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CAN ZIMBABWE USE ITS INFORMAL ECONOMY AS A MEANS FOR SUSTAINABLE DEVELOPMENT IN THE CURRENT RECONSTRUCTION PROCESS

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0500339N

A thesis submitted to the Faculty of Arts, University of the Witwatersrand, Johannesburg, in partial fulfilment of the requirements for the degree of Master of Arts.

Johannesburg, 2010

DECLARATION

I declare that this thesis is my own work. It is submitted for the degree of Master of Arts in the Department of International Relations at the University of the Witwatersrand, Johannesburg. It has not been submitted before for any other degree or examination in any other university.

Rutendo Paidamoyo Mbiriri

12th day of February, 2010

ABSTRACT

Since the onset of the economic crisis, Zimbabwe has developed a very vibrant informal sector. Due to the closure of numerous industries, many have lost their jobs in the formal sector and as a means of survival, have had to engage with the informal economy. Various scholars have stated that the informal sector has become the unofficial backbone of the economy. However, with the formation of the unity Government in February 2009, the new Government is committed to national reconstruction leading to sustainable development. Therefore, the aim of this research is to highlight the importance of the informal sector as one of the tools that can be used to drive economic growth in the country. As a sector that has played a fundamental role in the country since 1990, this research aims to locate this sector in the current debates in the ongoing reconstruction process and make the link between the informal sector and sustainable development.

ACKNOWLEDGMENTS

Firstly I would like to thank God who has been with me and sustained me throughout the writing of this research report. Without His providence and grace, this research report would not have been possible.

Secondly, I would like to thank my supervisor, Professor Gilbert Khadiagala, for his support, willingness to assist me, patience and guidance throughout the course of the year. Your help has truly been invaluable.

Thirdly, I would like to thank, Professor Rodreck Mupedziswa, from the University of Bostwana for his advice, direction, and willingness to help even though I contacted him at such short notice. I would also like to thank Dr. Vishwas Satgar, who assisted me in gathering information from an International Labour Organisation Conference in October 2009.

Fourthly, I would like to thank my father, Mr Parston Itai Mbiriri, for helping me gather information, giving me direction, and his constant encouragement.

Lastly, I would like to thank my family (Mom, Tafara, Ngonidzashe) and my friends for their encouragement, their faith in me, and for always supporting me during difficult times.

I extend my sincerest gratitude and appreciation to you all.

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LIST OF ACRONYMS

CSOs	Civil Society Organisations
EPZ	Export Processing Zones
ESAP	Economic Structural Adjustment Program
FS	Formal Sector
GDP	Gross Domestic Product
GNU	Government of National Unity
GOZ	Government of Zimbabwe
GPA	Global Political Agreement
GWE	Growth with Equity
ILO	International Labour Organisation
IMF	International Monetary Fund
IS	Informal Sector
MDC	Movement for Democratic Change
MERP	Millennium Economic Recovery Program
RBZ	Reserve Bank of Zimbabwe
SADC	Southern African Development Community
SDA	Social Development and Adjustment Programme
SDF	Social Development Fund
SMMEs	Small, Micro and Medium Enterprises

STERP	Short Term Emergency Recovery Program
UNDP	United Nations Development Program
WB	World Bank
ZANU-PF	Zimbabwe African National Union-Patriotic Front
ZCTU	Zimbabwe Congress of Trade Unions
ZERP	Zimbabwe Emergency Recovery Program
ZIMPREST	Zimbabwe Programme for Economic Transformation

CHAPTER 1: THEORETICAL AND ANALYTICAL FRAMEWORK

1.1 Introduction

Bond and Saunders state that 'when Zimbabwe attained its first independent Government in 1980, there were reasons to hope for a bright future. The country inherited significant infrastructure from the prior Rhodesian settler regime, including relatively modern transportation and communications systems and an impressive set of import substitution industries. The economy had been built with extensive state support and planning to evade UN sanctions (under the Ian Smith regime).'[1] But by 1991, the economy was beginning to show signs of distress and by 2000 a country once praised for its phenomenal education sector, rapid industrialisation, and steady economic growth among other things was on the brink of collapse. That is, 'once the breadbasket of Southern Africa with a relatively high standard of living in comparison to many of the other sub-Saharan African countries, Zimbabwe has been laid to waste by gross economic mismanagement and corruption that has pauperised the population and brought about a breakdown of essential social services.'[2]

The second draft of the Zimbabwe Emergency Recovery Program (ZERP), mentions that the economic meltdown has been characterised by the following features: 'economic activity continues to contract and to move to the informal sector, real Gross Domestic Product (GDP) is projected to have fallen by over 6% in 2007, driven by output declines in all sectors[3] … Inflation has spiralled to very high levels … many of the goods with controlled prices are not regularly available anymore in the formal sector … official figures put inflation at 11 million percent at the end of May 2008 and 231 million percent in July 2008.'[4] In addition, 'frequent electricity shortages, deteriorating infrastructure, fuel and foreign exchange

[1] Bond, P and Saunders, R., 'Labour, the State, and the Struggle for a Democratic Zimbabwe,' in Monthly Review Journal, Dec 2005, p. 42.
[2] Financial Standards Foundation., 'Country Brief: Zimbabwe,' in *eStandards Forum*, New York, Oct 2009, p. 1.
[3] 'Some of the main indicators quoted on how industry has been negatively affected are 60% decline in GDP, 90% decline in industry capacity utilisation, 75% decline in gold production, US$ 4 billion in foreign debt, monetary supply of 51.769%, quasi fiscal losses of US$ 2.5 billion, 70% of money out of official circulation' (Multi-Donor Trust Fund, Sept 2008, p. 11).
[4] Multi-Donor Trust Fund (MDTF)., Zimbabwe Emergency Recovery Program: Draft 2, Harare, Sept 2008, p. 6.

shortages, the rising impact of the substantial emigration of skilled workers and uncertainties over property rights have contributed to the decline.'[5]

In 2008, industry was reported to be at 22.6%, services accounted for 59.3%, and agriculture and fishing had an 18% share. Between 1999 and 2008, the economy declined at an annual average rate of 6.3%. This compares to 'increases of 3.9% for South Africa, 5.9% for Botswana, and 7.7% for Mozambique.'[6] According to the International Monetary Fund (IMF), the per capita income in 2008 was US$ 268 [and] Zimbabwe was ranked 176 out of 180 nations and territories the organisation compiles per capita data for. The United Nations Office for the Coordination of Humanitarian Affairs (UNOCHA) 'estimated that as of the end of 2008, only 6% of the workforce was formally employed.'[7] Thus the shrinking economy has grossly reduced employment opportunities and the unemployment rate has increased to more than 50% in the early 2000s and estimated between 80% - 94% between 2007/2008.[8]

It is within this context that Zimbabwe has developed a very vibrant informal sector. Due to the closure of numerous industries, many have lost their jobs in the formal sector and as a means of survival have had to engage the informal sector. Makaye and Munhande state that, 'a retrospective analysis of Zimbabwe's informal sector reveals that at independence, the informal sector accounted for less than 10% of the labour force. However, as time went on, with mass education, demand for formal employment increased rapidly against a backdrop of a gradually declining economy, resulting in about 4 million Zimbabweans earning their livelihood in the informal sector by 2005.' [9] In year 2000, an estimated 400 companies were closed and within 18 months an additional 700 had shutdown. Various

[5] Loc cit.
[6] Financial Standards Foundation., Op.cit, p. 5.
[7] Loc cit.
[8] Dekker, M., 'Livelihoods and economic crisis: the case of smallholder farmers in Zimbabwe (1999-2008),' in Centre for the Study of African Economies, University of Oxford, Oxford, Mar 2009, p. 1.
[9] Tibaijuka in Makaye, P and Munhande, C., 'The Contribution of Informal Food Trading to Urban Food Security in Zimbabwe: The Case of Gweru 2000-2007,' in Journal of Sustainable Development in Africa, Vol. 10, No. 2, 2008, p. 312.

analysts observed that informal sector employment had surpassed formal employment with only about 2.7 million of the 6.7 million working adults still being employed.[10]

The informal sector in Zimbabwe like in most developing states provides more than half of the employment. For instance, '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. When agricultural employment is included, the percentages rise in some countries like India and many sub-Saharan African countries beyond 90%. Estimates for developed countries are around 15%.'[11] Therefore, 'due to hyper-inflation and government policies of price controls, many formal businesses are closing operations and laying off staff. Harare's large industrial zone shows severe decline, and the informal trading economy has surfaced to take advantage of distortions generated by government policies. This informal sector fills some of the void left by the decline of the formal sector.'[12]

Makaye and Munhande further state that the informal sector covers a wide range of market activities combining two groups which are different in nature. The first group consists of families and individuals who use the informal sector as a coping mechanism in a harsh earning environment. The second is comprised of small, micro and medium entrepreneurs who view the harsh economic environment as an opportunity to escape state regulations.[13] Goods provided by the informal sector range from basic necessities such as cooking oil, soap and bread to luxury items. For instance, informal food traders in Gweru provide a variety of food commodities ranging from grain products, drinks, fruits, vegetables, and processed foods.[14] In addition, the informal sector includes cross border traders who are predominantly women and survivalists who bring in goods like clothing, artwork and crafts and even foreign currency. Also, remittances from Zimbabwean Diaspora through unofficial

[10] Ibid. p. 315.
[11] Ibid. p. 314.
[12] Multi-Donor Trust Fund (MDTF)., Op.cit, p. 11.
[13] Makaye, P and Munhande, C., Op.cit, p. 314.
[14] Ibid. p. 322.

and informal channels, has come to be a great source of revenue for most households in Zimbabwe.

According to Mupedziswa, 'remittances now constitute a major global business particularly in the developing world where countries are struggling to mobilise foreign currency for everyday use (this is especially true for Latin America, Africa and Asia.'[15] He further mentions that 'World Bank official estimates put the volume of international remittances at a massive US$ 75 billion, while the total remitted globally in 2001 was a staggering US$ 100 billion. The figures have continued to grow steadily indicating the growing importance of remittances in the global economy. Interestingly, in 2001, remittances generally exceeded Official Development Assistance … An estimated US$ 4 million has been brought into Zimbabwe daily by export labour and cross border trading.'[16] Thus, the informal economy is a significant feature in the country's current make up.

At the beginning of 2009, the Reserve Bank of Zimbabwe (RBZ) legalised the use of hard currency indicating a shift by the RBZ toward economic liberalisation and slowing quasi-fiscal operations. This has attracted income generation back into the formal economy especially in sectors such as mining where illegal informal operations were occurring. With the formation of the Government of National Unity (GNU) on 11 February 2009, the new Government is committed to national reconstruction leading to sustainable development. In March 2009, the new Minister of Finance, Tendai Biti, announced the Short Term Emergency Recovery Program (STERP) mainly targeted at reinstating fiscal discipline and providing the basis for a revival of productivity.[17] As the GNU begins the process of national reconstruction, the informal sector should carefully be integrated in broader economic discussions and policies.

[15] Mupedziswa, R., 'Diaspora Dollars and Social Development: Remittance Patterns of Zimbabwe Nationals based in South Africa,' in Global Development Studies, Vol. 5, No. 3-4, Winter 2008 – Summer 2009, p. 229-272.
[16] Ibid. p. 7-8.
[17] Doran, S., 'Zimbabwe's Economy: A Report Card, mid-2009,' in Brenthurst Discussion Paper 8, Brenthurst Foundation, Johannesburg, Oct 2009, p. 4.

Therefore, this research intends to highlight the importance of the IS as one of the tools that can be used to drive economic growth in the country. This chapter will provide the theoretical and analytical framework that has informed this research. Chapter 2 will give a historical overview of Zimbabwe's informal sector which is to be understood within the macro-economic environment of the country. Chapter 3 considers the informal sector as an engine of growth and development in Zimbabwe considering the potential that this sector possesses. Chapter 4 will locate the IS in the current debates on reconstruction and make the link between the informal sector and sustainable development.

1.2 Aim

Zimbabwe is a country that in recent years has developed a very vibrant informal sector. This has been due to the economic meltdown as a result of[18]:

> *A failed attempt at Economic Structural Adjustment (1991-1995) which led to contraction of the civil service, the collapse of the domestic industrial sector and massive layoffs, a bitterly disputed fast track land reform programme (since 2000) …, cash hand outs to appease grievances of war veterans in 1997 sparking an inflationary spiral, military intervention in the Democratic Republic of Congo leading to budgetary constraints and overspending.*[19]

A Pambuzuka news article (2006) mentions that, 'structural adjustment policies in the late 1980s and early 1990s … significantly contributed towards a rapid growth of the informal economy in many African countries. These policies encouraged governments to liberalise trade, to privatise state-owned enterprises and to reduce the size of the public sector. This

[18] 'There have been contesting explanations for the origins of Zimbabwe's crisis. Economist Rob Davies – may put the date of crisis in 1997, but turns immediately to blame wealth accumulation – a peculiarly rampant form of absolute extraction by the ruling ZANU-PF… For David Moore, the Marxist notion of accumulation better captures that particular process … For the USAID, the country's deep economic crisis is the result of Governments flawed economic and public management policies' (Bond, P., Apr 2007, p. 150).
[19] United Nations, 'The Urbanisation, Housing and Local Governance Crisis in Zimbabwe,' in http://www.saprn.org.za/documents/d0001387, last visited 08 May 2009, p. 22-3.

led to sharp decline in employment in the formal sector and forced many to survive in highly precarious and insecure conditions in the informal economy.[20]

In the case of Zimbabwe, the 1990s represented a difficult period for the country. Unemployment rose from 10% in 1980 to 40% in 1990. Government introduced the Economic Structural Adjustment Programme (ESAP)[21] as a way to curb unsustainable fiscal deficits, falling tax revenues and declining productivity,[22] but ESAP failed miserably. Bond and Saunders state that 'the results were disastrous. Manufacturing output declined by 40% from 1991 to 1995, accompanied by a similar decline in worker's real standard of living and a dramatic increase in inflation that ravaged savings and those in the informal economy.'[23] The situation was worsened by droughts that occurred in 1992 and 1995. In 1995 the economy was slowly beginning to disintegrate. In 1997, the pay-outs to the war veterans which included an upfront payment of approximately US$ 6 000 and ZW$ 2 000 per month had far reaching macro-economic implications.[24] These large pay-outs to the liberation struggle heroes were immediately followed by Zimbabwe's involvement in the Great Lakes conflict.

