

Cooperatives as an instrument for formalizing the informal sector: A case study of Tanzania

by

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Abstract

Cooperative association has become an increasingly popular solution to various development issues. The most recent of these is the informal sector, which is a vast sector consisting of unregistered enterprises and informal workers. This research examines the use of cooperative association as a potential instrument for formalizing the informal sector. Since cooperatives exist in various typologies and in various sectors, they are uniquely positioned to potentially formalize informal sector enterprises. Formalization allows for those engaged in informal work to be legally recognized by the state, contribute to taxes, benefit from labour regulations, and have access to social welfare. Tanzania provides an excellent case study in which to analyze the nexus of formalization, the informal sector and the role cooperatives can play in bridging the two together.

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Acronyms & Abbreviations

AMCOS	Agricultural Marketing Co-operative Societies
BEST	Business Environment Strengthening for Tanzania
FIAS	Foreign Investment Advisory Service
ICA	International Co-operative Alliance
ILO	International Labour Organisation
KCNU	Kilimanjaro Native Cooperative Union
MDG	Millennium Development Goals
MUCCoBs	Moshi University College of Co-operative and Business Studies
PRSP	Poverty Reduction Strategy Paper
SACCOS	Savings and Credit Co-operative Societies
SAP	Structural Adjustment Plan
SDG	Sustainable Development Goals
TIN	Tax Identification Number
TRA	Tanzania Revenue Authority
TSH.	Tanzanian shillings
UNDP	United Nations Development Programme
UNIDO	United Nations Industrial Development Organisation
USAID	United States Agency for International Development
VAT	Value-added tax
VICCOBA	Village Community Bank
WIEGO	Women in Informal Employment: Globalizing and Organizing

Chapter 1: Introduction

Informal work is a reality for most labourers in the contemporary global workforce. According to recent reports from the International Labour Organization (ILO), 61.2% of the global workforce is engaged in informal economic or labour activity (ILO, 2018, p. 13). In this context, informal describes a vast world of complex and heterogeneous economic and labour relationships not formally recognized and regulated within the legal framework of a country. According to Jütting & Laiglesia (2009), informal economic and labour relationships are so pervasive and prevalent in the Global South that they are considered the norm rather than the exception (p. 9). Informal work has been the recipient of vast development scholarship, policy proposals, and economic initiatives. It is a relevant concept to the global economy and labour market because of its “extent and value, its effect on working conditions, tax revenues, wages and profit and its tendency to exacerbate inequality within and between nation-states” (Delaney & Macdonald, 2018, p. 100).

The informal sector includes activities and employment ranging from casual, home-based, to contractual work. The sector is characterized by a lack of regulation, precariousness and little to no social protection (Chen M. A., 2007). There are serious development implications associated with having a large informal sector, especially as it relates to the labour market and overall economic growth of a state. In the Global South specifically, the informal sector has been growing at a large pace, a trend which is forecasted to continue for another twenty-five years (Lloyd-Evans, 2008, p. 1886). It is important to note that while informal employment is mostly found in the informal sector, conditions of informal employment also exist in the formal sector (Guha-Khasnabis et al., 2006). However, this research is concerned primarily with the informal sector and the conditions of those working within it.

This paper uses the first international statistical definition of the informal sector, adopted during the *Fifteenth International Conference of Labour Statisticians* (15th ICLS) in 1993 (ILO, 2002). This definition prioritizes quantitative indicators that separated the informal sector from other national accounts. As a result, the definition is enterprise-based and characterizes the informal sector based on the production units (enterprises) in which the work transpires. The informal sector encompasses the following:

...a subset of unincorporated enterprises owned by households, i.e. as a subset of production units which are not constituted as separate legal entities independently of the households or household members who own them, and for which no complete sets of accounts are available...regarding the production units in question, the term “enterprise” was used in a broad sense. It covers not only units that employ hired labour, but also production units that are owned and operated by single individuals working on own-account as self-employed persons, either alone or with the help of unpaid family members. The activities may be undertaken inside or outside the business owner's home; they may be carried out in identifiable premises or without fixed location. (Husmanns & Mehran, 2019, p. 2)

Based on this definition, employment within the informal sector comprises of “all jobs in informal sector enterprises, or all persons who, during a given reference period, were employed in at least one informal sector enterprise, irrespective of their status in employment and whether it was their main or a secondary job (Husmanns, 2004, p. 3). Given the enterprise-based focus, the definition of the informal sector only includes employment and economic production occurring in households and “small unincorporated and/or unregistered enterprises” (Chen & Vanek, 2013, p. 391).

Given the ubiquity of informal workers around the globe, creating formal employment and reducing the size of the informal sector is a priority for development institutions and countries in the Global South, where the informal sector accounts for 50-75% of the workforce (Aikaeli &

Mkenda, 2014, p. 51). The size of the informal sector varies amongst regions; for example, in Sub-Saharan Africa, about 65% of non-agricultural employment is informal. In contrast, in Latin America, it is 51% (Williams & Lanksy, 2013, p. 361). The size of the informal sector contributes significantly to the gross domestic product (GDP) of some countries; some key sectors include petty trading, handicrafts, transport and manufacturing (Benjamin & Mbaye, 2012, p. 664).

In the last decade, there has been a renewed focus in the development literature in linking cooperatives to various ILO agenda's such as 'decent work' and more recently as potential formalizing agents for informal sector enterprises (Mshiu, 2010; Roelants, 2015; ILO, 2016). In 2002, the ILO announced the Promotion of Cooperatives Recommendation n°193, which stated that cooperatives were a great and practical solution to deal with the decline of decent work, increasing income insecurity and informal work (Roelants, 2015, p. 1; ILO, 2016). A decade later, the United Nations designated 2012 as the International Year of Cooperatives (Mshiu, 2010). Since then, there has been a growing discussion in development policy and literature linking cooperative association to the SDGs (*ibid*). Furthermore, the recommendation highlighted how cooperatives could transform "what are often marginal survival activities into legally protected work, fully integrated into mainstream economic life" (ILO, 2014, p. 23).

It is within this context that this research project is rooted. Tanzania provides a unique perspective in which to analyze this topic owing to a long history of cooperative association, a burgeoning informal sector, and failed attempts at formalizing informal enterprises. This case study allows for an examination of the informal sector, formalization, and the role cooperatives can play in bridging the two together. Furthermore, the size and scope of the informal sector and the nature of informality in Tanzania allows for exciting introspections about the nature of policy approaches and the role of the state.

The ILO views the growing informal sector and its precarious employment as contributing to the increase of decent work deficits. Cooperatives have been identified as a solution to the issue of employment in general, but now they are explicitly discussed in the dialogue regarding the informal sector (Mshiu, 2010; Smith, 2014; Birchall, 2001). Because cooperatives can exist in various typologies and various sectors, they present a unique opportunity to act as a bridge between whereby informal sector enterprises can become formalized. Formalization allows for those engaged in informal work/activities to be formally recognized by the government, contribute to taxes, and in turn, benefit from labour law/regulation, social security/welfare, and have access to reliable health benefits. Because of the different types of cooperatives that exist, and their role in securing employment and services, they are an especially valuable tool in developing countries (Saner et al., 2012, p. 4).

The logic behind using cooperatives as an instrument to formalize the informal sector lies within the principles and values of cooperatives themselves (Roelants, 2015; Wanyama, 2014). Some scholars and policy analysts argue that the tenets of cooperatives are vital to the successful formalization of informal economy activities (Roelants, 2015; Schwettmann, 2014; Saner et al., 2012). However, while there has been a growing focus on cooperative association and its potential uses in formalizing the informal sector, there is little research that has sought to directly analyze how cooperatives can be a useful instrument towards formalization. The paucity of research on this topic is the inspiration behind this research, which analyzes the viability of ILO recommendation n°193 via a case study of Tanzania.

This research employs a qualitative methodology of fieldwork interviews and an extensive review of the literature. Analysis of how cooperatives can be a useful instrument for formalization is supplemented by examining existing studies on formalization of the informal sector. These

studies have produced a critical analysis of the divergent realities of individuals participating in the informal sector and the extent to which formalization approaches are at odds with these realities. Specifically looking at the case of Tanzania, the research objective is to examine the extent to which cooperative association can act as an instrument of formalizing informal sector enterprises. The research question is tied to the objective, but then also further asks: Is tying the benefits of cooperative association in the informal sector to formalization a sound policy approach?

To examine the nexus of informality, formalization, and the role cooperatives can play in bridging the two together, this paper is organized into five chapters. This first chapter has introduced the issues of informality and spotlighted the need for research on cooperatives as a potential tool for promoting formalization. Chapter two outlines the competing perspectives on informality debates on formalization and best practices and cooperative association. This section also discusses the theoretical framework for understanding the rise and persistence of the informal sector in Tanzania and, by extension, Sub-Saharan Africa. Chapter three provides historical background and context for Tanzania's informal sector, the cooperative movement and previous approaches to formalization undertaken by the state. Chapter four presents the data and findings from the field, while chapter 5 is an analysis and discussion of the data.

Chapter 2: Theoretical Perspectives & Literature Review

Competing perspectives on informality

Since entering the development lexicon, the concept of informality has been subject to various competing perspectives regarding its causes. By the 1990s, three dominant perspectives that examined the issue of informality: the dualist perspective, the structural perspective, and the legalist perspective (Bacchetta, Ernst, & Bustamente, 2009; Chen, 2004). Since then, a fourth has been introduced: the multi-segmented perspective (Chen 2004; Kucera & Roncolato, 2008). All four theoretical perspectives provide distinct explanations of how formal and informal as categories of labour are linked. Additionally, they offer a unique rationale for informality's existence and persistence.

