

# The Impact of Informal Sector Practices on Socio-Economic Status: A Case Study of Magharibi District-Zanzibar

Mohamed Jabir Makame and Ainebyoona Christine

Faculty of Business and Management Kampala International University, Western Campus

## ABSTRACT

This study examines the relationship between informal sector practices and people's socio-economic status in Magharibi District-Zanzibar. Through a descriptive correlational design, data were collected from 230 respondents across five sheikas. The findings reveal a significant relationship between informal sector practices and socio-economic status, with the majority of respondents earning their livelihood through informal sectors. Recommendations include formal training for participants and government collaboration to strengthen informal businesses, integrate them into formal sectors, and provide policy support for socio-economic development.

**Keywords:** Economic empowerment, formal sector, informal sector, social protection, socioeconomic status.

## INTRODUCTION

The majority of African economies continue to be highly reliant on the production and export of primary commodities, with little to no value addition and no connection to other economic sectors, even in spite of significant diversification into non-primary commodity industries like manufacturing and services. The majority of African nations have not been able to convert growth into faster socioeconomic development and equal employment creation because of this structural deficit. In fact, the pattern of socioeconomic development trends in Africa has been uneven in recent years; while good developments are still being noted in the majority of places, the rate of advancement is too slow to allow African nations to meet their objectives for social development. Specifically, most nations are unlikely to meet the majority of the Millennium Development Goals (MDGs) by the original 2015 deadline. Only 9% of informal businesses in Tunisia and 10% of those in Jamaica had access to bank loans between 1995 and 2004 [1].

Similar situations were seen in other African nations; for example, in Nigeria, just 10% of informal businesses had access to bank loans, while in Uganda, only 4% did. The enterprises' ability to obtain financing from micro-lending organisations was significantly reduced [2, 3]. Funds provided by certain MFIs in Nigeria were marginally important for subsistence but insufficient for lucrative ventures

[4]. It seems that borrowing from MFIs is more costly in Uganda than from traditional financial institutions [4]. In 1991, the Tanzania Informal Sector Survey (TISS) estimated that it made up 22% of all jobs in Tanzania. Apart from individuals whose primary jobs are in this field, 28% of employed men and 15% of employed women work in the unorganised sector at some point during the year [5]. Workers in businesses include family labourers, apprentices, owners/operators, and employees. Their conditions, the limitations they encounter, and the financial potential of businesses all vary along with their status.

Men and women were found to be concentrated in the same two sectors within Tanzania's informal economy, manufacturing/handicrafts and trade/restaurant/hotel (about 72% of all sole operators), according to TISS's categorization. Men are found in many walks of life, although women are more concentrated in certain fields and have little to no presence in industries like construction and transportation [5]. The Tanzanian government recognised the informal sector as a developing industry with the potential to provide future employment, therefore early in the 1990s it commissioned a survey on the subject. This national survey was conducted as a follow-up to a pilot research on Zanzibar's informal sector activities. Zanzibar has made some progress in the last ten

years in terms of economic performance and growth, with average yearly growth of roughly 4-5%, with GDP growth reaching 6.1% in 2006. The services and agricultural industries, which contribute 43% and 30% of GDP, respectively, have been the primary drivers of economic growth. The growth rates of the service sector, which primarily consists of tourism, and the agriculture sector are 19% and 15%, respectively. Between 2002 and 2006, the nominal income per capita increased from \$276 to USD 370. Conversely, the rate of inflation exceeded 10% [6]. Very high rates of poverty persist. These difficulties made the current study, which evaluated the informal sector's contribution to improving people's quality of life in Magharibi District-Zanzibar, necessary.

### **The Level of Informal Sectors practices in Magharibi District**

Social protection is a way of thinking about the procedures, laws, and other measures that address the risks and limitations that the poor and vulnerable face on the political, social, and economic fronts as well as the security issues. The goal is to reduce their poverty and sense of insecurity while increasing their ability to take part in the economy [6]. Gender-specific dangers and the roles that men and women play in providing social safety are closely related. Being the primary social safety providers in the home, extended family, and community, as well as taking care of sick relatives and HIV/AIDS orphans, puts women at risk. In the 1960s and 1970s, when Africa gained its freedom, youth did not represent a significant social issue.

