

Aspects of the Informal Economy that Influence Voluntary Contributions to Social Security Fund

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Abstract

The study explored the factors within the informal economy that drive voluntary contributions to social security funds, presenting findings across three key attributes: economic, social, and institutional. Voluntary contributions were evident in all three associations studied. Economic incentives, such as loans and cash assistance during sickness and death, motivated members to contribute willingly. Additionally, the allowance for small contributions during regular meetings further facilitated participation. The study found that these meetings fostered member engagement and provided social benefits. Regularly scheduled meetings, as stipulated in the associations' constitutions, helped to organize and structure the associations. The frameworks, including rules and regulations, were aligned with national-level associations, with leadership ensuring compliance with laws and regulations, such as those governing the bodaboda association.

Keywords: Voluntary contribution, Social security, Informal economy

1. Introduction

Due to the lack of mandatory savings among informal economy workers, many individuals will face financial insufficiency in their bank accounts when they reach old age (Feldstein & Liebman, 2002). Although Tanzania has a social security framework, various factors hinder its adequate provision (Devereux, 2004). The delivery of social security services has yet to reach most Tanzanians due to inadequate funding and fragmented institutional arrangements (Gassman & Behrendt, 2006). Tanzania's estimated population is 60 million, with 70% residing in rural areas and the rest in urban regions. The country's total labour force is approximately 16 million, of which only 5.4% (or 2.7% of the total population) are covered by a mandatory social security system (Mbuni, 2023). Conversely, 93% of the capable workforce is engaged in the informal economy in rural and urban areas, with 80% involved in agriculture (Wango, 2022).

The increase in informal economy activities has been driven by global economic instability, conflicts, and climate change, raising concerns about their impact on social, political, and financial outcomes (Thorp, 2005). Additionally, a slow transition from an agriculture-based to a manufacturing and service-based economy has fueled the growth of informal economic activities in countries like Tanzania (Kombe, 2015). The informal economy's contribution to poverty reduction in Tanzania is significant, accounting for 46.7% of GDP, or approximately \$75 billion. About three-quarters of the rural population depend on agriculture for their livelihood, highlighting the importance of supporting agro-production within informal social networks (World Bank, 2012).

In countries with high levels of informal employment, social security coverage is often legally restricted to the small minority working in the formal labour market (Okulo, 2011). Low-income workers might not perceive the benefits provided by these programs, which fail to address the multiple risks they face throughout their lives. Informal economy workers have similar needs to formal employees regarding loans, savings instruments, and pensions (Wango, 2022). However, they face challenges accessing banks, financial institutions, and legal and social risk management mechanisms (Holzmann & Jorgensen, 2002). Traditional informal support systems weaken due to demographic changes, cultural shifts, and socio-economic transformations, further exposing vulnerable populations to risks (Mbuni, 2023).

Many countries have introduced voluntary contributions to social security schemes to address these complex social and economic challenges. This initiative aims to help workers and families manage risks (Musonye, 2013). Voluntary contributions enable low-income individuals to contribute conveniently and affordably. The accessibility of mobile money has facilitated the payment of social security contributions (Wango, 2022).

Social security organisations group informal economy workers into voluntary member schemes, allowing them to contribute premiums at their chosen amount to receive pension benefits in old age or when out of employment (Wango, 2022). However, participation remains low, and contributions are minimal. Ackson (2007) suggests that governments should formalise the informal economy to encourage voluntary donations and integrate these

workers into social security schemes.

These networks provide a structure for social identities, values, and beliefs, offering meaningful insights into their significance (Bastiaensen, 2005). Networks also serve as a foundation for potential actions and achievements (Mbuni, 2023). Social organisations, therefore, play a crucial role in the social and economic performance of groups, communities, and the nation (Gassman & Behrendt, 2006).

2. Methodology

A qualitative method was employed to gather data from the study areas, which were then analyzed to inform the results. The study focused on food vendors, bodaboda drivers, and fishermen to capture and understand the natural phenomenon. Respondents were selected based on their longevity and experience, including those who consistently pay their contributions or have faced social or economic hardships requiring support from their association. Cases were chosen based on the nature of informal activities and the presence of groups, associations, or organisations providing social security support to their members.

