

**THE CONTRIBUTION OF INFORMAL SECTOR TRADE TO  
POVERTY REDUCTION IN RUSAPE, ZIMBABWE**

**BY**

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I hereby declare that this research report (dissertation) is my original work. All secondary material used has been appropriately referenced in accordance with University regulations.

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Apunyaira haashayi misodzi. Kwandabva kwawe kure.

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## **ABSTRACT**

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Zimbabwe has been experiencing an exponential increase in the levels of household poverty because of the contraction of the formal economy. This state of affairs has resulted in a significant proportion of Zimbabweans engaging in informal sector trade to mitigate the effects of economic decline.

The goal of the study was to determine the contribution of informal sector trade to poverty reduction in Rusape, Zimbabwe.

The researcher adopted a qualitative research approach and the study was applied in nature as it sought to understand how poverty can be reduced through informal sector trade. The research design was a collective case study. The researcher made use of

availability sampling and interviewed participants who were willing and available on a one-on-one basis.

The study contextualised how informal sector trade reduces poverty within the social development approach. The study established that informal trade was a commercial enterprise that was undertaken by both men and women of all ages to sustain their households. Engagement in informal trade accorded informal traders the opportunity to be self-sufficient and to generate incomes. The incomes obtained from informal trade enabled the participants to provide for the dietary, medical, housing and educational needs of their families. The study also revealed a number of business survival strategies employed by informal traders to ensure sustainability. Findings show that rotational credit and savings schemes (ROCSS) play an important role in sustaining informal trade operations and their contribution to a reduction in household poverty.

The study concluded that engagement in informal trade reduces household poverty. Recommendations include how the State can facilitate the growth of the informal sector. Furthermore, it is recommended that the social work profession should actively engage government structures and advocate for the development of the informal sector and the widespread adoption of the social development approach which reduces poverty in a sustainable manner.

## KEY WORDS

Informal Sector trade

Informal traders

Social Development

Poverty reduction

Rotational Savings and Credit Schemes

Food Security

Housing

Education

Health

Zimbabwe

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## CHAPTER ONE

### 1.1. INTRODUCTION

Zimbabwe has been experiencing an exponential increase in urban poverty which can be attributed to a number of factors which include among others the legacy of colonialism, the adoption of The Economic Structural Adjustment Programme in 1990, recurrent droughts, a decline in economic growth, rising levels of unemployment, the breakdown of the social welfare system and sanctions imposed by the United States of America and the European Union (Makaye & Munhande, 2008:34).

Successive colonial governments neglected the development of rural areas which consequently led to high levels of underdevelopment and poverty in rural communities. Repressive colonial legislative instruments like the Vagrancy Act of 1955 and the pass laws were promulgated to restrict the movement of black Africans into urban areas leading to the systematic impoverishment of rural Africans (Dhemba, 1999:1). The advent of independence resulted in the reconstruction and reconfiguration of the demographic patterns of the country as rural dwellers emigrated to urban areas in an attempt to escape from poverty and improve their life chances (Dhemba, 1999:1).

The pace of urbanisation coupled with increased government social spending in free education and health surpassed the rate of economic growth. The government adopted the Economic Structural Adjustment Programme in 1990 in a bid to stimulate economic growth. This programme according to Dhemba (1999:6) was buttressed on the modernisation paradigm that emphasised reduced expenditure on social services which consequently impacted negatively on marginalised people. The macro economic climate, super imposed by the Economic Structural Adjustment Programme characterised by trade liberalisation, privatisation and contraction of the public sector resulted in job losses, a decrease in employment opportunities, real wages and savings (Dhemba, 1999:6).

During the past decade the Zimbabwean economy has faced a myriad of unprecedented economic challenges characterised by economic decline, unemployment, hyperinflation, chronic fuel and electricity shortages, deteriorating infrastructure and the emigration of skilled labour (Ministry of Finance, 2009). This state of affairs put enormous pressure on the ability of the generality of the citizenry to meet their basic needs. The virtual collapse of the social welfare system, the absence of poverty reduction programmes for the urban poor and massive retrenchments forced citizens to resort to the informal trade because there was no meaningful alternative income earning opportunities.

Lombard (2003:12) contends that fragile macro-economic conditions of many African States force many people to become entrepreneurs. Regulatory mechanisms like price controls and a foreign exchange regime that did not conform to the dictates of the market forced large corporate entities to close down leaving a gap in product and service delivery which informal traders filled. Makumbe (2009:24) notes that, “between the years 2000-2007, 80% of manufacturing firms in Zimbabwe witnessed a decline in output volumes, 15% were operating at less than 30% capacity, another third between 30% and 50% and more than 90% unable to cover their costs thus making a loss”. The paralysis of the formal economic system drove hordes of unemployed Zimbabweans into the informal sector to mitigate the effects of an acute recession and earn livelihoods for their families.

Mupedziswa and Gumbo (2001:23) assert that informal traders have acute capital challenges and have limited access to credit from financial institutions. This state of affairs has resulted in informal traders creating informal credit and savings schemes to save their earnings and meet their capital requirements. Chamlee-Wright (2002:34) observed that 76% of informal traders in Harare were engaged in Rotational Savings and Credit Schemes for their capital needs.

The scope of the study was to assess the contribution of informal trade to poverty reduction in the context of a dysfunctional and paralysed formal economic sector in a

State that has no meaningful social safety nets. Therefore, to determine the contribution of the informal sector trade to poverty reduction, it was relevant for this study to ascertain the role rotational credit and savings schemes play in sustaining informal business operations, creating savings, improving livelihoods and ultimately reducing poverty through noting changes in household consumption patterns in the areas of food, housing, health and education.

The key concepts of the study are as follows:

### **Informal sector trade**

For the purposes of this study, informal sector trade shall refer to, “the sale of legal goods by individuals and or groups in locations designated for informal trading which requires little more than the actual goods to commence” (City of Joburg, 2009:1).

### **Informal traders**

The study adopted the view of Paradza (1999:34) who defines informal traders as individuals who run business enterprises that are not registered under the Companies Amendment Act 5 of 2006 or the Co-operatives’ Societies Act 6 of 1990 and those which are not assessed for taxation by central government.

### **Poverty**

The definition of poverty by Hazell and Haddad (2001:12) is aligned with the focus of this study: “Inability of individuals to meet or achieve their basic material and physiological needs which can be measured either as a lack of income, which limits access to food and to education, health, housing, water and sanitation services or by the failure to achieve desired outcomes, such as a high quality diet rich in micronutrients, health status, educational attainment and the quality of health, water and sanitation services received.”

## **Poverty reduction**

The study adopted the Canadian International Development Agency's (2008:1) definition which refers to poverty reduction as, "a sustained decrease in the number of the poor and the extent of their deprivation by improving their socio economic and environmental conditions and their access to decision making."

## **Rotational Savings and Credit Schemes (ROSCS)**

Oduro (2009:2) defines ROSCSs as, "a group of people who come together at regular intervals to make contributions into a fund that is distributed to one of its members at each meeting until each member has received money from the fund."

## **Rusape**

The study was conducted in the agricultural town of Rusape, located on the Eastern Highlands of Zimbabwe.

## **1.2. THEORITICAL FRAMEWORK**

The researcher made use of the social developmental theoretical framework that urges the adoption of macro-economic policies that promote employment and attain people centred economic development (Midgely, 1999:124). Midgley (2010:14) asserts that interventions that, "mobilise human and social capital, facilitate self-employment and promote asset accumulation are key components to the development approach to social work." This framework, according to Midgley (1996:6), "seeks to foster a new conception of redistribution, as social investments that generate positive rates of return and continuously feed into the economy." Midgley (1999:124) further states that, "Social workers should recognise that conventional redistributive arguments based on conceptions of need, altruism and social rights have lost credibility and ideas that offer a plausible alternative rationale for social welfare and enhanced economic development

are needed”. Thus it is within the social developmental realm that the study was undertaken as it sought to understand the role informal trade plays in reducing poverty, by increasing household incomes and subsequently improving the livelihoods of informal traders.

### **1.3. RATIONALE AND PROBLEM STATEMENT**

The informal sector is increasingly playing a cardinal role in socio-economic development. Mbiriri (2009:45) notes the global importance of the informal sector with regard to its contribution to employment creation, innovation and a country’s GDP. Mbiriri (2009:45) alludes to the fact that small businesses in America generate more than half of the nation’s Gross Domestic Product, and in India the informal sector contributes 70% of the country’s Gross Domestic Product.” Traditionally the informal sector has been viewed as the preclude and locus of the uneducated and marginalised but there have been significant changes in the organisation of the informal sector demographics in the last decade (Mupedziswa & Gumbo, 2001:3). The Herald newspaper cited in Mupedziswa and Gumbo (2001:3) aptly describes the state of affairs by asserting that, “The informal sector, once derided as an exclusive presence for an uneducated and unskilled individual with no prospects of gaining a job in the formal sector has become a life line for a growing number of Zimbabweans, from retrenched professionals and highly skilled workers to retirees and others entering the job market for the first time.”

The study made an attempt to understand the evolved and contemporary nature of informal trade and its viability as a poverty reduction mechanism. The results of the study provide a micro economic portrait of the operations of the informal sector in Zimbabwe which could enable policy makers to consider the needs of micro enterprises when developing fiscal policies. Yusuf, Ijaiya and Ijaiya (2009:3) state that, “there is relatively scanty research on the activities of the informal financial institutions in most developing countries.” The study sought to contribute to the understanding of informal

sector trade and within this context, comprehend the role rotational credit and savings schemes play in sustaining informal trade enterprises to reduce poverty.

The research question for the study was as follows:

How does engagement in informal sector trade reduce poverty in Rusape?

Sub-questions underpinning the research question are the following:

- How does informal sector trade influence household consumption patterns with particular reference to education, food, housing and health?
- What role do rotational credit and savings schemes play in sustaining informal trade enterprises to reduce poverty?

#### **1.4. GOAL AND OBJECTIVES**

The research goal and objectives for the study were as follows:

##### **1.4.1. Research Goal**

To determine the contribution of informal sector trade to poverty reduction in Rusape.

##### **1.4.2. Research Objectives**

- To contextualise informal trade and poverty reduction within the social developmental approach.
- To explore how engagement in informal trade has reduced the poverty levels of informal traders in Rusape by noting changes in household consumption patterns with particular reference to education, food, housing and health.

- To determine the role rotational credit and savings schemes play in sustaining informal trade enterprises and reducing the levels of poverty of informal traders in Rusape.
- To make recommendations that will aid the government in adopting macro-economic policies that enable poverty reduction through informal sector growth.

## 1.5. RESEARCH METHODOLOGY

A detailed description of the research methodology employed by the researcher will be presented in Chapter 3. The ethical aspects pertinent to the study and the measures that were taken to ensure the trustworthiness of the data will also be presented in Chapter 3. The following discussion is a synoptic account of the research methodology adopted for the study.

The researcher employed a qualitative research approach. The approach entails a systematic and subjective approach to assess and give significance to the contribution of the informal sector to poverty reduction in Rusape (Burns & Grove 2009:51).

The study was applied in nature as it concerned itself with finding solutions to a problem in practice, in this case the reduction of poverty through engagement in informal trade (Gravetter & Forzano 2006:36).

The researcher made use of the collective case study research design since he intended to make an in depth exploration that utilises inductive logic for the purposes of describing and understanding the dimensions of informal trade (Gravetter & Forzano, 2006:45).

The research population comprised of persons engaged in informal trade in Rusape. The researcher made use of a non-probability sampling technique namely availability



sampling which requires the researcher to interview participants that are available and willing to participate in the study until such a time the desired number is obtained and data is saturated (Delpont & Strydom, 2011:390).

The researcher made use of one on one interviews as they are the predominant mode of collecting information in qualitative studies (Neuman, 2000:34). The researcher made use of broad and multiple questions for the purposes of investigating informal trade in an uncontrolled environment for practical significance (Bickman, 2009:10). The researcher made use of semi structured interview schedules to collect data which helped him to understand the world from the participant's point of view, to unfold experiences of informal traders' experiences and uncover their lived world prior to scientific explanation (Greeff, 2011:347).

## **1.6. LIMITATIONS OF THE STUDY**

The study was undertaken in a period preceding the constitutional referendum and the respondents made an attempt to provide responses which did not antagonise the political leadership.

## **1.7. DIVISION OF THE RESEARCH REPORT**

The research report comprises of four Chapters. Chapter one is the general introductory chapter to the study providing a general orientation of the study; outlining the theoretical framework and the problem statement; indicating the goal and objectives of the study; providing a brief overview of the research methodology and the shortcomings of the study and thus placing the total investigation in context.

Chapter two consists of the literature review. The researcher locates the particular study in the realm of studies done on the informal trade. Informal trade and poverty reduction are contextualised within the social developmental approach. The contribution of rotational credit schemes in sustaining informal trade and reducing poverty are also appraised. Finally, the role rotational savings and credit savings schemes play in

sustaining informal business operations, creating savings, improving livelihoods and ultimately reducing poverty through changes in the areas of food, housing, health and education are discussed.

Chapter three presents the empirical study and includes a comprehensive description of the research methodology including the research approach, research type and design, population and sampling method, data collection methods, the data analysis and the pilot study. This section also presents and discusses the empirical findings of the study.

Chapter four outlines the conclusions and recommendations of the study. Furthermore, the researcher indicates how the goal and objectives of the study have been achieved. The key research findings are highlighted from which conclusions were drawn and in turn, recommendations are made. This chapter also includes future directions the research may take.

## **CHAPTER TWO**

# **POVERTY REDUCTION AND INFORMAL TRADE WITHIN THE SOCIAL DEVELOPMENT APPROACH**

## **2.1. INTRODUCTION**

Informal trade plays a significant role in reducing poverty of vulnerable groups who are excluded from the mainstream economy (Mupedziswa & Gumbo, 2001:67). In most countries, but in particular in developing countries like Zimbabwe, women experience much higher unemployment rates than men (Cheston & Khun, 2002:172). The social development approach, which emphasises the integration of social and economic goals of development, provides a relevant theoretical framework for the conceptualisation of how informal trade contributes to the reduction of household poverty (Midgley, 1999:45).

This chapter will start with a contextualisation of informal trade and poverty reduction within the social development approach. This discussion will include the position of women in particular with regard to poverty and informal trade. The following section will contextualise the research topic in relation to the evolution of informal trade in Zimbabwe. The subsequent discussion will focus on the impact of macro-economic policies on informal trade in Zimbabwe. Against this background, the contribution of informal trade in reducing household poverty will be explored with specific reference to food security, education, housing and health. The next discussion on Rotating Savings and Credit Schemes (ROSCS) will emphasise their importance in financing informal trade entities in Zimbabwe. Finally, the discussion will focus on strategies which informal traders use to maximise profits. The chapter will end with a summary.