Consequently, governments and funding institutions did not prioritise youngsters who were unemployed or considered "disadvantaged" [7]. Since then, nevertheless, worries about the socioeconomic status of youth in many parts of SSA and the likelihood of providing them with more chances for employment have grown [8, 9, 10, 11]. The majority of people's well-being has been negatively damaged by the long-lasting and deeply ingrained economic crises that has afflicted almost every country in SSA [9, 11]. Due to a reduction in real earnings and social sector spending per capita, many Africans have seen a decline in their wellbeing as a result of it [12]. This decline in welfare is evident in the general decline or reversals in major social indicators of progress as well as the widespread and deepening poverty in much of Sub-Saharan Africa. It appears that war, civil unrest, and environmental disasters have contributed to this decline in welfare in a number of these countries. Numerous reports from the World Bank, IMF, UNDP, and UNICEF indicate that more than 40% of the people in Sub-

Saharan Africa (SSA) live in absolute poverty or with a purchasing power parity (PPP) of less than \$1 per day. The implementation of economic reform programmes has, in certain cases, made matters worse for people by leading to business closures, changes to the civil service, and layoffs. Although there is a lack of detailed information on the state of youth in Africa, there is growing concern that a significant portion of this generation has been "marginalised," or "excluded," from access to healthcare, education, paid employment, and even the status of "adulthood," given the high and rising rate of poverty and the documented negative social effects of economic restructuring [12, 13]. But as will be seen later, young people have been particularly impacted in the work sector. People enter the informal sector according to their social position and skillset, and these factors also determine the viability and sustainability of their subsequent ventures. This is true even though starting an informal business may be an individual's response to dwindling and limited economic options. There is a growing body of research discussing difference in the unorganised sector [14].

Critical viewpoints regarding the informal sector perceive it as exploitative and devoid of opportunities for creating well-paying jobs. The informal sector, in particular, is made up of a class of people who work in basic survival tasks and have little room to grow. It is believed that in order for the transformative components of the informal sector to reach their full potential, funding for marketing, credit, and training is required (15). Although the informal sector might provide operators more control over resources, there is a claim that market forces alone are unable to realize this dynamic potential in the absence of institutional backing. In this way, the institutional framework and broader policies that govern the operations of informal sector businesses determine whether they succeed or fail.

It has been mentioned before Dawson and Encel [16] that the capacity of operators in the informal sector to seize new possibilities depends on several aspects, including their availability of resources like technology and skills. 'Non-adaptive' operators are more likely to be low-skilled informal sector workers using simple tech equipment. They stay at the bottom end of the informal sector activity range, where returns are lowest and competition is fiercest, since they are unable to adapt to market forces and possibilities. Poverty affects women in ways that go beyond social class boundaries. These are usually evaluated using data that uses the household as the unit of analysis and are based on factors such

household incomes, resource availability, social standing, etc. However, a wealth of research suggests that, depending on a person's position, their household status may not correspond with their status. This is especially relevant to the roles that women play in households. Male relatives such as fathers, spouses, brothers, and uncles frequently act as intermediaries between them and resources. Women are now more vulnerable to poverty as a result of this limited access to resources, the dissolution of traditional household roles, and austerity measures related to Tanzania's economic liberalisation.

Historically, women have been in charge of providing food and related supplies for the home. However, women increasingly play a bigger part in the more general upkeep of their households due to declining incomes and salaries, layoffs from public service, and a lack of opportunities in the private sector [17]. Just 20% of Tanzanian workers are wage and salary workers, which is a minimal percentage. Additionally, they are primarily found in lower-paying, less-skilled jobs and are among the formal sector employees most impacted by public service layoffs [18]. Nonetheless, women work in the informal sector for more than 35% of all jobs, and this percentage rises to over 42% in cities. Data also suggests that the number of women working in this sector is still increasing. Approximately half of the informal sector entrepreneurs in Zanzibar are women [18]. In Tanzania's mainland, women make up over 34% of workers in the unorganised sector and over 35% of operators. They are also significantly represented in the unskilled labour force, as well as in service and retail occupations, and as unpaid labour. The trade, restaurant, and hotel industries employ more than half of the women working in the unorganised sector [5]. On the other hand, women are more likely to work in temporary or seasonal jobs.

