an agrarian to an industrialized, medium income one, over 90% of its enterprises are informal (Rosenberg, et al 2016). South Africa's first world economy co-exists with a large informal economy. It is estimated that 83% of the Micro, Small and Medium Enterprises in South Africa are informal (Finscope, 2011).

A growing body of evidence shows that simplification of business regulations have had very limited impact on business formalisation. The main reason is that many of the operators of the millions of tiny informal firms have no desire or potential to expand to levels where formalisation would be justified (ILO, 2014; OEDC, 2014; Rothenberg et al, 2016). Consequently a more holistic approach, including poverty reduction strategies are recommended to address the problem of informality (ILO, 2014). However, informality thwarts poverty reduction by trapping the poor in a vicious cycle of low awareness and capacity - lack of legal protection and access to basic services – and low productivity and income (Wangwe and Mmari, 2014). For this reason, prominent proponents of business formalisation consider legal recognition an important step in unleashing productivity of the economic actors (de Soto, 2000). This raises a question as to what kind of models can break this cycle, if simplification of existing regulations does not.

---

[1] *ILO, (2013). Transitioning from the informal to the formal economy, International Labour Conference Report*
[2] *UNIDO, (2013). Tanzania SMEs Development Policy 2003 "Ten Years After"; Working Document*

[3] *Mfaume and Leonard, (2004)*

With the above in mind, this study sought to explore and draw inspiration and lessons from approaches and modalities used to deal with informality. The main question was what can be learnt from international experience in managing and transforming the informal economy?

The specific objectives were as follows:

(i) To critically examine the nature, causes and types of business informality

(ii) To examine the experience, challenges, success stories and lessons from initiatives to manage and transform informality

(iii) To seek fresh insights and bring fresh ideas into the business formalisation debate

1.2 Methodology

The study adopted a descriptive-qualitative method (Lambert and Lambert, 2012) through document review, in-depth interviews and focus group discussions and stakeholder validation meetings - based mainly on explorative research design. Through triangulation of data, constant comparison and critical reflection, the researchers identified emerging themes and patterns. The study started without any pre conceived ideas or framework allowing important findings to shape the report.

It covered local governments, central government ministries and agencies relevant to formalization issues, informal sector operators and their associations in Tanzania, Ghana, Kenya and Rwanda. The geographical coverage includes the following:

Table 1.1 Geographical coverage of the study

Tanzania	Ghana	Kenya	Rwanda
Ilala Municipal Council Kinondoni Municipal Council Temeke Municipal Council Moshi Municipal Council Mwanza City Council	Accra Metropolitan Authority Ga West Assembly Ga East Assembly	Nairobi County	Kigali City Council

The four countries were selected on the basis of experiences in managing informality as identified from the literature. As well, a survey of 179 informal operators was conducted in four major cities (Dar es Salaam, Mwanza, Mbeya, and Arusha) in Tanzania. The data was analyzed both qualitatively and quantitatively.

2. LITERATURE REVIEW

2.1 Nature of business informality

The informal sector is generally characterized by ease of entry, reliance on indigenous resources, family ownership of enterprises, small scale of operations, labour-intensive and adapted 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 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), reflecting the fact that a legally established enterprise may still not comply fully with requirements of the law or even good management practice.

The major informal sector surveys conducted in the 1990 in Tanzania (URT, 1991; URT, 1995) defined informal businesses as those employing not more than 5 people. In a recent major survey (URT, 2012), informal firms were defined as those that are not registered by the Business Registration and Licensing Agency (BRELA). The National Bureau of Statistics (NBS) defines informal businesses as the unincorporated. Not having a business license (which is preceded by tax registration) is often seen as being informal. Depending on which of these criteria is used, the proportions of the estimated 3.16 million enterprises (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

Organisation/Study	**Definition – Informal Businesses**	**Proportion of informal businesses using 2010 MSME Survey data**
National Bureau of Statistics	Are incorporated businesses	Over 99%
1991 National Informal Sector Survey and 1995 DSM Information Sector Survey	Employ 5 or more people	About 89%
2010 MSME Study	Are registered (even business name) by BRELA	About 96%
Common Usage	Have an LGA Business Licence (always preceded by TIN registration)	About 90%

Source: URT, 1991; URT, 1995; URT, 2012

The informal economy is highly heterogeneous, in terms of type of activity, scale of operation, quality of workspace, educational level of operators, motive, dynamism, degree of legal compliance, etc (Utouh, 2012; Wangwe and Mmari, 2014). The fact that different stakeholders use different definitions based on different sets of criteria complicates theorising, research and formalisation policy.

2.2 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 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.

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).

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; Chowdhurry, 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.

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).

Rosenberg 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 have no desire to expand or borrow from formal financial sources.

The South African government has since 2005 officially recognized the existence of the "Second economy", which the South African Economic Development Department defines as "the range of activities that are often marginal, outside the regulatory net and survivalist in character."[4]. This amounts to official acceptance of the dual economy thesis.

