

Economic Potentials of the Informal Sector in Promoting Local Economic Development in Cities of Developing Countries: A Study of Dodoma City in Tanzania

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Abstract: *Unlike in the developed world where economies of cities much depend on the formal sector to boost their economic development, economies of cities in developing countries still depend on both the formal and informal sectors. In fact, literature shows that in some of the cities in developing countries, the informal sector is continuously expanding and larger than the formal sector. In addition, literature also shows that the informal sector through its economic potentials has the potential to promote Local Economic Development (LED) in cities where the sector does appear to be dominant. In view of these theoretical propositions, this study was carried out to empirically determine the extent to which informal economic potentials were promoting local economic development in cities of developing countries. Specifically, the study made use of Dodoma City in Tanzania in exploring this subject matter.*

Keywords: Economic Potentials, Informal Sector & Local Economic Development

1. Introduction

The role of the informal sector in promoting local economic development at country level has been widely studied and documented. For instance according to [1], the informal sector not only makes a significant contribution towards gross domestic product of a country, but also a major potential source of entrepreneurship, hence a source of income to especially the less educated and less skilled. As a result, the informal sector, due to its role in many developing economies is viewed by [2] as one of the principal driving forces in local economic development.

Notwithstanding this contribution, [3] points out that a general overview of the development literature indicates that economists appear to have continuously neglected the importance of the informal sector in the development process. According to the author, this situation may have arisen from predictions of the pioneer economists such as Arthur Lewis, as noted by [4]. In fact, history indicates that in the mid-1950s, Arthur, W. Lewis developed a theoretical model of economic development based on the assumption that there was an unlimited supply of labour in most developing countries and that this vast pool of surplus labour would be absorbed as the modern industrial sector in these countries grew [3]. It was then assumed that the traditional sector, comprised of petty traders, small-scale producers and a range of casual jobs would eventually be absorbed into the formal economy and subsequently disappear [3].

This view was however later overturned through the first International Labour Organization's mission to Africa in

1972. The mission recognized that the traditional or informal sector had not just persisted but expanded. In addition, the mission also observed that the informal sector activities, described as activities that are unrecognized, unrecorded, unprotected, and unregulated by the public authorities, were not confined to marginal activities but also included profitable enterprises in manufacturing [3].

Since then, the informal sector has become an important contributor to the development of various nations especially in the developing world. According to [5] as cited in [6], when the Structural Adjustment Programmes (SAPs) in the 1980s became widespread, and deregulation and globalization started to take their toll causing economic and financial crises, some people began to believe that the informal sector was the cure.

Today according to Mbaye [7], the informal sector matters in the development process because of its sheer size (for example about half of national output, more than 80% of total employment and 90% of new jobs in African low income countries), and its implications for economic development, notably its effects on employment opportunities, productivity, fiscal revenues, and growth. This finding is echoed by [8] who points out that despite large economic growth in Africa in the past decade, the informal sector remains huge. This is attributed to Africa's explosive population growth ('youth bulges'), which cannot be absorbed by the formal sector. Youth and women are overrepresented in an informal sector that is frequently associated with increasing poverty, irregularity, lack of social protection and poor working conditions. Lack of prospects for large numbers of young urban men in

particular, may lead to engaging in the informal sector so as to achieve more inclusive growth that is considered crucial.

In the current debate on the significance of the informal sector in developing countries, many authors have highlighted its economic role in stimulating the growth of the market economy, promoting a flexible labour market, stimulating productive activities, and absorbing retrenched labour from the formal sector [9]. In addition, the author points out those other authors have indicated that informal labour has become a convenient means of pursuing the global agenda of privatization and liberalization [9]. Generally, regardless of the definition of the informal sector, there is wide spread consensus that the sector is important to the developing world.

2. Problem Definition

Literature asserts that the informal sector through its economic potentials has the ability to contribute to local economic development of cities and nations at large. Unfortunately, there is no sufficient empirical literature to justify this assertion. This study therefore sought to examine this assertion by assessing the economic potentials of the informal sector towards the promotion of local economic development in cities of developing countries. Specifically, the study used Dodoma City in Tanzania as a study case.

