

Challenges Facing Women in Formalization of Micro, Small and Medium Enterprises: A Case of Kinondoni Municipal, Dar es Salaam, Tanzania

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Abstract: It is estimated that two billion (61 per cent) of the global employed population earn their living in the informal economy. Women's enterprises are largely informal enterprises; it is common knowledge that women are dominant members of the informal economy and are less present as owners of formal enterprises. Women play a key role in the private sector and micro, small and medium enterprises (MSMEs) in Tanzania. Most WOE's in Tanzania are concentrated in informal, micro, low growth, and low profit activities, where entry barriers are low but price competition is intense. This happens while the government of Tanzania has expressed commitment to support women's entrepreneurship through a number of policy pronouncement as well as specific support programs to empower their businesses. Therefore this study intended to investigate challenges making women to continue doing informal business in Tanzania regardless of the commitment of the government and a number of negative effects associated with this choice. Data collection was carried out through individual survey and focus groups discussions. Likert scale type questions were used to measure women attitude on business registration. Results indicate that low awareness among business women on registration matters, high registration fee, high tax for the registered enterprises, long time spent in registration process hinders women to go for it. The study concludes that the number of women who registered their enterprises at Kinondoni district is low. The paper recommends that government and other stakeholders in business should ensure that they raise awareness to all women in business on the importance of registering enterprises. The registration fee and business tax should be affordable to enable all willing business women to register their enterprises.

Key words: Challenges; Women; Enterprise formalization; Micro, Small and Medium Enterprises

I. INTRODUCTION

It is estimated that two billion (61 per cent) of the global employed population earn their living in the informal economy (ILO, 2018). The significance of Informal sector (IFS) activities is gradually emerging worldwide (Darbi & Knott, 2016), as a tool to reducing poverty (Chidoko & Makuyana, 2012), which has been noted as a key challenge to humanity (Sutter et al., 2019). It shows that informality exists in countries at all levels of socio-economic development. Although it is more prevalent in developing countries than developed countries, informality encompasses a wide range of jobs and economic activities with no work-based social

protection: from street vending, home-based work in global and domestic value chains, waste-picking and domestic work to short-term contract work. Evidence shows that most informal workers do not work informally by choice but in the absence of other means of livelihood. Informal workers face multiple problems and are usually poorer and more vulnerable than workers in the formal employment (ILO, 2018). It is widely accepted that a large informal economy has all kinds of negative economic effects, at macro level as well as micro level. Among the effects are like: poor labour conditions, a poor tax basis, poor coverage of social protection and a negative influence on macro-economic growth. Hence, many policies and programmes across the world try to reduce the size of the informal economy, amongst others through all kinds of policies and programmes to stimulate the formalization of informal enterprises. At the end of the first millennium of this century, the size of the informal economy was showing a negative trend, but it is still considerable with an unweighted average value of 33% of official GDP (Schneider *et al.*, 2010).

In many studies, the lack of compliance with government regulations is seen as the main defining characteristic of informal enterprises. Informal enterprises are defined as enterprises that do not comply with government regulations (ILO, 2014); informal enterprises are enterprises that are not registered with local and/or national authorities (Fajnzylber *et al.*, 2011); informal enterprises are enterprises that do not pay (all) taxes and/or social contributions (Fajnzylber *et al.*, 2011); informal enterprises are enterprises that are not registered for relevant municipal licenses and with the tax department (Bruhn and McKenzie, 2013b); enterprises are classified as informal if: they are unincorporated and they are either unregistered and/or small (ILO, 2011). Informal enterprises are often associated with subsistence entrepreneurship (Bruhn and McKenzie, 2013b) or necessity-based entrepreneurship (De Kok *et al.*, 2013). The primary objective is often just to generate employment and incomes to the persons concerned, without a motivation to strive for growth or create a large enterprise (ILO, 2012).

Women's enterprises are largely informal enterprises; it is common knowledge that women are dominant members of the informal economy and are less present as owners of formal enterprises (Richardson et al., 2004). With the already

constraints women face in society and barrier in the formal job market, female labour participation in the urban space is predominantly informal (Carrol, 2011; Ramani et al, 2013). The sector has been of great benefit to women in diverse ways in terms of employment, income and realisation of self-esteem (Forkuor, Peprah, & Alhassan, 2017). Informal sector (IFS) activities are viable in reducing poverty among women. Yet, the full potential of IFS in reducing poverty among women may not be realised when women encounter challenges which could retard the attainment of United Nations poverty-related Sustainable Development targets (Peprah *et al.*, 2019). Informal micro and small enterprise (MSE) is a primary source of women employment in East Africa, excluding southern African countries. Women in East Africa are disproportionately self-employed in informal enterprises increasing their vulnerability and reducing their access to finance and services. Employment in the informal sector makes up over 50 percent of non-farm employment in sub Saharan Africa, employing 62.2 percent of employed women in Uganda and 49.8 percent in Tanzania (ILO, 2014).