3. Findings and Discussions

The study examines the aspects of informal economy activities that influence voluntary contributions to social security funds. The analysis and presentation of the findings are framed around social, economic, and institutional factors.

3.1 Social Influencers

In the preceding section and underscored during the study, the three organisations emphasised that associations play a vital role in rallying both financial and non-financial support for the socio-economic welfare of their members. Members of the three informal social organisations—the bodaboda association, fishermen, and food vendors—shared anecdotes to illustrate their peers' perceived social support and reciprocity.

During the study with the fishermen, it became apparent that, in contrast to their informal social organisation, formal social welfare institutions offered limited avenues for social interaction and camaraderie among members. They observed that members of formal institutions rarely fostered social relationships or networks that actively engaged and united them in the daily operations of their funds. Conversely, fishermen admired the close-knit dynamics of their group and others, where constant contact and interaction among members were maintained. Despite minimal formal social interactions, they highlighted how the nature of their working environment, whether at night or during the day on boats, and the shared workspace of the ocean facilitated rich informal interactions.

Members of the group further elaborated that they convene weekly to discuss matters concerning savings contributions and assess both achievements and hurdles. Depending on the agenda, these meetings could extend for several hours, sometimes up to six hours. One respondent fisherman remarked:

“Our meetings are part of socialisation and recreational activities. It goes hand in hand with drinking and grilling after a long week working at sea. Also, our meetings continue with other supporting activities, including repairing nets and boats...”

This quote underscores how informal social interactions, such as those described above, play a crucial role in fostering the social capital needed to provide mutual support. It allows families of group or association members to familiarise themselves with others and engage in informal interactions. Respondents clarified that group leaders take charge of organising meetings by selecting venues and setting meeting times, with a majority of members actively participating in these gatherings.

The food vendors echoed the significance of social interaction and the supportive network they enjoyed. They acknowledged the helpfulness of these social groups, feeling a sense of kinship among members. Indeed, the reliance on frequent social interactions, reciprocity, and the expectation of swift assistance for active participation and contribution are pivotal in fostering mutual support (Muia et al., 2018). Table 1 illustrates the types of support members receive.

Table 1. Social Support Services Provided to Members by the Bodaboda Association

Case	Association role/support	Remarks
<p>Case I: Support to members who suffered from an accident In 2018, 9 <i>bodaboda</i> riders had motor accidents that led to body injuries.</p>	<ul style="list-style-type: none"> • Association contribute TShs 200,000 (\$86.9) for supporting medication per injured person. • Association assist in following up with the Police Force to release <i>motorcycles</i> held by the police. • Grant loan for repairing the motorcycle. • Communicate with the motorcycle owners about the accident so that they are aware and can visit the victim and their families. 	<p>They supported members in coping during difficult times. Provide mutual assistance among the members.</p>
<p>Case II: Death of <i>Bodaboda</i> drivers in accident or disease. Between 2017 and 2019, 13 deaths occurred with <i>bodaboda</i> members, 4 with sickness and nine accidents.</p>	<ul style="list-style-type: none"> • Participated actively in funeral ceremonies and provided cash and emotional support to the family. The association contributed TShs 50,000 (approximately \$22) to the deceased family • Contributions to the family as a consolation grant. • Association followed up with the Police force to ensure the <i>motorcycle</i> was released to the family. 	<p>They are supported to ease the burden on the family (socio-economic). Maintained social support and solidarity with family members Consoled family members</p>

Case III: Loss of close family members	<ul style="list-style-type: none"> • Association contribute money of TShs 50,000 (approximately US\$22) to support the members • Access the loans to support members during the funeral. TSh 100,000 (approximately \$43.4) contributed • A representative from the association attended the funeral. 	<p>They supported association members to cope with the burden of the funeral cost.</p> <p>Maintained social contact and solidarity with family members</p>
<p>Some members lost 14 of their immediate family members between 2016 and 2019. They lost fathers, mothers, sisters, brothers, or children.</p>		

Source: FGDs and interviews during Fieldwork.

3.2 Economic Attributes

The National Bureau of Statistics (NBS) reports that unemployment is a significant issue affecting numerous young individuals, particularly in urban areas of Tanzania. The unemployment rate is 6.5 percent among those aged 14 to 25 and 9.9 percent among those aged 15 to 35 (NBS, 2015). Many unemployed youths turn to the informal sector for opportunities, engaging in street trading, food vending, hawking, motorcycle operations, and urban farming.