## **2.2. CONTEXTUALISATION OF INFORMAL TRADE AND POVERTY REDUCTION WITHIN THE SOCIAL DEVELOPMENT APPROACH**

Ife (1995:34) notes that the globalised nature of economies under neo classical economic systems and the influence of transnational capital have resulted in increasing numbers of people being of the view that conventional economic systems are no longer meeting their needs. Slater (1998:231) asserts that there is a substantial body of literature pointing to the failure of central bureaucratic models of induced development which has resulted in preference been given to capital intensive import substitution or primary export modes of production at the expense of large parts of the informal economy. This state of affairs necessitates the adoption of creative pro-poor and inclusive programming approaches like the social development approach which will be discussed next.

### **2.2.1 The social development approach**

The social development approach according to Midgley (1999:45) is premised on the adoption of macro-economic policies that promote employment and attain people centred economic development. Midgley (2010:14) asserts that interventions that, “mobilise human and social capital, facilitate self-employment and promote asset accumulation are key components to the developmental approach to social welfare.” Within the context of this study, social development is referred to as an approach to social welfare that posits a macro-policy framework for alleviating poverty (Gerry 1987:53).

This approach seeks to foster a new conception of welfare provision, as social investments that generate positive rates of return and continuously feed into the economy (Midgley, 1999:6). Midgley (1999:124) further states that, “social workers should recognise that conventional arguments based on conceptions of need, altruism and social rights have lost credibility and ideas that offer a plausible alternative rationale for social welfare and enhance economic development are needed”. According to

Midgley (1999:56) the social development approach seeks specifically to end the bifurcation of social welfare and economic development and to create a conceptual understanding of social policy as productivist and investment oriented rather than a distributive and consumptive endeavour.

The advent of social development as an approach to social welfare service provision provides social work practitioners with the opportunity to formulate policies and develop intervention strategies that are relevant, sustainable and have economic goals. However, social work practitioners face unprecedented challenges in their efforts to contribute to economic development since the field is relatively new to them and traditional social work training does not place much emphasis on mainstream economic participation. The following sub-section will contextualise poverty reduction within the social development approach.

### **2.2.2 Poverty reduction**

The thrust and focus of the study was to ascertain the contribution that informal trade makes in reducing household poverty. This sub-section is going to define poverty and provide a general discussion on the demonstrated ability of informal trade to reduce poverty within the context of the social development approach.

Poverty is a multi-faceted and multi-dimensional phenomenon which is in constant evolution. Kachere (2011:34) contends that the basic concept of poverty, which is the inability to attain the necessities for survival, has transcended various generations. It is within this realm of poverty conceptualisation that Freud and Stapafora (2005:45) define poverty as the, “inability to attain a minimum standard of living measured in terms of basic consumption needs or the income required satisfying those consumption needs”. This is a metric and economical definition of poverty which quantifies poverty as an absolute, objective and scientific phenomenon that is unchanging over time (Woodlard, 1997:68). The Zimbabwean government uses the Total Consumption Poverty Line (TCPL) as a barometer to measure poverty. The Total Consumption Poverty Line

represents the total income needed for five members of a household (with all their income added together) as a minimum for them not to be deemed poor (Zimstats, 2012). The total consumption poverty line in Zimbabwe according to Zimstats (2012) is pegged at US\$462 per month which means that 77% of the population are living below the total poverty consumption line. Thus poverty is a salient feature of Zimbabwean society and therefore poverty reduction is a critical component of government policy and planning.

The International Labour Organisation (2008:45) states that poverty eradication is the greatest challenge that sub-Saharan Africa continues to face; during the last 25 years the number of poor people has doubled from 150 million to 300 million and more than half the population are surviving on US\$ 1 a day or less. Lombard (2003:88) contends that the fragility of African socio-economic and political systems force people into entrepreneurship. Kappel and Ishengoma (2006:34) answer the question, how would the poverty situation look like in the absence of the informal sector? They reveal that, in 1996, around 38% of households in Ulaanbaatar/Mongolia had a poverty level income and in the absence of informal incomes, 53% of households would have fallen below the official poverty line (Kappel & Ishengoma, 2006:34). This analysis is reflective of the cardinal role that the informal sector plays in poverty reduction. Midgley (2008:471) contends that micro enterprise development has a ripple effect as raising the income of low income families has a corresponding effect on the demand for goods and services which in turn stimulates local production and other economic activities. Midgley (2008:471) further argues that this state of affairs may create new employment opportunities and make a positive contribution to human and social capital mobilisation which contributes to poverty reduction.

Mupedziswa and Gumbo (2001:67) observe that the informal sector plays a cardinal role in job creation and that it is crucial for developing countries, as it contributes a substantial share of employment and output as well as providing livelihoods to millions. Gerry (1987:6) observes that informal sector activities have indeed become legitimate objects of government and academic interest as there are employment creating,

enterprise generating, wealth creating, and provide self-emancipating options which are located outside the large corporate, unionised manufacturing industry. Muzvidziwa (1998:34) in his study of the contribution of the informal trade to poverty reduction noted that 85% of the respondents reported an improvement in their living standards. Muzvidziwa (1998:34) further noted that the greater proportion of the income obtained from informal trade was spent on food, accessing health and education and improving housing units.

Mupedziswa and Gumbo (2001:1) observed that women in Zimbabwe tend to have lower literacy levels and have limited skills which make them unemployable in the informal sector which consequently results in them engaging in informal sector activities to reduce household poverty. The next subsection will explore the lived experiences of women in the informal sector.

### **2.2.3 Women and the informal sector**

The UNDP cited in Cheston and Khun (2002) reports that 70% of the 1.3 billion people living on less than U.S \$1 a day are women. The UNDP further states that women have a higher unemployment rate than men in virtually every country (Cheston & Kunh, 2002). Chirisa (2009:5) notes that women, because of their historical position of disenfranchisement, were affected adversely by the economic decline in Zimbabwe. This state of affairs which subsequently led to women turning to the informal sector for livelihoods. Cheston and Khun (2002:222) observe that, “Although women are not always poorer than men, but because of the weaker basis of their entitlements, they are generally more vulnerable and, once poor, may have fewer options in terms of escape.” Mehra (1997:144) notes that the higher percentage of women to men employed in the informal sector is reflective of women’s difficulty in accessing employment because of their higher rates of illiteracy, lower levels of education, lack of job skills and the social and cultural barriers they face. Skalli (2001:74) and Wignaraja (1990:21) observe that a constellation of economic, cultural and economic factors result in women disproportionately bearing the brunt of poverty, both in quantitative and qualitative

terms.

From the above statements one can infer that women are disproportionately represented in the numbers of poor people and those without access to the mainstream economy making women the major participants of the informal sector. Cheston and Khun (2002:172) argue that an increase in women's incomes results in a general improvement in the welfare of the whole family. Sylvia Chant, a researcher cited in Cheston and Khun (2002:323) noted that men usually contribute 50% of their incomes to the collective household fund while women contribute 80%. Mupedziswa and Gumbo (2001:78), in a study of women informal traders, found that women engaged on informal trade spend the greater part of the incomes they derive from informal trade in household expenditure. From the discussion above it can therefore be concluded that the participation of women in the informal sector results in an improvement in the welfare of the whole family. Partaking in such activities has multi-pronged benefits as it results in self-sufficient families that do not rely on the State for their survival and children with greatly improved life chances.

From the above discussion, there is sufficient evidence to conclude that the informal sector plays a cardinal and integral role in poverty reduction in developing countries. The onus is on governments to develop policy and legislative frameworks that facilitate the growth of the informal sector and create inter-linkages with the formal economy in a bid to reduce inequalities, poverty and create wealth. The nature and magnitude of problems being faced by the poor and marginalised people require flexible, innovative, context specific and sustainable interventions that increase their participation in the wider economy. This state of affairs necessitates the adoption of alternative socio-economic strategies like the social development approach which respond to the immediate needs of communities.

Informal trade has emerged as a method and approach that can be used by marginalised groups to reduce poverty by increasing their incomes and access to social services and will be next discussed within the social development approach.



#### **2.2.4 Contextualisation of informal trade within the social development approach**

The social development approach according to Midgley (1999:8) has a dual role of emphasising the adoption of productivist social policies and harnessing the power of economic growth for social ends. Lombard (2008:123) challenges the scope and mandate of the social work profession by proposing an evolution from poverty alleviation to sustainable livelihoods. Thus it is within the social developmental realm that the study was undertaken as it sought to understand the role informal trade plays in reducing poverty by increasing household incomes and subsequently improving the livelihoods of informal traders.

Midgley (2008:471) contends that micro enterprise development has a ripple effect on socio-economic development. He observes that raising the incomes of low income families has a corresponding effect on the demand for goods and services which in turn stimulates local production and other economic activities. Raheim (1996:69) observes that, “micro enterprises create opportunities for clients to engage in productive self-employment which restores self-respect, facilitates self-reliance and above all transforms a condition of dependency to one of self-sufficiency in which clients no longer consume scarce public resources but instead contribute positively to their own and community’s well-being.” Thus informal trade nestles into the social development approach as it provides an avenue of intervention that reduces poverty by enhancing the productive capacities of individuals by integrating economic and social goals of development.

The next section will provide a historical overview of the evolution of the informal sector and contextualise the salient features that characterise informal trade units in Zimbabwe.

## 2.3 THE EVOLUTION OF THE INFORMAL SECTOR IN ZIMBABWE

The informal sector has been a salient feature of the Zimbabwean economy since independence in 1980. Chiripanhura and Makwavarara (2000:34) note that, African economies are fundamentally entrenched in dualism and enclavity and cite Zimbabwe as one such example. These authors contend that at independence in 1980, Zimbabwe inherited an economy that exhibited both extreme characteristics of a relatively developed economy and economic backwardness. Chiripanhura and Makwavarara (2000:34) further assert that despite the relatively developed nature of the economy that the government inherited in 1980, the Zimbabwean economy had an underdeveloped, deprived and neglected informal sector which constituted about four fifths of the population. The formal sector, according to Chirisa (2009:4), grew at an exponential rate from the period 1980 to 1990 leaving the informal sector with a very little role to play. Ncube (2010:67) buttresses this argument by observing that during periods when the prospects of employment creation in the formal sector were good the government adopted a hostile attitude towards the informal sector which was characterised by stiff and oppressive regulations. Ncube (2010:67) contends that the economic structural adjustments of the 1990s resulted in a downturn in formal employment growth, high levels of rural-urban migration, and public and private sector retrenchments which consequently resulted in people resorting to the informal sector to earn their livelihoods.

The incubatory determinants of informal sector growth in Zimbabwe can be traced to the economic challenges of the 1990s. According to Mbiriri (2009:45) unemployment rose from 10% in 1980 to 40% in 1990 and the government introduced the Economic Structural Adjustment Programme (ESAP) as a way to curb unsustainable fiscal deficits, falling tax revenues and declining productivity but ESAP was an unmitigated misery which had disastrous results. Bond and Saunders (2005:34) note that the results of ESAP were calamitous as manufacturing output declined by 40% from 1991 to 1995; this was coupled by a similar decline in worker's real standard of living and a dramatic increase in inflation that ravaged the savings of those in the formal economy.

Recurrent droughts in the years 1992 and 1995 put strain on the government's revenue base since agriculture was a major contributor to the fiscus. The payment in 1997 of ZW\$ 50 000 which was approximately US\$ 6 000 to the veterans of the liberation war had an adverse effect on the economy as this was unbudgeted for expenditure. Zimbabwe's involvement in the war in the Democratic Republic of Congo resulted in economic suicide as the country committed substantial resources in this regard. Qobo (2008:34) states that Zimbabwe's involvement in the war in the Democratic Republic of Congo had an adverse effect on the economy as it cost an estimated US \$1 million a day to sustain the war effort.

Luebker (2008:76) notes that the development of the informal economy cannot be detached from a country's overall economic performance as the generation of jobs in the formal sector is often a crucial determinant of the size of the informal sector since the latter frequently absorbs those who cannot find employment in the formal sector. Chirisa (2009:2) notes that failure to provide jobs to those that are willing to work has been the major determinant of the informalisation of Africa's cities. Chirisa (2009:4) further asserts that an uncompromising situation surfaced in Zimbabwe where thousands of people were commissioned into unemployment. These people were left with no option but to be self-employed which consequently resulted in the mushrooming of informal sector operations in the country's urban sphere.

Thus it is within the context of a harsh macro-economic environment that the informal sector developed in Zimbabwe. Mupedziswa and Gumbo (2001:3) describe the state of affairs by observing that the people of Zimbabwe showed great resolve and mitigated the effects of economic structural adjustments by engaging in informal trade. Mupedziswa and Gumbo (2001:3) further state there was a paradigm shift in perceptions as the informal sector, once derided as an exclusive prelude for uneducated and unskilled individuals with no prospects of gaining jobs in the formal sector had evolved and become a life line for a growing number of Zimbabweans.

Makumbe (2009:24) notes that, “between the years 2000-2007, 80% of manufacturing firms in Zimbabwe witnessed a decline in output volumes, 15% were operating at less than 30% capacity, another third between 30% and 50% and more than 90% were unable to cover their costs, thus making a loss”. The paralysis of the formal economic system drove hordes of unemployed Zimbabweans into the informal sector to mitigate the effects of an acute recession and earn livelihoods for their families. The creation of a conducive legislative and policy framework is an important aspect in the development of informal trade. The following section is going to explore how the legislative and macro-economic framework impacts on the operations of informal traders.

## **2.4 THE IMPACT OF MACRO-ECONOMIC POLICIES ON THE DEVELOPMENT OF THE INFORMAL SECTOR**

Successive regimes have hindered the growth of the informal sector in Zimbabwe by implementing restrictive legislative and policy frameworks. Brand, Gumbo and Mupedziswa (1993:34) note that the colonial regime attempted to control the growth of the informal sector through a deliberate and elaborate enactment of laws that criminalised the informal sector. Brand, et al. (1993:34) make reference to laws such as the Town and Country Planning Act of 1946, the vagrancy Act of 1960, the Urban Councils Act and The Vendors and Hawkers By laws of 1973 which curtailed the growth and development of the informal sector. Mupedziswa (2009:56) notes that the colonial legacy still exists in Zimbabwe as informal traders are required to be registered by statutory bodies.

Chiripanhura and Makwavarara (2000:45) note that the macro-economic policies that were in place during that era (1980-1990) did not promote the development of the informal sector, which under normal circumstances would absorb most of the unemployed people into starting small scale income generating projects. Mbiriri (2009:37) concurs with Chiripanhura and Makwarara by stating that the economic policies pursued by the government have not been supportive of the informal sector. Mbiriri (2009:37) cites the following policies National Economic Revival Plan (April

2003), Macroeconomic Policy Framework (November 2004), National Economic Development Priority Programme (April 2006) and the Zimbabwe Economic Development as examples of strategies that were restrictive and hindered the activities of informal sector entrepreneurs.

