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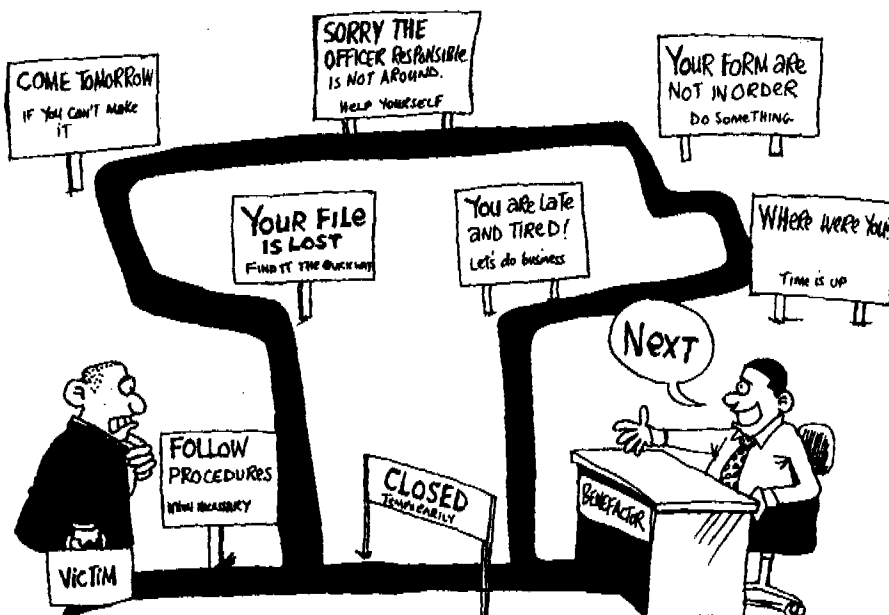


INTERNATIONAL LABOUR ORGANIZATION  
(ILO)



UNITED NATIONS INDUSTRIAL DEVELOPMENT  
ORGANISATION (UNIDO)

## INFORMAL SECTOR ROADMAP STUDY FOR TANZANIA



The red tapes



A bridged Version of  
Main Report  
September 2004

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## Preface

In 1999, three United Nations agencies, the United Nations Development Programme (UNDP), the International Labour Organization (ILO), and the United Nations Industrial Development Organization (UNIDO) together commissioned the *Roadmap Study of the Informal Sector in Tanzania*. The study was conceived as a follow up to the earlier USAID Tanzania Investors' Roadmap, which had revealed that a hostile regulatory environment was driving foreign and large-scale investors away. The Roadmap Study of the Informal Sector set out to identify the main regulatory constraints on micro and small entrepreneurs (MSEs), most of whom operate informally in Tanzania, to analyse their coping strategies and assess the costs of coping and the impact this had on their formalization and growth potential. The justification for both studies is to enable the Tanzanian private sector in supporting the goals of the Tanzania Development Vision 2025. The Roadmap Study complements the Tanzanian government's Small and Medium Enterprise Development Policy (SMEDP) that was launched in 2003, and the broader development policy for Tanzania as earmarked in Vision 2025 and through such instruments as the Poverty Reduction Strategy (PRS) and the Business Environment Strengthening for Tanzania (BEST) programme.

This abridged version of the main report is intended to enhance the accessibility of the main issues and focus of the report without a reading of the whole report. It outlines the methodology and approach adopted by the Roadmap Study and summarizes the main findings and recommendations. The structure of this version follows closely that of the main report in terms of the chapters and sections. It is important to mention that the abridged version is not a substitute for the main report. The latter contains valuable quantitative information regarding the costs of regulatory and operational constraints limiting the informal sector/MSEs from formalizing, as well as a number of annexes with further information on the methodological instruments used in the study, the experiences of other developing countries in informal sector development; and a complete list of references.

With concerted efforts to remove all the major constraints for informal sector operators, this sector can contribute more to the economy, boost people's incomes and help reduce poverty. It is on this basis that the three United Nations agencies, namely UNDP, ILO and UNIDO, assisted in the development of this study. We hope the results of the Roadmap Study will be used to stir constructive policy debate and actions towards addressing problems faced by informal sector operators.