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It is increasing realized that inclusive development requires extending rights and opportunities to informal entrepreneurs and their workers. Informal entrepreneurs generally have low and uncertain income and marginal working conditions, are not reached by social security labor protection legislation, and lack collective bargaining and representation rights (ILO 2013). Informality is associated with less access to finance, business development services, and markets, problems establishing a fixed place of business and increased vulnerability to fines. Informality is special concern for women. Women owned enterprises are more likely to be

informal in most countries. Informality compounds other barriers women face such as lower access to finance, lower ability to exercise property, business, and labor rights, and lower voice and visibility.

Women play a key role in the private sector and micro, small and medium enterprises (MSMEs) in Tanzania. The proportion of women owned enterprises (WOEs) is reported to have increased from 35 per cent in early 1990s (NISS, 1991) to 54.3 per cent in 2012 (MIT, 2012). This amounted to 1.716 million WOEs, over 99 per cent of which are microenterprises with fewer than five employees and almost three-quarters have only one employee. Most WOEs in Tanzania are concentrated in informal, micro, low growth, and low profit activities, where entry barriers are low but price competition is intense. These include trade, food vending, tailoring, batik making, beauty salons, decorations, local brewing, catering, pottery, food processing and charcoal selling. Most WOEs sell their products in the local market, with only small percentages selling regionally or internationally (Mori, 2014).

The small business sector has the potential to make a significant contribution to the economy of Tanzania. It has the capacity to provide employment, particularly in rural areas which lack economic opportunity as well as reducing the gender gap, alleviating poverty and generating government revenue through taxation and business license fees. However, despite ongoing national reform programmes, there remain considerable challenges for Micro, Small and Medium Enterprises (MSMEs). The unreviewed SME policy and inadequate SME Development Coordination framework placed under the Ministry of Industry, Trade and Investment imply that the value of entrepreneurial initiatives in improving the lives of the people is yet to be recognized. Three 3 million MSMEs, over 95% of micro businesses and 85% of small businesses of which most of them are owned by women operate informally in Tanzania (FSDT, 2012). Many owners of informal businesses lack understanding and are distrustful of regulatory authorities and are therefore unaware of and unable to benefit from access to services which could improve their growth and sustainability.

The Government of Tanzania has expressed commitment to support women's entrepreneurship through a number of policy pronouncement as well as specific support programs to empower their businesses, but still most of women are concentrated in informal businesses where entry barriers are low but the price competition is intense (Mori, 2014). A study from the International Labor Organization found that 83% of women in Tanzania are employed in the informal economy and women entrepreneur are particularly vulnerable in the informal economy (Shigela, 2018). Therefore this study is intended to investigate challenges making women to continue doing informal business in Tanzania regardless of a number of negative effects associated with this choice.

II. METHODOLOGY

This study employed a cross-sectional survey research design to collect data from 180 respondents at Kinondoni Municipal in Dar Es Salaam region, Tanzania. Wards and streets were selected purposively using high concentration of business firms as a criterion whereby Mwenge, Sinza and Kinondoni wards were selected for data collection. Thereafter, simple random approach was employed using lottery method in selecting respondents. Individual survey questionnaire and interview guide were used to collect quantitative and qualitative data. Likert scale was used to measure women attitude on business registration. Collected quantitative data were analyzed descriptively using SPSS computer software programme and presented in frequencies and table. Qualitative data were analysed using content method and were used to enrich quantitative information.

III. RESULTS AND DISCUSSIONS

A. Awareness on the business formalization processes

Respondents were asked to say if they were well informed about business registration. The purpose of this question was to measure women awareness on the processes of formalization of businesses.

Table I: Awareness of Women on the Business Formalization Processes

Category	Frequency (n =180)	Percentage
Well informed	60	33.3
Little information	120	66.7
Total	180	100

Results in Table I indicate that, 66.7% of respondents had little information about business formalization processes. This implies that majority of women engaging in small businesses at Kinondoni municipality had knowledge impairment on business registration processes. This situation is contributed by the educational level of the women in business of which majority of them (70%) had attained primary education level. Mori (2014) puts that The majority of women entrepreneurs in Tanzania are aged between 25 and 40 years, and have a low level of education. Information about business registration in Tanzania are found in the website of the responsible institution for registration of businesses (BRELA) and other published articles. Although the information is found in both Swahili (National language) and English but people with low level of education have low interest to access information in those sites. According to (Elk and Kok, 2014), work within the informal economy is correlated with educational variables and with access to capital: the higher the education level and the easier the access to financial funds, the lower the probability of working as an informal business owner.