Qobo states that 'Zimbabwe took the lead in involving SADC … Zimbabwe committed an initial contingent of 6 000 soldiers to the war, the number increasing eventually to about 13 000 … costing an estimated US$ 1 million a day.'[25] These two events had a direct bearing on the country's economy pushing it to the brink of collapse. In year 2000:

> *The fast track land reform programme … resulted in aid cutbacks and stringent borrowing measures being imposed by international financial organisations … The economic shock was compounded in 2003 when a widespread shortage of cash in*

[20] Pambuzuka news., 'Africa Forces for Change – Informal Economy Organisations in Africa,' in http://www.pambuzuka.org/en/category/development/34766, 31 May 2006 last visited 18 Nov 2009, p. 1.
[21] 'ESAP was introduced by the then Finance Minister Bernard Chidzero and a very small group of technocrats. The key documents were prepared by the World Bank in 1987' (Bond, P., Apr 2007, p. 167).
[22] Qobo, M., 'Outlines of Intra-state Conflict in Zimbabwe and Regional Challenges, in http://www.idrc.ca/en/ev-132675-201-1-DO_TOPIC.html, last visited 18 Nov 2009, p. 11.
[23] Bond, P and Saunders, R., Op.cit, p. 43.
[24] Qobo, M., Op.cit, p. 11.
[25] Ibid. p. 11-2.

banks eroded confidence in the banking system. The combination of these factors, including the disruption of the agricultural sector,[26] a major foreign currency earner, coupled with President Mugabe's alienation of the West, brought a crippling shortage of foreign currency, basic goods and hyper-inflation. The picture was further complicated in mid-2005 when the Government undertook a cleanup campaign termed Operation Restore Order/Operation Murambatsvina leaving approximately 300 000 people with no homes and at least 80% of the population below the poverty datum line.[27]

The culmination of these factors has resulted in the informal sector forming the core of Zimbabwe's economic activity. Chibisa and Sigauke state that, 'post-2000 the informal sector had become the "lifeblood" of the nation.'[28] As a result, large sections of the population have been forced to engage in this sector because it has become a means of survival for many citizens, providing them with livelihoods. That is, 'when private firms or public enterprises are downsized or closed, retrenched workers who do not find alternative formal jobs have to turn to the informal economy for work because they cannot afford to be unemployed.'[29] It should be noted that, 'the informal economy was always a feature of the country since colonial times and Smith's era … Post-independence; in-formalisation was driven by internal migration from rural to urban centres. However, the present rapid growth of Zimbabwe's informal economy coincides with its economic slide and internal political conflict. The effects have manifested themselves as a shrinking of the formal productive sector of the economy, a rise in unemployment and the growth of informal activities.'[30]

[26] 'In the past, agriculture has been a key contributor to export earnings – 51% in 2000 … But the land invasions that began in 2000 have devastated large scale commercial agriculture with catastrophic knock-on effects. Agricultures share of export earnings had fallen to 29% by 2008, production declined by 79% between 2002 and 2008, and Zimbabwe was judged the most food aid dependent country in the world' (Doran, S., Oct 2009, p. 13).
[27] Multi-Donor Trust Fund (MDTF)., Op.cit, p. 13.
[28] Chibisa, P and Sigauke, C., 'Impact of Operation Murambatsvina (Restore Order) on Flea Markets in Mutare: Implications for Achieving MDG 1 and Sustainable Urban Livelihoods,' in Journal of Sustainable Development in Africa, Vol. 10, No. 1, 2008, p. 37.
[29] Chen, M., 'Rethinking the Informal Economy: Linkages with the Formal Economy and the Formal Regulatory Environment,' in UNU-WIDER (conference on Unlocking Human Potential: Linking the Informal and Formal Sectors), Helsinki, Finland, 17-18 Sept 2004, p. 7.
[30] Qobo, M., Op.cit, p. 13.

Additionally, the informal sector has also become a means of creating wealth and 'in response to inflation or cutbacks in public services, households often need to supplement formal sector incomes with informal earnings.'[31] Various scholars argue that 'the growth of the informal sector may not entirely be undesirable as it plays an important role in the growth, and development of the overall economy.'[32] It is important to note that, 'while some activities in the informal sector [can] be legitimately described as illegal, such as foreign currency dealing, much of the informal activities involve ordinary people trying to make a meagre living from buying and selling fruit, vegetables, clothes, shoes and other goods.'[33] That is:

> *Traditionally, the informal economy was perceived as comprising mainly survivalist activities. Various negative aspects were used to describe the informal economy ranging from undeclared labour, tax evasion, unregulated enterprises, illegal and criminal activity. Nevertheless, the vast majority of informal economy activities provide goods and services whose production and distribution are perfectly legal. In addition, informal economy activities are not necessarily performed with the deliberate intention of evading the payment of taxes or social security contributions, or infringing labour legislation or other regulations. The informal economy can however include restricted illegal and restricted legal operations or irregular operators, but no criminal operators. The informal economy should therefore not be confused with the criminal economy.*[34]

Therefore, based on this premise, the aim of this research is to critically analyse the contribution that the informal sector can make in Zimbabwe's current reconstruction process. Over the past 29 years of the country's independence, 'the government has come up with no less than six economic blue prints including: Transitional National Development

[31] Chen, M., Op.cit, p. 4.
[32] Blunch, N, Canagarajah, S and Raju, D., 'The Informal Sector Revisited: A Synthesis across Space and Time,' in http://www/worldbank.org/sp, July 2001 last visited 08 May 2009, p. 4.
[33] Chibisa, P and Sigauke, C., Op.cit, p. 40.
[34] Becker, K.F., 'The Informal Economy: Fact Finding Study,' in SIDA, Department for Infrastructure and Economic Cooperation, USA, Mar 2004, p. 11.

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] neither [have been] inclusive nor pro-poor.'[35] Thus, due to the vibrancy and resilience of the informal sector, this research aims to show that it can play a fundamental role as the government seeks to rebuild the collapsed economy. Furthermore, this research aims to make the link between the IS and sustainable development, which is a long term goal that the government seeks to achieve.

1.3 Research Questions

1. How large is the informal sector in Zimbabwe currently?
2. How has it emerged or evolved to where we see it today?
3. What has been the dynamic relationship with "formality", that is, what gap stimulated the growth of the informal sector?
4. What state interventions, actions or policies made the emergence or strength of the informal sector possible?
5. What are the government's policies on reconstruction and how does the informal sector fit into these discussions?
6. How can government partner with the informal sector to bring about sustainable development?

1.4 Rationale

According to Blunch et al, the informal sector can be 'an engine of economic growth and job creation'[36] thus contributing to overall growth and development of a country's economy. That is, 'over the last decades, it has become clear that the informal economy has significant

[35] Chitambara, P., 'Zimbabwe's Development Paradox,' in http://www.fingaz.co.zw/index.php?option=com_content&view=article&id1611:zims-development-paradox&catid=44:economics-society&Itemid=92, 14 Aug 2009, p. 1.
[36] Blunch, N, Canagarajah, S and Raju, D., Op.cit, p. 5.

job and income generation potential.'[37] In the 1970s, when the notion of the informal economy was "discovered", various scholars believed that it was marginal, peripheral and not linked to industrial capitalist development. Becker states that many believed that the informal sector would disappear once these countries achieved a sufficient level of economic growth, however, 'the informal economy has been observed to have a more fixed character in countries where incomes and assets are not equitably distributed. It seems that if economic growth is not accompanied by improvements in employment levels and income distribution, the informal economy grows. The situation is therefore that the informal economy is continuously rising in most developing countries, even in rural areas.'[38] Thus, in most developing continents like Latin America, Asia and Africa, the informal sector cannot be viewed as a temporary phenomenon or as peripheral.

Most scholars now believe that the 'informal economy has the potential to achieve high levels of productivity through the dynamic, entrepreneurial character of micro-enterprises which comprise this sector … the informal sector is not just a survival mechanism for the poor, but a means by which educated and skilled individuals evade income tax.'[39] Studies have shown that in developing countries the informal sector contributes between 20%-70% of the total Gross Domestic Product (GDP). Rather than dying out, the IS has actually expanded and is both producer and consumer driven. That is:

> *It is producer driven in that some firms that are formerly operated – wholly in the formal sector seek to remain competitive through outsourcing key manufacturing, marketing and maintenance tasks to businesses operating wholly or partially in the informal sector. At the same time, it is driven by consumer demand that the high and low ends of the market. At the high end of the market, expanded demand among high-income urban-based consumers for custom work has created niches for very small enterprises with highly skilled work forces … At the low end of the market, the growth in urban-based low-income populations has sparked demand for cheap*

[37] Becker, K.F., Op.cit, p. 3.
[38] Loc cit.
[39] Sookram, S and Watson, P. K., 'Small-Business Participation in the Informal Sector of an Emerging Economy,' in Journal of Development Studies, Vol. 44, Issue. 10, Nov 2008, p. 1.

consumer goods and services that only businesses that do not comply with labour and work place safety regulations can afford to produce.[40]

Therefore, the formal sector and the informal sector are inextricably linked. That is, in developing countries the informal economy plays a crucial role in providing supplemental income or is the primary source of income, employment and supplying goods and services in markets that have been ignored. This sector plays an intermediate role that links formal sub-sectors to consumers.[41] In 1990, the informal sector is said to have accounted for approximately 25% of the urban jobs in Latin America, 10%-65% in Asia and in 1998 it accounted for between 40%-60% of the urban jobs in sub-Saharan Africa. In developing countries this has been due to low GDP growth rates, a massive influx of people from rural to urban areas in search of employment, structural adjustment programmes, and the disintegration of production.[42] As a result, in most developing countries, the informal sector can be used as a tool to enhance economic growth. This is especially crucial for a country like Zimbabwe that is engaged in efforts to rebuild its shattered economy.

In a country like Zimbabwe where the current unemployment rate is estimated at 80%, the IS can be used to generate employment and absorb the surplus labour/unlimited supply of labour most of whom have lost their jobs in the FS among other things.[43] Gilpin states that in Zimbabwe, 'the official economy [has become] irrelevant and a number of informal barter systems have developed, based on strong community networks. They allow groups to purchase barter essentials (like food and fuel) while hedging against inflation and currency depreciation. It is this informal economy that has forestalled 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

[40] McClain, R.J, Alexander, S.J and Jones, E.T., 'Incorporating Understanding of Informal Activity in Natural Resource and Economic Development Policy,' in General Technical Report PNW-GTR-755, United States Department of Agriculture, June 2008, p. 8.
[41] Ishengoma, E.K and Kappel, R., 'Economic Growth and Poverty: Does Formalisation of Informal Enterprises Matter?' in German Institute of Global and Area Studies (GIGA) Working Papers, No. 20, April 2006, p. 3-5.
[42] *Ibid.* p. 5 and 10-11.
[43] Srinivas, H., 'The Informal Sector and Some Developmental Paradigms,' in http://www.gdrc.org/informal/001-define.html, last visited 08 May 2009, p. 2.

conditions. With the right incentive structure and institutional framework, these economic relationships could transition to a reformed formal economy with relative ease.'[44] Therefore, the IS can be used as one of the engines that will drive economic growth during the current reconstruction process. This research seeks to show the importance of this IS and locate it within the larger debates on Zimbabwe's economy, the reconstruction process and sustainable development.

Secondly, this research is important because instead of shunning this sector, the government can invest in and partner with this sector, utilising it to its full potential. Sookram and Watson observe that 'there is a positive association between excessive government regulation and the size of the informal sector [that is] burdensome government regulations augment the size of the informal sector.'[45] Centeno and Portes add that 'the state manifests itself in three offices: the regulator, the policeman and the tax collector. These three persons have as their responsibility the elaboration of laws, the enforcement of those laws, and the collection of payment for their enforcement.'[46] They go on to state that in the case of weak states like Zimbabwe, 'they give rise to a vast informal sector precisely because ever-expanding rules force economic actors to find ways around them and because a weak and frequently corrupt state apparatus facilitates the systematic violation of these rules … In the end … as it happened in the defunct socialist states of Eastern Europe and is currently happening in Cuba, the "second economy" becomes the real economy of the country effectively displacing that subject to official planning.'[47]

In Zimbabwe, the economic policies that the government adopted not only deepened poverty but also made the cost of conducting business in the formal sector prohibitively costly. For instance, the mismanaged exchange rate and high inflation rate made earnings and savings of Zimbabweans worthless. The government ignored the implications of this

[44] Gilpin, R., 'Depoliticizing Zimbabwe's Economy: Solutions for Two Million Percent,' in United States Institute of Peace, Washington D.C, Aug 2008, p. 3.
[45] Sookram, S and Watson, P. K., Op.cit, p. 5.
[46] Centeno, M.A and Portes, A., 'The Informal Economy in the Shadow of the State,' in Princeton University, New Jersey, Feb 2003, p. 7.
47 Ibid. p. 9 and 12.

policy which included foreign currency shortages and increasing parallel market premium which it sought to mitigate through price controls and introducing limits on daily bank withdrawals implications for employment, food security and economic growth in the country.[48] Therefore, the state can be seen as the prime cause of stagnation of the informal sector because of its regulations and administrative practices.[49] Specifically, 'the lack of coordination and assistance from government and other stakeholders is hindering small entrepreneurs from attaining their full potential.'[50] Thus it can be said that governments policies directly impact on this sector and can either be detrimental or beneficial. As key policy and decision makers it is important for government to understand not only the importance of this sector, but also as government debates on which policies to adopt in the reconstruction process, the impact its policies will have on this sector.

Becker argues that 'appropriate policy frameworks and strategies aimed at the informal economy must be developed without hampering the potential of the informal economy for job creation and economic growth. The main challenge is thus to develop innovative and supportive policies that recognise the contributions of the informal economy and its workforce.'[51] It is important to engage a sector that has played a fundamental role in the country's economic activity. The vibrancy and resilience of this sector make it important for the government to integrate it into debates and programmes on the reconstruction process. McClain et al note that 'the informal economy provides a number of critical and social benefits ... Many of these benefits accrue simultaneously, and all play a role in buttressing the working of the formal economy. These include cost cutting (a number of firms operating in the FS can cut costs by outsourcing to IS operators creating employment), training (the IS is a place where people can acquire the necessary skills, connections, and capital needed to eventually engage in regulated economic activities), and economic buffering (it acts as a

[48] Gilpin, R., Op.cit, p. 2.
[49] Morrison, C, Lecomte, H and Oudin, X., 'Micro-enterprises and the Institutional Framework,' in Development Centre for OECD, Paris 1994, p. 13.
[50] Kumbawa, D., 'Informal Sector now Zimbabwe's biggest Employer,' in Financial Gazette, Harare, 12 June 2002, p. 1.
[51] Becker, K.F., Op.cit, p. 3.

safety net for those unable to participate in the FS). For some people it is their only option for earning income) to mention a few.'[52]

Hence, the informal sector is not necessarily an undesirable sector. In Zimbabwe, an important aspect of the informal economy is the rise of cross border trade[53] which has played a positive role in moderating economic hardships, reducing poverty and enhancing welfare and human development in the country.[54] The informal economy becomes crucial 'to promoting growth and or reducing poverty (which is fundamental in achieving sustainable development).'[55] The major contributions of this research to academic knowledge are:

- Locating the informal sector in the current debates on the reconstruction process.
- Linking the informal sector to the long term goal of sustainable development.

With the formation of the unity government in February 2009, it is possible to conduct this research now because the government is committed to nation-wide reconstruction. In its efforts to do so, the new government and other actors like civil society organisations will have to address and formulate policies that deal with the informal sector. Previous research has extensively looked at the various elements of the informal sector in Zimbabwe, but it has not been within the context of the current reconstruction process. It is at this vital stage that makes this research both timely and relevant.

[52] McClain, R.J, Alexander, S.J and Jones, E.T., Op.cit, p. 12-3.
[53] 'It can be argued that the informal sector through cross border trade has become by default an instrument driving regional economic integration, liberalisation of economic ties, trade and monetary harmonisation (Tekere, M, 2001, p. 20).'
[54] Tekere, M., 'Trade Liberalisation under Structural Economic Adjustment – Impact on Social Welfare in Zimbabwe,' in Structural Adjustment Program Review Initiative (SAPRI), April 2001, p. 21.
[55] Chen, M., 'Rethinking the Informal Economy,' in http://www.un.org/../wp46_2007.pdf, Aug 2004 last visited 08 May 2009, p. 3.

1.5 Theoretical Framework

There are three main theories that inform the work on the informal sector. These theories have progressively been developed over the years. The first theory is the dualist model which argues that the informal sector is 'marginal and peripheral and not linked to the formal sector or to modern capitalist development.'[56] That is, this theory argues that the informal sector is a buffer and acts as a safety net in times of crisis. It absorbs the unlimited supply of labour that has been unable to enter into formal employment. Once modern industrial development is attained, this sector will disappear. The second theory is the structuralist model that states that there is a close connection or link between the formal-informal sectors.[57] Theorists of this school of thought argue that the formal sector utilises cheap labour and inputs from the informal sector in their production processes.[58] Therefore, the two are inextricably linked and should not be seen as separate or distinct. Informalisation is a normal process that occurs in capitalist development.

The last theory is the legalist model which argues that government rules and regulations are responsible for stifling private enterprises and force small to medium entrepreneurs to opt to operate informally in order to avoid the costs of formal regulation.[59] These theories encompass the larger debates on the informal economy. That is, debates such as the informal economy as a hindrance to development, and over-regulation that prevents this sector from achieving its full potential. In addition, the informal sector as an engine for growth and development, and linking the informal sector and the formal sector to mention a few.

