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# **Informal Sector Development: A Strategy for Alleviating Urban Poverty in Zimbabwe +**

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## **ABSTRACT**

The World Bank, quoted in Mhishi (1998) estimated urban poverty in Zimbabwe in 1990/91 to be 12%. The 1995 Poverty Assessment Study found that urban poverty was now 39%. What is evident from these statistics is that urban poverty is increasing at unprecedented levels. What is also evident from studies that have been carried out is that those caught up in urban poverty resort to the informal sector as a survival strategy. Of concern also is the likelihood of more people living in cities than in rural areas in the next millennium. The past eight years of "structural adjustment without growth" unleashed massive retrenchments in both the public and private sector, and as we embark on the second phase of the reform programme, there are indications that the formal sector will shrink even further. It is therefore evident that the only sector with potential to create more jobs is the informal sector.

It is against this background of increasing urban poverty, urbanisation and declining formal employment opportunities that his paper puts forward some suggestions for promoting the growth of the informal sector.

## **Introduction**

Why should we be concerned about urban poverty alleviation in Zimbabwe? 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 socioeconomic conditions of the urban poor.

Second, urbanisation trends in developing countries point to a growing concentration of people in cities. According to a Time Magazine report quoted in Hall (1993:9) it is observed that, towards the close of the 1990s, more people will live

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in and around cities, than in rural areas. While this growth is obviously a result of natural urban population increases, rural to urban migration in an attempt to escape from rural poverty is the major causal factor. Unfortunately, this incessant flow of rural populations to cities shifts the main burden of poverty to cities. Third, in spite of urban-biased development initiatives, as of now, there are no comprehensive poverty alleviation programmes focusing on the urban poor.

Poverty alleviation, and its eventual elimination now occupies a central position on the development agenda of many developing countries, particularly in Africa, where poverty remains a pervasive problem. However, in spite of the prominence accorded to poverty alleviation in development plans, there remains considerable doubt as to how this can be achieved. This often arises because planners and policy makers have different ideas on the causes of poverty and how it can be effectively addressed.

However, broadly, causes of poverty and how it can be addressed can be viewed from three viewpoints, that is modernisation, dependency and developmentalist perspectives (theories). 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 to poverty is perceived to be in rapid industrialisation and the achievement of economic growth targets.

Some of the measures that have to be adopted include the weakening of traditional institutions and cultural values which are viewed as being an obstacle to development. 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 therefore believed that 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.

However, in spite of the wholesale adoption of the prescriptions of modernisation theorists, the results for most of the developing world are disappointing. Poverty in these countries has worsened. Unfortunately for most of these countries, the international monetary giants, the International Monetary Fund and the World Bank which fund their Structural Adjustment Programmes are inspired by modernisation ideals. It is therefore not surprising that in Zimbabwe, poverty alleviation, particularly in urban areas, has not received much attention. As Hardiman and Midgley (1982:51) point out, the view that poverty is a result of "*laziness, insobriety and irresponsibility*" which was dominant in the eighteenth and nineteenth centuries still prevails.

The dependency school on the other hand attributes the chronic poverty existing in developing countries to the dominance of international capital through the control of world markets (international trade), capital and technology by the first

world. Colonial and neo-colonial exploitation have guaranteed the continued domination of the poor countries of Africa, Asia and Latin America. Poverty of the people in Third World countries is therefore functional as it promotes the continued prosperity of the developed countries, a case of one group of countries (the First World) thriving as a result of underdevelopment in the other (Third World).

Dependency theorists (Prebisch, 1963; Dos Santos, 1973) advocate for the cutting of ties with the First World if poverty is to be reduced. Developing countries, it is argued should fight domination and dependency if they are to deal with poverty effectively.

Developmentalists also reject the prescriptions of the modernisation theory, and while there is recognition of the need for 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. This is consistent with the Brandt Commission Report (1980:49), which cautions that,

*".... no concept of development can be accepted which continues to condemn hundreds of millions of people to starvation and despair."*

Of interest to this paper is the adoption of the informal sector strategy in the fight against poverty which, among other strategies, is advocated for by developmentalists.

It is clear that there is controversy on the explanations of the causes of poverty and the strategies to address this problem. However, in order to effectively assault poverty there is need to have a thorough understanding of its causes. As we reminisce on the poverty unleashed in the past eight years of "structural adjustment without growth," and embark on the second phase of economic reforms, the pursuit of a developmentalist approach to development holds the greatest potential to poverty alleviation. In particular, the development of the informal sector promises to empower the poor to meet their basic needs.

