



## INFORMAL SECTOR IN MASVINGO CITY: CHALLENGES AND OPPORTUNITIES FOR SUSTAINABLE DEVELOPMENT

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### Abstract:

Zimbabwe, like other developing countries, is experiencing a proliferation of the informal sector. The development of the sector is mainly concentrated in the cities. Masvingo is a city in the South-eastern part of Zimbabwe. It is in this city that there are growing activities of informal business. The informal sector has significant impacts on the sustainable development of the city. The goal of this study is to examine the benefits and the challenges of the informal sector in Masvingo city. Primary data was collected using a questionnaire and two focus group discussions as research instruments. A total of 160 questionnaires and two group discussions were administered to solicit data from the participants in the informal sector in Masvingo city. It emerged from the study that the informal sector in the City has positive impacts such as income generation, acquisition of business experience, self-reliance, contribution to city revenue, supply of goods, contribution of the sector to national development and flexibility in the informal sector businesses. Apart from the benefits, the sector also has challenges such as lack of funding, low returns, harassment by local authorities, import restrictions, environmental pollution, management problems, shortage of space and arduous registration requirements. Various recommendations were made to mitigate the negative impacts of the informal sector in Masvingo city.

**Keywords:** Informal sector, Masvingo, sustainable development, impacts, black economy

### 1. Introduction

The informal sector is known by different names, such as the hidden economy, shadow economy, grey economy, black economy and informal economy. It is the sector of an economy that is neither taxed nor monitored by any form of government. According to

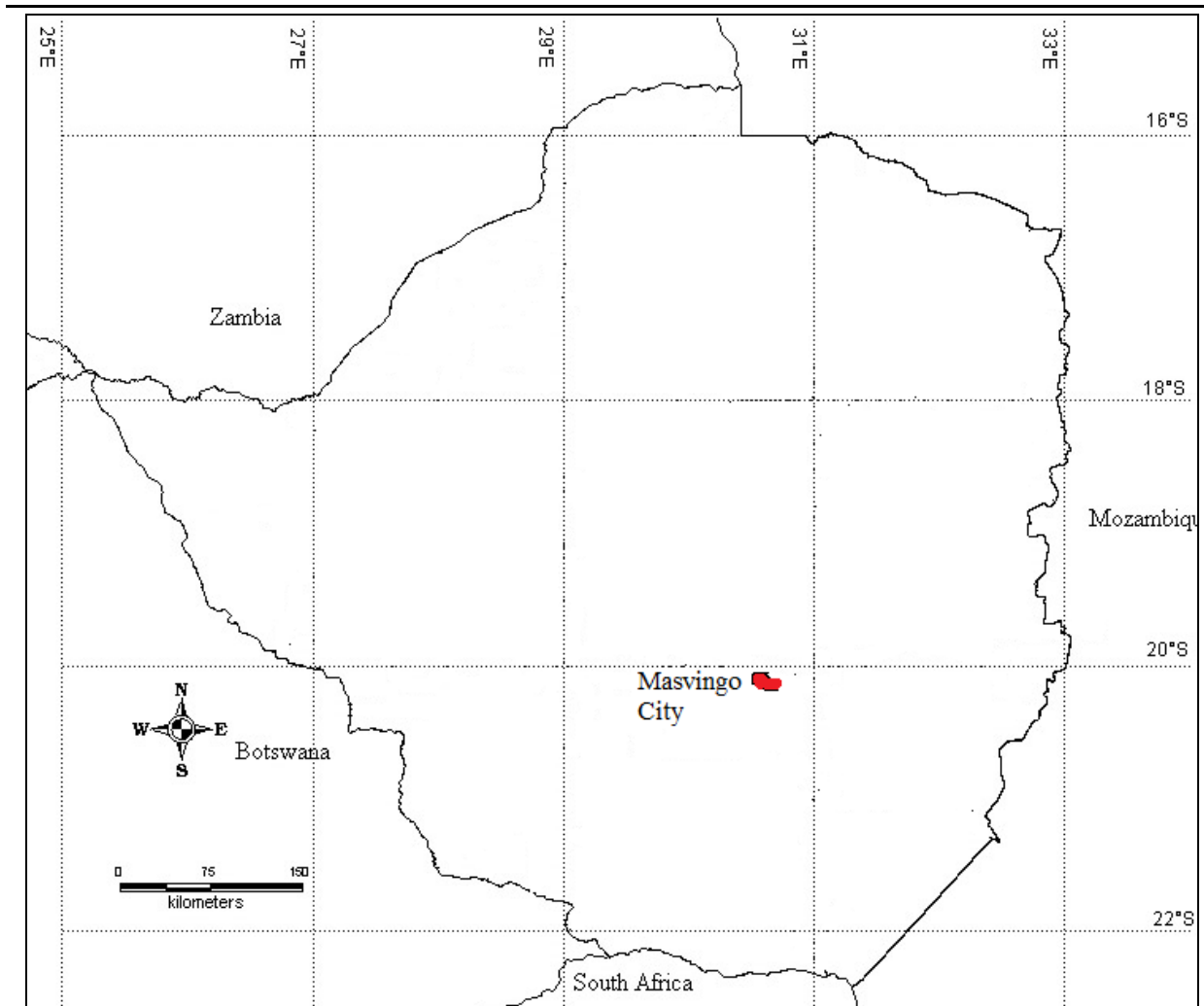
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Hassan (2014), the informal sector deals with economic activities which are concealed from official authorities for monetary, regulatory, and institutional reasons. The major categories of activities found in the informal sector include those concerned with food beverage selling, selling of electronic goods, selling of clothes and foot wear, repair services and transport services (Webster, 2005:389). The people involved in the informal sector are usually self-employed. They often engage workers whom they hire for some few hours when the owner is not around at that particular moment. The hired person is often paid on an hourly basis. In developing countries, the informal sector is crucial for employment creation and without such a sector, economic development for such countries would be severely affected. A viable informal sector is significant for the economic development of developing countries. According to IMF (2018) Zimbabwe has the second largest informal sector (after Bolivia in South America) in the world. More than 60% of the Zimbabwean economy is informal as contrasted to the most formal economies such as Switzerland and Austria at 7.2% and 8.9%, respectively (IMF, 2018: 2). This implies that the significance of the informal sector for economic development is uncontested and fundamental. Research into the informal sector from a Sustainable Development perspective can provide an understanding of challenges and opportunities for the development of the sector. The current study examines the challenges and opportunities of the informal sector in Masvingo City in Zimbabwe.