#### **The level of people's Socio-Economic status in Magharibi District**

The longevity and severity of poverty in the world, particularly in sub-Saharan Africa (SSA), seem to be closely linked to the job structure and the extremely low productivity. It is true that a greater portion of the working population worldwide makes their living in the precarious and unstable informal economy, but the biggest percentage of informal employment is found in Sub-Saharan Africa (SSA). Informal employment is thought to account for over 65% of non-agricultural jobs in developing Asia, 51% in Latin America, 48% in North Africa, and 72% in sub-Saharan Africa. If informal employment in

agriculture were taken into account, this percentage would be much higher in several nations [8].

People without safety nets against poverty are also among those who do not know if they will even obtain their meals each day, as Bennell [7] illustrates. Furthermore, the Economic and Social Research Foundation (ESRF), a different non-governmental organisation, claims that the primary cause of this is the breakdown of the conventional social safety nets against poverty, such as extended families, which provided capable care for the elderly and physically disabled. Poverty has always been a priority for both colonial and succeeding sovereign governments. Therefore, the government declared poverty, ignorance, and disease to be the three main adversaries of the country at the beginning of independence. The narrative continued with retired presidents Ali Hassan Mwinyi and Benjamin William Mkapa. The song, or rather challenge, remains the same under President Jakaya Mrisho Kikwete's leadership today. And for many generations to come, nothing will change.

In the underdeveloped world, women typically find more work in the informal sector than men. 60% or more of women workers in developing nations work in informal jobs (other than agriculture), with the exception of North Africa, where 43% of working women are employed in this capacity. 84% of female non-agricultural workers in sub-Saharan Africa and 63% of male non-agricultural workers work informally; in Latin America, the percentage is 58% for women and 48% for men. In Asia, the percentage of non-agricultural workers who are not farmers who work informally is about equal for men and women. The practice of street vending is widespread. Millions of people make their living entirely or in part from selling a wide variety of things on the streets, sidewalks, and other public spaces in cities, towns, and villages around the world. Many believed that street vending would disappear as contemporary retailing advanced and led to the opening of department stores, malls, and fixed retail operations.

However, even in places where local laws aim to outlaw or regulate it, street vending still exists today in the majority of the world's countries and has likely even grown. It stands for an aspect of traditional society that has persisted, changed, or surfaced again in contemporary ones. Many people consider street sellers to be an annoyance or a barrier to legitimate businesses and unhindered traffic flow. They frequently face harassment and eviction from their selling location by municipal authorities or other retailers because they usually lack legal status and recognition. Their belongings

might be seized, and arrests are frequent. Their workplaces are frequently unclean and dangerous. However, for many impoverished people, street hawking might be their only choice. Consequently, it

is appropriate to regard the freedom to sell within appropriate bounds or restrictions as a fundamental economic right.

**METHODOLOGY**

**Research design and sample size**

The study adopted correlational survey design, with a sample of 230 respondents drawn using a Krejcie

and Morgan [19] table as presented in table 1 below:

**Table 1: The sample selection and size**

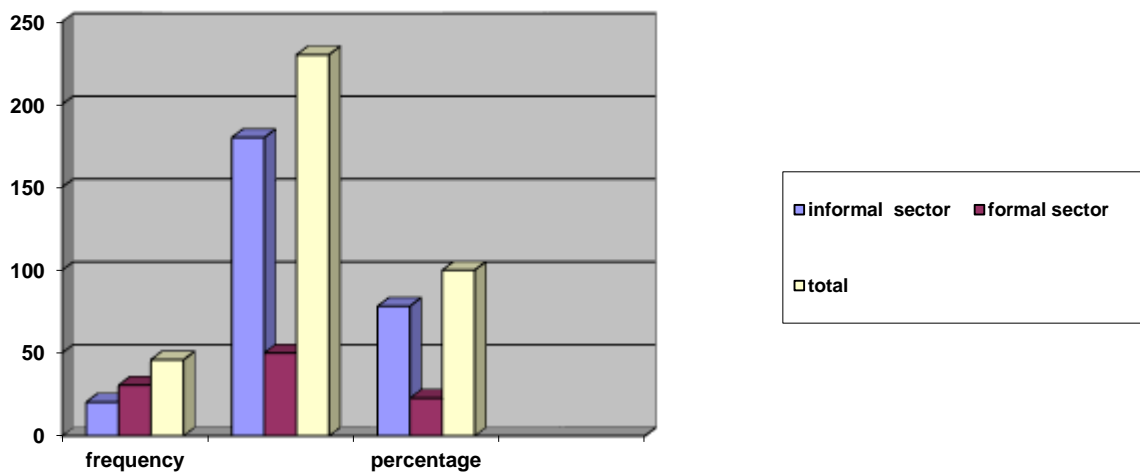
S/No	Name of Shehias	Population in Shehia	Male	Female	Sample size
	Magogoni	14,928	7,215	7,713	50
	Mwanakwerekwe	20,215	9,530	10,685	70
	Dimani	2,052	1,019	1,033	30
	Meli Nne	16,984	8,032	8,952	50
	Mtofaani	9,123	4,424	4,699	30
<b>Total</b>		<b>63,302</b>	<b>30,220</b>	<b>33,082</b>	<b>230</b>

