

Informal Contractors in Tanzania-their Characteristics and Reasons for Informality

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Abstract

This paper discusses the informal construction sector in Tanzania, its composition, structure, size and its importance to the national economy. Problems faced by the sector and its interaction with the formal sector are also discussed.

The discussion is based on three studies which were carried out on the informal sector in Tanzania. These are the National Informal Sector Survey, the Dar-es-Salaam Informal Sector Survey and the Study on Tanzanian Informal Contractors conducted in 1991, 1995, 1999/2000 respectively. The first two surveys cover the informal sector as a whole, while the last study concentrates only on informal contractors.

The studies address different aspects of the informal sector. The aim of this paper is to gather the different aspects of the informal construction industry as captured in those studies. It is observed that the sector is growing fast and absorbs the fast growing urban labour reserve. However, it is noted that, there are various problems, which need to be addressed to enable the sector, register its significance to the economy. Notable problems include lack of capital, limited technical and commercial skills, and an insecure operating environment.

Key words: *Construction sector, informal construction sector, Tanzania.*

INTRODUCTION

During the first meeting of CIB Task Group 29 (TG 29) it was generally agreed that the informal construction sector forms a very important part of construction industries of developing countries (Mlinga, 1998); Ngare, 1998; Wells, 1998). Little was however known on the characteristics of the sector and therefore no concrete policy measures could be proposed or undertaken to develop it.

This paper discusses informal contractors in Tanzania. The discussion is based on the National Informal Sector Survey (NISS) of 1991, the Dar-es-Salaam Informal Sector Survey (DISS) of 1995, and a Study on Tanzania Informal Contractors (STIC) conducted by the present authors in 1999/2000. The authors' study involved informal contractors in four selected fast growing cities/municipalities i.e. Dar-es-Salaam, Arusha, Mwanza and Dodoma.

This paper, discusses the characteristics of informal contractors, the reasons why they do not formalise their businesses, their collaboration with other informal sector players and formal contractors, and lastly, their operating problems.

INFORMAL CONTRACTORS – TANZANIAN CONTEXT

The definition adopted at the first meeting of the CIB Task Group 29 [Wells (1998)] for the informal construction sector is reproduced below:

“The informal construction sector comprises unregistered and unprotected individuals and small enterprises that supply labour and contribute in various other ways to the output of the construction sector.”

Using the above definition, and within the Tanzanian context, informal contractors would mean those enterprises or individuals carrying out, and supplying labour for, construction work without business licences and/or registration with the Contractors Registration Board (CRB).

The CRB is a statutory organisation established by Act of Parliament No. 17 of 1997 and charged with the responsibility of registering and regulating activities and conduct of contractors in Tanzania [GOT (1997)]. Currently the CRB classifies and registers contractors into seven classes under five categories namely, Civil works, Building, Mechanical, Electrical and Specialist Contractors. The various categories of contractors and their class limits are shown in Table 1.

CLASS	CLASS LIMIT FOR ANY SINGLE CONTRACT (<i>in million Tshs.</i>)				
	CIVIL	BUILDING	MECHANICAL	ELECTRICAL	SPECIALIST
I	Unlimited	Unlimited	Unlimited	Unlimited	Unlimited
II	3,000	800	500	500	100
III	1,000	600	300	300	50
IV	500	400	200	200	-
V	300	200	100	100	-
VI	100	100	50	50	-
VII	50	50	20	20	-

Table 1: Class limits for various types of contractors in Tanzania

Source: Mugasa (1999)

Like any business, to conduct construction business in Tanzania without a valid business licence or without being registered are punishable offences [GOT (1997), GOT (1998)]. The CRB however allows unregistered contractors (informal contractors) to operate as long as the value of the projects is small i.e., not exceeding Tshs. one million.

However, three issues need to be raised here. First, as it will be shown, most of the jobs carried out by the informal contractors are labour only contracts. A Tshs. one million labour contract is therefore quite substantial especially if few individuals do it in a short period. Second, for big projects executed in phases of relatively short intervals, there could be several one million labour only contracts whose total value would exceed the allowed amount. Third, a successful informal contractor can obtain many such small contracts, with a substantial annual turnover. This argument is presented to challenge the basis on which the Tshs. one million ceiling has been arrived at. However, while this remains a challenge to CRB, it is a loophole that can be used by the informal contractors to carry out their business unhindered.