The dualist perspective, also referred to by some authors as the formalization thesis (Munck, 2002) or the Modernization thesis (Lewis, 1954), was the prevailing perspective when the concept of informality first entered development scholarship. Scholars supporting this perspective argued that the informal sector was distinct and separate from the formal sector (Lewis, 1954; Harris & Todaro, 1970). This distinction partially stemmed from the use of the word 'sector' itself, which denotes a separate category of economic activity detached from formal institutions and the rules and regulations that accompany them (Hart, 2006, p. 22). Consequently, this ushered in conceptualizations of informality as being distinct and isolated from formal institutions, as being the antithesis of order, and removed from government regulation and oversight (Guha-Khasnobis et al., 2006). The dualist perspective, therefore, assents to the notion of a dialectic between formal and informal. This perspective regards the informal sector as the inferior and less developed sector of a dual labour market. According to some scholars, the informal sector was simply a dying

remnant of traditional economies and would disappear with the onset of modernization (Bacchetta et al., 2009; Lewis, 1954).

Contemporary approaches to the dualistic approach often use it to discuss how the informal sector is an enterprising engine for economic development. Walther (2007) argues that the informal sector is an area for microenterprise and economic growth, operating under varying degrees of remunerative activities and enterprises (p.33). Additionally, for some participation in the informal sector is livelihood strategy, while for others, participation is a productive activity that has the potential to become formalized (*ibid*). Thus, there are different categorizations of activities in the informal sector, codified as such due to their development potential. According to Walther (2007), they are as follows: “the survival-based informal sector, the subsistence-based informal sector, the development-based informal sector, and the transition-based informal sector” (p. 33-34).

The structural perspective, also known as the Informalization thesis, or the political economy perspective, challenged the dualist idea that there were no linkages between the formal and informal sectors. This perspective instead asserts that the two are “intrinsically linked” (Chen, 2004, p. 7), emphasizing their connections and interdependence (Bacchetta et al., 2009; Portes et al., 1989). The Structuralist perspective posits that small unregistered firms and enterprises are both necessary and required by capitalism to provide cheap and flexible labour to big capitalist firms. Munck (2002) views the informal sector as neither a temporary or residual effect of modernization, but rather a fixture of globalization. By this, Munck refers to capitalism’s need for increased flexibilization of labour, which is often cheap and exploited labour. The informal sector and informal employment are the sources of this flexible and cheap labour (Moser, 1978; Portes

et al.,1989). Chen (2004) contends that informal enterprises and workers are “subordinated to the interest of capital development” (p. 7).

The legalist perspective also referred to as the neoliberal perspective, explains informality through the lens of the formal regulations and choice of informal workers and enterprises. This perspective, popularized by de Soto (1989), frames the informal sector as an entrepreneurial space. Operating within this space are micro-entrepreneurs who would prefer to avoid the costs associated with operating formally. The legalist perspective introduces the idea that informality is voluntary and that individuals/firms operating within its boundaries choose to operate informally, having considered a cost-benefit analysis of either operating formally or informally (Maloney, 2004; Packard, 2007). In this case, individuals/firms may choose informality because they see little benefit from working within formal regulatory structures. This perspective also recognizes that capitalist interests do “collude with government to set the bureaucratic rules of the game” (Chen, 2004, p. 7). Overall, this perspective understands informality as a “rational” response to excessive state regulation (Delaney & Macdonald, 2018, p. 103).

The multi-segmented perspective combines several aspects of the theoretical approaches that preceded it. This perspective recognizes that informality is heterogeneous, choosing instead to classify the informal economy by “easy entry” and “upper tier”. Fields (2005), generally credited with this perspective, classifies the upper tier as voluntary and a means for workers/firms to negotiate better incomes and opportunities than those existing and operating within the formal regulatory framework. This borrows from the legalist perspective, popularized by de Soto (1989) and Maloney (2007). Lower tier in this perspective is associated with involuntarily entry and exclusion from formal job opportunities (Kucera & Roncolato, 2008). This perspective aims to

cover regional differences in informality, understanding that differing contexts produce varying rationales for operating within the informal economy.

Given informality's malleability to a variety of theoretical perspectives, economic and labour realities, the existence of multiple perspectives is useful. Regional differences in informality, regulatory frameworks, and economic development mean that each perspective has been a useful analytical tool—though the context is crucial. For example, the realities of informality in South America do reflect the legalist perspective wherein most individuals and firms operating informally do so voluntarily (Maloney, 2004). However, in South Asia, a structuralist perspective is more useful—this is particularly the case for home-based work and sub-contracting, which are prevalent in this region (Mehrotra & Biggeri, 2002). Overall, all these perspectives highlight how broad the concept of informality is, and a need to tailor each perspective to the of a country based on it's the socio-economic and political context.

Informality in the African context

Having highlighted the competing perspectives as they relate to informality, the context of Sub-Saharan informality can now be examined. Borrowing from the Structuralist or Political Economy perspective, the informal sector growth in this region can generally be traced back to Structural Adjustment Plans (SAPs), trade liberalization and deregulation. These actions, though not the case for all economies in the region, led to the withdrawals of states in several public institutions, and privatization of parastatals and other formerly state run institutions. Additionally, devaluation of currency in some countries (eg. Tanzania) led to declines in real wages for those working in the formal sector, leading to increased participation in the informal sector. The realities of the informal sector within this context is one made up of survival strategies, exclusion from formal sector, and a lack of access to capital and financial resources (Wuyts, 2001).

Why is the informal sector a problem?

The informal sector and notions of informality have been the subject of debate since the term was introduced into the development lexicon by anthropologist Keith Hart in 1971. Scholarly discussion regarding the existence and persistence of the informal sector has often debated its benefits and drawbacks. While acknowledging the informal sector as a means of survival and a site for entrepreneurship for those otherwise excluded from formal sector activities, there is a growing consensus that it constitutes a major development problem. Decent work deficits, weak economic growth, and an underemployed labour market are cited as reasons to address the informal sector.

The issues relating to a large informal sector can generally be understood in terms of labour and economic issues, though the two necessarily interact with each other. Most of the policy approaches and discourse surrounding efforts to reduce the informal sector can be traced back to the 2002 International Labour Conference: *Resolution concerning decent work and the informal economy*. This conference recognized the need to address the issue of informality, especially as it related to the labour conditions of workers in the informal economy.

The labour-focused component of the informal sector is linked to the ILO's mandate of promoting decent work for all workers. The ILO defines decent work as employment that provides workers fair incomes, equal opportunity and dignity. It is work that provides social protection, allows dialogue and promotes personal development & social integration of workers (ILO, 2002, p.53). Given that this is a principle agenda for the ILO, the informal sector and informal employment are roadblocks to this type of work.

In its present form, the informal sector operates outside of the legal environments of a state; as such, this sector is not subject to regulation. Furthermore, labour standards are generally not

implemented or observed, as the informal sector is not part of the legal framework. As such, for many working informally, whether self-employed or wage-employed, there are no rules that regulate labour standards or conditions of work. For most, informal sector work is precarious, offers poor remuneration, usually requires extended working hours often in unsafe or unsanitary conditions. Additionally, there is little to no representation for workers and a lack of access to rights.

The economic justification for reducing the informal sector is linked to economic growth. The informal sector is arguably a site of diminished economic productivity where product standards and quality are low (Kenyon, 2007). For states with a large informal sector, there are concerns about the ability to provide public goods and services, promote sustainable economic growth, and address issues of income inequality and poverty reduction (USAID, 2005, p. 4). Additionally, there are concerns relating to the ability of governments to tax informal activities, resulting in state revenue losses. A smaller revenue stream can lead to a lack of infrastructure, reduction in public expenditure of health services or education, and weakened social welfare and benefits. This can also lead to increasing inequalities within countries between the rich and poor, especially as states struggle to find ways in which to address growing informal practices and economic activities.

Current approaches to the informal sector

As the informal sector increases in size and scope, there is a growing urgency by states, development institutions, non-government organizations (NGOs) and scholars to find solutions. There are three notable approaches often discussed: do nothing, deregulation and formalization. The “do nothing” approach argues against intervention in the informal sector.

The rationale that buttresses the “do nothing” approach is linked to the perceived value of the informal sector. Seen as a site of subsistence production, some argue that justification for state intervention is low as the revenues from the informal sector are insignificant (Williams & Lansky, 2013, p.366). Other rationales for “do nothing” highlight the informal sector as a starting point for entrepreneurs that otherwise have no access to the formal sector and the high proportion of people that need the informal sector to sustain their livelihoods (*ibid*).

The deregulation approach views overregulation and burdensome operational costs within the formal sector as the reason for the increase in the informal sector. This approach understands the informal sector as a rational response to overregulation and burdensome costs put on by the state (William & Lansky, 2013). Therefore, proponents of deregulation emphasize actions that reduce labour regulations, transactional costs and simplify tax regimes (*ibid*).

The formalization approach is most discussed in the literature and the beneficiary of broad international consensus (see Resolution concerning decent work and the informal economy, ILO 2002). Formalization refers to “the process whereby previously non-compliant enterprises become integrated into these formal or state-sanctioned institutions, such as property registries and tax-rolls” (p. 3). This approach is broadly concerned with reducing the size of the informal sector and informal employment. Additionally, it is concerned with moving more informal enterprises and workers towards formal institutions and environments (Williams & Lansky, 2013; Chen & Vanek). Formalization is tied to promoting economic growth, ensuring decent work, and contributing to poverty reduction (USAID, 2005, p. 24).