**Sampling techniques**

Purposive and simple random sampling methods were used to obtain 230 respondents during the study. Purposive sampling technique was used to

solicit for respondents that were more knowledgeable about the issues under discussion.

**RESULTS AND DISCUSSION**



**Figure 1: Number of respondents in the informal and formal sector**

Figure 1 shows that 180(78%) respondents were involved in informal sector as major activities taken on their daily routine life cycle, and 22% are formal but their setout time to engage informal sector due to the hard life and experience of work before joining with formal sector such as administrator, accounting, planning and project designers thus

catalyst them to involved in informal sector by engaging in establish tours companies, NGOs, Cooperatives (SACCOS) and Security Guard company. This results from the field are in line with Abramo and Valenzuela [20] where the reliability of data, in 2003 an estimated 50.1% of women nonagricultural workers in Latin America were in

the informal sector, compared with only 44.1% of

their male counterparts.

**Table 2: Respondents' responses on the relationship between informal sector practice and people's socio-economic status**

Sector beneficiaries	Frequency	Percentage
Informal sector beneficiaries	180	78.3%
Formal sector beneficiaries	50	21.7%
<b>Total</b>	<b>230</b>	<b>100</b>

#### Field data 2014

Data from table 2 shows that the majority of respondents earn their living through informal sectors with 78.3% and few earning their living in formal sectors. This therefore means that the number of people who are involved direct with informal sector as a major means of promoting the social –economic status for people in Magharibi District. This enables them improve the economic growth and production in the district through the informal sectors practices. The microfinance institutions play major roles to support the informal sector practices in Magharibi district through five Shehias.

Hence, areas with many and improved informal sectors, the level of people's socio-economic status is

improved because they have worked as a source of employment especially to the youth and women. Therefore, this is in line during the early years of independence in the 1960s and 1970s, where young people in Africa did not pose a serious social problem. As a consequence, unemployed and 'disadvantaged' youth were not a major target for governments and funding agencies [13, 15]. Since then, however, concerns have been rising over the socio-economic situation of young people in much of SSA and the prospects of creating additional livelihood opportunities for them. This implies that there is a relationship between informal sector practice and people's socio-economic status.

#### CONCLUSION

Informal sector practices provide employment to those who may not be absorbed by the formal enterprises. In most countries, these businesses have contributed significantly to gross domestic product, although their activities cannot be captured in the national statistics. In this case, considering this significance, the study recommends formal training for the participants, for the businesses to continue into existence since they fill in the gap that is left vacant by most formal enterprises. The government in collaboration with Magharibi District Council and interested non- governmental organizations can come together and champion this cause so as solidify the foundations of the informal businesses in Magharibi District Council in order to make them strong firms and eventually graduate into formal businesses. This is healthy for the business owners and the economy as a whole.

#### Recommendations

The study equally suggests that the government should set out open places for informal sector like other sector in development planning in order to improve the socioeconomic development in Zanzibar. This will reduce the job seekers and jobless corners for youths and women while there are huge numbers for them in informal sector and they are still faced with high poverty hence this will improve their socioeconomic status and their wellbeings. More so, Zanzibar Government should organize policy, programs, laws, rules and regulation for informal sector for the purpose of uplifting the economic sector and guiding toward the apartheid system on entrepreneur in Municipality and Town council hence this will improve on people's socioeconomic status. Finally, the micro-finance institutions support the informal sector in terms of loans and grants.