In summary, what has been discussed above shows the boundaries within which unregistered contractors can operate. It is important at this stage to define those boundaries, in order to clarify what the term “informal contractor” means in Tanzania.

THE INTERFACE: FORMAL AND INFORMAL CONTRACTORS.

Classification into formal and informal contractors

Mlinga (1999), using a classification system and framework for contractors development proposed by (Milne, 1994), attempted to classify Tanzanian contractors on the basis of their size and their informality (see Figure 1). At the interface of informal and formal contractors, there are established informal contractors and small emerging contractors. Established informal contractors here are taken to mean those informal contractors who possess minimum requirements to register a company at entry level. Emerging small contractors are those that have just started business as registered contractors.

What is to be observed in this classification is the overlap between informal and formal boundaries. Some established informal contractors sometimes undertake jobs big enough to be carried out by contractors registered in formal Classes VII and VI. Actually, the established informal contractors should be the targets of the penalties imposed by the CRB Act on unregistered contractors. This group of informal contractors have the resources and the capability to establish formal construction companies, but for one reason or another decide to operate informally.

Moreover, due to the large number of small contractors that characterise construction industries of many countries [Ganesan (1982)], there is usually very high competition for jobs by these contractors. Those that fail to obtain jobs in the formal sector, tend to be marginalised and forced to operate as informal contractors. So at any given time, there are informal contractors that cross the boundary to become formal, and *vice versa*.

[Turin (1973) and Ofori (1990)] argue that a large number of small firms are useful as they provide a framework for the development of the construction industry. To them, large companies are expected to emerge from this large number of small firms. This argument could be extended to encourage the existence and promotion of informal contractors, as they will later develop into strong formal contractors.

At this stage, it is important to comment on the minimum entry requirement imposed by the CRB for registration of contractors into the lowest class i.e. class VII [Mugasa (1999)]. The requirements when translated into monetary terms would amount to about Tshs. 2.5 million. This excludes licence and CRB fees, and income tax deposit (assessed and payable even before starting business). The authors are of the opinion that these requirements are difficult to be met by many informal contractors aspiring to formalise their business.

While it is not the intention of the authors to suggest that the standard of contractors registered by CRB be lowered, one important question could be posed here. What criteria have been used to set the lowest class? Would it do any harm if lower classes, with less stringent requirements, were introduced to allow those with less capital to register their businesses? After all, as it would later be shown in the paper, there are many projects with value below Tshs. five million being executed by informal contractors. One does not need a contractor whose ceiling is Tshs. fifty million to carry out a simple project whose value is less than Tshs. five million.

