

Entry and Stay in the Informal Economy: Qualitative Findings from a Least Developed Country

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This study explores the factors determining the entry and stay of entrepreneurs in the informal economy in a Least Developed Country (LDC): Tanzania. Qualitative data from a focus group with six experts, and individual interviews with two experts and 15 entrepreneurs from the informal economy, were analysed. The results show that (1) necessity motivations are important for the entry and stay of entrepreneurs, as well as (2) the *unattractive* factors of the formal economy (e.g. degree of excessive regulations regarding high taxes)/*attractive* factors of the informal economy (e.g. little procedures, low capital requirements) and (3) low levels of education possessed by entrepreneurs, emerged as essential. This study enriches the literature with personal narratives of entrepreneurial activities from the micro level. Therefore, many detailed factors are revealed of the lives of entrepreneurs and experts, dealing in one way or the other with the informal economy.

Keywords: Developing countries; education; entrepreneurial motivation; entrepreneurs.

INTRODUCTION

In entrepreneurship literature, entrepreneurs can be seen as the creators of organisations (Gartner, 1988). However, more contextualised descriptions of entrepreneurs are made for specific areas. One of such areas is the world's "Least Developed Countries" (LDCs) (see, for a detailed description: United Nations, 2019b). There is an increasing call for more studies in LDCs, because this is one of the last under-represented scholarly areas in the world, yet, is gaining rapid economic and social importance in recent years (Eijdenberg *et al.*, 2019a, 2019b; Khayesi *et al.*, 2014; Naudé, 2011).

In LDCs, millions of people are active as entrepreneurs: owning and managing small businesses to be employed and to generate income (Choongo, 2017; Eyana *et al.*, 2017; Frese *et al.*, 2007). These small businesses "are often one-person operations, poorly managed, sometimes temporary, generally less productive, usually based on a marginal capital value, and mainly informal" (Kiggundu, 2002, p. 248). Sometimes these small businesses do employ a few people, in such a case mostly relatives from the extended family (Khavul *et al.*, 2009).

LDCs are shaped by a substantial size of the informal economy in which previously-mentioned entrepreneurs can be found abundantly. Estimated numbers are that more than two-third of the gross domestic product (GDP) stem from employment in the informal economy (Schneider, 2002; International Labour Organization, 2002). The informal economy is defined as the "economic activities that occur outside of formal institutional boundaries (i.e. illegal) yet fall within informal institutional boundaries (i.e. legitimate)" (Webb *et al.*, 2013a, p. 3). In practice, these activities boil down to particularly tax and regulation avoidance behavior, yet, are not necessarily criminal in nature. Examples are the many forms of street-vending. Because the informal economy is difficult to capture, still "a large gap exists between the significant importance of the informal economy to commerce around the world and the small amount of the informal economy research with which entrepreneurship and strategic management scholars have been involved" (Webb *et al.*, 2014, p. 1). Thus, studying the informal economy is important, because entrepreneurial activities in this area contribute to economic development, and, consequently, poverty alleviation (Cragg and King, 1988; Eijdenberg, 2016). This study adds value to what is known about the informal economy by focussing on the entrepreneurial activities within and around this area.

Up till now, entrepreneurial activity has been largely studied at the macro (i.e. country, society) and meso (i.e. sector, regional) levels, based on large

surveys, secondary data and cross-country comparisons (Manolova *et al.*, 2008; Stenholm *et al.*, 2013; Wennekers *et al.*, 2005). What is missing is a focus on what is happening at the micro level, that is within and around the entrepreneur (Eijdenberg *et al.*, 2019b). Admittedly, what entrepreneurs actually do when they own and manage a small business is “perhaps the most under-researched aspect of venture creation” (Shook *et al.*, 2003, p. 390). Possible reasons why entrepreneurial activities at the micro level, especially concerning *the entry and stay in the informal economy*, are under-researched can be the difficulties for scholars to collect data (Kolk and Van Tulder, 2010; Eijdenberg, 2017; Kriauciunas *et al.*, 2011), as well as the absence of success stories and examples of top performers (e.g. those who have grown out, or have never entered, the informal economy) (Bureau and Fendt, 2011; Khavul *et al.*, 2009; Webb *et al.*, 2013a, 2014) and the (perception of a) negligible contribution of informal economies in LDCs to the world’s economy, especially in comparison with advanced industries in developed countries (Cuervo-Cazurra and Genc, 2008). Therefore, this study explores the following research question: “*What are the most important factors that determine the entry and stay of entrepreneurs in the informal economy of an LDC?*”

This research question is explored based on analysing qualitative data collected in Dar Es Salaam, Tanzania. The findings from a focus group discussion with six experts, and individual interviews with two experts and 15 entrepreneurs from the informal economy enrich the existing literature with personal experiences of entrepreneurial activities (Adom and Williams, 2012; Williams and Nadin, 2012; Williams and Youssef, 2013). These respondents have explained in detail how and why: (1) entrepreneurial motivation, (2) the informal economy (i.e. entrepreneurs’ perceived *attractive* factors thereof; but also the perceived *unattractive* factors of the formal economy), and (3) low levels of education are factors that strongly influence the entry and stay of entrepreneurs in the informal economy (these three subjects will be further discussed in the next section). As the main theoretical contribution of this paper, such personal experiences showcase what is happening at the micro level (viz. “everyday life”), giving the entrepreneurs a voice to express their personal experiences and stories (Bruni *et al.*, 2004; Engstrom, 2012; Steyaert, 2004, 2007). By doing so, this study responds to the call of scholars insisting on the need for conducting more research on the informal economy in LDCs (Adom and Williams, 2012; Eijdenberg *et al.*, 2019b; Naudé, 2008; Webb *et al.*, 2009, 2013b).

