The Impact of Informal Economic Activities on Poverty Reduction in Mbeya: A Case Study of Small-Scale Traders

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ABSTRACT

Aims: This study aimed to assess the impact of informal economic activities on poverty reduction in Mbeya, Tanzania, with a focus on small-scale traders. The specific objectives were to evaluate the contribution of informal economic activities to household income, identify challenges faced by small-scale traders, and assess the effectiveness of policies and programs that support the informal sector.

Methodology: The study adopted a descriptive research design using a mixed-methods approach. Data were collected through structured questionnaires and in-depth interviews involving 391 respondents, including small-scale traders and local officials. Quantitative data were analyzed using SPSS version 22, while qualitative data were analyzed thematically.

Results: Findings revealed that over 75% of household income for most traders came from informal activities such as food vending and small-scale retail. Key challenges included lack of access to credit (79.1%), poor infrastructure (67.2%), and lack of legal recognition (64.2%). Awareness and effectiveness of government support programs were low, limiting their impact on poverty alleviation.

Conclusion: Informal economic activities are central to poverty reduction in Mbeya. However, their potential is undermined by systemic barriers and ineffective policy implementation. Enhanced support structures and targeted policy reforms are required to maximize the sector's contribution to sustainable livelihoods.

Keywords: Informal economy, small-scale traders, poverty reduction, economic policy

INTRODUCTION

The informal economy, encompassing unregistered and unregulated economic activities, is a significant driver of employment and poverty reduction in developing countries. According to the International Labour Organization (2023), over 85% of employment in Africa is informal. In Tanzania, informal economic activities such as food vending, street trading, and artisanal services form a crucial part of the local economy, particularly in urban areas like Mbeya (NBS, 2021). These activities, often undertaken by women and youth, provide livelihoods for individuals excluded from the formal labor market (Chen, 2019).

Despite their significance, informal traders in Mbeya face numerous constraints including limited access to credit, legal insecurity, and poor infrastructure. These challenges hinder their ability to grow and sustain their businesses, limiting their capacity to contribute fully to poverty reduction (Mfaume & Leonard, 2022). The present study addresses this gap by examining how informal economic activities influence household income and what barriers limit their impact on sustainable economic development.

Problem Statement and Justification

In Mbeya, small-scale informal traders constitute a major segment of the working population, accounting for over 68% of employment (NBS, 2021). Yet, despite their contribution to the economy and household welfare, they operate in precarious conditions marked by harassment, inadequate infrastructure, and exclusion from formal financial and legal systems (Lema & Chacha, 2021). There is a lack of comprehensive research on how

these issues affect their livelihoods and poverty reduction potential. This study fills that gap by evaluating the specific contributions of informal traders to household income and identifying structural challenges that impede their growth. Findings from this study inform policies aimed at improving the sustainability and effectiveness of the informal sector as a poverty reduction mechanism.

Objectives of the study

This study was guided by one general objective and three specific objectives.

General objective

To assess the Impact of Informal Economic Activities on Poverty Reduction in Mbeya: A Case Study of Small-Scale Traders

Specific Objectives

1. To evaluate the contribution of informal economic activities to household income among small-scale traders in Mbeya.

2. To identify the challenges faced by small-scale traders in the informal sector in Mbeya.

3. To assess the effectiveness of existing policies and programs in supporting informal economic activities and poverty reduction in Mbeya.

Research questions

1. What is the contribution of informal economic activities to household income among small-scale traders in Mbeya?

2. What are the challenges faced by small-scale traders in the informal sector in Mbeya?

3. How effective are the existing policies and programs in supporting informal economic activities and poverty reduction in Mbeya?

LITERATURE REVIEW

This study is grounded in the Informal Sector Theory as proposed by Lewis (1954) and expanded by Harris and Todaro (1970). The theory emphasizes that the informal sector serves as a safety net for the unemployed in developing economies by offering low-barrier, income-generating opportunities. Though often low in productivity, these activities play a key role in poverty mitigation.

Income Contribution of Informal Economic Activities

Zongo and Amah (2020) observed that in West African cities, informal activities form the primary income source for over 60% of urban dwellers. Similarly, Ndlovu and Dube (2021) found that informal vending in Zimbabwe substantially contributes to household food security. In Mbeya, Mtuwa and Kayombo (2021) reported that informal earnings are used for essential needs, underscoring the sector's role in economic survival. Lynch and Bennett (2021) revealed that informal trading activities provided an essential source of income for many households, especially in lower-income brackets. Moreover informal businesses were often seen as a safety net during times of economic instability, such as during the COVID-19 pandemic.