The informal sector has also not been spared the controversy associated with the causes of poverty and the resultant interventions. As Hansen (1991:1) succinctly points out:

*"There are many different viewpoints from which one can observe the informal sector. It can be viewed in a positive way as a provider of employment and incomes to millions of people who would otherwise lack the means of survival. It can be viewed more negatively as a whole segment of society that escaped regulation and protection. It can be romanticised as a breeding ground of entrepreneurship which could flourish if only it were not encumbered with a network of unnecessary regulation and bureaucracy. It can be condemned as a vast sea of backwardness, poverty, crime and unsanitary conditions. Or it can simply be ignored."*

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 the increasing levels of urban poverty in Zimbabwe, it is important to seriously consider ways of promoting the informal sector.

## Urban Poverty: Past and Present

Though there are numerous definitions of poverty, a common thread which runs through these conceptualisations is the view that poverty is evidently a multidimensional phenomena with complex linkages. Muzaale (1986) describes poverty as more than just a physiological phenomenon denoting a lack of basic necessities like food, health, shelter and clothing. Poverty is also a state of deprivation and powerlessness, where the poor are exploited and denied participation in decision-making in matters that intimately affect them.

Muzaale's definition is consistent with that of the 1997 Human Development Report quoted in Kaliyati (1998) which articulates three perspectives of poverty. These are the *income* perspective which makes use of a poverty line, below which (income) one is considering to be poor. The second is the *basic needs* perspective which considers the inability to meet the basic necessities of life as poverty. Yet another definition is the *capability* perspective which regards powerlessness and the consequent inability to satisfy basic needs as poverty.

Poverty can also be conceptualised in physiological and sociological terms, that is *absolute* and *relative* poverty. Absolute poverty is an extreme form of human deprivation where the basic needs such as food, clothing and shelter that are fundamental to existence are unmet. Situations where individuals or groups in society are unable to meet the standard of living taken for granted by others in that society is referred to as relative poverty. It is important to point out at this stage that absolute poverty aptly describes the socioeconomic status of the majority of the people in Zimbabwe's cities.

Prior to independence, the indigenous Africans were regarded as temporary residents in urban areas. Permanent urban settlement was for the white settlers. Consequently, Africans who were destitute or had been made redundant in the formal sector were repatriated to their rural homes where it was conveniently believed they had a piece of land and relatives who could meet their social security needs.

Legislative measures such as the Vagrancy Act (1960), the Pass Laws, the provision of single accommodation for workers and the controlled lodger system implemented in 1955 effectively slowed down the rate of urbanisation. Muni-

palities also kept registers of all the new arrivals in town, and those looking for employment, in an attempt to weed out illegal immigrants.

Throughout the colonial era wages for blacks were pathetic. By December, 1976 about 80% of the urban workers received wages below the poverty datum line then, of Z\$76 (Riddell, 1978). Riddell further points out that there were then more people below the poverty line than there were in 1957, indicating that poverty was increasing. Chronic unemployment and underemployment had also developed owing to the failure of the economy to absorb the labour supply.

Urban poverty prior to independence was characterised by malnutrition, poor and unacceptable housing conditions, poor sanitation and low wages. However, because of the measures that were in place to contain the rate of urbanisation and the repatriation of Africans to their rural homes, poverty was to some extent shifted to the rural areas. When urban existence became a problem most Africans relocated to their rural homes where extended family support structures would shoulder the burden of providing for their welfare needs.

Therefore, throughout the colonial era, it was conveniently believed that poverty had not reached unacceptable levels, for information on its extent was deliberately not documented. As Mundy (1995) observes,

*"publishing data on poverty is asking for trouble as the reactions to it are likely to be determined by the readers' politics."*

It is also not surprising that only four Poverty Datum Line Studies (in 1994, 1958, 1974 and 1979) were carried out before independence.

In spite of measures to try and contain the rate of urbanisation, urban poverty was threatening to get out of hand in the 1970s as more and more Africans became urbanised. The war period also contributed to an increased urban population as increasing numbers of people left the countryside for the security that was found in urban areas.

## **Urban Poverty in the Post-Independence Era**

With the advent of independence the floodgates were opened as most of the restrictions to the migration of the indigenous people to urban areas were removed. Consequently, there was a massive movement of people from rural to urban areas. This was in an attempt to escape from rural poverty as the successive colonial regimes neglected the development of rural areas. At the time of independence urban poverty had become institutionalised.

At independence, Zimbabwe inherited a highly polarised and dualistic society where the majority of the people in both rural and urban areas lived in abject poverty. Urbanisation occurred at a very fast pace, far exceeding the rate of industrialisation. The population in Harare was estimated to be increasing by between 5-6% and that of Bulawayo by between 6-8% (Population Census, 1992). This led to overstretched infrastructure, straining of social services, unemployment and an acute shortage of housing.