This paper is structured as follows: the next section is the literature review, followed by the methodology. The findings of the study are

presented in the section thereafter. The paper ends with a concluding discussion.

LITERATURE REVIEW

The subjects introduced in this section emerged as important from the data analyses. Therefore, a discussion of background literature is provided.

Entrepreneurial Motivation

The entry and stay of entrepreneurs in the informal economy have largely to do with their motivation. Entrepreneurial motivation is defined as instincts driving the behaviour of an individual towards the creation of an organisation (Carsrud and Brännback, 2011; Dawson and Henley, 2012; Hechavarria and Reynolds, 2009; Kirkwood, 2009). Entrepreneurial motivation can be classified into different categories, for example: pull factors and push factors akin to opportunity motivations and necessity motivations, respectively (Clark *et al.*, 2018; Hessels *et al.*, 2008; Segal *et al.*, 2005; Tlaiss, 2015; Williams and Williams, 2012). Opportunity motivations are associated with “people who choose to start their own business by taking advantage of a perceived entrepreneurial opportunity” (Hechavarria and Reynolds, 2009, p. 418). Necessity motivations are related to “people who start a business because other employment options are either absent or unsatisfactory” (*Ibid.*). On a more detailed level, opportunity motivations — also referred to as extrinsic motives — are related to the need for achievement and independence, an intention for growth, self-actualisation, increased status and reputation (Yalcin and Kapu, 2008). In contrast, necessity motivations — also referred to as intrinsic motives — are related to the need for meeting family responsibilities, intention to support the family, taking care of the children, and problems with finding the appropriate job (*Ibid.*)

The majority of the entrepreneurs in LDCs are generally motivated by necessity (Adom and Williams, 2012). However, more nuanced explanations have been proposed (Schjoedt and Shaver, 2007) and a mix of opportunity and necessity motivations has also been observed (Eijdenberg *et al.*, 2015; Eijdenberg and Masurel, 2013; Langevang *et al.*, 2012). Motivations may also be fluid, in other words: they can change over time. For example, entrepreneurs may have started out of necessity in the entry stage of the business; but, because of a successful continuing operation, necessity turns into opportunity motivation in later stages of the business

(Williams and Williams, 2014). Regarding necessity motivations in LDCs, Achua and Lussier (2014) studied three different groups of entrepreneurs and found that a substantial number (64%) of the entrepreneurs from the informal economy are predominantly necessity-motivated. Similarly, most of the entrepreneurs with necessity motivations in LDCs are very poor, suffering from unemployment and difficult economic conditions (Williams and Youssef, 2013). As a result, hardships of life push entrepreneurs into the informal type of self-employment (Chu *et al.*, 2007; Eijdenberg and Borner, 2017). As Deli (2011) noted, the high level of country-wide unemployment compels entrepreneurs with the necessity motivation into informal self-employment. Hence, it can be concluded that necessity motivation influences entrepreneurs into entering and staying in the informal economy because it is the only alternative for them to survive (Williams and Round, 2008).

The Informal Economy

Excessive regulations regarding (high) taxes in the formal economy, amongst many other factors, make people move to the informal economy. This sector comprises the business activities that are unregulated and unregistered by the government authorities, yet, they do bring forth legal goods and services (Bruton *et al.*, 2012; Schneider, 2000). This domain is recognised by different names, amongst them include: “irregular economy”, “black economy”, “hidden economy”, “shadow economy”, “parallel economy”, “non-monetary economy”, “second economy”, and “off the book economy” (see: Gibbs *et al.*, 2014; Gulzar *et al.*, 2010). Many entrepreneurs enter and stay in the informal economy because their income generating activities are carried out as a means of survival and are outside the government regulatory framework (Williams and Windebank, 1993). Economically, the informal economy is a free entry business market, which provides opportunities mainly to illiterate, unskilled and marginalised entrepreneurs (Webb *et al.*, 2013a,b).

Webb *et al.* (2009) distinguish between the formal economy and the informal economy regarding legal and legitimate dimensions. Businesses in the formal economy are not only legally created, but they are also legitimate and have a wide societal acceptance. On the contrary, businesses from the informal economy are operating without legal support. However, their entrepreneurial activities are desirable, proper and appropriate within the norms, values, and beliefs in the society (*Ibid.*). This means that both the formal and informal economy are legitimately honoured by society.

Examples of entrepreneurial activities are selling furniture items, second-hand clothes, tailoring, and, especially, much street-vending. The boundary between the formal economy and the informal economy is created by the institutional frameworks in terms of laws, regulations, and policies which tend to support the formal economy. Despite the fact that the formal economy is predominantly recognised by institutions, recent evidence from LDCs has shown that institutional-based frameworks have become ineffective, and, thus, encourage the entry and stay of entrepreneurs in the informal economy (Eijdenberg, 2016; Gibbs *et al.*, 2014). Institutional factors of the formal economy include complicated taxation and many other bureaucratic regulations (Gerxhani, 2004). To illustrate, it takes 28 days at significant cost to register a new business in Tanzania and even longer in other LDCs on the African continent (World Bank, 2019a). Indeed, the intensity and excessive regulations, excessive laws and policies, and high burden of taxes contribute substantially to the increase in number of informal small businesses (Cling *et al.*, 2012; Schneider, 2000; Schneider *et al.*, 2010; Schneider and Enste, 2000; Schneider and Hametner, 2014; Schneider and Neck, 1993; Wells, 2007). The majority of the entrepreneurs in the informal economy feel that the policy-making bodies do not support their efforts to the country's economic development (Startienė and Trimonis, 2010), and, thus, they remain to operate beyond government regulations (Enste, 2010; Torosyan and Filer, 2014) At the same time, the informal economy is often considered as a cheap, convenient, easy and quick way to earn some money — which is all not necessarily perceived as a negative thing by entrepreneurs (Eijdenberg *et al.*, 2019b).