Challenges Facing Informal Traders

Lema and Chacha (2021) highlighted systemic issues such as inadequate credit access, poor physical infrastructure, and legal marginalization as key barriers. Diop and Mbengue (2020) reported frequent evictions and harassment faced by informal workers in urban centers. These challenges inhibit growth and discourage

investment in informal businesses. Tobin and Johnson (2019) revealed that, despite contributing significantly to the economy, informal businesses faced several challenges, including high operating costs, lack of access to formal financial systems, and uncertainty regarding taxes and regulations. Msuya and Wambura (2022) identified common issues such as market insecurity, poor infrastructure, and inadequate business skills. Despite these challenges, the study found that informal traders in Mbeya also saw opportunities for growth, especially with increased demand for locally-produced goods and services.

Effectiveness of existing policies and programs in supporting informal economic activities and poverty reduction

Ngome and Mwansoko (2022) found that most government programs targeting informal businesses are ineffective due to poor design and limited reach. Only a small fraction of traders are aware of these interventions, let alone benefit from them. The disconnect between policy frameworks and ground realities continues to hinder progress. Parker and Mthembu (2021) found that these policies contributed to the growth of some small businesses, but their overall impact was limited by several factors. Many traders reported that the financial assistance provided was often insufficient and did not address the broader needs of the informal sector, such as training and access to markets.

METHODOLOGY

Research design/approach

The study used a descriptive research design combining both qualitative and quantitative methods. This design is one of the mostly used non-experimental research designs cutting across disciplines for collecting large amounts of required data from the sample respondents

Population and sampling techniques

The study was conducted at Ruanda an administrative ward in the Mbeya Urban district of the Mbeya Region of Tanzania. The ward has 11 neighborhoods namely; Benki, Ilolo, Kabwe, Kati, Makunguru, Mkombozi, Mtoni, Mwenge, Soko, Soweto and Wakulima.

The ethnic groups in this area are Nyakyusa in Kyela and Rungwe district, Safwa and Malila in Mbeya district Nyiha and Nyamwanga in Mbozi district, Ndali in Ileje district, Bingu and Kimbu in Chunya and Sangu in Mbarali district. Ruanda Ward was selected due to its concentration of informal economic activities. At the 2022 census, the population was estimated at 18,626 but the focus of this study was small-scale informal traders, government officials, and development partners. A sample size of 391 was selected using snowball and purposive sampling techniques from the population in the study area.

Instruments used

The choice of a tool and instrument to be used in research depends mainly on the forms and attributes of the research and the expected data and results. Structured questionnaires and semi-structured interviews were employed. Secondary data were obtained from academic journals, government reports, and policy documents. The instrument was constructed in line with the study objectives with the dependent variable adopting a binary scale with 1= representing yes and 0 = no. The qualitative data was obtained through the use of interviews where contents were provided based on key themes relative to the study

Statistical treatment of data

Data were analyzed using SPSS version 22 to generate frequencies and percentages. Qualitative data were analyzed thematically to provide depth to quantitative findings. The study applied the triangulation method which involves making a comparison of results from both quantitative and qualitative data, and looking for convergence (where findings align) and divergence (where they differ). This helped strengthen the overall understanding of the subject and identify areas for further exploration. The quantitative data was used to

provide a broader picture and context, while the qualitative data offered deeper explanations for the "why" behind the statistics. Presentation of data involved explanations that combine quantitative and qualitative findings to effectively communicate the connections between them

FINDINGS AND DISCUSSION

Demographic Characteristics

As shown in Table 1, the majority of respondents (36.6%) were aged between 26 and 35 years, followed closely by those aged 18 to 25 years (33.5%). Respondents aged 36–45 years accounted for 20.7%, while only 9.2% were above 45 years.

These results indicate that the informal economic sector in Mbeya is predominantly populated by the youth and middle-aged individuals, who are generally considered economically active. This supports the observations by Ngome and Mwansoko (2022) and Mtuwa and Kayombo (2021), who argued that youth engage more in informal trade as a survival strategy due to limited formal employment opportunities. Their energy, adaptability, and entrepreneurial drive contribute significantly to household income and local economic development.

Table 1 reveals a near-equal gender distribution: 51.2% male and 48.8% female. This balanced participation underscores the inclusive nature of informal economic activities in Mbeya. It confirms earlier findings by Zongo and Amah (2020), who documented a strong female presence in informal trade across African urban areas, often due to the flexible nature of such work which accommodates domestic responsibilities.

