

GIVING VOICE TO THE  
UNPROTECTED WORKERS IN  
THE INFORMAL ECONOMY IN  
AFRICA:  
THE CASE OF ZIMBABWE

PAPER PREPARED FOR THE ILO/SRO-HARARE

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## 1. Introduction: The Informal Economy Defined

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Some 30 years ago, in 1972 to be exact, the ILO published a study focusing on a group of workers and small enterprises outside the formal economy in Kenya and Ghana, referring to them as the 'informal sector.' Then, the study presumed that this 'sector' was a transitory phenomenon that would disappear with development. As we now know, the 'sector' has not only endured the test of time, but it has also expanded massively. Instead of the expected formalization of the informal economy with development, it is the informalization of the formal economy that has occurred, especially during the globalization of the last decade. Gallin (2002) argues that under the current phase of globalization, the modern trans-national corporation has transformed itself from being a producer to a coordinator of production carried out by others on its behalf. This change has a) seen a reduction in permanent full-time workers, b) decentralized production and c) resulted in subcontracting most activities and relying on unstable forms of labour – casual, part-time, temporary and seasonal. Labour market deregulation has shifted responsibility for income, benefits, and other conditions to the individual worker, which has resulted in the flexibilization (informalization) of work.

As defined in the Report of the Director-General to the International Labour Conference in 1991, the informal economy refers to:

*Very small units producing and distributing goods and services, and consisting largely of independent, self-employed producers in urban areas of developing countries, some of whom employ family labour and/or a few hired workers or apprentices; which operate with very limited capital, or none at all; which utilize a low level of technology and skills; which therefore operate at a low level of productivity; and which generally provide very low and irregular incomes and highly unstable employment to those who work in it. They are informal in the sense that they are for the most part unregistered and unrecorded in official statistics; they tend to have little or no access to organized markets, to credit institutions, to formal education and training institutions, or to many public services and amenities; they are not recognized, supported or regulated by the government; they are often compelled by circumstances to operate outside the framework of the law, and even when they are registered and respect certain aspects of the law they are almost invariably beyond the pale of social protection, labour legislation and protective measures at the workplace. (ILO, 1999a, 1)*

The majority of the participants in this 'sector' are at the bottom of the economic and social ladder, enduring precarious work, and irregular and insecure incomes with little or no access to social security. Because of the non-application of the law and the absence of collective representation, these workers and entrepreneurs remain extremely vulnerable. The term 'informal' itself reflects the lack of recognition or protection within a legal and regulatory framework. Under the apt terminology of the ILO, the informal economy suffers from a deficit of decent work (ILO, 2002), its key defining characteristics being that such work is 'unprotected', 'excluded', 'unrecognized', or 'unrepresented.'

The concept of the 'informal sector' has generated its own controversy. Some have objected to the concept of informality, arguing that it is judgemental, and gives the impression that those in it are 'irresponsible and unreliable' (Castillo et al., 2002). Much of the controversy has however centred on the reference to 'sector'. Critics, especially trade unionists, have argued that the traditional concept of informal 'sector' is flawed and misleading in that it seems to refer to components that tend towards homogeneity, and yet in practice diversity (heterogeneity) characterizes it (ibid.; Davies, 1978; Justice, 2002; ILO, 2002, among others). In the words of Justice (2002, 8), 'By robbing work of its sectoral context, the term 'informal sector' was making it more difficult to address issues related to the transition of this work into the mainstream economy and making it easier for governments to avoid employment policy and governance.' (op. cit., 8). He goes on to argue that 'The single entity notion promotes other bad ideas. It becomes easier to look for, and hence discover, the same underlying causes for different phenomena even where none are shared. This makes it easier to overlook important distinctions.' (ibid., 8)

As a result of such criticisms, defenders of the informality concept retreated to the term 'informal economy,' even though it still contains the same conceptual weakness of denoting a distinct and separate entity. It is for this reason that those who object strongly to the concept of informality use alternative terms such as 'independent work', 'private work', 'self-employed', 'autonomous', 'sub-employed', or 'micro-entrepreneurs'. Mhone (1996) recommended the use of neutral terms such as 'micro-enterprises' or 'small-scale enterprises'. Consequently, the literature on this issue can at times be confusing as different researchers use different terms'. Justice (op. cit.) suggests that instead of identifying workers or work that is considered 'informal', it may be better to focus on workers and work that are 'unprotected', 'excluded', 'unrecognized', or 'unrepresented' as this acknowledges the multiplicity of situations and points towards a multiplicity of responses. Be that as it may, 'Discarding the informality concept will not be easy – it has established a remarkable grip on our thinking.' (ibid.)

Some studies have used the concept loosely to include those activities that, because of the low incomes they generate, cannot afford the cost of legality and those that, though profitable, deliberately choose not to comply with regulations in order to evade taxes and other laws (see, for instance, studies in ILO, 1999b). However, the standard ILO definition excludes the 'hidden' or 'underground' economy (ILO, 1999a). In other words, those activities that deliberately defy the law are not included as they are not associated with survival strategies of the poor. For the same reason, criminal and socially undesirable activities (e.g. drug trafficking, prostitution) are not included. However, with the extension of the concept to cover the informalization of the modern economy (recourse to casual, part-time, contract, and other forms of precarious work), the concept appears extended and 'grey areas' remain.

Excluding agriculture, the informal economy accounts for 72% of those in work in sub-Saharan Africa, 65% in Asia, 51% in Latin America, and 48% in North Africa. In the European Union, 30% of workers work outside the standard framework, while in the USA, one in every four workers is in this situation, with fewer than 20% of the nation's part-time workers having the cover of a health insurance scheme or an employer-supported pension plan (Nathan, 2002). According to the 1977-98 World Labour Report, , 61% of the

urban labour force in Africa was employed in the informal economy, and accounted for 93% of the new jobs created during the 1990s. Employment in the urban informal economy of sub-Saharan Africa was estimated as having expanded at an annual average rate of 6.7% between 1980 and 1985. At the time of the ILO mission in 1972, the informal economy in Kenya accounted for only 10% of total employment, but had risen to 63% by 1996, accounting for two-thirds of the country's additional annual jobs by 1999 (Mwamadzingo, 2002; Chune and Egulu, 1999). According to Gharthey and Dorkenoo (2002), about 86% of the labour force aged 15 to 64 in Ghana is engaged in the informal economy. Furthermore, the observed feminization of poverty has resulted in women dominating the informal economy. Women account for 60-72% of participants in the urban informal economy in Ghana, Kenya and Zambia (Mwamadzingo, op. cit.). In the case of Kenya, the proportion of women in the informal economy increased from 39% in 1977 to 56% by 1986 (Chune and Egulu, op. cit.).

The manner in which the informal economy has been viewed has changed over time. The 1991 International Labour Conference considered what it termed 'The Dilemma of the Informal Sector,' defined in terms of 'whether to promote the informal sector as a provider of employment and income; or to seek to extend regulation and social protection to it and thereby reduce its capacity to provide jobs and incomes for an ever expanding work-force'. However, at the 2002 Session, there was a marked shift in position, with the perceived dilemma reduced to a false alarm because the jobs to which it referred were of the survivalist type and not decent ones. In particular, it was particularly pointed out that within the framework of decent work, 'quality is not divisible from quantity.' Nathan (2002)) makes it clear that workers are not there just to survive and emphasizes their need for basic rights and protection through legislation. As she stressed, '... workers need jobs with all the dignity and rights that go with them,' (ibid.)<sup>2</sup> This issue had also been the subject of a trade union international symposium organized by the Bureau for Workers' Activities (ACTRAV) in 1999 (ILO, 1999b). In this regard, the unequivocal position taken was that the informal economy has to be integrated into the mainstream of the economy by addressing the work deficits through the provision of a legal and institutional framework for protection and ensuring that the workers have a 'voice'.

## 2. The Informal Economy in Zimbabwe

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2.1 The Pre-Economic Structural Adjustment Programme (ESAP) Period: 1980-91

With independence in 1980, Zimbabwe inherited a relatively small informal economy. As explained in various studies, the position and role of the informal economy in Zimbabwe was largely carved out by the dual and enclave nature of an inherited economy where a highly protected and favoured formal (modern) economy co-existed with a largely marginalized non-formal (communal and informal) economy ( Mhone, 1993; 1992; Mkandawire, 1985; Aryee and Mhone, 1985). Mkandawire (op. cit.) observes that the relative small and insignificant size of the urban informal economy in Southern Africa at the time of Zimbabwe's independence derives from the legacy of settler colonial policies that created a reserve labour supply in rural areas, and controlled African urban settlements and economic activity through apartheid-style policies that inhibited free movement from rural to urban areas. The colonial governments denied the existence of the informal economy and refused to recognize the phenomenon of unemployment (see Davies, op. cit.).

Zimbabwe's post-independence government officially acknowledged the existence of the informal economy and scrapped the restrictive migration laws, thus enabling 'informal' activities to become more visible and grow.<sup>3</sup> Government's first economic policy statement, entitled 'Growth with Equity' (1981), provides a clear policy position on the informal economy, declaring that it would provide the 'sector' '... with the necessary infrastructure and assistance to promote productive employment.' The Transitional National Development Plan (TNDP) for 1982-85 made an analysis of the origins, composition, and problems of the informal economy and provided some recommendations on the way forward. It explained that its existence was linked to rapid population growth, the failure of the formal economy to absorb the new entrants into the labour market, rural-urban migration, and the rising cost of living.

As a result of the more relaxed environment, the hitherto blocked movement of reserve labour migrated into urban areas, as evidenced by the growth of the urban population, which increased from 13% of the total in 1960 to 23% by 1980. Due to the failure in formal land economy jobs, such persons had to make do with secondary jobs in the informal economy. According to the Labour Force Survey of 1986/87, the labour force in Zimbabwe at that time amounted to 4.3 million people, with an employment rate of 71%. The proportion of the labour force in formally-paid work declined from 47.4% in 1982 to 37.9%, while that of communal farming expanded from 42% to 60%, with informal economy employment increasing from 10% to 20% during the same period. The rate of unemployment, however, decreased from 18.4% in 1982 to 15.9% in 1986/87, largely because of the expansion of the communal and informal economies. In its definition of the informal economy, the 1986/87 Labour Force Survey included peri-urban self-employed farmers producing vegetables for the urban. Such workers constituted 65% of those engaged in informal economy. If this group is discounted, those engaged in wholesale, retail, restaurants, and services accounted for about 73% of participants, which led Mhone (1993) to conclude that the urban informal economy is dominated by persons engaged in activities that are prone to lateral expansion and with low value-added.

