

The Contribution of the Informal Sector to Poverty Alleviation in Zimbabwe

Clainos Chidoko and Garikai Makuyana

Great Zimbabwe University, Department of Economics, Box 1235, Masvingo, Zimbabwe

Abstract

The past decade(2000-2010) for Zimbabwe was characterized by worst economic performance since its independence in 1980. Capacity utilization shrank to 10% and unemployment rate was above 80% by 2008 as the private and public sector unleashed massive retrenchments. This impoverished the great majority. High poverty levels forced the jobless to join the informal sector which uses labour intensive methods of production. Even in the aftermath of a decade long economic downturn, Zimbabwe's formal sector is still shrinking due to socio-economic factors that hinder the local industry full capacity utilization. The retrenched are joining and actively participating in the informal sector. It is against this background of growing importance of the informal sector in alleviating national poverty that this paper put forward some policy intervention suggestions in promoting the growth of the sector.

Key words: Informal sector, poverty reduction, policy intervention

Introduction

The past decade (2000-2010) for Zimbabwe was characterised by worst economic performance since its independence in 1980. Capacity utilisation shrank to 10% and unemployment was above 80% by end of 2008 as the private and public sector unleashed massive retrenchments. Due to lack of employment opportunities in the public sector and in the private formal sector, many people were forced to join the informal sector to earn a living. Although their earnings remained low and a large number were classified as poor, without the informal sector, their earnings would be negligible, and as a result, the intensity of their poverty would be even more severe. Therefore, it is important that the productivity and incomes of those working in the informal sector are increased.

Even in the aftermath of a decade long economic downturn, Zimbabwe's formal sector is downsizing due to some socio economic factors that hinder full capacity utilisation. The retrenched are actively participating in the informal sector. It is against this background of growing importance of the informal sector in reducing poverty that this paper analyses the causes of low productivity and income in the sector and proposes various policy options and programmes for rapid poverty reduction.

Definition, size and main features of the informal sector

There may be no one universally applicable definition of the informal sector since individual countries have their own definitions. However, a crude definition as quoted in Chidoko at el (2011) may include a sector which encompasses jobs which are not recognized as normal income sources and on which taxes are not paid. The informal activities are often characterised by low levels of capital, skills, access to organized market and technology. The government of Zimbabwe as quoted in Mukras (2003) defined micro and small scale enterprises as enterprises that make use of family as well as hired labour of between 5 and 20.

Because of the difficulties in measuring the contribution of the informal sector to the national income and because of lack of relevant statistics, there is little evidence on the exact size of the informal sector in terms of income in Zimbabwe. Legalistically, the formal sector is defined as consisting of registered enterprises and licensed traders. Based on this legalistic approach, some data on the formal sector can be obtained and used to estimate the size of the informal sector residually, with the given data on the total economy. With the recent downsizing and closure of most private companies in Zimbabwe, based on the legalistic approach, we believe the informal sector is growing.

Past policies to reduce poverty in Zimbabwe

According to the world bank (1995), twenty five percent of the people in Zimbabwe were poor in 1990/1991(that is, had insufficient purchasing power to buy a basic consumption basket of food, clothing, shelter, education, health services and transport), while seven percent were very poor (that is, had insufficient purchasing power to buy an adequate basic food basket)

To reduce the poverty levels, Zimbabwe implemented a number of economic policies. In 1990/1991, it implemented the Economic Structural Adjustment Programme (ESAP) to boost export earnings among other objectives and eventually increase the employment levels. The government had the persuasion of the modernisation school such as Rostow (1963) who believe that the solution to poverty is through rapid industrialisation and the achievement of economic growth targets. Economic growth was believed to bring about reduction of poverty through increased

investments which would generate more employment. Rostow (1963) believed that the benefits of economic growth would then percolate to the poor, thereby reducing poverty.

However, the programme did not produce the envisaged results as poverty levels increased as the formal sector laid off workers. In April 1998, the government of Zimbabwe replaced ESAP with a “home grown” reform package, the Zimbabwe Programme for Economic and Social Transformation (ZIMPREST). In the year 2000, the government embarked on the fast track land reform programme to correct the imbalance on land distribution which was skewed in favour of the white minority and in the process empower the poor landless majority with productive fertile land.

Millennium Economic Recovery Programme (MERP) was launched in August 2001 as a short-term 18 month economic recovery programme. Its objective was to restore economic vibrancy and address macroeconomic fundamentals. Unfortunately MERP was also rendered ineffective in February 2003. The government of Zimbabwe launched yet another 12- month stabilisation programme, the National Economic Revival Programme (NERP). Though NERP was received with more optimism by donors, the programme failed to generate the foreign currency required to support economic recovery.

Most of the policies adopted by Zimbabwe from ESAP to NERP were mostly focusing on the development of the formal sector. In spite of these policies, even in the wake of the Government of National Unit (GNU) which started in February 2009, poverty level is still high.