[4] http://www.economic.gov.za/about-us/programmes/economic-policy-development/second-economy

2.3 Business formalisation approaches

The study examined approaches and initiatives intended to increase the proportion of businesses that are formal. This was initially done from the literature. The findings show that different approaches have been used in different countries with different results. The International Labour Organisation is the most visible advocate and champion of business formalisation. At its 103rd Session of the International Labour Conference, ILO adopted an Integrated Strategy for Transition to formality with seven elements, as shown in Table 2.3

Table 2.3 ILO Integrated Strategy for Transition to Formality

ILO Integrated Strategy for Transition to Formality	1) Growth strategies and quality employment generation
	2) Regulatory environment, including enforcement of international labour standards and core rights
	3) Organization, representation and social dialogue
	4) Equality: Gender, HIV status, ethnicity, race, caste, age, disability
	5) Entrepreneurship, skills, finance, management, access to markets
	6) Extension of social protection: Building social protection floors and social security systems
	7) Local (rural and urban) development strategies

Source: ILO, 2014: Transitioning from the informal to the formal economy, International Labour Conference, 103rd Session 2014, Report V (1)

Three of these strategies (growth strategies, equality and local development strategies) concern overall improvement of the social and economic status of the community that should translate into higher levels of economic performance and well being. We were particularly interested in strategies that specifically target the informal economy. The literature shows that there are four main formalisation strategies. These are:

1) Building awareness, capacity and productivity of operators though training, advisory services, access to finance, etc
2) Providing workspace
3) Regulatory simplifications, either by reducing the complexity and cost of compliance
4) Developing special policy and regulatory frameworks for micro enterprises

2.4 Effectiveness of business formalisation initiatives

There is limited information on effectiveness of formalisation initiatives. Only recently has there been a surge of interest in undertaking vigorous impact assessment of business environment reforms generally and formalisation in particular.

Regulatory simplification

Many countries in the World have been engaged in simplification of business regulations, partly inspired by the World Bank Doing Business Reports which rank countries annually according to ease of doing business. Regulatory simplification measures undertaken in the past have not substantial impact on informally. 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 2.4 Impact of regulatory simplification measures in selected countries

	Formalization initiative, research team, country	Results
1	One stop shop- combining municipal, state and federal business registration procedures) in urban areas. Bruhn (2011), Kaplan and Seira (2011), Mexico	*Business registration increased by about 5%, mainly due to wage earners opening new business*
2	One stop shop in less populous municipalities Bruhn and McKenzie (2013), Minas Gerais, Brazil	*Firms registering declined in the first 2 months, with no subsequent increase*
3	One-stop shop in 6 cities , Gardenas and Rozo (2009), Mexico	*Business registration increased by 5%*
4	Offer a subsidy for the cost of municipal license to informal firms. Alcazar et al (2010), Lima, Peru	*10-12% increase of informal firms obtained a municipal license*
5	Deliver brochures on process and benefits of formalization, waive registration fee and send a municipal inspector , Andrade et al (2013), Brazil	*Information and waiver of fees had no effect. Municipal inspection increased formalization by 22-27 % points*
6	Provide information and reimburse registration costs for informal firms, De Mel et al (2013), Sri Lanka	*No effect on formalization*
7	Deliver brochures with information to informal firms, Giorgi and Rahman (2013) , Bangladesh	*No effect on formalization rate*

Source: DCED, 2014

A recent study (Rosenberg 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 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. .

2.5 Dedicated policy and regulatory frameworks for the informal economy

Realising the limitations of the existing policy and regulations, some countries have created special frameworks for micro enterprises. South Africa, Mexico and Kenya have in 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. Within one year, 3 *million enterprises formalized (ILO, 2013).*

The Medium Term Strategic Framework and the Accelerated and Shared Growth Initiative for South Africa (AsgiSA) of 2005 recognized the existence of the "second economy" and the need to have specific strategies for its management and development. Among specific strategies envisaged are (i) encouragements of *collectives/cooperatives, (ii) i*mprovement of system of *registration and collateralisation* of assets in the hands of "poor" individuals, households and communities, (iii) specific interventions in sectors that lend themselves readily to participation by disadvantaged communities such as *crafts, fresh produce and waste collection and (iv) c*reating a conducive regulatory environment for operations in specific areas such as *traditional medicines and street trading. There is little information on how far this has gone in terms of implementation and results.*

Kenya Sessional Paper 2 of 2005 (Republic of Kenya, 2005) set the policy thrust for management and development of micro enterprises. This was followed by enactment of the Micro and Small Enterprises Act of 2012 and micro enterprise regulations. 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. There is apparently no impact study of this major policy change.

Other approaches to formalisation

There is little research evidence on the effectiveness of other formalisation strategies, such as provision of workspace, capacity building and enforcement of regulations. From 1993, the International Labour Organisation (ILO) supported a local language programming targeting informal micro enterprises in Uganda. The ILO undertook capacity building and support for segment specific market research using local languages. It started with one station, expanded to three and then 34 radio stations. The programmes focused on entrepreneurial knowledge, skills and attitudes, guidelines for compliance and reporting barriers and mistreatment of micro enterprise operators. Evaluation of the programme by Anderson (2004) revealed that it registered substantial impact. It was established that incomes of 60 small scale farmers in a night market in central Uganda increased by at least 50% and those of 80 stone crushers increased by between 40% and 60%. 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 among market traders in Western Uganda. By 2004, a third of radio stations were running a total of 55 regular small business programmes with an audience of about seven million listeners without donor funding.

2.6 Conclusion

The literature shows that regulatory simplifications have had little effect on formalisation. Except for community radio in Uganda, there is little documentation of the other types of formalisation initiatives and their effectiveness. With this in mind, the study proceeded to explore approaches and lessons from different approaches.

3. BUSINESS FORMALISATION VS PROFILE OF INFORMAL FIRMS IN TANZANIA

3.1 Introduction

In order to put the subsequent work in perspective, we describe in this chapter the process of business formalisation in Tanzania, against the profile of the micro enterprises in the country. Although the framework and data are from Tanzania, the situation in the other three countries is not very different. The statistics presented are mainly from two sources. One is the most recent comprehensive survey of micro, small and medium enterprises in Tanzania which covered all sectors (URT, 2012). The other is our own survey of 179 informal firms. These were conveniently picked from 5 major urban areas in Tanzania (Dar es Salaam, Mwanza, Arusha, Mbeya, and Dodoma). They are unlicensed and engaged in street trading or food vending, the two largest segments of informal firms in Tanzania (and many urban areas in Africa).