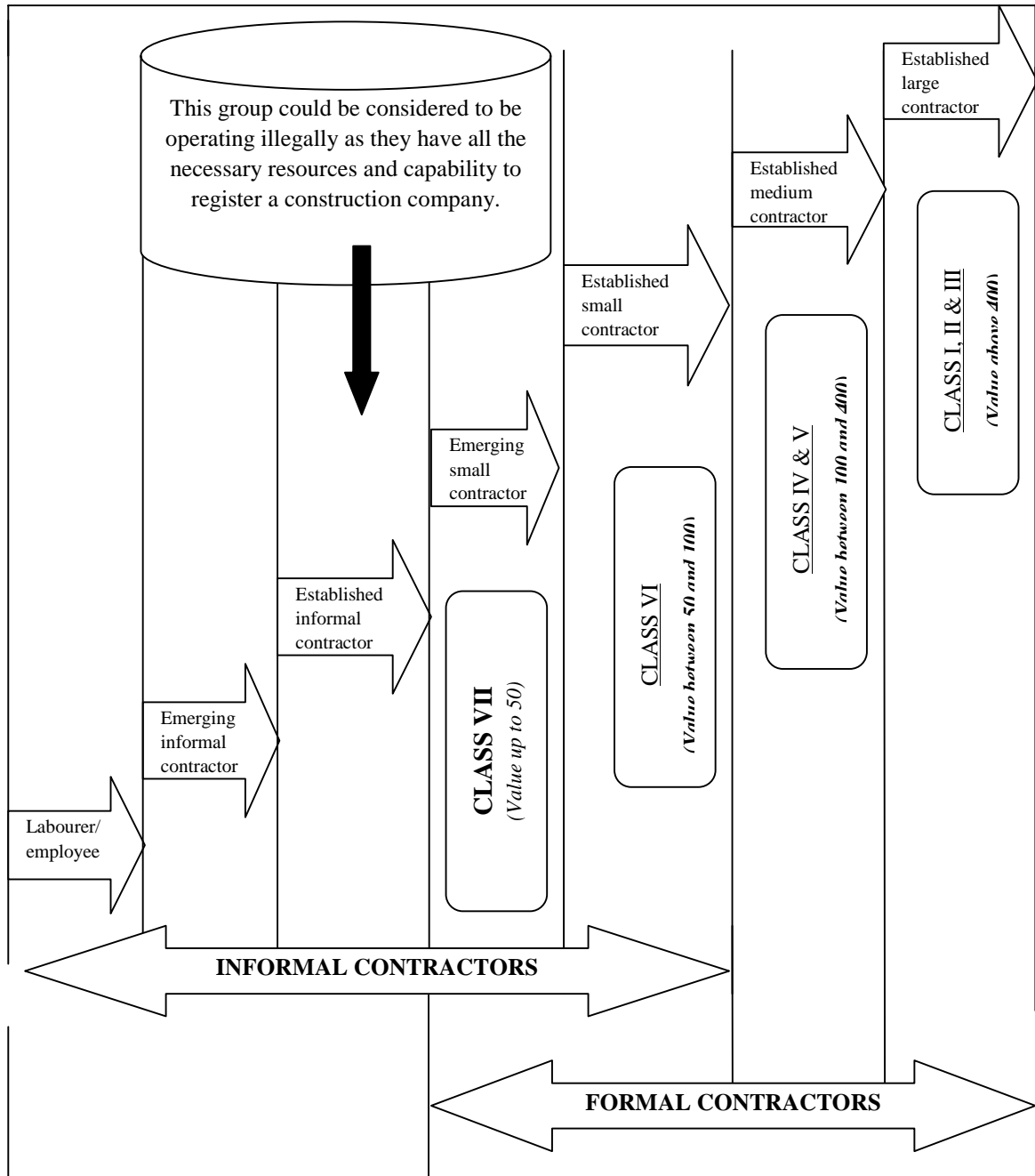


Figure 1: Proposed framework for contractor classification
Adopted from [Milne (1994)]

Interaction between formal and informal contractors

Subcontracting, mainly labour only, is recognised as one way in which formal and informal construction industry collaborate. Quoting [UNCHS (1991)]:

“If direct links between formal and informal sectors were strengthened, the latter would be able to produce the much needed construction materials and components and undertake sub-contracts for the former.

The formal construction industry in developing countries depends much on the informal sector to provide labour for activities such as mass concreting, masonry and carpentry works. This is due to the inability of large firms to employ a permanent labour force due to the lack of a continuous workload. Indeed the

fluctuating workload in the construction industry could be taken as a catalyst for encouraging the development of an efficient informal construction industry, which would act as a buffer for the labour force to cater for the fluctuating demand.

Studies on informal contractors

As mentioned earlier, the characteristics of Tanzanian informal contractors will be discussed based on the NISS, the DISS and the STIC.

Informal Sector Surveys (1991 and 1995)

Both surveys concentrated on all possible informal sector activities, in which construction is a subset. The 1991 survey (NISS) covered the whole country, while the 1995 survey (DISS) concentrated only on Dar-es-Salaam Region. 163,438 and 15,008 informal construction enterprises were covered in the NISS and DISS respectively.