However, I believe the theory that best informs my research is the legalist school of thought. This is because, as a crucial decision and policy maker, it is important for government to realise the impact their policies have on the informal sector. As Zimbabwe is

[56] Ibid. p. 2.
[57] Blunch, N, Canagarajah, S and Raju, D., Op.cit, p. 18.
[58] Chen, M., Op.cit, p. 6.
[59] Loc cit.

currently engaged in nation-wide reconstruction, it is important for the government to establish policies that are comprehensive, all inclusive and realise the potential this sector possesses. I will draw on certain aspects of the dualist and structuralist models especially those that propose that the informal sector can contribute positively to the growth and development of a country.

1.6 Methodology

This research has used qualitative research methods. It will mostly rely on secondary data from books, journals, official reports like the Short Term Emergency Recovery Programme (STERP), budget speeches, government responses, the UNDP Comprehensive Economic Recovery discussion document (from the Government of Zimbabwe and international institutions like the World Bank, International Labour Organisation, United Nations to mention a few), newspaper articles on current debates on the reconstruction process in Zimbabwe (from Zimbabwe, South Africa and internationally acclaimed news sites like CNN and BBC), and conference paper presentations on the informal sector by various scholars to mention a few. This research draws from the work that other scholars and organisations have done in an attempt to fill in the gaps and contribute to academic knowledge.

In addition, this research has used statistical data issued by the Government of Zimbabwe, the Reserve Bank of Zimbabwe, independent researchers and scholars, and other sources like the IMF, WB and ILO. It will use material or information that looks at the broader debates on the informal sector, thereby allowing me to contextualise my research within the wider body of knowledge on the informal sector. Furthermore, this research will utilise material that discusses various theories of the informal sector, the informal sector in Zimbabwe, that is, its size, the various sectors/sections classified within this sector, how it operates, the government's policies with regards to the informal sector, current debates on the reconstruction process and material that makes the link between the informal sector and sustainable development.

This information can be found in the University of the Witwatersrand libraries (in the form of books, journal articles, PHD and MA thesis on the informal sector, electronic resources like the ewits catalogue), the internet, specifically online journals, reports, presented documents and papers, newspaper articles, the United Nations Development Program, the Ministry of Economic Planning and investment, the Ministry of Local Government, and the Ministry of Small and Medium Enterprises and Cooperative Development in the Republic of Zimbabwe.

1.7 Chapterisation

- Chapter 1: Introduction

  The Theoretical and Analytical Framework

- Chapter 2: The Informal Sector in Zimbabwe: A Historical Overview
- Chapter 3: The Informal Sector as an Engine of Growth and Development
- Chapter 4: The Informal Sector and the Current Reconstruction Process
- Chapter 5: Conclusion

1.8 Literature Review

In the 1950s and 1960s the informal sector was 'frequently associated with poverty, underemployment and unemployment.'[60] Thus, 'it was widely assumed that with the right mix of economic policies and resources, poor traditional economies could be transformed into dynamic modern economies,'[61] The IS was perceived as a sector that would fade away once countries began industrialising. Consequently, it became 'difficult to persuade governments to recognise the validity of a concept or the phenomenon it described which represented the very image of their ability to change things.'[62] However, in the early 1970s, there was a rethinking and a re-conceptualisation of this concept. That is, 'the informal

[60] Charmes, J., 'A Critical Review of Concepts: Definitions and Studies in the Informal Sector,' in Turnham, D, Salome, B and Schwarz, A (eds): The Informal Sector Revisited, University of Natal Press, Pietermaritzburg, 1989, p. 11.
[61] Chen, M., Op.cit, p. 2.
[62] Charmes, J., Op.cit, p. 10.

sector has since been greeted as a promising concept …'[63] therefore, the issue was not one of reducing the size of the sector, 'but rather of promoting and expanding the growth generated in this sector.'[64] It is within this context, that debates on the informal sector have been currently taking place. That is, various scholars agree on the importance, permanence and usefulness of this sector, but disagree on what role the informal economy plays and should play in the overall economy. There are three dominant schools of thought on the informal sector with which the vast literature on this sector can be classified under. These are namely the dualist, structuralist and legalist paradigms, which we will now look at.

1.8.1 The Dualist School

This school of thought was popularised by the International labour Organisation (ILO) in the 1970s. It 'subscribes to the notion that the informal sector is comprised of marginal activities – that provide income for the poor and a safety net in times of crisis … persistence of informal activities is due largely to the fact that not enough modern job opportunities have been created to absorb surplus labour.'[65] This school of thought proposes that, once sufficient levels of economic growth are attained, the informal sector will gradually reduce in size.[66] Therefore, in times of economic transition or adjustment, it acts as a buffer. According to Gerry, even the reformists believed that 'the sector composed of ubiquitous Third World handicraft workers, petty traders, and peasants would act as a buffer to the worst traumas of underdevelopment. This would be the case at least until takeoff was achieved.'[67] This can be regarded as one of the schools major contributions to academic knowledge. That is, most scholars do acknowledge that this sector 'sometimes acts as a buffer for cyclical trends in the formal sector by providing a dumping ground for retrenched labour and waiting station for job seekers.'[68]

[63] Breman, J., 'A Dualistic Labour System: A Critique of the Informal Sector Concept,' in Economic and Political Weekly, Vol. 11, No. 48, Nov 1976, p. 1879.
[64] Charmes, J., Op.cit, p. 10.
[65] Chen, M., Op.cit, p. 6.
[66] Chen, M., Op.cit, p. 2.
[67] Gerry, C., 'Developing Economies and the Informal Sector in a Historical Perspective,' in Annals of the American Academy of Political and Social Sciences, Vol. 493, Sept 1987, p. 108.
[68] Kumbawa, D., Op.cit, p. 2.

However, many disagree that this sector is comprised of marginal activities. Scholars now realise the importance of these "marginal" activities in fuelling and instigating economic development.[69] Blunch et al state that in many developing countries, 'it is the primary source of employment for workers … accounting for 60%-80% of total non-agricultural employment,'[70] Chen argues that within the dualist school of thought, the overarching goal is 'to simplify institutional mechanisms governing the informal sector and integrate them as far as possible with those dealing with the formal economy [that is] promoting a dual policy focus that recognises and supports both informal enterprises/own account workers and informal jobs/paid workers.'[71]

For instance, in Kenya, the government began to incorporate the informal economy into national economic policy as early as 1986. By 1992, the government had identified the IS as having the greatest potential for employment creation in the country.[72] Additionally, 'the Chinese government has taken increasing interest in the informal economy as a means to address the issue of unemployment. The Shanghai Municipal Government initiated a scheme of "informal labour organisations" [which] have become a sub-category of the informal economy … they become an inter-mediary or bridge category between the formal and informal economy.'[73] Therefore, my research intends to emphasize the importance of this sector not just as a buffer or bridge, but as one of the elements that can fuel economic growth and development in the Zimbabwe.

1.8.2 The Structuralist School

This school of thought was popularised by Alejandro Portes (among others) in the late 1970s and early 1980s. This theory states that 'the informal sector should be seen as subordinated economic units (micro-firms) and workers that serve to reduce input and labour costs and,

[69] Gerry, C., Op.cit, p. 109.
[70] Blunch, N, Canagarajah, S and Raju, D., Op.cit, p. 9.
[71] Chen, M., *Op.cit,* p. 10.

[72] Becker, K.F., Op.cit, p. 29.
[73] Ibid. p. 30.

thereby, increase the competitiveness of large capitalist firms … in marked contrast to the dualist model, different modes and forms of production are seen not to co-exist but also to be inextricably connected and interdependent.'[74] According to this school of thought, 'the nature of capitalist development (rather than a lack of growth) accounts for the persistence and growth of informal production relationships.'[75] That is, the informal economy is linked to, and dominated by the formal sector in capitalist development. The IS, for instance, relies on the formal sector for its demand and supply of inputs, but in a manner that leaves very little room for its dynamic expansion.[76]

Structuralists argue that, both informal enterprises and informal wage workers are subordinated to the interests of capitalist development, providing cheap goods and services.[77] Thus, the nature of capitalist development results in an inextricable link between the informal and formal sectors. This can be regarded as one of the major contributions of this model. Many scholars had looked at these two sectors separately; not realising or acknowledging the interdependence and often times blur that exists between these two sectors. Chen states that, the IS does not exit separately from the FS. The IS trades with, produces for, distributes for and provides services to the formal sector.[78] Once policy makers 'acknowledge the existence and importance of these linkages … the next natural step [will be to] address and utilise the FS-IS linkages in policy.'[79] According to Breman, 'to replace the present hypothetical distinction between formal and informal sectors [a] strong linkage [should be made] intended to bring about harmonious cooperation on the basis of mutual advantage.'[80]

Chen also mentions that, 'given that the informal economy is here to stay and that the informal and formal economies are intrinsically linked, what is needed is an appropriate

[74] Chen, M., Op.cit, p. 6.
[75] Loc cit.
[76] Chitambara, P., Op.cit, p. 1.
[77] Chen, M., Op.cit, p. 22.
[78] Ibid. p. 15.
[79] Blunch, N, Canagarajah, S and Raju, D., Op.cit, p. 18.
[80] Breman, J., Op.cit, p. 1874.

policy response that promotes more equitable linkages between the informal and formal economies.'[81] However, Heintz and Pollin argue that the process of in-formalisation should be reversed and that the informal economy should be formalised,[82] but 'policies which have sought to formalise the IS have failed because they did not recognise the fact that in-formalisation is part of an economic process.'[83] Therefore, in assessing government's policies towards the IS, this research seeks to critically analyse the feasibility of formalising the informal sector. In some instances, the formalisation of the informal economy reduces the need for poverty combating programmes such as subsidized health care, large unemployment benefits etc.[84]

1.8.3 The Legalist School

This school of thought was popularised by Hernando de Soto in the 1980s and 1990s. This model states that, 'the informal sector is comprised of micro-entrepreneurs who choose to operate informally in order to avoid the costs, time and effort of formal registration … micro-entrepreneurs will continue to produce informally so long as government rules and regulations are cumbersome and costly. In this view, unreasonable government rules and regulations are stifling private enterprise.'[85] McClain et al state that, 'nation-states generally take three approaches to dealing with informal activity that takes place in economic domains nominally subject to regulation: ignoring its existence, making an effort to control it, or legalising it. Most countries with weak state enforcement systems including Latin America and Southern European countries, tacitly permit businesses to operate informally …The disadvantage of ignoring informal economy activity is that … states provide incentives for the persistence of social inequities and unsafe working conditions.'[86] They further state that, 'states with relatively strong enforcement seek to control elements of informal activity by developing much stricter and more broadly reaching regulations or more effective monitoring and enforcement systems, a process referred to as criminalisation. However,

[81] Chen, M., Op.cit, p. 25.
[82] Heintz, J and Pollin, R., 'Informalisation, Economic Growth and the Challenge of Creating Viable Labour Standards in Developing Countries,' in PERI Working Paper Series, No. 60, June 2003, p. 2.
[83] Blunch, N, Canagarajah, S and Raju, D., Op.cit, p. 19.
[84] Becker, K.F., Op.cit, p. 28.
[85] Chen, M., Op.cit, p. 6.
[86] McClain, R.J, Alexander, S.J and Jones, E.T., Op.cit, p. 17.

criminalisation efforts are often counterproductive. For example, if taxes and regulations are too onerous, attempts to enforce them merely drive businesses further underground or out of business (as was the case with Operation Restore Order which will be discussed in the next chapter).'[87]

In other words, this school of thought focuses on government policies because they are believed to have a direct impact on the growth and expansion of the informal sector. Sookram and Watson state that, 'governments and other state agencies may view informal business activity unfavourably if only because, prima facie, it deprives the state of revenue (tax evasion).'[88] This has been the major contribution of this model to academic knowledge. Heintz and Pollin mention that, 'most current theories of in-formalisation incorporate a role for Government regulations and formal institutional structures as they impose costs and constraints on economic actors.'[89] Chen also states that, 'in the past, the management or regulation of informal activities has often been relegated to social policy departments or, in urban areas, to those departments (such as the police or traffic) that deal with law and order issues. Locating governance of the informal economy in traffic, health, policy or social departments ignores its economic aspects. Institutions that govern the informal economy should be those dealing with economic planning and development.'[90]

By stressing the importance of government to re-dress its rules and regulations, locating it within the appropriate government departments and to seek new comprehensive approaches that target economic planning and development, this sector can be allowed to flourish and contribute to overall economic growth.[91] That is, 'the state should therefore be very careful how it treats informal business activity and should at the very least consider its potential for a positive contribution. The government first has to determine the direction it

[87] Ibid. p. 18.
[88] Sookram, S and Watson, P. K., Op.cit, p. 20.
[89] Heintz, J and Pollin, R., Op.cit, p. 5.
[90] Chen, M., Op.cit, p. 30.
[91] Munbodh, S., 'Mobile Unit for the Informal Sector,' in http://www/unevoc.unesco.org/southernafrica/workshop2003/papers/mar-munbodh-informal.coc, March 2003 last visited 08 May 2009, p. 2.

is going to take with regard to the informal sector and then determine which aspects of informal activity will be kept in check and which aspects are to be further developed and formalised.'[92] In short, 'governments should focus on developing meaningful risk management strategies which can enable the IS to realise its potential. Many governments today are beginning to realise the importance of such an approach but have a long way to go in terms of developing appropriate policy responses of the IS.'[93]

One of the shortcomings of this theory is that in as much as it acknowledges that governments have a long way to go in developing appropriate responses for the informal sector, it does not propose how exactly governments should go about this and what sections of the informal sector they should particularly focus on. Therefore, in discussing how government can harness and partner with this sector to bring about sustainable development, this research seeks to address this. The next chapter will provide a historical overview of the informal sector in Zimbabwe, particularly how it has emerged to where we see it today.

[92] Sookram, S and Watson, P. K., Op.cit, p. 21.
[93] Blunch, N, Canagarajah, S and Raju, D., Op.cit, p. 19-20.

CHAPTER 2: THE INFORMAL SECTOR IN ZIMBABWE – A HISTORICAL OVERVIEW

2.1 Introduction

In the mid 1950s, Sir Arthur Lewis developed a theoretical model of economic development. This model was based on the assumptions that there was an unlimited supply of labour in most of the developing countries. That is, as countries began to industrialise and modernise, Lewis assumed that this pool of labour would be absorbed by the modern industrial sector and the traditional sector comprised of petty traders, small producers and a range of causal jobs would eventually be absorbed into the formal economy and disappear.[94] However, the first ILO employment mission to Africa (Kenya) in 1972 observed that the IS had not just persisted but also expanded. Economic development in developing countries had failed to create enough urban jobs to absorb the increasing number of unemployed people or surplus labour.[95]

Thus, the informal sector (defined by the ILO and UNDP 1972 as the non-structured sector that has emerged in the urban centres as a result of the incapacity of the modern sector to absorb new entrants)[96] is not a feature unique to Zimbabwe, but is common in most developing countries in Africa, Asia and Latin America. It also exists in developed economies[97] but is not as prevalent. Breman states that, 'for the third world it amounts to roughly 25%.'[98] For example, in Zambia in 1996 it was reported that 'the informal sector was growing faster than the formal sector and some formal sector shop owners were now selling

[94] Becker, K.F., Op.cit, p. 8.
[95] Loc cit.
[96] Munbodh, S., Op.cit, p. 1.
[97] 'Informal sector employment (growth) has declined in countries that have experienced periods of robust and sustained economic growth. For example, Southeast Asia, on account of strong export-led growth and industrialisation, the formal sector was able to absorb informal sector workers and new labour force entrants in increasing numbers, resulting in a marked deceleration in the growth of the informal sector' (Blunch et al, July 2001, p. 10).
[98] Breman, J., Op.cit, p. 1870.

their goods to the large informal sector operators in order to evade paying tax. In Malawi, the informal sector began to flourish in 1991 after the introduction of a multi-party system and the reform programme and since then many streets in Blantyre have been taken over by informal sector traders.'[99]

Mupedziswa and Gumbo further state that, 'the Zimbabwean experience has not been very different from that of its other counterparts in the sub-region. As noted by the Herald (1996): The hue and cry and a feeling of hopelessness that accompanied the launch of the harsh economic reform program five years ago (1991) is dissipating among Zimbabweans. A new work ethic, marked by the proliferation of backyard industries is now taking shape. The informal sector, once derided as an exclusive presence for an uneducated and unskilled individual with no prospects of growing 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 for the first time.'[100] The proliferation of backyard industries and various informal sector activities have remained a key component of the country's economic activity.