3.1 Business formalisation framework in Tanzania

In Tanzania, the lowest level of business formalisation is getting a trading license from the local government (preceded by tax registration). Another (higher) level of formalisation is registration of a business name (which does not accord legal status) with the Business Registration and Licensing Agency (BRELA). The National Bureau of Statistics (NBC), among others, defines a formal business as one which has a separate legal status (e.g. an incorporated company, or a cooperative), which a third (higher) level. Registration of business name or company incorporation does not substitute the business license. One must have both to undertake business.

The business licensing in Tanzania entails a series of steps. The applicant must first obtain an *introduction letter from the local governmen*t (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 the 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/- (US $ 25)

Registration of a business name with Business Registration and Licensing Agency (BRELA) starts by filling an application form, business name search, and reservation, *payment of registration fee* and *issuance of the registration certificate*. BRELA has offices only in Dar es Salaam. 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. In Tanzania, incorporation has been simplified by having shorter forms available online and online name search. The fees for company name reservation are Tshs 50,000/- which registration fees vary from Tshs

50,000/- to Tshs 350,000 depending on authorized share capital. Annual filling costs are Tshs 50,000/-[5]

This formalisation framework is more or less similar in the other three countries (Ghana, Kenya, and Rwanda) that formed part of this study.

3.2 Features of the informal economy in Tanzania

In order to understand why informality has remained stubborn, we explore some features of informal business in Tanzania, in relation to the existing formalisation framework.

Size of the informal economy

The latest survey of micro, small and medium sized enterprises (MSMEs) established that there are 2.75 million persons operating a total of 3.16 million enterprises in Tanzania, of which 96% or 2.07 million are not registered, 90% or 19 million are not licensed and 66% (1.4 million) are one person businesses (URT, 2012). In Dar es Salaam alone, there are at least 400,000 unregistered enterprises (URT 2012). Any local government or tax agency would need substantial institutional resources (including workers) to manage this large number. Every local government visited said their biggest challenge is how to handle the very large and increasing numbers, given their small individual sizes.

Key features of the informal enterprises

Table 3.1 shows the salient features of these enterprises including the scale of operations, their workspace, the motives, preference for payment of taxes and their reasons for being informal.

Table 3.1: Salient characteristics of informal firms

Aspect and Source	Indicator	%
Scale of Operation (URT, 2012)	Start-Up Capital less than Tshs 100,000 (50 US $)	**43-72**
	Own account (one person enterprises)	**66**
Premises (URT 2012)	Does not operate from fixed premises	**53.2**
Ability to pay taxes (Our survey)	Prefer to pay tax daily, weekly or monthly	**84.0**
Motive (Our survey)	Had no opportunity for further education	**34.0**
	I could not find a job or other means of survival	**36.0**
Reasons for not being formal (having a business license) (Our Survey)	I never heard of a business license	34.4
	I don't know how to get a business license	12.3
	The process of getting a license is too cumbersome/costly	4.5
	My business is too small to afford the cost of formalization	34.4
	This business is seasonal	12
	I am still trying to find out if the business will work	7

Source: URT, 2012; Our survey data

As Table 3.1 shows, a majority of operators started business out of economic necessity. That means they are not necessarily driven by the dream to develop a formal or growing enterprise. Initial capital and the number of employees are among good indicators of scale of the enterprises. Table 3.1 shows that a majority of the informal enterprises were established with less than Tshs 100,000/- (US $ 50). The business license fee alone is Tshs

[5] http://www.brela.go.tz/index.php/business/fees

50,000/- not counting the other costs of completing the process. It is therefore clear that with their level of capital, there is no way they could have a business license when they start. Considering there is constant entry and exit, and that few firms scale up, the proportion of businesses with a capital of less than US $ 50 is likely to remain high.

Almost two thirds of respondents (62%) indicated that they are willing to pay taxes, if an affordable rate and a convenient payment modality is in place. However, while income tax is payable quarterly and annually, most informal operators prefer to pay daily, monthly or weekly. Further probing revealed that operators have a very short planning horizon, and they feel it is difficult for them to accumulate money for quarterly or annual payments. This suggests that any payment arrangement should be relatively of short spans for it to be viable.

Less than half of the operators operate from a permanent building. The rest operate from a temporary shed (20%) or open space (33%). Meanwhile, the licensing regulations require one to have permanent premises, with evidence of ownership or a lease agreement.

About a third are not even aware of what a business license is, while most of the rest feel that the business is either too small or too unsteady for the cost of getting a license. There is also a significant proportion (12%) who has heard of the business license, but do not know what procedure needs to be followed to get it. There is no guarantee that these will be able to comply when they are made aware.

These responses reflect the fact that most of these operators, and their businesses are not at a level where they can meet the existing licensing procedures and costs.

3.3 Operators' view of what needs to be done to improve formalisation

Consistent with the major challenges that they face, almost half of informal operators suggest that the government should prioritize provision of workspace (46%), reduce levies (12%) and build their capacities. Simplification of licensing procedures is important to about 11% only.

Table 3.3: Operators recommended measures to deal with informality

Rank	**Recommended measure**	Frequency	Percent
1	Allocate specific areas/premises for micro enterprises	68	45.9
2	Reduce taxes/levies	18	12.2
3	Build capacity of operators before formalization	16	10.8
4	Simplify licensing procedures	15	10.1
5	Provide concessionary loans	14	9.5
6	Design policies on formalisation of micro enterprises	5	3.4
7	**Others**	12	8.3
	Total	148	100.0

These observations show that the primary concern of informal operators is not legalistic formalisation, but rather provision of premises and capacity building. They do not consider legalistic formalisation as a major issue for them.