What are the benefits of formalization

The benefits of formalization include legal ownership of means of production and place of business, enforceable contracts, access to regulated markets, public institutions, and tax breaks

(Kenyon, 2007; Chen & Vanek, 2013). However, for informal sector enterprises or enterprises seeking to formalize, there is often varying interpretation of formalization depending on the country in question. The formalization debate has yet to settle on a universal understanding of what formalization of informal sector enterprises looks like.

From an institutional standpoint, formalization allows for the creation of a regulatory market that promotes fair competition amongst businesses. Allowing the informal sector to go unchecked can lead to informal firms having unfair competition over formally operating firms. The unfair advantage is due to tax and regulatory evasion, which creates an unfair environment for enterprises that comply with the regulatory environment (Kenyon, 2007; Bruhn & McKenzie, 2013).

However, it is essential to note that the informal sector is heterogeneous and hosts various kinds of economic enterprises and activities. As a result, the rationales for operating within the informal sector can be quite divergent. As participation in the informal sector occurs for a variety of reasons, the benefits of formalization may not be suited to all.

Overall, the benefits of formalization are associated with legal recognition, access to public and financial institutions. However, the benefits of formalization for those in the informal sector depends on the size of the enterprises and the types of informal activities performed. For medium-sized to large size informal sector operators, formalization may be a rational choice given the benefits and expanded access to resources. However, for micro and small-sized informal sector enterprises, formalization may not be beneficial, given the costs associated.

There is an ongoing debate that “informality is the natural state for very small enterprises” (Thomas, 2005, p. 5). This argument is relevant for certain types of developing countries where most of the informal work is self-employment and most enterprises in the informal sector are small

and micro-sized enterprises. The arguments favouring formalization are not the same for countries that have larger informal firms competing in markets with formal firms. Instead, there is a belief that micro and small enterprises are extralegal and should be considered appropriate strategies for survival. Therefore, the focus should be improving livelihood capabilities instead of pursuing formalization.

What are the barriers to formalization?

Regulatory and administrative barriers are cited as the most direct influence on whether informal sector enterprises decide to formalize. Regulatory barriers are classed as a system of complex and inconsistent laws, often highly centralized, and challenging to manoeuvre for non-formal firms. Some regulations are viewed as unrealistic and out of touch with the local environment in which they are implemented. According to a 2005 USAID report, “the bureaucracy involved in registering a business is a key barrier to formalization” (p. 16). The report notes that the higher the bureaucracy involved in formalization, the less likely enterprises are likely to begin the process of formalization (*ibid*, p. 17).

Administrative barriers, on the other hand, refer to bureaucratic requirements associated with the regulatory environment (USAID, 2005, p. 13). These include excessive paper trails, civil service inefficiency resulting in delays, and inaccessibility of front-line decision-makers (*ibid*). Another critical barrier to formalization is the fees and financial requirements associated. Business registration and licensing fees are often too high for informal sector enterprises operating at a subsistence level. For some large and medium-sized enterprises, the costs may also be considered too high. Taxation is also a concern for informal enterprises and can deter formalization if the costs are seen to exceed the benefits.

Current approaches to formalization

As mentioned earlier, formalization has different meanings and approaches, depending on the size and scope of the informal sector. Approaches to formalization are linked to theories of why informality and informal work persist. A legalist view of the informal sector, popularized by H. De Soto (1989), would then suggest an approach aimed at reducing barriers and costs of formalization. Borrowing from the idea that enterprises and workers choose the informal sector through a cost-benefit analysis, rationalizing that there is more to be gained by operating informally as opposed to under the legal framework of the said country (Bruhn & McKenzie, p. 2).

A competing view from another contributor to the legalist perspective comes from Maloney (2004) makes the case that formalization can be understood based on a firm's size. Maloney (2004) argues that bigger firms/enterprises choose to formalize if they can see the benefits of doing so; however, smaller firms rarely formalize as they see little benefits from doing so. Fields (2005), often associated with the segmented labour market perspective, argues that because of the rationale for people joining the informal sector, most often as a last resort, there should be a "compelling public rationale" for bringing said enterprises into the formal sector.

Regulatory and administrative barriers to formalization have been argued to be the most direct influence on deciding to formalize. The approaches to formalization can be generally broken down into two primary efforts: Initiatives aimed at increasing services to business and Initiatives aimed at reducing regulatory and administrative barriers to formalization. The former promotes service-driven efforts in the forms of micro-finance, better infrastructure and procurement opportunities for informal enterprises. They are described as "push" style efforts, based on beliefs that better service provision leads to growth and momentum towards formalization (USAID, 2005, p. 25).

The latter approach generally focuses on initiatives to simplify business registration reform and tax administration. These are described as “pull” style efforts, which focus on reducing the costs of formality (*ibid*). Generally, simplification of regulation means reducing the number of steps required to formalize, decentralizing the power associated with regulating business and often results in the creation of a “one-stop-shop” for all registration and compliance needs (Bruhn & McKenzie, 2014). As it relates to taxes, it is usually accompanied by a simplification of tax codes/laws, more predictable tax regimes and more effective enforcement (USAID, 2005, p. 25). Other pull style approaches also include “creating legal categories for enterprises that do not fit into the existing framework” (Kenyon, 2007, p. 5).

Both approaches have been used in various research contexts across the globe. The USAID (2005) report on formalization argues that reducing the cost of formalizing by reducing barriers to enterprises is a better approach. The report states that removing barriers allows enterprises to utilize a cost/benefit analysis when considering formalization (*ibid*, p. 25). However, several studies have debunked this, showing that reducing the barriers to formalization rarely leads to significant increases in formalization (Andrade et al., 2014; Bruhn & McKenzie, 2014). In some cases, it is nearly impossible to examine whether the increases were results of “pull” oriented policies aimed at informal enterprises, or merely new businesses registering (*ibid*). The heterogeneity of the informal sector actors leads to varying rationales for, therefore, requiring nuanced policies and recommendations when determining formalization approaches.

Debates on formalization approaches

Kenyon (2007) argues that formalization is a “multi-faceted process, and the linkages vary from country to country” (p. 9). He makes the argument that in lower-income countries, often linkages between several institutions operating in the legal sphere are absent. Kenyon (2007)

highlights the fact that there may be no communication or information sharing between credit agencies, land titling registries and tax authorities, as would be the case most economies in the global North. Furthermore, he argues that there is not always a connection between formalization and upgrades in product marketing. He contends that there is weak evidence to support that formalization leads to participation in markets and that the benefits of formalizing are not universal.

Kenyon (2007) points out that most of the discourse around formalization has focused on “changes to the legal environment in which informal firms operate” (p. 9). However, he makes that point that these efforts are unlikely to be successful on their own and require supplemental access to other resources that provide the enterprises with the ability to comply; he cites access to training, finance, provision of physical infrastructure (*ibid*).

Several studies in development literature have examined “pull-style” efforts to promote formalization of informal sector enterprises in the global South. Kaplan et al., (2011), and Cárdenas and Rozo (2009) are examples of two studies conducted in Mexico which analyze the implementation of “one-stop-shops” and their effect on business registration. The one-stop-shop is an effort to streamline business registration by creating one office where enterprises have access to municipal, state and federal business registration procedures. Both studies found increases in business registration of 5%, however in the case of Kaplan et al., (2001), they found that the increase was a result of new businesses registering as opposed to informal sector firms formalizing. Bruhn & McKenzie (2013), found that a one-stop-shop led to reduced registrations in the first two months and so no further increases afterwards. In Mullainathan & Schnabl’s (2010) study on municipal licensing reform in Lima, Peru, they found that the reform increased provisional licenses

issued to informal enterprises. However, many of the informal enterprises failed to renew them later.

Other studies have looked at the effects of waiving or subsidizing costs associated with administrative barriers. In a study of informal enterprises in Belo Horizonte, Brazil, Andrade et al., (2014) found that waiving costs had no little to no effect on formalization. Alcázar et al. (2010) in Lima, Peru, found that offering a subsidy to informal enterprises (around 27-25% of the registration cost) only led to a 12% attainment of municipal licensing. Similarly, De Mel et al., (2013) found that informal enterprises in Sri Lanka, when provided the option of reimbursement for registration costs, rarely took up the opportunity.

Generally, the studies find is that entry reform tends to have minimal impact on the formalization of informal firms. Furthermore, Bruhn & McKenzie (2013) find that informal sector enterprises typically only manage to attain municipal licenses. These licenses are less expensive than registering with local or state governments, require no sizeable tax payments and have small annual fees (*ibid*, p. 8). However, the realities for self-employed persons in the informal sector and micro-enterprises are different. Bruhn & McKenzie (2013) find that these actors tend to remain informal despite the simplification of business registration and other bureaucratic barriers to formalization (p. 9). Generally, only a tiny fraction of micro and small informal enterprises undertake formalization, even when the costs are subsidized or waived entirely (*ibid*)

A caveat to these studies on simplified business registration is that most have been conducted in Latin America. Therefore, the applicability of said results to other regions is not clear. The rationale and economic context of the informal sector in Latin America differ from the African context. As such, the approaches to formalization are not a broad-reaching either; they should be specific to the context of the state in which informal sector exists.

