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# **Structural Barriers, Constraints, and Urban Youth Employment**

**The Case of Ilala Municipality, Dar-es-Salaam**

By Christopher S. Awinia

Research Report 14/2

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# 1

## Background to the Study

### 1.1 The Problem

The growing rural-to-urban migration, which is dominated by young people aged 15–35, is increasing the urban youth unemployment rate and driving the escalation of urban poverty in Tanzania.<sup>1</sup> Using the national definition, the employment rate for urban youth aged 15–24 and 25–35 was 39.1 per cent and 69.5 per cent, respectively, in 2006 (NBS, 2007: 24). In Dar-es-Salaam, the country's main urban centre, the total unemployment rate for those aged 15 and above was 31.5 per cent. Urban unemployment rates are consistently and significantly higher in urban areas compared to the national average of 11.7 per cent. Youth unemployment rates were also higher among those aged 15–24 (14.9 per cent) and 25–34 (11.8 per cent), versus those aged 35–64 (9.6 per cent) and 65 and above (9.2 per cent).

The combination of 'urban' and 'youth' effects leads to double deprivations that come to bear on growing trends of urban youth unemployment. This means that urban youth experience deprivation first because they are located in urban areas and secondly because they are young. Although the Integrated Labour Force Survey of 2006 does not provide disaggregated age data for unemployment in Dar-es-Salaam, its reported youth-to-adult unemployment ratio for Tanzania as a whole was 1.4 (NBS/ILFS, 2006). In other words, youths, when compared to adults, are nearly one and a half times more likely to be unemployed. This unemployment ratio might be even higher in Dar-es-Salaam, given the higher proportions of unemployed youth in urban areas compared to other age brackets (35 years and older).

This study investigates the constraints that urban youth face in their quest for employment in the urban mainstream economy. RAWG (2012) warns that the unincorporated informal enterprises created by rural-to-urban youth migrants will result in the creation of informal urban enterprises with low levels of labour productivity. These informal enterprises will limit the prospects for the country to develop a more diversified economy (from agriculture), where industry, through MSMEs (micro and small enterprises), will play a larger role in the economy. RAWG (2012) argues for *business formalisation* – i.e. including legal and regulatory frameworks (licensing, business formalisation, access to business premises, and taxes), infrastructure (transport, energy, and ICT), registration of land, access to finance, building a culture of enterprise, and provision of business support services – to rectify this situation.

This study argues that the recommendations made by RAWG (2012) neglected to account for the constraints that formalisation imposes upon urban youth with low productive capabilities. It is an established fact, as stated by Kweka and Fox (2011), that a regulatory framework promoting business formalisation and restricting enterprises (through licensing and other measures) constrains the majority of unskilled youth from directly participating in the urban economy. As such, formalisation alone cannot serve as a strategy for a job-rich and inclusive urban growth strategy. Rather, formalisation excludes the majority of the less capable urban youth simply because MSMEs are by definition and in and of themselves inaccessible to a majority of the urban youth. Indeed, Stevenson and St-Onge (2005) provide a Tanzanian government definition of micro-enterprises as having 1–4 employees and capital investments ranging up to TShs 5 million (US\$ 3,125),<sup>2</sup> which is far beyond the reach of many urban youth.

Available data presented by NBS/ILFS (2007) and Kweka and Fox (2011) caution that business formalisation can lead to a denial of an economic safe haven and self-employment opportunities

<sup>1</sup> According to the Tanzania Youth Policy, the national definition of youth is the population aged 15–35. Tanzania's official unemployment statistics are also desegregated into ages 15–24 and 25–34 (Jamhuri ya Muungano wa Tanzania, 2007: 9).

<sup>2</sup> At an exchange rate of 1 US\$ to TShs 1600.



to urban youth with low productivity capabilities. The authors show that business formalisation measures, such as mandatory licensing regimes, taxation, and strict requirements for unincorporated enterprises to conduct trade on licensed business premises, can deny the *legitimacy* for young people to take advantage of employment opportunities through their urban enterprises. By explaining that the relationship between productivity and enterprise formality is complex, RAWG (2012) ultimately reconciles itself with the argument that formalisation is regressive. It accepts that having legal status or operating a licensed business does not, by itself, lead to better access to services and higher productivity.

### **1.1.1 Location of youth employment opportunities in the prism of structural constraints**

NBS/ILFS (2007) sheds light on the location of unemployed urban youth in Tanzania. Identifying their location will enable municipal authorities to monitor where and how young people are constrained from taking full advantage of gainful employment opportunities. Youth employment in urban areas is concentrated in informal markets (Omari, 1995; RAWG, 2012). Locating sources of urban youth employment in informal markets can be done with the assistance of operational definitions provided by NBS/ILFS (2007).

In Dar-es-Salaam, 34.4 per cent of employment is derived from service workers and/or shop sales workers, while 20.5 per cent is derived from elementary occupations (NBS/ILFS, 2007).<sup>3,4,5</sup> The same source ties the location of these employment types to informal markets. NBS/ILFS (2007) provides a description of service and elementary occupations as 'household enterprises', also termed as 'unincorporated enterprises' owned by households (NBS 2007: 7).<sup>6</sup> A household or unincorporated enterprise is defined as having the following four distinguishing qualities:

1. *They do not have separate legal status outside the household members who own them.*
2. *They do not have complete set of accounts which permit clear distinction of production activities of the enterprise from the other activities of their owners and the identification of flows of income and capital between enterprise owners.*
3. *The enterprise may or may not employ paid labour and the activities may be carried inside the owner's home.*
4. *All or at least some of the goods or services of the business are produced for sale.'*

(NBS/ILFS 2007: 33)

<sup>3</sup>The trend is similar for other urban areas. Not including agricultural and fishery workers, the next leading occupational category in other urban areas was service work and shop sales work (23.8 per cent) followed by elementary occupations (13 per cent). Agricultural and fishery work stood out in other urban areas because of the rural/urban interface common in many other urban areas.

<sup>4</sup>For rural areas, the leading occupational category that provided employment was agricultural and fishery work (88 per cent). Simple empirical analysis of employment statistics provided by NBS/ILFS (2007) shows that youth migration from rural to urban areas means the young migrants are shifting from a predominantly agricultural and fishery occupational category to service sectors in the urban areas.

<sup>5</sup>It is evident that ignoring the informal service sub-sectors and adopting the productive MSME export-oriented sector as a strategy for urban job-inclusive growth is simply ignoring the 'elephant in the room'.

<sup>6</sup>Throughout the study, the terms 'household enterprises' and 'unincorporated enterprises' will be used as substitutes for the term 'informal sector'. The reason for this substitution is that 'informal sector' as an operational term is so broad and therefore fails to capture the location and dynamics of the unemployed urban youth. The SME policy for Tanzania, for example, identifies enterprises working in the informal sector as MSMEs. Micro-enterprises are those engaging up to four people and having TShs five million in capital. The truth is that the majority of the urban youth under review do not reach anywhere close to TShs five million in capital. The significance of this study is that it uses the terms first used by NBS/ILFS (2007) to understand the dynamics of youth employment, not in the informal sector, but along the 'urban pavement' areas through their unincorporated enterprises.

NBS/ILFS (2007) also mentions the occupational sub-category of self-employed (non-agriculture) workers without employees as 'representative of the majority of service workers and/or shop sales workers and elementary occupations.'<sup>7</sup> In Dar-es-Salaam, for example, the occupational sub-category of self-employed (non-agriculture) workers without employees accounted for employment in service work and shop sales (34.4 per cent), crafts and related work (13.8 per cent), and elementary occupations (20.5 per cent).<sup>8</sup> According to NBS/ILFS (2007), 93.2 per cent of self-employed (non-agricultural) workers without employees were located in the informal sector (effectively meaning unincorporated household enterprises). Some 83.8 per cent of residents in Dar-es-Salaam said self-employment (non-agricultural) without employees served as their main source of employment (NBS/ILFS, 2007). It follows that unincorporated household enterprises, service work, and shop sales work, as well as self-employed (non-agricultural) work without employees, define the areas of youth employment in urban informal markets. For example, 13.8 per cent of those who were employed in elementary occupations were young people aged 15–24 years, while 7.4 per cent were between 25–34 years of age.