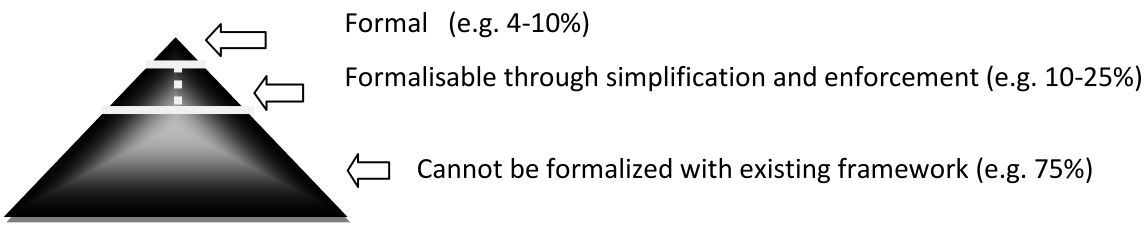
During the interviews and focus group discussions with Informal operators and their leaders repeatedly told the research team that even if businesses that are operating informally comply with the legal requirements, it does not automatically change their disadvantaged position vs. more established formal 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. This reflects the fact that the informal economy is a unique and enduring segment that required a different framework.

3.4 Conclusion

The above findings demonstrate that the business formalisation framework is set way too high for a majority of informal operators' capital investment, premises used, planning horizon, etc. The licensing framework is clearly designed for businesses of a certain capital threshold that is well above what the informal operators start with, operating from fixed premises, etc. Only a small proportion of businesses meet these requirements. What this says is that the existing framework does not work for the majority, and specifically those at the base of the pyramid as shown below.



It would appear that each of the three informality model is more relevant in explaining one or two of the three layers of the above pyramid. The dual economy model explains informality at the base of the pyramid. This is where firms that are too small and/or unsteady to even imagine compliance with the existing regulations and whose owners have the least resources (skills, scale, ambition) are likely to be concentrated. The exclusion model explains informality at the base of the pyramid, as well as among some of those which are formalisable through simplification of regulations (portion of the lower upper part of the pyramid). They are excluded by the high cost and complexity of formalisation. The rational exit model explains informality among those which are formalisable but choose to remain informal because they benefit from lower costs or higher degree of flexibility (remaining portion of lower upper part of the pyramid.

The literature on business informality has often referred to the informal sector as the Second Economy (Maliyamkono and Bagachwa, 1994). In South Africa, the term "second economy" is used to refer specifically to the micro enterprises that are trapped in informality and require special policy interventions.

4. FORMALISATION APPROACHES, EXPERIENCES AND LESSONS

4.1 Introduction

The empirical phase of the study closely studied the various mechanisms and approaches used by central governments, local governments and business associations to deal with informality. These include conventional approaches, as well as relatively novel and emergent ones. These are described in this chapter.

4.2 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 research team observed an emerging, *indirect approach to formalizations*, whereby the state, its agency or the local government empowers 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.

4.2.1 Direct formalisation approaches and initiatives

The countries studied have used various direct formalisation measures, as shown in Table 4.1

Table 4.1 Direct formalisation approaches

Approach	Tanzania	Rwanda	Kenya	Ghana
Simplification of business regulations	√	√	√	√
Voluntary pension schemes for individuals	√			√
Training on technical or business skills	√	√	√	√
Construction and management of markets and business complexes	√	√	√	√
Capacity building including provision of credit	√	√	√	√
Enforcement of regulations	√	√	√	√
Introduction of pension schemes for micro enterprise operators	√			
Introduction of health insurance schemes for micro enterprise operators	√			

NB: This table may not fully reflect what is available at country level; it was conceived and constructed after visits/interviews. It was not used initially as a framework for data collection

Simplification of regulations

All the countries visited (Ghana, Kenya, Rwanda, Tanzania) have implemented several programs intended to simplify business regulations. 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 two 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 (World Bank, 2015). Tanzania has, among others, reformed its business laws to allow for single shareholder limited liability companies.

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 the law 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 given their small size of operations.

Provision of workspace

Local governments in the four countries own and manage 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.

Although all the urban centres visited have centrally located markets and other potentially good business sites, only Kigali has succeeded in putting up many structures for micro enterprises. The different lies in the approach used. In Dar es Salaam, Ilala Municipal Council borrowed funds from a pension fund to build a six storey complex for Machingas (street traders). The building remains largely unoccupied due to (i) an unattractive location (ii) the trading space being enclosed and too big, and expensive for the street traders who all they need at their size is one, two or three square metres of open space (iii) street traders resisting the rental fee set by the municipal council. In Kenya, Nairobi County completed Muthurwa market, designed to accommodate 8,000 street traders in 2008. The central bus terminal was diverted to the market to make it a viable business centre. Street traders resisted the rental fees initially set, and moved in only after they were halved. The market now accommodates 16,000 traders, twice the intended number, and is already wrecked by overcrowding and inadequate maintenance.

In Mwanza (Tanzania) and Accra (Ghana), have unsuccessfully tried to woo private investors to set up similar complexes through public-private partnerships, but the prospective investor turned down the offers after realising that they would not be able to charge economic rates due to solidarity of street traders and politicisation. In the late 1990s, the National Income Generating Programme (NIGP), a UN project, supported construction of 7 serviced structures for food vendors in Dar es Salaam, under the Vice President's Office. The NIGP facilitated establishment of Umoja wa Mama Lishe Dar es Salaam (UMANTIDA) bringing together the food vendors who occupied the premises. To-date, it is unclear who owns the premises. Many of the initial clients sub-let their space to new comers – at market rates. No one is building other premises for food vendors. The local governments are not doing it because they do not have the funds, and cannot borrow because they will not be able to charge economic rates to pay back the loans. The result is that food vendors are operating on open air or makeshift structures.