3. Literature

Globally and especially in developing countries the informal sector is a reckoning force to boosting economic development as noted from cited literature in the previous sections of this report. As a result, its economic potentials vary from country to country on the basis of its relevance in a particular country. According to Tambo [10], a growing informal sector has an economical potential of acting as an important shock absorber especially in an economy where there is sluggish growth or a decline in formal sector jobs.

Consequently according to the author graduates from the education system who are desperate for jobs find themselves being engaged in low income or insecure informal sector jobs. Regarding this same issue, [11] remarks that the informal sector helps to absorb labour of new arrivals in urban areas. Hence according to the author without the existence of the informal sector, it is likely that a social economic crisis in urban areas could emerge and thus destabilize the whole society in general.

To further amplify the relevance of the informal sector in the area of job creation, [12], points out that the informal sector consists of very small scale economic activities that account for substantial and increasing share of urban employment in most developing countries where a large majority of the urban poor depend on such activities for their livelihood. As

such the sector continues to play a vital role in the economic development of nations particularly developing countries.

On other hand, Sanderson [13] elaborates that the performance of the informal sector has a major impact on the performance of the wider economy. Hence despite of the sector not falling under the armpit of the tax man, the sector indirectly contributes some significant amount of fiscal revenues through VAT. This is because the informal sector employs a significant amount of people who support the majority of the households through their purchasing activities of various household consumables and capital goods thus significantly contributing to VAT.

In addition, Misati [14], states that based on the relevance of the informal sector, its role towards private investment growth, generation of employment, income and poverty reduction cannot be overemphasized. Adding to the issue of poverty reduction, [12] indicates that the incessant wide spread of the urban informal sector continues to play a vital role in responding to the challenge of poverty reduction. [15] echoes the potential of the informal sector from the perspective that the existence of the informal market makes it possible for agents to engage in entrepreneurship or obtain scarce goods and services that otherwise would not exist.

In addition [16] points that the importance of the informal enterprise lies in its contribution to national economy. This is seconded by the [17], the informal sector has continued to provide opportunities to earn an income for millions of people in the developing world cities and towns. For instance [18], reiterates that informal activities are also known for contributing to apprenticeship training and provision of credit facilities.

In re-enforcing the role of the informal sector in promoting economic development, [19] also points out that the significance of the informal sector in low income developing countries, particularly in Sub-Saharan African economies, makes it a priority issue that should be mainstreamed in the development agenda of the international community. Its implications in terms of productivity, competitiveness, regulatory framework, and quality of employment are critical elements for moving resources to more productive agricultural and industrial sectors as well as better integrating those economies into regional and international value chains. In fact according to the author, the informal sector matters because of its sheer size (for example about half of national output, more than 80% of total employment and 90% of new jobs in African low income countries), and its implications for economic development, notably its effects on employment opportunities, productivity, fiscal revenues, and growth.

Based on the above global perspective, it is therefore imperative to point out that the contribution of the informal sector to economic development in countries of the

developing world and in cities of these countries is something that cannot be under estimated. Literature clearly shows that the informal sector has a vital role it is playing in boosting economic development in these countries and cities ranging from employment creation, income generation to increased productivity at city and national level.

In an urban slums report by [19] it was reported that livelihood of most inhabitants of Nairobi city comes from informal economic activities, and formal wage employment has been decreasing, as the public sector continues to retrench its employees. The informal sector where most of the poor belong has been noted to generate more employment than the formal sector. In fact according to the 2002 Economic Survey, [17] the contribution of the informal sector employment in Nairobi City has grown by 176 per cent compared to -0.43 per cent from the formal sector.

In Uganda, Kampala city is one of those cities whose economic development is to a large extent being boosted by informal activities. Hence, according to [20]; urban economy of Kampala is related to the various forms of trading most of which is informal.

In Ghana, the city of Accra is also said to be benefiting from the informal sector in boosting its economic development. A study by [21], the city benefits from the taxes paid and jobs created by the sector.