The importance of the informal sector, sometimes referred to as 'urban pavement economy', also is underscored by Mugoya (2012), who states that 30 per cent of the total economically active labour force in Dar-es-Salaam was employed in the informal sector (Maliyamkono *et al.*, 2012: 168–169). NBS/ILFS (2007) finds that 75.4 per cent and 46.4 per cent of households in Dar-es-Salaam and other urban areas, respectively, were engaged in UHUEs (Urban Household Unincorporated Enterprises) either as main or as secondary activities.<sup>9</sup> The data also reveals that 66.1 per cent of them used UHUEs as a primary source of employment.<sup>10</sup> The importance of the informal economy is underscored by RAWG (2012), which estimates that the informal economy accounts for 94 per cent of the workforce in Tanzania (ILO, 2010; RAWG, 2012: 126).

The present study finds a strong correlation between increased urban youth employment and the following occupational sub-categories: (a) unincorporated household enterprises, (b) service workers, and (c) elementary occupations, including self-employed (non-agricultural) workers without employees. These categories account for employment opportunities for young people in Dar-es-Salaam and other urban areas.<sup>11</sup> This is substantiated by Omari (1995), who finds that 73.3 per cent of those employed in the informal sector were in the 18–35 age group. NBS/ILFS (2007) also states that young people aged 15–35 accounted for 59 per cent of people who undertook UHUEs as a main economic activity and 49 per cent among those who took it as a secondary activity (NBS/ILFS, 2007: 44).

## 1.2 Objectives of the Study

- 1) To assess the main constraints faced by UHUEs in the wake of business formalisation and regulation of the informal markets.
- 2) To suggest strategies for eliminating the constraints and enhancing urban youth employment through UHUEs.

<sup>7</sup> NBS/ILFS (2007) identifies occupational sub-categories that are active in the informal sector as (a) paid employee, (b) self-employed (non-agricultural) with employees, (c) self-employed (non-agricultural) without employees, and (d) unpaid family helper (non-agricultural).

<sup>8</sup> Together these make up 68.7 per cent of the sources of employment in Dar-es-Salaam city.

<sup>9</sup> This is derived by adding the percentage distribution of the currently employed population from NBS/ILFS, 2007: 26.

<sup>10</sup> This means their livelihoods solely depended on UHUEs.

<sup>11</sup> This signifies that 'services' are an important source of employment in urban areas.

### **1.3 Significance of the Study**

The study is significant in that it sheds light on what can be done to increase the prospects for expanding urban youth employment. It contributes to understanding and developing strategies to remove constraints facing this occupational sub-sector, and thus will contribute to enhancing youth capabilities and expanding opportunities for urban youth employment. The study's findings aim to influence urban municipal policies and regulatory reforms to recognise, facilitate, and create an enabling environment for urban youth to increase self-employment through their unincorporated enterprises. This will contribute to reductions in urban unemployment and income poverty levels among young people.

The study's significance is also found in its challenge to prevailing assumptions related to business formalisation of informal markets. The study acknowledges that formalisation can improve productivity, especially for MSMEs and in some cases for UHUEs. However, aggressive application of business formalisation measures may negatively affect UHUEs, which provide a major source of self-employment for Tanzania's urban youth.

Although the informal sector in Tanzania has already been widely studied, the present investigation is different in that it uses new operational definitions provided by NBS/ILFS (2007). These operational definitions enable the study to decompose the informal sector in order to conduct a more direct and deeper analysis of occupational categories – ones more representative and depictive of the locations of urban youth employment in the space of productive capabilities. As a result, the study was able to implement a more direct analysis of the constraints faced by the UHUEs operated by youth in urban informal markets. The present study will add substantially to current understandings of how the legitimacy<sup>12</sup> of UHUEs, and thus the productive capabilities of youth, is affected by business formalisation and regulation requirements, such as licensing, business premises requirements, banking regulations, and accessibility to services.

### **1.4 Research Question**

The study will be guided by the following research question:

What are the main elements of business formalisation regulations that constrain productive capabilities and employment prospects among young people through their informal enterprises in urban areas? This main question is then followed by two sub-questions:

- (a) To what extent do business formalisation regulations in the informal sector limit the legitimacy of informal enterprises and urban youth employment?
- (b) What are the main factors that prevent some young people from acquiring productive capabilities and self-employment in the informal market?

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<sup>12</sup> The concept of legitimacy is wide and far-reaching. First used in this context by Kweka and Fox (2011), the concept denotes (based on my own interpretation) that criminalising trading activities by imposing arbitrary rules leads to the lack of legitimacy to trade in preferred areas. However, through pro-poor urban business reforms, UHUEs could be legitimised and contribute to urban youth employment and poverty reduction.

# 2

## Literature Review and Conceptual Framework

Human capabilities are defined as the capacity of individuals or groups to access available entitlements and/or endowments that allow them to function for reaching valued ends (Sen, 1999; Nussbaum, 2000; Nondo and Coetzee, 2002; Robeyns, 2005; Awinia, 2013).<sup>13</sup> The capabilities of individuals are contingent on their ability to transform entitlements into different sets of functions. It turns out that the same individual, with access to the same set of entitlements and/or endowments, can achieve quite different functional levels, depending on the extent to which various internal and external factors facilitate or constrain the individual from acting in ways that achieve valued ends. The facilitating and constraining factors could be actions such as municipal trade and business policies and regulations, as is the case for the urban unemployed youth of Dar-es-Salaam.

Focusing on urban youth unemployment from a capability approach entails analysing with the aim of removing the identified internal and external barriers that constrain individuals from functioning in ways that achieve valued ends. In so doing, addressing urban youth unemployment from a capability approach contributes to expanding opportunities and *freedoms* to develop. Being constrained in this way forms the basis of conceptualising poverty as being deprived of capabilities.

It is an established fact documented by Kweka and Fox (2011) and Awinia (2013) that urban youth who seek to alleviate their income and non-income poverty through self-employment within the informal urban markets of Dar-es-Salaam, along with other urban areas, find themselves deprived of the capabilities to reach valued ends. The youth are constrained by a myriad of municipal regulations, business by-laws, and associated administrative restrictions (Kweka and Fox, 2011; RAWG, 2012). Affected youth are prevented from accessing primary entitlements such as business premises. This in turn hinders them from achieving secondary functions, such as securing loans and accessing microfinance. As such, the youth's abilities to obtain gainful employment are constrained. Moreover, such constraints inhibit accumulation of transformative capabilities that would lead to the ideal of inclusive, job-rich urban growth, as envisaged by RAWG (2012).

Omari (1995) explains the relationship between UHUEs in the informal economy and the human capabilities to development. He argues that due to low capability levels, people who migrate to urban areas in search of jobs in the formal sector find themselves 'jobless'. As a result, UHUEs often serve as a first option for urban youth to obtain employment because of their relative ease of entry, buttressed by their reliance on low capital indigenous technology, individual or family enterprise ownership, small-scale operations, and labour-intensive and adapted technology. Thus, UHUE managers can draw on skills acquired from outside the formal school system and regulated markets. This partly explains why the majority of youth involve themselves in informal, unincorporated enterprises in order to secure self-employment (NBS/ILFS, 2007: 46). This is evidenced by NBS/ILFS (2007), which shows that the majority of people who undertook UHUEs as a main activity started them because they could not find work (35.6 per cent), because their families needed additional income (31 per cent), or because self-employment provided good business opportunities (14.1 per cent).

In contrast to UHUEs, Omari (1995) describes formal enterprises as characterised by difficulty of entry, frequent reliance on imported, corporate ownership, and large-scale operations that often require capital-intensive and imported technology. For Omari (1995), formal enterprises also operate based on formally acquired skills (sometimes necessitating expatriates) and regulated markets (through tariffs, legal sanctions, and trade licenses). It thus follows that young rural-to-urban migrants with low productive capital survive by sourcing employment from informal UHUEs.

<sup>13</sup> This summary may be an over-simplification, but my intent is to de-mystify the concept from its philosophical foundations.

For them, informal enterprises present an entryway into employment (or establishment of a business) in the formal sector and/or enterprises such as MSMEs (Omari, 1995: 16).<sup>14</sup> This transition phase is very important because, if constrained, then the desired high productivity and innovative enterprises cannot be harnessed and/or sustained.<sup>15</sup> According to NBS/ILFS (2007), the majority of UHUEs described by Omari (1995) resemble the *wamachingas* (urban street traders) of today, who are also technically referred to by NBS/ILFS (2007) under the occupational category of self-employed (non-agriculture) workers without employees. This category consists of 83.8 per cent of those who undertook UHUEs as their main activity and 92 per cent as a secondary activity, a significant majority indeed (NBS/ILFS, 2007).