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## 1. Justification and background

Tanzania is faced with an increasing number of people entering the labour market, while the formal economy can only create few jobs each year. As a result of limited job opportunities in the formal sector, an increasing number of people are involved in informal sector activities. The informal sector is thus providing not only an employment alternative, but also acts indirectly as a social safety valve for a large section of Tanzanians who would otherwise remain without any worthwhile economic undertaking and with a real possibility of sinking into poverty.

The most recent data on the size of the informal sector dates back to 1991: the *National Informal Sector Survey* showed that there were about 2,370,000 people engaged in the informal production of goods and services at any time in the year. The Rural Development Strategy (RDS) also stated that the informal sector provides substantial opportunities for employment and self-employment estimated to be not less than two million. This is more than twice the number of people employed in the formal sector. The survey further shows that the informal sector has the capacity to employ 62.5 per cent of the yearly increase in the labour force in urban areas while the capacity of the formal sector is only 8.5 per cent.

Even when the importance of the informal sector is widely acknowledged, government policies and the regulatory environment become a brick wall for the growth of the informal sector. The growth of the informal sector is viewed as a consequence of cumbersome and expensive formalization procedures or outdated regulatory policies. The many problems and constraints are characteristic of the socio-economic set-up that Tanzania inherited from the socialist model. In addition to the problems common to all micro and small entrepreneurs, women frequently face a much bigger burden in developing their own enterprises: their additional role as mothers, gender-based socio-economic constraints, and other cultural, educational and technological barriers.

Government policies, laws and regulations have been cited among the factors that negatively influence the growth and formalization of MSEs. High and numerous taxes (including harassment by tax collectors) discourage the visibility and, hence, the growth of MSEs. Furthermore, the liberalization of the economy has led to unfair competition from experienced foreign investors, who enjoy a five-year tax holiday. The current national labour regulations designed to protect employees do not appear to improve the working conditions of informal sector operators. Marketing opportunities and existing constraints are also important factors in determining the growth of MSEs. Amidst this development context is the reality that poverty reduction is still a major challenge for Tanzania. The PRS review is taking into consideration the development of small and medium enterprises and the provision of a conducive environment for their operation and expanding financial services, particularly in rural areas. This potentially positions the informal and the MSE sector highly in the next PRS cycle due to its potential for poverty reduction.

An important milestone in this process was the 1996 USAID report, the *Tanzania Investor Roadmap*, which examined the problems encountered by foreign investors (and large private investors) in trying to do business in Tanzania. This report had a big impact, demonstrating that the regulatory and tax environment in Tanzania was among the most discouraging constraints in the subregion. Although there has been a significant change in the regulatory environment since this report was issued, this has gone largely unnoticed by most implementing institutions and micro and small business operators. In July 2000, the Tanzania Revenue Authority (TRA) introduced a new simplified tax schedule intended to encourage small taxpayers and informal sector operators in paying taxes. Other efforts to 'mainstream' the informal sector include the BEST programme which is designed to address the regulatory shortcomings and improve the business-operating environment.

More recently, there has been enthusiasm from the government to address the problem of lack of formal property rights. In his speech to the public (30 September 2003) the President of Tanzania acknowledged the fact that property rights are ill-defined. Motivated by the popular work of Professor

Hernando De Soto, the government is inclined to seek ways that will enhance the formalization of property rights (especially rural) which are considered useful in the development of the informal sector and its eventual integration into the economy.

Although there are prospects for change, the reality for the majority of Tanzanian businesses has not changed significantly since the start of the economic reform process. The Informal Sector Roadmap Study could therefore be an important input into the policy dialogue. It provides important insights on regulatory and operating constraints that informal sector operators face in conducting their businesses as well as in their endeavour to grow out of the informal setting. Since there is an increasing awareness on the contribution of the informal sector to the economy, it is thus hoped that the Roadmap Study will help to enhance the will of Government authorities at various levels to address the problems besetting the informal sector, and also provide opportunity for the informal sector to contribute to the Poverty Reduction Strategy (PRS) and the long-term Tanzania Development Vision 2025.