Similarly in Tanzania, the informal sector accommodates many people in terms of job creation. According to [22], in Tanzania, the 2009 Diagnosis Report on the Property and Business Formalization Programme (MKURABITA) reported that 97% of all businesses in Tanzania and 86% of all urban properties in Tanzania are extralegal. In addition, the 1991 Rural and Urban Informal Sector Study revealed that the informal sector was a source of basic goods and services which were relatively cheaper, appropriate and easily accessible to the majority of low-income earners.

In general, the sector as noted from literature is considered to positively be impacting economic development at different societal levels. In the context of this study, the key question that was investigated is on the extent to which the sector through its economic potentials was impacting local economic development.

4. Methodology

The study employed a Cross Sectional Design with a sample size of 60 informal business operators in Dodoma City. Five informal business categories were explored and they included; Restaurants, Salons, Welding works, Grocery shops and Furniture/Carpentry works. Multiple regression analysis technique was employed for data analysis. The analysed informal sector economic potentials as conceptualized from literature included employment

creation, income generation, other private investments establishments and absorption of new labour arrivals. The study regression equation used in the analysis was as stated below.

$LEDDC = \beta_0 + \beta_1 EMP + \beta_2 IG + \beta_3 PIE + \beta_4 NLA + \varepsilon$. Other tests that were carried out during the data analysis stage included the Linearity Test, Normality Test, Homoscedasticity Test, Test of Autocorrelation using the Durbin-Watson Test and the Test of Multicollinearity Using the Variance Inflation Factor (VIF).

5. Results and Discussion

5.1 General characteristics of study respondents

In the context of this study, the discussed general characteristics of the study respondents included; Sex/Gender, Education, Years engaged in a business activity, Marital Status, Household size and the section summary.

5.1.1 Sex/Gender

Study respondents were both female and male engaged in informal economic activities. Statistics showed that 45% (27) of the respondents were female while 55% (33) were male. In the context of this study, these results implied that if the informal sector was to be found contributing to local economic development in Dodoma city, then such contribution would be said to originate from male dominated informal activities. Table 1 provides details with regard to this aspect.

Table 1: Sex/Gender for Study Respondents

Sex	Frequency	Percentage
Female	27	45.0
Male	33	55.0
Total	60	100

Source: Based on Author's Survey, 2018

5.1.2 Education

Findings of the study showed that the majority of the study respondents had secondary and University/tertiary education. The cumulative statistics of this finding is 73.3% of which 41.7% (25) possessed secondary education qualifications while 31.6% (19) had University/tertiary education. A small percentage of 10% (6) revealed that they did not have any form of education. In the context of this study, this implies that to a large extent, majority of the study respondents constituting 90% (54) had some level of education and therefore capable of responding to the questions in the study as shown in Table 2.

Table 2: Education Levels of Study Respondents

Education Level	Frequency	Percentage
University/Tertiary	19	31.7
Secondary	25	41.7
Primary	10	16.7
None	6	10.0
Total	60	100

Source: Based on Author's Survey, 2018

5.1.3 Years Engaged in the Business Activity

The findings on years engaged in informal business activities by the study respondents indicated that the majority of the respondents amounting to 68.3% (41) had been involved in informal business activities for a period of between three (3) to five (5) years. The rest of the respondents totaling to 31.7% (19) had been in the business for a longer period of between five (5) to ten (10) years as presented in Table 3. These results in relation to the study imply that many informal businesses were still in their early periods of establishment and therefore most likely not to have significant contribution to local economic development in Dodoma City.

Table 3: Years Engaged in the Business

Business Years	Frequency	Percentage
3-5 Years	41	68.3
6 & Above	19	31.7
Total	60	100

Source: Based on Author's Survey, 2018

5.1.4 Marital Status

The sought to explore the marital status of those involved in informal economic activities so as to gauge whether the majority were single, married, divorced or even separated. Results on this aspect revealed that the majority of the respondents equating to 60% (36) were married while a few of them fell in the brackets of the divorced (5%) and separated (5%). A good number of singles (30%) were also involved in the study as shown in Table 4.