The rigidity of the legislative and policy framework and economic decline in Zimbabwe had mutually reinforcing effects which resulted in large numbers of people resorting to the informal sector for their livelihoods. On the 19<sup>th</sup> of May 2005, the government of Zimbabwe made a horrendous economic and public relations blunder by engaging in a militaristic “clean-up” of the informal sector code named Operation Murambitsvina/Restore order. Kamete (2009:236) states that,

the authorities at both local and national levels insisted that it was an urban “clean-up” campaign [to clear urban centres of filth but] the “filth” (being cleaned up) was closely associated with poor urban dwellers, their livelihoods and housing. That is, people became filth if they occupied or used urban spaces in violation of planning and property laws; activities became filth if they happened in undesignated areas; informal businesses and residential structures were filth if they did not have requisite planning and building permission.

This campaign caused mayhem, chaos and pandemonium in the Zimbabwean informal sector which as alluded to earlier on is the backbone of the economy. Mbiriri (2009:45) paints a grim picture of the state of the Zimbabwean economy during the time of the operation. Mbiriri (2009:45) alludes to the fact that with only 20% of the population being employed in the formal sector and approximately 80% making a living in informal sector activities, thus the operation severely affected millions of Zimbabweans.

Operation Murambatsvina shredded the fabric of the informal sector, depriving the generality of the citizenry of livelihoods and thus subjecting the nation to State induced poverty. The timing and objectives of this operation are beyond comprehension as the actions of the government threatened the livelihoods and existence of a significant

proportion of the population. On 23 June 2005, President Robert Mugabe made a justification for the operation by applauding the police for supporting Operation Murambatsvina as it targeted illegal structures serving as notorious criminal hideouts and havens for black market activities. In August 2005, the Minister of Local Government and Urban Development, Dr Ignatius Chombo stated that,

The government insists that all the sweeps and demolitions have been to rid the country of the chaotic nature of an unregulated market and to clear up the blurred distinctions between informal and formal sectors of business. An economy cannot be run on an informal sector, but it is run by a formal sector with the informal sector offering a supporting role. The formal sector provides the bulk of the revenue that also trickles down to the informal sector, whilst the informal sector is levied according to its earnings, and in so doing also contributes to the economy. This relationship had become blurred and we are correcting it.  
(Government of Zimbabwe: 2005:45).

The assertions of the president and his minister are reflective of a government that was not in touch with macro-economic realities. Mbiriri (2009:42) notes that Zimbabwe's economic crisis occurred at a time where other African countries were experiencing reasonable rates of growth. Compared with a cumulative gain of over 40% of GDP elsewhere in Africa, Zimbabwe's GDP between 1998 and 2006 shrunk by 37% (Mbiriri 2009:42). The remarks made by minister Chombo that the informal sector was supposed to play a subordinate role to the formal sector in the prevailing macro-economic climate was an act of absurdity, hallucination, wishful and speculative thinking which was not based on any economic fundamentals as all formal sectors of the economy were in decline mode.

The president's concern's however legitimate that the informal sector was harbouring criminal elements and economic saboteurs, the force with which the operation was undertaken with, was disproportionate to the crimes supposedly committed. The informal sector entrepreneurs indeed dabbled in profiteering, speculative buying, hoarding of basic commodities and trade in foreign currency. This was rational business behaviour in the circumstances as the State had abdicated from its responsibility as a

protector and provider for its citizens. The government of Zimbabwe had no poverty alleviation mechanisms to cushion the people from the vagaries of economic decline thus leaving people to their own devices which resultantly led to the law of the jungle which is premised by survival of the fittest taking effect.

The Zimbabwean government has adopted a hostile and confrontational attitude towards the development of the informal sector despite its demonstrated ability to create jobs and reduce poverty. Makaye and Munhande (2008:34) note that informal employment makes up 48% of non-agricultural employment in North Africa, 51% in Latin America, 65% in Asia, and 72% in sub-Saharan Africa. The percentages rise when agricultural employment is included and in countries like India and many sub-Saharan African countries it can get beyond 90% (Makaye & Munhande, 2008:34).

The obsession of the Zimbabwean government with orthodox economics and its failure to acknowledge the contribution of the informal sector to socio-economic growth has resulted in misdirected macro-economic policies that do not address the needs of the people. Mbiriri (2009:16) notes that the government of Zimbabwe has come up with various economic blue prints including: Growth with Equity, Transitional National Development Plan, Economic Structural Adjustment Programme, Zimbabwe Programme for Economic and Social Transformation, Millennium Economic Recovery Programme launched in 2001, the National Economic Development Priority Programme crafted in 2006, the Zimbabwe Economic Development Strategy which was supposed to run from 2008-2013, and more recently the Short Term Emergency Recovery Program, but none of them has been inclusive or pro-poor.

These policies have had an adverse effect on the informal sector traders as their endeavours are not supported by statutory and policy frameworks. Their position is precarious since they find it difficult to raise capital since the banking industry is sceptical to extend loans to the informal sector because of lack of collateral. The government's hostile attitude and lack of appreciation of the contribution of the informal sector to socio-economic development has resulted in misdirected policy objectives.



The present government has however, realised the potential that the informal sector has in as far as employment creation and poverty reduction is concerned. The Short Term Economic Recovery Programme states that, small enterprises provide practical solutions to challenges such as poverty and declining household incomes. The programme provides a framework of action that will see the State playing a supportive role to small enterprises by recapitalising State agencies responsible for small enterprise development and providing technical and financial assistance to small business enterprises (Ministry of Finance, Zimbabwe 2009:68).

Thus the change of policy direction by the government can create an impetus for the unhindered growth of the informal sector and ultimately increase household incomes and reduce poverty. The following section is going to explore how engagement in informal trade reduces household poverty.

## **2.5 INFORMAL TRADE AND REDUCTION OF HOUSEHOLD POVERTY**

The Women's Entrepreneurship Development Trust Fund of Zanzibar cited in Cheston and Khun (2002:234) reports that women's increased income benefited their children particularly in diet, health care and clothing. The study adopted food security, education, health and housing as indicators to explore how informal trade contributes to the reduction of household poverty.

### **2.5.1 Household food security**

Chani (2008:78) defines food security as, "the continuous availability of food for the household which is ensured by adequate purchasing power and well-functioning of markets for food and through adequate household capability to grow, store and process needed food". Economic decline and low agricultural production resulted in a significant number of Zimbabwean families failing to meet their immediate dietary needs, resulting in widespread malnutrition. Mupedziswa and Gumbo (2001:66) postulate that there has



been a progressive deterioration in the household diet of Zimbabweans in both qualitative and quantitative terms. The authors attribute this state of affairs to economic structural adjustments, recurrent droughts and the removal of subsidies on basic commodities. Mlambo (1997:78) concurs with Mupedziswa and Gumbo (2001) and succinctly asserts that, the deregulation of price controls and the abolition of subsidies had a catastrophic effect on both rural and urban families as basic commodities were priced beyond the reach of a significant proportion of the population. Makaye and Munhande (2008:34) are of the opinion that the fast track land reform programme embarked upon by the government disrupted commercial farming activities which subsequently resulted in shortages of maize and wheat. Thus a nexus of mutually reinforcing factors that affected the supply side of basic food commodities resulted in chronic food shortages. This state of affairs resulted in significant numbers of people engaging in informal trade in an effort to increase household incomes and ensure household food security.

A Poverty Assessment Study Survey conducted by Zimstats in May 2012 showed that 77% of the Zimbabwean population was living below the Food Poverty Line (FPL) which was US\$165 a month for a family of five. The average monthly salary in Zimbabwe according to Zimstats (2012) was US\$200.00. From the statistical information provided one can infer that economic stagnation reduced disposable household incomes which inevitably resulted in a decline in the range of food items purchased and the frequency of meals consumed by the average Zimbabwean family.

A significant proportion of Zimbabweans turned to informal trade in a bid to improve the quality and quantity of food they consumed. Kachere (2011), Mupedziswa and Gumbo (2001), Chani (2008) and Muzvidziwa (1998) in studies of informal trade in Zimbabwe noted that the need to secure household food was a major propellant for people to engage in informal trade. Thus engagement in informal trade increases household incomes and enhances the ability of informal traders to purchase food provisions for their households in times of economic distress.

## 2.5.2 Education

Masuko (2003:1) notes that education is fundamental for the creation of competitive, knowledge based economies characterised by the diffusion of information within the economy, which is crucial for enabling workers and citizens to increase productivity. Education is one of the Zimbabwean government's priorities; this is evident by the country attaining high levels of literacy, namely 92% adult literacy and 98% youth literacy (Masuko, 2003:23). The government of Zimbabwe has according to Masuko (2003:45) progressively spend between 6.5 to 9% of the gross national product on education from 1980-2003 which ranks above most countries in the world.

Colonialism left a trail of material deprivation and poverty amongst the indigenous populations, who after independence viewed education as a vehicle to economic prosperity. Families moil and toil to ensure that their children receive the best possible standard of education. Thus education is a shared priority in Zimbabwean society. The Women of Zimbabwe Arise (2009:3) succinctly describe the value of education and the sacrifices that Zimbabweans are willing to make to ensure that they provide for the educational needs of the families by stating that,

We as a people have always valued the education of our children more than anything else. For that we sell our precious beasts, work two jobs, travel across borders, go into exile, buy less food and once joined the liberation struggle. We hang the hard-earned certificates on the unpainted walls of our small homes, and ululate at the graduations. An educated son or daughter is our pride and joy, the fulfilment of years of struggle.

Masuko (2003:56) observes that despite concerted efforts by the State to ensure that the country attained high educational standards, the macro-economic conditions prevalent threatened the ability of the government to support the social services sectors,

including education. The harsh macro-economic climate also threatened the ability of the large sections of the population to pay for school fees and provide for their children's academic needs. A survey undertaken by the Women of Zimbabwe Arise (WOZA) in August 2008 revealed shocking statistics of the state of education in Zimbabwe during the period of their study. The following statistics were generated from the study.

- 15% of the respondents said they have school-age children who are not going to school.
- 37% of the respondents said their children were able to attend classes regularly.
- 5% of the respondents said there were enough teachers, and 3% said there were enough textbooks.
- Less than 10% of the respondents' children had a chair and a desk for each child at the school.
- 70% of the respondents said their children had been sent away from school because they had not paid fees on time, or paid the levy, or paid a fee top-up.
- 66% of the respondents had failed to buy uniforms when they were needed and 60% had had their children sent away from school for not having correct uniform.
- 47% of the respondents had had their children sent away from school because there were no teachers (Women of Zimbabwe Arise, 2008).

The facts stated above are reflective of a dysfunctional public school system. This state of affairs inevitably resulted in parents sending their children to private schools which were adequately resourced to meet the educational needs of their children. Chani (2008:45) observed that informal traders were earning much more than the average incomes in the formal sector which enabled them to cater adequately for their children's educational needs. Mupedziswa and Gumbo (2001:67) affirm that engagement in informal trade increases the capacities of families to educate their children and significantly improve their life chances.

The economic challenges facing the country commissioned thousands of people into unemployment resulting in hordes of unemployed educated people with skills that were

not in demand in the formal sector and irrelevant in the informal sector. This position necessitated acquisition of new skills to enable people to function in the informal sector. The International Labour Organisation (2008:12) notes that, traditional apprenticeships in the informal sector consist of private contractual agreements between a parent or apprentice and a master craftsman who agrees to provide practical training in the work place. The United Nations Economic and Social Council (2008:8) asserts that, informal workers usually acquire skills through on job training or a traditional apprenticeship system, and both methods are flexible and adaptable to the opportunities in the informal sector and also take into account the limited background of the participants.

Lentz and Laband (1990:45) are of the opinion that children acquire a range of entrepreneurial and managerial skills if they are reared in the context of a family business. Lentz and Laband (1990:45) state that such children acquire managerial human capital as a by-product of growing up which provides a solid platform for entrepreneurship and business survival, should they choose to pursue careers in business. Thus it is evident that engagement in informal trade enables informal traders to send their children to school which subsequently enhances their life chances. Informal trade also provides 'on the job' business training to children of informal traders as it provides an experiential learning platform that can cultivate and breed entrepreneurship qualities.

As alluded to earlier in the chapter (see 2.4) Operation Murambatsvina had an adverse effect on the operations of the informal sector. This operation resulted in the demolition of informal trade business structures and dwellings that housed informal traders.

### **2.5.3 Housing**

Muhomba (2008:45) notes that the transition to majority rule in 1980 accelerated the pace of urbanisation as it resulted in the lifting of decades of racial restrictions to the "Right to the City" and as such the urban population of Zimbabwe rose rapidly from 23% in 1982 to 30% by the early 1990s and as of 2005 Zimbabwe's urban population was

35.9% of the total population. The rate of urbanisation outstripped the capacity of local authorities to provide social amenities including housing to migrants to the city. This state of affairs according to Muhomba (2008:48) leads to the impoverishment of cities as economic entities because many migrants to the city operate in the informal economy hence the taxes or fees they pay for services are not in direct proportion to the services they use. Muhomba (2008:47) further asserts that most local authorities depend to a large extent on central government transfers which, “rarely increase in proportion to demographic growth, thus contributing to declining municipal revenues and expenditures in per capita terms”. This state of affairs inevitably resulted in municipalities failing to provide adequate housing for city dwellers. Auret (1995:30) observed that, in the 1990s the annual housing supply rate was less than 10% of targets at 12 to 14 000 units per year versus a target of 162 500 units. An endemic and chronic housing problem therefore exists in Zimbabwe, thus there is a need for creative and responsive housing policies to cater for the diverse needs of urban home seekers.

The rapid pace of urbanisation, coupled with the contraction of the formal economy, resulted in the government making legislative amendments to permit the development of micro enterprises in urban residential areas. Statutory Instrument 216 of 1994 of the Regional Town and Country Planning Act of 1946 were promulgated to enable informal sector entrepreneurs to operate from residential districts (Chatiza & Mlalazi, 2009:45). This legislative amendment resulted in the mushrooming of informal businesses in residential areas which increased demand for housing in urban areas. Informal housing units subsequently mushroomed unabated creating an urban eye sore (Chatiza & Mlalazi, 2009:45).

Muhomba (2008:34) notes that by 2004 informal housing units had become a dominant source of housing for low-income households living in urban areas. In Mutare, for example, there were 34,000 backyard extensions compared to 27,000 legally recognised and approved dwellings, and in Victoria Falls, informal housing units comprised 64% of the total housing stock. Chatiza and Mlalazi (2009:23) attribute the exponential increase in urban informal dwellings to the promulgation of Statutory

Instrument 216 of 1994 of the Regional Town and Country Planning Act of 1946 and stringent building standards imposed by local authorities and the unavailability of land.

The government made an attempt to rectify the situation by engaging in wholesale demolitions of informal housing units in an operation code named Operation Murambatsvina/Restore Order in May 2005. This operation according to Tibaijuka (2005:35) resulted in about 700 000 people losing their working and living spaces and structures. Operation Murambatsvina had an adverse effect on the livelihoods of informal traders as their business and housing units were destroyed. This operation commissioned hundreds of thousands into unemployment and homelessness. Mupedziswa and Gumbo (2009:67) and Kachere (2011:67) concur that engagement in informal trade increases household incomes which consequently result in improvements in housing conditions.