Informal sector development and poverty alleviation: current policy issues and options in Zimbabwe

Income levels in the informal sector are generally low and the incidence of poverty high, but without this sector the poor would be driven into destitution. While the informal sector holds much potential to alleviate poverty, its continued growth is constrained by a number of problems in Zimbabwe. The major constraints include legal and regulatory impediments and difficulties in accessing capital. Mupedziswa (1991:22) articulates some of the constraints as including the following: lack of capital, lack of tools and machinery, inadequate skills and lack of facilities to upgrade skills, lack of premises to operate from, poor marketing facilities and too much competition, negative by-laws which lead to harassment of operators; and unavailability of raw materials.

As Maliyamkomo and Bagachwa (1990) point out, the informal sector has a great potential for rapid expansion once opportunities and incentives are present. In view of the above constraints and others, the following policies and incentives aimed at increasing productivity and incomes and helping the informal enterprise to become formal ones are discussed below:

a) Macroeconomic policies

Macroeconomic policies in Zimbabwe generally affect the informal sector but their exact impact is difficult to assess due to the heterogeneity of the sector and lack of data. If the relationship between the formal and informal sectors is complementary, policy interventions aimed at any one sector would help both. Therefore before making any change to macroeconomic policy, the impact of the move on the formal and informal sectors should be evaluated. An appropriate policy approach should seek to balance incentives for both formal and informal enterprises. In general, macroeconomic policies that promote pro- poor growth and gender sensitive benefit participants in the informal sector.

b) Extension of credit facilities

In Zimbabwe lack of capital is one of the major constraints faced by participants in the formal sector. Due to lack of working capital, they are forced to use hand driven tools and outdated machinery and cannot take advantage of purchasing and marketing economies.

One of the main hurdles in obtaining credit from Zimbabwean financial institutions is the need to provide collateral, which poor participants in the informal sector usually lack. The group guarantee method, pioneered by the Grameen Bank of Bangladesh is an innovative way to circumvent the hurdle of collateral. Small homogeneous groups of poor people are established for group guarantee loans, if any member of the group fails to pay, other members of the group are responsible for repaying the loan on behalf of the defaulter. The methodology can be supplemented by mobilising funds from Non-Governmental Organisations (NGOs), the Ministry of Youth Development, Indigenisation and Employment Creation and financial institutions such as Small and Medium Enterprise Development Corporation (SEDCO).

c) Linkages with the formal sector

Large retail stores in the major towns in Zimbabwe have been reported to be buying goods such as furniture from the informal sector which goes to show that some of the operators produce good quality products. Government departments and local authorities should be encouraged to award tenders and sub contracting informal sector operators as a way of supporting them.

Where the formal and informal sector complement each other, policies can be adopted that would accelerate development of the informal sector along with that of the formal sector. The formal sector can help the informal sector by providing it with inputs, marketing of its products and providing credit and technical assistance in order to improve the quality of the sector's goods and overall productivity. In Japan, by the mid 1980s, the productivity differences between small and large firms had narrowed sharply through their integration (ILO 2005).

d) Physical infrastructure

A general lack of access to physical infrastructure and services such as roads, electricity, water supply and transport dampens the productivity of the informal sector. In some cases, work premises for the informal sector operators have not been strategically located owing to zoning requirements. Availability of workplaces provides security of tenure for the operators and this helps for purpose of development of sites and putting in place supportive infrastructure and services. It is therefore important that local authorities in consultation with the associations of the informal sector provide adequate workplaces at strategic places.

e) Education and skills training

The informal workers usually lack education and skills which is important for enhancing their productivity. To make the sector more productive and dynamic human capital investment must be made. For this to happen, basic education including primary education should be made universal. This would help workers in acquiring vocational training and would make them more flexible and mobile as they could be trained more easily. Adult literacy programmes should be provided in places where informal sector participants live. Besides using Government resources, NGOs and the private sector should be encouraged to provide skills training.

f) Informal sector friendly by laws and legislation

The success of the informal sector depends much on the by-laws and legislation which include licensing, zoning and other requirements. As Mupedziswa (1991) noted, some of the legislation and by-laws have been detrimental to the development of the informal sector. There is therefore need to review all policies pertaining to informal sector activities so that the operators can work in a more conducive atmosphere. However, there is still need for the monitoring of these activities to ensure that health and other standards which may compromise the welfare of the population is not adhered to are met.

g) Social protection

Participants in the informal sector enjoy little social protection against illness, disability, unemployment, old age or the death of the main income earner. Setting up of social insurance scheme may be difficult owing to the heterogeneity obtaining in the sector. But where participants are in homogeneous situation, an insurance fund can be set up whereby members are required to make regular contributions. The fund would be managed by the informal sector operators themselves. Such a fund is necessary in view of the demand for collateral when operators apply for loans from financial institutions.