Cooperatives and the Informal Sector

The issue of formalizing the informal sector has existed for a long time, but the idea of using cooperatives has been floated around by scholars and policy analysts for the last 15 years (ILO, 2007). The end of 2015 signaled the conclusion of the Millennium Development Goals (MDGs), a set of quantified targets aimed at improving various issues in developing countries. Post-2015, a new development agenda called the Sustainable Development Goals (SDGs) has been introduced to focus on issues of economic development, social equality, good governance, and environmental sustainability before the year 2030 (Wanyama, 2014; Schwettmann, 2014). Cooperatives have been identified as a tool which can contribute significantly to the post-2015 global development agenda. One of the goals of the SDGs will be to “create jobs, sustainable livelihoods and equitable growth” (*ibid*, p. 6). The ILO views the growing informal sector and its precarious employment as contributing to the increase of decent work deficits. Cooperatives have been identified as a solution to the issue of employment in general, but now they are explicitly discussed in the dialogue regarding the informal sector (Mshiu, 2010; Smith, 2014; Birchall, 2001). Because of the different types of cooperatives that exist, and their role in securing employment and services, they are an especially valuable tool in developing countries (Saner et al., 2012, p. 4).

What are Cooperatives?

The International Co-operative Alliance (ICA) defines a cooperative as “an autonomous association of persons united voluntarily to meet their common economic, social, and cultural needs and aspirations through a jointly owned and democratically controlled enterprise”. This definition differentiates cooperatives from purely profit-driven enterprises, recognizing that cooperatives focus on a variety of issues including but not limited to their economic, social and cultural impact (Schwettmann, 2014; Roelants, 2015). Cooperatives are based on values and

principles that distinguish them from investor-owned businesses and enterprises. Furthermore, their governance structure places strong emphasis on solidarity and democratic member control. Other core principles of the cooperative model include voluntary and open membership, autonomy and education (Pérotin, 2010; ICA, 2017).

Cooperative enterprises exist in every sector and industry. They are formed in diverse typologies—meaning they can exist as worker, producer, consumer, financial, housing, social, or multistakeholder cooperatives (Pérotin, 2010, p. 20). Although worker cooperatives are most often written and theorized about in cooperative literature, the most common typology of cooperatives are producer/agricultural cooperatives (*ibid*). From a labour and economic perspective, cooperatives arguably provide a platform that acts in the best interests of workers, the community and espouses inclusivity (Altman, 2015, p. 15). Cooperatives have also been found to be more likely to survive the volatility of the market (*ibid*). According to Mshiu (2010) “cooperatives worldwide do fare better than other types of enterprise” and provide an alternative business model that “focuses on risk-averse investment and strong commitment to social responsibility” (p. 2). They are a relevant tool in rural and economic development (Altman, 2015; Bateman, 2013).

Cooperatives and formalization?

The logic behind using cooperatives as the tool to formalize the informal sector lies within the principles and values of cooperatives themselves (Roelants, 2015; Wanyama, 2014). Some scholars and policy analysts argue that the tenets of cooperatives are vital to the successful formalization of informal economy activities (Roelants, 2015; Schwettmann, 2014; Saner et al., 2012). According to Roelants (2015), the goal is to take already existing informal economic activities and turn them into cooperatives. He cites the example of waste pickers in India, who collectively turned their informal waste picking activities into The SWaCH waste-pickers’

cooperative (p. 9). The formation of a cooperative allowed the workers to “deliver professional waste collection services while providing decent pay and working conditions, as well as social protection to members” (*ibid*). Thus, the formation of a cooperative took these workers out of a vulnerable and precarious livelihood activity and offered meaningful employment with social protections. Several more examples like this exists in relations to other cooperatives such as Savings and Credit cooperative in Tanzania, and a Transport and Tourism cooperative in Brazil (Roelants, 2015).

Cooperatives tend to provide more secure employment than traditional enterprises, they are embedded within a legal framework and prioritize their member’s rights over capital. These qualities, and the entrepreneurial nature of the informal sector, according to Roelants (2015) make cooperatives particularly adapted to carry out a transition to a formal economy (p. 18). As mentioned earlier, cooperatives can exist in varying forms. Most discussions on the role of cooperatives mostly refer to the creation of a network of cooperatives as being necessary to their effectiveness (Birchall, 2001). Cooperatives can provide services, employment or both. Therefore, cooperatives as an instrument need to incorporate social, financial, and multistakeholder cooperatives in addition to worker cooperatives (WIEGO, 2014).

Workers and enterprises in the informal sector are heterogeneous. Therefore, cooperatives need to be diverse to meet the various needs of workers in the informal sector. For example, some enterprises and workers can be based in the transition based informal sector, but are unable to access loans or credit from formally credited banks. Savings and credit cooperatives provide the resources needed to transition towards the formal economy. Some cooperatives can provide services such as hospital and death benefits, rather than providing employment (Birchall, 2001). Other cooperatives as mentioned earlier, can transform already existing informal activities into a

formally recognized worker's cooperative. Therefore, cooperatives can be used in a variety of ways in the informal sector. However, it is important to note that cooperatives can evolve from a single focus of activity and develop other services and benefits for their members (WIEGO, 2014, p. 9).

While cooperatives are well adapted to transitioning to the formal sector, it does have some shortcomings. Firstly, most cooperatives in the informal sector provide services and products to their members (WIEGO, 2014, p. 10). Few cooperatives in the informal sector provide employment, which is the basis of the decent work agenda. While this does not affect enterprises based in the transition based informally economy, it does pose some difficulties for the survival based informal sector and subsistence based informal sector. Those involved in this type of informal activities require more than social services to achieve decent work. A suggestion for this issue is the presence of multistakeholder cooperatives, where different actors such as workers, consumers and even members of government can come together. There is an apparent gap in the literature regarding how different types of informal workers can be affected by cooperatives. Therefore, it is difficult to determine just how well cooperatives can deal broadly with the informal sector and informal employment.

Other issues related to cooperatives are those concerned with legal and policy framework. Cooperatives are harder to establish than a regular business, thus the bureaucracy in many countries, especially developing countries make them more difficult to establish (WIEGO, 2014; Schwettmann, 2014, p. 13). Beyond this, cooperative legislation is not the same across the globe. Some developing countries have better cooperative laws in place to help with the implementation of coops like Tanzania, while others like Sri Lanka do not have the proper laws in place (Birchall & Simmons, 2010).

While the recommendation of using cooperatives as a potential instrument of formalization was introduced in 2002, research on the viability of said recommendation has been scarce. While the literature on this topic is inconclusive, there is a recognition that cooperatives have a role to play in the informal sector. However, what has not yet been established or researched is a mechanism through which informal sector enterprises can transition to the formal sector via cooperatives. What is possible currently is the ability of cooperatives to provide services not offered or available to informal sector enterprises and workers.

Chapter 3: Historical Background

Informal Sector in Tanzania

The historical context in which the informal sector in Tanzania developed and amplified is significant in examining the extent to which different formalization policies can be successful. The informal sector has been a part of the Tanzanian labour market since before the country's independence in 1964 (Wuyts, 2001; Haan, 2003). However, historical evidence reveals an upsurge of informal sector participants from the 1980s onwards (ibid). The increase in the informal sector is attributed to Tanzania's Structural Adjustment Plans (SAPs) and conditional loans under the tutelage of the World Bank and International Monetary Fund (IMF) of the 1980s and 90s (Haan, 2003; Wuyts, 2001; Mkenda, 2005). The new economic policies introduced under the SAPs, Economic Recovery Plan (1986) and the Economic and Social Action Plan (1988), concentrated on reducing government spending and state withdrawal from the public sector (ibid). These policies effectively led to the creation and implementation of austerity programs, increased the role of privatization, and trade liberalization (Wuyts, 2001). Amongst the several adverse effects it had on the Tanzanian economy, the growth of the informal sector remains one of the most significant (Lugalla, 1997).

The implementation of SAPs led to decreases in formal employment and decreases in real wages. Through cuts in public enterprises and massive privatization, many formal sector jobs were lost. In addition, further policy changes in the late 1980s such as wage freezing and devaluation of currency resulted in an increased the cost of living. The cost of both imported and locally produced commodities increased, and people could no longer afford basic staple goods (Lugalla, 1997; Wuyts, 2001). As a result, the informal sector expanded and accommodated those who had lost

jobs and thus needed it as a means of livelihood. It also accommodated those that had suffered the real erosion of wages, and needed an avenue in which to experiment with other income generating activities (Aikaeli & Mkenda, 2014; Mkandya et al., 2010)

Contemporary estimates of the informal sector in Tanzania indicate that 83.5% of the total workforce operates within the informal sector, with 14.2% and 2.3% working in the formal sector and households, respectively (ILO, 2018, p. 126). Table 1 shows a breakdown of the informal sector, formal sector and households when examining the total workforce, including and excluding agriculture, as well as informal employment when including and excluding agriculture. The figures detailing the total workforce convey the share of total employment by sectors, but they mask the nature of the employment relationships within these sectors (ILO, 2018, p. 126) entirely. When the data accounts for informal employment, which generally refers to “jobs that generally lack basic social or legal protections or employment benefits and may be found in the formal sector, informal sector or households” (ILO, 2011, p. 12), the estimates of informal work surge. Though not listed in the table below, the share of informal employment in total employment in Tanzania is 90.6%--though row 3 is a breakdown of how that 90.6% is distributed across the sectors (ILO, 2018, p. 85)

Table 3.1: % Breakdown of total employment and informal employment by sectors

	Informal Sector	Formal Sector	Households
% of total workforce including agriculture	83.5	14.2	2.3
% of total workforce excluding agriculture	48.2	45.8	6
% of informal employment in total employment	83.5	4.9	2.3
% of non-agricultural informal employment	41.8	15.2	6

Source: ILO, 2018, p. 126

According to Aikaeli & Mkenda (2014), the informal economy in Tanzania accounts for 34% of its GDP (p. 52). A report by Danish Trade Council for International Development and Cooperation (2016) states that “around 850,000 young people enter the country’s job market annually, but only 50,000 to 60,000 formal sector jobs are created each year” (p. 11). This is particularly a massive problem as 66% of the population in Tanzania is under the age of 25, leading to massive issues in job shortages and contributes to the rise of informal employment and the informal sector in Tanzania (*ibid*). Consequently, this has led to a “fast-growing informal sector, especially in urban areas, where rural-urban migration additionally aggravates the situation” (Pfander & Gold, 2000, p. 10).