#### **2.5.4 Health**

Zimbabwe's health delivery system was deeply affected by the economic crisis that grappled the nation at the turn of the 21<sup>st</sup> century. The inflationary environment prevalent caused dramatic reductions in the value of funds allocated to health service delivery. The lower value of health funds led to the reduced ability to purchase commodities and pay salaries (The Zimbabwe Health System Report 2010:7). This state of affairs put the burden of health on the shoulders of individuals and their families. Gumber (2002:1) observed that a significant proportion of people engaged in the informal sector are poor, vulnerable, and live and work in unhygienic conditions which make them susceptible to many infectious and chronic illnesses. A study undertaken by Gumber (2002:45) established that poor and disadvantaged sections of the populace spend a higher proportion of their income on health care than the better off. Thus the health of informal traders is precariously poised as their living and working conditions are a precipitating factor for ill health and their burden of expenditure on health care is disproportionately high in relation to their earnings.

Informal traders enjoy little protection against illness and are without social security. Tenkorang (2001:34) notes that low income households are reluctant to join insurance schemes as they do not subscribe to the notion of paying for services they might not use. The heterogeneity and disorganisation of the informal sector makes it difficult to provide social security to informal traders as premiums will be difficult to determine as incomes vary on a monthly basis. This state of affairs inevitably results in informal traders having to transact on a cash basis for their medical needs.

Private health practitioners charge exorbitant fees and informal trade has become an avenue with which families could earn incomes and cater for their health needs. Studies by Mupedziswa and Gumbo (2001), Kachere (2011) and Chani (2008) have revealed that informal traders use a substantial amount of their earnings in providing for the health care of their families. The absence of health insurance for informal traders, coupled with the high cost of accessing private health care in Zimbabwe consequently results in informal traders spending significant proportions of their incomes on health care, thus engaging in informal trade cushions families from the vagaries of ill-health.

To circumvent the institutional challenges discussed above, informal traders engage in creative and localised savings schemes that enable them to mobilise resources for their business entities and their personal lives. Rotating savings and credit schemes are widely used in Zimbabwe to finance and sustain informal trade entities. The next section will provide an insight into the operations of rotating savings and credit schemes and their impact on poverty reduction.

## **2.6 ROTATING SAVINGS AND CREDIT SCHEMES (ROSCS) AND POVERTY REDUCTION**

The International Labour Office (2008:56) notes that the share of bank credit from total financing is systematically lower for informal trade enterprises and that the formal financial sector only meets 25% of small enterprise financing. Mupedziswa and Gumbo (2001:67) assert that informal traders in Zimbabwe face difficulties in accessing credit



from the formal financial institutions and then resort to informal financial institutions. Aryeetey (1998:56) defines informal financial institutions as those that have “embraced all financial transactions that take place beyond the functional scope of various countries’ banking and other financial sector regulations.” Khan and Lightfoot (2008:56) define rotating savings and credit schemes as a group of individuals that perform the role of an informal financial institution through repeated contributions and withdrawals from a common fund. A study by Chamlee-Wright (2002:34) found that 76% urban market traders in Harare participate in ROSCS. This study highlights the salient role ROSCS play in alleviating the poverty levels of informal traders since the credit provided increases household incomes and the funds obtained are used for income generating activities (Chamlee-Wright, 2002:45). Aryeetey (1998:56) observed that these “associations help in mobilizing savings through the people’s daily collection of deposits, which are in turn used as working capital to restock supplies which enable them to expand their output and earn a stream of profits, thereby providing a significant source of income to individual households which reduces their level of poverty.” ROSCS are a context specific method of saving that meets the short term financing needs of informal traders. The appropriateness and significance of ROSCS in informal trade will be next discussed.

### **2.6.1 Responsiveness of ROSCS to the needs of informal traders**

Oduro (2009:3) states that, the design and operation of informal finance institutions is tailor made to meet the needs of informal traders as they are designed to address the information asymmetries and enforcement problems that characterise the operations of formal financial institutions. Chiripanhura and Makwarara (2000:45) note that informal traders in Zimbabwe make use of rotating savings and credit schemes for their working capital since the formal banking sector is not responsive to their needs. Khan and Lightfoot (2008:5) assert that ROSCAs are a flexible and simple way of raising funds since the credit obtained is not subjected to interest or administration charges which can be onerous once formal finance becomes involved. Khan and Lightfoot (2008:5) noted that the simplicity and flexibility of the financial management system that involves little



or no documentation and the ability of ROSCS to be tailored to meet funding needs make them an integral part of informal trade. The revenue base of the majority of informal traders is limited and they do not have collateral security to access bank loans and the capacity to pay back the interest that accrues on the loan. Thus ROSCS enable traders to easily access working capital, which increases their incomes and subsequently reduces poverty among informal traders. The success of ROSCS in reducing poverty is heavily reliant on their appropriateness and sustainability elements which allow them to serve the purposes that they are created for.

### **2.6.2 Sustainability of ROSCS**

Oduro (2009:8) is of the opinion that the relative small size of ROSCS enables them to screen members and monitor them at a reasonable cost. Oduro (2009:8) further asserts that operations of ROSCS are governed by the social relations and networks that exist between and among the traders. These networks according to Fafchamps (2002:4) enable the circulation of reliable information about technology and market opportunities as well as facilitating the blacklisting of unreliable agents. Oduro (2009:12) aptly conceptualises the role of relationships in the operations of ROSCS by asserting that ROSCS, “do not just fulfil an economic function but they also structure communities and relationships as potential hazards of disconnected business solely serving economic imperatives are mitigated by the integration of information through social relationships”. Social relationships therefore play an integral part in informal business enterprises as they regulate business relationships and the actions of informal traders.

Informal financial institutions challenge the notion that only market determined paths of capitalisation can improve the socio-economic conditions of the disenfranchised. ROSCS play an integral role in ensuring that informal trade enterprises increase incomes and subsequently reduce household poverty. Informal traders, because of their relative material deprivation, have made creative use of kinship and consanguinal ties by creating ROSCS to meet their working capital requirements.

Informal traders face numerous operational challenges because they have to compete with well-established entities that enjoy the benefits of economies of scale. Informal traders therefore have to adopt pragmatic and creative strategies in order to maximise their profits and ensure their survival. The following section is going to explore the strategies employed by informal traders to maximise their profits and consequently reduce poverty by increasing household incomes.

## **2.7 STRATEGIES EMPLOYED BY INFORMAL TRADERS TO MAXIMISE PROFITS**

Zuin (2004:45) conducted a study in Lima, Peru to ascertain why customers buy produce from informal traders and obtained the following responses.

- ❖ They know me
- ❖ Quality produce
- ❖ Good location
- ❖ Only producer/vendor of the item
- ❖ Punctuality
- ❖ Long opening hours
- ❖ Courtesy
- ❖ Able to supply a high demand
- ❖ Low price

From the results obtained by Zuin (2004) one can infer that the relative small size of informal trade entities enable informal traders to respond rapidly to changes in the market as there are no bureaucratic channels to follow before one makes decisions. The relative small size of the market also makes it easier for informal traders to provide products that meet the client's exact specifications. Labour is a business cost which when accounted for has a negative effect on the net profit of business entities. Informal traders use family labour, foreign remittances and social capital as specific strategies to maximise profits.

### **2.7.1 Family labour**

Santos (1975:38) notes that informal businesses are family organised and rely greatly on family labour. Family labour plays an integral and cardinal role in informal trade since it reduces business costs. Zuin (2004:23) notes that informal business enterprises rely on family members for more than 40% of the business labour requirements. Mupedziswa and Gumbo (2001:56) noted that informal trade is heavily dependent on family labour for their sustenance and motivating family members was easy since their effort was directly proportional to household income.

The above stated ideas are reflective of the role of family labour in informal trade. It is evident that the ductility, flexibility and malleability of informal traders enable them to align their business entities and make them responsive to the needs of their clientele and thus creating a niche market which guarantees their survival. As alluded to earlier in the chapter (see Section 2.6), informal traders face difficulties in accessing working capital from conventional financial institutions because of the lack of collateral security.

### **2.7.2 Foreign remittances**

Foreign remittances are a major source of capitalisation for informal trade enterprises in Zimbabwe, thus the need arises for an analysis of the role foreign remittances play in sustaining informal trade entities. The economic meltdown in Zimbabwe which was characterised by hyper-inflation and exorbitant interests rates made the mobilisation of capital a cumbersome endeavour for entrepreneurs in the informal sector. Pricing and costing was a nightmare as prices had to be pegged using the US\$ equivalent whose rate fluctuated on an hourly basis making long term planning impossible.

The Zimbabwean economy did not completely collapse when faced by a myriad of unprecedented economic challenges because of the intricate social capital networks that are in existence in the country. The economic environment made it difficult for wealth creation, savings and capital accumulation thus there was a need for external

sources of capital. Bracking and Sachikonye (2007:11) note that it is estimated that there are 3 million Zimbabweans in the diaspora which is equivalent to a quarter of the population in total. Mupedziswa (2009:87) states that the large number of Zimbabweans in the diaspora creates a significant and steady stream of foreign remittances that sustain the informal economy. The following table depicts the nomenclature of Zimbabweans in the diaspora in 2009, according to Mupedziswa (2009).

Table 2.1: Nomenclature of Zimbabweans in the diaspora in 2009

<b>Country</b>	<b>Estimated number of Zimbabweans</b>
<b>United Kingdom</b>	1.1 million
<b>South Africa</b>	1.2 million
<b>Australia</b>	100 000
<b>Canada</b>	300 000
<b>Mozambique and rest of world</b>	200 000

Mupedziswa (2009)

Freud and Spatafora (2005:4) assert that informal remittances to sub-Saharan Africa are encouraged by dual exchange rates which are relatively high. Mupedziswa (2009:88) states that more than 50% of the households in Harare and Bulawayo relied on foreign remittances for their survival. Mupedziswa (2009) notes that the total amount transferred from South Africa to Zimbabwe each year is approximately R4.9 billion and further claimed that on average US\$4 million flow into Zimbabwe per day, which would result in an annual average of US\$1.5 billion. Mbiriri (2009:54) notes that the recipients of foreign remittances use a significant proportion of their income to invest in incoming generating informal activities thus providing capital to the informal sector.

Bracking and Sachikonye (2007:4) allude to the fact that, “the association between remittances and economic growth is central to the positive view of the poverty reduction potential of remittances partly due to assumed correspondence between economic

growth and poverty alleviation.” Thus in the absence of a sympathetic banking sector and a bankrupt government foreign remittances are a major source of capital to informal sector entrepreneurs.

### **2.7.3 Social capital**

Midgley (1999:89) defines social capital as the “volume and intensity of co-operative social relationships within communities.” Putman (1993) cited in Rainey, Robinson, Allen and Christy (2003:48) asserts that, “social capital theory is situated in the growing body of literature that seeks to challenge the idea that only the market driven path of development can lead to improved social and economic conditions”. This theory according to Putman (1993) in Rainey et al. (2003:49) alludes to a structural rather than an economic perspective on development as it emphasises the ‘embeddedness’ within which economic relations take place and based on the notion that, both individual and group decisions are connected in a particular, specific and peculiar social context. Putman (1993) in Rainey et al. (2003:49) further states that relationships are an integral ingredient for socio economic development. This interpretation is relevant to Zimbabwean informal traders who, because of their relative material deprivation rely on kinship and consanguinal ties to start and maintain their business operations. Putman (1993) cited in Larence (2001:56) notes that a salient trait of trust that characterises social capital is that it is embedded in active horizontal networks of generalised reciprocity among citizens that facilitates co-operation throughout their community.

The role of social capital in the informal sector cannot be over emphasised and Gilpin (2008:3) succinctly describes the salient features of the Zimbabwean economy during the decade of economic turmoil by stating that, “The official economy had become irrelevant and a number of informal barter systems have evolved, based on strong community networks which enabled groups to purchase barter essentials (like food and fuel) while hedging against inflation and currency depreciation. It is this social cohesion in the informal economy that prevents full scale economic collapse in Zimbabwe.” The social infrastructure upon which the informal economy is built is very strong because it

is based on a level of social trust and a keen determination of real market conditions (Giipin 2008:34).

## **2.8 SUMMARY**

In this chapter, poverty reduction has been conceptualised within the social development approach and a general overview of the informal sector has been provided. The discussion on the development of the informal sector in Zimbabwe detailed the nexus of mutually reinforcing factors that accelerated the growth of the sector. The role of the government or lack thereof in creating a policy framework that is responsive to the development of the informal sector was critiqued and evidence to the fact that the government is not supportive of the efforts of informal sector traders was provided. The changes in household consumption patterns as a result of engagement in informal trade were discussed with a particular focus on health, education, housing and food consumption. There was a general consensus among scholars cited in the chapter that engagement in informal trade reduces household poverty by having a positive effect on the indicators adopted for the study. The chapter highlighted the vulnerability of informal traders who, because of their disenfranchisement and lack of collateral, face difficulties in acquiring bank loans to finance their operations. The appropriateness of ROSCS in meeting the working capital needs of informal traders was appraised and their ability to reduce poverty was demonstrated. The chapter concluded by detailing strategies that are employed by informal traders to maximise their profits. These strategies include the use of social capital networks, family labour and creativity.

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY AND EMPIRICAL STUDY**

#### **3.1. INTRODUCTION**

Informal trade has become a major source of household income in recent years in Zimbabwe. The goal of the study was to understand how informal trade reduces poverty in Rusape. The study therefore endeavoured to respond to the following research questions.

- How does informal sector trade influence household consumption patterns with particular reference to education, food, housing and health?
- What role do rotational credit and savings schemes play in sustaining informal trade enterprises?

The chapter will provide a comprehensive description of the research approach, type and design, the research methodology and the ethical aspects relevant to the study. Furthermore, the chapter will present and discuss the empirical findings of the study.

#### **3.2. RESEARCH APPROACH**

The researcher employed a qualitative research approach which entailed a systematic and subjective approach to assess and give significance to the contribution of informal trade to poverty reduction in Rusape (Burns & Grove 2009:51). The concepts under study namely, engagement in the informal trade, poverty alleviation and household consumption patterns are relative, thus a qualitative research approach, which allowed a broader description of the experiences of informal traders within their natural context was adopted (Burns & Grove 2009:53). The researcher concisely defined the unit of analysis (informal traders), which enabled him to obtain information that was relevant and pertinent to the study (Neuman, 2000:123).

The qualitative research approach was appropriate because it is an interactive and evolving process that constructed social, cultural and value realities to the phenomenon of informal trade (Neuman, 2000:123). Concepts and themes of the study, especially poverty, were defined and analysed from the point of view of the informal sector traders making the research value laden and contextually specific (Neuman, 2000:123).