Education Level

Among other important factors, what matters with the entrepreneurs' decisions to enter and stay in the informal economy is their educational background. Education is the most important antecedent of the decision of creating a business in either the formal or informal economy (Eggoh *et al.*, 2015). Scholars argue that education is an important tool in transforming ideas into products and services (Corbett, 2005; Ucbasaran *et al.*, 2003, 2009). Education provides skills used by entrepreneurs in their production processes (Becker, 1993; Mahoney and Kor, 2015). Entrepreneurs with a higher level of education can turn the ideas into client needs (regarding products) faster than entrepreneurs with a lower level of education (Grable, 2015). Entrepreneurs in the former category can enhance their ability to identify entrepreneurial opportunities because education increases the

entrepreneur's skills and impact on business growth (Eggoh *et al.*, 2015; Gielnik *et al.*, 2014; Jorge Moreno, 2008; Schoonjans *et al.*, 2013).

Education may lead to increased financial success. For example, Woldie *et al.* (2008) found in Nigeria that businesses run by entrepreneurs with a diploma or university degree indicate higher growth than those run by entrepreneurs with a primary education level. Furthermore, a study by McPherson (1992) in Uganda, Tanzania and Botswana revealed that businesses run by entrepreneurs with vocational training education grow faster than businesses run by entrepreneurs with untrained vocational education. Obviously, most of the entrepreneurs in LDCs' informal economies have received little to no education (Eijdenberg, 2016; Eijdenberg *et al.*, 2019a; Eijdenberg and Borner, 2017), forcing them to once enter, as well as stay for long (or forever) in the informal economy (Roy and Wheeler, 2006). This makes entrepreneurs less likely to even think of formalised businesses, instead they tend to create more, in sequence or at the same time, small businesses in the informal economy and sell products to the local market area (Eijdenberg, 2016; Eijdenberg and Masurel, 2013).

METHODOLOGY

Research Design

This study used a qualitative research approach which entailed a focus group discussion and individual interviews with experts and entrepreneurs from the informal economy. This research design is comparable with other studies in LDCs such as Eijdenberg *et al.* (2019b). Qualitative interviews provide detailed explanations about motivations, perceptions, beliefs, and behaviours of entrepreneurs (Saunders *et al.*, 2011). Amongst the most often used qualitative methods are focus groups and individual interviews; this is because the two methods provide rich, valuable information and involve low costs for researchers.

Data Sources

Tanzania was the context of the study. Tanzania is a typical LDC (United Nations, 2019a). LDCs are characterised by poor infrastructure, impoverishment, and low life expectancy, as well as market and government failure (Organisation for Economic Co-operation and Development, 2019; Rivera-Santos *et al.*, 2015). To illustrate, Tanzania's GDP per capita in 2017

was USD 936,33 (World Bank, 2019b) making it one of the poorest countries of the world with a substantial estimated informal economy.

The data were collected in the period November 2015–March 2016 in Dar Es Salaam, the main commercial city in Tanzania with a working population of 3,2 million people (United Republic of Tanzania, 2014). The city is endowed with a considerable number of small businesses from the informal economy. Currently, the city accommodates 27.3% of all Tanzanian entrepreneurs from the informal economy engaged in economic activities (*Ibid.*).

The sources of data include a focus group discussion with six experts from the “Property and Business Formalisation Programme” (PBFP), popularly known in Kiswahili as “Mpango wa Kurasimisha Rasilimali na Biashara za Wanyonge Tanzania” (MKURABITA). MKURABITA is a program established in 2004 by the government of Tanzania to facilitate the formalisation of property and business assets of entrepreneurs from the informal economy into legally held and formally operated entities. Moreover, individual interviews were held with two experts from “Tanzania Chamber of Commerce, Industry and Agriculture” (TCCIA) and “Business Registration and Licensing Agency” (BRELA). These are public institutions overseeing the conduct of small business activities through training and harmonising the business environment, and the legal administration of businesses. Finally, 15 individual interviews with entrepreneurs from the informal economy were conducted. Table 1 provides the most important pertinent information of the respondents.

Process of Data Collection

First, the first author of this paper (hereafter referred to as: “the researcher”) collected all data starting with the focus group. The focus group discussion was conducted in a conference room at the MKURABITA head office.¹ Participants were given enough time to air their views based on the themes provided by the researcher — who acted as the moderator of the focus group. The role of the researcher was to guide the discussion (Austin and Delaney, 1998), and to keep the discussion within the boundaries of the themes (Blumberg *et al.*, 2008); by asking specific participants to clarify the meaning of a particular point of view before the researcher summarises the discussion (*Ibid.*). The study benefited from the focus group, because

¹ Property and Business Formalisation Programme (MKURABITA), Plot No. 20, Ocean Road, P.O. Box 7975, Dar Es Salaam, Tanzania.

Table 1. Pertinent Information of the Respondents.

Coded Name of Respondent	Age	Gender	Affiliated Organisation or Type of Business	Title or Position	Type of Respondent
FGD. 01	Above 50	Male	MKURABITA	Business formalisation officer	Focus group
FGD. 02	40	Male	MKURABITA	Property formalisation officer	
FGD. 03	Above 50	Male	MKURABITA	Urban property formalisation manager	
FGD. 04	Above 50	Male	MKURABITA	Business formalisation officer	
FGD. 05	Above 50	Male	MKURABITA	Senior officer	
FGD. 06	Above 50	Male	MKURABITA	Urban property formalisation manager	
Exp. 01	Above 50	Male	TCCIA	Director	Expert
Exp. 02	Above 50	Male	BRELA	Deputy registrar	
Own. 01	30	Male	Selling juice	Entrepreneur	Entrepreneur
Own. 02	31	Male	Second-hand clothes		
Own. 03	28	Female	Tailoring		
Own. 04	27	Female	Selling furniture		
Own. 05	31	Male	Second-hand clothes		
Own. 06	30	Female	Retail shop		
Own. 07	30	Male	Selling furniture		
Own. 08	29	Male	Tailoring		