## 2. Objectives, approach and methodology

### 2.1 Study objectives

In order to streamline the growth path of the Tanzanian MSE sector, the United Nations Development Programme (UNDP), the United Nations Industrial Development Organization (UNIDO) and the International Labour Organization (ILO) in Tanzania commissioned a Roadmap Study for the Informal Sector, to:

- inform the current policy formulation and implementation processes of the actual situation of micro/small entrepreneurs;
- identify the ways in which factors under government control are constraining the development of the small business sector; and
- propose specific, practical measures for removing the identified constraints.

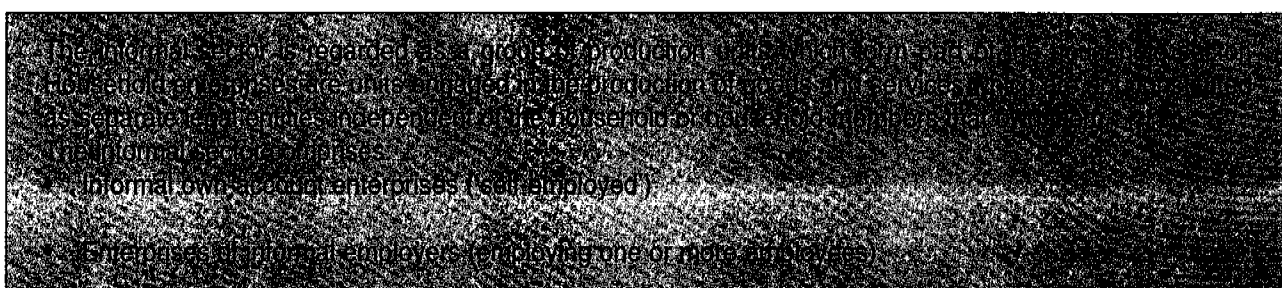
This Informal Sector Roadmap Study complements the USAID Tanzania Investor Roadmap, which focused on the formal sector, and attempts (in certain cases a first attempt) to identify and describe the principal regulatory (and non-regulatory) constraints informal sector entrepreneurs face and examine the costs incurred and strategies entrepreneurs are adopting to deal with these constraints.

### 2.2 Approach and methodology

The same approach has been adopted as for the USAID Investors' Roadmap. The draft report of the Informal Sector Roadmap Study was widely circulated among practitioners working with the informal sector, who came together to review and strengthen the Roadmap findings and recommendations at a workshop on 28–29 November 2001 in Dar es Salaam. This Informal Sector Roadmap Study is thus the outcome of research and consultations. Below we identify the working definition of the informal sector and methodology used.

#### 2.2.1 Definitions of the informal sector and of constraints

The working definition of the informal sector/enterprise used in the Informal Sector Roadmap Study is drawn from the 1993 International Conference of Labour Statisticians (ICLS) resolution<sup>1</sup> on statistics in the informal sector, adapted to the Tanzanian context.



Recent studies on the informal sector have identified a number of constraints hindering enterprise development in the informal sector, broadly categorized as regulatory constraints and non-regulatory or operational constraints. The law in Tanzania requires all businesses to obtain, prior to operation, a business license, a process which is meant to formalize the proposed business. A registered and licensed business is said to belong to the formal sector according to the legal definition. All businesses have to pay a variety of local government taxes and levies to remain legal. Local government taxes, such as property tax, development levy, and so on, are fixed by local authorities. However, in many instances, local government

<sup>1</sup> Also known as the ILO definition of the informal sector.

taxation has become a disincentive to business enterprises due to their multiplicity. It is in this context that the government, in its 2003–04 financial budget, announced measures to rationalize local government taxes and abolish the “nuisance” taxes.

### **2.2.2 Methodology**

The research phase of the Roadmap Study consisted principally of two data collection exercises carried out by a team of eight field researchers under the supervision of the EDC research coordinator. The first exercises covered a formalization process, in which eight attempts were made, by bona fide entrepreneurs or the field researchers, to register and license different types of businesses in each of the survey locations. The second exercise was a diary method survey in which a total of 96 informal operators were requested to record their experiences for a period of four months. After discussions and reading the diaries, the eight field researchers transcribed the information on the constraints entrepreneurs faced and their strategies in dealing with them into a structured questionnaire. They then visited the entrepreneurs, summarized the information on each entrepreneur, and also visited the institutions mentioned by the entrepreneurs to cross-validate the information obtained.