Therefore, the aim of this chapter is to trace the history and role of the IS in Zimbabwe from independence in 1980 to 2009. To understand the development of this sector, it is important to understand events occurring within the broader economic and political spheres. Luebker states that, 'the development of the informal economy cannot be seen in isolation from a country's overall economic performance. In particular, 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 …'[101] This chapter will show that over the years the size of this sector has grown to epic

[99] Mupedziswa, R and Gumbo, P., 'Women Informal Traders in Harare and the Struggle for Survival in an Environment of Economic Reforms,' in Nordiska Afrikainstitutet, Research Report No. 117, 2001, p. 4.
[100] Loc cit.
[101] Luebker, M., 'Employment, unemployment and informality in Zimbabwe: Concepts and data for Coherent policy-making,' in ILO Sub-regional Office for Southern Africa (SRO-Harare) and Policy Integration and Statistics Department International Labour Office, Issues Paper No. 32 and Integration Working Paper No. 90, Geneva, Switzerland, July 2008, p. 16.

proportions and constitutes an important part of the country's macro-economic environment. This chapter will also reflect on the Government of Zimbabwe's (GOZs) attitudes towards this sector which have ranged from lack of recognition, support to contempt.

2.2 Hope after a Legacy of Colonialism: 1980-1990

According to Chiripanhura and Makwavarara, 'the problems of unemployment and underemployment are evident in most African economies. The structure of the economies is fundamentally entrenched in dualism and enclavity. At independence in 1980, Zimbabwe inherited an economy that exhibited both extreme characteristics of a relatively developed economy and economic backwardness … This dualism (separate development) had arisen from the policy of white supremacy that underlined the colonial era[102]. The relative strength of the economy lay in its diversified formal sector, with no overwhelmingly dominant sector.'[103] They further state that despite the relatively developed nature of the economy that the government inherited in 1980, 'the Zimbabwean economy [had] a dark side to it: the underdeveloped, deprived and marginalised non-formal sector which constituted about four fifths of the populations.[104]

This separate development was as a result of the legacy of colonialism the country had just freed itself from which was characterised by unequal distribution of resources according to racial lines. 'Given the highly inequitable distribution of resources and oppression during the colonial era, the post-independence government intervened extensively in the labour market to correct these distortions [that is] government intervention was aimed at uplifting the standard of living of ordinary Zimbabweans, to ensure security of employment … The

[102] 'According to Brand, et al (1993) the colonial regime attempted to control the spread of the informal sector in urban areas. This had the effect of making it a "hidden feature" of the economy. They point out that the Town and Country Planning Act (1946), the Vagrancy Act (1960), the Urban Councils Act and the Vendors and Hawkers By-laws (1973) are some of the pieces of legislation that were placed to frustrate the growth of informal sector activities' (Dhemba, J, 1999, p. 12).
[103] Chiripanhura, B.M and Makwavarara, T., 'The Labour Market and Economic Development 1980-2000,' in Zimbabwe Congress of Trade Unions (ZCTU), Harare, 2000, p. 1.
[104] Ibid. p. 3-4.

focus of government policy was outlined in its first policy of 1981, aptly entitled: "Growth with Equity (GWE)".[105] The main objectives and targets of GWE were to: 'achieve a sustained high economic growth rate, restructure the economy in such a way that would promote investments and exports, reform the fiscal and monetary policies in order to stabilise prices as well as balance of payments and, also create and maintain high levels of employment for Zimbabweans in all sectors and levels of skill and responsibility.'[106] This policy saw the government employing a large number of the labour force in the public sector. Total employment in the public sector increased from 9.3% in 1975 to 19% in 1985. The new government assumed the role of "employer of last resort."[107]

The GWE policy also resulted in the new government expanding its provision of social services which included health and education. Therefore, in the first decade of independence 'employment grew annually by 1.8% or 1% during the 1980-1984 phase, and 2.4% in the six years that followed. [As was mentioned earlier] this period was marked by high public sector employment growth. This high post-independence public sector employment growth is not unique to Zimbabwe. This has happened elsewhere in Africa … the government of Kenya, for example, acted as "employer of last resort" after independence. The motivation in Kenya was political and also to strike some ethnic balance.'[108] During this first decade of independence, one could state that the GOZ was relatively able to absorb the "unlimited supply of labour". The government put in place mechanisms to re-dress the unequally structured labour market which had existed during the colonial era.

Chirisa states that from 1980 – 1990, 'the formal sector was booming immensely such that the informal sector had very little role to play, especially in the urban centres. Yet it must be

[105] *Ibid.* p. 2-3.
[106] Ibid. p. 9.
[107] Ncube, M., 'Employment, unemployment and the Evolution of Labour Policy in Zimbabwe,' in Zambezia Journal, Vol. xxvii, No. ii, 2000, p. 165.
[108] Ibid. p. 165 and p. 168.

admitted that there were many traces of it.'[109] He further states that, 'at the country's independence in 1980, home industries had increased in number … It must also be underscored that the government policy to promote the idea of growth points in the countryside was move towards encouraging micro-entrepreneurialism. It was hoped that the new entrepreneurs would be established at the same time taking the small established small entrepreneurs to greater heights of investment.'[110] Thus, within this decade it can be said that government supported the IS in the form of home-based industries and growth points, but due to large public sector employment, the informal sector during this decade was very small in size. In addition, government did not seem to pay much attention to the IS during this time as it was absorbed with re-dressing past injustices and restructuring economic, political, social and cultural structures.

However, despite widespread reforms, in the late 1980s GDP declined from 4.1% to 3.9%. This meant that 'there was less economic growth, less investment to create more employment opportunities while at the same time, inflation increased from 9.2% to 12.2%. The end result was that employment became output constrained.'[111] The final outcome of governments policies were that even though public sector employment had been relatively high, it was not sustainable. By 1989, the rate of unemployment was approximately 26% from about 12.5% in the mid 1980s.[112] Contrary to Chirisa's earlier argument that government promoted micro-entrepreneurs or informal sector initiatives, Chiripanhura and Makwavarara argue that, 'the policies that were in place during that era (1980-1990) did not promote the informal sector, which under normal circumstances would mop-up most of the unemployed people into starting self help projects.'[113]

Ncube compounds this argument by stating that, 'when the prospects of employment creation in the formal sector were good, government's attitude towards the informal sector

[109] Chirisa, I., 'The Geography of informal sector operations (ISOs): A perspective of urban Zimbabwe,' in Journal of Geography and Regional Planning, Vol. 2, No. 4, April 2009, p. 66.
[110] Loc cit.
[111] Chiripanhura, B.M and Makwavarara, T., Op.cit, p. 10.
[112] Ibid. p. 11.
[113] Loc cit.

was hostile, with stiff and oppressive regulations. The central and local authorities hoped that this sector would one day disappear. However, the downturn in formal employment growth, high levels of rural-urban migration, and public and private sector retrenchments under structural adjustment led to a change in attitude.'[114] Therefore, 'by the end of the first decade of independence … the country was treading on a precarious road of recession. This saw the rationale for adopting the economic reform programme, which was in the form of [Economic] Structural Adjustment Programme (ESAP)' which was synonymous with the rapid growth of the informal sector.[115] By the end of the first decade, the hope after a legacy of colonialism was grim and marked with scepticism. The informal sector which had been a rare feature during this decade was beginning to grow rapidly and become a prevalent feature of the macro-economic environment.

2.3 The Decade of Economic Reform/Trade Liberalisation: 1991-2000

According to Tekere, 'trade liberalisation is one of the key elements of economic structural adjustment packages sold to developing countries by the Bretton Woods institutions, the WTO, bilateral and multilateral donors. It lies at the heart of the "New Washington Consensus" and has long been championed as the panacea to slow economic growth being experienced in developing countries … Neo-liberal economic reasoning justifies liberalisation of trade on the premise that it creates opportunities for firms to grow through better access to new production technologies, inputs, managerial and administrative skills and market information to local producers.'[116] In addition, trade liberalisation is believed to enhance the welfare of consumers and reduces poverty since consumers will have opportunities to choose over a wide variety of better quality and cheaper imports. In other words, trade liberalisation is seen as a means towards enhancing social welfare, human development and sustainable economic growth and development.'[117] Therefore, with support from the WB and the IMF, the government released a policy document entitled "Framework for Economic Reform" for the period 1991-1995.

[114] Ncube, M., Op.cit, p. 174.
[115] Chirisa, I., Op.cit, p. 67.
[116] Tekere, M., Op.cit, p. 4.
[117] Loc cit.

Due to the rigidities posed by government's interventionist policies in the first decade of independence, policy makers began to realise that in the early 1990s the economy was slowly becoming stagnant. A general economic crisis was looming and left with no alternatives in 1991 'the Government subsequently launched a fully fledged IMF and WB monitored program of ESAP which aimed to deregulate the domestic economy (prices, employment, and wages), reduce the public deficit, and continue relaxing restrictions on trade. As in other countries ESAP in Zimbabwe signalled a formal shift away from state interventionism and regulation toward non-interventionism, privatisation and deregulation.'[118] ESAP occurred in four distinct phases. The first phase (August 1991-1993) started with the devaluation of the Zimbabwe dollar followed by continued depreciation of the currency. The second phase which began in 1993 saw the removal of export incentives except strategic commodities like fuel.

The third phase which began in 1995 saw the government significantly reducing tariffs. During the third phase, foreign exchange was liberalised which led to currency convertibility. The last phase saw the implementation of Export Processing Zones (EPZs) which was meant to promote export oriented production.'[119] However, ESAP failed and the result was widespread retrenchments (due to the belief that if government reduced the public sector, the private sector would absorb the retrenches'). Chirisa states that, 'an uncompromising situation surfaced where thousands commissioned into unemployment had to search for a living and had no option but to be self employed. Urban poverty became a phenomenal reality as evidenced by the mushrooming of the informal sector operations in the country's urban sphere.'[120] Unemployment levels are said to have doubled from about 10% in the 1980s to approximately 20% after 1990. That is, 'rising unemployment during the period was [also] triggered partly by drought related reductions in domestic demand and production which in turn slowed formal sector job creation … A specific survey of the

[118] Marquette, C.M., 'Current Poverty, Structural Adjustment, and Drought in Zimbabwe,' in World Development, Vol. 25, No. 7, 1997, p. 1143.
[119] Tekere, M., Op.cit, p. 6.
[120] Chirisa, I., Op.cit, p. 67.

informal sector indicated that lower paying and less secure informal sector jobs increased as formal sector employment slowed during the early 1990s.'[121]

It is important to note that, 'unlike many other nations, structural adjustment in Zimbabwe was not instituted in response to an acute "crisis situation" but rather as an effort to jump-start economic growth. For Zimbabwe, economic crisis ironically followed rather than preceded ESAP …'[122] in an attempt to protect its citizens from the effects of ESAP like retrenchment, poverty etc, the Government implemented the Social Development of Adjustment Programme (SDA). The SDA 'provided for poverty monitoring effects but its centrepiece was a direct transfer programme, the Social Development Fund (SDF) … and had three components: direct transfers to cover food purchases for households with monthly incomes under a certain level, direct transfers to support health and school fee payment for these same households, and employment and training programs to retrain laid off workers.'[123]

During the economic reform era, government attitudes towards the IS were beginning to change. Ncube states that, 'realising the immense employment "sponge" effect of this sector, the public sector relaxed the laws regulating the sector. Because of the changes in the legal environment affecting the sector and retrenchments due to adjustment, there [was] a phenomenal increase in its size. Daniels estimates the growth of the non-formal sector at 14% between 1991 and 1993. As elsewhere in Africa, it [had] overtaken the formal sector in employment absorption (even in recent years).'[124] In addition, it can be argued that government began to support the informal sector because of the failure of the SDA. In 1993, the job training component of the SDF created approximately 2 000 jobs which was 'a paltry sum in a country with an active labour force of 5 million and an unemployment rate estimated at over 25%.'[125]

[121] Marquette, C.M., Op.cit, p. 1144-5.
[122] Ibid. p. 1143.
[123] Ibid. p. 1144.
[124] Daniels in Ncube, M., Op.cit, p. 174.
[125] Marquette, C.M., Op.cit, p. 1146.

Thus, by 1995 the government was forced to acknowledge the existence and potential of the informal sector. As in many other African states, this sector was increasingly becoming a 'key mechanism for coping with growing poverty, particularly in urban areas, as a result of the introduction of economic reform programmes.'[126] A Sunday Mail article (1997) states that, 'while before 1991 the informal sector was seen as an inferior and unorganised, the consequences of the reform programme, that is, economic hardships faced by many have transformed it into a vibrant and organised sector which is slowly overtaking industrial and commercial sectors as the leading employer. By 1996, the sector employed 1.56 million people compared to 1.26 million in the formal sector. These figures could even be an underestimation of people in the sector as many of them are not included in public statistics because of their invisibility.'[127]

By 1996 ESAP had failed to generate economic growth and create jobs in the private sector to absorb the surplus labour as it had promised. In 1993, 1995, 1996 and increasingly so in 1997, public workers went on major public protests which were termed "IMF riots".[128] In 1996, the GOZ introduced a second reform economic programme called Zimbabwe Program for Economic Transformation (ZIMPREST) which would cover the period from 1996 to year 2000. Chiripanhura and Makwavarara state that, 'economic policies covering the period 1996 to 2000 aimed at building on the achievements of and addressing the shortcomings of the economic policies of the first five years of economic reforms … [A] lesson that was identified is that for comprehensive reforms to succeed, they should be embedded in the aspirations of the people and that reforms should empower people to participate in the economy.'[129]

Thus, 'the failure to create macroeconomic stability played a major part in holding back growth during this period. The incidence of high inflation resulting from excessive

[126] Mupedziswa, R and Gumbo, P., Op.cit, p. 4.
[127] Loc cit.
[128] Bond, P., 'Competing Explanations of Zimbabwe's Long Economic Crisis,' in Safundi: The Journal of South African and American Studies, Vol. 8, No. 2, April 2007, p. 169.
[129] Chiripanhura, B.M and Makwavarara, T., Op.cit, p. 16.

government borrowing to finance the largely recurrent expenditure, delivered high interest rates, well in excess of 55% by the end of 2000. This constrained the productive and employment capacity of industry, resulting in economic contraction. Macroeconomic instability dampened manufacturing activity, and, following trade liberalisation, a number of firms (especially in the textiles and clothing sectors) were forced to close down.'[130] By year 2000, the GOZ realised that most of the provisions stipulated in the ESAP and ZIMPREST documents had not been implemented. Government went ahead and drafted an 18 month stabilisation programme termed Millennium Economic Recovery Programme (MERP). However, by 2000 the economy was on the brink of total collapse and MERP failed to take on full effect.

Luebker states that, 'with the economic crisis, formal sector employment started to decline: from a peak of 1 241 500 in 1998 it fell to 1 012 900 in 2002 (reflecting a net loss of 228 600 formal sector jobs). This represents a compound annual growth rate of -5.0%.'[131] The result was sharp increase in the growth of the informal sector. Mupedziswa and Gumbo note that, 'the education system … churns out about 300 000 young person's a year. The formal job market can only absorb a tenth thus leaving the rest to seek their livelihood in the informal sector. Thus the informal sector has been an employment haven for the thousands of people who need to make a living, given the hardships experienced during the economic reform [era].'[132] This era was characterised by a rise in informal sector activities as a means of survival due to the failings of ESAP, SDA, SDF, ZIMPREST and MERP which resulted in retrenchments in the public sector. This era was also one characterised by government's support and acknowledgement of the sector as it acted as a buffer and safety net for the thousands who had lost their livelihoods. The next decade only saw Zimbabwe's economic woes deepening and informal sector activity souring to new heights.