h) Self help groups and business and workers associations

Informal producers and workers can improve their productivity and incomes through their own organized efforts and through group solidarity. Participants in the informal sector who have similar problems or who are from the same sub sector can form associations or self- help groups to protect and promote their interest. Such organisations can facilitate credit for informal enterprises, arrange training for informal sector workers, and assist in introducing modern technology and in dealing with harassment from regulatory authorities. They can also exert collective pressure on the government to remove unnecessary regulations and to design favourable policies for the benefit of the sector.

i) Awareness and adequacy of programmes

Whilst government have programmes to benefit participants in the informal sector, there is general lack of awareness of such programmes and of their usefulness. It is important that the awareness of the programmes be enhanced through the mass media. At the same time, participants in the informal sector can be provided with information about access and the potential of various subsector markets. Another problem is a lack of coordination among the various departments and ministries implementing the programmes. Therefore coordination among the implementing departments should be strengthened so that synergies among the various programmes enhance the overall impact.

j) Graduation to the formal sector

There are various cost associated with the informal sector as discussed by Chen *et al* (2005). For governments, the cost of a large informal sector is reduced revenue. Therefore it is the interest of the governments to help the informal

sector to formalise, so that more revenue can be generated. This additional revenue can be used to provide better physical infrastructure and social services for both the formal and informal sectors in order to reduce poverty rapidly. Graduation to the formal sector can be enhanced by removing excessive regulation and the establishment of one stop shop for registration, decreasing registration procedures and increasing the effectiveness and efficiency of the offices involved in the registration process.

Conclusions and recommendations

Notwithstanding the various definitions of the informal sector, the sector in Zimbabwe is growing in terms of employment contribution. Though not everyone in the sector is poor, the productivity and incomes of most participants is quite low. The intensity of poverty would be much higher without this sector for those who are failing to secure employment opportunities in the formal sector. Therefore in order to reduce poverty levels, it is necessary to enhance the productivity and earnings of the informal sector. The following policies and interventions were suggested to increase the sector's productivity and earnings: Pro-poor macroeconomic policies, Extension of credit facilities, Strengthening linkages with the formal sector, Improving access to physical infrastructure, Providing education and skills training, Formulation of the informal sector friendly by laws and legislation, Extending social protection, Encouraging and assisting in the formation of self help groups and business and workers association; and Enhancing aware of available programmes for the benefit of the informal sector.

Lastly we suggested that the other component of the informal sector which is modern and dynamic and has the potential for growth and economic viability should be assisted in such a way that it graduate to the formal sector. This would avail more resources to the government to further improve the welfare of the participants in the informal sector through increased tax revenue.

REFERENCES

- Chen. M, Vanek. J, Lund. F, Heinz. J, Jhabvala. R and Booner. C (2005) "Progress of the world's women 2005: women, work and poverty" New York, United Nations Development Fund for women.
- Chidoko. C, Makuyana. G, Matungamire. P, and Bemani. J (2011) "The impact of the informal sector on the current Zimbabwean economic environment", *International Journal of Economics and Research*, 2011 2(6): 26-28, ISSN 2229-6158
- International Labour Organisation (2005) "Small scale activities and the productivity divide", in world employment report 2004-2005, employment, productivity and poverty reduction. Chap 5(Geneva international labour organisation)
- Maliyamkomo. T and Bagachwa. M (1990) "The second economy in Tanzania" Eastern African Studies, James Curry, London.
- Mukras, M.S (2003) "Poverty reduction through strengthening small and medium enterprises" Botswana journal of African studies, Vol 17, no 2
- Mupedziswa, R(1991) "The informal sector with particular reference to Zimbabwe. Functional role and prospects for growth," School of social work staff papers. Harare
- Rostow, W (1963). "The economics of take-off into sustained growth" Macmillan, London
- World bank (1995) "Achieving shared growth, Country Economic Memorandum" Volume 2 Main Report. Report No. 13540-Zim

This academic article was published by The International Institute for Science, Technology and Education (IISTE). The IISTE is a pioneer in the Open Access Publishing service based in the U.S. and Europe. The aim of the institute is Accelerating Global Knowledge Sharing.

More information about the publisher can be found in the IISTE's homepage:

<http://www.iiste.org>

CALL FOR PAPERS

The IISTE is currently hosting more than 30 peer-reviewed academic journals and collaborating with academic institutions around the world. There's no deadline for submission. **Prospective authors of IISTE journals can find the submission instruction on the following page:** <http://www.iiste.org/Journals/>

The IISTE editorial team promises to review and publish all the qualified submissions in a **fast** manner. All the journals articles are available online to the readers all over the world without financial, legal, or technical barriers other than those inseparable from gaining access to the internet itself. Printed version of the journals is also available upon request of readers and authors.

IISTE Knowledge Sharing Partners

EBSCO, Index Copernicus, Ulrich's Periodicals Directory, JournalTOCS, PKP Open Archives Harvester, Bielefeld Academic Search Engine, Elektronische Zeitschriftenbibliothek EZB, Open J-Gate, OCLC WorldCat, Universe Digital Library, NewJour, Google Scholar