Table 1. (Continued)

Coded Name of Respondent	Age	Gender	Affiliated Organisation or Type of Business	Title or Position	Type of Respondent
Own. 09	29	Male	Cloth-making		
Own. 10	29	Female	Tailoring		
Own. 11	33	Female	Retail shop		
Own. 12	30	Male	Retail shop		
Own. 13	30	Male	Selling furniture		
Own. 14	25	Male	Retail shop		
Own. 15	29	Female	Soft drinks		

Note that in the first column of Table 1, pseudonyms are used to maintain ethics of confidentiality which requires that the rights of the respondents' identities need to be kept confidential unless permission is granted. The researcher did not obtain written consent from the respondents to waive their rights of confidentiality. Thus, the pseudonyms "FGD. 01" (i.e. "Focus group discussant 01") to "FGD. 06"; "Exp. 01" (i.e. "Expert 01") and "Exp. 02"; and "Own. 01" (i.e. "Owner 01") to "Own. 15", were used for the six members of the focus group, two experts and 15 entrepreneurs.

participants were more familiar with each other, and each member had enough time to participate and involve actively in the discussion. The focus group discussion lasted for one hour and twelve minutes.

Second, the interviews with the two experts were conducted at the premises of TCCIA and BRELA head offices.² The participants from the focus group discussion and the experts focussed on the themes of identification and exploitation of entrepreneurial opportunities, business growth, competence development, entrepreneurial motivation, the impact of education levels on entrepreneurs from the informal economy and factors causing entrepreneurs to enter and stay in the informal economy. The themes are presented with the accompanying questions as the interview guide in Table 2.³ These themes and accompanying questions (including different topics, such as business growth and competence development) were meant to structure and, especially, build up lively conversations in which respondents could also share their opinions whether they agreed or disagreed on certain statements (same applies for the interviews with the entrepreneurs).

Third, data were collected from individual interviews with 15 entrepreneurs from the informal economy. During the interviews, the entrepreneurs were required to meet the criteria of being in the small business operations for at least three years (therefore, securing a sufficient business experience to dwell on. See for comparable studies: [Eyana et al., 2017](#); [Eijdenberg et al., 2019a](#)), and employing a small number of workers ranging from one to 10. A semi-structured interview guide was used, see Table 3. Entrepreneurs from the informal economy were inquired to provide explanations about the themes emerged from the interview guide ([Blumberg et al., 2008](#)). The ordering and structuring of the themes in the interviews were slightly different from those used in the focus group discussion and expert interviews. The restructuring was done purposely to allow a better flow of the conversation (*Ibid.*). The themes used for the interview included the identification of entrepreneurial opportunities, the exploitation of identified entrepreneurial opportunities, business growth, the motivation of entrepreneurs from the informal economy, the impact of

²Business Registrations and Licensing Agency (BRELA), Ushirika Building Mnazi Mmoja, P.O. Box 9393, Dar Es Salaam, Tanzania; Tanzania Chamber of Commerce, Industry and Agriculture (TCCIA), P.O. Box 9713, Second Floor, Twiga House, Samora Avenue, 21 Ghana Avenue, Dar Es Salaam, Tanzania.

³Note that the questions in the interview guide, as shown in Table 2, were possible questions. Not all of these questions were asked in the same way. Some of the questions were already answered by respondents while talking, and, therefore, had become redundant during the remainder of the interview. This also applies for the interview guide in Table 3.

Table 2. Interview Guide for the Focus Group Discussion and Expert Interviews.

Theme	Questions
Identification and exploitation of entrepreneurial opportunities	<p>Entrepreneurs from formal small businesses identify more opportunities than entrepreneurs from the informal small businesses. Do you agree with the statement or not; if you agree, what is the reason for that; if not: what is the reason for that?</p> <p>Entrepreneurs from formal small businesses exploit more opportunities than entrepreneurs from the informal small businesses. Do you agree with the statement or not? If you agree, what is the reason for that? If not: what is the reason for that?</p>
Business growth	<p>It is explained in the literature that the number of employees is an indication of growth in a small business. Can the number of employees be used as a measure of growth in Tanzania environment?</p> <p>It is explained that informal small businesses grow faster than formal small businesses because of the great number of people employed. Do you agree with the statement or not? If you agree, what is the reason for that? If not: what is the reason for that?</p>
Competence development	<p>Do you think that passion, need for achievement, tenacity, internal locus of control, tolerance for ambiguity, goal setting, risk-taking propensity, self-efficacy, proactivity, and creativity can be used to measure the development of competences between entrepreneurs from formal and informal economies in Tanzania?</p> <p>Tolerance for ambiguity, goal setting, risk-taking propensity, self-efficacy and proactivity competences are more developed by formal entrepreneurs than informal entrepreneurs. Do you agree with the statement or not? If you agree, what is the reason for that? If not: what is the reason for that?</p>
Entrepreneurial motivation	<p>Do you agree that access to finance, financial success, freedom from government, networking, recognition, self-realisation, societal commitment, business expansion, independence, and innovation are factors motivating entrepreneurs from informal small businesses to shift to the formal sector? If you agree, what is the reason for that? If not: what is the reason for that?</p>

Table 2. (Continued)