[130] Loc cit.
[131] Luebker, M., Op.cit, p. 19.
[132] Mupedziswa, R and Gumbo, P., Op.cit, p. 4.

2.4 The Decade of Total Economic Collapse and "Restoring Order": 2000-2009

In year 2000, 'two critical events unfolded in Zimbabwe, which significantly impacted, in a negative sense, the lives of the vast majority of the country's population. First was the launching of the controversial land reform programme, and second the violence that followed the presidential elections in that year. These two contested, bloody events resulted in the country being ostracised by the international community, a development which marked the beginning of a major economic meltdown.'[133] By the beginning of the new millennium, the country was faced with serious political and economic challenges. The controversial land reform programme resulted in a 'steep decline of commercial agriculture after 2000 [which] robbed industry and [the government] of its traditional source of domestic inputs while also contributing to the economy wide shrinkage.'[134] Zimbabwe's economic crisis occurred at a period where other African countries were beginning to achieve reasonable rates of growth. That is, 'compared with a cumulative gain of over 40% of GDP elsewhere in Africa, Zimbabwe's GDP between 1998 and 2006 declined by -37%.'[135]

The result of the economic meltdown was deepening poverty and further rise in unemployment rates. A 2003 Poverty Assessment Study Survey (PASS II) 'showed that 72% of the population was living below the Total Consumption Poverty Line (TCPL) compared to 55% in 1995.'[136] Additionally, 'significant job losses have occurred with de-industrialisation, and real wages have declined … Collapsing incomes and increasing poverty has in turn, translated into low levels of effective demand for goods and services. This has contributed to a significant underutilisation of existing factory and shop capacities, as well as extensive environmental degradation, as people scavenge for firewood, water and other possible means of survival.'[137] All these factors contributed to a significant rise in informal sector

[133] Mupedziswa, R., 'Africa's Diaspora's and the Struggle for Survival: The Life and Times of Undocumented Zimbabwe Nationals Based in the United Kingdom,' in Columbus, F 2009 (ed): *Illegal Immigration: Causes, Methods and Effects,* Nova Science Publishers, New York, 2009, p. 1.
[134] United Nations Development Program (UNDP)., 'Comprehensive Economic Recovery in Zimbabwe: A Discussion Document,' in UNDP Zimbabwe, Harare, 2008, p. 10.
[135] Ibid. p. 10-1.
[136] Ibid. p. 17.
[137] Ibid. p. 18.

activities which various scholars have argued can aid in enhancing economic growth and aid in poverty reduction.

However, instead of being supportive of the IS, growth and poverty reduction, the governments macro-economic policies which included the National Economic Revival Plan (April 2003), Macroeconomic Policy Framework (November 2004), National Economic Development Priority Programme (April 2006), Zimbabwe Economic Development Strategy to mention a few, have been regarded by various scholars as the main binding constraints. Governments policies and attitudes especially towards the IS which has played a crucial role in the last decade have become more hostile illustrated through the nationwide clean-up campaign (aimed at restoring order in the urban centres around the country) known as Operation Murambatsvina/Restore Order (OM/RO)). We will now look at this event in a bit more detail as it illustrates the changes in governments attitudes towards the IS, underlines the functional role of this sector especially in the last decade, and highlights the importance of forming policies that will include this sector during nation-wide reconstruction.

On 19 May 2005, 'with little or no warning, a military style "clean-up" operation started in the Zimbabwe capital, Harare. It quickly developed into a deliberate nationwide campaign, destroying what government termed illegal vending sites, structures and other informal business premises and homes, literally displacing hundreds and thousands of people.'[138] Kamete 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 … Before it was officially suspended towards the end of July OM/RO had

[138] Tibaijuka, A., 'Report of the Fact-Finding Mission to Zimbabwe to assess the Scope and Impact of Operation Murambatsvina, in United Nations Special Envoy on Human Settlements Issues in Zimbabwe, Harare, July 2005, p. 12.

virtually wiped out the urban informal economy and housing.'[139] The operation did not just target illegal housing but also informal sector activities which severely impacted on the livelihoods of many. With no more than 20% of the population being employed in the formal sector and approximately 80% making a living in informal sector activities thus being able to pay fees, buy food, pay rent to mention a few, the operation had a severe impact on millions of Zimbabweans.[140]

In the past decade, it is estimated that between 3 and 4 million Zimbabweans survive via informal employment and their earnings support approximately another 5 million people. Also, during this period, most local municipalities derived most of their revenue from fees levied form informal sector activities.[141] That is, between 2000 and 2008 the informal economy was regarded as the 'unofficial backbone of the economy and in a nation with no free health, housing or education, to remove the informal sector is to reduce Zimbabwe's poorest to a state of abject poverty.'[142] Ncube and Philip 'maintain that the informal sector is the lifeblood of the nation.'[143] The GOZ insisted and maintained that it had carried out the operation for technical, legal and practical reasons and that it acted within the parameters set out by appropriate legislation. The governments reasons included, 'the problems of disorderly and chaotic urbanisation [which constitutes] a threat to public health and safety … the threat to the physical environment and natural resources caused by inappropriate and unlawful urban settlements, industrialisation and agricultural practices … the problem of social and economic sabotage.'[144]

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[139] Kamete, A.Y., 'In the Service of Tyranny: Debating the Role of Planning in Zimbabwe's "Clean-up" Operation,' in Urban Studies Journal, Vol. 46, No. 4, April 2009, p. 897-8.

[140] 'The UN Special envoy has put the total figure of those who lost homes and businesses at 650 000 to 700 000 people and a total of 2.4million people who were directly and indirectly affected by OM/RO' (Chibisa, P and Sigauke, C, 2008, p. 40).

'In addition, the attendant problems are multiple: homelessness, starvation, exposure to cold weather and diseases, loss of assets, ware and stocks, loss of income, wanton arrests, transport woes, rising rentals as result if increased and urgent demand for accommodation and abject poverty' (Shack/Slum Dwellers International, June 2005, p. 2).

[141] Tibaijuka, A., *Op.cit*, p. 17.

[142] Sokwanele., 'Operation Murambatsvina: An Overview and Summary,' in http://www.sokwanele.com/articles/sokwanele/opmuramb_overview_18june2005.html, 18 June 2005 last visited 11 May 2009, p. 1.

[143] Ncube and Philip (2006) in Chibisa, P and Sigauke, Op.cit, p. 38.

[144] Kamete, A.Y., Op.cit, p. 907.

On the point of economic and social sabotage, the government believed that the IS was ridden with criminal activity which robbed the government of revenue, foreign currency to mention a few. 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.'[145] Central government also argued that the operation was carried out as an effort to put an end to crime and illegal dealings that were associated with the more unsavoury parts of the informal sector, such as, foreign currency dealings.[146]

Speaking at a police parade in the capital city on 23 June 2005, President Robert Mugabe justified the operation as follows: 'I applaud the police for supporting Operation Murambatsvina across the country that targeted illegal structures serving as notorious criminals hideouts and havens for black market activities … According to the President, people had abused the opening up of economic empowerment opportunities for the historically disadvantage black majority[147] by engaging in profiteering, illegal deals, externalisation of foreign currency, fraud, corruption, hording of essential commodities and

[145] Frank, Z., 'Operation Restore Order,' in http://www.afropop.org/multi/feature/ID/522/Zimbabwe's+%22Operation+Restore+Order+%22+A+Summary, 01 Aug 2005 last visited 18 May 2009, p. 2.
[146] Bratton, M and Masunungure, E., 'Popular Reactions to State Repression: Operation Murambatsvina in Zimbabwe,' in Afro-Barometer Working Papers, No. 59, April 2006, p. 2.
[147] 'Human Rights Watch (2005) reports that, as part of the drive to empower women in the 1990s, the GOZ encouraged widows and divorced women to build and rent out cabins in their backyards as a means of survival … During ESAP, the Government supported the ascendance of the informal sector through a series of policies. Women were the main beneficiaries of these policies. Flea markets sprouted everywhere in the cities' (Chibisa, P and Sigauke, C, 2008, p. 35 and 37).

tax evasion.'[148] Indeed there are some aspects of the informal sector that were characterised by illegal and criminal activities. For example, 'small scale gold mining [had and still is] become increasingly prominent with the growth of the informal economy in Zimbabwe … tens of thousands have been involved in panning and selling surprisingly large quantities of mainly alluvial gold'[149] robbing the government of much needed revenue[150].

That is, 'in economic terms, the losses caused by these illegalities are significant both for private investors and national fiscus. The government claimed that 50 000-60 000 carats are being produced per week, but the value ascribed to then has clearly been understated and it is plain that many more diamonds (as well as other minerals like gold and platinum) are being sold on the black market. ACR estimates that revenue of between US$ 50 and US$ 500 million is being lost to government per annum.'[151] However, while there is a criminal and illegal element to some of the IS activities, as was mentioned earlier, most of these activities involve ordinary people who are trying to eke out a living and meet their basic needs for the day. Slaughter states that, with a high unemployment rate 'no social security, millions of people have no means of support. They have been forced into the informal or black economy in order to survive. Even people with regular employment are forced to dabble in the "black economy" to make ends meet.'[152]

However, from an accommodative and even supportive attitude towards the IS in the 1990s, in 2005 the government showed hostility and disregard for this sector. Chibisa and Sigauke state that, 'in spite of recent policy shifts and advances in supporting the informal

[148] Shack/Slum Dwellers International., 'The Economic Impact of the Clampdown on the Informal Economy, Code named Operation Restore Order/Murambatsvina,' in http://www.sdinet.org/zimminisite/Economic%20-%20Zimbabwe%20Relations.htm, 28 June 2005 last visited 18 May 2009, p. 1.
[149] Doran, S., *Op.cit*, p. 10.
[150] 'A July 22, 2009 editorial in the Herald noted that the highly organised smuggling of goods (associated with the IS) in and out of the country is a serious problem crippling our economy. The impact is quite huge … prejudicing the Government of billions of dollars in lost revenue and costing job opportunities. Key economic areas of diamonds, gold, textiles, motor vehicles and cigarettes are some of the most affected' (Financial Standards Forum, Oct 2009, p. 9).
[151] Doran, S., *Op.cit*. p. 11.
[152] Slaughter, B., 'Zimbabwe: Mugabe's Operation Murambatsvina,' in http://www.wsws.org/articles/2005/jul2005/zimb-jl6.shtml, 16 July 2005 last visited 08 April 2009, p. 2.

sector, official attitudes in Zimbabwe have remained largely hostile; also in spite of mounting problems of unemployment and the inability of urban authorities to cope with the demand for social facilities. The role of the informal sector in Zimbabwe lacks consistent official recognition and support,'[153] despite the fact that in the last decade (as many scholars would argue) this sector has saved the country from complete economic devastation. Thus, especially between 2000 and 2008, the informal sector in Zimbabwe has been an instrumental tool in ensuring that the basic needs of millions of Zimbabweans are provided for. It has come to constitute an important part of the country's macroeconomic environment, acting as a buffer, a mechanism for poverty alleviation and job creation.

2.5 Summary

This chapter has provided a historical overview of the evolution of the informal sector in Zimbabwe over three distinct phases. In the first decade of the country's independence, the informal sector existed but it was not vibrant. During this era, most of the labour force was absorbed in the public sector under the governments 'Growth with Equity' policy. However, by the late 1980s, the country's economy was beginning to show signs of distress mainly because of government's interventionist policies and protectionist measures. As a way to prevent economic collapse as well as to facilitate economic growth, the government introduced ESAP and ZIMPREST but these failed to deliver on their promises to create jobs and enhance economic growth. As a result, many lost their jobs in the formal sector and this period saw a significant rise in the informal sector. During this period, government began to recognise the importance of this sector and also supported it by instituting policies that allowed women for instance to sell goods in flea markets.

However, it is especially during the 2000-2008 period that the informal sector grew to epic proportions. This is mainly due to the economic meltdown the country went through. In order to survive, citizens have been forced to engage in this sector. But rather than be supportive, governments attitudes towards this sector were increasingly hostile reflected

[153] Chibisa, P and Sigauke, C, Op.cit, p. 39.

through the clean-up campaign carried out between May and July 2005. From supporting this sector, government totally shifted its approach and policies towards the IS resulting in the loss of livelihoods for millions of Zimbabweans. This sector has played a crucial role in the country especially in the last decade and constitutes an important part of the country's macroeconomic environment. The next chapter will look at the informal sector as an engine of growth and development.

CHAPTER 3: THE INFORMAL SECTOR AS AN ENGINE OF GROWTH AND DEVELOPMENT

3.1 Introduction

As was mentioned earlier, in the last decade of Zimbabwe's independence, the social, political, and economic fabric of society has been very grim. In a research report by John Makumbe on the 'Impact of Democracy in Zimbabwe' he reiterated that in the period between 2000 and 2007 there was a sharp decline in the country's economy resulting in a series of problems. Specifically, 80% of manufacturing firms in the country witnessed a decline in their output volumes, approximately 15% of them are operating at less than 30% of their normal productive capacities, another third are operating between 30% and 50% of their productive capacities, and more than 90% are unable to cover their costs, thus operating at a loss.[154]

The picture is no better in the mining and agricultural sectors (all of which are major revenue earners for Government) which have seen a decline in production of nearly 50%. In the Mid-Term Fiscal Policy in July 2006, the Minister of Finance noted that the challenges facing the country included rising inflation, erratic fuel supplies, corruption, a decline in savings and investment, interruptions to electricity supply, inadequate foreign exchange affecting the country's import capacity. In addition, annual inflation had escalated to a record high of 1193.5% by May 2006; there was a 31% decline in tourism receipts in the first quarter of 2006 largely due to leakages and the negative image of the country, there was a rise in public sector borrowing and considerable growth in money supply, current account

[154] Makumbe, J., 'The Impact of Democracy on Zimbabwe: Assessing political, social and economic developments since the dawn of democracy,' in Centre for Policy Studies, Research Report 119, Johannesburg, Sept 2009, p. 3.

deficit was in excess of US$ 200 million, and the country had external debt amounting to US$ 3968 million.[155]

Furthermore, the social sector in the country totally collapsed which greatly affected the education and health sectors as well as the living standards of majority of the population. In a survey conducted by Mass Public Opinion Institute (MPOI) between 2004 and 2005, the institute found that 'majority of the respondents expressed deep concern about their personal living conditions, which 88% of them regarded their economic conditions as very bad …'[156] Thus the economic environment and worsening political conditions have had a direct impact in the livelihoods of millions of Zimbabweans. Even amidst optimism surrounding the "debatable" formation of the GNU in early 2009, the impact of the economic meltdown still resonates with majority of the populace as they still struggle to make ends meet. Given the economic hardships faced by many and the functional role that the informal sector has played since the early 1990s, this sector can be utilised as an engine for growth and development.

In 1990, Charmes found evidence that, 'the informal sector worker generally contributes to GDP over and beyond the minimum wage. Furthermore, Charmes suggests that generally, productivity in this sector is much higher than average per capita GNP in the economy.'[157] Therefore, the informal sector within the larger macroeconomic environment is not wholly undesirable. During the era of total economic collapse in Zimbabwe, informal sector operations like cross border trade ensured that foreign currency, basic necessities, luxury goods among others remained within the reach of ordinary citizens. Government also earned some revenue via customs duties taxed on traders and from Zimbabweans in the Diaspora via remittances (that often flow through informal channels).

