



Informal trading as a rural livelihood strategy at Nemamwa Growth Point, Masvingo.

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Abstract

Zimbabwe has been experiencing a high unemployment rate because of the contraction of the formal economy which has resulted in a significant proportion of Zimbabweans engaging in informal trading to earn their livelihoods. The article investigated the contribution of informal trading to the livelihoods of the rural households in Nemamwa. The theoretical perspective underpinning the study is the sustainable livelihoods framework. A mixed methods research approach was adopted. Purposive and random sampling techniques were used, and data was gathered through interviews, questionnaires and focus group discussions. The study established that informal trade was undertaken by both gender across all age groups to sustain their households. Engagement in informal trade accorded informal traders the opportunity to be self-sufficient and to generate incomes. The incomes enable the participants to provide the basic needs of their families as well as reinvestment in their businesses. However, some of the traders argued that the incomes were meagre and government intervention would go a long way in helping them. Some of challenges cited include lack of adequate infrastructure, high license fees, and poor business growth. The study concluded that, although the informal trade sector has its challenges, the engagement in informal trade enhances household incomes.

Key words: Informal, sustainable livelihoods framework, livelihoods

1. Introduction

Zimbabwe's informal sector has been growing rapidly each year due to unemployment rates and the diversion from agriculture as the main livelihood activity in rural Zimbabwe. Agriculture has for long been the main source of livelihood in rural areas, but most areas have been vulnerable to harvest failure due to climate change which led to Matondi (2011) concluding that at least three-quarters of the Zimbabwean rural population now engage in non-agricultural activities like cross border trading and petty trading to supplement their agricultural earnings. These diversified income generating activities guard against over reliance on agriculture and offset the risk of production failure in any one activity. Informal trading contributes to rural poverty alleviation through income generation thus assisting households from falling into destitution. According to Benjamin (2014) informal trading is perceived to offer little in terms of opportunities for expanding livelihoods options and accumulation of assets required to



reduce livelihood vulnerability yet for the rural poor it is essential in improving their standards of living. In previous years the perceived little opportunities may have been true but recently the lack of employment and the variety of informal trading activities has shown that it offers much needed income that would otherwise not be there.

The informal trading sector is increasingly playing a cardinal role in socio-economic development. Mbiriri (2009) notes the global importance of the informal sector regarding its contribution to employment creation, innovation and a country's Gross Domestic Product (GDP). Mupedziswa and Gumbo (2001) observe that the informal sector plays an important role in job creation and that it is crucial for developing countries as it contributes a substantial share of employment and output as well as providing livelihoods to millions. Takaza and Chitereka (2022) also agree that the informal trade sector plays a critical role in addressing the problem of insufficient livelihoods worldwide particularly developing countries like Zimbabwe. Traditionally the informal sector has been viewed as the domain of the uneducated and marginalised but there have been significant changes in the organisation of the informal sector demographics in the last decade (Mupedziswa and Gumbo, 2001) thus the research aims to provide a better understanding of informal trading to rural livelihoods of the Nemamwa population.

In rural Zimbabwe, the informal trading sector is relatively under-researched, and little is known of its essential characteristics and developmental potential, hence the study. Most studies about the informal sector are carried out in urban areas without much focus on the rural areas which are equally practicing it. The main objectives of the study are to understand the nature of informal trading activities, to analyse the impact of informal trading on the incomes of the respondents, to find out the major uses of the incomes as well as to identify the challenges faced by the traders at Nemamwa Growth Point.

1.2 Conceptual framework

The study was informed by the sustainable livelihood framework. The concept of livelihoods has been proven to be analytically useful since it helps to paint a picture of the ways in which people construct a living. The Sustainable Rural Livelihoods Framework can be used to understand how the rural poor improve their lives and strengthen the sustainability of their livelihoods. Chambers and Conway (1992) describe sustainable livelihoods as comprising of the capabilities, assets (stores, resources, claims and access) and activities required to make a living". A livelihood is sustainable when it can cope with and recovers from stress and shocks, maintain, and enhance its capabilities and assets, and provide sustainable livelihood opportunities for the next generation; and which contributes net benefits to other livelihoods at the local and global levels and in the short and long term". The Department for International Development (DFID)'s sustainable livelihoods framework aims at embracing social and economic dimensions, reduced vulnerability, and environmental sustainability, all within the context of building on local strengths and priorities. This recognises that households pursue a range of livelihood strategies based on assets they must draw on and the livelihood outcomes they wish to achieve. Informal trading as a livelihood strategy



plays a significant role in the livelihoods and household economies of rural dwellers. The study will focus mainly on the financial capital aspect without necessarily ruling out the other four capitals.

Informal trading can fit in the sustainable livelihoods framework by affecting the vulnerability context. Informal trading can reduce vulnerability, such as when droughts reduce yields or in seasons when agriculture is not being practised like in winter. The sale of goods and services can bring in income which can be used by households to access food as well as other basic services. More so, informal trading is strongly linked to the asset base. The main aspects of this relationship are the types of assets that are required to engage in informal trading (Mbiriri, 2009) such as funding. Considerable policy emphasis can be given to expand credit (financial capital) to promote informal trade. Informal trade is funded by its own sources and contributions and credit from friends, relatives and associates, micro-finance institutions and banks. However, operators far prefer their own sources, believing them as less restrictive (McLachlan, 2005). The only constraint is that funds may not be available when needed.

Social capital can facilitate the sale of goods and services that operate on a large spatial scale. It plays an important role in influencing informal trade because of the ways in which social networks and social relationships facilitate or constrain trade. Interacting with other members from different villages or of different backgrounds may enable the traders to make products of a wide range which can suit the needs of many buyers thereby facilitating trade through reaching a wider market. The informal trade sector is a home-based industry which requires a minimum expenditure and infrastructure to be established. Therefore, it can create jobs at a minimal cost (Richard, 2007). Considering that most rural people lack finances to start up other forms of businesses, the informal trade sector enhances rural livelihoods and therefore should be encouraged. Inputs required can easily be provided and product adaptation is less expensive than investing in machinery, energy, and technology.