The first data collection exercise consisted of attempts by selected entrepreneurs, or persons recruited for the purpose, to go through the process of registering and licensing a business in the food processing, casual construction, carpentry, cloth making and retail trading subsectors; and obtain a sectoral license in three further ‘extractive’ sectors: fish trading, mining and stone quarrying. All survey locations were covered. In the second data collection exercise, in order to reveal the variables influencing the constraints a given entrepreneur faces and the way in which he or she might deal with them, 96 entrepreneurs were selected using a sample selection questionnaire so as to segregate constraints faced and strategies applied by urban-rural location and by sector. The subsectors were chosen from among the sectors in the national economy which have a high degree of informalization, and through which informal operation contributes significantly in terms of employment, income and growth generation potential.

Each subsector was studied in the two different locations. There were four urban locations and two rural locations selected from the six regions of mainland Tanzania. The selection of entrepreneurs in the subsectors was made so that enterprises in different development stages were covered. The selected entrepreneurs included both new and existing enterprises, the self-employed and those employing others.

### **3. Coping with regulatory constraints**

This chapter focuses on the regulatory categories of constraints (reporting, regulatory, business locating and employing).

#### **3.1 The informal sector extends to the public sector**

The first observation made by the researchers is the almost complete break in faith between the Government and ordinary business people: the trust between the Government and business people in Tanzania has been notably lacking. The civil servants entrusted with regulatory tasks consider entrepreneurs requiring their service as rich and hence expect them to offer some money in return for the service. An important contribution of the Roadmap Study to the process of finding solutions to upgrade MSEs into a decent private sector consists of having documented actual experiences of MSEs as they tried to formalize their businesses.

#### **3.2 Measuring the constraints imposed by informality**

The most severe constraints reported are financial, reported as having a very strong negative impact on business. Regulatory, reporting and infrastructure constraints also have a very strong negative impact more than 40 per cent of the time. Business locating, marketing and supply factor constraints are the second most frequently reported constraints. Socio-cultural constraints often have a stronger negative impact on the enterprises than employing constraints, which are reported as having the least negative impact.

#### **3.3 Reporting constraints**

One of the most notable constraints in the Roadmap Study is a complex reporting procedure, characterized by the number of institutions involved in business licensing. There are three problems related to this constraint. First, the complexity of registration and licensing requirements compounded by the multiplicity of institutions involved in the process (which are often in different locations). The ideal case would have most of the procedures streamlined in a single or a couple of institutions with clear coordination between them. Second, except for a few primary sectors (such as mining, charcoal making or other natural resources activity), there is a lot of reporting before the business license is actually issued. Before one gets a license, the following steps must be fulfilled: business name registration, inspection by various offices and payment of taxes and charges. This discourages motivation for seeking a license. Finally, the limited capacity (and thus inefficiency) of the institutions in providing the service to prospective entrepreneurs. The case studies provide pictures of the difficulties awaiting MSEs and informal operators who make an effort to comply with the laws, regulations and other procedures associated with the formalization process.

The Roadmap Study also estimates the costs associated with reporting constraints. The main problem is that there is only one business registration office in the whole of Tanzania, BRELA in Dar es Salaam. An entrepreneur has to incur additional costs to travel all the way from up country to Dar es Salaam. Such costs, plus bribes, increase the total cost of registration by 6–7 times, effectively discouraging formalization. It was reported that the number of visits made to BRELA can vary from 3 to 9 times. In the case of business licensing, it is mostly organized at the district or regional trade offices and at the TRA regional offices. The Roadmap Study establishes the various institutions involved, the cost and time it takes. Many enterprises interviewed reported that the time for registration varied from one to 10 months, with a number of visits totalling between 7 to 16. The main report contains a number of examples on actual experiences of entrepreneurs regarding the complex licensing procedures. They include lack of clear procedures, multiplicity of offices and rules involved, hyper-regulation, corrupt officials, numerous taxes and charges by the local government.