Table 4: Marital Status of Respondents

Marital Status	Frequency	Percentage
Married	36	60.0
Single	18	30.0
Separated	3	5.0
Divorced	3	5.0
Total	60	100

Source: Based on Author's Survey, 2018

5.1.5 Household Size

The direct impact that the household size may have on an economic activity triggered the need to explore the aspect of household size in this study. Findings on this aspect showed that 78.3% (47) of the study respondents had a household size of between 1-5 persons while 21.7% (13) had their household size above 5 persons as presented in Table 5.

Table 5: Household Size of Respondents

Age Group	Frequency	Percentage
1-5 Years	47	78.3
Above 5 Years	13	21.7
Total	60	100

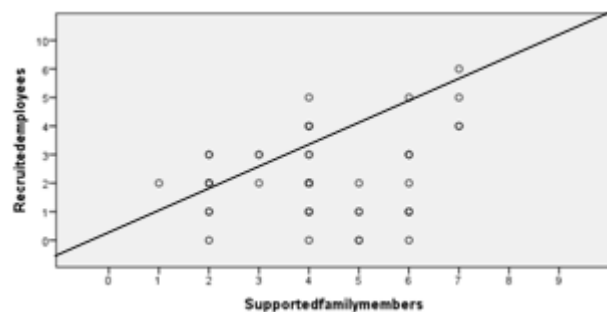
Source: Based on Author's Survey, 2018

5.2 Data Validity Test Results

Five data validity tests were carried out to test the validity and reliability of the data that had been collected and their results are as revealed below.

5.2.1 Linearity Test Results

A linearity test was carried out to test the existence of a linear relationship between the dependent variable and the independent variables. While this relationship could be checked using any of the independent variables involved in the regression model, the researcher opted to determine the relationship between employment creation as an informal activity component and increased ability to support family members as an effect on local economic development resulting from the creation of employment by the informal sector. A scatter plot was employed and showed that there was a linear relationship between the analyzed dependent and independent variables as presented in Figure 1.

**Figure 1: Linearity Test Results**

Source: Based on Author's Survey, 2018

5.2.2 Normality Test Results

This test compared the scores in the sample to a normally distributed set of scores with the same mean and standard deviation. Using the test of normality according to Kolmogorov-Smirnov and Shapiro-Wilk, both tests revealed that the P-Value was greater than 0.05 which implied that there was no evidence of any significant deviation from normality of the residual as revealed in Table 6.

Table 6: Test of Normality

	Kolmogorov-Smirnov ^a			Shapiro-Wilk		
	Stat	df	sig.	Stat	df	Sig.
Standardized Residual	.132	60	.246	.959	60	.108

Source: Based on Author's Survey, 2018

In addition, normality was further confirmed by looking at the normality plot in which it was revealed that the observed

residual values are close to the diagonal line which represents a true normal distribution as shown in Figure 2.

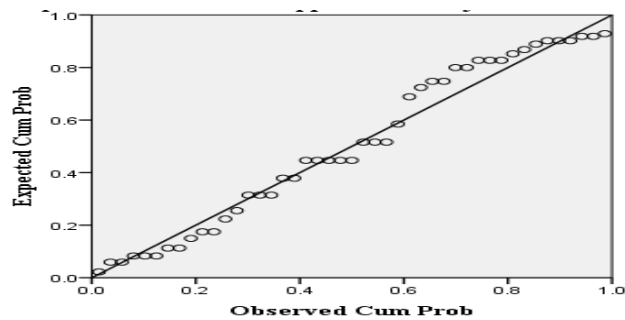


Figure 2: Normal P-P Plot for Normality
Source: Based on Author's Survey, 2018

5.3.3 Homoscedasticity test

Homoscedasticity was tested by looking at the observed variables along the line of best fit which revealed that the observed residual values were close to the line of best fit as presented in Figure 3.