Owing to inadequate resources to fund the expanded social services (free primary education and health for the poor) and an economy that was performing badly, Zimbabwe was forced to adopt the Economic Structural Adjustment Programme towards the end of 1990. According to the Government of Zimbabwe (1991) the aim of the adjustment programme was to stimulate investment, thereby enabling the economy to achieve higher levels of economic growth.

Although the first phase of structural adjustment has in some cases resulted in some qualitative improvements in the standards of living, it has worsened urban poverty. In its monthly report of September 1994, the Mutare City Council bemoans the adverse consequences of the introduction of the Economic Structural Adjustment Programme. In this report it laments that,

*"one area that really bothered council was the increase in rent arrears as residents' income degenerated as a result of increased prices, devaluation of local currency and the increased retrenchments"* (Mutare City Council 1994:23).

This problem is common in Zimbabwe's urban councils and much worse in the major cities.

Retrenchment in both the public and private sector is also a major cause of urban poverty in Zimbabwe as this is occurring on a massive scale. The Business Herald of 16 July 1998 reveals that the country's unemployment rate is estimated to be about 40% and that the job market is likely to continue declining. In the same article it is also observed that nearly 10% of the total mining labour force were retrenched in the last half of 1997 as a number of mines closed down owing to depressed mineral prices. Makamure, an economist, quoted in the same Business Herald, asserts that if the situation does not change the unemployment rate could reach 60% by the year 2000.

It is also evident from the 1996 Poverty Assessment Survey that urban poverty is extremely high. The study found that 39% of the population in cities was in a situation of poverty (Ministry of Public Service Labour & Social Welfare, 1996). The reduction of expenditure on social services, and worse still the removal of subsidies, which are preconditions for continued financial support from IMF and

World Bank, has pushed the prices of basic commodities beyond the reach of the poor in both rural and urban areas. Even for the privileged few in formal employment, the cost of living has become unaffordably high. The World Bank report quoted in Mhishi (1998) shows that real wages in Zimbabwe fell by 30% between 1990 and 1994.

Evidence of urban poverty abounds: there is a proliferation of squatter settlements in almost all the cities, people sleeping in the open on pavements and shop verandas is a common sight; beggars and street kids now litter most of the streets in urban centres as they struggle to make ends meet. The street kids are driven to the streets largely because of the poverty of their parents. The violent food riots which occurred in most of the cities in February 1998 clearly indicate the desperation of most urban households.

The urban poor are mainly concentrated among the unemployed and those in relatively low-paying jobs, the elderly or disabled person-headed households, children (especially those on the streets), female-headed households and those households with one source of income. Though the government put in place a number of social safety nets to mitigate the adverse effects of the structural adjustment programme, the orientation of these social safety nets seems to be the alleviation of poverty among the poor in rural areas. In a study by Kaseke, Gumbo & Dhembha (1997) it was found that the social safety nets (drought relief food, free food distribution and child supplementary feeding) are targeted only at the rural poor. The urban poor have been neglected in poverty alleviation programmes and yet the level of poverty in these areas is very high.

However, though the Social Assistance Scheme and the Social Development Fund (welfare component) cater for both the urban and rural poor, many fall through these safety nets. As Kaseke (1998) points out, a very small proportion of the destitute population receive assistance owing to serious underfunding of these schemes. Dhembha (1998) also contends that even for the few who are able to access the fund, the monthly allowances are only Z\$100 per adult, which by any standards falls short in meeting the basic needs of beneficiaries.

The urban poor in Zimbabwe are therefore a forgotten lot in poverty alleviation programmes. Sadly, this is at a time when urban poverty is increasing at unprecedented levels. Urban poverty alleviation should now take centre-stage in all development endeavours.

## **The Development of the Informal Sector in Zimbabwe**

Informal sector enterprises have the following characteristics:

- a) they are small, and labour-intensive;
- b) they are generally family-organised;



- c) they are unregulated and subject to high levels of competition;
- d) they relate directly and personally to their clients;
- e) they use local materials and are efficient at recycling materials;
- d) they experience a serious scarcity of capital and do not have access to credit from financing institutions;
- e) they are rarely recipients of government or foreign aid (Santos, 1975:38).

There is wide acceptance of the above characteristics as defining the status of the informal sector (Mupedziswa, 1991; Sethuraman, 1981; International Labour Organisation (ILO), 1972; Brand, 1986). This definition also succinctly summarises some of the problems confronting the informal sector.