Theme	Questions
	<p>It is explained that access to finance is the best motivating factor compared with financial success, freedom from government, and networking. Do you agree with the statement or not? If you agree, what is the reason for that? If not: what is the reason for that?</p> <p>It is explained that certain motivations (recognition, self-realisation, societal commitment, business expansion and independence) are moderately honoured in developing countries like Tanzania. Do you agree with the results or not? If you agree, what is the reason for that? If not: what is the reason for that?</p> <p>Also, it is found that innovation is the least motivating factor that influence entrepreneurs from informal small businesses to shift to the formal economy in developing countries like Tanzania. Do you agree with the statement or not? If you agree, what is the reason for that? If not: what is the reason for that?</p>
Education levels	<p>It is explained that skills and knowledge are the most important barriers for the exploitation of identified opportunities to most of the entrepreneurs in developing countries like Tanzania. Do you agree with the results or not? If you agree, what is the reason for that? If not, what is the reason for that?</p> <p>It is found that informal entrepreneurs possess a low level of education in developing countries like Tanzania. Do you agree with the results or not? If you agree, what is the reason for that? If not, what is the reason for that?</p>
Factors causing entrepreneurs to enter and stay in the informal economy	<p>In literature, it is explained that the majority of entrepreneurs do not formalise their businesses because of excessive regulations, the burden of taxes, etc. What are the factors causing entrepreneurs to enter and stay within the informal economy in Tanzania?</p>

education level, and the factors causing entrepreneurs to enter and stay in the informal economy.

A voice recorder was used to record all interviews. An interview guide for the focus group and the interviews was prepared in both English and

Table 3. Interview Guide for Entrepreneurs.

Theme	Questions
Identification and exploitation of entrepreneurial opportunities	<p>It is explained that entrepreneurs from formal small businesses identify more opportunities than entrepreneurs from informal small businesses. Do you agree with the results or not; if you agree, what is the reason for that; if not: what is the reason for that?</p> <p>Entrepreneurs from formal small businesses exploit more opportunities than entrepreneurs from informal small businesses. Do you agree with the results or not? If you agree, what is the reason for that? If not: what is the reason for that?</p>
Business growth	<p>It is explained that informal small businesses grow faster than formal small businesses because of the number of staff employed. Do you agree with the results or not? If you agree, what is the reason for that? If not: what is the reason for that?</p>
Entrepreneurial motivation	<p>Do you agree that access to finance, financial success, freedom from government, networking, recognition, self-realisation, societal commitment, business expansion, independence, and innovation are factors motivating entrepreneurs from informal small businesses to shift to the formal economy? If you agree, what is the reason for that? If not: what is the reason for that?</p> <p>It was found that access to finance is the best motivating factor followed by financial success, freedom from government, and networking in the second group. Do you agree with the results or not? If you agree, what is the reason for that? If not: what is the reason for that?</p> <p>In addition, certain motivations (recognition, self-realisation, societal commitment, business expansion and independence) are in a mid-lower group. Do you agree with the results or not? If you agree, what is the reason for that? If not: what is the reason for that?</p> <p>Also, it was found that innovation is the least motivating factor that influence entrepreneurs from informal small businesses to shift to the formal economy particularly in developing countries like Tanzania. Do you agree with the results or not? If you agree, what is the reason for that? If not: what is the reason for that?</p>

Table 3. (Continued)

Theme	Questions
Education levels	Similarly, skills and knowledge are the most important barriers for the exploitation of identified opportunities to most of the entrepreneurs in developing countries like Tanzania. Do you agree with the results or not? If you agree, what is the reason for that? If not, what is the reason for that? It is explained that the majority of the informal entrepreneurs in developing countries possess a low level of education. Do you agree with the results or not? If you agree, what is the reason for that? If not, what is the reason for that? What are the effects of possessing a low level of education in your career?
Factors causing entrepreneurs to enter and stay in the informal economy	In the literature, it is explained that the majority of entrepreneurs do not formalise their businesses because of excessive regulations; burden of taxes, etc. What are the factors that cause businesses to enter and stay within the informal economy?

Kiswahili. Subsequently, Kiswahili conversations were translated back into English before the data were analysed. Finally, the recorded information from the focus group discussion, expert interviews and the entrepreneurs' interviews were then transcribed verbatim, and imported into the NVivo software.

Data Analysis

Qualitative data analysis focusses on the exploration of personal experiences, thoughts, meanings, beliefs, values, and feelings of people about the themes under investigation by the use of coding (Wong, 2008). The analyses of the collected data were done in three stages: keywords-in-context analysis, content analysis and critically linking the content to other research (Leech and Onwuegbuzie, 2011).

First, the keywords-in-context analysis was used to code information that has related meanings. Coding in NVivo is done by highlighting a block of text and copy-paste to the identified node, which store code texts that capture similar meanings. The researcher highlighted the keywords which were repeatedly used and pasted into the nodes. Second, the content analysis assisted the researcher in getting a deeper understanding of what concepts were predominantly discussed by the participants, and, therefore,

needed much attention. Accordingly, coded factors were grouped into the themes: entrepreneurial motivation, the informal economy and education level. After the content analysis, the emerged themes were linked with findings (i.e. comparable and opposing) in entrepreneurship studies.

FINDINGS

In this section, a selected number of illustrative excerpts from the focus group discussion, the two expert interviews, and interviews with 15 entrepreneurs from the informal economy are presented. The excerpts are organised according to the following themes: entrepreneurial motivation, the informal economy, and education level. The selected excerpts are organised as such that they both amplify and confirm those of other respondents as well as findings from the literature.

Entrepreneurial Motivation

Stories from the focus group discussion, expert interviews, and entrepreneurs' interviews observe that necessity motivation — in line with previously-discussed literature — is the main factor to enter and stay in the informal economy. Necessity motivation is mostly associated with the economic underdevelopment of the country. “Exp. 01”, a senior officer from TCCIA, participated in several studies of small businesses in Tanzania, responds to the question about entrepreneurial motivation:

“Another thing is I think lack of public employment. The government does not have enough opportunities maybe to employ all graduates. It seems, more than 80% of the graduates and the majority of school leavers join maybe the self-employment career. So, they are pushing themselves. . . Employ themselves... Particularly the informal small businesses because they get daily pay” (“Exp. 01”).