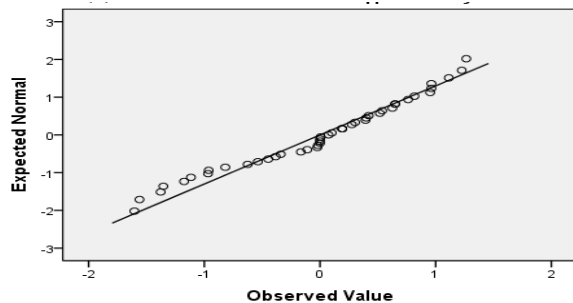


Figure 3: Manifestation of observed variables along the line of best fit

Source: Based on Author's Survey, 2018

5.3.4 Test of Autocorrelation using the Durbin-Watson Test

The Durbin-watson test was undertaken to test for autocorrelation also referred to as serial autocorrelation in the residuals of the regression analysis model used in the study. The researcher was aware of the fact that failure to test for autocorrelation in a study of this nature would have led to underestimating of the standard error and cause a thinking that the predictors are significant when they are not. Results of the test are as presented in Table 7.

Table 7: Durbin – Watson Test for Autocorrelation

R	R Square	Adjusted R Square	Durbin- Watson
.598 ^a	0.358	0.311	1.412

Source: Based on Author's Survey, 2018

According to [23], as a rule of thumb, test statistic values of the Durbin-watson test ranging from 1.5 to 2.5 are considered to be relatively normal. However any values outside this range could be cause for concern. This study

registered a Durbin- Watson statistic value of 1.412, which implied that there was a positive autocorrelation and no cause for concern.

5.3.5 Test of Multicollinearity Using the Variance Inflation Factor

As pointed out under section 3.9.5, the general rule of thumb for testing multicollinearity using VIF is that VIFs of 10 are signs of serious multicollinearity requiring correction. This study tested for multicollinearity in its variables and the results were as shown in Table 8.

Table 8: Multicollinearity Test Using VIF with Income Generation by Informal Business Owners as the Dependent Variable

Model	Collinearity Statistics	
	Tolerance	VIF
Recruited Employees	.256	3.911
Other Private Investment	.858	1.166
Absorb New Labour	.277	3.605
Income Earning Trend	.393	2.543
Supported Family Members	.510	1.962
Production Trend	.420	2.380

Source: Based on Author's Survey, 2018

Using income generation by business owners as the dependent variable as observed from the above results, none of the VIFs was 10 and above. To further examine multicollinearity in the data, additional testing was done using another dependent variable and equally results showed that none of the variables had a VIF of 10 or above it as shown in Table 9. This therefore confirms that there was no serious multicollinearity among the model variables to affect the study results.

Table 9: Multicollinearity Test Using VIF with Increased Production/ Supply of Life Sustaining Goods and Services as the Dependent Variable

Model	Collinearity Statistics	
	Tolerance	VIF
Recruited Employees	.241	4.148
Other Private Investment	.341	2.934
Absorb New Labour	.842	1.188
Income Earning Trend	.286	3.500
Supported Family Members	.330	3.027
Production Trend	.511	1.958

Source: Based on Author's Survey, 2018

5.3.6 Test of Variation in Dependent Variables due to changes in Independent Variables

In order to test any possible variation in dependent variables as a result changes in independent variables, this study employed the R Squared coefficient of determination which tells us the variation in dependent variables as a result of changes in the independent variables. Based on the results of the study, the statistical value of the R squared was found to be 0.358 which indicated that there was a variation of 35.8% in the contribution of informal sector economic

potentials to local economic development in Dodoma City. On the other hand, results of the R correlation coefficient revealed that there was a positive relationship between the study variables as shown by the R statistic value of 0.598 (59.8 %). Table 10 below provides a summary of this analysis.

Table 10: Test of Variation

R	R Square	Adjusted R Square
.598 ^a	0.358	0.311

Source: Based on Author's Survey, 2018

5.3.7 Test for Joint significance of the Explanatory Variable

This test aimed at testing the difference in means among variables for statistical significance. Generally, ANOVA analysis is intended to investigate whether the variation in the independent variables explain the observed variance in the outcome of local economic development. The analysis of variance findings showed that there was correlation between the independent variables and the dependent variables since the P-value of 0.000 was less than 0.05 as revealed in Table 11.