In Zimbabwe the informal sector can be said to have emerged by default and not by design. 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 enacted to frustrate the growth of informal sector activities. Local authorities had the unenviable task of enforcing this network of regulations and by-laws.

This colonial legacy still obtains in independent Zimbabwe as Mupedziswa (1991) observes that all enterprises are required to register with a statutory or a government authority. However, to circumvent these problems most operators just operate illegally. Despite the efforts to stifle its growth, the informal sector emerged to become a "major employer" by the late 1970s (Davies, 1978).

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.

The rapid growth in the number of increasingly educated people unable to penetrate the formal sector inevitably means that they must and will have to fend for themselves. The Business Herald (1998) reveals that out of 300 000 school leavers churned out by the country's education system, the formal sector only has room for 70 000. The remaining 230 000 thus have to find their own means of earning a living.

In a study of the urban informal sector carried out in Harare, Bulawayo and Gweru it was found that the decline in real household incomes and retrenchment provided new entrants to the sector (Mhone, 1993). The safety net function of the informal sector is very evident from this study.

The labour-intensive nature of informal sector enterprises is also an important factor. In a study of "Small Scale Production Enterprises in the Greater Harare Area," Mupedziswa (1994) found that 50% of the operators employed four or more people in their ventures. It has also become evident that the informal sector can generate more jobs with smaller capital outlays unlike the large-scale formal sector activities.

As Maliyamkomo & Bagachwa (1990) point out, the informal sector has a great potential for rapid expansion once opportunities and incentives are present. They also view the informal sector as being relatively more labour-intensive, more efficient and more profitable as it realises savings on skilled labour and foreign exchange. This has the effect of reducing vulnerability to external shocks, unlike the formal sector which is very susceptible to such influences.

Though estimates on the size of the informal sector in Zimbabwe differ, MacPherson (1991) estimated the sector to be 27% of total employment. Davies (1978) estimated that the sector employed more than 450 000 people.

In a study of informal sector activities in Magaba, Harare, Brand (1986) found that a significant percentage of the operators were content with their earnings and were not prepared to take up formal employment even if the opportunity arose. Informal sector operators also have the flexibility to supply goods and services for low-income groups at affordable prices.

It is therefore evident that the informal sector can alleviate poverty among the urban poor.

## **Informal Sector Development and Poverty Alleviation: Suggestions for the Way Forward**

While the informal sector holds much potential to alleviate urban poverty, its continued growth is constrained by a number of problems. The major constraints include legal and regulatory impediments and difficulties in accessing capital. Mupedziswa (1991:22) articulates some of the access barriers and other bottlenecks as including the following:

- a) lack of capital;
- b) lack of premises to operate from;
- c) negative by-laws which lead to harassment of operators;
- d) poor marketing facilities and too much competition;
- e) spiralling prices (and sometimes unavailability) of raw materials;
- f) inadequate skills and lack of facilities to upgrade skills; and
- g) lack of tools and machinery.

The most serious problems are the lack of capital and restrictive by-laws and legislation. Mupedziswa's (1991) study found that the 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. Their lack of collateral security has often been cited for denying them access to credit.

Very often informal sector operators have to be based at premises sanctioned by the relevant authorities. Such places are not necessarily strategic (in terms of customer traffic) for the operators and this affects their enterprises negatively. The process of obtaining a workplace is also frustrating and often cumbersome for regulations require that they be registered and that their proposed ventures be approved.

In adopting the informal sector 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 the operators. It is also through the organised efforts of the informal sector operators themselves that lasting improvements to their situation can be realised.

In view of the discussion above, the following suggestions for the way forward are made.

### ***a) Adoption of a multi-sectoral approach in urban poverty alleviation***

Urban poverty alleviation should not be the sole responsibility of local authorities. The state, non-governmental organisations and local authorities should work together. Mobilisation of resources from these stakeholders would go a long way in reducing urban poverty. Local authorities in Zimbabwe are experiencing serious cashflow problems and would not be in a position to extend financial and other assistance to informal sector operators without the participation of other players.

In a study of poverty in Kadoma in 1998, Gumbo found that there was not a single non-governmental organisation that was active in the town, let alone involved in poverty alleviation efforts. It is important therefore to sensitise non-governmental organisations about urban poverty and to involve them in strengthening the informal sector. In the same study, Gumbo found that there was not much coordination among state agencies and the local authority in addressing poverty. The Ministry of National Affairs and Employment Creation, the Department of Social Welfare and the Municipality of Kadoma were not working in unison and

yet poverty alleviation was a common concern. Local authorities should therefore play a coordinating role at their level to ensure that the informal sector gets the support that it requires.