Furthermore, survey results from the Tanzanian Integrated Labour Force Survey (ILFS) reveal that households participating in informal activities are on the rise, from 40% in 2006 to 43% in 2014 (Aikaeli & Mkenda, 2014, p. 53). The lack of formal job opportunities has been highlighted as one of the reasons for this increase. The two main reasons for workers participating in the informal sector or employed informally in Tanzania were due to a lack of formal employment and a need for supplemental income for those working in the formal sector (*ibid*, pg. 54).

An important term that is often used in conjunction with the informal sector in Tanzania is micro-and small enterprises (MSE) (Pfander & Gold, 2000, p. 10). MSEs are characterized by lack of formal regulation, they are not included in official labour statistics, and have “limited access to organized markets and credit organizations” (*ibid*). They participate in labour intensive work and mostly have low income generation potential. However, there are MSEs that can generate high levels of income and largely enter the informal sector precisely due to the lack of regulation.

It is important to note that just as the informal sector is diverse, so are MSEs. Within MSEs exist an array of employment arrangements. As Wange & Mmari (2013) explain:

These categories range from owner-operator, self-employed, and wage workers to non-wage workers. Among the wage workers are employees of informal enterprises, domestic workers, casual workers without fixed employer, industrial home workers, temporary and part time workers and unregistered workers; while the non-wage workers include: employers, including owners of informal enterprises and owner operators of informal enterprises and the self-employed who include heads of family businesses, own account workers and unpaid family workers (p. 4).

However, for the most part, many MSEs in Tanzania are self-employed and often are engaged in trying to secure livelihoods, rather than capital accumulation (Haan H. C., 2002, p. 7). For the most part in Tanzania, most informal sector workers are street vendors engaged in selling goods or services (Wange & Mmari, 2013, p. 6). Many MSEs take the form of small stalls and kiosks that also provide a myriad of goods and services. However, many of the goods and services offered are often within a small set of economic activities, thus making the informal market quite saturated (*ibid*).

The national employment policy of Tanzania states that its main objective is to increase job opportunities (2008). Additionally, the government seeks to promote decent work policy initiatives through increased employment opportunities and contribute to overall poverty reduction goals. The national employment policy recognizes the country's need to ensure that the pattern of economic growth is made more employment-intensive and addresses the needs of the working poor. Additionally, the policy understands that the demands for jobs are outpacing formal sector job growth. Furthermore, there is an acknowledgement that focus needs to be put into transforming the informal sector into an avenue that provides decent employment.

Tanzania provides an interesting case study as cooperatives have a long history in the country. First introduced during colonial rule, cooperatives eventually flourished following independence. However, they became integrated into state-led policies that saw their expansion into every sector of the economy. These expansions led to a decline in the economic viability of

cooperatives, and their performance worsened after SAPs and trade liberalization in the 1990s (Wuyts, 2001; Maghimbi, 2010). The result was a substantial decline in commercial successes and a diminished reputation. Efforts to rejuvenate the cooperative movement resulted in the establishment of a special commission in 2000. New legislation was passed in 2003, and in 2005, a Cooperative Reform and Modernization Programme (CRMP) was approved by the government. Supported by the ILO, the new reforms emphasize themes of member empowerment, decent employment and commercial success (Maghimbi, 2010).

Formalization process in Tanzania

The formalization process in Tanzania is a long and arduous process that requires time, money, and travel—resources that most informal workers do not have (Smith, 2014; Birchall & Simmons, 2010). According to the World Bank's 2019 *Doing Business Report*, Tanzania ranks 144 out of 190 countries in terms of ease of doing business (p. 209). The costs of operating a formal business and compliance with tax regimes are high, accounting for 58.7% of annual income per capita in Tanzania (*ibid*). Additionally, there are often complaints that time fulfilling paperwork for licensing and registration is burdensome, and the procedures require travelling to various regional and district offices (Skof, 2008, p. 172). Other hidden costs of formalization in Tanzania include red tape and harassment (UNDP, 2014, p. 11). To combat this, the Tanzanian government has undergone several policy changes and initiatives to address the regulatory and administrative barriers to formalization; however, the regulatory framework remains poor (*ibid*). The current regulatory environment in Tanzania requires an average of 10 procedures and 27 days to register a business at the state level (World Bank, 2019, p. 209). Additionally, given that the regulatory environment is centralized, this requires travel to Dar es Salaam where the Business

Registration and Licensing Agency is located (Skof, 2008, p. 173).

The tax rates in the country are considered high and arguably encourages the expansion of small businesses in the informal sector (*ibid*). According to a study conducted by the Foreign Investment Advisory Service (FIAS), “small businesses face a proportionately higher time and financial costs to comply with administrative requirements and therefore may not see any benefit of joining the tax net” (2006, p. 18). Additionally, businesses are required to pay these taxes at the time of registration. There is also the fact that the marginal tax rate is higher for small enterprises compared to larger firms (Skof, 2006, p. 173). Furthermore, a 2012 Eastern and Southern African Universities Research Programme (ESAURP) study found that only 38% of informal sector participants in Tanzania had a Tax Identification Number (TIN). A TIN is necessary for the payment of direct taxes. However, informal sector participants are not exempt from paying local taxes as they are required to pay daily fees to the respective municipalities in which they operate.

Recognizing the need to improve the regulatory environment, the Tanzanian government has pursued several policies to varying success. In 2001, the Tanzanian government implemented a series of tax reform policies seeking to simplify tax schedules. This reform was an effort to encourage small and medium enterprises to formalize. The initiative, however, was not successful, as information about the simplified tax schedule was not adequately disseminated USAID, 2005, p. 31. Other reforms include the National Strategy for Growth and Poverty Reduction (NSGR), known as MKUKUTA. MKUKUTA is the Tanzanian governments’ Poverty Reduction Strategy Paper (PRSP) and is a government programme with ‘broad frameworks’ that seek to ensure sustainable development and to reduce poverty. There have been two specific programmes of MKUKUTA that have addressed the informal sector have and improving the business environment in Tanzania. The first of which is the multi-donor funded Business Environment Strengthening for

Tanzania (BEST), which has centered on reforming business registration and licensing requirements (*ibid*, p. 33). BEST seeks to cut registration costs and mainstream the formalization process to strike the right balance between costs and benefits of inclusion within the regulatory framework. The second programme, MKURABITA, specifically centers, formalizing the “assets of the poor” in Tanzania (De Sotro, 1989). The focus is on finding ways to move people and their assets from the informal sector, and from the extra-legal realm, into the complete legal domain of the government. MKURABITA seeks to close the gap between the “two institutional realities in Tanzania, legal and extra-legal” (USAID, 2005, p. 38).

However, despite the different government programmes that have focused on addressing the regulatory and administrative barriers to formalization, the informal sector persists. Generally, the formalization efforts thus far attempted by the state have failed to yield the required results. A 2002 joint study commissioned by the ILO, UNDP and UNIDO on the informal sector in Tanzania found that:

On the technical front, many legal requirements are a leftover from colonial times or the previous socialist economic model, which only envisaged large enterprises. The reality of substantial, important and valuable economic activity taking place in small firms has not yet been reflected in the legal, regulatory and policy framework to any great extent. Both the TRA and the local government authorities are more preoccupied with the short-term objective of maximizing revenue from small firms than in strengthening their performance in the regional, national and local economy, the source of long-term prosperity

(ILO, UNDP & UNIDO, 2002, p. 3)

Unfortunately, many of the policies and programmes enacted to promote formalization in Tanzania are often not suited to those in the informal sector. Additionally, there has been little focus on supplementing regulatory reform with the provision of services or benefits as incentives to

formalize. Given that the informal sector remains an important site of income generation and survival strategies for most of the country's working poor, the approaches to formalization have failed to address the underlying issues of the sector's growth and persistence.

Cooperative movement in Tanzania

Cooperative history in Tanzania can be traced back to its colonial period in the early 20th century with the establishment of coffee cooperatives. The first native-run agricultural cooperative, Kilimanjaro Native Planters Association (KNPA), was founded in 1932 as a means for peasant farmers to sell and market their coffee. Additionally, it provided an avenue for peasant farmers to collectively challenge the lobbying efforts of European coffee growers and address issues of inputs and crop disease (Bargawi & Newman, 2017, p. 172). The success of these coffee cooperatives led to the creation of the Tanzania coffee board in 1952, and together they controlled the production, marketing and trade of locally grown coffee (Mkandya, Kilima, E.A., & Makindara, 2010, p. 38). Following Tanzania's independence in 1964, the government pursued state-led interventionist practices through the control of markets and the nationalization of various sectors (Mkandya et al., 2010). As part of this nationalization effort, already existing cooperatives were placed under government control. The government also expanded cooperatives into various sectors of the economy, all state-owned.