According to interviews, bodaboda riding has become famous for employment and income generation among young people. The relatively straightforward entry into this profession, requiring minimal training in motorcycle riding, makes it an attractive option for many. Respondents stated that becoming a bodaboda rider was the easiest and quickest job they could secure after completing their education. One bodaboda member expressed the following sentiment:

“There are a lot of business opportunities and entrepreneur activities, but these require start-up capital. Some even require rented space, buying furniture and other basic needs for an office, such as computers, which only a few can afford. That is why many young people are attracted to the informal economy. In my case, being a bodaboda rider was the first option—one starts by being a ‘deiwaka’ (a learner bodaboda rider). Later, he upgrades to become a rider with their motorcycle, which he is given under a monthly or yearly contract. One is certain that he will reap the benefits of yearly arrangements if he works hard. The only thing is that the money we earn is from hand-to-mouth, i.e., paying bills and meeting the fixed payments to the motorcycle owner. Things become easier when the rider is the motorcycle’s owner, but that is rare.”

All members interviewed from the Bodaboda Association unanimously highlighted the inherent risks associated with Bodaboda riding, emphasising the potential for instant injury or fatality. Indeed, statistics from the Orthopedic Unit of the Muhimbili National Hospital in Dar es Salaam reveal that 80% of injuries treated are motorcycle-related (Bishop & Amos, 2015). This underscores the need for a robust association capable of promptly supporting members in case of accidents.

The sentiments expressed by the fishermen mirrored those of the bodaboda respondents regarding the factors influencing their membership and voluntary contributions. They viewed

their group/association as crucial in providing support and protection during times of uncertainty and hardship. Members highlighted the absence of bureaucratic hurdles in informal social organisations, enabling swift processing of necessary support. Leaders promptly deliberate and facilitate payment upon request if a member encounters a social or economic challenge. Respondents noted that processing typically takes one to two days, with the amount disbursed based on individual contributions. Barrientos (2014) suggests that social networks contribute to economic growth by bolstering group savings and enhancing social stability.

Emphasising the swift response to provide social support, a member noted: “One can apply for a loan without physically meeting officials to negotiate approval.” This streamlined process is feasible because leaders are familiar with all members, facilitating rapid communication of support requests among leaders and other members.

According to food vendors, they relied on networks for financial support, with loans typically ranging from TShs 50,000 to TShs 1,000,000. Some vendors belong to multiple networks, leveraging their memberships to navigate social and financial challenges, such as wedding expenses or sickness. However, meeting obligations is crucial.

While some respondents reported substantial profits from food vending, others mentioned living paycheck to paycheck. However, these perspectives warrant caution. Respondents noted that net income from vending various food items significantly exceeded the daily wages of low-income earners, ranging from TShs 5,000 to TShs 15,000 per day. Additionally, many individuals reduced expenses, allocating daily contributions to networks ranging from 1,000 to 3,000 Tshs.

Uncertainty loomed over the food vending business, primarily due to unpredictable customer flows. Respondents acknowledged that tomorrow's prospects depended on today's business outcomes, introducing uncertainty. Moreover, the threat of eviction from streets and unauthorised areas by local authorities further constrained the business environment, exacerbating uncertainty.

Members cited the high costs associated with such schemes when asked about saving money for future contributions to formal social schemes. For instance, the minimum monthly contribution per person for social security is Tshs 20,000 (equivalent to US\$9), amounting to Tshs 80,000 for a family of four, with limited benefits covering only pensions and sickness. Moreover, members favoured schemes addressing immediate needs over long-term ones like pensions. Studies indicate that poorer individuals from the informal economy are hesitant to part with their incomes or contribute to funds offering future benefits due to income uncertainties and everyday hardships (Güven et al., 2021). The affordability and flexibility of monthly contributions to informal associations make them more attractive to members than assistance from formal social security institutions.

3.3 Institutional Attributes

Socio-cultural norms, rules, and regulations are pivotal in ensuring compliance and voluntary contributions to groups, associations, and networks. Participants were asked to share their

perspectives and experiences regarding the norms, rules, and regulations governing their conduct within the associations and how these influenced voluntary contributions.