Except for Kigali (Rwanda), 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 well connected employees and politicians will immediately take up the space, with the intention of sub-leasing it to other users. Operators who graduate to formal businesses, or decide to close the business retain and sublet the 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. In Dar es Salaam, these fees range from Tshs 1,000 per month to Tshs 5,000/ per day depending on location[6]. This suggests that informal operators can actually pay economic rent; hence 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) activities for micro enterprises. 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 because they are rarely available, being dependent on erratic government and donor funding and expensive facilitators. Also, 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 maintain special security personnel for this purpose. However, given the large number of operators, local authorities also contract private firms to collect levies and fine 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 and illegal confiscation of the operator’s tools and products. This harassment is one of the biggest complaints of informal operators.

4.2.2 Indirect business formalisation

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 show in Table 4.2 below.

[6] The researchers found the fee at Mwenge, Mawasiliano Bus Terminal and Kariakoo to range between Tshs 1,500/- to Tshs 5,000 per day. VIBINDO Society confirmed that some areas charge as high as Tshs 5,000/- per day)

Table 4.2 Indirect formalisation approaches

Approach	Tanzania	Rwanda	Kenya	Ghana
Working with associations to support self regulation		√	√	√
Group registration/registration certificate by LGA	√			√
LGA performance contracts with associations		√		
Health insurance schemes through associations/registered groups	√			
Subsidies for construction of offices		√		
Free office space for associations				√
Issue of credit to association for on-lending to members				√
Government guarantee of association loans		√		
Training on technical or business skills through associations				√

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), 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 cooperatives, 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, 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. There include FODECO (2nd hand clothes vendors), COPCOM (construction materials), ADARWA (Carpentry), FERWACOTAMO (Motor cycle drivers), DUHUZE Cooperative (Fruit and vegetable vendors). FERWACOTAMO has offices, a garage and several projects (dairy cow, hostel, and horticulture) where members who are no longer able to drive motorcycles after succumbing to accidents, are employed. The local government works closely with the cooperatives with which they have annual performance contracts. The cooperatives 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 4.3 summarizes what is being done by at least some associations in each of the countries.

Table 4.3 Services offered by associations of informal workers to members

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

Ghana has several associations that have grown organically and established self regulations mechanisms and partnership with the central government or local government. Examples include Ghana Union of Traders' Association (GUTA), Ghana Private Road Transport Union (GPRTU), Greater Accra Markets Associations (GAMA), Kumasi Informal Bakers Association (KIBA), etc. Among others, GPRTU has self regulation mechanisms, security officers and negotiates on fares with the government. It also provides training to members directly and through funding from the government and development partners. GUTA represents interests of informal employers through its membership in Ghana Employers' Associations (GEA).

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. Given the limited information on effectiveness of these approaches, primary data was collected through the interviews.

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. A proposal was made by informal sectors in Mwanza, for TRA to design reflective vests that they were ready to hire for a monthly fee of Tshs 20,000/- to have the right to trade on the streets of the city, while ensuring that no one without the vest was allowed to do so.

This amount would have generated at least Tshs 400,000,000/- every month for the estimated 20,000 operators. However, for unknown reasons, TRA and the local government did not buy this idea, which till today, operators consider viable.

Kenya similarly has many associations that are promoting formalisation related services.
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 that is obtainable online, 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 seeks to achieve the objectives of formalization (traceability, control, capacity building, order, etc) without subjecting operators to too complex requirements. 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 government of Kenya requires at least 30% of government procurement to be done by micro and small enterprises.

MSEA has engaged Business Development Officers to facilitate formation and registration of groups and associations. By the time of the visit by the research team in October 2015, at least 30 associations had been established and their members registered. MSE is working with the associations to find innovative solutions to the challenges facing their members. For example, MSEA is negotiating with and facilitating deals between associations of hawkers and owners/managers of pedestrian routes, undeveloped plots, alleys, tunnels, footbridges over and tunnels under highways, etc. to serve as hawking zones.

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 transformation of micro and small enterprises.

4.3 Conclusion

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 effective, sustainable and scalable than the conventional reliance on direct formalisation, where the government has to deal with millions of micro enterprises directly.

Strong associations are able to create a mutually re-enforcing dynamic among the four pillars of business formalisation: A strong 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

Working through organisations owned by the informal operators may enhance legitimacy of the mechanisms. This may be a way of countering the problem of a disconnect between transplanted institutions with local economic actors, and according legitimacy to the formal institutions.

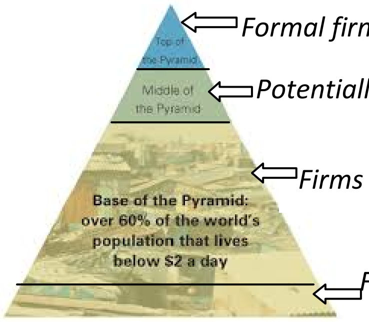
5. CONCLUSIONS, LESSONS LEARNT AND RECOMENDATIONS

5.1 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 very small and unstable businesses. 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).



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 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 associations and attitudes of key stakeholders towards empowering millions of micro enterprises to this extent need to be examined and developed. In particular, political actors should be more aware of the full consequences of popular actions that win votes at the expense of sustainable development of the micro enterprises and the economy. They should also be exposed to better options for managing informality.

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.

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).