#### REFERENCES

- Morrison, E. R. (1995). Information Usefulness and acquisition during organizational encounter. *Management Communication Quarterly*, 9, 131-155.
- Abumere, S.I. (1996). Nigeria's informal sector and policy response. Paper presented at the Development Policy Centre (DPC) Staff Seminar.
- Kappel, R., Lay, J. and Steiner, S. (2004). The missing links - uganda's economic reforms and pro-poor growth. Eschborn: German Institute for Global and Area Studies (GIGA) - Leibniz-Institut für Globale und Regionale Studien.
- Kappel, R.T. and Ishengoma, E. K. (2006). *Economic growth and poverty: does formalisation of informal enterprises matter?* GIGA Working Paper No 20.

5. Buberwa, S. B. and Mdamo, A. I. (1991). Roadmap study of the informal sector in mainland Tanzania. Retrieved from [https://www.ilo.org/wcmsp5/groups/public/@ed\\_emp/@emp\\_policy/@invest/documents/publication/wcms\\_asist\\_8365.pdf](https://www.ilo.org/wcmsp5/groups/public/@ed_emp/@emp_policy/@invest/documents/publication/wcms_asist_8365.pdf)
6. Moser, C. O. N. (2004). Urban violence and insecurity: an introductory roadmap. *Environment and Urbanization*, 16(2), 3-16.
7. Bennell, P. (2000). Improving youth livelihoods in Sub-Saharan Africa: a review of policies and programmes with particular reference to the link between sexual behavior and economic wellbeing. *International Development Research Centre*, 8(4), 45-59.
8. Curtain, R. (2000). *Towards a Youth Employment Strategy*. Report to the United Nations on Youth Employment.
9. Mayor, F. and Binde, J. (2001). *The world ahead: our future in the making*. London: Zed Books Publishers.
10. Grierson, J. (1997). Where There is no Job: Vocational Training for Self-Employment in Developing Countries, SKAT: University of Edinburgh Centre for African Studies.
11. Mkandawire, R. M. (1996). Experiences in youth policy and programme in commonwealth Africa. Unpublished Policy Document Prepared for the Commonwealth Youth Programme Department.
12. Basu, A. and Stewart, F. (1993). Structural adjustment policies and the poor in Africa: an analysis of the 1980s. Discussion paper in development economics, Series No. 10, University of Reading, Department of Economics, 1993.
13. Bennel, P. (2000). Improving Youth Livelihoods in SSA: a review of policies and programmes with particular emphasis on the link between sexual behaviour and economic wellbeing. Report to the International Development Center (IDRC).
14. Benno, N. (2008). Challenges of African growth: opportunities, constraints and strategic directions. Washington, DC: A World Bank Report. Retrieved from <https://documents.worldbank.org/en/publicationon/documents-reports/documentdetail/329071468010472960/challenges-of-african-growth-opportunities-constraints-and-strategic-directions>
15. Mulenga, L.C. (2000). Livelihoods of young people in Zambia's copperbelt and local responses'. Unpublished Ph.D Thesis. University of Wales at Cardiff.
16. Dawson, D. and Encel, N. (1993). Melatonin and sleep in humans. *J. Pineal Res.*, 15(1) 1-12.
17. Mustapha, A. (1992). *Structural adjustment and multiple modes of social livelihood in Nigeria*, in Gibbon, P., Bangura, Y., and Ofstad, A. (eds), *Authoritarianism, Democracy and Adjustment*.
18. David, T. (1994). Teachers' lives, critical incidents, and professional practice. *International Journal of Qualitative Studies in Education*, 7(1), 65-76, DOI: [10.1080/0951839940070105](https://doi.org/10.1080/0951839940070105)
19. Krejcie, R.V. and Morgan, D.W., (1970). Determining Sample Size for Research Activities. *Educational and Psychological Measurement*, 19(1), 234-2456.
20. Abramo, L. and Valenzuela, M. E. (2006). Inserción Laboral y Brechas de Equidad de Género en América Latina”, in Laís Abramo (ed.), *Trabajo Decente y*

**CITE AS: Mohamed Jabir Makame and Ainebyoona Christine (2024). The Impact of Informal Sector Practices on Socio-Economic Status: A Case Study of Magharibi District-Zanzibar. IAA Journal of Management 11(1):14-19. <https://doi.org/10.59298/IAAJAM/2024/111.1419.00>**