Nearly 47.3% of respondents had attained secondary education, followed by 28.1% with no formal education, 15.3% with primary education, and only 9.2% with tertiary education. These results suggest that while a substantial proportion of traders possess basic literacy skills, access to higher education remains limited. This aligns with Lema and Chacha (2021) who observed that most traders in Mbeya operate with secondary-level education, enabling them to conduct basic transactions but limiting their ability to access formal financial services or navigate complex regulatory systems. The findings underscore the need for targeted business training and literacy support programs for this demographic.

As expected, 69.1% of respondents were full-time small-scale traders, while 15.3% worked in government, 9.5% in the private sector, and 6.1% were unemployed. This highlights the centrality of informal trade as a primary source of livelihood in urban Mbeya. These findings affirm those of Msuya and Wambura (2022), who noted that informal trade fills the employment gap left by a struggling formal sector, especially for individuals with limited access to higher education or formal job networks.

Table 1: Demographic Characteristics

Age	Frequency	Percent
18-25	131	33.5
26-35	143	36.6
36-45	81	20.7
Above 45	36	9.2
Gender	**Frequency**	**Percent**
Male	200	51.2
Female	191	48.8
Level Of Education	**Frequency**	**Percent**
No formal education	110	28.1
Primary	60	15.3

Secondary	185	47.3
Tertiary	36	9.2
Occupation	**Frequency**	**Percent**
Small-scale trader	270	69.1
Government employee	60	15.3
Private sector employee	37	9.5
Unemployed	24	6.1
Total	**391**	**100.0**

Source: Field Data, 2025

Income Contribution of Informal Activities

Type of informal economic activity

As shown in Table 2, the most common activity was motorcycle (bodaboda) transport (20.5%), followed by street vending (17.9%) and food selling (mama lishe) (11.3%). Other prominent activities included second-hand clothing (mitumba) sales and urban farming/horticulture, both at 10.2%, as well as recycling/waste collection (7.7%).

These results reflect a diverse informal economy, accommodating various skill sets and capital levels. Similar to findings by Ngome and Mwansoko (2022), this diversity enhances economic inclusion, allowing both men and women from different age groups and backgrounds to participate. The predominance of bodaboda transport further illustrates the sector's response to urban mobility needs and limited public transport infrastructure.

Table 2: Type of informal economic activity

Type of informal economic activity	Frequency	Percent
Street vending	70	17.9
Food selling (mama lishe)	44	11.3
Motorcycle (bodaboda) transport	80	20.5
Small-scale retail shop	27	6.9
Tailoring and clothing repairs	20	5.1
Handicrafts and artisan work	20	5.1
Second-hand clothing (mitumba) sales	40	10.2
Urban farming and horticulture	40	10.2
Construction and day labor	20	5.1
Recycling and waste collection	30	7.7
Total	**391**	**100.0**

Source: Field Data, 2025

Income Contribution of Informal Activities

Table 3 shows that the majority of respondents (41.2%) earned between TZS 151,000–300,000 monthly, while 30.7% earned TZS 50,000–150,000. Only 10.2% reported earning above TZS 600,000, and 12.8% earned less than TZS 50,000. Furthermore, 57.3% of respondents indicated that over 75% of their total household income came from informal economic activities.

This confirms the central role of informal trade in sustaining livelihoods, especially among low-income households. These results echo those of Lynch and Bennett (2021) and Zongo and Amah (2020), who noted that informal trade helps families meet essential needs such as food, shelter, healthcare, and education, even when income flows are unstable.

Table 3: Income Contribution of Informal Activities

Average monthly income from informal business	Frequency	Percent
Less than 50,000 TZS	50	12.8
50,000-150,000 TZS	120	30.7
151,000-300,000 TZS	161	41.2
301,000-600,000 TZS	20	5.1
601,000-1,000,000 TZS	40	10.2
Percentage of informal trade contribution to household income	**Frequency**	**Percent**
Less than 25%	30	7.7
26-50%	29	7.4
51-75%	108	27.6
Above 75%	224	57.3
Total	**391**	**100.0**

Source: Field Data, 2025

Challenges Faced by Traders

This section presents the challenges encountered by traders and assesses how these barriers affect their productivity, sustainability, and capacity to escape poverty. As detailed in Table 4, the most significant challenge was access to credit (79.1%), followed by market instability, poor infrastructure, and heavy taxation (each reported by 67.2%). Legal recognition was a concern for 64.2%, while harassment from authorities was noted by 37.3%. These findings align with those of Diop and Mbengue (2020) and Lema and Chacha (2021), who reported that informal traders in Africa often face exclusion from financial systems and legal protection.