5.2 Implications

Theoretical implications
The study corroborates growing evidence in support of the dual economy model. It shows that developing economies have a large segment of an enduring ***" second economy***" that, though linked to the formal sector, is fundamentally distinct in terms of motives, capacities and potential to comply to the existing formalisation framework. Several countries are already exploring special policy regulatory frameworks tailored to this segment of the economy. This study has identified and documented a potentially powerful, indirect or group formalisation approach, under which registered cooperatives or associations register, regulate and provide critical services to informal operators. In the same way that group lending made micro credit possible, indirect formalisation promises to make regulating and servicing micro enterprises viable. However, these efforts seem to have received almost non academic interest. The implication of these findings is that for research and policy on business formalisation to be effective, we need to more critically examine the nature of informality in specific contexts. Also, it is critical to partition the informal economy into specific segments that lend themselves better to theory development and policy making.

Policy implications
It is clear that a large proportion of the informal economy does not respond to regulatory simplification, and potentially other policies measures designed for their larger counterparts. Developing countries should therefore consider policy and regulatory frameworks that are tailored to the needs of micro enterprises and even particular groups of micro enterprises. They should also explore indirect formalisation as a potential approach. 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.

Further research
The findings of the study have shed some light on emerging potentials and models for business formalisation. However, there is a lot that needs to be better understood in order to design appropriate formalisation policy. Foremost is to learn more about different segments of informal economy and how they are likely respond to different policy measures. Secondly is about how the special policy and regulatory frameworks are fairing in the countries where they have been tried. There are many reasons why they may not work well, not least of all being resistance by traditionally minded policy makers who may be more at home with the models they have learnt at school and in practice and the risk of trapping otherwise growing micro enterprises in the second economy. Thirdly, attention should be directed to understand how the structure of a sector and the economy negatively and positively affect economic marginalisation and economic dualism, with a view to identifying policy options that can result into a healthy co-existence of the two economies and maximising the potential and propensity of the second economy actors to graduate.

REFERENCES

Allal, M. 1999. "Micro and Small Enterprises in Thailand: Definitions and Contributions, ILO/UNDP International Small Enterprise Programme." Working Paper No. 6, International Labour Organisation, Geneva.

Anderson, Gavin and David Elliott, 2007. The role and impact of radio in reforming the rural business environment in Africa: A study of private FM radio in Uganda. A paper written for the Africa regional consultative conference "Creating better business environments for enterprise development. African and Global lessons for more effective donor practices", 5-7 November 2007, The Springfield Centre, Durham, UK on behalf of the FAUNO

Anuwa-Amarh, Eben Tawiah, 2014. Understanding the Urban Informal Economy in Ghana: A Survey Report: Fredrich Ebert Stiftung, Ghana Accra-

Awinia, Christopher, 2014. Structural Barriers, Constraints, And Urban Youth Unemployment: The Case Of Ilala Municipality, Dar-Es-Salaam ”
19th Annual Research Workshop

Ayee, J. R.A. (2007). Building Tax Compliance Through Reciprocity with Government. Paper presented to the Foreign Investment Advisory Service (FIAS) of the World Bank Group Regional Conference on the theme —Enterprise Formalization in Africa Alisa Hotel, Accra, January, 10 – 11.

Bridge, S., K. O'Neill, and S. Cromie. 1998. Understanding Enterprise, Entrepreneurship and Small Business. London: Macmillan Business.

Bruhn, Miriam and David McKenzie (2013): Entry Regulation and Formalization of Microenterprises in Developing Countries, World Bank Policy Research Working Paper 6507

Castells, Manuel and Alejandro Portes. 1989, World Underneath: The Origins, Dynamics and Effects of the Informal Economy, in “The Informal Economy: Studies in Advanced and Less Developed Countries” by Alejandro Portes, ed, Manuel Castells, ed and Lauren A. Benton, ed, John Hopkins University Press, Baltimore, USA

Chatterjee, Partha, 2004. The Politics of the governed: Reflections on popular politics of most of the World. Columbia University Press

Chen, M, 2007 “Rethinking the Informal Economy: Linkages with the Formal Economy and the Formal Regulatory Environment, DESA Working Paper No. 46.

Chen, M. and Heintz, V.J. 2006. Informality, Gender and Poverty: A Global Picture, Economic and Political Weekly vol. 41 No.21: 213-239.

Chen, M., 2009. “Informality and Social Protection”, IDS Bulletin No 39 (2): 18-27

Chen, M.A. 2001. Women in the Informal Sector: A Global Picture, the Global Movement SAIS Review vol. XX1 No.1.

Chen, Martha, A, 2012. The Informal Economy: Definitions, Theories and Policies. Women in the Informal Economy: Globalising and Organising. WIEGO Working Paper N° 1 August 2012

Chowdhurry, S. 2007. Everyday Economic Practices: The Hidden Transcripts of Egyptian Voices. Routledge (2007) , ISBN 10: 0415955521

Daly, Jorge L., and Spence, Melvin (2010). Business Environment and Informality: Conceptual Notes for an Expanded Inquiry.

DCED, 2014. What do we know about the effectiveness of business registration support and reforms? Key studies referenced in the DCED Evidence Framework. Donor Committee on Enterprise Development. www.enterprise-development.org/page/evidenceframework

De Bruijn & Nelson (2005). The Voluntary Formalization of Enterprises in a Developing Economy—The Case of Tanzania

De-Soto, H. 2000. The Mystery of Capital, Why Capital Triumphs in the West and Fails Everywhere Else, Basic Books.