Finally, the policies, institutions and processes dimension of the sustainable livelihood framework is relevant to the study of informal trading in several ways. Informal trading can be considered as a component of the policies, institutions and processes that compose the environment in which rural people operate. It is an institution whose intervention change people's options in pursuing their livelihood strategies (McLaughlin, 1990). By changing the relative returns to different factors like income, informal trading can effectively change the distribution of assets within and between households (Mbiriri, 2009). The sale of goods and services affect income which may have other complex impacts on institutional arrangements, such as creating demand for other products, which in turn creates more employment opportunities through forward and backward linkages. Informal trading also interacts with other political institutions at national, regional and local levels, and is facilitated or constrained by public policies. Legal rights to natural capital, marketing institutions and other policies influence the ability of traders to take advantage of trading and influence people differently. Therefore, it is essential to advance informal trading as it will have positive impact on reducing the vulnerability context of the rural poor.



1.3 Literature Review

Characteristics of the informal trade sector

The informal sector manifests itself in different ways in different countries, different regions within the same country and even different parts of the same city. It encompasses different kinds of activities, different types of enterprises and different motives for participation. Nieman (2009) says that the characteristics of this sector comprise many informal traders and breadwinner activities which include a wide range of legal and illegal activities outside the formal economy. It provides a source of income to many who cannot find employment in the formal sector. The income is usually generated on an extremely low-cost basis and if the informal sector should be stimulated effectively, it could play a meaningful role in reducing unemployment and result in a more equal and even distribution of wealth.

Some of the characteristics of the informal sector according to Mupedziswa and Gumbo (2001) include easy access to the business sector, utilization of locally available raw materials, small scale processing of products, labour intensive activities, utilization of appropriate technology; skills usually lie outside the formal educational systems, and operating in unregulated, uncontrolled, and competitive markets. According to Muchichwa (2014) the informal economy is characterised by own account workers who are usually unpaid contributing family members. McLaughlin (1990) also adds that the informal sector is characterised using family and unpaid labour and reliance on manual labour rather than sophisticated machinery and equipment, flexibility, allowing people to enter and exit economic activities in response to market demand.

According to Njaya (2014) the informal sector is generally characterized by resourcefulness and imagination. The informal sector activities range from street vending, shoe-shining, food processing, car washing and other petty activities that required little or no capital and skills and with marginal output to those that involved a certain amount of investment in skills and capital and with higher productivity, such as farming, manufacturing, construction, tailoring, cottage industry, mechanised and non-mechanised transport as well as service providers. Petty trading and small-scale distribution activities related to the sale of clothes, food and provisions and are carried out along roadsides, pavements, and open spaces near shopping centres.

The informal sector is also characterised by most of the unregistered businesses to invade payment of taxes. However, Njaya (2014) notes that informal sector activities were not necessarily performed with the deliberate intention of evading the payment of taxes or social security contributions or infringing labour legislation or other regulations. Some of the informal sector entrepreneurs remain unregistered or unlicensed to avoid compliance with regulations and thereby reduce production costs. However, there is need to make a distinction between those whose business revenue is high enough to afford the costs of regulations and those who are illegal because they cannot afford to comply with existing regulations as their income is too low and irregular, because certain laws and regulations are quite irrelevant to their needs and conditions (Chirisa and Muchini, 2011). In some countries, at least, a sizeable proportion of informal sector enterprises are registered in some way and/or paid taxes, even though they are not able to comply with the full range of legal and administrative requirements.



The other characteristic is that despite their segmented, precarious and semi-legal existence, the informal sector enterprises cannot exist in total separation from the formal sector (Njaya, 2014). Generally, the informal sector, in its varied form provides important backward and forward linkages to the formal sector. However, the nature of the formal-informal sector relations varies. According to Dube and Chirisa (2011) the informal sector largely serves markets which the formal sector is too inflexible or too high cost to reach, and its existence depends much on its ability to deliver goods and services at lower prices or smaller quantities than those of the formal sector or to provide goods and services which would otherwise not be available at all. In most cases, formal sector workers are informal sector customers. However, the closure of companies has adverse effects on informal sector entrepreneurs who rely on formal sector employees who buy their goods and services. In fact, some informal sector enterprises are highly dependent on modern enterprises for inputs and/or finished goods for sale.

Most informal sector enterprises obtain their merchandise from established shops and wholesalers or firms. In some cases, other informal sector enterprises act as subcontractors to the formal sector though their weak economic power sometimes makes them more vulnerable to exploitation. Being deprived, to a large extent, of the right to appeal to the courts for contracts to be enforced such informal sector entrepreneurs would prefer to legalise their operations whenever possible and thereby obtain legal protection from the authorities.

In terms of operating space, Muchichwa (2014) highlighted that informal traders operate either in their own homes, footpaths, street or open spaces, permanent buildings, at marketplaces, at someone else's home or no fixed location at all. Mitullah (2003) also adds that traders choose places which are easily visible to pedestrians and motorists and strategic points with heavy human traffic such as: main roads, streets, parks, pavements, within shopping centers and corners of streets and roads. Mitullah (2003) further notes that the traders use different structures such as mats, gunny bags, tables, racks, wheelbarrows, handcarts and bicycle seats to display their goods. The other traders carry their commodities on their hands, heads and shoulders. Some of them hang their commodities on walls, trees and fences, and most of them construct temporary shades to displaying their goods.

In addition, the discussion with the informal sector players by Njaya (2014) also revealed a lot about the manner in which they are organised as well as their potential. The traders in Mbare, Harare indicated that collectively they can realise about \$1500 per day in revenue. Many of them however do not have bank accounts, as the procedure is very cumbersome with banks requiring so many documents such as proof of residence and letters of employer which traders some of whom are tenants/lodgers ordinarily do not have. The players are also failing to access loans from banks since banks want a guarantor (with payslips) which automatically excludes self-employed traders, small-scale manufactures and service providers some of whom do not earn regular monthly income. Most of the traders hardly keep any records in a format accepted by banks as proof on the capacity/potential and profitability of the business.

Informal trading and Livelihoods



Informal trading has long been a controversial issue. According to Dewar (2005) some view it as a symptom of developmental backwardness- a problem that needs to be solved, while others like Fleetwood (2009) regard it as a positive dynamic which enables large numbers of people to gain a foothold in the urban economy. In many developing countries and throughout Africa the informal economy contributes significantly to the provision of employment of people (Neves, 2010).