#### **3.4 Business locating constraints**

Entrepreneurs experience severe difficulties in securing permanent premises for their businesses. This problem creates enormous operational and reporting problems for MSEs in the informal sectors further limiting the efforts to formalize since having permanent premises is a requirement for the issuance of a



business licence. Trying to keep close to their markets, informal MSEs are often found operating in areas where the local authorities do not want congestion of business activities. The lack of permanent premises has often made informal operators vulnerable to local government militia harassment who demolish their temporary business premises and destroy or confiscate their merchandise. MSEs in the informal sector therefore often buy and store water and obtain illegal electricity connections and stop production when these are used up. The lack of permanent premises also results in poor working conditions, theft and loss of productivity – factors which severely limit business development.

### **3.5 Employing-related constraints**

Poor working conditions lead to lack of motivation, high staff turnover, and poor quality products, costs which the entrepreneur is not necessarily able to measure as constraints on the business. Although not considered a serious constraint, the Roadmap Study noted some serious employment-related problems that can limit enterprise growth. These include low salaries that erode the morale and productivity of employees and encourage dishonesty in their service.

### **3.6 Regulatory constraints**

This category of constraints includes those in the regulatory environment not directly related to reporting, such as the lack of dialogue between MSEs and the government, and the roles of the police and the judiciary system. Few of the informal owner-operators interviewed belonged to an organization engaged in dialogue with the government. The Roadmap Study underscores the need to promote dialogue between local and central government authorities and the various informal sector organizations. Informal sector operators are, however, getting organized to defend their interests. There are three associations representing them: VIBINDO, an umbrella organization registered in 1995 which currently has 284 group members and about 30,000 individual members; the Tanzania Small Industrialists Society (TASISO); and the Tanzania Food Processors Association (TAFOPA). These organizations receive support from the Small Industries Development Organization (SIDO) and other international and bilateral agencies, and are starting to find their voice as they are more and more consulted in policy formulation and issues that affect their members.

### **3.7 Conclusive remarks on regulatory constraints**

The Roadmap Study, having identified the scale of regulatory and non-regulatory constraints, makes several suggestions on how to improve the business climate in the informal sector. On the one hand, the government is certainly right that certain micro and small businesses are deliberately flouting the law and operating informally. On the other hand, in the course of the case studies, when several micro or small businesspersons approached government offices to formalize their business sometimes they did not find the appropriate officials at their workplace and when they did some behaved with impunity and flouted the law.

Although the government has launched key policies and programmes in helping the informal sector to evolve towards formality, in practice, the micro and small entrepreneurs attempting to formalize receive neither efficient nor competent service. Instead, the entrepreneurs describe contact with the government as an unpleasant, time-consuming, frustrating and expensive experience. For the SMEDP, the Sustainable Industrial Development Policy (SIDP) and the National Trade Policy (NTP) to be effective, they will need to explicitly address this presently unhealthy relationship between the public sector and the Tanzanian private sector struggling to emerge from within the informal sector. It is hoped that the BEST programme will also be useful in enhancing formalization as it intends to improve the general legal and regulatory environment for the private sector development.

## **4. Operational constraints also have regulatory implications**

### **4.1 Operating constraints with regulatory implications**

The main finding of the Roadmap Study in this section is that regulatory constraints are only part of the many difficulties faced by informal operators. There are other operational problems obstructing the emergence of a Tanzanian private sector which have regulatory implications. For instance, limited start-up and working capital had a high incidence of very negative effect on business. However, although many of the MSEs interviewed reported having received loans from microfinance institutions, many others did not know how to go about obtaining credit. Others were disqualified because they did not have the appropriate business license, and yet others were put off by requirements such as attending weekly credit meetings.

However, the interviews revealed that sometimes what the entrepreneurs called financial constraints were in reality a lack of business and management skills, the inability to consider the business as separate from the household/extended family income and to keep track of costs and profits, etc. The lack of business skills and the generally low level of education are also constraints to business from both the regulatory and operational points of view, although entrepreneurs are not always aware that they are lacking skills and training.

The high incidence of the financial constraints nonetheless signifies that although some headway has been made in improving informal businesses' access to financial resources, a lot more still remains to be done in this area and efforts should continue alongside those for improving the regulatory environment. For instance, in the past, the Bank and Financial Institutions Act (BFIA) of 1991 did not distinguish between large and small borrowers (as it does now, after it was amended).