That is, in the broader debates of informal sector activities and economic growth, perceptions of this sector have considerably shifted. Traditional or old views of this sector

[155] Ibid. p. 4.
[156] Ibid. p. 5.
[157] Ibid. p. 7.

were that it was marginally productive sector that will wither away and die once countries have modernised, it exists separately from the formal sector, and most activities in this sector are illegal and are a deliberate effort to avoid tedious government red tape and taxation.[158] However, due to the prevalence and perpetual growth of this sector, scholars were forced to rethink the value, importance and contribution this sector can make to industrial development. The new views included perceptions like, the informal sector is a permanent feature that expands with industrial growth, it contributes a significant share of GDP, it is inherently linked to the formal sector, much of the rise in informal employment is as a result of a decline in formal employment or to the in-formalisation if previously formal employment relationships, and that the informal sector is a major provider of employment, goods and services especially for lower income groups.[159]

However, 'in recent years there has been a renewed interest in defining, measuring and studying the informal economy to comprehend its reach, impact and contributions to the economy and society in developing countries. Governments are also realising the need for pro-active measures to ensure that the informal economy becomes an engine of inclusive growth and development.'[160] Therefore, this chapter seeks to explore the contribution the informal sector can make to economic growth and development in light of the fact that it constituted a very significant part of the country's macroeconomic environment. There are various ways this sector can be utilised to facilitate growth and development but this chapter will look at the IS enhancing economic growth through job creation, informal remittance transfers, and poverty alleviation. We will now look at the Zimbabwe Diaspora, informal remittance transfers and economic growth in a bit more detail.

[158] Chen, M., Op.cit, p. 15.
[159] Loc cit.
[160] CUTS Centre for International Trade, Economics and Environment., Op.cit, p. 1.

3.2 Informal Remittance Transfers, Economic Growth and Development

According to Mupedziswa:

> *estimates of Zimbabwe nationals that have left the country especially since 2000 do vary but the figures run into millions … Research carried out by Chetsanga and Muchenje (2003) revealed that by the year 2003, the number of Zimbabwean nationals who had legally left the country for the Diasporas (since 1990) was approximately 536 000. However, revised estimates made available a year later (2004), put the figure of Zimbabwean nationals (both documented and undocumented) living abroad at an estimated 3.4 million. Zimbabwean nationals in the Diasporas are broken down as follows: 1.2 million are in South Africa, 1.1 million are in the UK, 100 000 in Australia, 100 000 in Canada, 300 000 in Botswana, another 200 000 in Mozambique, and the rest in other parts of the world.*[161]

Most of these individuals have left the countries for various reasons, such as, better opportunities, economic and political repression, and other social and cultural reasons. For most Diasporas, the trend is to remit money back home as some would have left their families. Remittances can be defined as the 'act of transmitting money, bills or the like, especially to a distant place, as in satisfaction of demand or in discharge of obligation. Remittances are associated with the global phenomenon of migration, with individuals (mostly) from developing countries moving to developed countries often in large numbers, in search of greener pastures.'[162]

Bracking and Sachikonye state that, 'international migration can have a positive impact on poverty reduction through the generation of migrant remittances … and for the vast majority of researchers … remittances are positively associated with economic growth.'[163] That is, 'during the 1980s, [remittances] financed 80% of the current account deficit in Botswana, over 50% of foreign exchange earnings in Lesotho, and 70% of total commodity

[161] Mupedziswa, R., Op.cit, p. 3.
[162] Mupedziswa, R., Op.cit, p. 4.
[163] Bracking, S and Sachikonye, L., 'Remittances, poverty reduction and the in formalisation of household wellbeing in Zimbabwe,' in Living on the Margins Conference, Stellenbosch, 26-28 March 2007, p. 3.

export earnings in Sudan. [Additionally] a full 50% of urban households in Harare and Bulawayo in Zimbabwe were dependent on migrant remittances for everyday consumables.'[164] Mupedziswa states that, while remittances 'constitute a very old phenomenon, appreciation of remittances as a development tool is a rather more recent phenomenon.'[165] It is important to note, in most countries remittances flow official through channels, but in Zimbabwe this is rarely the case. 'In 2003 to 2004, there was tremendous enthusiasm about the prospects of remittance flows from Zimbabweans in the Diaspora. The incoming Central Bank governor, Gideon Gono, appointed in 2003 was one of the most enthusiastic proponents of encouraging such flows citing the successful remittance flows into countries such as Ghana and India … This led to the launch of the Homelink Scheme as a vehicle through which flows would be sent into the country under the auspices of the Central Bank.'[166]

However, 'three years later (by 2007), the momentum for official campaign for remittances has almost disappeared … What has happened between 2004 and 2006 to dampen the earlier official euphoria for remittances? A likely explanation is that although remittances may not have diminished, they no longer flow through channels as the Central Bank and commercial banks.'[167] Mupedziswa notes that, 'the total amount transferred from South Africa to Zimbabwe each year is approximately R4.9 billion … It has been claimed that on average US$ 4 million flow into Zimbabwe per day, which would result in annual average of US$ 1.5 billion … Ideally, such an amount in foreign currency would certainly go a long way in alleviating the foreign currency shortage crippling Zimbabwe. However, as some analysts have correctly observed, this would only be possible if the monies were being transferred using official channels.'[168] Thus, while this may contribute to the deterioration of the economy or the criminalisation of certain informal activities, remittances through informal channels have been crucial in ensuring the survival of most households and in alleviating

[164] Ibid. p. 4.
[165] Mupedziswa, R., Op.cit, p. 5.
[166] Bracking, S and Sachikonye, L., Op.cit, p. 10.
[167] Ibid. p. 11.
[168] Mupedziswa, R., Op.cit, p. 30.

poverty. Remittances have come to play a very fundamental and critical role in the economies of various countries.

In Zimbabwe, 'remittances are critical to alleviating household poverty in urban Zimbabwe … Not only do a full 50 percent receive remittances, but it is clear that a substantial majority of these are dependent on the, for essential household goods, including food.'[169] Brackings and Sachikonye state that, 'it is clear [from their research] that a complex web of money and goods transactions within the informal sector supports the Zimbabwean economy in unrecorded myriad ways. The Zimbabwean economic collapse, which has been headlined for some time not, is being offset by this informal, internationalised parallel economy. In practical terms, it is difficult to see how some of these households could even survive without these informal remittance transfers.'[170] Therefore, even the informal transfer of remittances can be used to contribute to economic growth. They have been crucial in alleviating poverty for most households in the country.

In other words, 'the informal economy is an important conduit for households in terms of their sending, [spending], and receipt of remittances … In sum, over 58% of households used only family members or family couriers to send and receive money, and about two thirds of [the] money is in-formalised.'[171] Most of the money remitted to households in Zimbabwe is channelled back into the informal sector. This is mainly because of the shortage of and lack of goods or basic necessities in formal operations. Between 2000 and 2008, a significant amount of household products were found in the informal sector. Thus, remittances were not only sent through informal channels but were also used in the informal sector. In 2005, due to unavailable and inaccurate data on remittance flows to Zimbabwe, a house-hold level Migration and Remittances Survey (MARS) was implemented and surveyed 723 urban and rural households.

[169] Bracking, S and Sachikonye, L., Op.cit, p. 12.
[170] Ibid. p. 15.
[171] Bracking, S and Sachikonye, L., Op.cit, p. 13.

One of the findings of this study was that the most common use of remittances by 67% of households was to buy food and other basic necessities commonly found in the informal sector.[172] Tevera and Chikanda state that, 'a broad distinction is often drawn between productive and consumptive use of remittances. Since most remittances to Zimbabwe are aimed at easing the livelihood constraints of the households back home, consumption tends to dominate remittance usage.'[173] Therefore, informal remittance transfers have not only contributed to economic growth and aided households in alleviating poverty, but one could argue that they have also facilitated the growth of informal sector operations. That is, money remitted is used to purchase goods in the informal sector which is used by IS operators to expand their operations or acquire more stock for re-sale within the informal sector.

However, in order to maximise the potential of remittance transfers, reinstating trust in the banking system is important. Mupedziswa notes that, 'if the right policies are implemented, these can promote remittance inflows by encouraging Zimbabwean nationals [around the world] to hold savings in financial assets in Zimbabwe rather than out of the country. This would help reduce the propensity on the part of migrants, to spend their savings on consumer goods, or better still, it would help by redirecting remittances into official channels, and facilitate investment in self-employment and enterprise creation inside Zimbabwe.'[174] Hence, the contribution informal remittance transfers have made (and are still making) to Zimbabwe's economy cannot be negated or ignored. Another way the IS can and has contributed to economic growth and development in the country is through job creation.

[172] Chikanda, A and Tevera, D., 'Migration and Household Survival in Zimbabwe,' in http://www.queensu.ca/samp/sampresources/samppublications/policyseries/policy51.htm, 2005 last visited 05 Feb 2010, p. 1 and p. 3.
[173] Ibid. p. 3.
[174] Mupedziswa, R., Op.cit, p. 45.

3.3 The Informal Sector: Creating Jobs

The informal sector is widely viewed as being 'counter cyclical, that is, contracting during economic booms and expanding during recessions. However, informal sector activities can [also] rise during times of economic boom …'[175] which can be due to 'jobless growth in organised manufacturing as well as services and the comparatively slow pace of long term structural change in the economy.'[176] It is especially during times of economic distress that the informal sector acts a safety net for thousands who are retrenched. This was the case in Zimbabwe during the structural adjustment era and also during the economic meltdown. However, in the last 10 years, the informal sector has been observed to employ a greater number of people than the formal sector, due to companies shutting down or producing below their normal productive capacities. Thus, 'the informal sector is often, by far, the most important source of employment in many developing economies as the formal sector – both private and public – has struggled to generate sufficient employment … Its perpetuation and growth has been largely due to the weak capacity of the formal private sector to generate adequate employment and incomes, in many countries, in the face of high rates of labour force growth and rural-urban migration.'[177]

By partnering with this sector, government can ensure that developmental objectives such as poverty alleviation, job and wealth creation are attained. Mupedziswa and Gumbo state that, 'the importance of the informal sector cannot be overemphasized in terms of job creation.'[178] This is also in light of the fact that the education system churns out thousands of school leavers annually. With the economic collapse, it has been difficult to absorb all school leavers, thus the informal sector has been an employment haven for many. Hence, 'the informal sector is crucial for developing countries as it contributes a substantial share of employment and output as well as provides livelihoods to millions …'[179] Indeed this sector can be used an engine for growth and development. Gerry notes that, informal sector

[175] CUTS Centre for International Trade, Economics and Environment., Op.cit, p. 5.
[176] Dasgupta, S., 'Manufacturing, Services, Jobless Growth and the Informal Economy: Will Services be the New Engine of Indian Economic Growth,' in ILO and Ajit Singh, University of Cambridge, Dec 2004, p. 3.
[177] Blunch, N, Canagarajah, S and Raju, D., Op.cit, p. 4 and p. 10.

[178] Mupedziswa, R and Gumbo, P., Op.cit, p. 4.
[179] CUTS Centre for International Trade, Economics and Environment., Op.cit, p. 6.

activities 'have indeed become legitimate objects of government and academic interest viewed as employment creating, enterprise generating, wealth creating, or even liberating and self emancipating options, located outside of large corporate, unionised manufacturing industry.'[180]

The informal sector is characterised by the following, low resource base, small-scale, ease of entry, labour intensive, adapted technology, unregulated but competitive markets, informal processes of acquiring skills, family ownership, self employment and apprentices.[181] These characteristics encourage entrepreneurship which has positive effects to the attainment of developmental objectives in the long run. That is, as small and micro-enterprises sharpen their skills, they are likely to expand, formalise and employ and train more people. This is especially useful in a country undergoing nationwide reconstruction. The informal sector can offer relevant skills (as this sector is very much demand driven, offering skills that are in demand and directly linked to the activities to be undertaken) and employment to those who are still suffering the impact of the economic collapse.

Dasgupta notes that, 'if the formal sector in DCs are unlikely to create new jobs without a much faster rate of growth, the burden of providing employment and work will fall necessarily on the informal sector. This points 'to the important role which this sector will need to increasingly play in the low and middle income countries … The main issue is how to make this sector dynamic.' With the support of Government and pro-IS policies, this sector can contribute to job creation. In short:

> *The informal sector contributes significantly to production, consumption, and employment and income generation in developing countries. It is a source of livelihood to a majority of the poor, unskilled, socially marginalised and female population and is an important means of survival for people in countries lacking proper social and safety nets and unemployment insurance especially for those lacking skills for formal sector jobs. Apart from being a major source of employment,*

[180] Gerry, C., Op.cit, p. 115.
[181] Blunch, N, Canagarajah, S and Raju, D., Op.cit, p. 7.

the informal economy also contributes significantly to the output of developing countries[182], thereby, playing a fundamental role in the growth and development of the overall economy.

Another way this sector can contribute to overall growth and development is through poverty alleviation which is crucial in achieving sustainable development.

3.4 The Informal Sector, Poverty Alleviation, and Development

According to the International Labour Organisation (ILO), 'eradicating poverty in sub-Saharan Africa continues to be the largest challenge for the community today. During the last 25 years, the number of poor has doubled from 150 million to 300 million, half the population are surviving on US$ 1 a day or less.'[183] In Zimbabwe, like in most sub-Saharan countries, poverty is a serious challenge facing the country in light of the political and economic mayhem and economic reforms in the past 20 years. In a paper by Jotham Dhemba on "Informal Sector Development," he begins by asking 'why should we be concerned about urban poverty alleviation in Zimbabwe? [He goes on to answer by stating that] some of the main reasons are, first, because of the declining living conditions of the urban poor. Decreased employment opportunities, the decline in real wages, rising food and fuel prices and acute housing shortages, are all manifestations of the falling socio-economic conditions of the urban poor.'[184] He also goes on to state that rural to urban migration is another reason why scholars, governments and Civil Society Organisations (CSOs) should be concerned with urban poverty as individuals move to cities in search of better opportunities, higher living standards and employment. This has led to a growing concentration of people in urban areas or cities. Lastly, he mentions that, 'despite urban-biased development initiatives, as of now, there are no comprehensive poverty alleviation programmes focusing on the urban poor.'[185]

[182] CUTS Centre for International Trade, Economics and Environment., Op.cit, p. 1.
[183] International Labour Organisation., 'Cooperating out of Poverty: The renaissance of the African cooperative movement,' in International Labour Office, World Bank Institute, 2008, p. ix.
[184] Dhemba, J., 'Informal Sector Development: A Strategy for Alleviating Urban Poverty in Zimbabwe,' in Journal of Social Development in Africa, Vol. 14, No. 2, 1999, p. 5.
[185] Ibid. p. 5-6.

Thus, the informal sector can be developed and used as a poverty alleviation strategy especially in Zimbabwe where thousands have lost their jobs, homes and have been forced to engage with the informal sector in order to survive. However, 'there are contradicting views regarding the relationship between poverty and the IS. On the one hand, the IS seems to trap its actors in poverty while on the other, it contributes to the reduction of poverty. [That is], the IS offers jobs that are of low quality, have poor employment and working conditions and therefore do not contribute much to poverty reduction. Among the working population, workers in the IS are poorly renumerated, underemployed, have no social protection … Thus, it can be inferred that poverty forces people to engage in the IS and working in the IS means poverty.'[186] Contrary to this view that associates or links the informal sector with sustained poverty, Anderson (1998) in Kappel and Ishengoma 'attempted an answer to the question: how would the poverty situation have looked in the absence of the IS? He revealed that in 1996, around 38% of households in Ulaanbaatar/Mongolia had a poverty level income. In the absence of informal incomes, 53% of households would have fallen below the official poverty line, which attests to the contribution of IS poverty reduction.'[187]

A similar picture can be painted in Zimbabwe which has an unemployment rate of between 80% and 94%. In the absence of IS activities especially post-2000, majority of the population would have been living in abject poverty without any source of income or safety net to help them or their families. Developmental theorists agree with the notion of using the informal sector strategy in the fight against poverty. That is, 'developmentalists reject the prescriptions of the modernisation theory[188], and while there is recognition of the need for

[186] Ishengoma, E.K and Kappel, R., Op.cit, p. 22.
[187] Loc cit.
[188] 'The proponents of the modernisation perspective such as Rostow (1963) believe that there are certain "tricks" of development that have to be followed if economic growth is to occur. The solution is perceived to be rapid industrialisation and the achievement of economic growth targets … Expenditure on social services in the initial stages of development is also discouraged; this should only be considered when high levels of economic growth have been achieved, at the "age of high mass consumption." It is believed economic growth will bring about reduction of poverty through increased investments which would generate more employment. It is assumed that the benefits of economic growth would then percolate to the poor, thereby, reducing poverty' (Dhemba, J, 1999, p. 6).

economic growth, the uneven distribution of wealth that ensues is not acceptable. In order to reduce poverty developmentalists call for concerted state intervention and the adoption of specific poverty alleviation measures.'[189] Dhemba states that, In Zimbabwe 'as we reminisce on the poverty unleashed in the years of "structural adjustment without growth," (and the more recent economic collapse) and embark on the second phase (and now third phase) of economic reforms, the pursuit of a developmentalists approach to development holds the greatest potential to poverty alleviation. In particular, the development of the informal sector promises to empower the poor and meet their basic needs … While there are dissenting voices on the role of the informal sector in poverty alleviation by those who feel that its importance is often exaggerated, this sector is set to grow. In view of increasing levels of urban poverty in Zimbabwe, it is important to seriously consider ways of promoting the informal sector.'[190]

According to the report of the Commission for Africa cited in an International Labour Organisation article, 'the continent needs successful African entrepreneurs and a strong and vibrant small enterprise sector to provide the innovation and productivity necessary for long term poverty reduction.'[191] However, 'the urban poor in Zimbabwe are … a forgotten lot in poverty alleviation programmes. Sadly, at this time when urban poverty is increasing at unprecedented levels, urban poverty should take the centre-stage in all development endeavours.'[192] As the GNU strives to attain sustainable development, the informal sector can be used as a tool driving economic growth and development through reducing poverty (among other things) in the country. Ncube and Phillip note that 'with formal unemployment standing at over 80% and with over 80% of the population below the poverty datum line, the informal sector was in 2005 estimated to contribute as much as 60% of Gross Domestic Product (GDP). It can therefore be considered as playing a crucial role in poverty alleviation.'[193]

[189] Ibid. p. 7.
[190] Ibid. p. 7-8.
[191] International Labour Organisation., Op.cit, p. ix.
[192] Dhemba, J, Op.cit, p. 11.
[193] Ncube and Philip (2006) in Chibisa, P and Sigauke, C, Op.cit, p. 38.