The informal sector plays a very important role in the development of the economies of nation. In Africa, the majority of the informal sector organisations are involved in small businesses and social services that are vital to economic development. Apart from laying the foundation for promoting the evolution of large firms that ultimately dominate the formal sector, it also provides employment opportunities in both rural and urban settings. Indeed, against the strong economic storm that pervades the economic landscape of most African Countries, the informal sector stood its ground (Makaye and Munhande, 2008). Evidence abounds indicating that the informal sector has been providing refuge for the army of workers laid off from and for many still employed in the formal sector by providing employment and avenue for earning additional income thereby ameliorating their declining standard of living

Onyenechere (2009), Kusakabe (2010) and Skinner (2008) agree that informal trade tends to contribute significantly to the Gross Domestic Product (GDP) of developing countries. For example, in Zambia, in 1996 it was reported that the informal sector was growing faster than the formal sector (Mupedziswa and Gumbo, 2001). In South Africa, the informal trading sector contributes significantly to their economy, because it is estimated that approximately 2.2 million people were employed in the informal sector in 2010 (Statistics South Africa, 2011). These statements reinforce the notion that informal trade sector is common in most third world countries.

The informal trade 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 informal sector. On the one hand, the informal sector seems to trap its actors in poverty while on the other; it contributes to the reduction of poverty (Matondi, 2011). That is, the informal sector 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 informal sector are poorly remunerated, underemployed, have no social protection. Thus, it can be inferred that poverty forces people to engage in the informal sector and working in the informal sector means poverty. 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 informal sector? 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 informal sector poverty reduction.



Impact of Informal Trade on Livelihoods

Firstly, informal trading activities are important for many unemployed people as it helps them create their own jobs and earn cash incomes. Mitulla (2003) buttresses that informal trading is becoming employment and income earning options for a larger segment of the African population. By providing employment, informal trading plays a role in enhancing income generation. Although the incomes vary depending on size, location of the business, initial investment into business and the types of commodities sold (Adhikani, 2011) notes that the traders make minimal but reasonable profits. These profits contribute to daily family expenses.

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

Chani (2008) observed that informal traders were earning much more than the average incomes of the formal sector which enables them to cater adequately for their children's educational needs. Mupedziswa and Gumbo (2001) affirm that the engagement in informal trade increases the capacities of families to educate their children and significantly improve their life chances. A study by Carr and Chen (2001) reveals that the cash obtained from informal trade is used for education, remittances, rentals and buying food and 50% of the respondents revealed that the amount obtained from sales is insufficient to cater for their basic household needs while the remaining 50% revealed that the amount can sustain their household needs.

In addition, besides meeting the immediate household needs, informal trading can assist those who engage in it to accumulate assets. Turner and Laura (2012) posit that the income earned can be spent on assets accumulations such as buying agricultural land or buying furniture. This goes a long way in improving the asset base of individuals. The incomes generated can also assist them invest in their health by giving them the ability to access medical needs.

Also, the number of years spent in informal trading by the majority of the traders indicates the significance of this sector in livelihood creation. Lund (2010) argues that a large number of informal traders in Zimbabwe have been operating for over 5 years mainly because of ESAP and 2007/8 recession which resulted in a lot of lay-offs and increased unemployment. The near collapse of the economy led the majority of Zimbabweans with no other choice than relying on informal trade to earn a living. According to Makaye (2000) because of the ESAP, millions of people lost their jobs through retrenchments while at the same time the formal job market shrunk creating conditions for expansion of the informal sector.

Challenges faced by the informal traders.



The greatest challenge facing informal traders is with regards to site of operation and right to trading space. Most of the spaces traders occupy are considered illegal since the spaces have not been set aside for trade. In cases where they are allowed to operate, the spaces are considered temporary, and eviction occurs at the will of urban authorities. There are various conflicts relating to their sites of operation. A major conflict often arises when the vendors are required to move in order to give way for planned development. This brings them into direct confrontation with urban authorities and land developers. Most of the spaces the traders occupy have no tenure and are not allocated and sanctioned by urban authorities (Chani, 2008). At the same time, the traders are also in conflict with formal shop owners and landlords who contend that the traders infringe on their businesses and/or premises. In addition, the spaces occupied by traders are open and expose traders to harsh environmental conditions. Most commodities of trade such as fruits, vegetables and clothes are affected by the harsh environmental conditions, consequently resulting in loss of earnings to the traders (Zuin, 2004).

Also, informal traders have been noted to be perhaps the most regulated and least protected. They trade illegally due to lack of recognition and licenses. The traders are known to identify trading sites on their own, leaving the urban authorities with few options, which include eviction, tolerating traders or charging a daily fee without providing any legal protection.

In cases of eviction, the traders are often provided with an option outside the central business district (CBD) where there are hardly any customers. This option is based on an exclusion framework which reserves the CBD to large scale traders and businesses which urban authorities argue pay taxes as opposed to the street vendors and informal traders. However, this argument is false, and research has shown that when both daily fees and bribes to urban authorities are taken into consideration, the urban authorities collect more from traders than required (Chani, 2008). Research has further shown that daily fee charges are more expensive than lump sum payment for a license. However, the street and informal traders make minimal profit and are not able to make lump sum payments.

Lack of a street trading license exposes traders to harassment and punitive measures, including confiscation of goods (McClelland, 2006). During harassment, traders lose their commodities, with some closing their businesses after losing their capital goods. Research from a number of African cities reveals that having a license does not guarantee safety and recognition by urban authorities. In most cases, vendors are not issued with any identification showing that they have a legitimate right to sell their goods in urban streets. This exposes them to harassment, including confiscation of goods, assault and demands for bribes.

Apart from the right to trading space, informal traders are also disadvantaged in the area of security, transport and municipal services (Muhomba, 2008). A secure working environment is a pre-requisite for any type of business. Security is a major concern for many people engaged in economic activities on streets. Municipal authorities have been the major source of insecurity for these traders. The authorities harass, beat and confiscate goods of street vendors without any warning. This does not only threaten the security of vendors but also their customers. A study



of cities in South Africa has noted that an insecure environment results in loss of customers, frightens tourists, cripples business, reduces incomes, and generally interferes with trading.