Of the several studies undertaken during the pre-ESAP period under review (1980-1991), two are particularly outstanding in terms of their depth and coverage. The first study commissioned by government to look more closely at the informal economy was undertaken by ILO/Southern African Team for Employment Promotion (SATEP) in 1985.<sup>4</sup> The second study, the Gemini Survey, commissioned by USAID to map out the basic parameters of micro-enterprises in Zimbabwe, was published in 1991, and was the most comprehensive countrywide study for this period.<sup>5</sup> These two studies provide a good basis for assessing the development of the informal economy during the pre-ESAP period when the country's economic strategy was essentially inward-looking and based on import substitution industrialization.<sup>6</sup>

The ILO/SATEP study was the first systematic research on the informal economy in Zimbabwe that involved case studies and some fairly extensive sampling of four urban areas and growth points. It found that more than 60% of participants in the informal economy in Zimbabwe joined it from the formal economy or because of failure to obtain formal employment; the remaining 40% joined it on a discretionary basis. Once in the informal economy, the study found that these workers were reluctant to rejoin the formal economy unless the wages in the latter were double their current ones. The average number of participants per enterprise was put at 2-3, with 59% of the helpers being family members, and the proportion of owners to helpers was almost one-to-one, as is reflected in Table 1 (below).

**Table 1: Status of Person Engaged in the Informal Sector**

Owners/proprietor	50.4
Family worker	29.6
Wage-earner/apprentice	20.0
Total	100
Number of apprentices per firm	0.29

*Source:* ILO/SATEP, 1985.

The Gemini study estimated that there were about 845,000 micro-enterprises in the country, employing 1.6 million people (27% of the labour force), which works out at an average 1.8 people per enterprise. This therefore suggests that the share of informal economy employment in the labour force grew from less than 10% in 1982 to 20-23% in 1986/87 and 27% by 1991. The ILO/SATEP study (op. cit.) found the average number of employees per enterprise to be two, which is comparable to the figure established by the Gemini study (op. cit.).

The sectoral distribution of micro and small enterprises according to the Gemini study (op. cit.) is shown below, in Table 2.

In terms of sectoral distribution, the Gemini study contradicted the finding of the 1986/87 Labour Force Survey that the informal economy was dominated by trading-type activities. As Table 2 shows, manufacturing activities were predominant, accounting for 70% of all activities, with trading representing 23% and services only 3%. This contradiction can however be explained by the fact that the Gemini study included home-based activities, which accounted for 75% of all informal economy activities. Thus, the definition of the informal economy can result in radically different results. The typical enterprise (70%) is a one-person venture, with 15% having two employees,

12% having between three and five workers, 2% with six to ten workers, and only 1% with more than ten workers.

**Table 2: Sectoral Distribution of Micro and Small Enterprises in Zimbabwe in 1991 (Percentages)**

Sector	Urban Areas (%)	Rural Areas	Total (%)
Food, beverages, tobacco production, textile, clothing	0.5	10.4	7.2
Leather production	54.6	23.3	33.3
Wood & wood processing	3.2	28.2	20.2
Paper, printing & publishing	0.1	-	-
Chemical & plastics	0.1	0.1	0.1
Non-metallic mineral processing	0.3	5.8	4.0
Fabricated metal & production	1.5	2.5	2.2
Other manufacturing	4.4	1.7	2.6
<b>Total – manufacturing</b>	<b>64.6</b>	<b>72.1</b>	<b>69.7</b>
Construction	1.4	5.4	4.1
Wholesale trade	0.1	0.1	0.1
Retail trade	28.1	19.0	21.9
Restaurants, hotels & bars	0.6	0.6	0.6
<b>Total – trade</b>	<b>28.8</b>	<b>19.7</b>	<b>22.6</b>
Transport	0.5		0.2
Finance, Real estate & business services	0.1		
Services	4.6	2.8	3.4
<b>Total – all enterprises</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Source: Gemini Survey, 1991.

Women, who mainly operate from home, dominate both urban and rural micro-enterprises. Table 3 shows the gender of proprietor as reflected in the Gemini study (op. cit.).

**Table 3: Gender of Proprietor By Stratum Zimbabwe, 1991**

Gender of proprietor	Urban areas (%)	Rural areas (%)	Total (%)
Female	76.5	62.0	66.6
Male	21.9	36.2	31.7
Mixed Joint Proprietorships	1.6	1.8	1.7
Total	100.0	100.0	100.0

Source: Gemini Survey, 1991.

As shown in Table 3, women accounted for 67% of all micro-enterprises in 1991 (77% of urban-based and 62% of rural-based enterprises). However, women only accounted for 57% of the total number of people in informal economy employment. This reflected the tendency for male-owned enterprises to employ more people than female-owned ones. A typical male-owned enterprise employed 2.34 persons compared to 1.49 for a typical female-owned one. As Mhone (1993) points out, men tended to dominate in the more complex and relatively larger activities. While enterprises owned by men tended to provide the bulk of household income, with about 69% of such enterprises accounting for at least half the household income, those run by women typically supplemented family income, with only 45% of female-owned enterprises providing at least 50% of household income. According to

the Gemini study, female-owned enterprises grew at an average annual rate of 6%, while those run by men expanded at a much higher rate of 10%.

The Gemini study found that 70% of the micro-enterprises had at least one wage-earner in the formal economy but that only about 42% of the participants indicated that they depended on the micro-enterprise for more than 50% of their household income. Thus, in the majority of cases, income from micro-enterprises was seen as supplementary. The average age of enterprises worked out at 8.7 years in the case of the Gemini study (op. cit.) and a comparable 7.0 years for the ILO/SATEP study. Both studies observed that most micro-enterprises were established after independence. In the Gemini study, 66% of the activities were, as at 1991, at most only four years old, which suggests a high level of turnover and attrition.

Both studies found that the average age of participants in the informal economy ranged between 37 and 38 years, and that the average household size was 6-7 people. They concurred that the informal economy was not necessarily a transit point for rural-urban migrants since the majority of participants came in from the formal economy or were originally unemployed. In terms of educational qualifications, ILO/SATEP found that 54% of participants had completed primary education, compared to 60% in the Gemini study. Both studies also established that the proprietors had used very small start-up capital, and that this was mainly mobilized from formal sector savings from past employment or from borrowing from family or relatives. Loans from formal savings institutions were insignificant.

The two studies concurred that employment generation in the informal economy was largely through a lateral expansion in the number of firms rather than from growth in the size of enterprises. The Gemini study found that even though 81% of micro-enterprises in Zimbabwe either shrank or remained static, employment still grew by more than 6% per year. Both studies found that very little conscious training took place; participants indicated that their skills were either learnt on-the-job or from past formal economy employment. It was also found that participants in the urban informal economy worked more than eight hours a day for an average of about six or more days per week (Mhone, 1993). Data on income levels or returns were scanty in both studies. However, the ILO/SATEP study established average wages of Z\$72 per month, with a median of Z\$50 per month earned on the basis of 9-11 hour work-days spread over 6-7 days a week.<sup>7</sup> That study also revealed that certain activities such as carpentry, tailoring, and metal activities attracted incomes of Z\$268, Z\$192 and Z\$268 per month respectively, which were comparatively higher than in the formal economy. However, these accounted for a small proportion of informal economy activities.

In both studies, more than 80% of the respondents indicated that the bulk of their inputs were sourced from the formal economy. A similar finding, also by both studies, reflected the absence of any significant forward linkages from the urban informal economy to the formal one in terms of the latter providing a direct market outlet, with only about 3% sold to urban commercial business, rural commercial enterprises and the export market combined. The majority of the purchasers of the goods and services produced by the urban informal economy (more than 95%) were, in both studies, individuals from high and low income areas. Neither study came across any subcontracting of work from the formal to the informal economy.

The ILO/SATEP study found that 61% of the respondents suggested that competition was strong, and 90% indicated that such competition emanated from within the informal economy itself. Neither study found lack of demand to be a major constraint. In the ILO/SATEP study, lack of demand came third as a constraint after lack of credit/finance and lack of space and facilities. The Gemini study also placed lack of demand also in third place, after stock/raw materials and finance as current constraints. At the time of start-up, finance, demand and stock/raw materials featured as the three main constraints in the Gemini study. In fact, at the time it was being conducted, the Gemini study reported an increase in overall demand and in volume of sales at the time of the study. Interestingly, neither study found regulations to be a constraint; the Gemini study found that no more than 4% of the proprietors felt that the primary constraint came from government or regulations.

Clearly, therefore, the informal economy is a residual sector. This is borne out by the fact that 58% of participants in the urban informal economy relied on it as a source of supplementary income (Gemini study). Its role is to be defined and interpreted in terms of its relationship with the leading and dominant formal economy. There is a high level of over-employment in the informal economy, with most activities being characterized by low returns per period worked. In other words, the effort-price is very high indeed.

The following largely influenced the development of the informal economy in Zimbabwe during the pre-ESAP period:

- The legacy of regulations and controls that restricted labour migration, squatting and vending in urban areas during the colonial and post-colonial periods;
- Beneficiation from certain aspects of the import substitution industrialization (ISI) strategy that was implemented with great urgency following the Unilateral Declaration of Independence (UDI) and the subsequent imposition of sanctions by the international community. The post-independence government continued along this path until the advent of ESAP in 1991;
- The exhaustion of ISI. This limited the absorptive capacity of the formal economy and resulted in very few jobs being created in the formal economy during the period under review, which may in turn have resulted in the lateral expansion of the urban informal economy;
- The relaxation of colonial restrictions and the over-expansion of social services, especially in urban areas may have stimulated rural-urban migration, thereby increasing the pool of potential informal economy participants (Mhone, 1993).

While acknowledging its positive contribution to employment creation in the short-term, studies that looked at the informal economy during the period under review recommended that the long-term solution was to formalize and integrate it into the mainstream economy (ILO/SATEP, *op. cit.*; Mhone & Aryee, *op. cit.*; Mkandawire, *op. cit.*; Sachikonye, 1989; Gemini, *op. cit.*).



During the period following the implementation of ESAP in Zimbabwe (post-1991), a number of studies were carried out on the status and development of micro and small enterprises (SMEs). Prominent among these are the three Gemini nationwide surveys, which provide a strong basis for time series analysis and comparison. It is because of their depth and comparability that the analysis draws mainly from these three surveys, which used the same methodology and visited the same areas.<sup>8</sup>

Table 4 summarizes the findings of the three Gemini surveys in terms of the number of SMEs.

**Table 4: Number of Manufacturing, Commercial, and Service SMEs in Zimbabwe: 1991-1998**

Stratum	Number of SMEs in Zimbabwe			% change in SMEs, 1991-93	% change in SMEs, 1993-98	% change in SMEs, 1991-98
	1991	1993	1998			
Urban	254,667	255,541	331,251	0.3%	29.6%	30.1%
Rural	613,117	686,403	529,078	12.0%	-22.9%	-13.7%
Total	867,784	941,944	860,329	8.5%	-8.7%	-0.9%

Source: Gemini (1998), Table 4.1,27.