## 2. Study area

Masvingo, which before 1982 was known as Fort Victoria, is a city in the south-eastern part of Zimbabwe. The city is the capital of Masvingo Province. The city is close to Great Zimbabwe, the national monument from which the country takes its name. The map (Figure 1) shows the location of Masvingo city in Zimbabwe. According to ZIMSTAT (2012), the city has a population of approximately 87886. The city is located 292 kilometres (181 miles) south of Harare. The Cold Storage Commission was a huge industry in Masvingo city. Industry has generally collapsed in the city following economic challenges the country has been facing since the turn of the century. There are however, some small scale and light engineering, irrigation, refrigeration, printing, tyre-re-treading, brewing and brick and tile manufacturing companies left in the city. Such collapse of the industry in the city has led to the growth of a huge informal sector as a major part of its economic activities.



**Figure 1: Location of Masvingo City in Zimbabwe**  
(Source: Adapted from Musanga, 2009)

### 3. Methodology

To ensure that data collected was representative of the whole of the informal sector in Masvingo city; questionnaires were distributed to all the main informal sector centres in the city. A total of 160 questionnaires were distributed in the informal sector of the city. Stratified random sampling was used to locate the respondents in the study area. The sampling technique was used because there are different groups of people involved in the informal sector. The target population was, therefore, divided into categories according to informal sector activities they were involved in. It was generally easy to collect the information from the participants as the respondents were cooperative. The researchers made sure that the questionnaire design and layout was in line with Martin's (2006:3) recommendations on questionnaire structure which include clarity and precision, no overlap on choice of answers, use of familiar and natural language, avoidance of bias in words or phrases, avoidance of double barreled questions, response alternatives explicitly stated and criteria of validity and reliability properly

met by the questions. The collected data were organised and presented in graph format and discussed.

To supplement data from questionnaires, focus group interviews were conducted at two of the biggest informal sector centres in the city. Some purposive sampling technique was employed in this regard since the choice of who to interview depended on the researchers. Informal sector entrepreneurs with a wealth of experience in the sector were selected to be members of focus group discussions.