During the study, respondents from the Bodaboda association disclosed that their organisation was established to oversee and advise motorcycle riders, ensuring compliance with national road safety laws and regulations. The chairman emphasised the association's alignment with the national-level association, necessitating members to form groups and register themselves. Additionally, the association aimed to encourage group savings by enabling riders to pool resources for collective welfare and support. Thus, what initially began as a government-endorsed institution evolved into a micro-credit group. Discussions unveiled that new bodaboda owners often seek out riders to share their experiences when purchasing a new motorcycle. In such instances, it is customary to outline the payment terms in the contract, whether daily, weekly, or monthly. Subsequently, the ward government office would draft an agreement, potentially involving witnesses such as heads of bodaboda associations.

One bodaboda highlighted the following contractual issues:

“It is not easy to be accepted as a member of the Bodaboda association; you need to meet all the necessary conditions, like having a motorcycle driving licence and passing a demo for at least three days. Once a member of a bodaboda association, it is easy to get or enter into a contract with a motorcycle owner. The association guarantees that the rider pays the agreed-upon fixed amount with the motorcycle owner. The fixed sum has to be met no matter what the rider earns. One cannot retire before the fixed payment is met. There is no option but to work hard and meet the contractual commitment.”

The food vendor network reported they highly respect the norms and rules guiding them. One of the food vendor interviewees noted:

“We are very respectful and disciplined regarding our network, i.e., network because it enables us to remain in operation during crises. Through the networks, we have been able to cross several lines, economically and socially, on things we could otherwise not do on our own. The discipline keeps us committed and consistent. Though the City pushes us to do a lot for our own sake, we appreciate its importance because its rules, guidelines, and regulations that direct the right to a clean, safe and healthy help us survive socially and economically.”

The findings from three case studies reveal that food vendors have established associations that offer various social support services akin to those provided by traditional social security funds. These associations have implemented mechanisms for member registration, defined regulatory rules and norms for operations, and devised modalities for contributing to social welfare services. They also proactively approach and swiftly process and support members in critical conditions. However, due to their informal nature, these associations are highly responsive to the needs of poorer informal households, ensuring timely access to support and fostering a sense of security among members. Despite their informality, these associations strive to adhere to local government guidelines, such as maintaining environmental cleanliness, thereby earning the respect and authority of local authorities. Over time, members have accumulated

both social and financial capital, effectively meeting their economic and social needs.

Similarly, the fishermen's group reported comparable outcomes, highlighting the role of institutional aspects in facilitating voluntary contributions. These institutional aspects revolve around regulations, norms, and rules associated with daily work, mainly anchored on municipality requirements for fishermen and their vessels to be registered as a group. The joint registration of vessels with the Municipality and local Police Post enables oversight of safety, fisheries, and environmental protection matters. Members expressed satisfaction with the association's norms, rules, and regulations, which are to some extent governed by government requirements mandating fishermen to operate as groups and collectively own fishing vessels. Membership in these groups provides income security, with weekly contributions earmarked for savings. These accumulated funds are then available for lending and financial support to members or their families in case of death or injury, preventing disruptions to fishing activities. Currently, the search group boasts 62 members.

4. Conclusion

Collaboration between Social Security and these informal institutions is crucial to extend coverage to informal workers through existing informal groups like the Bodaboda association, food vending networks, and fishing saving groups. Informal workers place trust in their associations, networks, and groups, demonstrating the ability to provide social support during critical times. By leveraging these groups' existing infrastructure and practices, social security can potentially cover a significant number of informal workers. In Dar es Salaam, social organisations have emerged as coping mechanisms in response to dissatisfaction within informal social networks. These organisations hold significance as they are deeply rooted in traditions, culture, family structures, and broader social norms, contributing to social development. Such social practices serve as foundational pillars of social systems in developing countries.

However, it is essential to recognise that social organisations can be bound to a particular culture, facilitating mutual support among actors governed by norms and trust in pursuit of shared objectives for mutual benefit. This highlights the need for social security to collaborate with existing social institutions while respecting and integrating the cultural contexts and norms within which these groups operate. By doing so, social security can effectively extend its coverage to informal workers while building upon these groups' existing social support mechanisms.

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