In these studies, a "multi-phase" data collection approach was used to allow wide coverage of households and capture as many informal sector activities as possible [GOT (1991)].

Study on Tanzanian Informal Contractors (1999/2000)

STIC was conducted on the informal contractors of Dar-es-Salaam, Arusha, Mwanza and Dodoma. The study was intended to find out characteristics of informal contractors, their collaboration with formal contractors, and on their operating problems.

Unlike the informal sector surveys, the "identifiable enterprise approach" was used [GOT (1991)]. In this study, particular efforts were made to identify those informal contractors who were active on site and who fell under categories of 'emerging' and 'established' informal contractors. A total of 405 informal contractors agreed to be interviewed out of 635 that were approached.

CHARACTERISTICS OF INFORMAL CONTRACTORS

Ownership and employment

Individuals own most of the Informal Construction Enterprises (ICE). NISS and DISS established a 99% and 98% sole ownership of the enterprises respectively. STIC however, established a 76% sole ownership and 24% partnership ownership of the enterprises.

The sector is male dominated. NISS and DISS show 99% and 96% male ownership respectively. NISS further established that an ICE employs on average two permanent workers with an average age of thirty-four years. The STIC shows that an ICE employs on average one permanent worker and eleven temporary workers. The age of workers employed could not be established in this case. According to STIC, two ICE employ on average one building/civil-engineering technician. The typical ICE employs no engineers.

Legality of business

As would be expected most of the ICE had no business licences and/or were not registered, hence their qualifications as informal contractors.

The DISS and STIC both tried to establish the legality of the business operated by the ICE. The DISS revealed that 97% of the ICE had no business licences and were not registered. The STIC revealed that 96% of the ICE operated without building licences and 100% were not registered by the CRB. The 4% had

licences as building materials suppliers and had extended their services into construction, without obtaining the appropriate business licences as building contractors.

The STIC tried to establish the reasons why ICE had not legalised their businesses. The main reasons for not obtaining a business licence are summarised in Table 2.

Most of the ICE (53%) expressed their ignorance of the existence of the CRB, and of the fact that it is illegal to conduct construction business without registering with the CRB. Forty-seven percent of respondents knew about the existence of the CRB and that it was illegal to conduct construction business without registering. Their reasons for not registering are also summarised in Table 2.

Table 2: Reasons by the ICE for not legalising their business (arranged by order of importance)

	Reasons for not obtaining a business licence	Reasons for not registering with CRB
1.	ICE can operate without licence (II=1.42)	CE can operate without registering (II=1.57)
2.	Costs involved are too high (II=2.32)	Difficult requirements (II=1.68)
3.	Difficult requirements (II=2.33)	Costs involved are too high (II=1.81)

Note: II = Importance Index; II=1 (Very Important); II=3 (Least Important)

The 4% of the ICE that had licences as material suppliers experienced the following difficulties when applying for the business licence: unclear procedures (II=1), long procedures (II=1.2), difficulties in meeting requirements (II=1.2) and corruption (II=2)

Operating location

All the studies addressed the issue of operating location. The NISS found that 83% of the ICE had no fixed location. The DISS revealed that 58% had no fixed location while 23% were operating from construction sites. The STIC, since it was mainly conducted on active construction sites, showed that 100% of the ICE operated from construction sites and only about 17% had either an office, service workshop or storage yard.

Motives for establishing business

Only the DISS tried to establish reasons/motives that led to the establishment of the businesses. These are: unavailability of other work (35%); to provide additional income for the family (15%); released from other work (12%); and the business provides good income (8%).

Equipment ownership

The STIC tried to establish the level of equipment ownership among the ICE. About 65% did not own any equipment. Of those owning equipment, the following were the major items owned: welding machines (25%); block making machines (23%), light duty vehicles (21%); and concrete mixers (9%)

Size of the projects executed

The STIC established the particulars of projects executed by the ICE. Most of the ICE had undertaken an average of ten projects in the last two years. The smallest project had an average value of Tshs. 202,000 while the largest had an average value of Tshs. 3,128,000. Actually, 13% of the ICE had projects whose value was greater than Tshs. 5 million, and 5% had undertaken projects with a value exceeding Tshs. 20 million.