### ***b) Informal sector-friendly by-laws and legislation***

There are various controls that militate against the success of the informal sector and very often the operators are harassed by the police for engaging in activities that are considered to be illegal. In view of the potential of the informal sector to expand employment opportunities in an environment where the formal sector is shrinking and thereby condemning thousands of people to destitution, the sector needs to be promoted.

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

### ***c) Strategic location of work premises***

In some cases, work premises for informal sector operators have not been strategically located owing partly to zoning requirements. In addition, the workplaces in all the cities are seriously inadequate given the potential of expansion of the sector. Availability of workplaces provides security of tenure for the operators, and this helps for purposes of development of the sites and putting in place supportive infrastructure and services. It is therefore important that local authorities provide adequate workplaces at strategic places.

It is also important to ensure the participation of the potential beneficiaries in the location of workplaces for operators. A situation where decisions are made without their participation can be costly when there are no takers of such workplaces and potential beneficiaries locate themselves elsewhere. It is therefore of paramount importance that local authorities work closely with informal sector operators.

### ***d) Extension of credit facilities and training opportunities for informal sector operators***

One of the major constraints facing informal sector operators is the unavailability of credit facilities. While their capital requirements are very low compared to formal sector investment levels, such assistance has not been forthcoming. Financial institutions such as banks and government agencies like SEDCO demand

elaborate project proposals and collateral security which the informal sector operators cannot provide. The plight of these operators is also compounded by the fact that most of them are operating at unregistered premises and do not have title deeds. Financial institutions therefore find it very risky to extend loans to operators of no fixed abode.

There is therefore need to create a revolving fund at the local authority level which can be accessed by the operators. The seed money can be mobilised from NGOs, the state through the Ministry of National Affairs and Employment Creation, financial institutions such as SEDCO and other development agencies.

In Masvingo, the Informal Sector Training and Resources Network (ISTARN), which is a brainchild of a bilateral agreement between the governments of Zimbabwe and Germany, has set up informal sector associations in the province. ISTARN provides training support in relevant skills and it has also set up a revolving fund for the operators. In addition it has also set up a tool bank scheme, whereby it loans tools to the operators. Local authorities could adopt this model as a strategy for making credit and training accessible to the operators by working in collaboration with other agencies.

#### ***e) Sub-contracting informal sector operators***

Large retail chain stores in the major towns have been reported to be buying goods such as furniture from the informal sector which goes to show that some of the operators produce good quality products. Local authorities could also consider awarding tenders and subcontracting informal sector operators as a way of supporting them.

#### ***f) Facilitating the formation of informal sector associations***

The setting up of informal sector associations is long overdue. It is important that informal sector operators organise themselves to form associations in their respective areas. The author has already alluded to the fact that legislation has been promulgated and by-laws effected without the involvement of the informal sector operators in the policy formulation process. If the operators were organised it would make it much easier for central and local government to involve them. Dealing with an unorganised population can be very complex and problematic.

Local authorities should therefore facilitate and initiate this process in order to enhance the transformation of the informal sector. Informal sector associations could also be assisted to form subgroups for purposes of raw materials procurement (procurement cooperatives) and marketing (marketing cooperatives). Such groups could then benefit from quantity discounts if they buy in bulk. Marketing arrangements would also help to reduce competition among themselves. Such measures can help to strengthen informal sector enterprises.

### ***g) Establishment of an informal insurance fund***

There seems to be fatigue in the donor community to finance poverty alleviation programmes in developing countries. It is therefore incumbent on the informal sector operators to set up an informal insurance fund whereby members are required to make regular contributions. The fund would have to be managed by the informal sector operators themselves. Such a fund is necessary in view of the demand for collateral when operators apply for loans from financial institutions. Such a fund could then be used for purposes of collateral and also for underwriting unserviced debts by members. However, this can only be successful if the operators form strong associations.

## **Conclusions**

Urban poverty has become the major social problem of our time. Unfortunately, local and central government have over the year thwarted self-help efforts of the urban poor, who owing to the scarcity of formal employment have created their own jobs by engaging in informal sector activities.

It is also evident that we are faced with a time bomb as prices of basic commodities escalate against a background of diminishing incomes or no income at all. What is also evident is that as long as there is mass urban poverty the informal sector is there to stay. It is therefore imperative that an informal sector strategy be adopted in urban poverty alleviation.

To bring about urban 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 for it to play a poverty alleviation role through the extension of credit and training facilities, mobilisation of non-governmental organisations and other agencies in urban poverty alleviation, and to put in place a coherent set of policies and institutions.

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