### **4.2 Other important operating constraints**

In addition, the Roadmap Study identified the following as severe constraints on informal sector businesses: infrastructure-related, market-related, socio-cultural, and environment-related constraints. Infrastructure-related constraints covered municipal services such as garbage collection, transportation and telecommunications. The lack of warehouses, roads, transport services, water supply, electricity, telephone and postal services were all reported as being serious problems.

Market-related problems experienced by domestic firms raise questions about how long the informal sector can continue to serve as a safety net in a national economy that has been opened to global competition. The ability of the informal economy to serve as a safety net is dependent on whether or not it manages to maintain its total market share. For a given number of enterprises, they will do well if they increase market share or become poorer if they lose market share to their competitors. Their income will also fall if market share remains constant but more enterprises come on board. The Roadmap Study indicates that this is already happening. *Mama lishes* in certain areas report reduced sales, to the point where they have to agree among themselves who will sell in the morning, at lunchtime and in the evening. A final category of factors that hamper business growth has been labelled socio-cultural. Many entrepreneurs (male and female) were also found closing their businesses for several weeks at a time to attend family functions such as weddings or funerals. Women were more often found equating the business very strongly with the family income that they would use their business to obtain credit, use the credit to meet family obligations, and then use the business to struggle to pay back the credit.

There are sectors coming under a lot of pressure for reasons of environmental sustainability: carpentry, fishing, wood fuel collection, charcoal making and gold and lime mining are examples. The Roadmap Study details in the main report the vulnerability to the environment of the informal activities in the said subsectors and conversely, the impact of environmental depletion/control on the commercial viability of informal sector enterprises in those subsectors.

### **4.3 The situation is uniformly difficult**

The Roadmap Study analysed the above constraints by business size, gender, and business status and rural/urban location. The results show that in the sample of 96 entrepreneurs surveyed, the degree to which entrepreneurs are constrained does not differ significantly with these variables, with the exception of rural entrepreneurs who are much more severely affected by regulatory constraints than their urban counterparts. This suggests that removing the many obstacles in the path of rural entrepreneurs has to be given priority before the promotion of rural industrialization, as set out in the SMEDP, can proceed.

## **5. Why micro and small enterprises fail to formalize**

### **5.1 Weighing the costs of formalization**

Chapter 5 of the Roadmap Study attempts to explain reasons which impairs and/or discourages efforts by the informal sector to formalize. Apparently the most important reason is the unbearable (financial and non-financial) costs of formalization. Other than the apparent charges, fees and taxation costs, the Roadmap Study identifies costs related to time lost, bribes, inconveniences and dishonesty of the officers as factors contributing to the to the high cost of coping with the identified constraints.

The highest costs were reported in the subsector with the poorest entrepreneurs and smallest average monthly sales (firewood and charcoal selling). Coping with both regulatory and non-regulatory constraints absorbed up to 50 per cent of monthly sales, as was the case in the food processing and carpentry subsectors. In tailoring, only regulatory constraints brought costs to the surveyed entrepreneurs. On the whole, regulatory constraints (which are easier to quantify) cost the businesses surveyed more than non-regulatory constraints. It is interesting to note that the average monthly sales would place most of the entrepreneurs surveyed within the nil group for tax purposes.

### **5.2 Two faces of the informal sector: Safety net and enterprise seedbed**

The Roadmap Study is able to point out that the willingness of the entrepreneur to formalize is linked to the entrepreneur's motivation for doing business. Two types of entrepreneurs have been identified in the Roadmap Study: survivalists and enterprise seedbed. The textboxes contains examples that characterize the experiences and opinions of the two different types of enterprises.

The Roadmap Study research recorded a number of survival-type businesses where the overriding motivation of the owner-operator is to meet daily the family needs . For this type of enterprise, poverty is an impediment to formalization as the entrepreneurs may not be able to meet the costs involved. When businesses are established for survival, the entrepreneur is often not committed to the business but is just 'hanging on' and not committed to business as a career. The literature on the informal sector indicates that the survival-type motive is predominant among informal sector entrepreneurs.