Thus, on average, the ICE executed projects which were three times their allowed limit of Tshs. one million. Taking this as the criterion, 49% of the ICE were actually operating illegally by undertaking projects that exceeded the allowed upper limit.

The average annual turnover of the ICE as revealed by the STIC is Tshs. 5.9 million with about 21% being below Tshs. 2 million and 8% being above Tshs. 20 million.

Source of materials and equipment

All the studies tried to establish the source of materials used by the ICE. However, the STIC did not explore all possible sources of materials, but looked only at the extent to which the ICE obtained their materials and equipment from informal suppliers and the reasons why they did so.

The NISS revealed that 45% and 6% of the ICE obtained materials from individuals and small enterprises respectively. Some 43% of the ICE indicated that they needed no materials. This was also the case with the DISS, which revealed that 90% of the ICE did not indicate their source of materials. One can assume that under such circumstances the clients supplied the materials and the ICE were unaware of the source of materials.

The STIC indicated that only 12% of the ICE were responsible for supplying materials on projects whose clients were private individuals. In all other cases, the client supplied materials. The materials supplied by the ICE include: aggregates (coarse and fine), concrete blocks, precast concrete products, and timber and related products. All materials were obtained from informal materials suppliers. The reasons advanced by ICE for obtaining materials from informal suppliers were to supplement their own sources ($II=1$), availability when required ($II=2$), and low prices ($II=2.12$).

With regard to equipment, the STIC revealed that about 39% of the ICE obtained their equipment from informal equipment suppliers. Main equipment hired includes concrete mixers, poker vibrators, tipper trucks and light duty vehicles. The main reasons offered for hiring from the informal equipment suppliers were: to complement the ICE's own sources ($II=1.27$), low hire rates ($II=1.47$), and availability when required ($II=1.97$).

Clients

All the three studies addressed the issue of the clients of the ICE. The NISS and DISS were particularly concerned with all clients, and they revealed that 91% and 99% respectively of clients were private individuals.

The STIC tried to establish the extent, to which the ICE were working with private clients, registered small and large contractors. The study found that 96% of the ICE worked for private clients, 52% worked for large contractors and 48% worked for small contractors. The percentages do not add up to one hundred because some the ICE work for all types of clients. About 49% and 2% of the ICE work only for private clients and small contractors respectively.

About 35% of the ICE undertook the construction of complete buildings for private clients; otherwise, a private client has to employ different ICE to carry out different activities in the project. Most of the interviewed ICE carried out the following activities: manual works such as excavation and concreting, steel fixing, masonry works, carpentry works and welding.

Activities executed by the ICE for small and big contractors include: manual works such as excavation and concreting, steel fixing, wall and floor tiling, masonry works, formwork fixing, and joinery works. All these were carried out as labour only contracts.

The STIC also established the benefits gained by the ICE when working for different categories of clients. They indicated that they gain continued workload and improved financial position while working for private clients and small contractors; and continued work load and learning of skills when working for big contractors. Thus, they derived different benefits from different clients.

Difficulties when establishing and running of business

Only the NISS addressed problems experienced by the ICE when establishing their businesses. These were: lack of adequate capital, difficulty in gaining access to equipment and spare parts, and difficulties in getting customers.

All the three studies established the major operating difficulties of the ICE. These are summarised in Table 3.

NISS (1991)	DISS (1995)	STIC (1999/2000)
1. Lack of capital equipment	Lack of working capital	Difficulties in obtaining projects
2. Unavailability of credit facilities	Lack of customers	Lack of financing
3. Lack of space	Lack of investment capital	Lack of equipment

Table 3: Major operating difficulties of the ICE

The STIC further looked at particular problems experienced by the ICE when working for different categories of clients. Regardless of the type of client (private, small contractors and big contractors), they indicated that they faced the same problems. The important problems are: delayed payments by clients, late delivery of materials by clients, and poor quality of materials supplied by the clients.