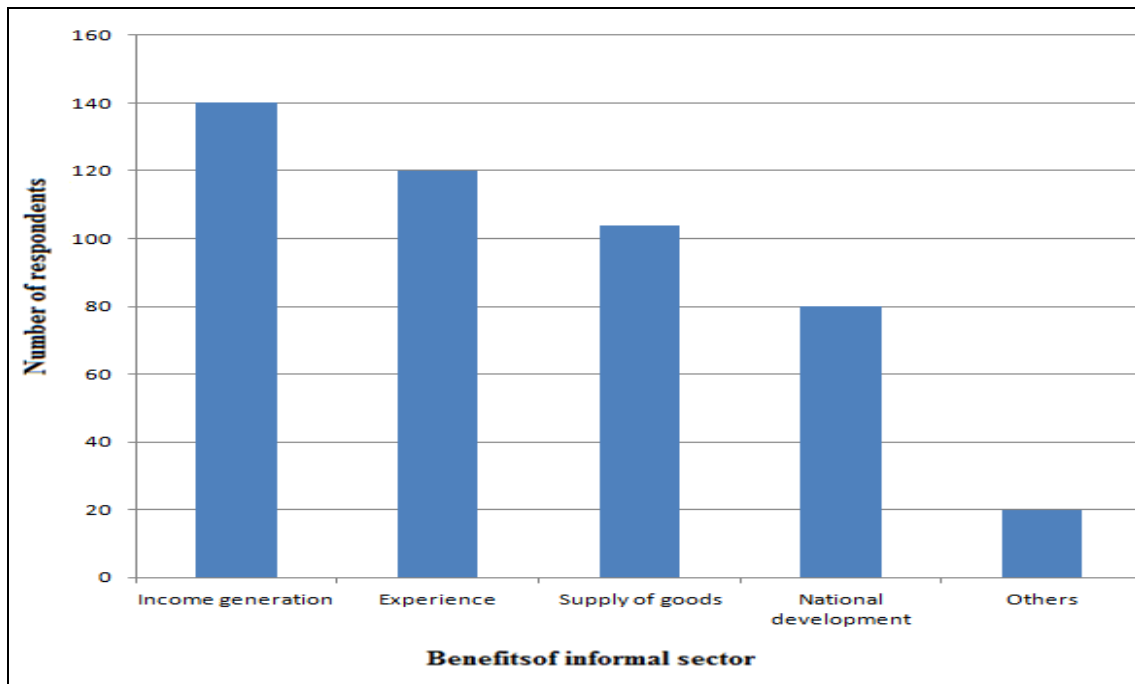
#### **4. Results and discussion**

The impacts of the informal sector in Masvingo City are both positive and negative. This implies that the informal sector in Masvingo has created some benefits on the one hand while, on the other hand, numerous problems or challenges have also been experienced due to the emergence and growth of this sector in the city.

##### **4.1 Benefits of the informal sector**

There are numerous benefits that have been experienced due to the development of the informal sector in Masvingo City. As illustrated in Figure 2, income generation emerged as the greatest benefit of the informal sector in Masvingo City. 87.5% of the respondents (140 respondents) indicated that income is a benefit of the informal sector. With the high unemployment in Zimbabwe, the informal sector has emerged as the major source of income in the city. This is in line with Chidoko et al (2011a) who argue that Zimbabwe's fast growing informal sector is now the country's largest employer (source of income) as the economy is failing to absorb many job seekers into formal employment. For the past decade, over two million people have been making their living in the informal sector (Chidoko et al., 2011a: 27). Respondents also firmly believed that experience in running businesses is another major benefit of the informal sector in Masvingo City. One hundred and twenty (120) of the questionnaire respondents indicated the benefit of business experience. This constitutes 75% of the total respondents. In other words, the informal sector can be considered to be a form of apprenticeship training. Another significant number of respondents indicated supply of goods as another benefit of the informal sector to the city. As manifested in Figure 2, 104 of the study respondents, constituting 65% of the respondents, confirmed the above benefit. Some respondents further pointed out that some goods which may not be found in the formal sector can be supplied by the informal sector as such goods are imported from other countries. Another significant number of respondents and, that is 50% of the respondents, indicated that contribution to national development is a benefit of the informal sector. There was a group of benefits which were mentioned by the respondents on a small scale. As shown in Figure 2, there were only 20 respondents, which is 12.5% of the respondents, who mentioned these various benefits and these include reduction in crime rate, development of a spirit of self-reliance and contribution

to city revenue as many of the participants in the burgeoning informal sector make payments to the city for conducting their activities.