The characteristics of informal sector enterprises make it relatively easier to transform this sector into an engine that can aid the new Government in reaching its developmental objectives. That is, informal sector enterprises have the flexibility to supply goods and services for low income groups at relatively affordable prices which most formal sector enterprises are unable to do.[194] It is important to note that, 'at independence, the potential role of the informal sector in job creation and poverty alleviation was also noticed by the Riddell Commission (1981) which recommended that the new Zimbabwe needed to recognise and promote this sector in order to raise the standard of living of the majority of the people. It was evident that urban poverty was on the increase and the formal sector would not be able to provide jobs to all.'[195] Therefore, even at independence prior to the era of economic reforms and the economic meltdown, it was recommended to the new Government to put in place policies and strategies that would promote and harness the potential of this sector.

With the current state of affairs in the country and as the government tries to pick up the shattered economy, as was recommended by the Riddell Commission, this sector can perform a functional role not only in enhancing economic growth or job creation, but by also helping to attain a sustainable level of development. However, while the IS possesses the potential to be a poverty alleviation mechanism, its growth is often constrained by various problems. The major constraints[196] mainly include legal and regulatory impediments as was mentioned earlier and difficulties in accessing capital. Dhemba states that, 'the most serious problems are lack of capital and restrictive by-laws and legislation. Mupedziswa's (1991) study found that operations of 41% of the respondents had been negatively affected by lack of capital. This is mainly because financial institutions view the informal sector with contempt.'[197] Hence, to be utilised adequately, negative attitudes, perceptions, policies and

[194] Dhemba, J, Op.cit, p. 13.
[195] Ibid. p. 12.
[196] 'Mupedziswa (1991) in Dhemba articulates some of the access barriers and other bottlenecks as including the following: lack of capital, lack of premises to operate from, negative by-laws which lead to harassment of operators, poor marketing facilities and too much competition, spiralling prices (and sometimes unavailability) of raw materials, inadequate skills and lack of facilities to upgrade skills, and lack of tools and machinery' (Dhemba, J, 1999, p. 13.
[197] Ibid. p. 14.

regulations have to be changed. In order to harness the potential this sector possesses, it needs to be viewed as contributing to overall economic development.

In adopting the IS strategy in urban poverty alleviation, 'it is imperative that these constraints be recognised and addressed. It is also important to note that urban poverty alleviation cannot be achieved solely through informal sector initiatives, and other complementary strategies have to be formulated and implemented. For the informal sector to play an effective urban poverty alleviation role there is need for a review of policies and regulations and other constraints facing operators. It is also through the organised efforts of the informal sector operators themselves that lasting improvements to their situation can be realised.'[198] Therefore, local and central authorities have to partner with non-state actors such as, private organisations, non-governmental organisations, and various CSOs in order to fully realise the potential of this sector. Local authorities in all provinces could adopt a model like the Informal Sector Training and Resources Network (ISTARN) in Masvingo. This is 'a brainchild of a bilateral agreement between governments of Zimbabwe and Germany … ISTARN provides training support in relevant skills and it has also set up a revolving fund for the operators.'[199] Such partnerships can facilitate access to credit and capital; provide informal sector operators with additional or specialised skills, and even the formalisation of some enterprises.

Therefore, the government cannot continue to ignore or thwart efforts of informal sector enterprises as it has done in the past. Poverty is a major social problem in the 21st century and due to hardships faced in the macroeconomic environment, many have to create their own sources of livelihood. 'To bring about … development the obstacles that militate against the informal sector in poverty alleviation must be addressed. There is need to transform the informal sector in order to play a poverty alleviation role through the extension of credit

[198] Loc cit.
[199] Ibid. p. 16.

and training facilities, mobilisation of non-governmental organisations and other agencies in … poverty alleviation and to put in place a coherent set of policies and regulations.'[200]

3.5 Summary

This chapter has looked at the informal sector as an engine of growth and development. It mainly looked at the informal sector contributing positively to economic growth and development through job and wealth creation, the informal transfer of remittances, and the informal sector as a poverty alleviation strategy. It began by looking at debates regarding the informal sector as a mechanism that can enhance economic growth. One school of thought argues that the informal economy can positively contribute to economic growth and development while another argues that the informal sector contributes negatively to economic growth. This chapter also looked at the informal economy enhancing economic growth in terms of job creation and the informal transfer of remittances which has been a great source of foreign currency for the government and citizens in Zimbabwe. Lastly, this chapter looked at the informal sector as a strategy for poverty alleviation. Through the right policies, removal of stereotypes and regulatory mechanisms this sector can contribute positively to overall economic growth and development especially during the ongoing reconstruction process. The conclusion this chapter made is that the informal sector can and does make a significant contribution to job creation, income support and poverty alleviation. The next chapter will attempt to locate the informal sector in current reconstruction debates.

[200] Ibid. p. 17.

CHAPTER 4: THE INFORMAL SECTOR AND THE CURRENT RECONSTRUCTION PROCESS

4.1 Introduction

On the 15th of September 2008, the Movement for Democratic Change (MDC) Mutambara and Tsvangirai factions along with the Zimbabwe African National Union-Patriotic Front (ZANU-PF) signed a Global Political Agreement (GPA) under the SADC protocol, which ended the political stalemate. At the African Union summit in Addis Ababa, Ethiopia, former South African President, Kgalema Motlante, (who was at that time Chair of SADC) appraised the GPA as an "African solution to the African problem".[201] On the 11th of February 2009, the Government of National Unity came into effect as the Prime Minister, Deputy Prime Minister and Ministers from both MDC factions were sworn into cabinet. The realities and responsibilities facing the GNU are indeed challenging. Creating a democratic environment and turning around the collapsed economy are not tasks of small magnitude. Kamidza states that, 'the economic collapse has its roots in the decade long mismanagement of fiscal and monetary policies, which unfortunately succeeded in reducing productive capacities of all the sectors in the economy while increasing monetary disbursement to finance public expenditures.'[202]

The Short Term Emergency Recovery Programme (STERP) document states that, 'at the epicentre of the economic crisis, have been unprecedented levels of hyper-inflation, sustained period of negative Gross Domestic Product (GDP) growth rates, massive devaluation of the currency, low productive capacity, loss of jobs, food shortages, poverty, massive de-industrialisation and general despondency. It is, therefore, a fundamental task of the new Inclusive Government to address the above and to resuscitate and rehabilitate

[201] Kamidza, R., 'Government and civil society in Zimbabwe's economic recovery,' in http://www.pambuzuka.org/en/category/comment/55146, 26 Mar 2009, p. 1.
[202] Ibid. p. 5.

the economy. In addition, the new Inclusive Government has to attend to the major imperative of nation building and national healing.'[203] However, Worrall picks up on this point and argues that there is 'absolutely no likelihood of any Zimbabwean political party or combination of parties being able to remedy the situation.'[204] For instance, 'the extent of hunger and breakdown in the social service sector has left the country with the most serious humanitarian crisis in its history … The situation will continue to be gloomy next year (2010).'[205] Hence, the economic and political meltdown has been explosive as it has been socially harmful. A clearer picture of the economic meltdown and the challenges the Inclusive Government is faced with have been outlined in Chapter one to three. Despite the fact that the GNU has committed itself to nationwide reconstruction, building and healing, 'critics are still sceptical about ZANU-PF's sincerity with regard to implementing an inclusive Government given its past open violation of the spirit of both the Memorandum of Understanding (MoU) and the GPA with impunity.'[206]

In the past year, relations between the various parties have ranged from accommodation to boycotting of Parliament to complete disregard of the agreement. In addition, past recovery policy documents and macro-economic blueprints since the late 1990s have had little impact in mitigating the effects of the economic crisis, leaving critics with more reason to worry. They have failed to stimulate economic growth and improve the socio-economic conditions of the people. Given the above, can an Inclusive Government provide the confidence-building measures necessary to harness domestic, regional and foreign actors in support of the economic recovery?'[207] Kamidza states that, any success at nationwide reconstruction will to a large extent be dependent upon the depth of internal political adjustments as well as the manner in which various constituencies or stakeholders will be consulted by the new leadership.[208]

[203] Ministry of Finance Zimbabwe, 'Short Term Emergency Recovery Programme (STERP): Getting Zimbabwe Moving Again,' National Policy Document, Harare, Republic of Zimbabwe, March 2009, p. 6.
[204] Worrall, D., 'The Reconstruction of Zimbabwe: A Proposed Strategy for Africa,' in Omega Investment Research, South Africa, 16 Jan 2009, p. 5.
[205] Kamidza, R., Op.cit, p. 6-7.
[206] Ibid. p. 1.
[207] Ibid. p. 3.
[208] Ibid. p. 5-6.

Kamidza also states that the fear amongst citizens and other interested parties in the GNU tackling nationwide reconstruction is summarised by the following questions: 'what will be the nature, content and scope of re-engaging with the international community and collaborating with different stakeholders in support of the economic transition? What is the likelihood of mobilising unconditional foreign capital investment and multi-donor resources? Given that donors and foreign countries have already tabled their conditions of engagement, is the new administration ready to play ball or galvanise the collective wisdom of all stakeholders? Where does the ordinary citizen fit in this process?'[209] Of importance to this paper is the question that, where does the informal sector fit into ongoing debates on reconstruction?

As a sector that has played a crucial role in the country's macro-economic environment, what policies and strategies have been put in place to organise, formalise, harness the potential of, and partner with this sector? As was mentioned earlier, Governments often respond to the informal sector in various ways that often do not support the IS, but it is important to realise the value of this sector as it can be used as an engine for growth in the current reconstruction process. McClain et al state that, 'nation-states generally take three approaches to dealing with informal economy activity that takes place in the economic domains usually subject to regulation: ignoring its existence, making an effort to control it, or legalising it.'[210]

According to Qotho Microfinance Advisory Limited, 'supporting the informal sector is critical to Zimbabwe's economic recovery because historically it employed and supported the most people. Government, private sector and civil societies must all help to achieve this aim.'[211] The Ministry of Small, Micro and Medium Enterprises (SMMEs) notes that, 'in the Zimbabwe situation, the development of small businesses (of which the informal economy can be classified under) is regarded as crucial for the achievement of broader development objectives such as poverty alleviation, spreading employment to rural areas, improving the

[209] Loc cit.
[210] McClain, R.J, Alexander, S.J and Jones, E.T., Op.cit, p. 17.
[211] Qotho Microfinance Advisory Ltd., 'Factsheet: Microfinance in Zimbabwe,' in Qotho Microfinance Advisory Ltd, Southway, London, Sept 2009, p. 1.

situation of women and increasing indigenous ownership of investment in the economy.'[212] At this crucial stage where the Government is undertaking nationwide reconstruction, policies dealing with the IS should be given careful thought. In as much as the long-term existence of the informal economy may not be entirely desirable, putting in place constructive policies that will harness the potential of this sector now may prevent the perpetuation of underdevelopment and lead to sustainable development.

That is, 'enterprises in the informal economy have an entrepreneurial potential that could flourish if some major obstacles to growth were removed. Furthermore, even if only a fraction of informal enterprises would have the pass to upgrade, it would probably contribute substantially to increased economic growth.'[213] Therefore, the aim of this chapter is to locate the informal sector in Zimbabwe in current reconstruction debates as well as within the larger economic debates. It is important to note that in gathering data for this chapter, the main challenge faced was finding information that locates the informal sector in the current reconstruction process. However, the Ministry of SMMEs is using the National Policy document drafted and approved in 2007 to incorporate the informal sector in the reconstruction process. Therefore, this chapter mainly draws on data presented in this policy document.

4.2 Steps the Government has taken to Partner with the Informal Sector

In the past, the Government has set up policies and strategies that deal with Small, Micro and Medium Enterprises (SMMEs). The 'Governments support for this sector has been repeatedly enunciated in various policy documents such as "Framework for Economic Reform", the "Zimbabwe Programme for Economic and Social Transformation" (ZIMPREST), and the Economic Recovery Programme.'[214] However, most of these policies formulated in the 1990s, did not turn out to be very successful and also due to budgetary constraints, as a

[212] Ministry of SMMEs Zimbabwe., 'Small, Micro and Medium Enterprises: The Engine for Growth,' Policy and Strategy Framework, Harare, Republic of Zimbabwe, 2007, p. 1.
[213] Becker, K.F., Op.cit, p. 23.
[214] Ministry of SMMEs Zimbabwe., Op.cit, p. 3.

result of macroeconomic problems, the Government was unable to fully harness the potential of this sector. According to the Minister of Small, Micro and Medium Enterprises Development, Sithembiso Nyoni, in recent years there has been increasing awareness and recognition of the role played by small and medium enterprises and their contribution to the economy.'[215] In the past, micro-enterprises of which the informal sector is classified under[216] were viewed as a nemesis of the states goals of economic development. But in current reconstruction debates, the informal sector is (once more) slowly being viewed as a potential engine for growth.

'The Ministry of Industry and International Trade in conjunction with the Ministry of Youth Development, Gender and Employment Creation established a Policy Document for the support of Small, Micro and Medium Enterprises (SMMEs) ... The document maps out strategies to address various obstacles facing the small business operator ... and providing an enabling environment for them to realise their full potential.'[217] The National Policy and Strategy for SMMEs in Zimbabwe, sets out specific strategies and outlines the framework for coordinating, implementing, and monitoring SMME support mechanisms which will enhance the growth and development of this sector. Thus, 'the main goal of SMME Policy is to generate sustainable jobs, reduce poverty, stimulate growth and generate foreign currency earnings thereby contributing to the well being of all Zimbabweans.'[218]

Drafted in 2007, the government was unable to fully realise the goals and objectives of the National Policy for SMMEs due to immense political, social and economic challenges. It is within the current reconstruction process, that the government (has revisited the policy document and) through the various ministries mentioned above, is intent on fully realising the potential of SMMEs. Since opportunities in the formal sector are shrinking, the Ministry of SMMEs has realised that there is a need to turn and focus on SMMEs (inclusive of the IS) as the potential for investment and for making a meaningful contribution to employment

[215] Ibid. p. 1.
[216] 'Enterprises that are not formalised through a legal structure such as registration in terms of the Companies Act of Partnership Agreement are referred to as micro-enterprises. Most informal sector operations are not formalised through a legal structure and thus regarded as micro-enterprises' (Ministry of SMMEs Zimbabwe, 2007, p. 6)
[217] Ibid. p. 1.
[218] Ibid. p. 5.

generation.[219] It is envisioned that the National Policy will: 'ensure coordination of the different policies and programmes at national level, provide an appropriate institutional mechanism to facilitate SMME development effects, commit SMME growth over the long term rather than dependence on any quick-fix solutions, set priorities and the appropriate allocation of limited public resources, rationalise support programmes, coordinate resource mobilisation strategies, and delegate tasks, responsibility and accountability.'[220] If the National Policy is managed, coordinated and implemented in an effective manner, the informal sector along with Small and Medium Enterprises could indeed be an engine for growth.