Gemini (1998) found that as at March 1998, there were 860,329 manufacturing, commercial, and service SMEs in the country, which represented a decrease of 8.7% over the figure for October 1993, and a decrease of less than 1% for the period 1991-98. Table 4 clearly shows that while there was an overall decline in the number of SMEs, there was nonetheless a massive growth in the number of urban SMEs, particularly after 1993. Despite recording growth of 12% during the period 1991-93, the number of rural SMEs declined substantially thereafter. These changes resulted in a restructuring of the distribution of SMEs, with urban-based SMEs increasing their share from 29.3% of the total in 1991 to 38.5% by 1998. This took place because the urban population was growing much faster than the rural population. Furthermore, most businesses were started and supported with remittances from family members. In view of the structural reforms and declining real incomes during this period, these remittances most likely declined. Most of these SMEs (88.3%) operated year-round, with more than 75% opening for at least 25 days a month and 75% for eight or more hours a day.

Table 5 shows the number of people employed in manufacturing, commercial and service SMEs between 1991 and 1998.

**Table 5: Number of Persons Employed in Manufacturing, Commercial, and Services SMEs, 1991-1998.**

Stratum	Number of persons employed in SMEs in Zimbabwe			% change in employment, 1991-93	% change in employment, 1993-98	% change in employment, 1991-98
	1991	1993	1998			

Urban	408,319	400,210	620,036	-2.0%	54.9%	51.9%
Rural	942,589	1,146,728	1,027,628	21.7%	-10.4%	9.0%
Total	1,350,908	1,546,938	1,647,664	14.5%	6.5%	22.0%

Source: Gemini (1998), Table 4.2, 27.

Table 5 indicates that as at March 1998, SMEs in manufacturing, commercial, and services employed 1.7 million people, of whom 91.1% were employed on a full-time basis. This represented a 6.5% increase over the 1993 employment level and 22% over the 1991 level. After growing by 14.5% between 1991 and 1993, by 1998 employment in rural SMEs had shrunk by 10%. However, having initially declined by 2% in 1993 from its 1991 level, by 1998 urban SME employment had risen by a marked 54.9% from its 1993 level and by 51.9% from the 1991 figure. From an initial growth of 21.7% in 1993 compared to 1991, SME employment in rural areas declined thereafter, dropping by 10.4% by 1998.

In spite of this slump, by 1998 rural SME employment level had improved on the 1991 level by 9%. Clearly, therefore, the number of employees in the SME sector grew faster than the number of SMEs, which suggests that the average size of firms increased during the period under review. Indeed, the average number of workers per firm increased over time from 1.56 in 1991 to 1.64 in 1993 and 1.91 in 1998. Before ESAP, it was the number of SMEs rather than their size that expanded. This change could be a result of the liberalization of the economy under ESAP. For urban SMEs, the average number of persons employed per firm initially dropped from 1.60 in 1991 to 1.57 in 1993 before rising to 1.87 by 1998. Average employment per enterprise increased consistently for rural SMEs, rising from 1.54 in 1991 to 1.67 in 1993 and 1.91 by 1998.

Table 6 reports the proportion of SME employment by employee type.

**Table 6: Proportion of SME Employment By Employee Type**

Employee type	Percentage of Total SME Employees
Working proprietors	64.6
Paid employees	19.1
Unpaid employees	15.6
Apprentices	0.7
<b>Total</b>	<b>100.0</b>

Source: Gemini (1998), Table 3.3, 12.

According to the above, working proprietors constituted 64.6% of SME employment, paid employees 19.1%, unpaid employees 15.6%, and apprentices 0.7%. Such structures often-present dilemmas for trade union work in the informal economy, and ambivalence of trade union action in the informal economy can be explained by the blurred distinction between owners and employees. Gemini (1991) found that about 60% of SME employment was made up of owners, with the remaining 40% being workers, of whom 57% were women. Earlier on, ILO/SATEP had found an almost equal division of employment between owners and workers. According to Gemini (1998), 91.1% of all SME employees worked on a full-time basis, 8.9% were part time (i.e. working less than 30 hours a week), and only 2.1% were children.

Over 99% of the proprietors in 1998 were black Zimbabweans, and over 80% were married with an average dependency load of 3.3 per proprietor. The

average years of experience in SME work was 8.81 years. This suggests that the age of SMEs has almost remained static between 1984 and 1998. In ILO/SATEP (1985) and Gemini (1991), the average age of the SMEs was 7.0 and 8.7 years respectively. Unlike earlier studies that suggested the majority of proprietors had primary education, Gemini (1998) found that most of them had secondary education (22% had some secondary education, while 25.4% completed secondary education). Gemini (1991) found that 60% of the participants had completed primary education, while ILO/SATEP (op. cit.) had 54% in this category. In 1998, only 19.3% had completed primary education while 20.2% had some primary education. Higher levels of education accounted for a small proportion of the participants (0.5% had A-levels, 5.3% had college education, and 1.1% had university education).

After 1993, the size distribution of SMEs changed considerably. The share of one-person operations fell from 78% of the total in 1993 to 58% in 1998, while the share of firms with 2-4 employees and that of enterprises with 5-9 workers more than doubled. Both male and female-owned firms shifted towards larger sizes, with the shift being more dramatic in the case of male-owned enterprises. In 1993, two-thirds of all male-owned SMEs were one-person firms, but by 1998 the level had dropped to 45.8%. In fact, in 1998, a greater proportion of male-owned firms was in the 2-4-size group than the one-person category. On the other hand, while 85.7% of female-owned firms were in 1993 one-person enterprises, by 1998 this percentage had dropped to about 70%. While the proportion of female-owned firms that were one-person enterprises had gone down, level of 70% was still too high. There appears to have been no change in size category on the basis of the urban-rural divide. Nor had any dramatic pattern emerged on the basis of sector: the trend was evident across all sectors. The sectoral distribution of SMEs also underwent substantial changes during the 1990s as is shown in Table 7.

**Table 7: Changes in the Sectoral Distribution of SMEs, 1991-1998**

Sector	Sectoral Distribution of SMEs			Annual growth rates of SMEs, 1991-93	Annual growth rates of SMEs, 1993-98	Annual growth rates of SMEs, 1991-98
	1991	1993	1998			
<b>Manufacturing, total</b>	<b>71.6</b>	<b>65.0</b>	<b>42.4</b>	<b>-0.7</b>	<b>-12.0</b>	<b>-8.4</b>
Food & beverages	7.5	4.9	5.3	-17.2	-0.3	-5.6
Textiles	34.3	32.8	20.1	1.9	-13.4	-8.6
Wood & wood products	21.1	18.1	9.4	-3.6	-17.2	-12.9
Chemicals & plastics	0.2	0.2	0.4	4.1	13.9	10.8
Non-metallic mineral processing	3.9	4.1	1.3	6.6	-28.6	-17.5
Fabricated metal	2.3	2.9	2.6	15.7	-4.6	1.7
Other manufacturing	2.4	1.9	3.3	-7.6	11.4	4.9
Construction	4.3	3.1	1.0	-12.3	-28.2	-23.2
<b>Trade, total</b>	<b>21.1</b>	<b>28.2</b>	<b>45.2</b>	<b>18.6</b>	<b>8.8</b>	<b>11.9</b>
Retail trade	20.4	27.5	44.6	19.0	9.1	12.2
Restaurants, hotels, bars	0.6	0.7	0.6	11.8	-5.7	-0.1
Transport	0.1	0.2	0.6	38.7	23.3	28.2
Renting rooms & flats	-	-	6.8	-	-	-
Services	2.9	3.5	4.0	13.5	1.0	4.9
<b>All sectors</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>4.1</b>	<b>-2.1</b>	<b>-0.1</b>

Source: Gemini (1998), Table 4.4, 30.

In 1991, 71.6% of all SMEs were in manufacturing, yet the importance of this sector fell to 65% in 1993 and 42.4% by 1998. This is attributed to the drops in production in the sub-sectors of wood and wood products, food and beverage processing, and textile. Only the sub-sectors of chemicals and plastics, fabricated metal, and other similar manufacturing increased in size. However, these represent a small proportion of SMEs. The demise of manufacturing activities was not limited to the informal economy alone. Within the formal economy, the share of manufacturing in GDP declined from 26% in 1989 to 14% by 1998. The observed de-industrialization of the economy was induced by the influx of competing imports (especially second-hand clothes) following trade liberalization.

During this same period, the share of trade-related activities increased markedly from 21.1% (1991) to 45.2% (1998, having grown at an annual average rate of almost 12%. Much of this growth was at the retail level. And, although its overall impact was very small, services also experienced some growth during the period under review. Renting out rooms and flats also emerged as a growth area.

Table 8 highlights the changes in firm location between 1991-98.

**Table 8: Changes in Firm Location: Manufacturing, Commercial, and Services SMEs, 1991-1998**

Location	Percentage of SMEs		
	1991	1993	1998
Home/homestead	76.9	81.2	69.0
Market	2.8	2.8	3.7
Roadside, track or path	2.3	3.4	8.8
Commercial district	7.6	5.0	12.1
Industrial site	0.0	0.2	0.7
Mobile	10.4	6.8	4.2
Other	0.0	0.7	1.5
<b>Total</b>	<b>100.0</b>	<b>100.1</b>	<b>100.0</b>

Source: Gemini, (1998), Table 4.6, 32.

Although home-based activities were still dominant, their proportion of the overall number of SMEs declined from 81.2% in 1993 to 69% by 1998. Commercial districts, roadsides, and, to a lesser extent, markets saw their usage rise after 1993. At constant 1998 prices, average annual sales increased from Z\$41,295 in 1993 to Z\$48,391 by 1998, an increase of 17.2% (almost 4% per year). With 1998 as the base year, profit levels also increased from an average of Z\$21,418 in 1993 to Z\$29,419 by 1998, a real increase of 37.4% (8.6% annually). The largest increases in profitability between 1993 and 1998 (in ascending order) were recorded in transport (4,382.9%), traditional healer (1,228%), wood carving (1,011.8%), food and beverage processing (721.2%), construction (653.2%), art/artefact production (613.1%), other manufacturing (524.8%), pottery work (313.4%), groceries (289.6%) among others. The big losers in terms of profitability between 1993 and 1998 were other repair work (-82.4%), hotels, restaurants/bars (-68.9%), bars/pubs/shebeens (-68.9%), bottle store (-66.9%), plastic work (-58.6), and tinsmiths (-51.2%), among others.