Again, government and market failure is confirmed here by “Exp. 01” (cf. George, 2015; Naudé, 2011; Eijdenberg *et al.*, 2019b). Moreover, two things are observed: one is that there are a substantial number of new entrants in the job market; and, second, they are privately employed into the small businesses in the informal economy. That means, the infrastructure assists the new entrants to join the self-employment career. By insisting, “so, they are pushing themselves. . . [‘pushing’ connects to push factors cq.

necessity motivations, as discussed by Langevang *et al.*, 2012; Eijdenberg and Masurel, 2013] Employ themselves... Particularly into informal small businesses because they get daily pay”, “Exp. 01” is claiming that self-employment influences entrepreneurs to enter and stay in the informal economy.

In responding to the same question about entrepreneurial motivation, “Own. 09” shared his experience. “Own. 09” is a cloth-making entrepreneur engaged in tailoring business for the past four years. He completed Standard Seven⁴ in 2008 and spent five years without a job before his brother trained him on tailoring in 2011. He started a tailoring business in 2012 with a capital of TShs 200,000 (approximately USD134 at that time) credited by his brother. Part of his story says:

“Now, I can borrow maybe from my friends, sometimes from my close relative, yes, for capital expansion. . . I think my business expands” (“Own. 09”).

Then, “Own. 09” continues with:

“My business assists my family, maybe close family and sometimes extended family to meet basic needs like school fees and medical expenses [he insisted]” (“Own. 09”).

Also, “Own. 11”, the owner of a retail shop says:

“... Yes, with my business, sometimes I manage to keep savings to buy house furniture and clothes for my children during religious commemorations” (“Own. 11”).

Clearly, according to “Own. 09” and “Own. 11”, the informal economy is an increasingly dependent source of employment and income. But the respondents also express their opportunity motivations at the same time. Thereby, the mix of different types of entrepreneurial motivations (Eijdenberg *et al.*, 2015; Dawson and Henley, 2012) is reconfirmed and even the “now” in “Own. 09”’s excerpt implies a time dimension, thereby, adding up to the argument for the existence of fluid entrepreneurial motivations (see: Williams and Williams, 2014). Additionally, “Own. 11” points out where the income goes to: house furniture and clothes for the children during religious festivals (this expands similar findings of entrepreneurial life by Eijdenberg *et al.*, 2019b). These findings are also comparable with Seet *et al.* (2015) who show why people remain or leave work because of

⁴Standard Seven is the highest level of education for primary schools in Tanzania.

personal and family reasons. “Own. 02”, the entrepreneur engaged in the second-hand clothes in the Kinondoni area in Dar Es Salaam, explained the way the informal business influences opportunity motivation:

“Yes, I am still proud of my business, because street vending allows me maybe to meet with many customers, increase my customers . . . Increase my sales, generate more income. You know, it takes me a week to sell all clothes within a bale. . . And sometimes I keep some savings to increase my stock of clothes” (“Own. 02”).

Accordingly, by saying “Sometimes I keep some savings to increase my stock of clothes”, “Own. 02” demonstrates how he is now able to save up some capital, and, therefore, is not operating anymore at subsistence level but has grown out of that instead (cf. Langevang *et al.*, 2012).

In short, necessity motivations are still predominantly the reason why entrepreneurs enter and stay within the informal economy: generating income for meeting basic needs like school fees, medical expenses, household furniture and clothes for children during religious festivals.

The Informal Economy

All respondents emphasised the *unattractive* institutional framework of the formal economy, as well as the perceived *attractive* factors of the informal economy pushing entrepreneurs to enter and stay in the informal economy (Eijdenberg *et al.*, 2019b; Siqueira *et al.*, 2016). The respondents explained how this happens and what it precisely involves. The following expert from MKURABITA participated in a lot of studies about the formalisation of small businesses. Responding to a question about the informal economy, “FGD. 05” comments:

“People stay informal maybe because the formal procedures are cumbersome and very difficult to fulfill. You need maybe to go to TRA⁵ to obtain TIN-number, then, maybe assessed by the BRELA officers. You are asked a lot of questions, sometimes maybe you provide the wrong answers” (“FGD. 05”).

Then, “FGD. 05” continues:

“And, I think it is expensive regarding traveling and accommodation costs, and there are long procedures. . . Take longer

⁵TRA stands for “Tanzania Revenue Authority”. The TRA gives out “Taxpayer Identification Number” (TIN).

periods, forcing entrepreneurs to close their businesses during the registration process [he insisted]” (“FGD. 05”).

Accordingly, as reported by “FGD. 05”, amongst the reasons for entrepreneurs to stay in the informal economy is the long procedures to formalise a business (see also World Bank, 2019a). “FGD. 05”’s argument is strongly supported by his uttering: “. . . the formal procedures are cumbersome and very difficult to fulfill”. Long procedures create costs that are mostly shifted to entrepreneurs and thus, become an incentive to operate in the informal economy (Schneider *et al.*, 2010). Apart from long procedures and costs, “Exp. 02”, an expert from BRELA, comments:

“In my view, people are not loyal to the government rules. Sometimes they feel to comply, but in fact, they do not comply. They perceive the rules maybe to be very difficult comply, even to try. The government is working hard to eliminate the challenges. . . Maybe people on their side should play their roles” (“Exp. 02”).

Clearly, by saying “The government is working hard to eliminate the challenges. . .”, “Exp. 02” admits that there is still a long way to go for the government: many challenges still need to be overcome, and, therefore, are still faced by entrepreneurs trying to formalise their business. “Own. 06”, an entrepreneur, shares the main reasons why people from the informal economy do not formalise small businesses. She says:

“Life is very hard, and tax rates are always changing. You know, my business cannot afford to pay all the taxes. . . So, I have located my business strategically; sometimes I close my shop when TRA officers visit my area” (“Own. 06”).