Mfaume and Leonard (2022) further emphasized that without access to affordable credit, informal traders cannot scale up operations, purchase inventory in bulk, or invest in infrastructure improvements. Likewise, the absence of legal recognition increases traders' vulnerability to eviction, fines, or corruption, further compounding their financial instability. Addressing these constraints is vital for unlocking the full poverty-reducing potential of the informal sector.

Table 4: Challenges faced by small-scale traders in the informal sector in Mbeya

Challenges	Responses		Percent of Cases
	N	**Percent**	
Credit	265	20.7%	79.1%
Harassment	125	9.8%	37.3%
Market	225	17.6%	67.2%
Taxation	225	17.6%	67.2%
Infrastructure	225	17.6%	67.2%
Legal recognition	215	16.8%	64.2%
Total	**1280**	**100.0%**	**382.1%**

Source: Field Data, 2025

Effectiveness of Policies and Programs

Table 4 reveals that 76.7% of respondents were aware of government programs, and 61.4% reported having received some form of support. While these numbers appear promising, further investigation reveals that support is often insufficient or poorly implemented. This contrasts slightly with prior findings from Ngome and Mwansoko (2022), who observed low awareness levels among informal traders. The relative awareness in this study may be due to targeted programs or local government outreach, but it does not necessarily translate into effective assistance.

Only 38.4% of traders rated government support as "very effective," while 36.1% considered it "not effective," and 25.6% rated it as "somewhat effective." These perceptions suggest that, while some interventions exist, they fail to address key trader priorities such as simplified registration, capital access, and business training. These concerns mirror those raised by Parker and Mthembu (2021) and Amadou and Touré (2020), who found that bureaucratic barriers, low program visibility, and eligibility constraints severely undermine the impact of formal support mechanisms. The findings suggest that a more inclusive, responsive, and better-communicated policy framework is needed to enhance the sustainability of informal trade and its role in poverty reduction.

Table 5: Effectiveness of Policies and Programs

Awareness of government programs supporting informal traders	Frequency	Percent
Yes	300	76.7
No	91	23.3
Received any support from the government	**Frequency**	**Percent**
Yes	240	61.4
No	151	38.6
Effectiveness of government support	**Frequency**	**Percent**
Very effective	150	38.4
Somewhat effective	100	25.6
Not effective	141	36.1
Total	**391**	**100.0**

Source: Field Data, 2025

CONCLUSION AND RECOMMENDATIONS

Conclusion

The study assessed the impact of informal economic activities on poverty reduction in Mbeya, with a focus on small-scale traders operating in Ruanda Ward. Demographic data revealed that informal trade is predominantly driven by economically active individuals aged 18–45 years, with near-equal gender participation and a majority possessing secondary education. The findings indicated that small-scale traders heavily rely on informal activities as their main source of income, with over 75% of household income derived from these trades.

Common informal activities included motorcycle (bodaboda) transport, street vending, food vending, and second-hand clothing sales. The income generated from these activities contributed significantly to covering essential household needs such as food, rent, education, and healthcare. However, traders faced various structural and systemic challenges, notably lack of access to credit, poor infrastructure, legal insecurity, and limited recognition of their economic contributions.

In evaluating the effectiveness of government policies and programs, the study found that although many traders were aware of existing initiatives, a substantial number had not benefited due to bureaucratic challenges, inadequate implementation, and poor communication. These limitations have restricted the effectiveness of policy interventions in supporting the informal sector's contribution to poverty reduction.

The study concludes that informal economic activities are indispensable to the livelihoods of many residents in Mbeya, particularly in urban areas like Ruanda Ward. They provide accessible, flexible, and sustainable income-generating opportunities for individuals who are excluded from the formal economy. The contributions of small-scale traders to household income are substantial, and their role in poverty alleviation is both immediate and long-term.

Despite their economic significance, these traders remain marginalized by institutional systems. They operate under precarious conditions without legal protection, formal recognition, or access to affordable credit and adequate infrastructure. Furthermore, while government policies and support programs exist, their impact is weakened by poor implementation, low accessibility, and insufficient outreach. Addressing these issues is essential for enhancing the resilience, productivity, and sustainability of informal economic activities in Mbeya.

Informal economic activities in Mbeya significantly contribute to poverty reduction by supporting household income and employment. However, their potential is limited by structural and policy-related constraints. Addressing these challenges is crucial for enhancing the sector's role in sustainable development.

Recommendations

Enhance access to microcredit through simplified lending procedures. Improve market infrastructure and basic amenities. Simplify business registration and legal recognition processes. Raise awareness of support programs through targeted outreach. Provide capacity-building and entrepreneurship training to informal traders.

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