Internationally, the importance of SMMEs is also recognised with regard to their contribution to employment creation, innovation and a country's GDP. For instance, 'small businesses in America generate more than half of the nation's Gross Domestic Product, in India; the informal sector contributes 70% of the country's Gross Domestic Product … Japanese SMMEs are actively cultivated by the "Keiretsu", who maintain a strategy of contracting out, the German "Mittlesand" is often referred to as the "engine for growth", the small proprietorial business sector in northern Italy is politically powerful and the source of major innovation in the Italian economy.'[221] Thus, like other states in the world, the Inclusive Government acknowledges that 'the development of the SMME sector is also regarded as crucial for the achievement of broader development objectives. It is envisaged that support to the SMME sector can achieve many other goals such as poverty alleviation, spreading employment to rural areas and improving the situation of women' and other vulnerable groups.[222]

The Ministry of SMMEs has cited the benefits of developing this sector as: mobilising and stimulating the vast potential for entrepreneurship, increasing indigenous ownership and investment in the economy, increasing the nation's wealth via fuller utilisation of the country's human resource capitalisation, creating and increasing employment opportunities for large numbers of people, developing an economic structure that is self-sustaining with a

[219] Ibid. p. 1.
[220] Loc cit.
[221] Ibid. p. 2.
[222] Loc cit.

high degree of sectoral linkages, and facilitating a wide economic base and the creation of wealth.[223] The 2008 UNDP Comprehensive Economic Recovery in Zimbabwe discussion document states that, 'to sustainably address the challenges posed by unemployment, under-employment and widespread poverty, it is necessary to fully integrate disadvantaged and vulnerable groups such as youths, women, people with disabilities …'[224] as well as other sectors of the economy like the IS. Hence, through the promotion and development of SMMEs and various self employment programmes the GNU can deepen its partnership with the IS as it strives towards sustainable development. The macroeconomic policies the new government will set in place will have a direct bearing on whether this sector can flourish and contribute to economic growth during the reconstruction process.

To date, the government has various support programmes in place. These include, the Zimbabwe Development Bank, Credit Guarantee Company of Zimbabwe, Small Enterprise Development Cooperation (SEDCO), Agricultural Development Bank (Agribank), and the Venture Capital Company. However, their support has been piecemeal and uncoordinated.[225] The Ministry has also put in place 'strategies to revise laws and regulations to reduce the burden of doing business … Policy makers will ensure that regulations in place are pro-active and do not impose disproportionate costs. Legal instruments and regulations will be drawn up to ensure minimal administrative work,'[226] thereby simplifying complex regulations and also creating an enabling environment for SMMEs to thrive. In particular, 'the Small Business Act will be put in place as a legal instrument to facilitate the growth of the sector. This act will be used as a basis to define SMMEs and to facilitate provision of support targeted to either individual entrepreneurs or associations within this sector.'[227]

In addition, the Ministry of SMMEs has committed itself to engage in capacity building programmes and has partnered with the Ministry of Industry and International Trade, Ministry of Youth Development, Gender and Employment Creation, Small Business Advisory

[223] Ibid. p. 2-3.
[224] United Nations Development Programme., Op.cit, p. 120.
[225] Ministry of SMMEs Zimbabwe., Op.cit, p. 3-4.

[226] Ibid. p. 7.
[227] Loc cit.

Council (SBAC), Small Business Authority (SBA), Zimbabwe Investment Centre, Financial Institutions to mention few. Through these partnerships or relationships 'entrepreneurs will be encouraged to establish sector focussed associations, such as the Zimbabwe Apex of Informal Sector Association … that will facilitate networking and access to support packages targeted at this sector.'[228] Appendix one, shows a summary of SME enterprises by sector and province for the period July – October 2009. This indicates that the new government is indeed committed to an all inclusive strategy during the reconstruction process and has taken concrete steps in trying to harness the potential and partner with the informal sector. One key challenge the GNU will face in trying to establish a working relationship with the informal sector is organising it so that it becomes easier for government and other stakeholders to partner with this sector.

In attempting to organise the IS, Birchall notes that four basic attitudes can be identified by especially trade unions who are tasked to organise this sector. These are 'the belief that the sector is a transitory and not an enduring, even growing element of the new economies, they believe that since they face problems in maintaining and mobilising membership in the formal sector, they are not in a position to dedicate scarce resources to the informal; they have difficulties in locating informal sector workers and come up against barriers to organising, so that they feel it is not an efficient use of resources; self-employed workers are seen as entrepreneurs and not potential trade union members.'[229] Birchall further states that there is 'a new emphasis on sustainable cooperatives, promoted through participatory development techniques rather than top-down Government-led intervention.'[230] However, its steps in trying to incorporate and partner with the IS/SMMEs is commendable in trying to achieve economic growth and sustainable development.

Therefore, in the current reconstruction process, the expected outcomes are for an economy that among other things, is targeted at poverty reduction, job and employment creation, inward looking and people centred, generating confidence and inter-sectoral

[228] Ibid. p. 4.
[229] Birchall, J., 'Organising Workers in the Informal Sector: A strategy for trade union – cooperative action,' in COOP Working Paper 01-1, International Labour Organisation, 2001, p. 23.
[230] Ibid. p. 31.

linkages to mention a few. The GNU has taken steps to integrate the informal sector in larger economic debates. However, a challenge to economic recovery will be the political stalemate between MDC and ZANU-PF. Failure to implement or agree on unresolved matters may have a direct bearing on economic progress. But as the reconstruction process continues, Government should continue to step up its efforts in trying to harness the potential and partner with the informal sector.

4.3 Summary

This chapter has tried to locate the informal sector in the current reconstruction process. It began by noting that the Inclusive Government is faced with a difficult task ahead of it, due to the effects the economic crisis had on the political and social fabric of society. Various scholars have suggested that the informal economy has immense entrepreneurial potential and can substantially contribute to economic growth and development. This chapter went on to look at the steps the Government has taken to partner with the informal sector. The Ministry of SMMEs was identified as the key ministry that is dealing with this sector. The Ministry has revisited the National Policy and Strategy document drafted in 2007 that seeks to realise the potential of this sector and as indicated in appendix one, the Ministry has made considerable progress in realising the goals and objectives of this document. Government is aware of the contribution and role that the informal sector can play in the reconstruction process, however, the key challenges will be organising this sector and dissolving the political stalemate between parties of the GNU.

CHAPTER 5: CONCLUSION

In conclusion, this research report has attempted to examine whether Zimbabwe's informal economy can be used as a means for sustainable development in the current reconstruction process. This research report argued that the informal sector can be used as a means for sustainable development and can contribute to overall economic growth in the country. Naude states that, 'a growing number of people in fragile states are entering post-conflict eras, and are having high expectations of economic development, not only to improve their material conditions, but also to consolidate and ensure sustainable peace. It is not surprising therefore that, in a context wherein state capacity is often lacking, and liberalisation and other market-oriented reforms dominate the agenda, there are high expectations that entrepreneurship can make an important contribution towards economic growth and development.'[231] Though Zimbabwe cannot be classified under post-conflict states, it can be considered as a fragile state due to the economic crisis and political instability that occurred in the last decade.

Chapter one, outlined the theoretical and analytical framework that informed this report. It mainly drew on work from three schools of thought on the informal sector. These are the dualist school, the structuralist school and the legalist schools of thought. The dualist model was popularised by the ILO in the 1970s and argues that the informal sector acts as a buffer or safety net in times of economic distress. That is, dualists widely believe that informal firms are not a threat to the formal sector as they contribute positively to economic growth. They believe that informality will diminish with time as certain levels of economic growth and development are attained.[232] Once a country has achieved relative levels of industrial development, this model argues that the informal sector will disappear.

The structuralist model mainly looks at the link between the formal and informal sectors. Prior to the findings of the structuralist theory, it was widely believed that the informal and

[231] Naude, W., 'Peace, Prosperity, and Pro-Growth Entrepreneurship,' in UNU-WIDER, Discussion Paper No. 2, August 2007, p. 1.
[232] CUTS Centre for International Trade, Economics and Environment, Op.cit, p. 5-6.

formal sectors existed separately. However, this model corrected this view and argued that the two sectors are inextricably linked and should not be perceived as separate or distinct. Structuralists argue that, 'proper fiscal and regulatory reform and reduction of entry barriers to formalisation supplemented with necessary credit would facilitate their entry into the formal sector and subsequently contribute to economic growth.'[233] Unlike the dualist model that argues that the informal sector would disappear once modern industrial development was attained, this theory argues that the informalisation is a normal process that occurs in modern industrial development. It was popularised by scholars like Alejandro Portes in the late 1970s and early 1980s. The legalist school of thought argues that Government rules and regulations are responsible for stifling private enterprises and due to the cumbersome and burdensome process of formalisation, small and medium operators opt to remain informal. It emphasizes the need for governments to revise established rules and regulations and seek new comprehensive approaches that allow the informal sector to flourish and contribute positively to economic growth. This school of thought was popularised by Hernando de Soto in the 1980s and 1990s. Chapter one also provided a brief outline of Zimbabwe's macro-economic environment.

Chapter two, looked at how the informal sector evolved to where it is today. It traced the history of the informal sector from 1980 to date. However, the growth of the informal sector is to be understood within the larger economic environment as certain macro-economic policies have had a direct influence on the rise of this sector. Chapter two was divided into three phases, namely, 1980-1990, 1991-2000, and 2001-2009. In the first phase, this report noted that there were traces of the informal sector but it was not a prevalent feature. Due to protectionist and interventionist policies in the early years of the country's independence, the government was able to sustain high levels of economic growth. Furthermore, the new government was intent on re-dressing inequities that had occurred during the colonial era and thus introduced the Growth with Equity Policy in 1981. This saw the government acting as employer of last resort and majority of the population being employed in the public sector.

[233] Loc cit.

By the late 1980s, the very same protectionist and interventionist policies which allowed the economy to perform relatively well began to slow growth. At this time, the economy began to show signs of distress. In 1991, as way to boost economic growth the government introduced a WB and IMF structural adjustment programme termed ESAP. The programme promised to increase growth and also to absorb majority of the workforce from the public sector into the private sector. The government was forced to cut down on social spending, privatise parastatals among other things. However, ESAP (also coinciding with drought in 1992 and 1995) had a disastrous impact on the country and did not deliver on its promises and by 1995 the employment rate had risen to 40% from 10% in the 1980s. Most scholars argue that this period was synonymous with the rise of the informal sector. Due to high rates of public sector retrenchments, rural-urban migration, most people found themselves engaging with the informal sector in order to survive.

During the 1990s, realising the informal sector's ability to act as a buffer and safety net, government supported this sector. Other economic blueprints like ZIMPREST were introduced during this period but did not yield much and by year 2000, the country's economy was on the brink of collapse. The last phase saw the informal economy rising to epic proportions. The employment rate during this period is estimated between 80% and 94%. As a means to survive the vast majority of the population has been forced to engage with this sector. Various scholars mention that the informal sector during this era was the lifeblood of the nation and also prevented the economy from absolute collapse. Various events fuelled the economic meltdown. These include the IMF riots, payouts to war veterans, the country's involvement in the Great Lakes conflict, the fast track land reform programme, the Governments alienation from the West, and sanctions to mention a few. All these factors led to a drop in the country's productive capacity, mass unemployment, and high inflation rates which led to a rise in the informal sector.

During this period, government reflected a hostile attitude towards the informal sector as is illustrated through the nationwide clean-up campaign. The Centre for International Trade, Economics and Environment notes that, 'in many instances, different terms such as the informal shadow, parallel or black economy among others are used interchangeably wherein informal sector operations are not distinguished from illegal and underground

production activities. Informal sector operations pertain to activities where a legal counterpart exists and are not always performed with the deliberate intention of evading taxes and infringing labour and other regulations, hence departing from the concepts of illegal and underground production. Therefore, most informal sector activities in developing countries are not underground and not illegal as these are undertaken as measures for survival.'[234] However, during the clean-up campaign the informal sector was believed to be a breeding ground for criminals and the hub of illegal and criminal activity. Though some elements of the IS where illegal and even criminal, most activities involved ordinary people trying to eke out a living. Naude states that, 'where economies are failing, entrepreneurship is often a source of survival as well as autonomy where states are under-performing – a fact that is sometimes under-appreciated when governments harass informal traders.'[235] This sector served a very functional role as it provided goods and services that were no longer available in the formal sector.

Against this backdrop, chapter three assessed the informal sector as an engine for growth and development. This chapter identified three main areas where the informal economy has and can contribute to economic growth. These are the informal transfer of remittances, the informal sector as an employment generating mechanism, and the informal sector as a poverty alleviation strategy. The informal sector can contribute to development and peaceful transition of government in fragile states. That is, informal traders 'create jobs, provide diversity, assume risk, provide goods and services, including even public goods, as well as provide an environment for learning, experimentation, innovation and competition.'[236] Even though the government is now engaged in nationwide reconstruction, the effects of the policies of the last ten years still resonate with most people as they still struggle to make ends meet. Thus, with the proper policies in place, this sector can contribute to economic growth that leads to sustainable development. Hence, 'development practitioners and Governments should strive to find policies and programs which harness the potential of this sector.'[237]

Chapter four, attempted to locate the informal sector in the current reconstruction process. That is, what steps has the Inclusive Government taken to harness the potential off and

[234] Ibid. p. 2.
[235] Naude, W., Op.cit, p. 9.
[236] Ibid. p. 7-8.
[237] Blunch, N, Canagarajah, S and Raju, D., Op.cit, p. 19.

partner with this sector? It should be noted that, in gathering data for this chapter, the main challenge faced was finding information that locates the informal sector in the current reconstruction process. Therefore, this chapter largely drew on data presented in the National Policy document on SMMEs. This document was drafted in 2007, but in the current reconstruction process, government has decided to revisit this document and implement the goals and objectives outlined. Appendix one indicates the progress government has made in ensuring SMMEs are integrated in the reconstruction process.

Chapter four also identified some of the steps government has taken to integrate the informal economy in the current reconstruction process. The Ministry of Industry and International Trade, the Ministry of Youth Development, Gender and Employment Creation and the Ministry of Small, Micro and Medium Enterprises have been working together to put in place policies, strategies and support mechanisms that will allow this sector to flourish and contribute to employment creation, poverty alleviation, entrepreneurial development to mention a few. The government is now aware of and recognises the potential of this sector as an engine for growth in the country.

Therefore, from the analysis provided in this report it is clear that the informal economy in Zimbabwe can be used as a means for sustainable development in the current reconstruction process. Frye and Shleifer 'classify governments as either providing an "invisible hand", a "helping hand", or a "grabbing hand" as far as the private sector development is concerned. For fragile and post-conflict states, the fundamental long-term challenge is to change governments from being invisible or grabbing hands towards helping hands … A precondition for pro-growth entrepreneurship in post-conflict societies is therefore that governance and transactional trust be restored.'[238] The Inclusive Government will need to come to a resolution regarding the various disagreements between the parties in order for complete recovery, reconstruction, nation building and healing to occur. As the GNU tackles the challenges of economic recovery, the informal sector can be used as one of the tools and mechanisms that can drive economic growth in the country.

[238] Frye and Shleifer (1997) in Naude, W., Op.cit, p. 14.

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