**Table 9 indicates the sources of credit for manufacturing, commercial, and service SMEs for the period 1991-98.**

**Table 9: Sources of Credit: Manufacturing, Commercial, and Service SMEs, 1991-1998**

<b>Source of Credit</b>	<b>1991</b>	<b>1993</b>	<b>1998</b>
Loan from family/friends	9.3	5.7	4.2
Moneylenders	0.3	2.5	0.2
Formal credit	0.4	0.7	1.4
Micro loan programme	-	-	1.1
Saving clubs	-	1.0	0.5
Other	0.7	0.7	2.6
None	89.4	89.4	90.0
<b>Total</b>	<b>100.1</b>	<b>100.0</b>	<b>100.0</b>

*Source:* Gemini (1998), Table 4.7, 33.

The majority (90%) manufacturing, commercial, and service SMEs received no credit from any source during the period 1991-98. For those few that did receive credit, the types of loans on offer had changed. As at 1998, fewer loans came from family/friends and informal moneylenders. Despite their insignificance, loans from formal credit rose from 0.4% of SMEs in 1991 to 1.4% by 1998. On average, Gemini (1998) found that those firms that did receive some credit (or micro-loan) were larger, faster-growing, and more profitable than those that did not. SMEs that had accessed formal credit had an average size of 3.71 persons, compared to 2.18 for those that accessed micro-credit, 2.02 for those that got informal credit, and 1.87 for those that did not access any credit. Firms that accessed credit expanded at an annual rate of 19.6%, compared to 12.8% for those that did not get access to any credit. In turn, the average annual profits for those firms that had accessed formal credit was Z\$706,880, compared to Z\$484,556 for those that accessed micro-credit, Z\$44,327 for those that received informal credit, and Z\$21,928 for those that did not get any credit at all. What is not clear from the study is whether it was the credit that made them better performers or whether the better-performing SMEs managed to access credit.

Table 10 reports the gender of proprietor of firms receiving credit.

**Table 10: Gender of Proprietor of Firms Receiving Credit**

<b>Gender of SME proprietor</b>	<b>Of firms receiving</b>	
	<b>Formal credit</b>	<b>Micro-loans</b>
Female	10%	65.2%
Male	36.3%	7.0%
Jointly owned	53.7%	27.8%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>

*Source:* Gemini (1998), Table 4.9, 34.

According to the Gemini study (1998), 12,000 firms received formal credit and 9,400 enterprises obtained micro-loans. As Table 10 shows, hardly any formal credit went to firms that were solely female-owned. However, almost two-thirds of all micro-lending went to female-owned SMEs. Formal loans

largely went to urban SMEs, accounting for 78.3% of all such recipients, compared to 21.7% for rural SMEs. However, the figures are reversed when it comes to micro-loans, with rural SMEs accounting for 53.4% of such loans, and urban SMEs only 46.6%.

As with earlier studies reviewed in sub-section 2.1, Gemini (1998) found that SMEs were started as a subsistence mechanism rather than in response to new opportunities. The study indicated that between 1994 and 1998, most SME births occurred in low profitability sectors, with six sectors accounting for 51.5% of all SME 'births' during 1994-98. These six sectors' average annual profits were a sixth of that of the other 42 sectors. Start-up costs were also much lower in the sectors with high 'birth' rates, averaging Z\$9,218, implying the entry cost of the high 'birth' sectors was nearly a tenth of that the low 'birth' sectors. This finding is also similar to that found by Gemini (1993) for the period 1991-93, which is supported by the regression analysis undertaken in Gemini (1998) that suggested that during the period 1988 to 1997, a 1% increase in GDP was accompanied by a decrease in the SME 'birth' rate of 0.63%. Gemini (1993) found a similar result for the period 1988-93.

What this implies is that economic downturns are associated with the growth of SMEs and vice versa. Thus, unemployment and retrenchment are the drivers of SME growth. Gemini (1998) found that seven of ten low-profit sectors experienced a higher 'birth' rate during the downturn of 1995 compared to the upturn of 1996. Gemini (1993) found a similar result in that eight of the ten lowest profit-making SMEs had higher 'birth' rates during the drought and downturn of 1992 compared to the growth year of 1989. For high-profit SMEs, the results of the studies are mixed, with Gemini (1998) suggesting a positive relationship between high-profit sectors' 'birth' rate and downturns, while Gemini (1993) found the opposite. Gemini (1998) suggests that subsistence motives were higher amongst low-profit sectors than in high profit ones, where the profit motive appeared to be the driving motive.

In terms of the 'death' rate, Gemini (1998) found that most firms that closed were those in marginally profitable sectors. More than half of the firms that closed during 1994-97 were found in only 5 sectors, and that their average annual profits were but a sixth of that of the remaining sectors. The sectors with the highest 'death' rate were those ones that registered the highest 'birth' rates. Gemini (1993) found a similar pattern for the period 1991-93. Both Gemini studies found that 'death' rates and economic growth were inversely related.

The gender-orientation of SMEs also underwent a dramatic change during the period 1991-1998. In 1991 73.3% of all SMEs were owned by at least one woman; this subsequently dropped to 70.7% in 1993 and to 58.1% by 1998, which represents a decline of 3.1% per annum between 1991 and 1998. A marked shift by female proprietors from manufacturing to trading and, to a lesser level, services also occurred. Of the SMEs that closed between 1994 and 1998, more than 80% were female-owned.

Table 11 reflects firm size, growth, and profitability by gender of proprietor.

**Table 11: Firm Size, Growth, and Profitability By Gender of Proprietor**

SME characteristic	SMEs that are...			Total
	Female-owned	Male-owned	Joint-owned	
Average No. of Employees	1.58	2.18	2.81	1.91
Average annual rate of firm employment growth	8.41%	24.50%	5.09%	12.53%
Average annual sales	Z\$13,985	Z\$84,172	Z\$119,601	Z\$48,382
Average annual profit	Z\$8,394	Z\$54,663	Z\$70,629	Z\$29,409

Source: Gemini (1998), Table 6.3, 45.

Clearly, according to the average number of employees and average annual sales, female-owned firms were smaller than other SMEs. The average annual rate of firm employment growth for male-owned firms was almost three times that of female-owned ones. Moreover, where the average annual profit for female-owned firms was Z\$8,394, that of male-owned ones was Z\$54,663. The pattern is similar to that in Gemini (1993). The majority of women were working in low-profit sectors, with almost 60% of all female proprietors limited to only five sectors, i.e. vending farm products, tailoring or dressmaking, crocheting, knitting, and grass/cane/bamboo production, all of which were below the average SME profit level.

At Z\$7,185, the average profit level of these five sectors, was about a quarter of that of those SMEs in other sectors. Male-owned SMEs were less sector-concentrated than those owned by women. Gemini (1993) found that apart from being concentrated in low-profit sectors, female-owned SMEs were much less likely to re-invest any profits into their businesses, opting instead to use any surplus to meet household needs. Gemini (1998) indicated that less than 9% of female-owned firms ploughed their profits back into their businesses, as opposed to 28.9% of male proprietors. This may help explain the differences in profitability.

In terms of constraints faced by manufacturing, commercial, and service SMEs, Gemini (1998) cited marketing (especially not having enough customers), finance, and inputs as the main ones. These are very similar to those identified in Gemini (1993). In the 1998 survey, 55.5% of SME proprietors indicated that competition from within had increased, which was slightly lower than the 1993 level of 60.2%. Import competition was found to be more of an issue in the 1998 survey than it was in 1993, with 13.3% of proprietors reporting an increase in such competition, compared to 10.3% in 1993. More than 6% of proprietors in 1998 indicated that they were using imported inputs, compared to 3% in 1993. This reflects the more liberalized trade regime that was in operation by 1998. Urban SMEs were more likely to close due to financial constraints, while rural SMEs were likely close because of input problems. Women-owned enterprises were likely to close for personal reasons or due to input problems than male-owned firms.

With the introduction of ESAP in 1991, the 1990s saw a massive change in the Zimbabwean economy. ESAP entailed a dramatic shift in the economy, forcing it to move from a highly interventionist (dirigist) approach to a system that was more market-driven. ESAP was accompanied by a radical liberalization of trade (ahead of schedule), finance, agriculture, and labour

markets. The subsequent expansion of SMEs during 1991-93 is associated with the severe 1992 drought and hardships emanating from ESAP.

ESAP's failure to shift the economy onto a superior and sustainable growth path, particularly its under-performance in terms of employment creation, left a legacy of poverty and marginalization. Commitments to reduce the budget deficit from over 10% of GDP in 1990 to 5% by 1995 and the reduction of the public service by 25% put pressure on the private sector to generate employment. Real economic growth decelerated from an average annual rate of 4% during the period before ESAP (1985-90) to 0.9% during the ESAP period (1991-95), which was way below the ESAP targeted growth rate of 5% per annum. The liberalization of the labour market made it easy to retrench workers without having to pay them meaningful compensation. Whereas employment grew at an annual average rate of 2.4% during the period 1985-90, it decelerated to an average annual rate of only 0.8% during ESAP, well short of the rate of growth of the labour force at 3% per annum.

The World Bank conceded that, '... the concerns, however, go beyond the issues of pace and design: the comprehensiveness of the program seems a fundamental issue, especially given the objective of reducing poverty. Given the highly dualistic nature of Zimbabwe's economy (where the white minority dominates formal sector economic activity and owns two-thirds of high potential land, and the black majority is concentrated in rural, communal areas and the urban informal sector), it would appear that some basic questions were not explicitly addressed at the outset. First, would ESAP, predicted on the formal sector acting as an engine of growth create sufficient jobs, quickly enough, to address the serious problems of employment? ... Even realization of the most optimistic scenarios for formal sector growth will not provide a quick solution to the unemployment problem.'" (1995: 11)

Inflation rose by an average annual rate of 27.6% during the ESAP period, compared to 11.6% during the period 1985-90. The real earnings index, which averaged 100.6 during 1985-90, plummeted to an average index of 75.7 during ESAP. The budget deficit deteriorated from 10% of GDP at the onset of ESAP to 12.2% by 1995 and thus the target of reducing the budget deficit to 5% of GDP by 1995 was not achieved.

According to the 1998 study by the Central Statistical Office (CSO), poverty levels in Zimbabwe increased from 40.4% of households on the eve of ESAP in 1990 to 63.3% by the end of the programme in 1995/96. The Poverty Assessment Study Survey (PASS) conducted by the Ministry of Public Service, Labour and Social Welfare (1995) found that 61% of households lived in poverty and 45% of these live in extreme poverty. Levels of poverty were higher in rural areas (75% of households) than in urban areas (39% of households). The incidence of poverty was found to be higher in female-headed rather than male-headed households, with levels of poverty being 72% and 58% respectively. As the World Bank admitted, ESAP '... entailed considerable pain but little visible gain,' (1995: 10).