### **3.3. RESEARCH TYPE**

Gravetter and Forzano (2006:36) assert that applied research concerns itself in finding solutions to problems in practice. In accordance with Atikonye (2008:99) the study sought, “to examine how a major socio economic variable namely, poverty could be reduced through informal sector trade, which is aimed at empowering people towards being self-productive and independent.” Many studies on the informal sector have had women as the main units of analysis (Cheston & Kuhn 2002; Rozario 2002; Mupedziswa & Gumbo 2001). The study deviated from this trajectory and included men; thus focusing on both men and women in a bid to understand the evolved contemporary nature of informal trade in Rusape.

### **3.4. RESEARCH DESIGN**

The researcher made use of the collective case study research design since he made an in-depth exploration that utilised inductive logic for the purposes of describing and understanding the different dimensions of informal trade and how these reduce poverty (Gravetter & Forzano, 2006:45). The collective case study accorded the researcher the opportunity to analyse the co-occurrences of engagement in informal trade by traders in the same place and at the same time (Neuman 2000:148).



### **3.5. RESEARCH METHODOLOGY**

This section will discuss the population and sampling method, data collection methods, the data analysis, the trustworthiness of the study and the pilot study.

#### **3.5.1. Population and sampling**

Informal trade in Rusape is concentrated in a flea market and the majority of the traders are people who have failed to secure gainful employment in the formal sector. The traders spent the greater part of the day at their stalls and usually trade from 7am to 7pm. The research population comprised of persons engaged in informal trade in Vengere, Rusape. The researcher made use of a non-probability sampling technique namely availability sampling which required the researcher to interview participants that were available and willing to participate in the study until such a time the desired number was obtained and data was saturated (Delpont & Strydom 2011:390). This sampling technique was appropriate because the researcher was not aware of the size of the research population and it should be noted that not all informal traders were willing or interested to participate in the study because of time constraints and the fact that the study did not have a direct or immediate economic benefit for participants (Delpont & Strydom 2011:390). The researcher interviewed the traders in a random manner in a space of 3 days making sure that he did not interview the same traders more than once. The researcher interviewed 13 traders during the study and did not include more participants because the same information was being elucidated indicating that the data had been saturated.

#### **3.5.2. Data collection**

One on one interviews were conducted to collect data as they are the predominant mode of collecting information in qualitative studies (Neuman, 2000:34). The researcher made use of broad and multiple questions to investigate informal trade in an uncontrolled environment for practical significance (Bickman, 2009:10). A semi

structured interview schedule (see Appendix 1) was used to collect data. This data collecting instrument helped to understand the world from the participant's point of view, to unfold the experiences of informal traders and to uncover their lived world prior to scientific explanation (Greeff, 2011:347). The information was subsequently transferred to compact disks for storage. Permission to voice record the interviews was sought from the participants.

### **3.5.3. Data analysis**

The researcher analysed the data during and after the interviewing process since an inseparable relationship exists between data collection and data analysis in a qualitative study (Schurink, Fouchè & De Vos, 2011: 399).

The data was analysed using a model postulated by Cresswell (2009). The following stages were followed in the process (Cresswell, 2009:126-129):

#### *Managing Data*

The researcher managed the data by making use of a smart cell phone to voice record the interviews. He converted the recordings from an amr format to an mp3 format to enable him to transfer the recordings from the smart phone to a computer. The researcher created computer files and labelled them appropriately. The files were subsequently transferred to compact disks which were labelled appropriately. The researcher attentively listened to the interviews and transcribed them accurately into a word package.

#### *Reading and writing memos*

After the organisation and conversion of the data had been done the researcher read the transcripts in their entirety and made note of key concepts that occurred and performed minor editing on the transcripts.

### *Describing, drawing patterns, themes and coding*

The researcher noted irregularities and searched for categories or themes that were internally consistent but distinct from one another. The researcher identified the salient grounded categories of meaning held by the participants. The researcher classified the information by identifying themes and sub themes to make the data manageable. The researcher coded the data using the open code system. He interpreted the data accordingly and in the process sought for other, plausible explanations for these data and linkages among them.

### *Representing and visualising*

The researcher presented the data in a table format that depicts the themes accordingly. The themes will be discussed and substantiated by verbatim quotations in section 3.2 of this chapter.

The following measures were taken to enhance trustworthiness of the data.

### *Credibility*

Miles and Huberman (1994:34) recognise the importance of correct operational measures for the concepts being studied and the need for specific procedures to be employed, such as the line of questioning pursued in the data gathering sessions. They further state that data must be analysed where possible, from those that have been successfully used in previous comparable projects. To ensure credibility the researcher accurately identified and described the population (Schurink, Fouchè & De Vos, and 2011:386). The eligibility criteria for the proposed study is informal traders, who according to Chirisa (2009:1) are all traders whose entities are not registered under the Companies Act or the Co-operatives' Act and those which are not assessed for taxation by central government. Miles and Huberman (1994:34) emphasise the need for data

collection and data analysis procedures to be derived from those that have been successfully utilised before in comparable studies. The data collection and analysis procedures utilised in the study are widely used in qualitative studies and have been applied as prescribed thereby ensuring the credibility of the study.

### *Conformability*

Miles and Huberman (1994:34) contend that, “detailed methodological descriptions enable readers to determine how far the data and constructs emerging from it may be accepted.” To ensure conformability the researcher has earlier in the chapter (see 3.5) provided a detailed description of the methodological process to ensure that the research findings are a result of the experiences of the informants, rather than the preferences of the researcher (Schurink, Fouchè, De Vos, & 2011:421).

### *Transferability*

To ensure transferability the researcher made use of the social developmental theoretical framework since the study was undertaken in the realm of social development studies. Data collection was collected using a semi-structured interview schedule and was analysed using Cresswell’s (2009) model, thus any research that will be conducted in the same parameters will produce the same results as the study (Schurink, Fouchè & De Vos, 2011).

### **3.5.4. Pilot study**

The researcher conducted a pilot study to determine whether relevant data can be obtained from the participants (Delpont & Strydom, 2011:395). These authors note that, “Researchers should never start the main inquiry unless they are confident the chosen procedures are suitable, valid, reliable, effective and free from problems and errors, or at least that they have taken all possible precautions to avoid any problems and errors that might arise during the study” (Delpont & Strydom, 2011:395). The researcher

undertook a preliminary exploratory study to address the goals and objectives, resources, research population, procedures of data collection and possible errors (Delport & Strydom, 2011:395). The researcher tested the semi-structured interview schedule on two participants who were not part of the main research study. They were recruited using the same sampling method as for the main study and gave informed consent. The respondents were able to comprehend the questions quite easily and provided relevant responses that covered the scope of the study. Thus there was no need to amend the interview schedule.

### **3.6. ETHICAL CONSIDERATIONS**

The researcher obtained ethical clearance from the University of Pretoria to conduct the study. The researcher conformed to a set of moral principles which are widely accepted and offered the correct conduct towards the participants (Strydom, 2011:113). The researcher ensured that the following ethical principles were adhered to:

#### *Informed Consent*

The aims and objectives of the research were made lucidly and abundantly clear to the participants so that they fully comprehended the investigation and made thoroughly reasoned decisions about their participation. The researcher requested for the client's informed consent at the beginning of the interview and formalised it through the signed informed consent letter (see Appendix 2). The researcher accorded the participants the opportunity to ask questions before and during the interview on any aspects of the research. Obtaining informed consent from the participants ensured full knowledge and co-operation of the subjects (Strydom, 2011:115).

#### *Deception of participants*

The researcher clearly outlined the aim and purpose of the research and did not intentionally withhold information or offer incorrect information in order to ensure the

participation of the participants when they would have otherwise possibly have refused it (Neuman, 2000:229).

#### *Violation of privacy/ anonymity/confidentiality*

The researcher ensured that the information obtained from the research was handled in a confidential manner (Strydom 2011:115). The researcher has and does not intend to divulge the names of any of the participants in any form written, verbal or otherwise or write up findings in such a way that the information can be traced back to the participants (Strydom, 2011:115).

#### *Action and competence of researcher*

Strydom (2011:115) notes that poor interviewing skills or inadequate knowledge of the participant's culture and frame of reference may result in a collection that obtains little useful data. The researcher was reasonably competent to undertake the proposed investigation. He has fairly developed interviewing skills as he has been previously employed as a research assistant. In addition he has successfully completed a module on research methodology in the MSW (Social Development & Policy) programme. The researcher also possesses a fairly developed understanding of the phenomenon he wished to study which aided in the research process (Strydom, 2011:115).

#### *Release of the findings*

The findings of the study will be submitted in the form of this research report to the University of Pretoria. The researcher presented his findings in an accurate and objective manner and attempts were made to convey the information in clear and unambiguous terms (Strydom 2011:118). The researcher acknowledged the work of other authors and researchers in an attempt to avoid plagiarism (Babbie, 2001:67). The research findings will be submitted for publication in a scientific journal.

### **3.7. EMPIRICAL FINDINGS**

The data will be presented in the form of themes and sub-themes and the researcher will substantiate the findings by direct verbatim statements to buttress the views of the participants and where applicable the findings will be substantiated by literature. The first category will present the biographical details of the participants and establish logical relationships between the demographic traits of the participants and various elements of informal trade. The second category will analyse the income levels of the participants and assess whether they are sufficient to reduce household poverty. The third category will address the contribution of informal trade to poverty reduction by analysing the participant's consumption patterns mainly in the areas of food, education, health and housing. A fourth category will address the role of rotational credit and savings schemes in reducing household poverty. The last category will address the operational dynamics of informal trade and provide an insight on the strategies employed by informal traders to ensure sustainability and assess the role of social capital and record keeping in sustaining informal trade.

#### **3.7.1. BIOGRAPHICAL DETAILS**

The biographical details of the participants were drawn from the following aspects: age, gender, level of education, nature of products traded in and the number of hours spent trading.

##### ***Age***

The researcher interviewed 13 participants of African origin. Their ages ranged from 18 to 56 years. Two participants were between the ages of 18 and 23; three participants were between the ages of 24 and 27 years; 3 participants were between 28 and 32 years; one participant was between 33 and 37 years; three participants were between 49 and 43 and one participant was between 54 to 58 years.

The figure below depicts a pictorial representation of the ages of the participants.

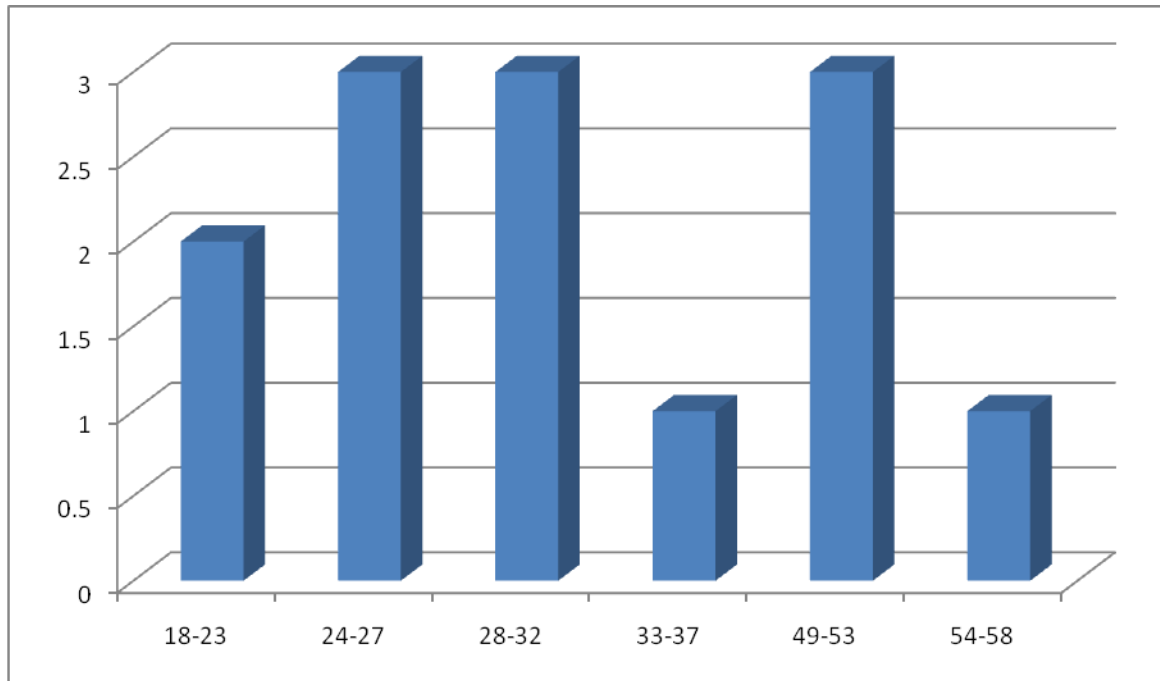


Figure 3.1: Age of participants

**Gender**

The gender distribution of the participants is 7 females and 6 males.

**Level of education**

Table 3.1 below depicts the levels of education attained by the participants of the study.

**Table 3.1: Level of education of participants**

Education level	No education	Zimbabwe Junior Certificate	Ordinary level	Advanced level	Diploma	Degree
Male		1	2	1	1	1
Female	1	1	1	2	1	1
<b>Total</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>3</b>	<b>2</b>	<b>2</b>



This table is reflective of the high levels of literacy exhibited by informal traders who participated in the study. The findings bode well with the observations of Mupedziswa and Gumbo (2001:3) who state that economic decline resulted in a paradigm shift in perceptions as the informal sector, once derided as an exclusive preclude for uneducated and unskilled individuals with no prospects of gaining a job in the formal sector has become a life line for a growing number of Zimbabweans. This shift in perceptions changed the nomenclature of informal trade as both men and women are actively involved in the Zimbabwean informal sector. The findings reflect the peculiar, particular and evolved nature of the operations of the informal sector in Zimbabwe as it does not conform to the popularly held views that the informal sector is the exclusive preclude of uneducated and unskilled individuals.

### ***Nature of products sold***

The study revealed that the participants traded in a variety of goods, namely clothing, fruit and vegetables, groceries, hardware and plumbing, kitchen utensils, poultry and motor spares.

The table below provides an outline of the products sold and the number and gender of participants engaged in that line of business.

**Table 3.2: Nature of products sold**

GENDER	NATURE OF PRODUCTS TRADED IN						
	CLOTHING	VEGETABLES	HARDWARE	UTENSILS	POULTRY	MOTOR SPARES	GROCERIES
<b>MALE</b>	1	1	2		1	1	
<b>FEMALE</b>	2	2		1			2
<b>Total</b>	<b>3</b>	<b>3</b>	<b>2</b>	<b>1</b>	<b>1</b>	<b>1</b>	<b>2</b>

The table reflects relatedness between the products sold and the gender profiles of the participants. Findings indicate that women traded mainly in clothing, groceries and vegetables which are relatively easy to procure, manage and sell. Men on the other hand were engaged in selling electrical appliances, motor and hardware spares which required a certain level of technical expertise.