The NISS also considered the nature of assistance needed by the ICE. The important ones indicated are: better access to loans, access to modern technology, and training for the entrepreneurs.

Capital and source of capital

Both the NISS and DISS addressed the issue of the initial capital required to establish the business. The NISS further established the source of capital. According to the NISS and DISS, the average start-up capital per ICE was Tshs. 5,560 and Tshs. 20,545 respectively.

The source of capital, according to the NISS, was as follows: own savings (72%), assistance from friends/relatives (13%), and borrowing from friends/relatives (7%).

Despite of the difficulties the ICE have in acquiring credit facilities or raising capital, it is easy to enter construction business as ICE. This is because of the low capital required. The NISS established average fixed and working capital per ICE to be Tshs. 10,713 and Tshs. 720 respectively. However, with such small capitals it is difficult to prosper and grow into competitive businesses.

Contribution to National Output

Both the NISS and DISS established the contribution of the informal sector to the national economy as summarised in Table 4.

Comparing the NISS figures for Dar-es-salaam and those of the DISS, there is an indication that the informal construction sector is growing, and its contribution to the economy is increasing. In Dar-es-Salaam, the number of people employed by the sector increased by 13% in four years (1991-95). Similarly, the Total Gross Output, Total Value Added and Total Capital Formation increased by 185%, 244% and 173% respectively.

Economic indicator	NISS (1991)		DISS (1995)
	Dar-es-Salaam	Total	
Total Gross output Tshs million	5,187	14,577	14,775
Total Value added Tshs. million	3,064	10,864	10,543
Number Employed by the Sector	22,327	163,438	25,240
Total Capital formation Tshs, '000	44,387	186,280	121,301

Table 4: Contribution of Informal Construction Sector to National Economy

CONCLUSION

The foregoing discussions have highlighted the importance of the informal construction sector to the Tanzanian construction industry. If properly harnessed, the sector can contribute to economic growth and provide employment and income to many Tanzanians.

While, there is still a need to collect more information on the sector, what has been presented can form the basis for formulating development strategies for the sector. The problems that ICE face and the major assistance they require can provide this basis for the formulation of strategies.

What is also obvious from the discussion is the collaboration between formal and informal contractors, and it is the authors' opinion that this should be encouraged. This collaboration should not be seen as a source of jobs, but as a training opportunity, providing both technical and managerial skills to the informal contractors. Government policies should be geared towards promoting this collaboration in anticipation that it will lead to the development of more viable small-scale contractors.

Unfortunately, many of the ICE operate informally because they can get away with it. Enforcing the CRB Act and Finance Act may discourage the established informal contractors from working in the industry. However, it is not appropriate to enforce those Acts on emerging informal contractors. Appropriate strategies should be formulated that would encourage the emerging informal contractors to grow to a level where they will have the resources and the capability to formalise their businesses.

Regulating bodies such as the CRB cannot be blamed for not encouraging informal contractors. Their terms of reference are to bring order to the industry, and that means they should discourage informality. However, they should take positive steps to educate the ICE on the benefits of legalising their businesses, and not on propagating penalties for not being registered. In other words, bodies such as the CRB should create an environment that encourages informal contractors to register. For example, as discussed above, they can set lower classes that will accommodate contractors with little capital.

RECOMMENDATION

Informal construction sector is part of the construction industry of developing countries. Any meaningful development programmes for construction industry should also aim at developing this important but usually ignored sector. Governments should therefore formulate programmes that will encourage the informal contractors to grow and acquire resources that will eventually enable them to formalise their businesses.

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LIST OF ABBREVIATIONS IN THIS PAPER

CRB	Contractors Registration Board
DISS	Dar-es-Salaam Informal Sector Survey
GOT	Government of Tanzania
ICE	Informal Construction Enterprises
NISS	National Informal Sector Survey
STIC	Study of Tanzanian Informal Contractors
Tshs	Tanzanian Shillings

EXCHANGE RATE TSHS. TO US\$

1991	1 US\$ =234 Tshs.
1995	1 US\$ =558 Tshs
1999	1 US\$ =700 Tshs
2000	1 US\$ =800 Tshs