The expansion of the urban informal economy reflects the hardships that were associated with ESAP, especially its failure to create adequate jobs.<sup>9</sup> The decline in rural-based SMEs could have emanated from decreased urban-rural remittances caused by tough times as well as the rural-urban migration that may have affected rural SME proprietors.<sup>10</sup>



ESAP ran from 1991 to 1995 and thereafter it could be argued that, until mid-1997, Zimbabwe was largely under the influence of the IMF and the World Bank. As the World Bank observed, 'The unexpected and rapid deterioration of the economy since mid-1997 forced Bank assistance to Zimbabwe to be flexible and responsive, and has consequently differed from what was envisaged in the Country Assistance Strategy (CAS) dated May 1, 1997.' (2000: 2) The 1998 Gemini largely reflects the impact of ESAP policies. For instance, the shift from manufacturing to trading-type (especially retail) SMEs is linked to the liberalization of trade, which resulted in a flood of competing imports. After 1998, the economy veered into the worst crisis since independence.

Table 12 reports the performance of the economy since 1995.

**Table 12: Key Economic Indicators: 1995-2003**

	1995	1996	1997	1998	1999	2000	2001	2002	2003*
Real GDP (%)	0.2	9.7	1.4	0.8	-4.1	-6.8	-9.5	-14.7	
	-14.0								
Per Person Real (1990) GDP US\$	235	220	180	90	55	42	32	28	26
Inflation %	22.5	21.7	18.9	31.7	58.5	55.9	71.9	133.2	
	400								
Savings/GDP	22.4	16.9	10.3	18.0	19.3	12.1	0.8	4.3	4.3
Investment/ GDP %	25.3	17.4	18.8	22.3	17.1	13.5	10.3	8.9	8.5
Budget deficit/GDP %	-12.2	-7.7	-8.2	-5.5	-7.7	-24.1	-8.2	-13.8	
	>14.0								
External payment arrears US\$m					109.0	471.1	762.7	1333.3	
-									
Domestic debt Z\$bn	24.7	33.2	31.4	44.2	77.6	162.1	194.1	345.8	
	590.9								
Foreign debt US\$m	4001	4141	4117	3841	3285	3164	3180	4503	
-									
Export growth %	13.8	12.6	-2.9	-20.6	-0.1	14.3	-28.5	-10.8	
	-5.3								
BOP US\$m	44	4	-739	-283	9	-166	-197	-1182	
	-825								
Employment growth %	-1.9	2.8	5.6	-0.1	-2.3	-5.9	-0.6	-	-

Source: Selected Economic Indicators, the Reserve Bank of Zimbabwe.

Notes: An asterisk (\*) denote estimate; BOP is Balance of Payments; GDP is Gross Domestic Product (total output).

1997, the economy has been on a downward spiral since 1997 and the economic crisis has deepened. This crisis is characterized by acute shortages of foreign currency, basic commodities, unsustainable budget deficits and domestic debt, accumulation of repayment arrears on the foreign debt, hyperinflation, un- and under-employment, rising poverty and its feminization, and, until recently, cash (Z\$). With virtually all foreign currency transactions, fuel purchases, and basic commodities now being sold through the exorbitant parallel market, Zimbabwe's economy is today effectively in informal mode. In the absence of any other comprehensive study, it is reasonable to infer that the informal economy has exploded since the onset of the ongoing economic crisis.

CZI (2001) found that 400 manufacturing firms closed down in 2000 alone, with the hardest affected sub-sectors being as follows: motor traders (171);

steel manufacturers (92); clothing and textiles (45). 750 firms retrenched a total of 9,684 employees during 2000, while 45% of 22 respondents indicated that they had reduced their own working schedules. Of the six sectors that reported on capacity utilization, four were operating at 50-55% and two were below 50%. CZI (2003) found that employment fell by 16% during 2000. Under the existing conditions of crisis, the informal economy is expected to grow substantially, but with some radical restructuring.

An article run in *The Herald* (see below), a daily Zimbabwean newspaper, hints about the most recent developments in the informal economy. In the absence of a proper survey, the figures it quotes should be treated with caution. Reference to Government assistance most likely refers mainly to support to registered SMEs.

### **Box 1: Informal Sector Offers Jobs to Thousands of Retrenchees**

'The informal sector now employs more than 1.6 million people as more retrenchees find some safety nets in informal employment', the Confederation of Zimbabwe Industries said.

CZI in a report said this showed a significant increase as there were about 1.3 million people employed under this sector in 2000.

'There were about 3 500 retrenchments in the manufacturing sector during 2001 as a result of company closures and rationalization of operations.

About 100 companies in the manufacturing sector are estimated to have closed during the year.

Some of the retrenchees go on to start their small businesses,' CZI said.

The confederation, however, noted that some of the small-scale operators in the informal sector did not expand and their businesses started and ended as a one-man operation.

Many people in the informal sector have ventured into various businesses including manufacturing, value adding services and construction.

Some of them have managed to produce for the export market thus earning the country the much-needed foreign currency.

The players in the informal sector have been encouraged to add value to their products so that they earn more on the market.

Government has over the last few years supported players in the informal sector by making available to them various loans and grants.

Last year the Government disbursed \$1 billion revolving funds to different organizations.

It has been realized that the informal sector apart from providing safety nets to retrenchees, would also contribute significantly towards the prosperity of the national economy.

Last month the Ministry of Industry and International Trade released \$250 million to the Small Enterprises Development Corporation.

While players in the informal sector have shown an eagerness to develop, they have always faced some problems.

Some players have complained that they receive the loans late because of bureaucratic bungling in some quarters.

It has also emerged that the players in the informal sector do not keep proper records or make proper investments." (*Business Herald*, Friday 2 August, 2002).

In concluding this section, it is necessary to outline macroeconomic developments since independence, if one is to appreciate the factors behind the evolution of the SME sector in Zimbabwe. Table 13 traces the performance of the economy during the period 1980-2002.

**Table 13: Economic Performance, 1985-99 (Selected Indicators)**

	1980-84	1985-90	1991-95	1996-99
Real GDP growth (%)	4.1	4.0	0.9	2.7
Real Wage Index (1980=100)	105.8	100.6	75.7	86.0
Employment growth (%)	1.1	2.4	0.8	1.5
Investment (% of GDP)	20.8	15.5	22.5	15.5
Savings (% of GDP)	13.7	16.8	16.9	14.3
Inflation	14.4	11.6	27.6	32.6

*Source:* Calculated From the Quarterly Digest of Statistics, Central Statistical Office (various years).

Clearly, the performance of the economy prior to ESAP was much better than that of the reform period. For the economy as a whole, the rate of growth decelerated from an annual average of 4% for the 1986-90 period to an annual average of 0.9% during ESAP (1991-95), but improved slightly to an annual average rate of growth of 2.7% for the period 1996-99. This scenario helps to explain the growth of the urban informal economy, especially during the difficult period following the introduction of ESAP in 1991. Table 14 captures the extent of openness of the economy during the period 1980-98 using the share of trade (exports and imports) in GDP.

**Table 14: Trade (Exports and Imports) As A Percentage of Current Prices GDP**

1980 1982 1984 1986 1988 1990 1991 1992 1993 1994 1995 1996 1997 1998

71.1 62.3 69.8 47.4 45.0 50.6 61.2 80.1 71.0 81.1 92.6 81.8 102.2 110.9

Source: Adapted From Bhalla et al.: 1999, Table 7, page 19.

Following the opening up of the economy under economic reforms in 1991, trade increased from 50.6% of current price GDP in 1990 to 110.9% by 1998, which does imply a more open economy. This post-1991 economic 'opening up' largely explains the observed collapse of manufacturing activities and the growth of trade, the retail variety in particular.

### 3. National Interventions Targeting The Informal Economy in Zimbabwe

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#### 3.1 Public Sector Initiatives

It has already been pointed out that the post-independence government immediately recognized the role of the informal economy and removed policies that hindered migration of labour and squatting in urban areas. The ESAP blueprint specifically allocated the informal economy the role of creating jobs for what it perceived as frictional unemployment. It proposed 'liberalization of regulations governing the licensing of small businesses, zoning and factory specifications.'

In 1991, as part of the measures taken to promote small businesses, the Government set up, under the Ministry of Local Government, Public Works and National Housing, an Interministerial Deregulation Committee in 1991 to identify laws and bylaws that hindered the growth of small enterprises. The Deregulation Committee identified 28 Acts that had a direct impact on the establishment and growth of small businesses. Of these, 13 were identified as requiring priority attention. Some of these obstacles related to trading restrictions on hawking and street vending. The Committee found that licensing these activities proved to be a barrier since vendors and hawkers were required to deal only in the goods specified in their licence and only in the area the applicant specified. Zimbabwe's City Councils had wide discretionary powers vis-à-vis renewing (or not) licences on the grounds that renewal would adversely affect existing business carried out in the same area or that there were already sufficient informal traders in that area or dealing in the same goods. City councils could also restrict the applicant to employing no more than a specified number of persons. In view of this, the Committee recommended that such wide discretionary powers of local authorities be removed and that City Councils should register rather than license informal traders, thus rendering informal trading a right rather than a privilege. Cabinet endorsed this recommendation.

The Committee also found that by-laws restricted informal traders from operating in streets, roads, or stands around commercial trading areas and central business districts. Such regulations effectively protected established businesses from competition. The Deregulation Committee therefore recommended that prohibition or restriction should only be made on the grounds of a threat to public health or where trading becomes a nuisance to the public. Again, removing such restrictions would allow small traders to operate in the potentially lucrative areas of the central business district.

Government identified the lack of the following as hindering the development of the informal economy and its transition to small-, medium-, and large-scale companies:

- Development of enterprise culture programmes
- Legal guarantee schemes and other forms of credit facilities
- Provision of guaranteed markets for goods and services

- Provision of workspace
- Training in applied and business management skills
- Business advisory centres
- Business linkage programmes
- Business mentoring programmes
- Sub-contracting and provision of business incubators (GoZ, 1996: 3-4)

This was not the only government initiative dealing with the informal economy. The Ministries of Youth Development, Gender and Employment Creation; Public Service, Labour and Social Welfare; Industry and International Trade; Higher Education and Technology, and, recently, Small and Medium Enterprises are also involved in the promotion of small- and medium-scale enterprises. Each Ministry has its own policy and programmes.

### ***3.1.1 Initiatives by the Ministry of Youth Development, Gender and Employment Creation***

The Ministry of Youth Development, Gender and Employment Creation has overall responsibility for employment creation and the informal economy. It has developed a comprehensive study that maps how non-formal sectors can be developed through a UNDP Technical Sector Support 1 (TSS1) programme. Project ideas were developed through this study. To guide its activities, the Ministry developed an employment creation action plan which was approved by cabinet in August 1995. The plan focuses on four areas, namely:

- Education and training, for which the plan seeks to introduce entrepreneurial training in schools and vocationalising the syllabi
- Rural development, through a programme that seeks to establish cottage industries, the use of irrigation, and sustainable and affordable sources of energy, and infrastructural development through intensive works programmes
- The informal sector; for which the plan aims to remove constraints to the development of this sector
- Access to capital and finance

Although the employment creation action plan is comprehensive, its implementation is problematic because of lack of funds, especially following the withdrawal of donors from the country.