The findings revealed that participants who had been previously employed in the formal sector sold products that were related to their trades or professions. This is exemplified by a former hardware merchandiser, a former automobile engineer and a former agricultural extension worker who participated in the study. The former merchandiser stated that,

*“I sell hardware products like taps, pipes, small tools, door handles, electric plugs and sockets”.*

The former automobile engineer stated that,

*“I deal mainly in small motor spares like, brake pads, clutch plates, spark plugs and filters”.*

The former agriculture extension worker stated that,

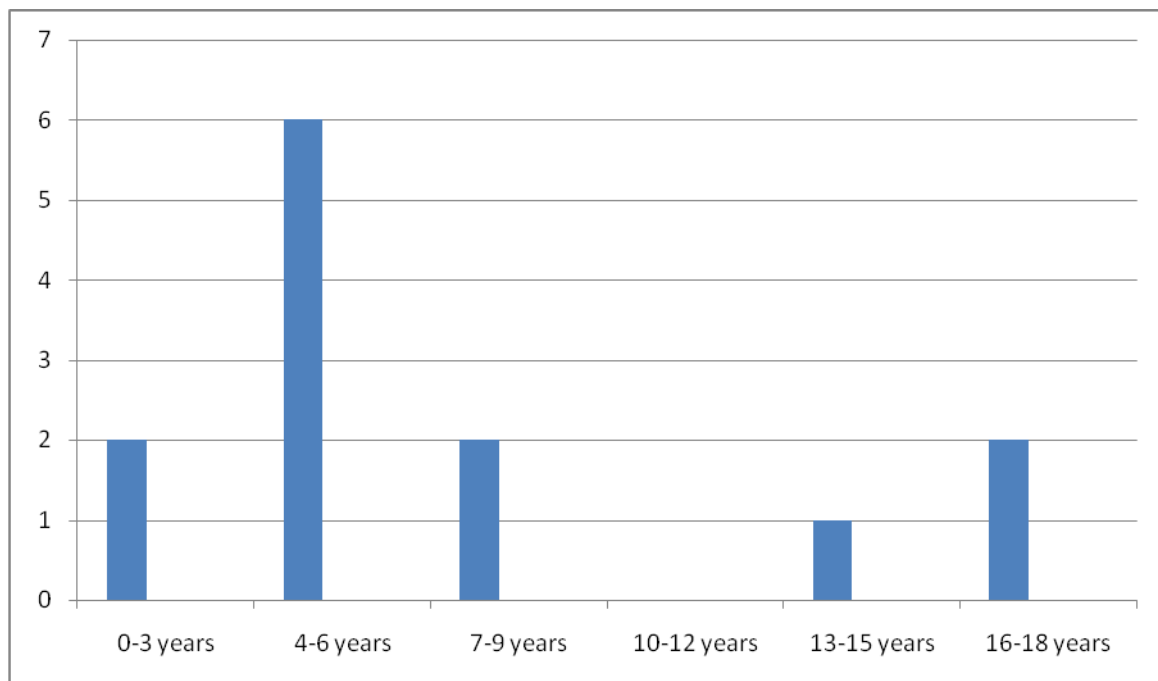
*“I keep chickens for eggs and meat at my father’s farm and I sell them here because the people in the surrounding areas do not have much money and most of them keep their own chickens.”*

### ***Number of years spent trading***

The participants in the study were in different developmental stages of their lives and the years that they had spent engaged in informal trade varied from 12 months to 18 years. Ten of the participants had spent between 0-9 years trading and only 3

participants had been trading for more than ten years. These findings are best explained by Makumbe (2009:24) who notes that, “between the years 2000-2007, 80% of manufacturing firms in Zimbabwe witnessed a decline in output volumes, 15% were operating at less than 30% capacity, another third between 30% and 50% and more than 90% were unable to cover their costs, thus making a loss”. Thus the growth of the informal sector coincided with the period of economic decline in Zimbabwe.

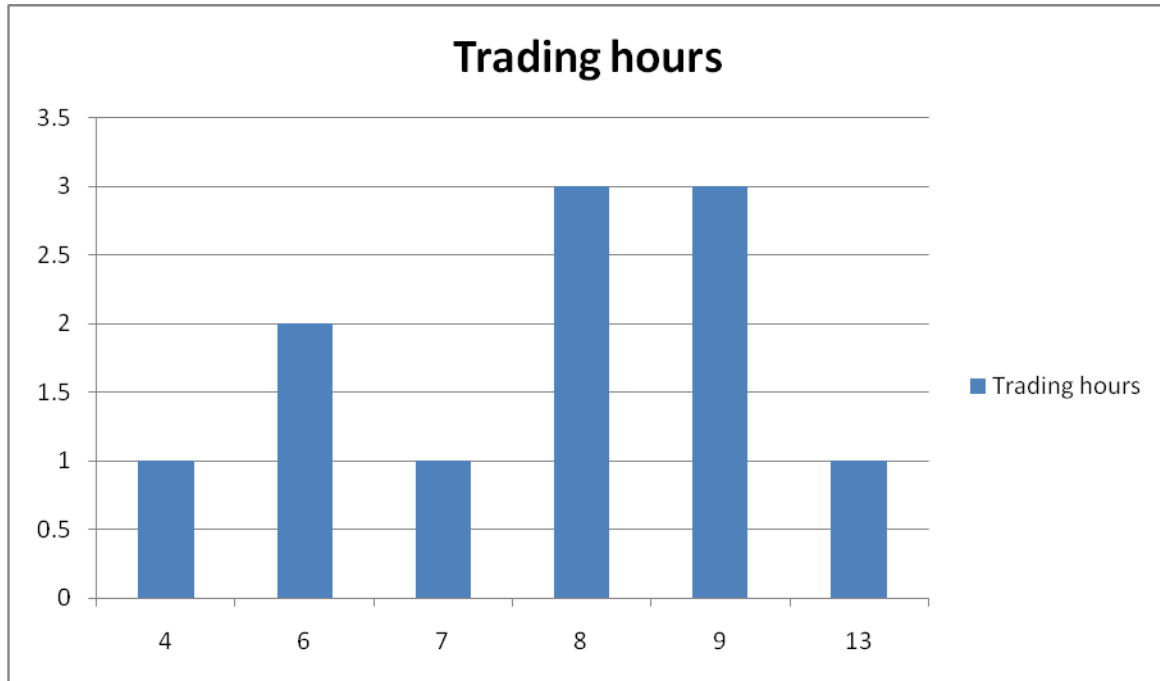
The figure below depicts the number of years that the participants have spent engaged in informal trade.



**Figure 3.2: Numbers of years spent trading**

***Number of hours spent trading***

The majority of the traders spend the greater part of their working day at their trading stalls; that is between 6 to 14 hours. The following diagrammatic presentation provides information on the number of traders and the respective times they spend trading.



**Figure 3.3: Number of hours spent trading**

The biographical details indicate that informal trade is an activity that both male and female engage in as a means to earn an income. The products they trade in and their profitability are dependent upon their capital, level of education and professional expertise.

### **3.8. KEY THEMES**

The following section will present the key findings of the study and organise the findings into thematic categories. The table on the next page represents the themes and sub-themes as they emerged from the data analysis.

**Table 3.3: Themes and sub-themes**

<b>THEMES</b>	<b>SUB-THEMES</b>
Poverty reduction in households	<ul style="list-style-type: none"> <li>• Income accumulation</li> </ul>
Improvement in household consumption patterns	<ul style="list-style-type: none"> <li>• Housing</li> <li>• Education</li> <li>• Health</li> <li>• Food security</li> </ul>
Participation in ROSCS	<ul style="list-style-type: none"> <li>• Savings mechanism</li> <li>• Networking platform</li> <li>• Mobilisation of working capital</li> </ul>
Capitalisation of the informal sector	<ul style="list-style-type: none"> <li>• Foreign remittances, personal savings, family loans and donations</li> <li>• Retrenchment packages</li> <li>• Micro finance</li> </ul>
The role of the government in the informal sector	
Business survival strategies	<ul style="list-style-type: none"> <li>• Use of family labour</li> <li>• Record keeping</li> <li>• Strategies to maximise profit</li> </ul>

### **3.8.1. Theme 1: Poverty reduction in households.**

The aim of the study was to assess how engagement in informal trade reduces poverty. There was a general consensus among all the traders that engagement in informal trade had significantly reduced poverty in their respective households. The following citations are statements made by some of the traders.

*“Small business has become a source of income for a lot of families in Rusape, so one can conclude that small business plays a big role in reducing poverty in Rusape.”*

*“I think we play a big role in reducing poverty because you know salaries are very low and people do not have jobs around here after the closure of industries. We put food on the table, so I can say that we play a big role in reducing poverty.”*

*“As you know there are no jobs around. We are doing very well to take care of our families, our children are going to school and our families are eating well. So our businesses are helping to reduce poverty. If it was not for my business, I do not know where my family will be right now.”*

For there to be meaningful reduction in the level of household poverty there should be a regular and definite source of income. In view of this the following sub-theme will present the incomes of the traders who participated in the study and discuss whether the incomes obtained through informal trade are sufficient to reduce poverty.

#### *Sub theme 1.1: Income accumulation*

The table below depicts the average monthly incomes of the participants.

**Table 3:4: Income accumulation**

Monthly income (US\$)	Number of Participants	
	Male	Female
10-100	0	0
101-200		2

201-300	2	2
301-400	0	0
401-500	1	1
501-1 000	2	1
Above 1 000	1	1

The Zimbabwean government has adopted the Total Consumption Poverty Line as the yardstick with which to metrically conceptualise poverty. The Total Consumption Poverty Line (TCPL) in Zimbabwe according to Zimstats (2012) is pegged at US\$462. The findings of the study revealed that 5 participant had average monthly incomes that ranged between US\$501-1 000 which are above the Total Consumption Poverty Line. Zimstats (2012) reveals that only 33% of the population have incomes that are above the TCPL. The percentage of participants living above the TCPL is 38% which is slightly higher than the national average. The study revealed that the majority (11 out of 13) of the participants were earning more than the national average income which according to Zimstats (2012) is US\$200.00.

### **3.8.2. Theme 2: Improvement in household consumption patterns**

Hazell and Haddad (2001) define poverty as the, “inability of individuals to meet or achieve their basic material and physiological needs which can be measured either as a lack of income, which limits access to food and to education, health, housing, water and sanitation services or by the failure to achieve desired outcomes, such as a high quality diet rich in micronutrients, health status, educational attainment and the quality of health, water and sanitation services received.” The participants reported a general improvement in the general welfare of their families because of engagement in informal trade. The following is a presentation of the sub-themes that emerged from this theme.

### *Sub-theme 2.1: Housing*

The researcher obtained two types of responses with regard to how engagement in informal trade had influenced the accommodation status of the participants. One group of participants indicated that they have not experienced any significant changes in their housing units. This group comprises of two categories, namely participants who have been previously employed and have managed to own housing units before they were retrenched and the other category consists of participants who are young adults and have spent between 1-5 years either in gainful employment or informal trade. These young people are still in the formative years of their adult lives and are yet to amass financial resources adequate to purchase or develop housing units. The second group comprises of people who have been involved in informal trade for between 5-15 years and have managed to accumulate a steady stream of income to purchase or develop housing units. One respondent who managed to develop his residential unit when he was still employed responded as follows:

*“There haven’t been any changes as far as my accommodation is concerned. I built my house whilst working for AMTEC and still live in the same house.”*

The following response was obtained from a trader, who has been trading for 16 years:

*“When I was retrenched I was renting a cottage with my wife and two children. But when the children started growing big I realised that I needed a bigger place to stay. I applied for a stand from the council and I got one in 2000. I finished building my house in 2003. When Operation Murambatsvina came two of my tenants cottages were destroyed. I bought another stand in 2005 which I am still building on.”*

A young adult participant who has been trading for 5 years stated that,

*“There haven’t been any changes because my family still lives where I lived*



*before I started my business.....so I cannot say that there have been any changes to our accommodation.”*

Research findings indicate the effect of Operation Murambatsvina on the residential units of informal traders and what progress they had made to recover from their losses. The researcher only got one response in this regard as indicated in the quote above and suspected that participants were unwilling to open up on the issue because of the polarised nature of the Zimbabwean political landscape and an impending referendum on the new Zimbabwean Constitution.

The findings revealed that differences in chronological age and times spent in gainful economic activities influenced the accommodation status of the traders. Those that had spent longer times in business or employment managed to acquire residential units and vice versa. Five of the participants recorded an improvement in their housing situation. The study therefore confirms the findings of Mupedziswa and Gumbo (2001:67) and Kachere (2011:67) that engagement in informal trade increases household incomes which consequently result in improvements in housing conditions.

### *Sub-theme 2.2: Education*

The greater majority of the traders indicated that their business entities contributed immensely to their ability to provide for the educational needs of their families. This view is summarised by one trader who has no other source of income:

*“I have never had any problems paying for school fees. My daughter finished her degree and went to Australia, my son is in form six and the other small girl is in Grade 7. I make sure that I have money to send the children to school.”*

Investing in their children’s education was a priority for most traders as aptly voiced by one trader, who stated that,

*“I try my best, you know for us black people, and we must go to school.”*

This statement is in tandem with the assertions of WOZA (2008) who allude to the fact that Zimbabwean families are willing to make enormous sacrifices to ensure that their children are educated. The findings revealed that the different socio-economic and educational profiles of the participants influenced their decisions about the education of their children. Participants that were previously employed in relatively well paying jobs allude to the fact that engagement in informal trade accorded them the opportunity to keep their children in well-resourced schools. One trader previously employed as a production engineer stated that:

*“When I was working, I was in a position to ensure that my children attended good schools and have all they need.....So I can say that my business assisted in ensuring that I maintain a decent standard of living.”*

The findings show that engagement in informal trade provides an avenue to earn incomes which enabled traders to meet the educational requirements of the families. Mupedziswa and Gumbo (2001:67) affirm that engagement in informal trade increases the capacities of families to educate their children and significantly improve their life chances.