**Figure 2:** Informal sector benefits in Masvingo City

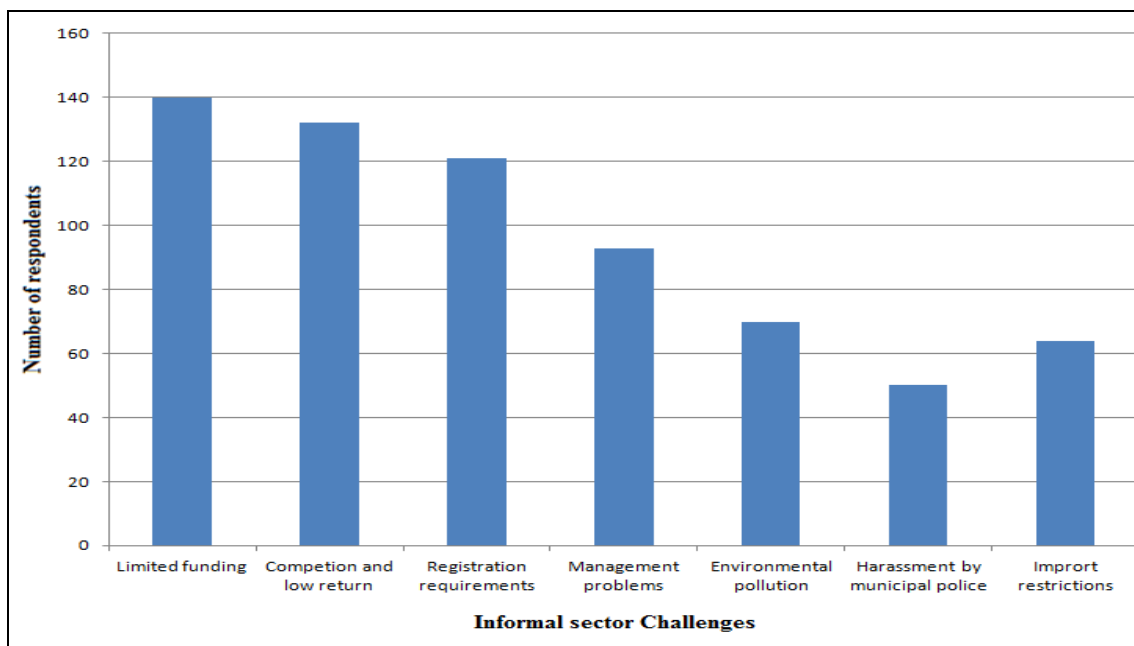
The views from group discussants did not deviate much from the questionnaire responses above. Generally, participants in the focus group interviews concurred that income generation, acquisition of business experience, self-reliance, contribution to city revenue and supply of goods emerged as the main benefits of the informal sector in the city. One group discussant succinctly summarised the benefits of the informal sector in Masvingo City by stating that:

*"As you are aware, the country's economy has been on the decline for the past two decades, with many people losing their jobs. The informal sector has enabled us to look after our families in a way we would not have imagined, given the harsh economic conditions prevailing in the country."*

Contribution of the informal sector to national development was, however, not emphasised during the focus group discussions. This is probably because the participants in the group discussions were not concerned with benefits at national level but with individual or family-level benefits. The other deviation from the questionnaire responses was the benefit of flexibility in the informal sector businesses. The group discussants generally indicated that, since there is no regulation in this sector, there is easy exit and entry into different lines of business in this sector, which allows participants to search for business activities that suit them best. This is unlike in the formal business sector where, due to often huge initial capital investments, an investor will not be able to shift to new enterprises easily.

## 4.2 Challenges of the informal sector

Various challenges have been experienced as a result of the development of the informal sector in Masvingo City. As illustrated in Figure 3, 87.5% of the respondents in Masvingo City perceived limited funding or lack of financial aid for their businesses as their main economic challenge in the informal sector. The respondents further pointed out that banks refused to give them loans. This is not surprising because many informal sector entrepreneurs do not have accounts in commercial banks and most of them do not have collateral to secure loans from banks. One hundred and thirty two (132) respondents (82.5%) indicated low business return as another huge challenge in the informal sector. Such low return can be attributed to the fact that there are too many suppliers of similar or nearly similar commodities. Such a scenario gives rise to stiff competition which negatively impacts on the levels of returns or income. This means that wages earned by people employed in this sector as well as the incomes earned by entrepreneurs in the informal sector are generally low. The problem of low incomes emanating from the informal sector has also been indicated by Van Rooyen and Malan (2007:711). It emerged from their study that incomes in the informal sector are generally lower compared to those in the formal sector of the economy.