The second type of business can also be called the growth-potential business, in which the owner-operator has an objective such as wanting the business to grow as much as it can, wanting to become rich, etc. These types of entrepreneurs provide the enterprises seedbed for the growth of the private sector. For these entrepreneurs, formalization could be beneficial but is too expensive. For the enterprise seedbed, the policy initiatives aimed at rationalizing and streamlining the business-operating environment can significantly facilitate the formalization and growth of informal/MSE operators.

The Roadmap Study also encountered other growth-potential type enterprises, particularly in urban areas. Growth-potential businesses often start off small but are willing to become formal and visible. They may formalize immediately, but more often than not, wait for the business to establish itself before they formalize. The case studies in the Roadmap Study tend to reveal that successful entrepreneurs were usually found to have complied with a certain number of regulations, whereas the less successful ones had not, and the poorest ones survived by hiding their operations to the maximum extent possible. The explanation is that even growth-potential entrepreneurs are usually reluctant to go into all the trouble of registering their business while still small and uncertain. Given the tremendous difficulties, investing the time and money required only makes sense to most entrepreneurs when the business is well established.

### **5.3 Policy implications**

An effective informal sector policy thus has to distinguish between the two groups of MSE operators and address their problems with equal priority. One priority would have a poverty reduction focus to create alternative income-generating opportunities for the MSEs whose owner-operators are simply looking for an income, not particularly wanting to be in business and preferring to remain small and informal. The second priority would be a focused small enterprise development programme targeting subsectors in which informal enterprises can expand their business and grow to formality and competitive performance over the medium term. This policy would have to specifically understand and remove the constraints on MSE growth, since growth appears as one of the pre-conditions of formalization.

## **6. Recommendations**

This Roadmap Study contains a number of recommendations which address the problem from several angles simultaneously, in order to lead to tangible results in the interests of all parties within a reasonably short time. The draft recommendations were reviewed and refined at a workshop convened for this purpose in Dar es Salaam on 28–29 November 2001 and updated for factual and statistical accuracy in 2004 by a consultant. There are six recommendations as detailed below.

### **6.1 Creating the conditions for MSEs to upgrade and generate more employment**

Recommendation 1 suggests that in navigating a market economy, Tanzania should enlist the assistance of professional marketing experts to chart out the development of promising subsectors which hold medium-term growth prospects for MSEs. However, given the limited resources, it will be impossible to promote all enterprises in all sectors. A first element of the strategic approach proposed is the identification and coordination of promising subsectors for MSEs. The Roadmap Study identified cloth making, mat making and carpentry as promising subsectors to be included in a strategy that would enable Tanzanian micro and small businesses, as a sector of the economy, to secure markets, expand and grow. The strategy would constitute several elements. The first element is to gather information about these enterprises; second are initiatives to attract MSEs to the subsectors identified by providing specific fiscal incentives and attributing resources and assistance to them; third is the conservation of the environment. Following identification of these enterprises, the government can rapidly lift regulatory and non-regulatory constraints, and help promote their products in-country and abroad. It is when small firms see market prospects that they hire staff and improve working conditions.

### **6.2 Priming the market place for growth and jobs**

Recommendation 2 takes into account the fact that the informal sector is not only a seedbed for small enterprise, it is a solution of last resort for many, in particular for poorer female heads of households who cannot find jobs to pay them a living wage. In view of this, several steps are required: first, improving agricultural product pricing and marketing; second, developing markets for the employment-intensive sectors like construction and manufacturing, and; third, expanding microfinance and the purchasing power of the poor person's shilling. This is because, in order for small enterprises to be instruments for poverty reduction, the demand for small firms' goods and services needs to increase.

### **6.3 A new pact between central government and small businesses**

Recommendation 3 proposes a new pact between central government and MSEs. It details the kind of measures that would re-establish the credibility of the government in the eyes of small businesses and reassure them that the government is doing everything it can to support their efforts to create livelihoods for themselves. These measures include: instituting a tax regime more favourable to MSEs, improved access to public procurement for MSEs, and implementing more efficient and practical institutional arrangements affordable across all types of MSEs. Other measures include developing and promoting entrepreneurship, sectoral organization and advocacy in the informal sector and introducing decent work legislation. The Roadmap Study also proposes efforts the MSEs would have to make to hold up their end of the bargain, including strengthening their voice so as to play a greater role in policy formulation, implementation and monitoring, and educating entrepreneurs to their legal and civic responsibilities.