The foregoing is supported by NBS/ILFS (2007), which shows that the majority of people who undertook UHUEs or informal enterprises as a main activity in the informal sector were in the UHUE's intensive sub-sectors of service workers and shop sales workers (55.2 per cent), craft and related workers (22.6 per cent), and elementary occupations (15.7 per cent). All of the foregoing shows that UHUEs provide an important but unrecognised safety valve for unemployed youth in urban areas.<sup>16</sup> Urban youth tend to opt for informal enterprises because they cannot find work, capital, business opportunities, or premises. In other words, they are severely inhibited from participating in the formal economy (Kweka and Fox, 2011). This in itself is evidence of their low productive capabilities to participate in the formal, mainstream economy (RAWG, 2012).

Despite the UHUE concentration in sectors with low productive capabilities, such as services, crafts, and related elementary occupations, the reviewed literature shows that 11 per cent of people who undertook UHUEs as a main activity never received a formal education, while 20 per cent had not completed a primary education. This is additional evidence that UHUEs are characterised by low productive capabilities. Moreover, 76.5 per cent of those who undertook UHUEs as a main activity had not received a formal continuing education (85.8 per cent for those who engaged in UHUEs as a secondary activity), and only 9.6 per cent had received loans from a bank or financial institution (6.2 per cent for those who engaged in UHUEs as a secondary activity). Instead, the majority of those who undertook UHUEs as a primary activity had to rely on informal means by sourcing loans from relatives or friends (34.6 per cent), associations, NGOs and donor projects (21 per cent), and savings and credit cooperatives (14.4 per cent). Capabilities were even lower for those who undertook UHUEs as a secondary activity, where only 6.2 per cent accessed loans from a bank or financial institution, while 53.1 per cent relied on relatives or friends. This indicates a wide prevalence of low productive capabilities among people who tend to source employment from unincorporated, informal enterprises.

It also shows that their low productive capabilities contribute to weakening their integration into the mainstream urban economy. This is particularly true regarding participation in financial sector services.

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<sup>14</sup> Sustainable formalisation should ideally 'sit back' and allow UHUEs to transform and migrate from one segment (UHUEs) to another (MSMEs). Instrumental formalisation only serves to constrain UHUEs as 'incubators' for future MSMEs. Once UHUEs transform themselves into MSMEs, they will naturally enter into the ambit of formalisation (properly understood) that will serve to make them 'efficient' (as desired). A case can also be foreseen where MSMEs may face shocks and migrate back to UHUEs. The latter serves as a safety valve against crisis and possibly a foundation to bounce back.

<sup>15</sup> A capability approach would pitch for freedoms, which include maintaining the membrane of transition from UHUEs (the untaxed, unregistered) to MSMEs (licensed, taxed). Business formalisation should ideally wait. Some owners of successful UHUEs may choose to expand to MSMEs. By virtue of this success, the latter will automatically be captured in the formal economy and its rules of licensing and taxation. However, UHUEs should be allowed to continue serving an important role in creating urban employment.

<sup>16</sup> This is the essence of the title that Kweka and Fox (2011) gave to their report: 'The Household Enterprise Sector in Tanzania: Why it Matters and Who Cares?'

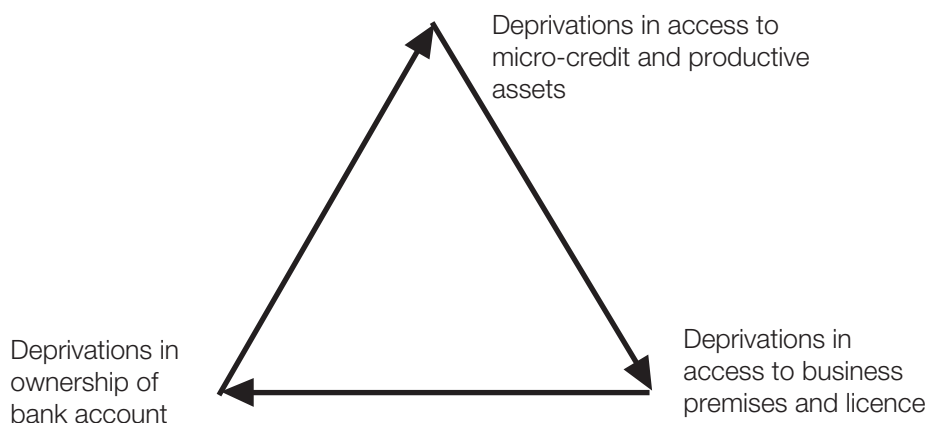
These aspects of low productive capabilities define and mirror characteristics of the unemployed urban population elsewhere. Statistics presented by NBS/ILFS (2007), for example, reveal that the unemployed tend to have low capabilities in access to continuing formal education. Of those who were unemployed, 87.3 per cent received no training in specialised skills. Furthermore, previous occupations of the currently unemployed population were elementary occupations (22.8 per cent), while the majority had no previous work experience (60 per cent).

The discussion thus far indicates that people with low productive capabilities are typically the ones who do not find gainful employment activity other than by joining the more absorptive and easily accessible urban UHUE sector. As a result, the only option of the capability-deprived urban youth and urban poor more generally is to find self-employment through UHUEs. It has already been shown above that UHUEs were a major source of employment for those with low productive capabilities in terms of education, access to business premises, and financial capital (Omari, 1995; NBS/ILFS, 2007; Awinia, 2013). This establishes UHUEs as an incontrovertibly important strategy for increasing the employment of urban youth with low productive capabilities. By contrast, constraining UHUEs in anyway might simply increase urban poverty by increasing youth unemployment.

## 2.1 Conceptual Framework of the Study

The study conceptualises urban youth unemployment as an effect of multiple deprivations in productive capabilities that would allow them to achieve valued ends. The study also sees urban poverty as capability deprivation. The conceptual framework is illustrated by Figure 1 below.

**Figure 1: Triangle of Multiple Deprivations in Urban Youth Self-Employment**



The conceptual framework depicts a vicious cycle of urban youth deprivations in productive capabilities. These deprivations limit their participation in the mainstream urban economy. They are prevented from accessing business premises and licenses, which then hinders them from accessing financial sector services and accumulation of savings, credit services, and assets. As a result, they remain dependent on UHUEs with low productive capabilities.

## **2.2 Knowledge Gap**

NBS/ILFS (2007) has shown that the majority of urban youth in Dar-es-Salaam and other urban areas of Tanzania fall under the occupational category of self-employed (non-agriculture) workers without employees. This occupational category is characterised by low productive capabilities. A recent policy debate advanced by RAWG (2012) and others has argued that reform measures should be taken to formalise informal enterprises. Kweka and Fox (2011), on the other hand, have contended that legitimisation of UHUEs through informal trade deregulation is the only feasible strategy to contain the growing urban poverty and unemployment, especially among youth.

Despite these competing conceptual positions, there is still a knowledge gap regarding the exact ways that formalisation constrains UHUEs. The direct and indirect ways in which UHUEs contribute to reducing urban income poverty and increasing youth employment have not been documented. More importantly, the capacity of prevailing low productive capabilities to transform future innovative and productive urban enterprises is not recognised. It is clear that constraining current UHUEs through formalisation regulations is self-defeating. This is because some UHUEs form the seedbed and launch pad for future MSMEs, which is where innovation for cutting-edge productivity takes place. Little has been said about how municipal authorities can co-exist with the 'parallel' informal economy. This study uses these knowledge gaps as entry points in conducting fieldwork in the case study areas.



# Research Methodology

## 3.1 Research Design

The study employed a multivariate approach aimed at investigating the effects of business formalisation in constraining the development of productive capabilities and employment opportunities among young people in the case study areas. The study collected, assessed, and analysed both secondary and primary data sources. Literature was reviewed when conducting the study's background. The main panel data on employment that was available at the time was the NBS/ILFS 2006 Integrated Labour Force Survey (NBS/ILFS, 2007).

This data source was instrumental in defining the background to the study problem. The study approach involved an exhaustive analysis of published and unpublished secondary data sources. These included published materials in libraries, official surveys produced by the NBS, and relevant reports, journals, and periodicals. Unpublished 'raw' administrative data were also reviewed, particularly official, municipal-level records from the field.