Table 11: ANOVA-Test

Model	Sum of Squares	ANOVA ^a	
		df	Sig.
Regression	75.840	3	.000 ^b
Residual	136.160	41	

Source: Based on Author's Survey, 2018

5.4 Model Parameters

The Wald Chi- Square was used to determine modal parameters that attempt to explain how changes in the independent variables correlate with shifts in the dependent variable as shown in Table 12.

Source	Wald Chi-Square	df	Sig.
(Intercept)	812.154	1	.000
Recruited employees	14.414	4	.006
Income generation	200.829	3	.000
Other private investment	.279	1	.597
Absorb new labour	40.363	2	.000

Source: Based on Author's Survey, 2018

Based on the computed model parameters, the model used in this study was as depicted below.

$$\text{LEDDC} = 812.154 + 14.414\text{EMP} + 200.829\text{IG} + 0.279\text{PIE} + 40.263\text{NLA}$$

Results of the model revealed that, three parameters i.e. recruited employees, income generation and absorbing of new labour have a statistical significance in explaining the dependent variable because their levels of significance were below 0.05 while one parameter i.e. other private investment lacked evidence to show that it is statistically significant in

explaining the dependent variable since its level of significance was above 0.05. According to [24]; a parameter is considered statistically significant under the Wald Chi-Square if such parameter is below 0.05. On the other hand, for every employment created as a potential in the informal sector has supports local economic development in Dodoma city by 14.414 time, income generation impact by 200.829 times, other private investment establishments impact by 0.279 times while new absorbed labour impacts by 40.263 times.

5.5 Nature and Composition of the Informal Sector in Dodoma City

In exploring the economic potentials of the informal sector towards promoting local economic development in cities of developing countries like Dodoma City, this study sought to begin by understanding the nature and composition of the informal sector in Dodoma City. Specifically, the focus was turned to the size and type of informal activities found in the City. Results of this exploration are as presented below.

5.5.1 Size of Informal Business/Economic Activities in Dodoma City

In terms of size of informal business/economic activities found in Dodoma City, results of the study revealed that the majority of the activities are categorized as small business/economic activities capable of employing not more than 5 people. Statistical figures showed that 90% (54) of the businesses/economic activities belonged to this category. Medium sized business/economic activities that are able to employ between 6 – 10 people were found to constitute 6.7% (4) while those considered as large business activities capable of employing more than 10 people constituted 3.3% (2). Figure 4 presents the findings on this aspect.

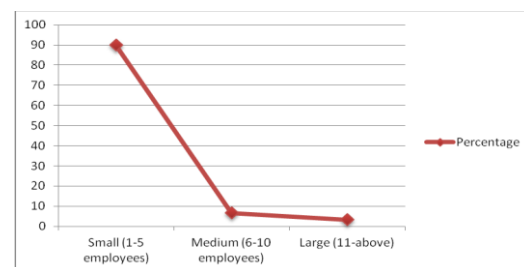


Figure 4: Size of Informal Business/Economic Activities

Source: Based on Author's Survey, 2018

5.5.2 Type of Informal Business/Economic Activities in Dodoma City

Informal business/economic activities constitute a sector with a variety of activities carried out. As such it was in the best interest of this study to explore this aspect with the intention of identifying the most dominating activities in Dodoma City. Results of the study showed that informal business/economic activities relating to restaurant (Mama Lishe) operations, saloons and grocery shops constitute a large of informal business activities carried out in Dodoma

City. Statistical results in relation to this matter showed that 75% (45) of the respondents were engaged in the above activities, 16.7% (10) engaged in furniture/carpentry works while 8.3% (5) in welding works as illustrated in Figure 5.



