

ABSTRACT

Focusing on the informal sector workers in Arusha Municipality, this paper analyses the role of incentives in fostering membership of the informal sector to contributory social security programs. In the informal sector Tanzania, there is a huge social security gap as less than 1% of the informal sector is covered by social security. As the informal sector is now the main stay of the economy, employing majority of the workforce and the disintegration of traditional social security systems there is a great need to address mechanisms ensures social security coverage to the informal sector. The study uses an exploratory design. The survey was conducted through administering 100 questionnaires to the informal sector workers in Arusha municipality with secondary data obtained from integrated labour force survey (2014), annual report of pensions funds and in the course of reviewing the literature. Data is summarized by using tables and charts. The study affirms the assertion of the presence of the social security gap. Majority of the workers (70%) were not aware that being in the informal sector they could have opportunity to contribute to a formal social security scheme. Many had no any plan in saving for retirement and for the few who were concerned of the retirement issues save mostly through traditional means of educating their children with the hope that they will extend helping hand during the old age and a few invest in real estate, constructing rental houses to ensure a constant flow of income in the old age. Traditional incentives like taxes relief on saving and matching contributions seem to be effective in increasing contributions. The more effective tools however are incentives administered with behavior theory in perspectives. Automatic enrollment and interfacing pensions product with other financial products like health insurance and loans is seen to be a more effective means as people are more concerned with immediate needs than old age. It is a recommendation of this paper to the policy makers to appreciate and use behavior based incentives to encourage savings towards retirement. Saving decisions should be made easy and simple. The presence of many pensions fund curating for the informal sector complicates saving decisions leading procrastination and heuristics in the process of deciding which fund to save thus leading to low enrollment rate of the informal sector to contributory social security schemes.

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