The study also collected primary data. These included data from unstructured/semi-structured qualitative interviews and a structured quantitative questionnaire survey. Data gathering in the field started by conducting unstructured informant interviews with key actors, including municipal- and *mtaa*-level officials, youth HE (household enterprise) group leaders, and key informants. The aim of the unstructured key informant interviews was to obtain preliminary information on constraints faced by the urban youth in developing productive capabilities and enhancing employment opportunities in the case study areas. The preliminary information was used to develop the structured quantitative questionnaire and semi-structured focus-group interview guidelines.

A structured quantitative questionnaire was administered to collect quantitative data for providing comparisons, associations, and regression analyses of responses from the field. Semi-structured in-depth focus-group discussions (FGDs) were conducted to elicit qualitative information about constraints experienced by youth in developing and exercising their capabilities to gain employment. All the foregoing methods were triangulated to minimise error and obtain a holistic account of the challenges facing urban youth who try to gain employment through their UHUEs in the case study areas.

### 3.1.1 Sample design

The sampling technique for the unstructured, key informant interviews and semi-structured, in-depth focus-group interviews was purposive (judgmental). This technique was chosen because it allowed the inclusion of respondents who have specific knowledge about urban youth employment issues in the case study areas.

The sampling technique used for the structured quantitative questionnaire was stratified random sampling. It combined purposive (judgmental) sampling at the first level and simple random sampling at the second. The first level involved purposively selecting identified UHUE clusters based on the concentration of UHUE activities and geographical diversity. Then within these clusters the respondents to the structured quantitative questionnaire were chosen through simple random selection.



The sample for the study is shown in Table 1 below:

**Table 1: Sample of the Study**

| No. | Area                     | No. of respondents for questionnaire survey | No. of respondents for focus group discussions |
|-----|--------------------------|---|--|
| 1.  | Gongo la Mboto cluster 1 | 50  | 7  |
| 2.  | Gongo la Mboto cluster 2 | 50  | 7  |
| 3.  | M/chini cluster 1        | 50  | 7  |
| 4.  | M/chini cluster 2        | 50  | 7  |
|     | Total                    | 200   | 28   |

### **3.1.2 Data analysis techniques**

Data from the structured quantitative questionnaire were analysed through the Statistical Package for Social Scientists (SPSS). The analysis involved drawing comparisons, associations, and making generalisations based on the different variables measures through the questionnaire. The FGDs were tape recorded and transcribed. The transcripts were thereafter coded and entered into MVIVO software for analysis of qualitative ethnographic data.

### **3.1.3 Segmentation of income quintiles**

The study respondents were segmented into six income quintiles. The quintiles were based on monthly income reported by the study respondents. The quintiles were as follows:

**Table 2: Income Quintiles of the Study Respondents**

| No. | Income range     | Quintile |
|-----|------------------|----------|
| 1.  | 300,001–400,000  | Top      |
| 2.  | 200,001–300,000  | 2nd      |
| 3.  | 150,001–200,000  | 3rd      |
| 4.  | 100,001–150,000  | 4th      |
| 5.  | 50,001–100,000   | 5th      |
| 6.  | 50,000 and below | Bottom   |

# 4

## Analysis and Discussion of Study Findings

### 4.1 Business Formalisation Measures and Potential Constraints on Urban Youth Employment

Business formalisation entails the desire to transform 'extra-legal' enterprises in informal markets into organisations that conform to established institutional and regulatory standards. The first requirement in the business formalisation process is usually to acquire a business license. This requirement carries with it various other requirements, including proof of possessing a business premises.

The study findings show that the majority of the youth-operated UHUEs that were selected for interview in the case-study areas of Gongo la Mboto (hereinafter G/Mboto) and Mchikichini (hereinafter M/chini) were constrained by the requirement of having access to a business premises. This constraint came about as a result of sheer unavailability of sufficient business premises to satisfy demand. Other constraints included 58 per cent of respondents who said that the lack of access and participation in financial sector services, including microfinance services, was a constraint to their UHUEs. These limitations on unemployed youth who try to obtain employment through UHUEs lead to conflicts with the law. Youth-operated UHUEs are illegitimated by their inability to comply with formal premises and license requirements. Illegitimacy creates additional constraints from demands for involuntary, informal payments and bribes, as well as fines and penalties. Other constraints that arise from this state of *illegitimacy* include loss of assets and savings during forced evictions and low levels of investments and innovations due to uncertainties of tenure. Taken together, these constraints form a triangle of multiple deprivations that obstruct employment among urban youth. The foregoing illustrates the cascading effect of capability deprivations. Being constrained at one level, young people who lead UHUEs find themselves constrained from performing certain other secondary functions (Sen, 1999). Lack of access to business licenses, for example, introduces barriers to participating in financial sector services. The study findings have shown, for instance, that 64.1 per cent of respondents found the lack of business premises to be a very big constraint to their UHUEs.

Lack of business premises was found to be a driving factor behind the creation of what this study has termed the 'pavement economy'. This term describes the various unincorporated informal enterprises that emerge alongside the streets of Dar-es-Salaam and other urban areas of Tanzania. Liberalising trade alongside the streets can be one approach to enlarging opportunities for young people to source employment through UHUEs.

Pavement economies are operative in various parts of the world. This study has reviewed cases in Ghana, India, and the US where municipal authorities enter into agreements with businesses to allow trading alongside city streets. In Zanzibar, the Forodhani beachfront operated by the Aga Khan Foundation is an example in which agreements between municipal authorities and small-scale traders can be reached to reduce urban youth unemployment.

Although national accounts and official statistics have not provided an estimate of the size and contribution of the pavement activities to the urban economy, mere casual observation in the case study areas reveals their significant contribution. To underscore their importance, 98.8 per cent of youth in the case study areas who did not have business premises said UHUEs conducted alongside streets were their main source of employment, and by extension, incomes. RAWG (2012), when quoting the 2011 Household Enterprise (HE) Survey, states that 'it is almost impossible for MSMEs in urban informal market areas (where most small-scale businesses are concentrated) to acquire plots for constructing business premises due to bureaucracy, corruption and the very limited number of surveyed plots available (Kweka and Fox, 2011; RAWG, 2012: 141)'. A natural outcome

of these developments is for the informal traders to conduct their businesses in any available space, including paved areas. The foregoing is confirmed by the Household Enterprise Survey (2011) published by Kweka and Fox (2011), which found that only 9 per cent of the UHUEs operated in a permanent workspace outside the owner's home. NBS/ILFS (2007) shows similar trends depicting informal market activities occurring in all kinds of places, as illustrated in Table 3 below.

**Table 3: Location of Business by Main Activity, 2006**

| <b>Business location</b>   | <b>Main activity</b> |
|--|----------------------|
| Within own or business partner's home – with special business space    | 18.6                 |
| Within own or business partner's home – without special business space | 9.2                  |
| Structure attached to/outside own or business partner's house          | 1.3                  |
| Permanent building other than home                                     | 13.3                 |
| Fixed stall/kiosk at market  | 11.0                 |
| Vehicle cart, temporary stall at market                                | 6.1                  |
| Other temporary structure  | 6.4                  |
| Fixed stall/kiosk in street  | 4.3                  |
| Vehicle cart, temporary stall in street                                | 9.6                  |
| Construction site  | 1.9                  |
| Customer's/employer's house  | 0.6                  |
| No fixed location/mobile   | 17.7                 |
| <b>Total</b>   | <b>100</b>           |

**Source:** NBS/ILFS (2007)

Table 3 shows that the five big trading places are (a) trading within one's own or business partner's home – with special business space; (b) no fixed location/mobile; (c) trading in a permanent building other than home; (d) fixed stall/kiosk at market; and (e) vehicle cart, temporary stall at a market. The data also reveals that only 13.3 per cent of those who conducted their unincorporated household enterprises as a main activity did so in permanent locations outside their home. The rest, 86.7 per cent, conducted business on extra-legal space. This shows that the leading and most popular location for conducting UHUEs is within the owners' homes, closely followed by those who had no fixed location and fixed stalls or kiosks at the market.

As the data demonstrates, the majority of UHUEs are naturally organised in extra-legal open spaces. Kweka and Fox (2011) introduce the concept of *illigitimisation* to describe the effects that lacking a business location has on UHUEs. They argue that the lack of business premises exposes UHUEs to conflict with the law.<sup>17</sup> They argue that understanding the constraints caused by lack of business premises and undertaking reforms to *legitimise* UHUEs is a first step towards removing constraints that deprive the urban poor from participating in gainful employment through their UHUEs. According to the capability approach, access to a certain set of entitlements is pre-requisite to strengthening the capabilities of people to function in different ways in order to reach valued ends.