**Figure 3:** Challenges of the informal sector in Masvingo City

As shown in Figure 3, another significant number of respondents (75.6%) indicated that arduous registration requirements were creating a challenge to entrepreneurs who want to leave the informal sector. This is not surprising because, in Zimbabwe, business registration procedures have tiresome bureaucratic tendencies. Such tendencies drive many businesses into the informal sector as well as limiting the migration of entrepreneurs from the informal sector to the formal one. Management problems were also identified as an impediment in the informal sector. This was noted by 58.1% (93) of the respondents. Such management problems are not surprising because most informal

sector entrepreneurs lack the relevant skills in operating businesses. Most of the people become entrepreneurs in the informal sectors before getting any form of formal training to enable them to operate their businesses. They also normally do not keep proper records in their businesses and claim that they rely on memory for purposes of business records. Relying on memory as an alternative to written records has the biggest drawback of forgetting (Chidoko et al., 2011b:43). Environmental pollution is another cause for concern in the informal sector in Masvingo City. This was indicated by 56.9% (91) of the respondents as a problem created by the informal sector in the city. The fact that many activities in the informal sector are not regulated (or are difficult to regulate) means that principles of environmental management are generally not adhered to in that sector. Such a scenario leads to severe environmental degradation. Very often, politicians allow informal businesses to operate without proper planning for votes. Harassment by municipal police was mentioned as a challenge of the informal sector. This was indicated by 31.3% (50) of the respondents. Harassment by the municipal police did not come as a surprise because most of the entrepreneurs in the informal sector operate illegally and therefore, have to face the wrath of the law. 40% of the respondents (64) mentioned that there is a challenge of declining levels of supplies. Respondents further indicated that such a challenge is largely due to government's recent enforcing of import restrictions. It is important to highlight that the majority of participants in the informal sector rely on imported merchandise to run their businesses.

Just like in the case of benefits of the informal sector, the responses from group discussants did not deviate much from the questionnaire responses. Generally, participants in the focus group interviews agreed that arduous registration requirements, lack of funding, low returns, harassment by local authorities and import restrictions emerged as major challenges in the informal sector. The group discussants however failed to acknowledge that there are problems of pollution and management in the informal sector, naturally because they wanted to paint a good picture about an activity they are involved in. The other deviation from the questionnaire responses by the group discussants was on their emphasis on the challenge of shortage of space for informal sector business activities.

## **5. Recommendations**

There are various suggestions that can be given to reduce the negative impacts of the informal sector as well as to increase the positive impacts of the sector. Informal traders should be regarded as an asset to the economy of the country.

- The long-term solution to the informal sector problem should be to integrate it into the formal economy. The informal sector activities should be evolved into formal operations through granting of proper licenses and provision of relevant infrastructure for the government as well as the entrepreneurs to benefit from the economic activities being undertaken in the city. This recommendation is in keeping

with Mendel (2007)'s argument that formalization of the informal sector is necessary because the advantages dominate the disadvantages.

- The study has identified lack of funding as a major challenge of the informal sector. Entrepreneurs in the informal sector should be offered government loans at affordable interest rates and empowering them in decision making so that they become more responsible for their actions. Financial institutions should develop a credit facility where informal traders can borrow money, maybe with government acting as guarantor, so as to finance their operations.
- While it is necessary to transform the informal sector into the formal one in the long run, efforts should be made in the short run to solve immediate problems of the informal sector in Masvingo City. The government and local authorities should make efforts to reduce environmental degradation emanating from the sector and provide relevant training and education to entrepreneurs in the sector. Such knowledge would still be essential when the informal sector is eventually transformed into the formal one.
- Since unemployment is one of the major triggering factors leading to the development of the informal sector in Zimbabwe, it is imperative that employment opportunities be created in the formal sector of the economy so that less people would be interested in participating in informal activities in the country.
- Local authorities should monitor the activities in the informal sector so as to reduce crime, violence and theft in the city. This recommendation is in line with Bhowmik (2005: 257) who argues that municipalities should make clear rules and regulations to rationalize the activities of street traders.

## 6. Conclusion

The research provided some valuable insights into the challenges and opportunities of the informal sector in Masvingo City in Zimbabwe. There are various positive impacts of the informal sector that have been identified in this study. These include income generation, acquisition of business experience, self-reliance, contribution to city revenue, supply of goods, contribution of the sector to national development and flexibility in the informal sector businesses. Despite these benefits of the informal sector, there are also numerous challenges. The challenges include lack of funding, low returns, harassment by local authorities, import restrictions, environmental pollution, management problems and shortage of space. Given the economic challenges the Zimbabwean economy is facing currently, it can be argued from the findings of this study that it is necessary for the informal sector to thrive in the short run. In the long run however, the sector should be transformed and integrated into the formal economy.



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