Most vendors find it difficult to transport their commodities from their homes and markets to their trading sites (Rwigema and Venter, 2008). This is because most transport systems do not service the areas where vendors live, and in cases where they do, the vendors can hardly afford the service. In some cases, there are restrictions on what an individual can take on the bus, mini-bus or train. This forces vendors to carry their goods on their backs or to hire handcarts or human carriers to transport their goods. This is complicated further by lack of storage facilities, which makes the traders, carry back to their homes unsold commodities.

Other services such as water and sanitation are also not available to vendors and consumers. Apart from a few cities in South Africa, street and informal traders operate without access to water and sanitation (McClelland, 2006). A few of them rely on services from the neighbouring formal markets, hotels and bars; while the majority of vendors rely on unsafe water sources, unsanitary methods of refuse disposal and use of open spaces as sanitary facilities (Mitulla, 2006). Others obtain services from their homes or nearby residential areas. Cleansing services provided by urban authorities are inadequate and do not cover trading areas of street and informal traders, nor do the urban authorities facilitate the provision of services by traders and other stakeholders. In cases where traders are organized, they clean their sites of operation or hire people to collect and dispose garbage.

The poor, in particular informal traders are disadvantaged in trade at global, regional and local levels (Chani, 2008). Under pressure from rich countries, the barriers to international trade in goods and financial services and investment flows have been lowered to the advantage of capital over labour and of large firms over small and micro firms. The negative trade and policy processes largely disadvantage the wage workers and own account producers in the informal economy, and yet they are the majority poor who are the focus of current policies and development processes. The neglect of the micro and small traders has to be reversed if African countries are to change existing poverty trends (Mitulla, 2006).

Some researchers revealed that informal traders often do not make optimum use of their existing resources and argue that they are unlikely to do better even when they get enough loans (Sidiqi and Nyagura, 1993). The argument is that they do not have strategic business plans and financial records which may guide the effective and efficient use of any available resources. Cross et al (1999) also share the same view when he argued that basic math and accounting skills, as well as business management skills, are key to all successful businesses in which most informal traders lack. It is essential that informal traders engage in courses that help them in developing business plans that are beneficial to them if they are to succeed.

Lack of business management skills and business know-how is a major constraint impeding the growth of small and informal business operators. Several studies in Zimbabwe suggest that entrepreneurs in the informal business sector attach low priority to training and are often unwilling to participate in programmes which require them to finance even a small proportion of total training cost.



The major area of weaknesses identified, range from cash management to marketing strategies and finance (Nyoni, 2007)). To add on that, some informal business operators fail even if they have enough capital resources due to poor management skills. This is supported by Gross and Case (1999) in their research on small business failure. They found out that most small and informal businesses fail because of the following reasons:

Starting with too little capital; starting with too much capital and being careless in its use; borrowing money without planning how much is enough and when to pay it back; doing too much business with too little capital; ignoring taxes and insurance and other cost of running a business.

More so, informal traders usually have no assets of value to pledge against a loan. Osius and Putnam (1992) said collateral security is the assets provided to secure obligation which a lender sells in the event of default. Banks need this to offer loans with certainty. Adisu (2006) states that informal traders are therefore forced to resort to informal sources of credit such as money lenders (loan sharks) who charge them exorbitant interest rates that they cannot easily repay or cannot afford to repay at all. This comes out as a challenge in that the traders will not enjoy any profits as all the revenue may be used up in repaying the loans thus not benefitting much to their livelihoods.

Cross et al (1999) cites lack of access to economies of scale. Many informal actors cannot afford to buy in bulk. They are thus forced to pay retail. Households engaged in informal activities often have difficulties in retaining working capital against urgent household demands for cash.

Kirby and Watson (2006) maintain that in cases of eviction, the traders are often provided with an option outside the Central Business District (CBD) where there are hardly any customers. This option is based on an exclusion framework which reserves the CBD to large scale traders and businesses which urban authorities argue pay taxes as opposed to the street vendors and informal traders. This framework is misguided as research has shown that when both daily fees and bribes to urban authorities are taken into consideration, the urban authorities collect much more than the lump sum paid by formal businesses for licenses (Kirby and Watson, 2006).

It is difficult for the informal sector to obtain credit from the formal financial sector due to the lack of enough recognizable collateral (Adisu, 2006). Kashuliza (1993) maintains that all financial institutions in developing nations share a common characteristic of considerable amount of default rate. Consequently, Adisu (2006), states that informal traders are therefore forced to resort to informal sources of credit such as money lenders (loan sharks) who charge them exorbitant interest rates that they cannot easily repay or cannot afford to repay at all.

Kirsten, et al (2006) holds the view that some informal traders are discouraged from borrowing by the fact that their future earnings are usually less than the value of their assets (collateral). Another simple reason for these small informal businesses not getting financial support is that they are not registered, and this makes it very difficult for the willing financial institutions to reach out to them as they do not know where to find them. There is also lack of tools and equipment as well as technical skills for improving productivity due to lack of adequate finance with which to source these resources. Limited finance has made it difficult for the small businesses to advance technologically, hire expert labour, buy inputs in bulk to enjoy scale economies and even grow in size.



Siddiqui and Nyagura (1993) also show that informal business often does not make optimum use of their existing resources and argue that they are unlikely to do better even if they get enough loans. The argument is that they do not have strategic business plans and financial records which may guide the effective and efficient use of any available resources. In a survey of small-scale business management deficiencies, it was found that small enterprises fail to keep books of accounts for their business operations, or if they do, they are inadequate (Levitky, 1989). The inadequacies result from the fact that they do not provide data for appraisal to ascertain its profitability and hence loans applicability.

Formal financial institutions require collateral for them to be able to finance activities of the informal sector so that they can recover their resources in case of default. At the moment the Zimbabwean Banking sector is saddled with 18.5% non-performing loans. Collateral security and loan contracts serve to control borrowers risk taking propensity and increases chances of recovery under default. Collateral is one way of mitigating risk of loss since it provides the bank with safety net which provides a cushion against losses in the event of primary repayment fail to perform. Banks need this to offer loans with certainty (Bessis, 2003).