Figure 5: Type of Informal Business/Economic Activities

Source: Based on Author's Survey, 2018

5.6 Extent of Promotion of Local Economic Development in Dodoma City by Informal Sector Economic Potentials

First, in order to assess the extent of promotion of Local Economic Development (LED) in Dodoma City by informal sector economic potentials, the study employed two decision rules against the informal economic potential. For each economic potential, a P-value was established and compared against the 0.05 level of significance. The two decision rules were as follows;

- 1) If established P-value was greater than the 0.05 level of significance, such results indicated that there was no statistical evidence to support the promotion of local economic development by informal sector economic potentials.
- 2) If established P-value was found to be less than the 0.05 level of significance, then this implied that there was statistical evidence for the promotion of local economic development from the informal sector economic potentials.

Secondly, in determining the extent to which informal sector economic potentials were promoting local economic development in Dodoma City, the following informal sector economical potentials as captured from literature were used. Such potentials included the creation of employment, increase in income generation by informal business owners, encouraging other private investments to take place and also absorbing new labour arrivals. Through these potentials, the informal sector as revealed from literature is capable of promoting local economic development through increasing the production/ supply of life sustaining goods and services, increasing the ability of those working in the informal sector to support their family members and improving income earnings for those employed by owners of the informal businesses.

In the context of Dodoma City, results regarding the extent to which local economic development was being promoted

with regard to increased production/ supply of life sustaining goods and services, increased ability of those working in the informal sector to support their family members and improved income earnings for those employed by owners of the informal businesses through the creation of employment, increase in income generation by informal business owners, encouraging other private investments to take place and absorbing new labour arrivals were as follows;

5.6.1 Promoting Local Economic Development by increasing the production/ supply of life sustaining goods and services through informal sector economic potentials

According to [3] and [14], the informal sector through its economic potentials has the ability to promote local economic development by increasing production and supply of life sustaining goods and services. However, according to the results of this study; out of the four examined informal economic potentials, only the income generation economic potential promoted the increase in the production/supply of life sustaining goods and services since its P-value of 0.029 was less than 0.05 level of significance. For the case of the other three economic potentials that include employment creation, Other private investment and absorption of new labour arrivals, there was no statistical evidence to support their promotion of the increase in production/supply of life sustaining goods and services in Dodoma city since their P-values were all greater than 0.05 level of significance as revealed in Table 13.

Table 13: Overall promotion towards increasing production/supply of life sustaining goods and services

Model	B	Std. Error	Sig.
Employment creation	.139	.085	.109
Income generation	.127	.056	.029
Other private investment	.266	.362	.466
Absorb new labour	-.176	.162	.284

Source: Based on Author's Survey, 2018

In relation to the above findings, these results partially concur with the findings by [3] and [14] in the sense that the only informal sector economic potential supporting local economic development in Dodoma City as a result of increasing the production and supply of life sustaining goods is the income generated by owners of the informal business. They can use this income to produce more but on the contrary, the other three informal sector economic potentials i.e. employment creation, other private investments and absorption of new labour arrival have no statistical evidence to show their promotion of LED in Dodoma City with regard to increasing the production and supply of life sustaining goods.

5.6.2 Promoting Local Economic Development by improving income earnings for those employed by owners of informal business activities

In terms of promoting local economic development in Dodoma City by improving income earnings for those employed by owners of informal business activities, study results showed that the only informal economic potential that promoted LED through improved income earning by the employed was the income generation potential as its P-value of 0.000 was less than the significance level of 0.05. For all other economic potentials, there was no statistical evidence to support their promotion of LED through this informal sector attribute as revealed in Table 14.

Table 14: Overall promotion towards improving income earnings for those employed by owners of informal business activities

Model	B	Std. Error	Sig.
Employment creation	.003	.191	.989
Income generation	.575	.127	.000
Other private investment	.036	.818	.965
Absorb new labour	-.145	.367	.694

Source: Based on Author's Survey, 2018

As per the above results, it was again revealed that the promotion of LED in Dodoma City as a result of improving income earnings for those employed by owners of informal business activities through the established informal sector economical potentials as pointed out by [3] and [14] was partial. Income generation by owners of informal business activities was found to have impact on improving income of those employed by business owners while the rest of the economic potentials i.e. employment creation, other private investment and absorption of new labour arrivals lacked statistical evidence to support their contribution.