However, the government enforced expansion of cooperatives was largely unsuccessful and led to the elimination of cooperatives in 1976, only to be reintroduced six years later in 1982 (Baffes, 2005; Mruma, 2014). Unfortunately, since re-introduction, cooperatives have struggled to regain the success they exhibited before abolition. Cooperatives have suffered mounting debts, mismanagement of funds and corruption, and the integration of vertical and horizontal integration of foreign firms into markets once dominated and controlled by the cooperative movement

(Birchall & Simmons, 2010; Ponte, 2002). Furthermore, cooperatives have suffered reputational setbacks, as many people doubt the “relevance and motives of these institutions” (Maghimbi, 2010, p. 13).

The cooperative structure in Tanzania has changed at various periods in the country’s history, but the current structure is based on The Cooperative Societies Act established in 2003 (Maghimbi, 2010). Currently, the cooperative structure is organized into four tiers—however, it varies depending on the types of cooperatives in question. At the grassroots level are primary societies, followed by secondary societies (unions) and apexes, with federations operating at the national level (Sumelius et al., 2015, p. 98). While it is a four-tiered structure, primary societies and federations are recognized by law as the foundational structures of the cooperative movement. Therefore, secondary and tertiary cooperatives are optional, and their formation is up to the discretion of primary society members (Maghimbi, 2010; Mruma, 2014).

While the Cooperative Societies Act (2003) encourages the establishment of a variety of cooperative typologies in several sectors, two kinds of cooperatives dominate the cooperative movement in Tanzania. Most primary cooperative societies are Savings and Credit Co-operative Societies (SACCOS) and Agricultural Marketing Co-operative Societies (AMCOS). SACCOS are semi-formal financial institutions that provide loans to its members, most of whom are unable to access loans from formal institutions like banks. Membership in a SACCOS requires members to participate in a forced savings scheme to qualify for loans. Beyond loans, members of SACCOS benefit from education, insurances and other social protections (Maghimbi, 2010). Agricultural marketing cooperatives provide marketing services for its members, most of whom are smallholder farmers. The services include “distribution of credit, fertilizers and procurement of farm produce for national food stocks” (Anania, 2016, p. 89).

Historically, cooperatives have played a crucial role in Tanzania's economic development, particularly right after independence. The most successful period of cooperatives was in the 1960s and 70s pre-abolition when agricultural cooperatives produced surplus crops and contributed positively to Tanzania's terms of trade (Maghimbi, 2010, p. 4). Furthermore, cooperatives have provided services to its members that have allowed them to earn higher incomes, start or expanded their businesses, and improve skills and technical abilities.

Chapter 4: Data & Methodology

Fieldwork Data

This research project utilized a qualitative methodology composed of semi-structured interviews, a focus group discussion and participant observation. Data was collected in 2017 during a three-month period of fieldwork in Moshi Rural District, Kilimanjaro Region, Tanzania. My ability to access and conduct interviews with such a wide variety of actors was due to my partnership with a local NGO called Give a Heart to Africa (GHTA). The NGO has been a stable of the Moshi town community for over 10 years, providing non-formal education and vocational training to mature women who had had been unable to complete either primary or secondary school. Their support and networks made it possible to research and communicate with informal sector workers and cooperative members.

Nine semi-structured interviews were conducted with members of a craft cooperative, the manager of a primary coffee society, owners of registered micro enterprises, and professors at the Moshi University College of Co-operative and Business Studies (MUCCoBS). The focus group was conducted with a group of ten women who worked in the informal sector, most of whom were self-employed. The time spent in the field enhanced my understanding of the informal sector and the challenges of formalization in Tanzania. Additionally, a review of primary and secondary sources relating to the informal sector, formalization and cooperatives in Tanzania has supplemented the information learned from fieldwork. The primary and secondary sources have included conference proceedings, unpublished study results from MUCCoBs, journal articles and working papers. Furthermore, the websites of the Tanzanian Government and International Labour Organization have provided valuable documents that have provided much needed context for the topic at hand.

The first 5 weeks in the field were spent researching cooperative history and the Tanzanian cooperative context at the Moshi Co-operative college. There was extensive information available on the history of cooperative association in Tanzania, as well as research on active cooperatives in the Kilimanjaro region and beyond. During this time, I was also able to network with some professors and instructors at the college. They provided resources in the form of data, unpublished research and contacts of locally operating cooperatives. In addition to library research, participant observation was another useful tool. Most observation occurred through exploring the towns of Moshi and Arusha, as well as nearby rural areas in Moshi district. Through participant observation, the expansiveness of the informal sector and difficulties related to formalizing this sector became evident. Informal workers and economic activities were everywhere, mostly in the form of street vending and market stalls. In Moshi, the hustle and bustle of informal activities ranged from food and vegetable vending, roadside and market stalls, and itinerant traders selling anything from clothes to household items. Moreover, there was a wide selection of services is offered, ranging from street side pedicures to motorcycle transportation. In Arusha, the same activities were evident but on a wider scale. Altogether, these various income-generating activities constitute the urban informal sector of Moshi and Arusha. They are considered informal because they occur outside the purview of state regulation and labour laws.

The Kilimanjaro region has a long history of cooperative association and a strong cooperative movement. While most of the cooperatives in this region are agricultural or financial, there remains a decent range of cooperative typologies. These include dairy, craft, consumer and multi-stakeholder cooperatives. During my fieldwork, I conducted interviews with members of agricultural, financial and craft cooperatives.

The agricultural cooperative that I interviewed was a coffee primary society. Coffee is the

oldest and most popular cash crop grown on the slopes of Mount Kilimanjaro. Despite the presence of large scale coffee estates, smallholder farmers account for 90% of coffee production. Many of these smallholder farmers belong to primary coffee societies (Parrish et al., 2005, p. 179). Through one of the professors at the cooperative college, I was put in contact with the manager of a primary coffee society. The primary society consisted of four villages; members were smallholder farmers growing Arabica beans. The role of the primary society was to support members during the growing stage and the coffee curing stage.

During the interview with the primary society manager, my goal was to understand the rationale behind the formation of cooperative and the benefits afforded to its members. In response to the rationale behind associating as a primary society, the manager explained that members earned higher incomes and had access to farming inputs such as fertilizers, seeds and equipment. The benefits of cooperating allowed members to farm coffee, however, when asked if their incomes were enough to sustain their livelihoods, the response was no. According to the manager, while members earned higher incomes, they still needed other revenue streams to supplement their income. For most members, coffee was not the only crop they grew. They also relied on incomes from fruits and vegetables, like bananas and maize, sold in local markets. Other income activities included growing cattle for meat and milk. Some members worked formally in Moshi town; others worked informally or temporarily in the town as well.

When asked to elaborate further on the income from coffee beans, the manager stated that for most smallholder farmers, coffee is an investment as it takes three years for the plant to yield beans. Members could only rely on income from coffee production during the harvest months—February to June. Otherwise, members needed to engage in other income generating activities.

Given that primary societies have the legal recourse to form unions, some members of the

primary society were members of the local coffee union—the Kilimanjaro Native Cooperative Union (KNCU). However, not all members of the primary society were members of union. KNCU represents over 92 primary societies and has been fair trade certified since 1993. The union has leveraged this certification to recruit more small-holder farmers to associate as well as raising the profile of Kilimanjaro coffee beans (Parrish et al., 2005; Ponte, 2002).

Members of the union reported that the benefits of being in the primary society and the union was that they received revenue for their coffee on time. Another benefit of being a member of KNCU was the ability to get premiums tied to Fair Trade, however, not all members get the premium. This is because only farmers that are ready at the time of fair trade fulfilment contract can benefit from the additional 100 Tanzanian Shillings (Tsh) per kilogram of coffee beans.

Another cooperative that I interviewed during my time in the field was a craft cooperative in Moshi town. Consisting at the time of 4 members, they emphasized how much they liked the cooperative structure and preferred it to previous working environments. The cooperative members highlighted the financial stability associated with being in a cooperative and reliability of a paycheck. One member explained that before the formation of the cooperative, she had struggled to find work opportunities and ensure a stable income each month.

When asked why they had chosen to associate as a cooperative, they highlighted the importance of having autonomy over their work and creating an environment where they felt safe and comfortable. They emphasized the importance of having physical space where they could work and sell their products; they rented a storefront near the town center. In response to a question about their membership structure, they confirmed that membership was open, but new members would be required to pay in and have craft-making skills. However, they confessed to liking the small size of their cooperative and were not too keen on having too many members. They told an

anecdote of how they had recruited more members' years prior, but there were often too many varying interests. As a result, it had been difficult to work harmoniously in the best interest of the cooperative.

As the interview moved on to ask questions regarding registration, the members recalled that it was a laborious process. They found the process bureaucratic, consisting of multiple unnecessary steps and long wait times. For example, it had taken a year to receive a TIN. Comparatively, the process for getting their municipal license was much shorter, taking only a month. They found that the process of registration was confusing, but conceded that it was necessary. All members understood that operating without a license meant significant fines or risk of being shut down. When probed about the process of registering as a cooperative specifically, they explained that they were not registered as a coop. Instead, they were registered as a business under one member's name. According to the members, registering as a business had been a more straightforward and less expensive undertaking. When asked why they had done it that way, they said that Tanzania Revenue Authority (TRA) makes the recommendation to register as a business with one owner. Nonetheless, they operated as a cooperative, but were not legally identified as one.