2. Materials and Methods

The study employed a post-positivist paradigm which emphasizes on meaning and the creation of new knowledge. The study adopted a mixed methods approach with more emphasis on qualitative than quantitative (QUAL +quant). Both qualitative and quantitative methods were used to develop a shared understanding of how engagement in informal trading enhances incomes of the traders. A descriptive survey design was used to help understand the nature of the informal trading activities done at Nemamwa, to analyze the uses of the income generated through informal trade and its impact on their livelihoods. The study population comprised of informal traders at Nemamwa Growth Point and key informant interviews from Masvingo Rural District Council and The Small and Medium Enterprise Association. A total of 36 respondents were used in the study, with 32 traders and 4 key informants. The key informants were purposefully sampled whilst the traders were conveniently sampled. Data was collected questionnaires, interviews and focus group discussions. After the data was collected it was transcribed and analysed thematically.

3. Findings

3.1 Characteristics of the informal sector

3.1.1 Sources of financing

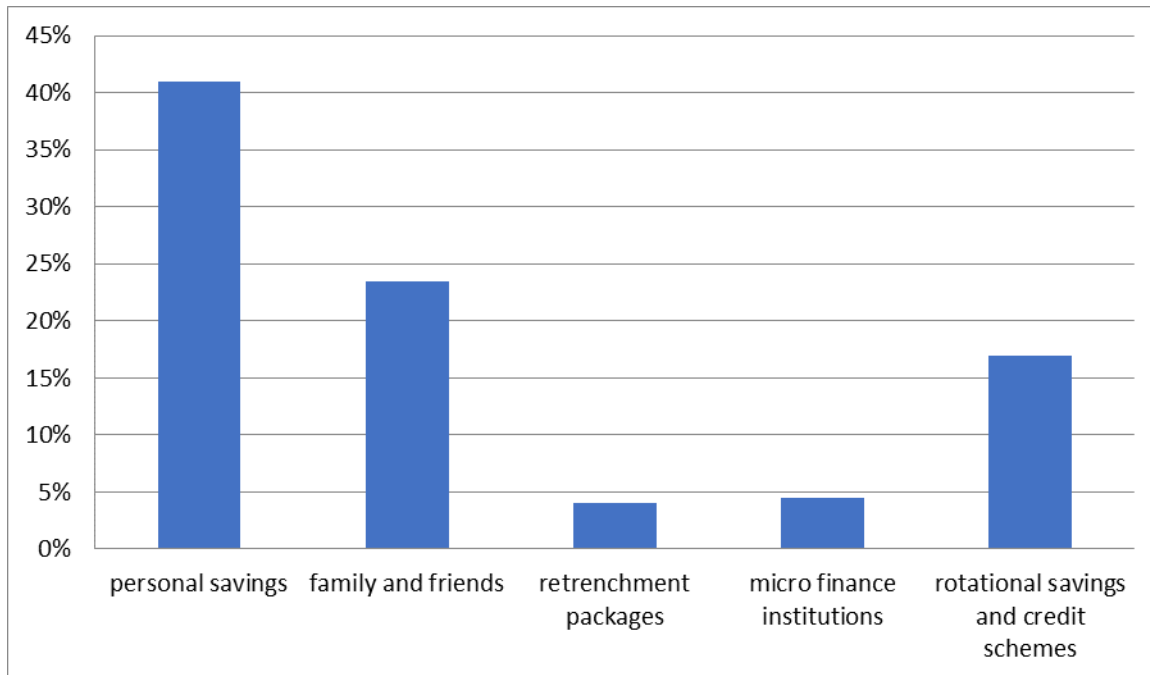


Figure 3.1: Sources of financing (Source: Fieldwork data, 2022)

From the study, start-up money is mainly sourced through personal savings (41%) followed by loans from friends and family (23.5%) as well as rotational savings and credit schemes (ROSCAs). The majority of the businesses were established through personal savings mainly because they did not require much financing, especially those that sold fruits and vegetables. The study also revealed that 27% of the traders were engaged in ROSCAs for their financial needs. Others stated that they had obtained loans from friends and relatives and had returned the loans when their businesses flourished. The 4 % who had been previously employed stated that they had used their retrenchment packages to establish their business entities, whilst 4.5% of the traders indicated that they had received capital from an organisation called MicroKing which specifically was devoted to offering loans and advisory services to informal traders and entrepreneurs. The money was given to groups and the repayment conditions required monthly instalments. However, the members noted that it became problematic if one of them could not pay as they were required to pay for him or her.

3.1.2 Products sold

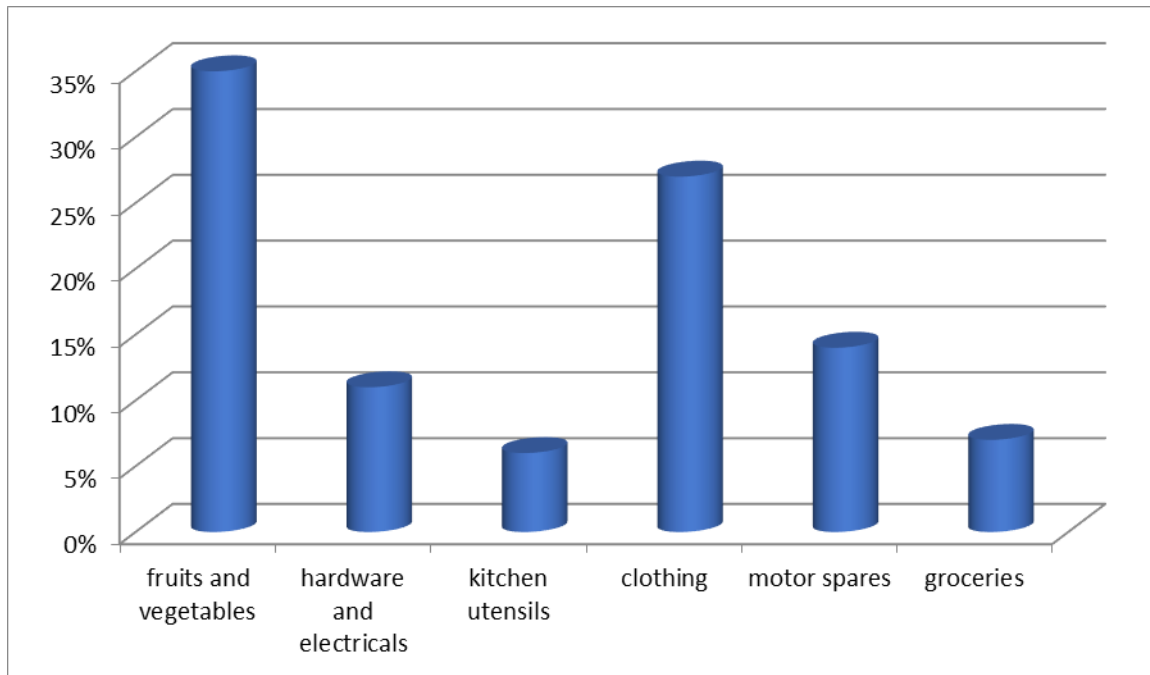


Figure 3.2: Types of products sold (Source: Fieldwork data; 2022)