<sup>17</sup> Illegitimation denotes an arbitrarily imposed situation that criminalises livelihood patterns and therefore contributes to urban poverty. With cost-effective reforms that can be undertaken by 'the stroke of a pen', several new jobs could be created by legitimising petty street trading

The study findings have shown that the lack of business premises contribute to a number of subsequent constraints. These constraints are ultimately responsible for obstructing the urban youth from securing employment.

## 4.2 Main Elements that Constrain Self-Employed Young Traders in the Urban Informal Market

The study has established that business formalisation constrains young people in various ways and prevents them from utilising their productive capabilities to obtain employment. Table 4 below presents the study's findings on the degree of constraints faced by young people's UHUEs in the case study areas.

**Table 4: Constraints Faced by Youth Enterprises in the Case Study Areas**

| Type of constraint faced                      | Degree of constraint |      |         |      |
|---|----------------------|------|---------|------|
|   | High                 |      | Extreme |      |
|   | Freq.                | %    | Freq.   | %    |
| Lack of business Premises                     | 48                   | 24.6 | 125     | 64.1 |
| Prohibitive procedures for obtaining licenses | 28                   | 25.2 | 39      | 35.1 |
| Cost of obtaining a license                   | 22                   | 20.8 | 20      | 37.7 |
| Fines and penalties                           | 59                   | 35.3 | 49      | 29.3 |
| Loss of inventory and assets during eviction  | 53                   | 31.5 | 81      | 48.2 |
| Informal payments and bribes                  | 71                   | 41.3 | 43      | 25   |
| Failure of the enterprise (due to the above)  | 57                   | 31.8 | 84      | 46.9 |

The net effect of constraints is on the productive capability of young people to obtain employment and contribute to transformative, broad-based, job-rich, and inclusive urban growth (RAWG, 2012). The findings presented in Table 4 are analysed and presented in the following sub-sections.

### 4.2.1 Illegitimation of urban youth self-employment enterprises

The majority of the urban youth who trade alongside the streets in G/Mboto and M/chini said that lacking a business license frequently brings them into conflict with the law. In the process, the enterprises of urban youth enter into a state of illegitimacy. It is important to note that the illegitimacy is created by the municipal authorities who fail to provide and/or plan for business premises. Despite glaring evidence provided by NBS/ILFS (2007) that UHUEs are the mainstay of urban employment, especially among the poor and youth, municipal authorities have maintained regulations that could be reformed to reach substantial reductions in urban youth unemployment. Illegitimacy therefore consists of structural barriers that make it unlawful for UHUEs to operate. It contributes to the lack of productive and job-inclusive growth and even stymies innovation and the transformation from UHUEs to MSMEs, as envisaged by RAWG (2012). When recast through the capability approach, this lack of legitimacy to operate forms the single most important constraint to urban youth employment. It limits *freedoms*, which are a significant dimension when evaluating the capabilities of individuals to function in ways that allow them to achieve valued ends.

Our study findings demonstrate that the streets in the case study areas were regulated under a legal regime that *illegitimised* UHUEs urban youth. Of the youth interviewed, 48.2 per cent said they experienced loss of or damage to savings and inventories, while 31.5 per cent reported that loss of

assets resulting from uncertainty over their legal entitlements to trade and intermittent ‘cleansing’ operations by civil and municipal authorities were sizable constraints to UHUE development.<sup>18</sup> This signifies a considerable loss and setback not only to enterprise, but to sources of self-employment for urban youth. Combined, 95.2 per cent of urban youth interviewed said their enterprises were negatively affected by the prevailing state of illegitimation.

#### **4.2.2 Fines and penalties**

Fines and penalties are some of the immediate constraints faced by young urban people who seek to employ themselves by operating UHUEs alongside the streets. Often, when municipal civil and law enforcement officials conduct operations, the *illigitimised* urban youth, who normally control very little inventory, savings, and assets, are forced to pay fines and penalties. The common penalty for ‘loitering’, which extends to ‘conducting business in restricted areas’, is TShs 50,000.<sup>19</sup> In addition to property loss, urban youth find themselves in a state of limbo, where they cannot invest in their enterprises due to uncertainty over their legal status. This is evidenced by our case study areas, where 35.3 per cent of urban youth cited fines, penalties, and various other ongoing forms of punishment as big constraints, and 29.3 per cent said these were very big constraints to the development of their UHUEs. Invariably, these restrictive regulations and rules prevent urban youth from exercising *freedoms* to expand opportunities for achieving self-employment through their UHUEs.

#### **4.2.3 Informal payments and bribes**

The prevailing state of illegitimacy imposed on urban youth who undertake self-employment activities alongside the streets has created networks of demand for informal payments and bribes. This has served as a further constraint to self-employment among the urban youth and the development of productivity, innovation, and UHUE growth. Of the respondents, 38.6 per cent said they were forced to pay informal payments, including bribes. The majority of those who admitted to solicitation of informal payments and bribes said they had to pay up to TShs 10,000 (28.6 per cent), followed by TShs 5,000 (19 per cent), and TShs 20,000 (15.9 per cent) a month.

The aforementioned figures are by no means small, particularly when considering that those who make informal payments are not exempted from arrests when operations are undertaken by city auxiliary police. Typically, depending on the season, a young person who is trying to undertake self-employment activities through a UHUE alongside the city streets is often forced to make informal payments and bribes, but is also affected by loss of accumulated inventory and assets during operations, and still has to pay fines and penalties at the city’s business tribunal. This is evidence of what the capability approach refers to as ‘multiple deprivations’. Urban youth in the case study areas revealed multiple deprivations, as evidenced by the 60.5 per cent who said they were severely affected by solicitation of informal payments and bribes, in addition to fines, penalties, and other punishments for conducting their businesses extra-legally alongside the streets.

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<sup>18</sup> Municipal authorities say they conduct enforcement operations against petty traders to address three concerns: (a) to promote environmental cleanliness, (b) to enhance security, and (c) to plug loopholes against tax evasion. Kweka and Fox (2011) argue that all these concerns could be amicably solved by creating UHUE associations. The associations could help to self-regulate UHUEs and allow for self-policing to ensure that street traders keep the environment clean, that citizens are secured from petty thieves who may infiltrate trading areas, and that the traders are licensed and possibly pay taxes. I use the word ‘possibly’ here because Kweka and Fox (2011) present evidence that UHUEs provide higher benefits in terms of urban youth employment than could be obtained from taxing them. Taxes could serve as a barrier that would limit both the growth of the UHUEs and their prospects of providing employment to urban youth. When they grow into MSMEs and begin to formalise, they will automatically enter the ‘tax system’.

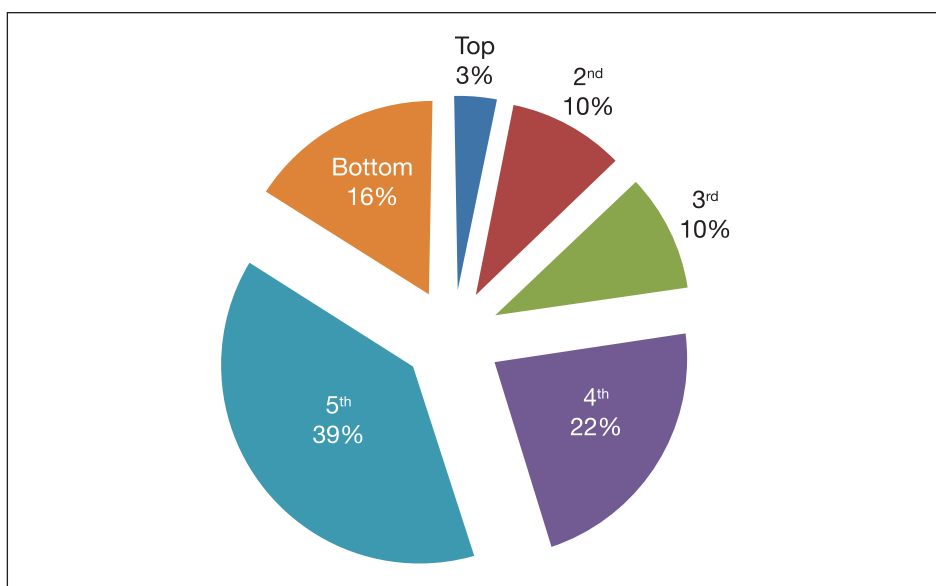
<sup>19</sup> This amount is prohibitive given the low-income levels commanded by the urban youth. In addition, fines or not, the accumulated UHUE assets, savings, and inventory are solemnly recovered after they are confiscated by municipal law enforcement agents as ‘exhibits’ before the municipal environmental pollution tribunal.