### *Sub theme 2.3: Health*

Most of the participants indicated that they spent some of the income they derived from informal trade in providing for the health care needs of their families. The expenditure varied according to the health needs of families. The majority of the respondents alluded to the fact that engagement in informal trade enabled them to adequately meet the health needs of their families. One respondent summarised it as follows:

*“Health is a problem in this country, but these days my business helps me a lot. I have money to go to the surgery and buy medicine. My small son is sick with Aids and I buy pills for him.”*

This statement is reflective of the dire state of the health delivery system in the country and the role informal trade plays in meeting the health needs of families. Informal traders who were previously employed lamented their loss of health insurance when they were retrenched. One trader who was previously employed as a hardware merchandiser stated this loss as follows:

*“When I was working I was on medical aid which made it easy for my family if anyone got sick but things change[ed] when I was retrenched. I now have to use money if anyone get[s] sick.”*

Another trader who was previously employed as an engineer articulated the importance of informal trade in providing for his family’s health in the following words:

*“When I was still working I was on a comprehensive medical aid scheme for my entire family, but since I lost my job, I have to make use of cash when I need to attend to the medical needs of my family. But despite not being on medical aid my business has made it possible for me to meet the medical needs of my family.”*

Informal traders are without health insurance and therefore enjoy little protection against illness. Tenkorang (2001:34) and Gumber (2002:45) note that the heterogeneity and disorganisation of the informal sector makes it difficult to provide health insurance to informal traders as premiums will be difficult to determine as incomes vary on a monthly basis. This state of affairs inevitably results in informal traders having to transact on a cash basis for their medical needs. Studies by Mupedziswa and Gumbo (2001), Kachere (2011) and Chani (2008) confirm the findings of this study that informal traders

use a significant amount of their earnings in providing for the health care of their families.

#### *Sub-theme 2.4: Food security*

Research findings show that most of the participants were in a position to attain household food security. There was a general consensus among the participants that procuring food for their families was a difficult endeavour during periods of economic stagnation prior to the inclusive government. The majority of the participants stated that engagement in informal trade had enabled them to adequately provide for their families' dietary requirements. The views of the participants are reflected in the following statements:

*“Food was a problem before the unity government. But now it is not a problem. My business allowed me to have money for food during the difficult times. So I can say that my business helped me to put food on the table.”*

*“My business allowed me to have money for food during the difficult times....and my business helped me to put food on the table.”*

This finding buttresses the assertions made by Mupedziswa and Gumbo (2001:66) and Mlambo (1997:78) who observed that harsh macro-economic conditions that were prevalent before the inclusive government resulted in the significant numbers of families failing to meet their dietary requirements.

However, for some participants, engagement in informal trade did not necessarily result in any significant changes in their food consumption patterns but it allowed them to maintain the same level of food consumption that they had before engaging in informal trade. This finding was mainly applicable to the highly skilled and educated traders who were gainfully employed before they decided to engage in informal trade as reflected in the following statement by one of the traders:

*“I cannot say that there has been a change in our food consumption, but what I can say is that, my business enabled me to maintain the standard of life that I had before my retrenchment.”*

This result confirms the findings of Kachere (2011), Mupedziswa and Gumbo (2001), Chani (2008) and Muzvidziwa (1998) that the need to secure household food was a major propellant for people to engage in informal trade. Thus engagement in informal trade increases household incomes and enhances the ability of informal traders to purchase food provisions for their households in times of economic distress.

### **3.8.3. Theme 3: Participation in ROSCS**

The study sought to establish the role and significance of rotational credit and savings schemes in sustaining informal trade and poverty reduction. The study revealed that 10 of the 13 participants made use of ROSCS as a mechanism for budgeted savings as they contributed a fixed amount of money monthly to the ROSCS fund. The traders in Rusape have a localised name for ROSCS schemes namely ‘round’. The following sub-themes emerged from this theme:

#### *Sub theme 3.1: Savings mechanism*

Findings indicate that the participants make varying monthly contributions to their respective ROSCS. The amounts varied from U.S\$100 to US\$400 depending on their monthly income. The amounts contributed accounted for more or less one third of their total monthly earnings which is reflective of a well-developed culture of savings. The following quotations were obtained from 3 traders who participated in a ROSCS.

*“Engaging in ‘round’ assists in budgeting as it ensures that one does not spend impulsively and unnecessarily, as one has an obligation to make a contribution at the end of the month. Thus ‘round’ assists in ensuring that one spends their money in a responsible manner.”*

*“We don’t trust banks anymore, do you remember the days that the banks closed and we never got our monies back. ‘Round’ assists us in saving money.*

*“Eish, playing ‘round’ means that I do not have to buy things that I have no budget because it limits the money that I have after paying my contribution. It helps a lot because I only buy what is necessary and I know I am saving for the future.”*

ROSCS participation therefore ensures that the traders spent their income responsibly as the obligation of making a monthly contribution required strict budgeting. Furthermore, savings provide economic security in times of low business volumes.

### *Sub theme 3.2: Networking platform*

The findings revealed that ROSCS participants had monthly parties that they termed ‘dollar parties’ and the function of these parties was to discuss business operational challenges and also personal and family issues. Two participants explained the purpose of dollar parties as follows:

*“We also have these dollar parties were we enjoy ourselves, talk about our businesses, [and] our families. These parties also give a chance to exchange ideas about our business”.*

*“The dollar parties bring us together. We discuss issues that affect our businesses and our families. I find these parties useful as they provide an opportunity to help one another in various areas of our lives.”*

These findings confirm the views of Oduro (2009:8) and Fafchamps (2002:4) who allude to the fact that ROSCS are governed by social relationships and networks which enable the circulation of reliable market opportunities and the blacklisting of unreliable agents. Oduro (2009:12) aptly conceptualises the role of relationships in the operations of

ROSCS by asserting that ROSCS, “do not just fulfil an economic function but they also structure communities and relationships as potential hazards of disconnected business solely serving economic imperatives which are mitigated by the integration of information through social relationships”.

### *Sub theme 3.3: Mobilisation of working capital*

Most of the participants stated that engagement in ROSCS accorded them the opportunity to mobilise sufficient working capital [difference between current assets and current liabilities] to fund their business enterprises. When asked about how being part of a ROSCS assists in sustaining participants’ businesses, two participants responded as follows:

*“It really helps because it allows us to be self-sufficient and not to rely on banks for support. So when it is my turn to receive the round money, I make sure that I buy more stock for my business which increases my profits.”*

*“When you get your money you can buy a lot of stock at cheaper prices. This also helps as it makes sure that you have enough stock, even when you do not have money.”*

These findings buttress the observation made by Aryeetey (1998:56) that “ROSCS help in mobilizing savings through the people’s daily collection of deposits, which are in turn used as working capital to restock supplies which enable them to expand their output and earn a stream of profits, thereby providing a significant source of income to individual households which reduces their level of poverty.”

### 3.8.4. THEME 4: CAPITALISATION OF THE INFORMAL SECTOR

The findings provided insight on the funding dynamics in the informal sector and established four sources of capital, namely foreign remittances, savings, retrenchment packages, loans from relatives or friends and micro-finance.

#### *Sub theme 4:1: Foreign remittances, personal savings, family loans and donations*

Many of the participants indicated that their business units had been capitalised by funds mobilised from a variety of sources which include foreign remittances, personal savings, family loans or donations. The following responses on the sources of capital confirm this:

*“I used my pension and my son, the teacher help[ed] me.”*

*“Like I said earlier on my sister in Oman gave me the loan. I also had a bit of money that I saved when I was in South Africa.”*

*“I struggled for capital. I had some savings, but most of the money I borrowed from friends and relatives”*

*“I borrowed from my cousin in Botswana as I did not have enough money of my own. I returned the money that I borrowed after 4 months of trading.”*

*“I had no capital since my father gave me the stock when I started my business. I did not start my business with any money.”*

These findings mirror the assertions of Mbiriri (2010:54) who notes that the recipients of foreign remittances use a significant proportion of their income to invest in incoming generating informal activities thus providing capital to the informal sector.



The majority of participants stated that they had obtained loans from friends and relatives and had returned the loans when they were in a better economic position. The difficulties experienced by the participants in obtaining capital from conventional financial entities bodes well with the observations made by Mupedziswa and Gumbo (2001:56) who assert that informal traders find difficulties in accessing institutionalised credit and therefore turn to relatives and friends for capital. Thus the social capital networks characterised by generalised reciprocity lubricated informal business entities as they enabled the transfer of capital between and among societal members (Larence, 2001:56).

#### *Sub theme 4.2: Retrenchment packages*

Three of the participants who had been previously employed stated that they had used part of their retrenchment packages to establish their business entities. The following statements confirm this finding:

*“I got a very handsome retrenchment package from AMTEC. So I used this money to start my business.”*

*“In 2000 after the Jambanja [fast track land redistribution programme] my boss left me with a small pension that I used to start my business.”*

*“I started my business with part of my pension. That was my capital source.”*

#### *Sub theme 4:3: Microfinance*

Two of the female participants who had been involved in informal trade for more than 12 years indicated that they had received capital from an organisation named Zambuko Trust that specialised in extending micro-finance at the time, but is no longer in operation. The following are the participants' responses in relation to this source of capital:

*“Oh Zambuko closed some time ago. We used to go to Zambuko as a group and they will give us money. Everyone had to pay back their share, but if someone did not pay back the whole group had to pay for her.”*

*“There was a[n] organisation called Zambuko Trust. They gave us women loans as a group. We pay back the money little by little at the end of the month. The loan was given to the group and if one person can’t pay we help each other because the loan was for the group.”*

Only two participants indicated that they had received funding from a formal institution, however, which was now dysfunctional. This state of affairs affirms The International Labour Office’s (2008:56) assertion that the share of bank credit from total financing is systematically lower for informal trade enterprises and that the formal financial sector only meets 25% of small enterprise financing. The findings highlight the difficulties that informal traders have in accessing capital from the conventional banking sector and how they make use of savings, foreign remittance’s and loans from family members to capitalise their business enterprises.

### **3.8.5. THEME 5: THE ROLE OF THE GOVERNMENT IN THE INFORMAL SECTOR**

All the participants stated that the State played no role in facilitating the development of informal trade. None of the participants had received State assistance in any form. Most of the participants were of the opinion that the State should actively assist informal traders in as far as capital and training were concerned. The following are responses obtained from some of the traders with regard to the role of the State in the informal sector:

*“The government, as far as I am concerned, is not playing any role to support small business. We do not get support from the government or anyone...The government can assist by recognising the role that small businesses play in the*

*economy. Jobs are scarce these days and the government must support those that are willing to work for themselves. The government must provide cheap loans; provide training and infrastructure for small businesses.”*

*“The government? The government has never supported us.”*

*“As we know, the government is broke and there isn’t much it can do to facilitate the growth of small businesses. All we want the government to do is to create an environment that that makes it possible to conduct business and not to harass us like what happened during Operation Murambatsvina.*

The failure of the government to actively assist the traders confirms the observations of Makaye and Munhande (2008:34), Chiripanhura and Makwarara (2000:45) and Mbiriri (2009:37) who assert that the legislative and policy framework in the country was not conducive for the growth of informal trade as there is no visible State support. The adoption of the Short Term Economic Recovery Programme (STERP) in 2009 represented a policy shift on the part of the government. The policy provides for the provision of financial and technical support to small enterprises and provides practical solutions to challenges such as poverty and declining household incomes. Despite the policy change none of the participants have benefited from the provisions of this policy.

### **3.8.6. THEME 6: BUSINESS SURVIVAL STRATEGIES**

Informal traders adopt a number of strategies to ensure profitability and sustainability and these strategies include, use of family labour and record keeping.

#### *Sub theme 6:1: Use of family labour*

The findings revealed the widespread use of family labour in as far as the organisation of informal trade entities was concerned. The roles that family members perform are dependent on the nature and complexity of the business entities. These roles range

from placing orders, selling, keeping records and stock taking. The study revealed that those that were engaged in the trade of low value commodities like fruit and vegetables and snacks did not rely heavily on family labour because their trading operations do not require complex decision making or a lot of manual operations. Below are some of the responses made by the participants on the role of family labour in informal trade:

*“My wife helps me a lot. She collects money from the customers who buy on credit. She gets orders from the customers. My son helps me after school, to count the money, count the stock and to lock my stock away.”*

*“Like I said, my son Eddy assists me with the financial side of things. We engineers do not have a solid accounting background. So my son who is in boarding school comes home every weekend and assists me with my books. My daughter is a keen business person and I use her when I need a second opinion on issues.”*

*“Yes my daughter is my business partner. You see I am growing old and I do not know what is in fashion and I cannot travel all over to get our stock. My daughter is the one who make[s] orders for the business and she travels to buy our stuff. So I only do the selling and running of the business.”*

The assertions made by the participants affirm the observations made by Santos (1975:38), Zuin (2004:23) and Mupedziswa and Gumbo (2001:56) who allude to the fact that informal businesses are family organised and rely heavily on family labour. The use of family labour reduces operational costs and ultimately results in increased profits which translate in higher disposable incomes which consequently reduce household poverty.

### *Sub theme 6.2: Record keeping*

The findings revealed that the majority of the participants kept record of their business transactions. These records varied from simple transactional entries to cash flow statements and profit and loss accounts depending on the nature of products sold and the educational qualifications held by the traders. In cases where the business enterprises were small as exemplified by fresh produce traders, no records were kept as transactions were done on a daily basis and the income obtained was relatively small to warrant any organised record keeping. One fresh produce trader responded as follows:

*“My business is too small for me to keep records. I just subtract the cost of my stock from my daily takings and calculate my daily profit.”*

On the other hand some participants had highly organised business entities that made use of formal accounting procedures. One participant who holds a degree in radiography operates as follows:

*“I keep records of all my business transactions; I have cash flow statements and draw up trading accounts at the end of every 3 months. This helps me make sound decisions about my business.”*

Another participant who holds a Form 2 qualification manages her record keeping as follows:

*“Yes I write down everything. What I stock and what I sell, everything is in the book. I work out my profit every month. I also write down the names of people with my money.”*

Thus it is evident that there is a well-established culture of record keeping amongst the participants. This culture may have been created by the investments made by the

government in education which have resulted in the country attaining high levels of literacy, namely 92% adult literacy and 98% youth literacy (Masuko, 2003:23).

### *Sub theme 6.3: Strategies to maximise profits*

When the participants were asked about the courses of action they undertook in an attempt to maximise profits there was a general consensus on four aspects, namely extending credit, long operating hours, market research and selling of quality products as participants captured in the following statements:

*“The failure of big business left a gap in the market. The economic conditions mean that you have to have a pricing structure that enables your customers to buy from you. I operate a flexible credit system. I have built a good relationship with my clients who are in the transport sector. They come here for spares without any deposit and they pay me at the end of the month. I also sell genuine spares with a 20 000 km guarantee. In short I have built a good name for myself, which makes it easier for people to refer their friends and relatives to me.”*

*“I wake up in the morning, so that I can sell to those that are going to work and those that are going to school. The shops open at 8, by then I would be already open. I make more money in the morning and in the evening because I close at 7pm. When I buy my stock, I repackage some of the commodities into smaller portions for those who do not have money to buy the goods in their original quantities.”*

*“I understand my market; I sell quality products that are in demand. I import my products straight from Dubai which means I have no middle man. What is important is to understand what the market wants and the purchasing ability of the market.”*

The statements cited above confirm with the findings of Zuin (2004:45) who conducted a study in Lima, Peru to ascertain why customers buy produce from informal traders and obtained the following responses.

- They know me
- Quality produce
- Good location
- Only producer/vendor of the item
- Punctuality
- Long opening hours
- Courtesy
- Able to supply a high demand
- Low price

### **3.8 SUMMARY**

The chapter discussed the research methodology which guided the study, the ethical aspects relevant to the study and the findings of the study.