The study revealed that the majority of the participants traded in fruits and vegetables. This activity dominated because the respondents argued that the edible items were always on demand and there are more customers as people travel and usually buy fruits which they sale at cheaper prices and also because it requires less capital than other ventures. It is also of interest to note that women traded mainly in clothing, groceries and fruits and vegetables which are easy to procure, manage and sell, whilst their male counterparts dominated in the selling of electrical, motor spares and hardware which require a bit of expertise which men usually possess.

3.1.3 Rules of entry

At Nemamwa growth point, the market has few rules of entry. The first and formal rule of entry that was pointed to be the payment of licence fees to the Masvingo Rural District Council of \$30 per term (one term is three months). Other than payment of licences, one also has to ask for permission from already established traders to operate. The traders argue that seeking for permission would limit new entrances especially from outside areas as they fear competition. If a trader wishes to stop trading activities, they simply look for someone else to take over the stall without officially changing ownership of the stall. This shows that there is no ease of entry if one wishes to engage in informal trading as indicated in literature. A Small Enterprise Development Corporation (SEDCO) official at SEDCO office in Masvingo argued that this is one of the drawbacks of the system, where stall owners do not surrender back the stalls to the council even if they are not operating. He argued that they personalise the stalls as if they own them.



3.1.4 Ownership of trading licence

The traders acknowledged that they were required to pay licence fees to the council but 28% of the respondents highlighted that they dodged payment of the licence fees that they are required to pay. They argued that the fees are too high for them (\$30 per term) thus they prefer hiding from the municipal police. They argued that it is economically sensible for them since the fees are too high for them, especially those selling fruits and vegetables. The 72% that paid the required fees were mainly those who had permanent stalls and whose names are registered with the council. They argue that they are forced to pay because they fear that they would be removed from the stalls, so they usually sublet their stalls for them to share the costs.

3.1.5 Flexibility of Operations

The study revealed that the other characteristic of the sector is the flexibility of the operations. The majority of the traders highlighted that they frequently leave their markets, or they sometimes come with children to the workplace, a feature which is not found in the formal economy. The traders argued that they are free to leave their markets and attend to other matters at any time without any restrictions since they are the owners.

3.1.6 Competition at the market

The majority of the respondents, that is, 85% of the traders cited hyper-competition as a characteristic of the Nmamwa markets. The remaining 15 % of the respondents were undecided. Respondents identified competition as a problem as it causes fluctuating and smaller profits. The respondents serve limited number of customers per day thus increasing competition between them and forcing them to lower prices in order to attract customers. The high level of competition at the markets, results in more competitive pricing. Also, to note is that the informal traders at Nmamwa growth point look out for each other. They regard themselves as family despite the fact that they compete for customers. When one trader is not at the market, those that are there look out for other's goods. In addition, if one trader does not have items that a customer wants, they refer the customer to other traders. *'They will also do the same for you and that way everyone is satisfied,'* said one trader.

3.2 Impact of informal trading on incomes

3.2.1 Average monthly income earned by the respondents

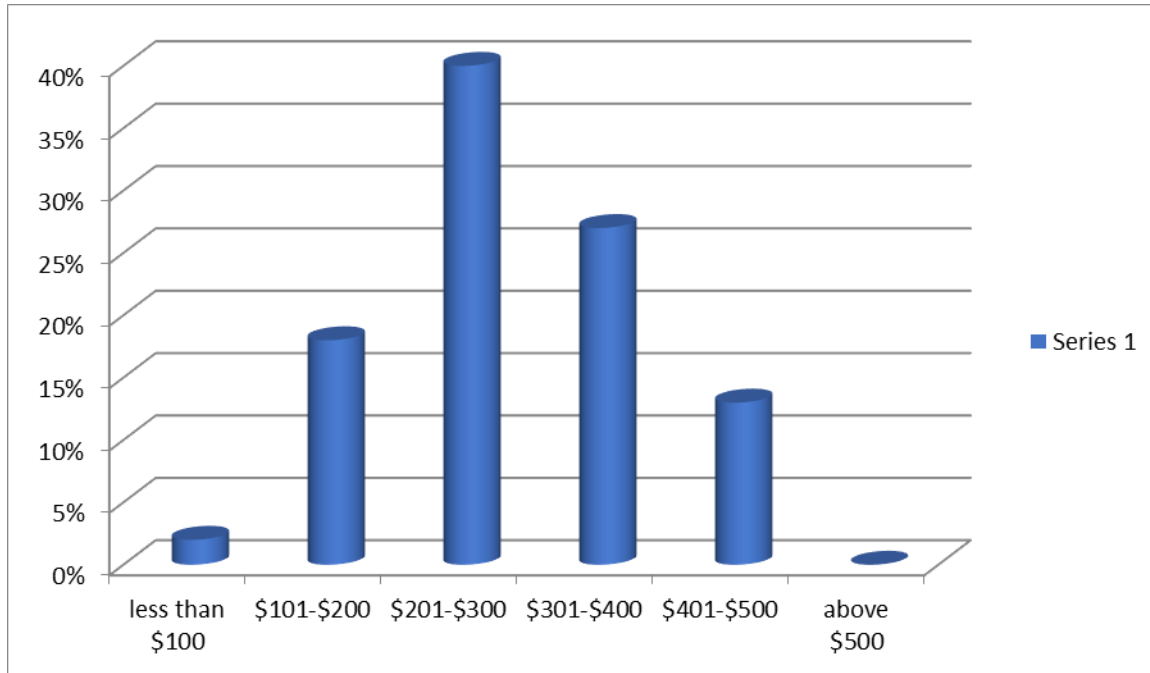


Figure 3.3: Average monthly income (Source: Fieldwork data; 2022)