A number of programmes were developed under the Ministry to create employment through the promotion of the informal, small- and medium-scale enterprises as follows:

#### **a) The Work Shelter Programme**

This programme is designed to assist the informal, small- and medium-scale enterprises through the provision of work shelter (factory shells). Related to the work shelter programme is the business incubator programme, which helps provide working space, equipment, business management consultancy, marketing, access to financial resources and materials, administrative support

services, and entrepreneurial training, etc. With the assistance of the California State Polytechnic University of America, plans were underway to implement a business incubator programme in Zimbabwe. A government team has already visited incubators in California and Pennsylvania. However, owing to lack of funds, very little progress has been achieved through this programme. The idea has been developed further by the ZNCC (see below).

**b) Business Linkages**

The idea is to link SMEs with established businesses and it revolves around establishing business centres for matching large companies with informal, small- and large-scale enterprises. In other words, it allows for the large companies to sub-contract certain activities to the SMEs. Informal traders and SMEs will benefit in terms of finance, markets, training, equipment, and business management experience. However, once again, due to lack of finance, the programme has not been implemented. The Confederation of Zimbabwe Industries (CZI) is implementing the programme (see below).

**c) People's Markets**

Through arrangements with the Ministry of Local Government, the Ministry of National Affairs has facilitated the establishment of corner shops, street markets, and flea markets. The limited resources the Ministry has at its disposal has limited the extent to which it can assist such ventures, which has resulted in some informal traders being used as fronts by established businesses. This therefore limits the extent to which they can directly benefit from such activities.

**d) Development of Entrepreneurship**

With the assistance of the ILO, the Ministry has been involved in running the following courses: 'Start Your Business' (SYB) and 'Improve Your Business' (IYB). By the end of 1996, the programme had run eight provincial pilot SYB courses, benefiting some 320 people. In addition, 400 project stakeholders have benefited from the IYB courses. The overall impact, however, has remained low due to financial constraints. The Ministry also provides consultancy services to informal economy entrepreneurs on project planning, identifying business opportunities, market planning, negotiating financial assistance, book-keeping and record keeping, and auditing and accounting services. The effectiveness of this service has been reduced by the shortage of transport and subsistence allowances available for officers to visit and monitor projects. The development of the informal economy will benefit more from the establishment of the Zimbabwe Informal Sector Association (ZISA) which was launched in November 1996.

In 1993, the Ministry initiated its Training For Enterprise Programme, which involves a shift towards entrepreneurial training. This followed a review of the Ministry's Youth Training Programme which showed that less than a third of graduates were finding jobs. Recognizing that the formal sector cannot create new jobs quickly enough to address the unemployment programme, this project, which was funded by the British Overseas Development Administration (ODA), sought to focus on creating skills for self-employment.

The main thrust of Training for Enterprise was the introduction of short courses in aspects of business planning and start-up. The centres will continue

to run the technical courses (e.g. building, carpentry, garment-making). New skills such as metal work, textiles and crafts were also introduced. The programme also involved retraining staff, improving training facilities and equipment, and purchasing vehicles. Business clinics were started in nearby districts to assist existing businesses. By 1998, it was planned that the lessons learnt would be passed on to the other youth training centres so that by the turn of the 21st century, every province would have a Training for Enterprise Centre that assisted in creating young entrepreneurs throughout the country.

A national steering group drawn from the private, public and NGO sectors was appointed in July 1995. In addition, each of the major provincial centres was to have its own Board of Trustees. However, as admitted in the initial progress report, '...the steps involved in transforming the Youth Training Programme are complex and will require careful planning throughout the project.' (GoZ, 1995: 2)

**e) The Opportunities Industrialization Centres (OIC)**

A local chapter of the American Opportunities Industrialization Centres was being set up with the Ministry to provide training and funds to the informal sector. Government offered Mount Hampden Training Centre as its contribution to the programme. The programme was in its formative stages and hence not much can be said about it at this stage.

**f) National Entrepreneurship Development Programme**

This programme offers grants to students in schools to practice running projects and loan finance to school-leavers to establish their own projects. As at end of 1996, 43 projects generating 502 jobs were established in the eight provinces at a cost of \$1,4 million. The Kellogg Foundation was sponsoring this programme.

**g) Support for Co-operatives**

The Ministry is also responsible for co-operatives. However, given the failure of co-operatives, owing to lack of proper support and encouragement, there is widespread scepticism about their effectiveness.

**h) Overall programme thrust**

Realising the futility of coming up with one or two comprehensive programmes given the diversity of the informal economy, the Ministry, in 1998, started implementing a programme aimed at mobilising and organizing the informal economy into industrial business associations (informal Sector Associations – ISAs) through which assistance would be co-ordinated. This would enable the informal economy to link up to larger networks of support institutions like Finance Institutions, Training Providers, Suppliers of Technology, organized markets, etc. By linking up through business associations, the individual businesses would enjoy economies of scale, making the process of doing business with the informal economy cheaper and more attractive.

In 1999, the ZAISA programme carried out a Train the Trainer (TOT) in eight provinces. The key provincial staff were trained in the following skills to impart to ISAs: a) advocacy, lobbying, negotiating, and related skills; b) membership mobilization, communication, and related skills; c) leadership,



democracy, transparency, and related skills; d) planning, conducting meetings, conflict resolution, and related administration procedures; e) resource mobilization. Some 286 provincial and district training advisory and extension officers were trained and started assisting the ISAs. Awareness campaigns on the need to form and join ISAs was started and sub-sector associations such as the Cross Border Traders, Tuck Shop Operators, Arts and Crafts, etc. were set up.

Nevertheless, the project lacked adequate funding. While the UNDP initially earmarked US\$280,000 for the programme, the amount was subsequently reduced to US\$96,000. UNDP took 1.5 years to formulate and finalize the Project Support Document, implying no meaningful implementation could take place during the first half of the three-year pilot phase of the programme. After May 2000 projected activities stalled following some misunderstanding on the National Execution Modalities within which the programme was being implemented and the UNDP also stopped paying the co-ordinators' salaries and making all other project payments.

The year 2000 marked the third and final year of the pilot phase of the programme. Thereafter, it was supposed to be implemented country-wide to cover all 57 districts in Zimbabwe. The idea was to constitute a National Taskforce (NTF) to spearhead the national mobilization process. Through this programme, it was hoped that 'the informal sector is organized and properly assisted, the full potential of this sector as the engine of the growth of the economy can be realized and these businesses will graduate into more formal and bigger businesses, thereby widening both the indigenous ownership and the government's revenue base.' (GoZ, 2000: 7)

### **3.1.2 *Initiatives by the Ministry of Public Service, Labour and Social Welfare***

To protect the poor and assist the unemployed during ESAP, the government created a Social Developments Fund (SDF) within the Social Dimensions of Adjustment Programme. According to the constitution of the Fund, women and youths (who constitute two-thirds of all disadvantaged social groups) were the main targets of the programme. The programme had the following components:

1. An employment and training programme, including support for informal small-scale enterprises and public works.
2. Targeted food subsidies.
3. Provision for exemption from cost recovery measures for vulnerable groups.
4. Monitoring and evaluation of developments.

The Social Dimensions of Adjustment Programme failed to cushion vulnerable groups from the social costs of adjustment. Through this programme, retrenchees were supposed to be assisted to start their own enterprises. However, the extent of poverty generated could not be dealt with through safety nets for the programme was severely under-funded and tended to be highly centralized.

### 3.1.3 *Initiatives by Other Ministries*

The Ministry of Industry and International Trade has its own department that is responsible for small and medium enterprises, although its role appears to have been shifted to the new Ministry of Small and Medium Enterprises. The Ministry of Small and Medium Enterprises referred this study to the Ministry of Youth, Gender and Employment Creation, indicating that they deal solely with registered enterprises.

One of the most innovative and promising initiatives was the Informal Sector Training and Resource Network (INSTARN), which was started in 1995 as a bilateral project between the German (through GTZ) and Zimbabwean governments. It was based at Masvingo Technical College under the auspices of the Ministry of Higher Education. INSTARN's overall objective was to create employment through the development of the informal sector. It provided technical training for informal sector businesses to improve the production skills of participants in the sector and the marketability of their products. It was for this reason that the idea was to link this training to extant skills training. At an early stage of project implementation, it was found that it was not enough to provide someone with a skill without providing business training and funding. In this regard, it was agreed that the project would provide an integrated approach to resolving the problems of the informal sector by providing technical training, business training and access to funding.

The areas of intervention in the project were reinforcing traditional apprenticeships, developing small business advisors, providing credit for small business growth, promoting informal sector associations, and assisting in the marketing of informal sector products to the formal sector. In a paper presented at a NAMACO Congress, the project coordinator, Mr Constantine Mutiwanyuka, indicated that the focus of these interventions was 'to create an integrated package of informal sector support which will result in more, stronger and bigger businesses, creating permanent jobs' (1997: 2).

The backbone of the programme was the traditional apprenticeship system, in which a young person was taken on and trained informally by a business owner. Traditional apprentices were recruited from the unemployed. Apprentices had to find a host business and support the SMEs during the period of training. Those selected would undergo several weeks' formal training at Masvingo Technical College or a partner organization. Typical areas involved included carpentry and joinery, metal fabrication, dressmaking, hairdressing, radio and TV repair, motor mechanics, and refrigeration. After training, apprentices were placed with a host business, who in turn became a client of INSTARN. The business owner receives some business training, as well as regular support and monitoring from an INSTARN Small Business Advisor. Upon graduation, apprentices keen on going into business must qualify for business training and can benefit from a tool hire-to-buy scheme, which is operated by their local Informal Sector Association. Support for the host business was designed to create a good environment for training. These traditional apprentices could opt for trade testing after 12 months in order to be certified. However, to be effective, the official criteria, such as length of employment in a formal business, should have been relaxed.

Since March 1996, at least 102 people have graduated from the programme; a further 120 were undergoing training by the beginning of 1999. Those interested in starting their own businesses were referred to Zambuko Trust,

which got a grant from INSTARN for lending to INSTARN-recommended clients. Efforts at linking these businesses with established ones through subcontracting appeared promising. The scheme was successful in creating employment within the host business, either in formal employment or through setting up new businesses. It had also been adopted as a Good Practice and extended to Manicaland where it was based at Mutare Technical College. However, the withdrawal of donor support has since created an impasse.