B. Awareness on the importance of formalization of businesses

In this study, respondents were asked on the importance of

formalization of businesses and the purpose was to know if they are aware on the importance of formalization of businesses. Summary of findings are presented in table II.

Table II: Awareness of Women on the Importance of Formalization of Business

Category	Frequency (n =180)	Percentage
Yes	40	22.2
No	140	77.8
Total	180	100

Results in Table II indicate that 77.8% of women engaging in micro, small and medium enterprises at Kinondoni municipal are not aware on the importance of formalization of businesses. In a group discussion with women entrepreneurs at Mwenge ward, they claimed that formalization have/had nothing to do with development of their businesses and it was not important as it leads to wastage of time and money. They also added that formalization of businesses is only for those with high capital and not for small capital. This implies that most of women in business at Kinondoni district have no much experience in business activities. They lack knowledge and skills of business. This can be due to the fact that they have been doing informal business for quit long time and they find no need to formalise them. According to Richardson, et al. (2004), African Women Entrepreneurs have limited or no experience of formal employment and business, this is derived from the fact that they are concentrated in lower paid, lower status employment (both formal and informal) that does not support and enable them to build skills through experience.

C. Cost affordability and time used up during formalization process

The study intended to examine the cost and time used during formalization process, in this study respondents were asked the questions about the cost and time, the questions were structured to examine if the cost were fair and affordable, what time it takes to complete the whole process of formalization and if the time was favorable for the process. Results in Table III reveal that 74.4% of respondents indicated to have no ability to afford the cost in terms of money for business formalization. On the part of time used up during formalizing their business, majority of respondents (65.5%) indicated that they have to spend one month to have their business formalized.

Table III: Cost Affordability and Time used up During Formalization Process

Category	Frequency (n =180)	Percentage
Cost affordability during business registration		
Affordable	46	25.6
Not affordable	134	74.4
Time used up during business registration		
1 week	14	7.8
2 weeks	36	20
1 month	118	65.5
More than 1 month	12	6.7

This implies that the process for business formalization at Kinondoni municipal does not motivate women in informal business to engage in the process of formalizing their business. One month period for registration is too long when compared to the process in developed countries. The study by Ishengoma and Kappel (2005) puts that, the number of procedures and the level of efficiency among the offices involved in the registration process differ from country to country. In East African countries the registration process entails 11 to 17 procedures, takes about 35 to 61 days, and costs between US\$ 194 and 339. In some Latin American countries the process involves 9 to 18 procedures, takes about 67 to 100 days and costs from US\$ 510 to 1499. In transition economies the screening process involves 7 to 20 procedures and takes between 22 and 105 business days. The average number of procedures in the world is 6.26 (Djankov, et al., 2002). In some developed countries the registration of a new business can be accomplished without involving many procedures and requiring only a small number of resources. In New York and Florida it takes approximately four and three-and-half hours respectively (Loayza, 1997). Women have no ability to pay for the costly process but also they cannot afford to close their business all the long time attending to the registration offices to wait for the bureaucratic process to be completed. This is also explained by Elk and Kok (2014) in the three views on informality of enterprises and its consequences. Two views: exclusion view, also known as romantic view and exit view, also known as McKinsey view are suitable in increasing understanding in part. According to exclusion view, the large share of informal enterprises can be explained by the high entry costs and the high levels of taxes, fees and/or contributions that are associated with becoming and/or remaining formal. If not for these costs, most informal firms would choose to formalize. Proponents of the exit view assume that enterprises do not just consider the costs of formalization, but compare the costs with the benefits. For informal enterprises, the benefits of formalizing are not large enough to compensate for the costs of formalizing. Therefore with these two views lowering the cost of formalizing business and lowering other charges for the formalised businesses will attract many women to formalise their businesses.

D. Women's attitude towards formalization of businesses

The purpose of this question was to determine the attitude of business women in Kinondoni district on formalization of businesses. Likert scale type question was employed in this case where the respondent had to select the number corresponding to the best choice. The numbers were: 1= Agree, 2= Disagree and 3= Uncertain. Number one represents agreement with the statement while relatively high numbers represent disagreement with statement. In this case, a high number for items 1-4 suggests that the respondents have

negative attitude towards formalization of business, and a high number for the items 5-8 represents positive attitude towards formalization of businesses.