To understand the differences in formalizing between cooperatives and small enterprises, I interviewed a participant who owned a spa and employed four people. When asked about the registration process, they described a much faster process. For them, getting a TIN took three days, while the municipal license took one day. When asked about the benefits of being formal, they highlighted being compliant with the law and not having to worry about being shut down. They said that the government was seriously enforcing registration laws for enterprises. They attributed

stronger enforcement of enterprises being registered to recent changes in political leaders¹. They shared an anecdote of several enterprises being shut down the week prior due to a lack of registration and papers. When asked to elaborate on how the government could enforce these laws, the participant spoke of municipal workers and TRA agents assigned to each street. These workers and agents were familiar with all workers and businesses on their respective streets, therefore evasion was difficult.

Additionally, this participant voiced the opinion that the tax system favoured big business to the detriment of smaller enterprises like theirs. When asked about their perception of those working in the informal sector, they responded that most workers were not well educated and lacked skills. However, they did concede participation in the informal sector was necessary for survival as there were not enough formal jobs. As the interview progressed to discussing cooperatives, the business owner revealed that they were a member of a local SACCOS. The start-up money for spa had been loaned through SACCOS. According to them, the banks had required collateral to loan them the money; they did not have collateral at the time. SACCOS allowed them to borrow money and invest in the future. The participant stated that SACCOS are more accessible than banks and offer membership benefits like education in the form of financial literacy.

To join SACCOS, the potential member is required to pay a in \$250,000 Tsh fee; this can be a one-time payment or over the course of time. The participant spoke of other financial cooperatives like VICCOBA, which are more informal and tend service more rural dwellers. Unlike SACCOS, there is no buy-in requirement. VICCOBA caters to owners of microenterprises and self-employed persons such as street vendors and itinerant traders.

¹ A recurring comment was that the newly elected government, headed by president John Magufuli, was stricter about the informal sector and there was greater emphasis on enforcement of registration and licensing.

To complement the information gathered on cooperatives and formalization, I conducted a focus group discussion with the women who received non-formal education from GHTA. Ten women participated in the focus group discussion, all eked out livelihoods to varying degrees in the informal sector. They highlighted the difficulty of finding formal jobs in Moshi, noting issues of education levels, difficulty getting a certification, and what they generally perceived as a formal work environment that required secure social networks. They said that social capital played an outsized role in getting formal job opportunities and that knowing the right people was crucial. For many, working in the informal sector was the last resort, though some were enterprising. One participant made soap in her house and sold it to local hotels and spas. Others sold fruits and vegetables in the local markets. Some participants sold used clothing in market stalls.

However, several women noted the risks in operating informally. They said that the government had been strictly enforcing registration. Also, most informal vendors and workers were required to pay daily levies for working informally. One participant had a parent that worked for the municipality collecting payments from informal vendors. The municipal workers, called *Mtoza Ushuru*, patrolled Moshi town every day, collecting fees from informal vendors and workers. The fees ranged between \$300 – 1000 Tsh and was considered costly to the average vendor. The focus groups participants found that this was a high cost to pay but they said that not all informal workers/vendors get tax collected by *Mtoza*. Payment and fee collection was largely dependent on the type of enterprise and work involved. For example, mobile informal workers could evade paying the fees as they rarely operate in a fixed place. Comparatively, enterprises and workers with fixed stands were not as fortunate and subject to fee collections.

In discussing cooperatives, many said that they understand a coop as collection of people working together and the attainment of rights. While several participants expressed favourability

to cooperative association, many still preferred the idea of starting their own business and being able to manage themselves and their resources. Several participants stated that they found working for other people difficult and lamented the lack of rights as an employee. While acknowledging that there were benefits to cooperative association, for many of the participants, that option was not at the forefront of their minds.

Data on cooperatives

Central to examining how cooperatives can contribute to formalization in Tanzania is the extent to which they are prevalent and their typologies. AMCOS and SACCOS are the lion's share of cooperative types in Tanzania and account for the largest membership base. Furthermore, members of AMCOS are also members of SACCOS as the two cooperative types from linkages. The estimated number of people in Tanzania that are dependent on the cooperative movement is just shy of 8 million (Maghimbi, 2010, pg. 27). Table 4.1 shows the size and scope of cooperative types and membership in Tanzania as of 2011. While the number of registered cooperatives and membership have increased since the Cooperative Societies Act of 2003, the movement still pales in comparison to the pre-abolition era. However, the trends point towards growth and the growing relevance of cooperatives to the Tanzanian socio-economic context.

Table 4.1: Status of registered cooperative societies in Tanzania as at June 2011

Type of cooperative	Number of cooperative	Membership
Agricultural Marketing Cooperative Societies	2819	845,700
SACCOS	5314	1,552,242
Industrial Cooperative Societies	161	3,220
Consumer Cooperative Societies	107	10,700
Livestock Cooperative Societies	211	21,000
Fishery Cooperative Societies	122	6,100
Service Cooperative Societies	213	21,300
Housing Cooperative Societies	29	1,450
Mining Cooperative Societies	72	3,600
Irrigation Cooperative Societies	114	5,700
Others	361	36,100
Total primary Co-operatives	9523	2,506,412
Cooperative Unions	40	-
Apex	1	-
Federation	1	-
Total co-operatives	9565	2,506,412

Source: Ministry of Agriculture, Food Security and Co-operatives, 2011, Dodoma

Table 4.2 shows the composition of cooperatives by district in the Kilimanjaro region. Data shows an increase in SACCOS and AMCOS and a decline in other types of cooperatives.

Table 4.2: Registered Primary Co-operative Societies by Type and by District, 1998 and 2012

District	Type of Co-operative							
	1998				2012			
	AMCOS	SACCOS	Consumer	Others	AMCOS	SACCOS	Consumer	Others
Moshi (M)	0	19	16	13	0	58	1	9
Moshi	40	31	2	4	41	56	5	11
Same	15	1	2	1	42	29	0	23
Mwanga	10	6	1	1	14	21	0	6
Hai	41	10	2	6	41	31	2	11
Rombo	16	11	2	5	16	16	0	1
Siha	0	0	0	0	12	10	0	1
Total	122	78	25	30	166	221	8	62

Source: Kilimanjaro socio-economic profile (unpublished)

Chapter 5: Discussion & Conclusion

Analyzing the potential of cooperatives as an instrument of formalization requires examining the nature of the informal sector, assessing the benefits of formalization of informal sector participants, and the types of cooperative enterprise in question. A review of the literature has demonstrated the heterogeneity of informality, formalization practices and strategies and cooperative structure. Therefore, as a tool for formalization, cooperatives need to be assessed in terms of the socio-economic and political contexts for which they are considered as an approach.

Cooperative typologies

A review of the literature on cooperatives and the informal sector has revealed that the role of cooperatives is generally tied to service provision (Birchall, 2012). Around the globe, very few cooperative typologies or structures lend themselves to formal job creation. Despite their prominence in the literature, worker cooperatives represent a tiny fraction of the cooperative movement worldwide (WIEGO, 2014, p. 10). In a worker cooperative, members can enjoy the benefit of employment that is not only compliant with labour laws but allow for “self-management and self-ownership” (*ibid*). However, the de facto paucity of worker cooperatives is unfortunate as they do provide a direct route to formal employment for members. Given the scarcity of worker cooperatives, the notion that cooperative association can generate significant formal employment is aspirational at best.

The strength of cooperative association lies in their ability to provide services to those otherwise unreachable or ineligible from government resources. As is the case in Tanzania, cooperatives have been crucial to improving the lives and opportunities of those shut out from formal institutions. Unfortunately, much like the rest of the world, cooperatives have not generally

lent themselves to job creation in Tanzania. Instead, cooperative employment has generally been linked to day to day operations of the cooperatives themselves—especially at higher tier structures such as apexes and federations (Maghimbi, 2010, p.27). Furthermore, there are few positions associated with such jobs, even though the cooperative movement in Tanzania is 8 million strong. Since SACCOS and AMCOS are the most prominent types of cooperatives in Tanzania, the main benefits of the cooperative movement have not been employment but service provision. While the services offered by both SACCOS and AMCOS can and do improve the income generation abilities of its members, there is no evidence that it translates to formal employment or decent work. My experience in the field demonstrates the ability of cooperatives to provide services that lead to formal enterprises, as was the case with the spa owner. However, their story is the exception rather than the norm. For the most part, members of AMCOS and SACCOS continued to operate informally, with the added benefit of being able to access credit, loans and secure higher incomes.

The limits of cooperating: a look at AMCOS & SACCOS

In the case of the AMCOS, of which primary coffee societies are the most prevalent, there are several issues at play. Looking at the example of smallholder farmers in Tanzania who face a variety of issues where it concerns coffee production, we can analyze how cooperative association improves incomes but does not lend to formality. In Tanzania, smallholder farmers have had to contend with a steady decline in coffee bean prices over the last few decades.

Given that smallholders are responsible for the bulk of coffee production, most interventions are aimed at improving varying aspects of smallholder farming. Historically the cooperative model in Tanzania has improved the livelihoods of its smallholder members; however, the take-over by the state and market liberalization in the 1980s and 90s left most coffee cooperatives insolvent (Baffes, 2005; Winter-Nelson & Temu, 2005; Zehner, 2002). Since then,

much work has gone into repairing the governance structure and perception of cooperatives. However, the legacy of SAPs and commodity market liberalization has led to the vertical integration of Multi-National Corporations (MNC) into the Tanzanian coffee industry, which has meant that cooperatives now compete against corporations in coffee exports (Ponte, 2002, p. 269). The combination of the decline in coffee bean prices and competition from MNCs has created a negative feedback loop of low prices, low incentives, and poor quality beans. This has ensured that smallholder coffee producers in Tanzania cannot rely on coffee production as a sustainable livelihood. Primary societies play an important role for smallholder farmers because they provide a platform for collective action, information, access to inputs, and, most importantly, specialty/niche markets (Parrish et al., 2005; House of Commons, 2007).