These words are extended by “Own. 07” saying:

“In three years back I tried to register my business but I fail. Yes, it is time consuming: Come tomorrow, go and fill this form and also estimated tax does not reflect business income. So I just pay levy to ward leader, I can afford, I can pay” (“Own. 07”).

The utterings of “Own. 06” and “Own. 07” typically stress the unrealistic situations of entrepreneurs, especially when high tax rates are charged and procedures are time consuming. Then, creative responses (i.e. manoeuvring through the system: “I have located my business strategically”, “Own. 06”) by entrepreneurs to the environment are inevitable (cf. Eijdenberg *et al.*, 2019b).

Conversely, while the formal economy comes at high costs and long procedures; the informal economy involves the contrary (even procedures that do exist in the informal economy, are shorter and less complicated). Several entrepreneurs elaborated on this. For example, “Own. 01” is engaged in selling fruit juice and snacks at the Mwenge bus station. He started his business immediately after completing Standard Seven in 2010 with a capital of TShs 50,000. “Own. 01” says:

“Because in my soft drink business, maybe I pay for premises rent on a daily basis, buy fruits, blender, and containers for keeping glasses and blocks of ice, then, business. . . Yes, life goes on” (“Own. 01”).

Then, “Own. 01” continues:

“It is easy to work with informal small business. Yes, I fill in one-page request form, and I can borrow from microfinance. Always I get loan, sometimes I get half of the request, but I am very happy with my life. Access to finance has expanded my business” (“Own. 01”).

Thereafter, “Own. 05” confirms:

“I enjoy working with informal small business. Easy to get loan from microfinance institutions. I take loan of up to TShs 500,000 and maybe reimburse TShs 50,000 for 15 weeks. That is all” (“Own. 05”).

Thus, while “FGD. 05”, “Exp. 02”, “Own. 06” and “Own. 07” explain the problems of formalisation such as high tax rates and long procedures; “Own. 01” and “Own. 05” show how convenient and “easy” it is to operate a business in the informal economy, in terms of low-level entry procedures and microfinances (cf. Eijdenberg *et al.*, 2019b).

Based on what was explained by “FGD. 05”, “Exp. 02”, “Own. 01”, “Own. 05” “Own. 06” and “Own. 07”, it can be confirmed that entrepreneurs from the informal economy weigh the costs and benefits of formalisation before the decision to shift to the formal economy is made (Schneider, 2000).

Education Level

All respondents have stressed that entrepreneurs in LDCs often lack the knowledge on how opportunities are identified and exploited. The low

levels of knowledge motivate entrepreneurs to venture into businesses that are cheap, convenient, easy and are a quick way to sell products on a daily basis. Hence, the informal economy comes into play. Below, a number of excerpts are discussed that illustrate this observation. For example, “FGD. 01”, a senior officer from MKURABITA participated in several studies about small businesses in Tanzania, elaborates how the education levels influence the business status:

“According to my experiences, the entrepreneurs in Tanzania possess primary education. You know, if you have low levels of education, maybe you do not expect recognition from the society, maybe you do not even think of recognition, what you need is selling products sometimes at unidentified locations. So, I think with low levels of education they sometimes do businesses that are less innovative because maybe they intend to produce and sell many products at low prices” (“FGD. 01”).

Clearly, “FGD. 01” is saying that “. . . what you need is selling products sometimes at unidentified locations”, he relates the low levels of education with the entry and stay in the informal economy (i.e. “the unidentified locations”). Imitative as opposed to innovative behaviour that comes out in copy-cat businesses is typical for informal economies in LDCs (cf. Kristiansen *et al.*, 2005). Moreover, “recognition from the society” might be universal for developed contexts and LDCs; however, society (in terms of communities, extended families, kinships) may even play a larger role in collectivist cultures of LDCs (Khavul *et al.*, 2009; Khayesi *et al.*, 2014). Moreover, “FGD. 06” tells:

“Imagine: you have a family, and you possess a low level of education. And you have to pay for basic requirements, hospital expenses and educate your children. Maybe you do not have the salary to pay the basic needs. You do not even understand about a formalised business” (“FGD. 06”).

“FGD. 04” expands “FGD. 06”’s story:

“It is true. . . Easy for people with low level of education; they do petty trading businesses. . . Are selling products that are maybe easy to carry, and maybe little capital is needed. . . And maybe it is cheap. You do not need to register your business. . . Life goes on” (“FGD. 04”).

“FGD. 06” and “FGD. 04” confirm the correlation between low levels of education and the cheap, convenient, easy and quick way business operation in the informal economy offers (cf. *Khavul et al., 2009; Webb et al., 2013b; Eijdenberg et al., 2019b*). Furthermore, “Life goes on” or “. . . very happy with my life” is something observed more often (refer to “Own. 01” earlier). This expression seems to imply a certain degree of life satisfaction and/or continuation of business operation at the same time — hence, concluding the “stay” in the informal economy.

“Own. 13” is a carpenter operating his business at Tangi Bovu in Dar Es Salaam. He has been in the furniture business for more than ten years. He started alone with a capital of TShs 150,000. Later, his business expanded to employ three more people on full time basis and four others on a part-time basis. When asked about his views on education, “Own. 13” says:

“You know, because of the low level of education and maybe tools, I manufacture simple local chairs [i.e. ‘vigodas’] used by women in the kitchen. People with a high level of education cannot do vigoda business; maybe they feel disregarded by the community. I do not have a specific place to sell my products. Yes, sometimes I sell vigodas at bus stations, sometimes at the railway station, bars, restaurants, and also in my local community. With this business, I make money, a lot of money” (“Own. 13”).