### 3.2 Private Sector and Donor-Supported Private Sector Initiatives

#### **3.2.1 *The Zimbabwe National Chamber of Commerce (ZNCC)***

The ZNCC formed the Micro Business Development Corporation (MBDC) to develop secured incubator work sites for informal sector workers. The MBDC was developed to nurture the development of the spirit of enterprise and to coordinate efforts by both the private and public groups so as to reduce duplication. MBDC would then build 'workshop sites' involving a number of individual, secured workshops, which would be made available to aspiring entrepreneurs. Each site would have a manager who would screen the tenants, assist them in developing their business by identifying their training needs and help to provide the training required. The idea was to develop each entrepreneur to the point where they could run a small business on their own within a period of two years.

A number of organizations are still involved in the initiative, including Harare City Council, CZI, commercial banks, and some international organizations. Harare City Council has agreed in principle to provide three pieces of land for the purposes of establishing core factories.

The advantage of this initiative is that it brings together a number of organizations and thus reduces duplication. It has also drawn from the experiences of South Africa and elsewhere, thus reducing the learning costs. The involvement of the local banks is also very encouraging, especially in view of the current budgetary constraints Government is facing. MBDC has already been registered as a legal entity, which will enable it to solicit for funds, and buy and lease land or property for the establishment of the enterprise centres.

#### **3.2.2 *Confederation of Zimbabwe Industries (CZI)***

In an attempt to encourage the expansion of economic activity, the CZI introduced the concept of industrialists subcontracting activities to small- and medium-scale entrepreneurs in 1994. Through its Zimbabwe Enterprise Development Centre, the CZI established the Zimbabwe Enterprise Development Programme (ZEDP), which was funded by USAID and NORAD. The main function of ZEDP was to facilitate the formation of business linkages or subcontracts between large companies and SMEs. The focus was on manufacturing activities and services that were not core aspects of the large firms' operations. ZEDP aims at initiating opportunities for SMEs so that these could be brought into the mainstream of the economy. In addition, it promoted and developed a service/supply sector for large enterprises.

Through its database, ZEDP offered matching services for large firms and SMEs. ZEDP monitored and evaluated the arrangement over an agreed period

(on average, six months) and thereafter was involved on a referral basis. Companies such as BAT and Anglo American Corporation that were involved in subcontracting observed that for the relationship to be sustainable, simplified tender processes had to be put in place, and that the buyer had to be willing to assist the SME source affordable materials and make prompt payments to avoid cash flow problems. For their part, SMEs had to undertake sound business practices, provide quality goods and services and be capable of proper financial management. Of the 28 who joined the ZEDP in March 1997, 26 were from Harare and two were from Bulawayo.

Unfortunately, the business linkage programme collapsed in 2000 following the withdrawal of its major funders, USAID and NORAD.

### **3.2.3            *The UNIDO Networking and Clustering Project***

This is part of an international programme being implemented in several countries in Asia, Latin America and Zimbabwe. It seeks to promote small and medium enterprises through networking and clustering. A cluster is defined as a localized network of specialized enterprises and organizations, often support institutions, whose value chains are linked up through an exchange of goods and services and/knowledge. The definition includes a set of SMEs within a geographical location that face common challenges, common opportunities, common problems, common potential, and common agendas for intervention. Such common characteristics provide a focal point and focal challenge. The project emphasizes the need for SMEs to develop collaborative relations among the SMEs as well as with the institutional and business environment in which they operate. Its implementation was set for early 2000.

The project was designed to work with associations of small and medium enterprises, major service providers (public and private). Its dynamism lay in its support of the industrial organization of SMEs in sectoral and geographical concentrations, which enabled the clustered firms to participate competitively in diverse production activities. Through this project, the strengthening of the organizational, operational and technical capacity of these firms is expected to promote employment generation capacity of SMEs. The advantage of this initiative is that it provides for multi-ownership of the operational and institutional framework and hence assigns various roles to all the stakeholders (beneficiaries, public and private sectors, and NGOs).

A feasibility study was conducted in 1996 by an Indian-Zimbabwe Joint Commission, which looked into the possibility of setting up a Technology Dissemination-cum-Training Centre in some growth points. The study flagged out a number of factors conducive to the growth of SMEs. These were as follows:

- Large literate population that is enthusiastic to undertake small industrial ventures
- Training facilities are available for training in managerial skills, including accounting, bookkeeping, marketing. etc.
- Technical institutions are already churning out large numbers of technical personnel
- People retrenched are already knowledgeable about undertaking such ventures

- A large number of NGOs are able to stimulate economic activities at rural and semi-urban level
- The concept of developing business centres, growth points/centres, and town appears useful for generating economic activity
- A number of countries are already funding projects relating to the establishment of SMEs and NGOs are able to get guidance and funding assistance through donor funds.

The study recommended the establishment of a Technology Dissemination/Training Centre in Harare or Bulawayo to disseminate the various aspects of technology to potential and existing entrepreneurs. It also suggested the creation of a basic skills-training centre at one of the Growth Points to serve as a model for other Growth Points/Centres. It also suggested the establishment of an institutional finance facility for entrepreneurs for setting up new projects or expansion or modernization. Finally, it recommended setting up a Common Facility Centre for small-scale industries.

### **3.2.4 ILO's 'Start Your Business' Programme**

'Start Your Business' (SYB) is a training programme that assists potential entrepreneurs to ascertain their potential, analyse their business idea, and go through a practical plan for operating a viable small business. This programme was developed by the ILO to promote SMEs worldwide. It is linked to other ILO training initiatives such as 'Generate Your Business Idea' (GYBI) and 'Improve Your Business' (IYB) that focus on improving the managing skills of existing entrepreneurs. The uniqueness of SYB lies in its institutional approach, which is aimed at building local capacity through institutions. Its training activities are implemented through institutions (see for instance Section 3.1.1d, above). The programme is open to all institutions involved in business start-up or management skill development. These institutions become certified trainers once they have gone through the training provided by SYB Master Trainers. Five groups of stakeholders are actively involved in SYB, namely, the training providers; the credit providers; the training sponsors; the clients, and the programme promoter. By early 1999, the SYB programme had trained a total of 453 people in Zimbabwe, 15% of whom were young people aged between 16 and 25.

### **Critique**

A national baseline survey carried out by the Ministry of Youth Development, Gender and Employment Creation found that there was no meaningful organizational pattern among any level of informal economy operators. Several initiatives on the formation of ISAs were active, including the INSTARN Programme in Masvingo and Mutare, Zimbabwe Informal Sector Association of Zimbabwe (ZISA), National Informal Sector Association of Zimbabwe (NISAZ), Informal Traders Association of Zimbabwe (ITAZ), Hawkers' and Vendors' Association of Zimbabwe (HVAZ), Tuck Shop Owners' Association of Zimbabwe, Cross-Border Traders' Association. According to the survey, most of these initiatives were not 'well visioned and executed' and with membership concentrated in the major cities (especially Harare and Bulawayo). Most of them were found to operate individually, on an ad hoc basis, and with no inter-linkages.

A major weakness of these initiatives was their lack of co-ordination, which ran to the extent of duplication (in some cases), fragmentation, over-dependence on donor funding, and lack of a strategic vision. When donors began to withdraw since 1999, most of these projects were left in limbo. These initiatives also focused exclusively on the economic aspects of SMEs, leaving out the issues of industrial relations and the decent work. In this regard, most of them erred on the side of romanticising the informal economy.

To its credit, government had recognized this weakness and, with the assistance of ILO/SAMAT, had come up with a policy framework, including a policy co-ordination matrix (see ILO (SAMAT) & Ministry of Youth Development, Gender and Employment Creation, 2000). The proposed co-ordination of policy formulation and implementation was based on a participatory approach, one that involved all key stakeholders from government departments to SME associations and other key support groups. It stipulated that once a policy is adopted, implementation, monitoring, and evaluation must follow. The focus of the proposed policy co-ordination and institutional support was both the collaboration and complementarity of and between SMEs, and between and the business development institutions, the private sector, and other stakeholders. Because of its significance, the SME Development Matrix is attached in the Appendix at the end of this document. The proposed institutional framework should have enhanced and strengthened SME policy formulation, implementation, monitoring and evaluation.

The strategy laid emphasis on building the capacity of all those support institutions involved with the development of SMEs. It also encouraged setting up a national databank on SMEs. The recommended role of government was to co-ordinate and promote rather than pursue direct intervention.

In its submission of the proposal to launch the Zimbabwe Apex of Informal Sector Associations (ZAISA) National Taskforce to cabinet, the Ministry of Youth Development, Gender and Employment Creation expressed 'grave concern at the government's apparent casual approach to the appropriate recognition and meaningful support to the informal sector. In the previous national economic recovery programmes, including the recent Millennium Recovery Programme, the focus has been on 'export-led growth' which by virtue of the inherent set up of the Zimbabwe's agricultural and industrial base, bigger producers, manufacturers and retailers tend to benefit and there is very little benefit accruing to the Micro and Small Enterprises and the informal sector where the majority of our people are. Domestic deregulation for example has not been adequately tackled.' (GoZ, 2000: 2)

One weakness of the proposal is that it relegated the role of trade unions to labour market and industrial relations. It is important to note that trade unions were and are involved in the development of SMEs, especially those involving retrenched trade union members. In this regard, a more comprehensive approach would have been to put the policy framework within the aegis of a Social Contract, wherein SME development would have fallen under a specific protocol.

Most unfortunately, the adoption of this framework in 2000 coincided with the period when donors withdrew from Zimbabwe. As a result these paper proposals have remained exactly that.

### 4.1 Industrial Relations in the Informal Economy of Zimbabwe

Studies focusing on the industrial relations aspect of the informal economy in Zimbabwe are very limited. Mhone (1993) observed that both the ILO/SATEP (1984) and Gemini (1991) '...had no reliable indicators of incomes or returns in the urban informal sector,' (1993, 16). Gemini (1998) was highly cautious regarding figures on profitability, arguing that the absence of records and also the fact that the studies were geared towards gathering data quickly, which could not be done with respect to indicators of profitability, and one may add industrial relations, which require time. Moreover, these areas were and are highly sensitive and most proprietors are aware that they are providing sub-standard conditions. In this regard, they will not co-operate to undermine their own cause. Most employees are either family members or are tied by kinship, thus creating a strong internal bond that is suspicious of outsiders. Gemini (1998) therefore indicated that their figures on profitability '... are not definitive, but rather illustrative ... A more definitive and certain description of SME profits in Zimbabwe must wait for a multiple-visit survey that considers the issues in a more comprehensive manner,' (1998, 5). The same could be said concerning issues of industrial relations. As Bose observed, 'Very little detailed and systematic data is readily available on working conditions in the informal sector, and even less in terms of different forms of employment.' (1990, 6)

The informal economy employs more workers than the formal economy. On the basis of Gemini (1998), total employment in the informal economy was about 1,647,664 in manufacturing, commercial, and service SMEs (25% of the labour force), with an additional 2,179,209 (36% of the labour force) employed in agricultural and mining SMEs.<sup>11</sup> This brings the total number of employees to 3,826,873, i.e. 31% of the labour force). In 1998, the formal economy employed 1,348,500, or 35% of informal economy employment. As already shown, working proprietors constitute 64.6% of SME employment, with paid employees accounting for only 19.1%, unpaid employees for 15.6%, and apprentices for 0.7%.