When asked about their monthly incomes, some failed to provide an average because they use their earnings straight away to take care of their daily expenses. However, on average the monthly income ranges from \$140 to \$500 depending on the kinds of goods they sell. According to the figure, there were few traders earning a monthly income of less than USD\$100 a month with the majority (40%) range between \$200 and \$300. The respondents explained that the incomes generated from informal trade were erratic as it is highly dependent on the day, the month, the season and of course the state of the economy. Respondents argued that the current economic situation leads to a general decrease in sales as consumers have less spending power than before. They added that the daily sales had diminished as a result of an increase in the number of people who become informal traders. One of the traders remarked;

“These days sales are very low because our customers, especially those who work in the formal sector have become very conscious when it comes to spending money. There are shortages of cash and people now buy in shops where they can swipe their ATM cards leaving us with very few customers, thus low profits,”

Some of the traders also argued that they did not have enough capital to buy stock of high value which in turn gives higher profit. The respondents acknowledged that they benefit from informal trade activities by earning small amounts of cash otherwise they would be starving.



3.2.2 Uses of the income earned

The respondents highlighted that engagement in informal trade increases household incomes and enhances the ability of informal traders to cater for household needs. The respondents acknowledged that they benefit from informal trading activities by earning small amounts of cash which they use for fees, healthcare and other household responsibilities. However, other respondents highlighted that the amount obtained from sales is insufficient to cater for their household needs thus a need for capital injection that would help the traders realise more profits.

3.2.2.1 Education

The results revealed that 70% of the respondents indicated that their business entities contributed immensely to their ability to provide for the educational needs of their families. Investing in their children's education was a priority for most traders. These respondents said their children were able to go to school as they would afford to pay fees for their children. The remaining 30% indicated that their children were either assisted at school by different programmes like Basic Education Assistance Module (BEAM), which pays fees for the disadvantaged, and or had other sources of income.

3.2.2.2 Health

The study revealed that 83% of the participants indicated that they spent some of the income they derived from informal trading in providing for the health care needs of their families. The expenditure varied according to the health needs of the families. The majority of the respondents alluded to the fact that engagement in informal trade enabled them to adequately meet the health needs of their families. However, 17% of the respondents argue that the income they get is too little thus not sufficient to cover their health expenses considering that healthcare is relatively expensive in the country.

3.2.2.3 Food security

The majority (95%) of the participants stated that engagement in informal trading activities has enabled them to adequately provide for their families' dietary requirements. However, for some participants engagement in informal trading did not necessarily result in any significant changes in their food consumption patterns but it allowed them to maintain the same level of food consumption that they had before engaging in informal trading.

3.3 Challenges faced by the informal traders

Informal trading at Nemamwa Growth Point has its challenges as revealed in the study. The challenges will be discussed in terms of policy, socio-economic challenges, infrastructural and market challenges. These challenges are hindering informal trading at the growth point thus should be monitored closely.

3.3.1: Policy

Eighty percent of the traders that took part in the study argued that licence fees that they are mandated to pay by the council are too high. Respondents argued that a reduction in the licence fees would be of great benefit. Traders complain that the fees are too high taking into consideration that at some point of the year the traders



operate at a loss but are still expected to pay. 'there are times when business is bad, that you cannot raise enough to take home, but the council still expects us to pay, whether you made a profit or a loss. '\$30 a term is too much,' said one trader. The traders therefore are faced with challenges since the council will evict them from the stalls if they are not able to pay. The council, however, complain that since the council police officers and the traders are from the same local area, they face problems evicting the defaulters because they know them personally. A Masvingo Rural District Council official said 'The traders end up skipping payments and thereby reducing the ability of the council to offer them services that are due to them such as water and sanitation.'

3.3.2: Infrastructural challenges

At Nemamwa Growth Point there is a built market place with twenty compartments made of brick walls and asbestos, meant to provide shelter to protect products as well as the traders from bad weather. The traders however, complained that the stalls are very few compared to the number of traders. Some also argued that the roof does not sufficiently cover the market spaces such that their products end up being exposed to bad weather conditions. For those trading in clothes, direct sunlight on the clothes discolours them thus leading to losses. Also, even though there are those built markets, respondents complained that the stalls were built a long distance away from the road such that the traders end up moving back to the road which poses them in danger with traffic. They argued that the council did not consult the traders before building the stalls that is why there seems to be conflict between the council and the traders. Fruit and vegetable sellers especially need to be close to main roads as they sell their products even to people travelling in buses. This is in line with Mitullah (2006)'s view that planning laws do not take into account the existence of informal traders. In most cases such laws locate the traders on peripheral areas where there is no business; without any consultation. They drift back to the roads, resulting in punitive measures from the local authorities.

1.1.3 Socio-economic Challenges

As with other industries, the informal trading sector relies heavily on capital and credit facilities to obtain the products they need. The traders at Nemamwa growth point highlighted that because they have to travel to areas like Harare and South Africa to source their products, their costs are high. They argued that their economic status however is relatively low and are therefore in need of financial assistance if they are to improve their revenue. Most of the traders complained that cash flow problems are the most significant predicament they face. They indicated that the availability of financial assistance would go a long way in improving their businesses. However, whenever they try to access loans their applications are not approved due to various reasons. Some of the reasons given include lack of collateral; lack of expertise in making business proposals which are used to apply for loans and others argued that they did not even know where and how to apply for the loans.

During the study, 66% of the traders also cited their inability to maintain sufficient stocks as one of the challenges that they face. The traders experience severe cash-flow problems which have a ripple effect on their ability to manage their businesses profitably and maintain sufficient stock levels. The respondents argued that they do not



have sufficient capital to buy many products therefore they end up stocking very few items. They also argued that since they do not have any other forms of income they see it as inappropriate to stock product when they can make use of the money. This is consistent with the work by Ligthelm and Masuku (2000) who argued that most informal traders are unable to maintain sufficient levels of stock due to the little profits they make as well as poor management skills.