With the global coffee economy becoming increasingly unequal in terms of value and wealth accrued, the access to specialty markets provides an avenue in which coffee producers can eke out higher incomes. In Tanzania, these markets include fair trade and niche markets in Japan for their Arabica mild beans (Ponte, 2002). Generally, cooperatives and other organizations participating in fair trade sell only a portion of their green beans as fair trade; the remainder is sold on the conventional market where the prices are volatile and benefit coffee corporations (Milford, 2004; House of Commons, 2007; Reynolds, 2002). According to Reynolds (2002) on average, only 20% of participating organization's coffee beans are eligible to be sold as fair trade (p. 11). A study conducted by Parrish et al., (2005) found that in the 2002/03 season, KNCU sold a third of its beans as fair trade, with the rest sold on the conventional market. The advantage of exporting fair trade coffee and the price premiums provided KNCU with an additional 38% of financial value. However, the financial benefits of fair trade coffee were appropriated at the organizational level. Members voted democratically about how the use of funds and this varied amongst the

primary societies (*ibid*, p. 184). Time spent in the field reflected the reality that despite the fact of benefiting from a Fair-Trade premium, members of primary coffee societies still needed supplemental income.

Other scholars writing on Fair Trade have found similarly that the financial benefit of fair trade is often leveraged by the organization, rather than by individual smallholder farmers (Raynolds, 2002; Milford, 2004). Existing research on agricultural cooperatives—especially those that trade through fair trade channels—have argued that the most significant benefits of cooperating do not come in the form of added financial value. Instead, cooperating allows for greater access to information, markets, and through tangible projects aimed at improving varying aspects of smallholder production or community life (Raynolds, 2002; Parrish et al., 2005; Milford, 2004). Francesconi & Ruben (2014) note that Fair Trade certification offers only temporary price incentives and these incentives tend to diminish over time as membership to cooperatives and other community-based associations increases as a response to higher prices (p. 280).

There is also the fact that members of primary societies do not necessarily stop participating in the informal sector. Cooperative association does not preclude informal activity, in the case for most primary society members, it allows for marginally better incomes and community development through projects leveraged at the organizational level. Therefore, while the employment quality for primary society members would perhaps fail to meet the requirements of decent work, their outcomes are higher than other smallholder farmers not involved in a cooperative. Other benefits include agricultural inputs (fertilizer, disease-resistant seeds), education on best farming practices and improved coffee bean quality.

An essential aspect of the outcomes coffee primary societies is the global coffee trade itself, and a discussion cannot proceed without understanding the systems that govern the ability for

smallholder farmers to eke out decent incomes. Most research that has looked critically at cooperative association and smallholder farmers have found that it is not a solution to the growing inequality between producers and coffee corporations (Raynolds, 2002; Parrish et al., 2005; Francesconi & Ruben, 2014).

At best, cooperatives provide small tangible and intangible economic benefits to smallholder producers but offer no direct means by which to tackle the growing disparity of wealth in the coffee economy. Instead, they operate necessarily within the same market and commodity chain systems that perpetuate unequal terms of trade. The conglomeration of power and wealth of coffee in the hands of coffee oligopolies is not the by-product of happenstance, competition or market efficiency, but a result of carefully crafted policies that began with powerful states in the global North (Fridell, 2014, p. 8). Bargawi & Newman (2017) add to this point by arguing that commodity prices are not the result of efficient or effective markets, but rather but are impacted by the context of historical, cultural, and political processes by the institutions involved. The market exists today as the results of particular actions and interests taken up by various strong states to the disadvantage of others (Bargawi & Newman, 2017, p. 166).

Similarly, membership of SACCOS and VICCOBA in Tanzania does not translate directly into formal employment or registering informal enterprises with the state. Instead, both cooperative types provide access to credit and loans for members who are unable to access formal financial institutions. In some situations, as was the case with the spa owner, access to SACCOS loans can lead to the creation of formal enterprises that lead to formal employment opportunities. However, for most members, SACCOS provides the starting capital to start their own small and micro-enterprises or to expand already existing ones. Despite this, the benefit of SACCOS has been immense in Tanzania. The growth of SACCOS in the country is reflected in “deposits and

savings accumulation, capitalization and loan portfolios” (Sumelius et al., 2015, p. 42). They have become a great financial resource for most in the informal sector and expanded access to the working poor.

As a tool for formalization, cooperatives can be used quite narrowly. While cooperatives are formal enterprises, cooperative typology is important to ensure formal employment. Furthermore, membership of a cooperative does not always translate to decent work, nor does it lead to decreased participation in the informal sector. In Tanzania, most members of cooperatives remain working in the informal sector. The value of cooperatives in the Tanzanian context has not been formalization, but rather the provision of services and extension of resources. Most of Tanzania’s informal sector workers and enterprises operate out of necessity; participation stems from exclusion from the formal sector instead of voluntary choice.

Formalization

The regulatory environment in Tanzania remains challenging, even for cooperatives. Despite government efforts to streamline the process, formalization remains a costly and arduous process with little perceived benefits. Most of the government policies and briefings regarding regulatory and administrative reform have often highlighted the importance of formalization in terms of expanding the tax revenue base. Little has been written about the potential benefits for those who choose to formalize. In fact, there is little in the way of policy and programs that underline the benefits that participating in the formal sector can bring. Overall, concern has often highlighted underemployment, poverty reduction and a move towards decent work.

The lack of specific government policies and programs aimed at addressing the informal sector has generally led to the implementation of several donor-funded programs with competing

ideas of how to approach the informal sector. While it is true that the regulatory environment in Tanzania has needed reforming, there has been an outsized emphasis placed on its importance as a solution for the informal sector. Donor funded programs like BEST and MKURABITA. have dominated the conversation regarding state intervention, even though they are grounded in a legalist perspective of the informal sector. The reality for most informal sector workers and enterprises in Tanzania is one of survival, not necessarily evasion, which falls under a Structuralist perspective of informality.

While most policies and programmes aimed at the informal sector in Tanzania acknowledge the role of SAPs, trade liberalization and withdrawal of state on the informal sector, very few have discussed the role of strong state involvement. The onset of SAPs in Tanzania led to a significant decrease in the public sector; the conditionality of currency devaluation led to decreasing real wages, and withdrawal of state left many in the country without a safety net. Addressing the informal sector in Tanzania cannot move forward without addressing the role that weakening the state through economic liberalization has had on the labour market (Wuyts, 2001).

Since then, the country has mainly depended on donor-funded programmes and aid to assist in service provision for its most impoverished. There has been a growing NGO sector in Tanzania to cover the gaps left by state withdrawal. The rise of cooperatives, which has been lauded and supported by the government, has led to the expansion of services and financial security for Tanzania's working poor. However, discourse surrounding their role in formalization has tended to overestimate the ability of cooperative governance to solve the issues of the informal sector.

Conclusion

The spread of globalization, neoliberal policies and structural adjustment programs have been accompanied by vast increases in informal and casual employment, especially in the global south. Today, most contemporary global labour force operates within the informal sector. Consequently, approaches to formalizing the informal sector have become more relevant in development policy. One such approach that has been increasingly discussed are cooperatives. Cooperatives are a useful and practical tool of community development through the principles of collective bargaining/organization, democratic governance and prioritization of labour over capital. In conditions of little to no economic development, where the formal labour market can only absorb a fraction of the workforce, and where the general socio-economic conditions are poor, cooperatives seem to feature highly as not only a talking point but a viable policy solution.

Cooperatives are strong enterprises whose ability to bring together various actors, and collectively bargain gives them the potential to be radical agents of social and economic change. However, the mainstreaming of cooperatives in development has tended to misuse this kind of association by suggesting them as remedies to unequal economic systems and weakened state and governance structures. However, in examining the ways the cooperative movement can be an instrument for formalization in Tanzania, this research concludes that their role is exaggerated.

Most cooperatives worldwide are engaged in service provision for their members. The provision of formal employment has not been the role that cooperatives have played in Tanzania. Instead, they have provided: agricultural and marketing services to primary societies engaged in cash crop production, access to credit and loans to those otherwise shut out from formal financial institutions. The provision of the above services has been vital to most of Tanzania's working poor, who necessarily engage in the informal sector to survive. Furthermore, current approaches to

formalization in Tanzania do not match the realities of those working in the informal sector. Many of the reforms undertaken by the government have tended to focus on regulatory and administrative barriers. This focus has masked the underlying issues relating to the nature of the informal sector in Tanzania and the reason for its persistence. Cooperatives offer an ideal platform for the ILO's decent work agenda. However, cooperatives as an instrument of formalization are overstated, and cannot be successful if the policies and structures that promote the growth of the informal sector continue unaddressed. The continual reliance on donor-funded programmes by the state, and the inability to confront the policies of trade liberalization leave the state with few options in which to address the ever-growing informal sector. What remains are technical fixes in the form of cooperative association and regulatory and administrative reforms that cannot adequately account for the withdrawal of state services and provisions for most of Tanzania's working poor.

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