Table IV: The Attitude of Women towards Formalization of Businesses

S/N	STATEMENT	RESPONSE	F	%
1	Business formalization leads to recognition and trust for your services	Agree	43	24.0
		Disagree	101	56.0
		Uncertain	36	20.0
2	Formalization increases investment and higher customer demands	Agree	43	24.0
		Disagree	94	52.0
		Uncertain	43	24.0
3	Business formalization ensures growth of businesses	Agree	43	24.0
		Disagree	91	50.7
		Uncertain	46	25.3
4	Business formalization increases the welfare of marginalized group in the informal economy	Agree	41	22.7
		Disagree	91	50.7
		Uncertain	48	26.6
5	Business formalization is for those with high Capital	Agree	118	65.3
		Disagree	26	14.7
		Uncertain	36	20.0
6	Business formalization is not Important	Agree	127	70.7
		Disagree	17	9.3
		Uncertain	36	20.0
7	Business formalization is costly	Agree	125	69.3
		Disagree	19	10.7
		Uncertain	36	20.0
8	Business formalization makes operation difficult as it attracts all regulators	Agree	127	70.7
		Disagree	43	24.0
		Uncertain	10	5.3

Results in Table IV indicates that, many statements for the items 1-4 scored high percentages in the relatively higher ranked options (Disagree and Uncertain). In the statements 5-8 higher percentages was scored to the option ranked low (Agree). This implies that majority of the respondents at Kinondoni district do not agree with the formalization of their businesses and they have negative attitude towards the process. The negative attitude of women towards business registration at Kinondoni district can be justified by a number of challenges they face when trying to comply with the law and decide to register their businesses. In a group discussion with women at Sinza ward, they argued that some officials need corruption in order to facilitate the process with immediate effect. They added that corruption needed is not only in cash but also in kind where the most preferred is sexual affairs. The officials demand sexual affairs with women or else the process becomes difficult. This was also observed by Mori (2014) in her study "Women's entrepreneurship development in Tanzania: insights and recommendations", where she found that, among the challenges affecting women business are laws and regulations (including licensing procedures) which are designed for relatively large projects and are therefore difficult for MSMEs and WOE's to comply with. She added that, corruption and bureaucracy make matters worse, especially for women, who are more vulnerable to pressure

from corrupt officials. Some women mentioned that they are being sexually harassed by different government officials (tax and municipal officials) when these officials find their business has some problems. These challenges happen because most women are not aware of their rights and do not know who to go for help when such problems occur.

IV. CONCLUSIONS AND RECOMMENDATIONS

The study has clearly shown meticulously that, majority of business women at Kinondoni districts are not aware of business formalization and its importance. Most of them believe that formalization of businesses is only for large businesses with large capital. This is due to the fact that majority of business women have not attained higher level of formal or business education which hinder them to access relevant information about business formalization. It was also identified that the costs of formalization process are too high for women engaging in micro, small and medium enterprises in Kinondoni municipal to afford. Majority of them do not afford the costs inquired during formalization process due to the fact that most of them have small capital and do not have access to loans or other financial support. Also, it was revealed by the study that the time spending during formalization process is too long and not favorable to majority of women. This is due to the fact that the procedures needed for completion of business formalization are too bureaucratic making too many return movements hence disturbing their daily businesses operations. Majority of women declared that the whole process of formalizing their business takes a month or more. Again it was revealed that majority of business women at Kinondoni district do not agree with the formalization of their businesses and they have negative attitude towards the process. This was justified by a number of challenges they face when trying to abide with the law to officiate their businesses.

Based on the empirical findings of this study, it is recommended that government institutions responsible for business affairs, private institutions, women empowerment organizations and all unmentioned responsible organs should devote their energy in creating awareness on business activities to women entrepreneurs in order to impart knowledge and skills of business to enable them perform better in the field. Special programs which will provide education to business women on formalization issues and its importance should be established. This should involve relevant information delivered through simple technology and the use of local leaders to provide education on formalization so that to make them aware on the importance of this business practice. This will make easy for them willingly to formalize their businesses and to operate in formal way since they already know its importance. Institutions responsible for business registration in Tanzania such as BRELA and TRA should reduce their bureaucratic procedures in this process so as to reduce time for it. They have to also reduce the registration fee so as to enable every woman in small business to be able to pay for it and register her business. Women are

recommended to empower themselves through forming of small groups which they can work together and conduct their business together. This will make easy for them to get access to loans and other financial help so as to grow their business and improve their capital; this will enable them to afford paying registration costs and tax required. But again business women should make sure that they seek for business education by attending business seminars and other trainings conducted within or outside their locality.

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