Fields, Garry S. 1975. “Rural-Urban Migration, Urban Unemployment and Underemployment, and Job-Search Activity in LDC’s.” Journal of Development Economics 2 (June): 165-87

Finscope, 2011. FinMark Trust “Finscope South Africa Small Business Survey 2010

Gelb, Alan et al. 2009. "To Formalize or Not to Formalize? Comparisons of Microenterprise Data from Southern and East Africa." CGD Working Paper 175. Washington, D.C.: Center for Global Development. http://www.cgdev.org/content/publications/detail/1422458

Gunther, Tillman, 2014. The Right to Fail, but not the Right to Succeed: Private Sector Development in Tanzania”, PhD thesis, University of Vienna, Austria

Haili, Heikki, 2014, Inclusive Growth and Economic Structural Transformation in Tanzania: Designing an Industrial Policy to Overcome Informality in Political and Economic Markets, Paper presented to the REPOA 9th Annual Research Workshop, Dar es Salaam

Mahvish, Shami and Hadia Majid, 2014. The Political Economy of Public Goods Provision in Slums. IGC Working Paper, July, 2014. London School of Economics and Political Science

Hart, K. 1973. "Informal Income Opportunities and Urban Government in Ghana," Journal of Modern African Studies 11: 61-89.

Helmsing, A.H.J. and Theo Kolstee. 1993. Small Enterprises and Changing Policies: A Structural Adjustment, Financial Policy and Assistance Programmes in Africa. London: IT Publications.

ILD, 2004. Institute of Liberty and Democracy (de Sotos) 2004 study of the nature and scale of business and property informality in Tanzania (MKURABITA background/baseline study)

ILO 1972. Employment, Incomes and Equality: A Strategy for Increasing Productive Work

ILO. (2002). Decent Work and the Informal Economy, Report of the Director General, International Labour
Conference, 90th Session: Geneva.

ILO, 2007. Tripartite Interregional Symposium on the Informal Economy: Enabling Transition to Formalization Geneva, 27-29 November 2007

ILO, (2013). Transitioning from the informal to the formal economy, International Labour Conference Report

ILO, 2014. Policies for the formalization of micro and small enterprises in Brazil: Notes on Policies for The formalization of Micro and Small Enterprises. Geneva.

ILO, 2014a: Transitioning from the informal to the formal economy, International Labour Conference, 103rd Session 2014, Report V (1)

ILO, UNIDO, UNDP, 2002. Roadmap Study of the Informal Sector in Mainland Tanzania

IMED, 2015. A baseline study of street food vendors in Dar es Salaam, Institute of Management and Entrepreneurship Development. Unpublished Research Report

Jonatan Habib Engqvist and Maria Lantz, ed. (2009). Dharavi: documenting informalities. Delhi: Academic Foundation.

Joshi, A.; Ayee, J. 2002. Research Summary 14, Taxing for the state? Politics, revenue and the informal sector in Ghana. Brighton, UK: Institute of Development Studies, 2 pp.
www.ids.ac.uk/gdr/cfs/index.html

Kaplan, D., Piedra, E & Seira, E., 2007. Entry Regulation and Business Start-ups: Evidence from Mexico. Policy Research Working Paper 4322.

Kenyon, Thomas., 2007. A Framework for Thinking about Enterprise Formalization Policies in Developing Countries

Khamis, Melanie, 2014. Formalization of jobs and firms in emerging market economies through registration reform. Wesleyan University, USA, and IZA, Germany.

King, Rudith, S, I Brainmah and Alison Brown, 2015. Formalizing the informal sector through associations:
The case of Kumasi Informal Bakers Association (KIBA), Journal of Sustainable Development Vol 18 No 2, 2015, Canadian Centre for Science and Education

Klapper, Leora and Inessa Love (2010): The Impact of Business Environment Reforms on New Firm Registration, World Bank Policy Research Working Paper 5493

Lambert, Vickie A and Clinton E. Lambert, 2012. Qualitative Descriptive Research: An Acceptable

Design. Editorial Note, Pacific Rim International Journal of Nursing Research, *Vol. 16 No. 4, October - December 2012.*

Lewis, W.A. (1954) 'Economic development with unlimited supply of labour', The Manchester School.
Lowitt, S. 2008. "New Ideas to Systemically Link Small and Marginalised Producers to External Markets Using Value Chain Analysis" Second Economy Strategy Project, TIPS
Maloney, W.F. (2004), "Informality revisited", World Development, 32(7): 1159-1178.
McKenzie, D., and Y. S. Sakho, 2010. "Does it pay firms to register for taxes? The impact of formality on firm profitability." Journal of Development Economics 91, Germany.
Mead, D.C. and C. Liedholm. 1998. "The Dynamics of Micro and Small Enterprises in Developing Countries," World Development 26, no. 1: 61-74.
Monteiro, J., and J. Assunção, 2012. "Coming out of the shadows? Estimating the impact of bureaucracy simplification and tax cut on formality in Brazilian microenterprises." Journal of Development Economics
Mori, Neema, 2014. National Women's Entrepreneurship Development (WED) Assessment – Tanzania, ILO Geneva
Nchimbi, M. 2003. Gender and Entrepreneurship in Tanzania: A Comparative Analysis of Male-Female's Start-Up Motivation Individual Characteristics and Perceptions of Business Success. PhD Dissertation Umea School of Business and Economics.
Ninsin, Kwame, A. 1991. The informal sector in Ghana's political economy. Accra. Freedom Publications
Muller, Mette, 2004. The dynamics of the informal sector in Tanzania. Roskilds University Centre
Nelson Edwin, 2003. PhD thesis (2002) on voluntary formalisation of enterprises in Tanzania : PhD Thesis, University of Twente, the Netherlands.
Nelson, Edwin G and Erik J. De Bruijn, 2005. The voluntary formalization of enterprises in a developing economy—the case of Tanzania. Journal of International Development. Volume 17, Issue 4, pages 575–593, May 2005
North, D.C. 1981. Structure and Change in Economic History. New York: Norton.--. 1993. "The Ultimate Sources of Economic Growth." In A. Szirmai, B. Van Ark and D. Pilat (Eds.), Explaining Economic Growth, Essays in Honour of Angus Maddison. Amsterdam: North Holland, 65-77.
OECD, (). A One-Stop Shop for Quick and Easy Business Start-Ups in Mexico: "Simplifying business creation to improve competitiveness and raise employment".
Olomi, D. R. 2001. Antecedents and Consequences of Growth Seeking Behavior Among Small and Medium Enterprises in Tanzania, PhD thesis, University of Dar es Salaam
Olomi, Donath R, Per Nilsson, Jan Erik Jaensson, 2002: Evolution of Entrepreneurial Motivation: The Transition from Economic
necessity to entrepreneurship. Babson College.
https://fusionmx.babson.edu/entrep/fer/Babson2001/I/I-R/I-R/i-r.htm
Portes, A., Castells, M., Benton, L.A. 1989. The Informal Economy Studies in Advanced and Less Advanced Countries . The John Hopkins University Press Baltimore and London.
Republic of Kenya, 2005, Sessional Paper No. 2 of 2005 on Development of Micro and Small Enterprises for Wealth and Employment Creation for Poverty Reduction. Government Printer,