This is what RAWG (2003) termed as ‘vulnerability to shocks’ that affects the urban poor. Vulnerability to shocks is conceptualised as ladders where the poor use existing assets and entitlements to develop their capabilities and function in ways that enable them to command higher consumption levels. However intermittent, shocks, described as ‘floods pushing the poor down the ladder’, risk that the poor will lose capability gains and slide back below the poverty line. The study finds that this is what befalls poor urban youth who seek self-employment in the streets. Out of the poorest respondents who said they earned TShs 50,000 a month or less, the majority (91.2 per cent) said their UHUEs were constrained in one way or another by informal payments and bribes. Of these, 55 per cent said their UHUEs were heavily constrained, and 26.5 per cent said they were severely constrained.

#### 4.2.4 Relationship between main constraints and income differentials

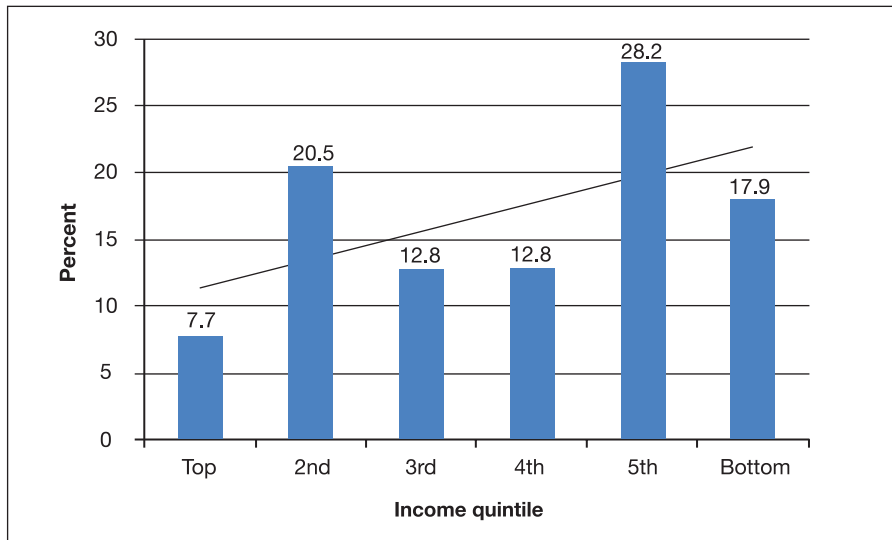
The study findings show that the majority of young traders who find self-employment through UHUEs belong to the three poorest quintiles, as illustrated in Figure 2 below.

**Figure 2: Distribution of the Study Respondents by Income Quintile**



As the study’s findings demonstrate, there were general trends in income shortfalls and levels of severity in constraints faced by enterprises. Examining the issue of obtaining business licenses, for example, the fifth income quintile was the most severely constrained by bureaucratic procedures of obtaining a business license, followed by the second and the bottom (poorest) income quintiles, as shown in Figure 2.

**Figure 3: Proportion of Youth Enterprises Severely Constrained by Bureaucratic Procedures for Obtaining a Business License**



These findings indicate that although the level of constraints to youth enterprises is most severe and/or concentrated among poor youth, it is also a generalised state of capability deprivation that affects the better-off income quintiles. This suggests that capability deprivations of youth enterprises hinder transformative capabilities since youth who are able to accumulate assets and capital still find themselves unable to access business licenses. Therefore, these deprivations impede innovation and capability development, making the goal of job-inclusive, transformative urban growth elusive.

### **4.3 The Effects on Urban Youth**

The aforementioned multiple constraints result in increased urban youth unemployment by depriving them of capabilities. Figure 4 below depicts the squeeze or constraint caused by these deprivation factors:

**Figure 4: Urban Employment Constraints in the Case Study Areas**

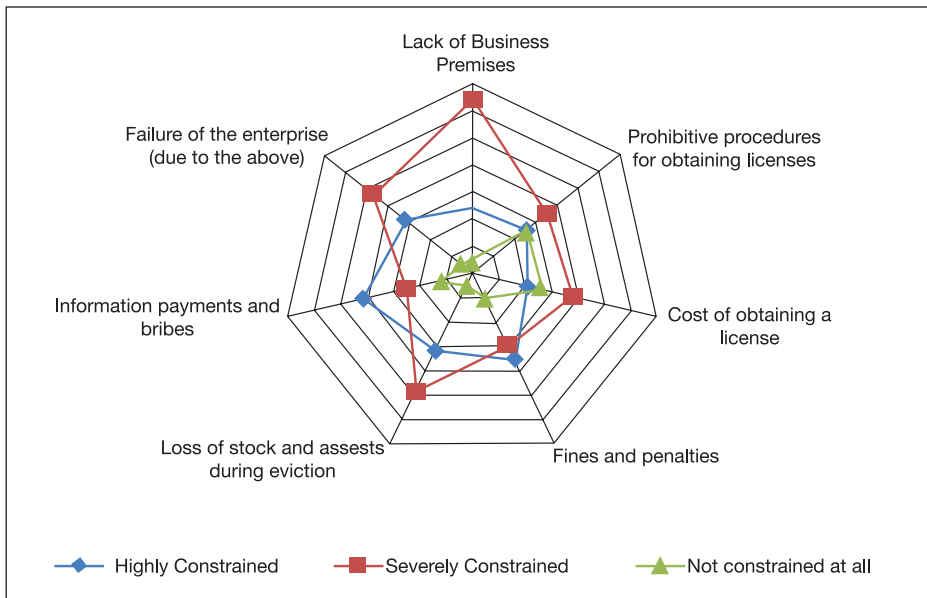


Figure 4 above clearly shows the areas of capability deprivation. The narrow space at the core of Figure 4 depicts the area where urban youth were not constrained in undertaking their self-employment activities. However, it can be seen from the field findings that the area of multiple, severe capability deprivations was most widespread. Moreover, the lack of business premises and loss of inventory during evictions made up the largest area in severe capability deprivations. Moreover, it can be seen that this led to long-term unemployment (i.e. total failure of enterprise).

Informal payments and bribes followed by fines and penalties and prohibitive procedures for obtaining licenses filled the largest area in high capability deprivation. The data obtained from field findings show that this also leads to long-term unemployment (i.e. total failure of enterprise). The net effect of this was the creation of a state of *illegitimacy* for youth to undertake self-employment through their informal enterprises, as shown below.

Urban poverty is primarily driven by rural-to-urban migration, comprising youth who do not necessarily have sufficient capital and skills. Given the above-mentioned multiple constraints, the majority of these youth are not able to establish a registered SME (Omari, 1995; Kweka and Fox, 2011; RAWG, 2012; Awinia, 2013). It is beneficial to reiterate, although it has already been mentioned extensively above, that official government statistics show that the majority of youth aged 18–35 in Dar-es-Salaam and other urban areas of Tanzania find employment through the occupational category ‘self-employed (non-agricultural) without employees’ (NBS/ILFS, 2007). The same source has referred to this occupational category as UHUEs. The study found that *illegitimation of UHUEs* increases poverty and unemployment among urban youth. This has taken various forms, including increased urban youth unemployment, falling incomes and consumption among urban youth-headed households, a rise in poverty in youth-headed households, and low productivity and redundancy among urban youth.



Of the respondents, 94.4 per cent said the ongoing state of *illegitimacy* against urban youth UHUEs contributed, to a large extent, to urban youth unemployment. This statement is resounding and needs no further elaboration. As a result of the state of illegitimacy, 94.5 per cent of the respondents said urban households headed by young people, the majority of whom had already started small families at the age of 24, experienced a decline in income and consumption, and 90.9 per cent of the respondents said this contributed to increasing urban poverty among youth.

