

Unbelievable: We no longer need debt relief!

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The chaotic nature of the informal sector makes it seem like an island of untapped wealth floating in the pool of poverty.

A recent study by the Institute for Liberty and Democracy (ILD) called for by Peruvian economist Hernando de Soto is shockingly informative.

The so called 'extralegal' sector in Tanzania is sitting on cumulative assets to the tune of USD29 billion (approx. Tshs.29 trillion).

This figure is very close to ten times this year's Tshs.3 trillion government budget, and a far greater sum than the total amount of donor funds we have been receiving from development partners for decades.

This report exposes the idle capital trapped in the informal sector in Tanzania just because it is not registered by any authorities, and therefore its owners pay no tax. 80 percent or so of all the land-owners situated in rural Tanzania lack title deeds, hence they cannot use their land, or houses for that matter, as collateral if they want to borrow money from a bank.

As a result, they are excluded from access to the credit market.

The reality of the day is that the majority of people in Tanzania do not belong to the formal sector of the economy.

The agriculture sector, which is largely informal, employs almost 80 percent of the people here, and is estimated to contribute about half of the country's GDP.

Many of the small companies in our urban areas are also informal.

Private enterprises are common in most urban areas these days.

In fact, the preliminary results of the study show that 98 percent of all business undertakings in Tanzania are in the informal sector, a country where socialism and collectivism were the main lodestars only a few decades ago.

The study points to the fact that assets are not in short supply, as many farmers and owners of small companies within the informal sector do own properties.

However, there are no papers showing that these assets really exist or who owns them.

According to a study by the World Bank, 55 percent of all businessmen in Tanzania say that their property rights are not fully covered by the law.

More revealing from the study is probably what some of us may not accept as an established truth: Informal sector stakeholders have their own unique style of record keeping, a management tool which in turn determines the manner in which they conduct transactions among themselves.

At this stage, what matters most is the quality of diagnosis which has unraveled this massive wealth hidden in the complex structure of the informal sector.

Since October last year, the Property and Business Formalisation Program (PBFP) has been in place to kick-start the process of integrating the informal sector into the mainstream economy.

The next stage is to legalise housing, evaluate property, and give owners titles and deeds for their properties.

The model worked nicely in Lima, Peru where the economic environment is very much similar to ours.

Its implementation saw more companies moving into the formal sector, an increase in job opportunities, tax income upped as well as more parents being able to send their children to school in towns.

The immediate challenge is how to unleash the proven entrepreneurship in the informal sector, and eventually make it work for the poor as part of the wider National Strategy for Growth and Reduction of Poverty (NSGRP)- invariably termed Mkukuta in Kiswahili.

The bottom line is that there are all the signs that the banking and political elites are realizing that they have to go 'down-market' in order to address poverty at its roots.

Microcredits are waiting for the opportunities to outcrop. Banks would now recognize that the poor know how to use credit and will use it efficiently.

The behaviour of many companies in the informal sector has a lot to do with the tax system which also need reformation.

But in the end, microcredits will only work if the borrower has something to lose by not paying back his loan, and they they will only have something to lose if they have title deeds, and legal ownership of their house, their car, their family farm, whatever.

Furthermore, de Soto believes the more people are inside the legal system the better. Once one is inside the legal system, one becomes more interested in the political system.

Hence, these economic reforms are poised to lead to greater stability, and participation in the affairs of state at the level where these informal enterprises operate..

- SOURCE: *FINANCIAL TIMES*