Rizzo, M. and Wuyts, M., 2003 The Invisibility of Wage-Employment in Statistics on the Informal Economy: Causes and Consequence. Paper presented at the REPOA Annual Research Workshop. REPOA Dar es Salaam, 3-4 April, 2013.
Romanello, M., & Gonsalves F., 2014. Formality or informality: a choice based on individual characteristics. Espacios. Vol. 35 (Nº 6) Año 2014. Pág. 4. Brazil.
Rutashobya, L, 1998. Women Entrepreneurship in Tanzania: Entry and Performance Barriers. Addis Ababa: Organization for Social Research in Eastern and Southern Africa (OSSREA). Gender Issues Research Report/Series #9

Rutashobya, L. 2000. Female Entrepreneurship in Tanzania and Strategic Consideration, Business Management Review, Vol.7 No.1. 18
Sarkar, Abhirup, 2006. Political Economy of West Bengal: A puzzle and a hypothesis. Economics and political Weekly 41 (4): 341-348
Satta, T.A. 2003. "Enterprise Characteristics and Constraints in Developing Countries: Evidence from a Sample of Tanzanian Micro and Small-Scale Enterprises," International Journal of Entrepreneurship and Innovation 4, no. 3: 175-84.
Schneider F (2012). The shadow economy and work in the shadow: what do we (not) know? Discussion paper No. 6423. Institute for the Study of Labour. Bonn.
Ssendi Lucy B. 2014. How Entrepreneurship Can Ameliorate The Poverty Of Poor Rural Women, 19th Annual Research Workshop
Stiglitz, J. 1989. "Markets, Market Failures and Development," American Economic Review 79, no. 2: 197-203.
Thomas, W. 1992. "Promoting Entrepreneurship in Africa: Alternative Strategies and the Scope for Affirmative Action," The Journal of Entrepreneurship 1, no. 2: 215-39.
Toroka, E.B. and F.P. Wenga. 1997. "Tanzanian Experience with Small Industries Development." Paper presented to the National Workshop on Micro and Small Enterprise Research, University of Dar-es-Salaam.
United Republic of Tanzania, 2003. Small and Medium Enterprises Development Policy, Ministry of Industries and Trade, August.
Tuempresa.GOB.Mx. “Simplifying business creation to improve competitiveness and raise employment” “Simplifying business creation to improve competitiveness and raise employment
UNCTAD: Economic Development in Africa Report, 2013: Intra-African Trade: Unlocking Private sector Dynamism. United Nations 2013.
UNIDO, (2013). Tanzania SMEs Development Policy 2003 “Ten Years After”; Working
United Republic of Tanzania, 1991. The Tanzania Informal Sector 1991, The Planning Commission and the Ministry of Labour and Youth Development, Government Printer
United Republic of Tanzania (URT), 1995. *Dar es Salaam Informal Sector Survey*, The Planning Commission and the Ministry of Labour and Youth
United Republic of Tanzania, 2007. The Tanzania Informal Sector 1991, The Planning Commission and the Ministry of Labour and Youth Development, Government Printer
URT, 2008. Property and Business Formalization. A Paper Presented to Principal Secretaries and Regional Administrative Secretaries.
URT, 2012. Baseline Survey of Micro, Small and Medium Enterprises in Tanzania by the Ministry of Industry and Trade and FSDT
USAID, 2005. Removing Barriers to Formalization: The Case For Reform And Emerging Best Practice. United States Agency for International Development. Inc. and Bannock Consulting Ltd.
Utouh, Justina, 2012. Understanding Business Formalisation with a Gender Perspective. PhD Thesis, University of Dar es Salaam, Tanzania.
Wangwe, S and Mmari, D. (2014). Promoting Micro and Small Enterprises for Inclusive Development: Managing the Transition from Informal to Formal Enterprises. Presented at 9th REPOA Annual Research Workshop.
World Bank. (2011). The household enterprise sector in Tanzania: Why it matters and who cares? Policy Research Working Paper 5882. World Bank, Africa Region, Poverty Reduction and Economic Man
World Bank. 2012. Doing Business in MEXICO: Unleashing Regulatory Reform at the Local Level
World Bank. 2015. Doing Business in Rwanda