It is the view of young people that an amicable arrangement could have been reached between urban youth UHUEs and municipal authorities to legitimise street trading and encourage self-regulation, such as guarding against environmental pollution and mitigating threats to public health or public security. An interplay between lack of business premises, illegitimation, and the uncertainty, risks, vulnerability to shocks, including the exclusion that urban youth face, contributes to low productivity among youth-owned enterprises. RAWG (2012) made extensive reference to the imperative of promoting productive employment and job-rich and inclusive growth. To this end, it states that the 'Tanzanian economy has to become more inclusive by investing in human capital and enacting pro-poor growth, by adopting a people-centred approach that prioritises creation of productive growth' (RAWG, 2011: 123). In contrast, we have seen that the foregoing constraints contribute to making the nascent UHUEs less productive, which means that the current practice of regulating self-employment through unincorporated enterprises as a policy is not pro-poor.<sup>20</sup> Clearly, the constraints caused by municipal regulations do not contribute to strengthening the self-employment sub-sector and inclusive urban growth.

#### **4.4 Main Factors that Prevent Some Young People from Acquiring Productive Capabilities and Self-Employment**

In addition to the lack of business premises, the study identified a number of factors that prevented some young people in the case study areas from increasing their productive capabilities in their self-employment endeavours.

Lack of access to licenses for operating UHUEs is one of the main factors that contribute to the failure to acquire the desired productive capabilities for self-employment. Of the urban youth who failed to develop their enterprises because they were severely constrained, 56.5 per cent also said they were severely constrained by long, complicated, and bureaucratic procedures for obtaining a business license, thus rendering such licenses inaccessible. Current enterprise licenses offered by the Business License Registration Agency (BRELA) are simply not accessible to youth-owned UHUEs, which are not backed by a sufficient amount of capital. As a result, 35.1 per cent of youth in the case study areas said the difficulty of acquiring a business license served as a 'very significant barrier' to the growth of their UHUEs. An additional 25.2 per cent said this was 'a big barrier'. In total, 73.9 per cent of respondents said the difficult conditions for obtaining a business license served as a barrier (to various extents) to the growth of their enterprises.

The majority of urban youth said they could not acquire business licenses because it was difficult to fulfil conditions to access them. Of those interviewed, 94.6 per cent cited the lack of business premises as the main reason for why they were unable to obtain a business license. This limitation also laid the basis for other forms of exclusion from acquiring productive capabilities. First, the lack of a business premises and license prevented some young people from participating in the

<sup>20</sup>The capability approach to development evaluates policy according to its human welfare outcomes. A policy that does not expand opportunities for individuals and/or groups to function in ways that achieve valued ends is regarded as a bad policy and should be discarded.

financial sector and benefiting from services. Second, these setbacks led to vulnerability to losses, even of the existing productive assets. Let us examine these in turn.

The study findings show that productive assets were principally acquired through access to microcredit. Of the youth interviewed, 99.4 per cent said they had been unable to access microfinance mainly because they did not have a bank account, and that this served as a barrier to the growth of their UHUEs.<sup>21</sup> To this end, 45.3 per cent said the lack of access to banking and financial services severely constrained their enterprises from acquiring productive assets and injecting new technologies, investments, innovations, and productivity, and 49.2 per cent said this factor constrained their enterprises to a large extent. Based on the above, the study found a positive correlation between productivity gains and self-employment versus capability deprivations in the area of access to business licenses, ownership of bank accounts, credit, and enterprise investments in innovation. Typically, the young people who did not have business premises could not obtain a business license. As a result, they could not open a bank account, as banking regulations require an enterprise to be licensed before a bank account is opened. In turn, an application for a business license requires the business to show proof of business premises. This connection explains why some of the young people mentioned above were not able to access productive capabilities.<sup>22</sup>

The second setback was constraint caused by direct loss of accumulated assets, inventory, and savings. Of the youth in the case study areas, 51.1 per cent said their productive assets were lost, damaged, or destroyed during the frequent operations by city auxiliary police. As such, the loss served as a barrier for some young people to acquire productive assets for undertaking self-employment through their unincorporated enterprises.

The foregoing can be classified as primary- and secondary-level constraints. Primary-level constraints, such as lack of business premises and licenses, generate additional, secondary-level constraints. Simply put, youth who were constrained by the lack of business premises found themselves *illegitimised*. As a result, they ended up losing accumulated assets, savings, and inventory during frequent operations by city auxiliary police.

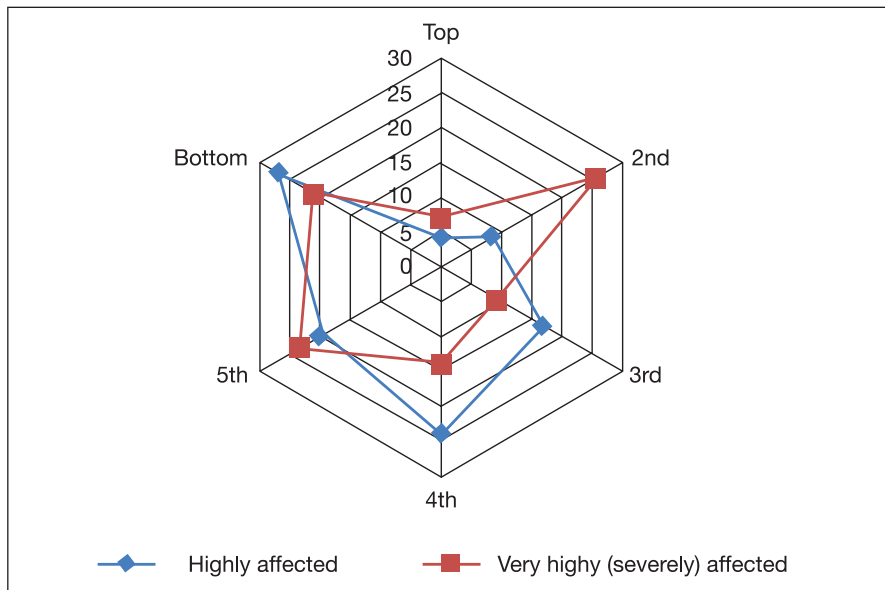
Third, while trading alongside the streets, the interviewees had to constantly pay bribes and other informal payments. If they could not pay, they faced fines and penalties. Poorer youth, compared to better-off youth, were particularly vulnerable to being severely affected by demands for informal payments and bribes, as shown by Figure 5 below.

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<sup>21</sup>Microfinance procedures in Tanzania require business loans to be provided to registered enterprises. Those who are not registered are advised to join in groups and register a business name. Many youth shun this option because of high transaction costs of participating in groups (implying social networks and capital are not always preferred because of hidden costs). Without a business license many UHUEs are excluded from participation in the financial sector, limiting prospects for productivity gains, investments in new technologies and innovation, and growth.

<sup>22</sup> This web of constraints reflects the multi-deprivations in capabilities faced by urban youth who seek to engage in self-employment.

**Figure 5: Severity of Effects from Demands for Informal Payments and Bribes**



The area of severe constraint due to informal payments and bribes is concentrated among lower-income traders, with the high-income traders being unaffected. Those who cannot pay informal payments and bribes find themselves severely and multiply constrained in other dimensions, such as loss of assets, savings, and inventory as a result of auxiliary police raids. This is an important risk to the already vulnerable youth, as 88.3 per cent of youth traders in the case study areas said they did not have business premises. The findings show that the lack of business premises was most prevalent among unemployed youth, as 66.7 per cent who did not own business premises also said they were unemployed. As a result, a huge majority, 94.4 per cent, reported that all the various constraining factors made them unable, in one way or another, to operate their enterprises. This finding was distributed as a small constraint (15.6 per cent), a big constraint (31.8 per cent), and a severe constraint (46.9 per cent), signifying that the proportion of youth who were affected increases with severity of constraint.

#### **4.5 Options for Reducing Urban Youth Unemployment through Productive Capabilities**

The study provides options that can be followed to reduce urban poverty through the capability approach. The options presented by the study highlight the need to ‘think outside the box’ and take radical measures. Kweka and Fox (2011) presented key recommendations that are worth pursuing.<sup>23</sup> Walking around Dar-es-Salaam city, one can observe countless informal enterprises alongside the streets. The capacity to enforce street trader evictions simply does not exist. It is not politically feasible to sustain such evictions.