The study also revealed that competition at the markets is also one of the challenges the traders face. The study revealed that hyper competition in the market reduces the capital and can force businesses to close down. The study showed that 80% of the interviewed informal traders agreed that there is hyper competition in the market, 15% disagreed and 5% were undecided. Segal (2005) emphasized the danger of hyper competition as it forces businesses that cannot compete to close down. The informal traders at Nemamwa growth point cited competition and jealousy among the traders as a challenge because it jeopardises their ability to work together collectively and ultimately influence their ability to increase or maintain their income levels. The respondents argued that the returns are generally low because of too many traders. They indicated that there are too many people who are engaged in informal trade some of which do not operate at the markets but move around in homesteads selling their products. Their prices are much lower than the ones that pay licences at the markets hence the traders at the markets get less profit.

4. Discussion

4.1 Characteristics of informal trade

The study also revealed that 80% Of the traders spend more than five hours a day doing their business and have been engaged in informal trading for varying amounts of time ranging from less than one year to more than fifteen years. The number of years spent in informal trade indicates the level of unemployment among the population of Nemamwa. The results are consistent with Lund (2010) who maintains that a large number of informal traders have been trading for more than five years because of increased unemployment rates.

From the study, a variety of products are sold, and these include fruits and vegetables, hardware and electricals, kitchen utensils, clothing, motor spares and groceries. The study revealed that 28% of the respondents do not pay licence fees to the council while 72% of the traders pay. Those that do not pay argue that the fee is too high for them. The results coincide with Njaya (2014)'s view that informal sector activities were not necessarily performed with the deliberate intention of evading the payment of taxes or infringing other regulations. Some of the traders remain unregistered or unlicensed in order to avoid compliance with regulations and thereby reducing production costs as their income is too low or irregular.

The study also revealed that the majority of the traders highlighted that they were independent sole owners of the businesses. This is inconsistent with some of the reviewed literature such as Farrell and Fleming (2000) who claim



that family ownership dominated the ownership of the informal sector businesses. In this particular study, the majority of the businesses were owned by individuals. The respondents argued that working on their own at the markets is economic since it reduces labour costs.

The study revealed that the other characteristic of the sector is the flexibility of the operations. The majority of the traders highlighted that they frequently leave their markets, or they sometimes come with children to the workplace, a feature which is not found in the formal economy. This observation is in line with the WIEGO (2016) which acknowledges that low barriers to entry, limited startup costs and flexible hours of operation are some of the factors that draw vendors to the occupation.

From the study, the majority of the respondents, that is, 85% of the traders cited hyper-competition as a characteristic of the Nemamwa markets. The remaining 15 % of the respondents were undecided. Respondents identified competition as a problem as it causes fluctuating and smaller profits. The respondents serve limited number of customers per day thus increasing competition between them and forcing them to lower prices in order to attract customers. The results correspond with Willemse (2012)'s findings where he also cites high levels of competition at informal markets which results in more competitive pricing.

4.2 Impact of informal trade on incomes

The study revealed that the informal trading at Nemamwa growth point is the main viable source of livelihood for those involved as 85% of the participants have no other sources of income. The other 15% indicate that they supplement their income with their pension as they were previously employed as well as with remittances from abroad. The majority of the respondents indicated that the proceeds from informal trading are the main source of income for the households which they use to pay school fees, healthcare services and reinvestment in their businesses. They are not involved in multiple livelihood strategies as they indicated that their businesses needed more attention. The results are consistent with Mupedziswa and Gumbo (2001)'s which revealed that the informal sector has helped in livelihood strategies, that is, money obtained is used for various purposes such as education, health and remittances, food consumption.

4.3 Challenges faced by informal traders

Although the informal sector helps in livelihood strategies and increasing the GDP of the country, it faces various challenges. Firstly, there is shortage of capital to start a business or to expand. Most participants argued that they are operating below capacity because they have no access to loans from financial institutions since they do not have collateral security. This concurs with the assertion by Adisu (2006) who stated that it is difficult for people in the informal sector to secure credit facilities because they do not have evidence to secure such services since their incomes are erratic and low with little production involved and they lack things like payslips and bank account statements as an indication to the lender that one can pay or service credit facilities. The study also revealed that the traders were not aware of micro-finance institutions that could assist them. The results of the two studies



carried out in Thailand and Zambia reveal that even where micro-finance programmes exist or have existed in the past, only a very small percentage of those in the informal economy have had access to or have benefited from them (ILO, 2002). It is also shown that in Thailand most people take-out loans from friends or relatives where interest rates are lower, and they also have traditional moneylenders who charge much higher interest rates and do not hesitate to use strong-arm tactics to ensure repayment. This is a major challenge in boosting the informal economy to be sustainable as cash inflows are erratic.

Secondly, there is high competition from unregistered operators. The traders indicated that there were too many people engaged in informal trading thus high competition. The unregistered operators tend to sell their goods at a lower price creating stiff competition amongst other sellers. The prices of the goods of unregistered operators are very flexible because they do not pay rentals to the responsible authority. The results correspond with Willemse (2012)'s findings where it was also noted that there were high levels of competition at the markets.

Research also revealed that maintaining stock levels was a problem. The informal traders experience severe cash flow problems which have a ripple effect on their ability to manage their businesses profitably and maintain sufficient levels of stock. Similar results were obtained by Willemse (2012) who argued that most informal traders are unable to maintain sufficient stock levels due to the little profit they make as well as poor business management skills. The traders were also seen to lack business management skills. Lack of business management skills and business know-how is a major constraint impeding the growth of small and informal business operators (Njaya, 2014). It is implicit that informal traders should be skilled through training them in financial management in order to maximise their returns.

5. Conclusions

Based on the literature review and study findings it was concluded that the failure of the formal sector to provide jobs to those that are willing to work has been the major driver towards informal trading activities as people seek to earn a living. The experience of poverty and the need to support families through the provision of supplementary income was the main reason why people join the informal sector. Low wages in the formal sector and also termination from previous employment also pushes people into informal trading. The importance of informal trade cannot be overemphasized in terms of job creation. More so, the engagement in informal trading reduces household poverty. The incomes generated by the traders enhance their ability to cater for household needs. By partnering with this sector; government can ensure that developmental objectives such as poverty alleviation, job and wealth creation are attained. For most people involved in the sector it is the only source of livelihood. The informal trading sector faces various challenges such as shortage of capital to expand their businesses, competition from unregistered operators.

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