5.6.3 Promoting Local Economic Development by increasing ability of those engaged in informal sector activities to support family members

According to [3], [11] and [15], the informal sector through its economic potentials has the ability to promote local economic development in a number of ways. This study examined this perspective in relation to increasing the ability of those engaged in formal sector activities within Dodoma City to support their family members. Results of the study showed that there was no statistical evidence to support such promotion as the P-values of the four examined economic potentials were all greater than the significance level of 0.05 as shown in Table 15.

Table 15: Overall promotion towards increasing ability to support family members

Model	B	Std. Error	Sig.
Employment creation	.235	.169	.173
Income generation	.095	.112	.402
Other private investment	-.154	.724	.833
Absorb new labour	.247	.324	.451

Source: Based on Author's Survey, 2018

In the context of Dodoma City, these results do not concur with authors such as [3], [11], [14], and [15]. According to the study respondents, most informal sector businesses are still very small, incomes are low and pay very little which is not enough for one is to sufficiently support family members as expected.

5.7 Synthesis of Key Findings from the Study

This study was interested in determining the extent to which informal sector economic potentials were promoting local economic development in cities of developing countries. Using Dodoma City as a case study, the following are the key findings;

- First, promoting LED by increasing production and supply of life sustaining goods and services in Dodoma City through informal sector economic potentials such as the created employment, establishment of other private investments and absorbing new labour rivals cannot be statistically evidenced. This implies that the sector is not yet in position to create more employment, absorb new labour arrivals or even encourage those already working in it to establish new private investment.
- Secondly, promoting LED as a result of improving income earnings for those employed by owners of informal business activities in Dodoma City could also not be statically evidenced from the examined informal economic potentials. However, only income generation by owners of informal business activities as an informal economic potential demonstrated statically evidence towards improving income earnings of those employed in the sector within Dodoma City. Despite of this, these results showed that the informal sector in Dodoma City is still not in position to improve income earnings of those employed in the sector and for that matter, the sector's contribution to the promotion of LED in the city could not be statistically evidenced.
- Lastly, promoting LED as a result of increasing the ability of those engaged in informal sector activities to support family members in Dodoma City was found to completely lack statistical evidence for all the four examined informal sector economic potentials. This implied that all the four examined informal sector economic potentials were not in position to promote LED in the city on the basis of increasing the ability of those engaged in the sector to support their family members.

6. Conclusion

There is no doubt that the informal sector has a role to play when it comes to promoting local economic development in any given locality as pointed out by various authors cited in this paper. However, in the context of this study, the focus was at the city level and specifically on the newly declared city of Dodoma in Tanzania. The results of the study show that not much was coming from the informal sector to support the City's local economic development efforts and

therefore there is no sufficient statistical evidence to show that indeed the informal sector through its economic potentials is contributing to the promotion of LED in the City. This situation was largely attributed to the fact that the informal sector in Dodoma City is still dominated by very small informal business enterprises whose ability to create employment, produce more goods and services, absorb new labour arrivals and also accumulate more revenue to encourage the establishment of new private businesses cannot be statistically evidenced.

Key Lessons to Guide Policy formulation from the Study

Based on the results and conclusion made in this study, four key lessons to guide policy formulation in relation to promoting of local economic development through economic potentials of the informal sector were reached. These lessons are as explained below;

- Whether large or small, the informal sector in its unregulated state will not contribute as much to local economic development as the formal sector. This implies that effort has to be invested in directing the informal sector towards formalization.
- The potential of the formal sector to support local economic development in any city may be compromised if the informal sector is left to outgrow the formal sector. This is attributed to the fact that the informal sector does not easily feed into the equation of local economic development as it is the case with the formal sector.
- The informal sector is a survival oriented sector for those engaged in it and therefore its contribution to local economic development in cities is statistically minimal.
- The owners of informal sector business activities are better placed to benefit and develop from the sector than those seeking to be employed. This is attributed to the fact that the payments made are of exploitative nature. As such, formalizing informal activities would be more helpful to people who find themselves employed by the exploiting business owners in the informal sector.

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