The study finds that there are models pursued by municipal authorities in Dar-es-Salaam that can be used as options to increase productive capabilities of young traders through expansion of

<sup>23</sup> As they have not yet been piloted, tested, documented, and evaluated.

opportunities to access business premises. As stated above, access to business premises is the key to unlocking access to other productive capabilities (licenses, participation in the financial sector, access to credit, ownership of productive assets, and legitimacy).<sup>24</sup> First of all, in accordance with the constraints identified above, one possible strategy could be to increase availability of business premises for young people. We refer to this as ‘opening up or liberalising the urban pavement economy’. To this end, 35 per cent of urban youth said nothing is being done by municipal officials to help them access the premises needed to run their unincorporated enterprises. In fact, 63 per cent said they did not know what was being done, indicating low levels of awareness of any efforts being made. Lack of robust approaches to open up street sides for business premises was also cited by Kweka and Fox (2011): ‘In large urban areas, the biggest constraint faced by HEs is the lack of access to secure workspace to run their small business. When unable to gain access to a fixed premise, HE operators are exposed not only to poor working conditions, but also to potential loss of livelihood due to eviction or harassment by authorities’.

Arguably, municipal authorities tried to address the problem of business premises by constructing the multistorey *Machinga* Complex (Dar es Salaam Business Park). The majority of urban youth did not respond favourably to the multistorey premises approach, simply because there is a culture of and preference for buying and selling alongside the streets. In order to address this need, alternative approaches could be pursued to allow orderly and scheduled trading alongside the streets. It must be taken into account that street trading is already happening almost everywhere; the issue now is how to regulate these enterprises in order to maximise positive outcomes and minimise negative effects. While one option could be to allow urban youth to place stalls along the streets, the other could be to integrate urban youth employment into the design of new urban roads. With this level of foresight, the designs can budget for more compensation of land and buildings which are located along the roadside and make space for road reserves, trading places, and pedestrian paths. In contrast to the *machinga* complex, this approach alone could create hundreds of thousands of jobs for urban youth. From a capability approach, that would mean expanding the opportunities and *freedoms* to develop.

The foregoing recommendation was echoed in the interviewees. Of the respondents, 68.9 per cent said there were open areas that could be transformed, in one way or another, for UHUE use. Space is available; what remains to be done is for the existing urban business regulatory regime to recognise and permit urban youth to use these spaces for their enterprises. This is evidenced by the 48.5 per cent of respondents who said that the areas in which they were currently operating their UHUE enterprises were restricted areas, thus putting them in direct conflict with municipal government officials and auxiliary police. Despite being at risk of losing assets, savings, and inventory during enforcement operations, and receiving fines and penalties, 38.6 per cent of the respondents said they were forced to make informal payments and bribes to continue trading alongside the streets. The majority said they pay between TShs 5,000–10,000 per month in informal payments. This, one can argue, is revenue that is lost by municipal authorities.

Existing municipal regulations and by-laws allow for what can best be termed as ‘temporary markets’. These are known in Kiswahili as *gulio* (open markets). *Gulios* are one of the measures that municipal authorities have taken to address the shortage of business premises. *Gulio* markets take place on designated days in areas normally used for other purposes but declared to function as an open-air market for a specific day and time.<sup>25</sup> They operate on roads blocked off for the purposes of the

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<sup>24</sup>These can also be conceptualised as ladders to productive capabilities.

<sup>25</sup>In some places the markets are known as ‘Saturday markets’, but in others places they take place on Mondays or Wednesdays.

market, football grounds, or primary school grounds. The system is also used for what have been termed as 'night markets' in places like Mandela Road in the Buguruni area of Dar-es-Salaam.

The existence of the *gulio* system suggests the presence of a legal framework that can be used to liberalise the urban pavement economy. What needs to be done is just to apply it to street trading, although not on specific days of the week but specific hours every day. These efforts suggest that a constructive approach can be built between municipal authorities and associations representing UHUEs. In fact, these approaches are already ongoing, but clandestinely, without a legal and regulatory framework to back them up. What needs to be done is simply to formalise these practices.<sup>26</sup> However, these approaches do not shield self-employed youth from risks of losing assets, inventory, and saving, or paying punishments and fines during raids by city auxiliary police. These police raids are usually uncoordinated with civilian officials, who allow urban youth to trade alongside streets extra-legally.

In appreciation of ongoing informal street trading arrangements, 94.5 per cent of respondents said open-air markets in the streets helped improve access to business premises among unemployed youth. Of the respondents, 47.5 per cent said they improved access to a large extent, and 26.5 per cent said they improved access very significantly. Of the respondents, 95.2 per cent said such efforts contributed positively to the creation of urban youth employment: 35.4 per cent said very significantly, 37.6 per cent said to a large extent, and 22.2 per cent cited to a small extent. These reactions from UHUE operators suggest that low-cost administrative measures to legitimise the pavement economy can contribute significantly to increasing urban youth employment. Of the respondents, 64.9 per cent said they favoured municipal authorities enacting by-laws that would allow urban youth to trade alongside streets in the style that is commonly known as 'machinga'. This style can be described as trading by walking along and selling alongside the streets. Liberalisation of street trading was strongly favoured by 22 per cent of the respondents, while 24.1 per cent favoured it, and 18.8 per cent favoured it to a small extent.

Such measures, respondents argued, would contribute to the acquisition of productive capabilities among youth. As already shown above, evidence from the study reveals that access to business premises is positively correlated with access to licenses, which forms the basis of urban youth participation in the financial sector, such as obtaining bank accounts and receiving microfinance funds. These become 'capability ladders', which are significant for increasing youth employment through UHUEs and making those enterprises more productive, innovative, and efficient.

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<sup>26</sup> We must note that the word 'formalise' as used here is not the same as in the property formalisation sense. There should not be an explicit desire to transform UHUEs into MSMEs. Each has separate and immediate purposes. Kweka and Fox (2011) rightly conclude that the main motivation of running a HE is usually not entrepreneurial. Poor households are driven to starting their HEs because of lack of jobs or because households need to earn income (push factors).

# 5

## Conclusion and Emerging Policy Options

### 5.1 Conclusion

The study concludes that informal enterprises are a significant source of employment for a growing number of urban youth in Tanzania. The principal hindrance to taking advantage of this opportunity is the widespread lack of business premises. The business premises exist, but they are not accessible to the youth who need them.

The study found that urban youth in G/Mboto and M/chini were constrained to different degrees by efforts to formalise their informal enterprises. The study concludes that the lack of business premises was the main constraint that contributed to urban youth unemployment.

As stated above, limitations of business premises persist despite available space that could be used by youth to source employment. The main reason behind the drive for formalisation is modelling urban growth in the prism of MSME-driven, export-oriented industrialisation. However, to the contrary, official statistics show that most urban employment is derived from services and trade-related activities. The study concludes by calling for a pragmatic approach to identify areas where UHUEs can conduct their activities, thus promoting poverty reduction by actual participation in the urban economy.

### 5.2 Recommendations

The study offers five key recommendations as follows:

#### **5.2.1 *The space of low-capability traders needs to be identified***

Municipal trade regulations need to recognise that there is an urban workforce in informal urban enterprises that will not respond positively to business formalisation. This sub-sector constitutes the main source of employment in urban areas. This area of employment is job rich and inclusive.

#### **5.2.2 *Primary motivation for running UHUEs is usually not entrepreneurial***

Business formalisation is based on the assumption that UHUEs have underlying entrepreneurial motives. That is why two-way traffic interventions are being made to capture such enterprises in the tax economy in return for business development services. The study recommends municipal regulations to recognise that UHUEs are formed because of low capabilities among urban youth. They lack jobs, business premises, and business development skills. They do not necessarily want to be 'formalised'.

#### **5.2.3 *Municipal reforms are needed for fostering urban youth employment through informal enterprises***

The study recommends a series of 'quick-win' municipal reforms to improve urban youth employment. The reforms should include the formation of UHUE forums that could promote the self-regulation of small urban traders. Such forums would facilitate dialogue between municipal authorities and UHUEs. Concerns such as simplified licensing, public safety, environmental management, and business development services could be addressed through such forums.

#### **5.2.4 *Liberalisation of the pavement economy***

Taking urban youth employment seriously will involve liberalising the urban pavement economy. Similar measures have been taken in India and Ghana. A simple identity card could suffice for traders to conduct their activities at agreed places and times. This measure could follow the model currently used by open gوليو markets.

It is important to recognise that pavement economies do not need to be disorderly. Self-regulation through forums can contribute to orderliness.

#### ***5.2.5 Urban road construction should take into account the need for business premises***

It is recommended that future road construction should take into account the acute need for business premises. Instead of complaining that UHUEs typically 'invade' road reserves, municipal authorities can plan for these eventualities. The study has established that location matters for UHUEs to conduct their business. Most prefer areas along bus stops and junction points. This need can be anticipated in road design.

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LGR 2 New challenges for local government revenue enhancement

LGR 1 About the Local Government Reform Project