The results of the study have provided a micro economic portrait of the operations of the informal sector and have revealed that engagement in informal trade enables informal traders to provide for the dietary, educational and housing needs of their families. The next chapter will present the key findings and conclusions of the study and make recommendations.

## CHAPTER FOUR

### CONCLUSIONS AND RECOMMENDATIONS

#### 4.1 INTRODUCTION

This chapter reviews how the goal and objectives of the study have been achieved. Furthermore, it presents the key findings and conclusions of the study and finally, makes recommendations derived from the conclusions.

#### 4.2 RESEARCH GOAL AND OBJECTIVES

The goal of the study was to determine the contribution of informal sector trade to poverty reduction in Vengere, Rusape.

The goal of the study was achieved through the attainment of the following objectives:

**Objective 1:** To contextualise informal trade and poverty reduction within the social developmental approach.

From a literature perspective, this objective was addressed in Chapter 2 (see sub sections 2.2.1, 2.2.2 and 2.2.4).

The social development approach according to Midgley (2010:14) advocates for the mobilisation of human and social capital to facilitate self-employment and promote asset accumulation. Thus informal trade is a commercial activity that bodes well with the social development approach. Raheim (1996:69) succinctly observes that, “micro enterprises create opportunities for clients to engage in productive self-employment which restores self-respect, facilitates self-reliance and above all transforms a condition of dependency to one of self-sufficiency in which clients no longer consume scarce public resources but instead contribute positively to their own and community’s well-being.” The findings of the study confirmed that engagement in informal trade resulted



in the self-sustained improvement in the household consumption patterns of the traders in the areas of health, education, housing and food security.

**Objective 2:** To explore how engagement in informal trade has reduced the poverty levels of informal traders in Rusape by noting changes in household consumption patterns with particular reference to food, housing, education and health.

This objective was achieved by means of a literature review in Chapter 2 (see sub-sections 2.5.1, 2.5.2, 2.5.3 and 2.5.4) indicating that there is a direct link between engagement in informal trade and a reduction in household poverty. The empirical study in Chapter 3 (see sub-sections 3.8.1 and 3.8.2) confirmed that the majority of the informal traders managed to improve the general welfare of their families and were able to reasonably meet their dietary, accommodation, educational and health needs.

**Objective 3:** To determine the role rotational credit and credit schemes (ROSCS) play in reducing the levels of poverty of informal traders in Rusape.

This objective was achieved through a literature review in Chapter 2 (see sub-sections 2.6, 2.6.1 and 2.6.2) which emphasised the role that ROSCS play in sustaining informal trade entities by creating a savings mechanism. The empirical study in Chapter 3 (see sub-section 3.8.3) confirmed that ROSCS assist informal traders to mobilise working capital and that they have a networking and business advisory role.

**Objective 4:** To make recommendations that will aid the government in adopting macro-economic policies that enable poverty reduction through informal sector growth.

The recommendations are outlined in section 4.5 of this chapter.

### 4.3 KEY FINDINGS OF THE STUDY

The key findings of the study were as follows:

- Informal trade is a commercial enterprise that is undertaken by both males and females across age groups and hence a method to earn an income for young and older people who are in need of a living.
- The participants had been engaged in informal trade for varying amounts of time ranging from six months to 18 years.
- The participants traded in various goods which include clothing, vegetables, hardware, utensils, poultry, motor spares and groceries.
- The participants held various qualifications ranging from no education to holding a degree.
- The traders were obtaining a regular and definite stream of profits. Their incomes ranged from US\$101 to above US\$1 000.00
- The respondents reported improvements in household consumption patterns in the areas of housing, education, health and food security.
- The majority of the respondents reported that they participated in a ROSCS and that ROSCS saved a savings mechanism, networking platform and an avenue to mobilise working capital.
- The study revealed that the traders made use of various avenues to mobilise capital for their businesses. These avenues include foreign remittances, personal savings, family loans and donations, retrenchment packages and micro finance.
- The study established that the traders were not receiving any support from any institutionalised body and the government was not playing any role in the development of informal trade.

- The study also established that informal traders employed creative strategies to maximise profits. These strategies include use of family labour, record keeping, credit, long operating hours, market research and selling of quality products.

In summary, the overall results of the study bode well with the social development approach which according to Midgley (1999:8), “not only emphasizes productivist social policies but links them to broader attempts to harness the power of economic growth for social ends.” The study also confirms the findings of Kachere (2011), Mupedziswa and Gumbo (2001), Chani (2008) and Muzvidziwa (1998) who assert that engagement in informal trade reduces household poverty by increasing incomes of informal traders.

#### **4.4 CONCLUSIONS**

The following conclusions were derived from the literature review and empirical research findings of the study:

- Economic decline, recurrent droughts and the inability of labour markets to provide jobs to those that seek employment have resulted in the exponential growth of the informal economy in Zimbabwe.
- The macro-economic policies adopted by the Zimbabwean government have curtailed the growth of the informal sector in Zimbabwe.
- Poverty is a multi-faceted and multi-dimensional phenomenon that can be defined from a multitude of angles but its main underlying characteristic is the inability of people to adequately meet their bio-psycho-social and economic needs.
- Engagement in informal trade reduces household poverty. The incomes that are generated by the majority of the informal traders are much higher than the national average income which according to Zimstats (2012) is US\$200.00.

- Findings indicated that 46% of the traders had incomes above the Total Consumption Poverty Line (TCPL). This is above the national average of 33% of the population living above the Total Consumption Poverty Line. Thus it is evident that incomes obtained from informal trade are sufficient to reduce household poverty.
- The need to secure household food security was one of the main factors that propelled people to engage in informal trade. It enables informal traders to meet the dietary needs of their families in both quantitative and qualitative terms.
- Informal traders are able to provide for the accommodation needs of their families because of the incomes that they derive from informal trade.
- Differences in chronological age and times spent in gainful economic activities influenced the accommodation status of the traders. Those who had spent greater times in business or employment had mobilised significant sums of money which allowed them to acquire residential units. Those that were still in their formative years of adulthood and had spent a few years in gainful employment or informal trade had not yet mobilised sufficient economic resources to own residential properties and were thus either tenants or stayed with their parents.
- The traders are in a position to adequately provide for the educational needs of their respective families because of engagement in informal trade. Education was identified as priority expenditure and the need to provide for the educational needs of their families is a major reason why people engage in informal trade.
- Family labour is an integral part of informal trade and children are actively involved in informal trade. Lentz and Laband (1990:45) are of the opinion that children acquire a range of entrepreneurial and managerial skills if they are

reared in the context of a family business. They state that, such children acquire managerial human capital as a by-product of growing up which provides a solid platform for entrepreneurship and business survival should they choose to pursue careers in business. The practice of engaging children in informal trade is within the confines of the law. The Children's Act 23 of 2001 (page 3) criminalises child labour in situations where, "the parent or guardian of a child makes him perform work which is likely to be hazardous or to interfere with his education or to be harmful to his health or his or her physical or mental development". All the respondents indicated that their children assisted them during school holidays, on weekends or after school.

- Engagement in informal trade has accorded informal traders a regular and definite source of income that enables them to meet their medical needs. Informal traders, because of the nature of their trade, do not have health insurance and as such have to transact on a cash basis for their medical needs.
- ROSCS play a cardinal role in the informal sector as they are a savings mechanism and also assist in the mobilisation of working capital. Chamlee-Wright (2002) highlights the salient role that ROSCS play in sustaining informal trade.
- ROSCS provide a networking and business advisory platform as their members actively assist each other in resolving business operational challenges.
- Informal traders have financial prudence as they keep records of their business transactions which enable them to make business decisions based on prevalent market conditions.
- Informal trade entities are relatively small and decision making does not follow hierarchical bureaucratic processes which accord traders the opportunity to respond to market conditions and rapidly adapt their businesses.

- Informal traders employ strategies to meet the specific needs of their clientele, including operating for long hours; doing market research and selling quality products. The malleability and ductility of informal traders accord them the opportunity to employ creative ways of increasing their incomes and ultimately reducing household poverty.
- The social development approach advocates for the amalgamation of social and economic goals (Midgley, 1999:8). This approach provides a platform for the sustainable reduction of poverty through self-employment (Raheim, 1996:69). Thus informal trade nestles into the social development approach as it provides an avenue for social work intervention that reduces poverty by enhancing the productive capacities of individuals by integrating economic and social goals of development.

#### **4.5 RECOMMENDATIONS**

The following recommendations are made for consideration by the Zimbabwean government to facilitate the development of informal trade:

- The high incidence of poverty and the contracted economic base in Zimbabwe requires the adoption of creative, sustainable and pro-poor poverty reduction strategies. The social development approach is one such strategy that can be adopted to reduce poverty and attain the objectives of the Millennium Development Goals as it amalgamates both social and economic goals of development.
- The government should engage informal traders in a consultative and inclusive manner and consider their economic interests when devising monetary and fiscal policies. A conducive macro-economic framework should be put in place to allow informal sector growth and facilitate inter-linkages with the formal sector.

- The government needs to, regularise ROSCS by creating formal credit and lending institutions which build upon the principles of ROSCS. Such institutions will ensure that credit is extended in a manner that is suitable and appropriate to the needs of the informal traders.
- Government should create an affordable health insurance scheme that is aligned to the irregular income earning patterns of informal traders. This will ensure that informal traders have access to health care during periods of high or low cash flows.
- Municipalities should have designated informal trade areas and provide land at subsidised rates to enable informal traders to establish decent and formal premises of operation.
- Informal trade is regulated by municipal law enforcement agents who use militaristic and aggressive tactics to regulate informal trade. Thus there is a need for a realignment of municipal departments responsible for regulating informal trade in the country. Informal trade should be regulated by departments that deal with industry and commerce since informal trade is a commercial enterprise and not a criminal activity.
- Further research should be undertaken on how to transform informal trade entities into fully fledged commercially viable formal trade entities.
- Engagement in informal trade leads to a demonstrable reduction in household poverty. The social work profession should actively engage government structures and advocate for the development of the informal sector and the widespread adoption of the social development approach which reduces poverty in a sustainable manner.

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## Appendix 1.

### SEMI STRUCTURED INTERVIEW SCHEDULE

#### **Goal of study:**

To determine the contribution of informal sector trade to poverty reduction in Rusape.

#### **Biographical details:**

1. Age: .....
2. Gender: .....
3. Level of Education: .....
4. Nature of products traded in: .....
5. Number of hours spent trading a day: .....

#### **Questions:**

1. What are the factors that led you to engage in informal trade?
2. For how long have you been involved in informal trade?
3. What are your sources of capital?
4. Do you have any other source of income? If yes, please specify.
5. What business practices do you engage in to maximise profits?

6. Do you keep records of your business transactions? If yes, please specify.
7. Are any other family members involved in the business? If yes, what role(s) do they play?
8. Has engagement in informal trade impacted on household routines, specifically with regard to gender roles?
9. How much profit do you make on a monthly basis?
  - Between US\$ 10-100
  - Between US\$ 101-200
  - Between US\$ 201-300
  - Between US\$ 301-400
  - Between US\$ 401-500
  - Between US\$ 501-1 000
  - Above US\$ 1 000
10. Have you and/or your family experienced any changes in your food consumption since embarking on informal trade? Please explain.
11. Have you and/or your family experienced any changes in your living and housing conditions since embarking on informal trade? Please explain.
12. Have you and/or your family experienced any changes in having access to health services since embarking on informal trade? Please explain.

13. Have you experienced any changes in your capacity to provide in your and/or your family's educational needs since embarking on informal trade?

14. Are you part of a Rotational Credit Scheme? If yes,

- Does being part of a rotational credit scheme assist you in any way in sustaining your business enterprise?
- In what way has being part of a rotational credit scheme influenced your family household income?

15. Are you receiving any support, financially or technically from any institution? If yes, please specify.

16. What role is the government playing to promote the growth of the informal sector?

17. What do you think the government can do to enable poverty reduction and facilitate informal trade growth?

18. What is your view with regard to the informal sector's role in reducing poverty in your community?



## Appendix 2

### Letter of Informed Consent

Department of Social Work & Criminology  
Tel: Number 00 27 12 420 2325/2030  
University of Pretoria  
Fax: Number 00 27 12 420 2093  
PRETORIA 0002  
Republic of South Africa

02/02/2013

Our Ref: Tatenda. Churchill Saunyama  
B.C.1298 Vengere, Rusape  
Tel: +263 25 3543  
Tel: +263 77 346 1977  
Email: tatenda.saunyama@yahoo.com

#### 1. Topic

The contribution of informal sector trade to poverty reduction in Rusape, Zimbabwe

#### 2. Goal of the study

To determine the contribution of informal sector trade to poverty reduction in Rusape, Zimbabwe.

#### 3. Procedures

I understand that I will be invited to participate in an one on one interview to discuss how engagement in informal trade reduces poverty in Rusape. I am aware that the researcher will voice record the interview which will take place between 25 to 30 minutes. The compact discs and transcripts will be kept in a secure place and will be used only for research purposes by the researcher. Once the research has been completed, the compact discs and transcripts will be stored at the University of Pretoria archives for 15 years before it will be destroyed. I take note that the research data and transcripts will not be used by the researcher or any other researcher without my informed consent.

#### 4. Risks

I take note that there is no foreseeable risk during and after the data collection period. I take note that the interviews will take place during periods of low client volumes to ensure that I do not suffer any loss of income during the interview.

Department of Social Work & Criminology

Tel: Number 0027 12420 2325/2030 [www.up.ac.za](http://www.up.ac.za)

University of Pretoria  
Pretoria 002  
Republic of South Africa

Fax: Number 00271240 2093

#### 5. Benefits

I take note that there are no direct incentives for being involved in the study.

#### 6. Participants' rights

I am fully aware that participation in the study is voluntary and that I may withdraw my participation at any time if I so wish without any consequences. I am aware that I can contact the researcher on his mobile phone (+263 77 346 1977) if I want to follow up on any matter I have raised during the interview or if I want to withdraw my participation in full.

#### 7. Confidentiality

I understand that the data obtained from the study will be treated with utmost confidentiality and that my name will not be revealed in any way, either in writing nor verbally. The research data will only be accessed by the researcher and the University of Pretoria's examiners. Data collected from participants that withdraw at any time during the study will be destroyed once the participants register their intentions to withdraw from study.

By signing this letter of consent, I confirm that I have read and clearly understand the contents thereof. I fully understand what the study is all about and how and why it is conducted. I understand that signing this letter of consent does not mean I give up my legal right in any way.

Signed at \_\_\_\_\_ on this \_\_\_\_\_ day of \_\_\_\_\_ 2013

\_\_\_\_\_  
(Participant)

Signed at \_\_\_\_\_ on this \_\_\_\_\_ day of \_\_\_\_\_ 2013

\_\_\_\_\_  
(Researcher)