Based on “Own. 13”’s story it is clearly evidenced that the entrepreneurs with a low level of education opt for businesses mostly ignored by those with higher education levels. By saying “I do not have a specific place to sell my product . . . a lot of money”, “Own. 13” confirms that — even with having received little education — informal business operations can be the route to a financially viable, or even successful, life. Again, here, recognition of society (“. . . feel disregarded by the community”) plays an important role and is related to educational level and business (in)formality (*Khavul et al., 2009*).

To sum up, above-discussed excerpts demonstrate the relationship between low levels of education and the informal economy. On the one hand, “FGD. 01”, “FGD. 06” and “Own. 13” showcase how low educated entrepreneurs are condemned to the informal economy because of lacking recognition from society or less ability to do innovative business (i.e. more likely in the formal economy). On the other hand, “FDG. 04” and “Own. 13” show how low educated entrepreneurs are pulled by the cheap,

convenient, easy and even lucrative factors of the informal economy to operate a business in.

CONCLUDING DISCUSSION

The answer to the research question “*What are the most important factors that determine the entry and stay of entrepreneurs in the informal economy of an LDC?*” is: (1) entrepreneurial motivation (i.e. necessity-based); (2) the informal economy (i.e. *attractive* factors thereof; and *unattractive* factors of the formal economy); and (3) low levels of education possessed by entrepreneurs.

The findings of this study bring forth a number of contributions to the literature. First, and most importantly, this study taps in the call for more micro-focussed (i.e. of and around the entrepreneur) research (Eijdenberg *et al.*, 2019b). In contrast to what is researched on macro and meso levels, richer content is provided about the personal experiences, making knowledge about entrepreneurial events in everyday life more tangible (Bruni *et al.*, 2004; Steyaert, 2004, 2007). This is done in a highly resource-constrained, yet rapidly emerging context. Therefore, this study appeals to the call for research for more contextualisation of entrepreneurship (Baker and Welter, 2017; Welter *et al.*, 2017, 2019), especially in the area of Africa’s LDCs (George *et al.*, 2012; Khayesi *et al.*, 2014; George, 2015). At the same time, the findings of this study shed light on “the other side (or type)” of entrepreneurs(hip) by showing that what is known in developed countries does not necessarily apply to other, LDC-contexts (i.e. countering the “heroic”, financially successful entrepreneurs, embodied by examples such as Silicon Valley’s Elon Musk) (Annink *et al.*, 2016; Eijdenberg, 2016).

Second, on a more granular level, new insights are provided on the entry and stay in the informal economy. Regarding entrepreneurial motivation: unlike previous studies where entrepreneurs motivated by necessity factors were predominately a poor and marginalised group (Achua and Lussier, 2014; Williams and Youssef, 2013), and depend on a primitive style of self-employment (Chu *et al.*, 2007); the current study has noted that small businesses in the informal economy can be a sustainable (even financially succesful) source of income. A typical example comes from “Own. 09” who managed to generate substantial income for the close and extended family. Similarly, the results from this study are different from the previous assumption that necessity and opportunity motivations are mutually

exclusive factors (Achua and Lussier, 2014; Adom and Williams, 2012; Yalcin and Kapu, 2008). The stories from the entrepreneurs, such as “Own. 02”, demonstrate that the businesses are capable of generating surplus income for capital expansion; an indication of the duality of necessity and opportunity motivations.

Moreover, entrepreneurial motivation — seen as one of the determinants — is expanded by the factors of the informal economy (i.e. *attractive* factors thereof; *unattractive* factors of the formal economy) and low levels of education possessed by entrepreneurs. The *unattractive* factors of the formal economy and *attractive* factors of the informal economy are exemplified — amongst others — by stories of the excessive regulations regarding high taxes (see the stories of “FGD. 05”, “Exp. 02” and “Own. 06”), but the ability to pay the rent of the premises on a daily basis and overall life satisfaction (see the story of “Own. 01”), respectively. Also the easiness and convenience of business in the informal economy plays a major role (see “Own. 05”). Concerning the low levels of education: this is particularly stressed by the focus group participants (e.g. “FGD. 01”, “FGD. 06” and “FGD. 04”), as well as by a hopeful story of “Own. 01”. The personal descriptions provide richer details of the experiences of the informal economy, and, therefore, expands research from the broader, institutional perspective (cf. Cling *et al.*, 2012; Schneider *et al.*, 2010; Webb *et al.*, 2013a). While scholars considerably treated the informal economy as a source of tax avoidance, illiteracy, and weak economy (Fourati and Affes, 2011; Gibbs *et al.*, 2014), the current study positions the informal economy on the agenda as the consideration in LDCs which needs deeper understanding (Carsrud and Brännback, 2011; Naudé, 2008; Webb *et al.*, 2009, 2013b) and in which education plays a major role.

This study produces a number of practical implications. Based on the findings, first, policy-makers should harmonise, smoothen and network the registration procedures at regional and municipal levels so that entrepreneurs can easily register their businesses. Second, amend the tax rates to reflect the income generated by entrepreneurs from the informal economy. Third, entrepreneurs should be encouraged to attend basic courses of book-keeping for a better understanding of record keeping. Fourth, lowering the business registration fee would remove a major economic hurdle for many starting entrepreneurs to enter the formal economy.

This study does not go without limitations. Obviously, this study was solely conducted in Tanzania, which implies that the results should be interpreted with caution in wider contexts. Other researchers are encouraged to study informal entrepreneurs beyond other limitations of this study,

such as the type and number of the interviewed people, the research design, the interviewees' characteristics and the geographical area where the study was conducted. In addition, we are aware that the discussion about the results of entrepreneurial motivation, informal economy, and education level could not be exhaustive. Therefore, it should be considered as a point of departure for future research.

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