### **6.4 Enabling central and local government to perform better**

Recommendation 4 acknowledges that one factor encouraging corruption and informality among government officials is the poor working conditions in the public sector, including indecent wage levels. This recommendation contains proposals to improve the working conditions in the public sector. The Roadmap Study proposes capacity building as an important element of the remedy. Capacity-building activities would need to be tied into the Public Sector Reform for their organization and financing. In addition, the Roadmap Study underscores the need for consensus and awareness raising among LGAs regarding their new role in local development with a view to changing their attitudes towards the informal

sector and micro and small businesses in general. Furthermore, the government should aim to promote the recruitment and training of new officials; to give officials exposure and training to enable them to understand that MSEs have a social and economic role and to think of how they can assist them in the market economy context.

### **6.5 A baseline study on the regulatory framework**

Recommendation 5 proposes the setting up of a framework for a baseline study to be conducted on a regular basis to monitor the progress of the regulatory framework and provide adequate data for MSEs and informal sector organizations in advocating for their rights. In addition, the Roadmap Study proposes the need to incorporate a participatory approach in future studies on why MSE formalization is difficult. Such an approach will enhance understanding of why MSEs find formalization difficult from a sociological perspective in addition to the economic analysis.

### **6.6 Harmonization of policy objectives and incentives for development of the informal sector**

Recommendation 6 emphasizes harmonization of policies and incentives for the support of the informal/MSE sector; taking into account the two main types of businesses in this sector, i.e., survivalist and enterprise seedbed. While the fiscal and institutional incentives by the TRA for the informal sector could benefit the survivalists, they are not sufficient for entrepreneurs in the enterprise seedbed. The recommendation distinguishes the “short-term” policy objective to support the informal sector (many of which are survivalist) from the “longer-term” objective of their integration into the formal economy (e.g., through mediation for export market and winning subcontracts from larger /formal enterprise (also see recommendation 2). Clearly, integration of the informal sector into the formal economy is an essential objective in building a robust private sector. As noted above, the policy for development of the informal sector needs to be strategically harmonized and subsequently integrated into the national development policy. The ignorance of many business people in the informal sector of the policy objectives and incentives for their promotion prompts corruption in the delivery by public servants of such incentives to the targeted beneficiaries.

## **7. Conclusions**

Under the market-based model of economic development towards which Tanzania is transiting, the government ceases to play the role of economic operator, but moves to play a more critical role as creator of the conditions within which enterprises in the emerging private sector can successfully supply the goods and services needed, while creating jobs and incomes at a pace that keeps up with population growth. The government maintains that the private sector is recognized as the main engine of growth by virtue of its role in the production and distribution of goods and services. Thus, if poverty reduction goals are to be achieved, significant strides must be made in private sector development. Government policies and regulations become important tools for shaping the business environment to achieve and sustain international competitiveness, and at the same time ensure attainment of the poverty reduction development goal.

Currently, the government has made notable achievement in establishing supportive policies for the development and promotion of the MSE sector, including its recently announced intention to formalize property rights in the (mainly rural) informal sector. While promising changes are taking place, the Roadmap Study observes that the bulk of regulations and institutional arrangements, carried over from the previous economic model, are cumbersome, inadequate, time-consuming and expensive. Furthermore, entrepreneurs do not perceive that compliance brings them any benefit apart from saving them from harassment by government officials. Many entrepreneurs see the enforcement of regulations as a means by which some corrupt officials supplement their insufficient incomes. The result is that informality characterizes the operations of both businesses, and those supposed to regulate and promote them.

The fact that the Tanzanian economy is in transition and undertaking several far-reaching reforms presents an opportunity for Tanzanian decision-makers to observe how other countries have dealt with their informal sector and what they have been able to achieve, and to use that information to its benefit. Several levels of intervention and different entry points need to be taken up simultaneously for system-wide changes to be effective. Based on the findings of the fieldwork and the most recent research on entrepreneurship and informality in Tanzania, the recommendations of the Roadmap Study offer a wide range of practical options to permit the problem to be tackled from different angles, with the view of making the Tanzania Development Vision 2025 a reality for the ordinary people of Tanzania.