Trade unions have always had problems with structures where individual proprietors are also employees. The formal economy has a clear trajectory, with the line between workers and owners clearly drawn out. Even the so-called employees in the informal economy present their own contradictions in that most are either family members or related to the proprietor. They therefore tend to bond and work closely to frustrate 'outsiders'. This structure often presents dilemmas in terms of trade union work in the informal economy and is exacerbated by the fact that the informal economy is often cast as a residual economy that provides survival for those who cannot find formal sector jobs. The high turnover and attrition in the informal economy also makes it particularly difficult to target SMEs on a sustainable basis. Trade unions, which in most cases are already stretched in terms of resources, therefore choose to focus on the relatively stable and predictable formal economy. In the words of a trade union leader in India, 'In the organized

sector, 10 per cent work gets 90 per cent result. In the informal sector 90 per cent work gives us 10 per cent result' (quoted in Ratnam, 1999: 36).

Few studies have examined the labour relations and administration aspect of the informal economy in Zimbabwe. Two attempts to do this are reviewed in this study, namely, Chiripanhura (2001) and TARSC (2003). As they are the only ones that seem to have concentrated on industrial relations, or aspects thereof, in the informal economy, they are covered rather extensively. The study by Chiripanhura is particularly interesting, having been commissioned by the Zimbabwe Industrial Relations Association (ZIRA), which is overseen by a tripartite Board. This study covered 321 operators in the informal economy broken down as follows: 223 workers; 52 employers; others 42 (mainly self-employed). It focused on areas of concentration of informal economy activities (in Harare, the city centre; Mbare Siya So; Magaba at Gazaland shopping centre in Highfield; and operations along the Willowvale Road, and in Bulawayo: Lobengula Street; Nkulumane market; and Sixth Avenue Extension. Chiripanhura found that more than 80% of the interviewees got their household incomes from activities in the informal economy. As was the case with other studies, most interviewees refused to divulge information on their profits or incomes, fearing exposure.

Chiripanhura found that 74% of the operators were in service and retail activities and 40% were backyard operators. Most (72%) had some secondary education. While the owners generally worked seven days a week, the typical working week for workers was a six-day week, which tallies with the findings of earlier studies. Most operations were open nine hours a day. According to the study, the highest paid workers (who tended to be employed in dress-making and leather products) received Z\$3000 per month, while the lowest paid (mainly employed in vending activities) made only Z\$600 per month. The majority had a wage just above Z\$1,000 per month. This compared unfavourably with the average private formal sector minimum wage of Z\$3,110 per month and the PDL of Z\$5,474 of 2000.<sup>12</sup> Employers set these wages arbitrarily.

Chiripanhura also found that the informal economy was largely discriminated against in training provision, as evidenced by the fact that 84% of participants got their skills through on-the-job training (OJT), with only 15% obtaining their skills through traditional apprenticeship. Most workers had no employment contract and generally knew nothing about their rights as workers. More than 90% of the interviewees knew very little or nothing concerning laws governing employment, but most indicated a willingness to learn about them. Only 27% of the women interviewed were given maternity leave of, at most, two months (the law provided for 3 months), and most lost their income while on maternity leave, which is against the provisions of the Labour Relations Act. Only 2% of the women interviewed were given time off for breast-feeding. Typical problems related to poor working conditions, working over public holidays, harassment, and no leave days except for emergencies.

Nor were any of the workers covered by a health insurance scheme. Despite the health and safety risks that abound in the informal economy, the study found that the factory inspectors hardly visit informal premises due to a lack of resources. The study observed that the definition of a 'factory' under the Factory and Works Act was of little help. This Act refers a factory as a building with 15 or more employees, which generally excludes the informal



economy. Even though it has plans to include the informal economy, the National Social Security Authority (NSSA) currently excludes this part of the economy, as it does domestic employment. At the time the study was carried out, civil servants had only recently been offered cover by a health insurance scheme. Chiripanhura pointed out some good practices with respect to the introduction of a health insurance scheme, citing Senegal and Tanzania as good examples. Under an ILO project, Tanzania introduced UMASIDA (a Health Mutual Society for Healthcare in the Informal Economy) in Dar es Salaam, which initially covered some 1,500 informal economy workers as well as their families.

From Chiripanhura's study, it emerged that 15% of those employed in the informal sector belonged to some organization that protected their interests (such as the Bulawayo Upcoming Traders Association – BUTA; the Informal Sector Association of Zimbabwe; Affirmative Action Group; the Tuck Shop Owners' Association, and other geographical associations). However, none belonged to a trade union or an employer's association. From a legal point of view, the study correctly observed that the Labour Relations Act, as well as collective bargaining agreements and relevant ILO Conventions (such as the Employment Policy (Supplementary provisions) Recommendation No. 169 of 1984, Labour Administration No. 150 of 1978) applied to all types of workers. The issue was the lack of their application/enforcement. The study explored the reasons why enforcement was problematic, and argued that the nature and characteristics of the informal economy made it difficult to apply the law. Ignorance of the law also played a part. Chiripanhura recommended a multi-faceted approach involving various stakeholders in order to upgrade the activities while ensuring they abide by the law.

TARSC (2003) explored occupational risks in the informal economy of Zimbabwe. The study observed the following factors as those that undermined safety in the workplace for SMEs:

- Low levels of capital, use of primitive tools and techniques, and a tendency to innovate or take short-cuts in production that may pose serious hazards to the worker's safety
- Poor working conditions, being poorly regulated by labour or health and safety laws and poorly monitored by trade unions, employers' organizations, and the state. Workers such as family members typically have no formal contract of employment
- Poor access to information, lack of knowledge about hazards and their effects, and pressure to generate income 'at all cost'

TARSC (generally found that the health problems affecting the informal economy were similar to those in the formal economy: poor housekeeping, poor lighting, long work hours, poor workplace design, ignorance about of chemical risks, and the increased use of drugs for medication. Overcrowding, poor nutrition, inadequate sanitation, the lack of adequate storage, and the general effects of poverty further compounded the job-related risk factors. In home-based SMEs, the risks extended to members of the family and the home environment. Once exposed, family members also suffered from such occupational diseases. At peak periods, TARSC found that work was rushed without due regard to safe working conditions.

TARSC's study points out that the detection and control of occupational exposures rely on the monitoring and management system in the workplace and at national level. In Zimbabwe, as elsewhere in Africa, factory inspectorates are ill-equipped in terms of inadequate staff and other resources to properly implement laws relating to the work environment. The laws the SMEs are considered 'neither specific nor comprehensive,' (ibid., 5). The study also found that countries like Kenya, Mauritius, and Zimbabwe were establishing laws and practices to promote workplace safety committees so as to localize monitoring and to give legal obligation for the dissemination of information pertaining to hazards to employers. However, SMEs in Zimbabwe may neither fulfil the definition of a 'factory' in the law governing inspections nor be monitored due to shortages of inspectors, time, and transport. TARSC also considered the lack of proper organization and lack of information pertaining to their rights to health and safety and advances in work environment practices and workplace hazards on the part of workers and employers of SMEs as factors inhibiting the effective monitoring of exposure.

Owing to the lack of good assessments of the pattern of occupational exposures and especially to chemicals applied in the informal economy, TARSC had to use anecdotal evidence and cross-sectional studies. TARSC observed a common pattern of occupational health problems as is reported elsewhere across the world, including musculoskeletal health problems involving shoulder pains, backache, numbness of hands and feet, rheumatism/arthritis), eye strain and injury, skin irritation, and respiratory disorders. A study quoted in TARSC's report showed that only half the workers had normal vision in both eyes. It argued that although the workers knew about their eyesight problems, they considered eye tests and the purchase of glasses as beyond their means. For those informal sector workers living in low-income areas, they already suffered poor health due to poor diets, sub-standard housing, overcrowding, and adverse environmental conditions. Because they are vulnerable to ill health, their likelihood of developing long-term illness arising from poor working conditions is increased. Many informal economy workers are reported to self-treat illness using over-the-counter drugs. In this regard, there exists a high level of risk and ill-health in the informal economy.

#### 4.2 Trade Union Interventions in the Informal Economy of Zimbabwe

In 1988, ZCTU carried out a study of retail workers that had been retrenched from Maceys Supermarkets. The study pointed out the problems of forgetting about trade union members once they lose their job. It found that most of these ex-workers were bitter about their former trade union, accusing it of abandoning them when they needed it most. However, the lack of interest of trade unions in the informal economy also stems from losing subscribing members, who, in the absence of any alternative, end up subsisting in that economy.

The level of unionization in Zimbabwe is generally low, as is indicated in Table 15 for the period running from 1990 to 2000.

**Table 15: Unionization Rate, 1990-2000 ('000s)**

Year	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Membership	200.1	191.4	200.6	200.8	192.1	197.8	152.5	184.3	193.3	197.9	165.0

Employment	1192.1	1244	1236.2	1240.3	1263.3	1239.6	1273.8	1323.3	1348.5	1314.4	1290
Unionization rate	16.8	15.4	16.2	16.2	15.2	16.0	12.0	13.9	14.3	15.1	12.8

Source: ZCTU Database

The above figures suggest that the level of unionization decreased, on average, from 16.8% in 1990 to 12.8% by 2000.<sup>13</sup> It has therefore been found expeditious for unions to either extend the unionization agenda to cover the informal economy and/or establish some relationship with that economy (ILO, 1999a & 1999b; ILO, 2002). Besides, if the core business of trade unions is to protect the unprotected and achieve decent working conditions in all sectors, the existence of indecent working conditions anywhere is a threat to industrial peace and stability everywhere. No worker anywhere should accept unregulated working conditions that are not decent. In this regard, the existence of any deficient workplaces should pose a challenge for any trade unionist worth their salt.

The global concern with lack of application of labour standards in the informal economy has caught up in Zimbabwe. In the mid-1980s, ZCTU affiliated the Zimbabwe Union of Musicians. Because the balance of forces was in favour of owners and not workers, the union was always bickering internally and could not sustain its affiliation. In the late 1990s, the Informal Sector Traders' Association of Zimbabwe was established with the assistance of the ZCTU and was affiliated to ZCTU as an associate member. ZCTU even helped organize activities to support it. Unfortunately, the whole project fell apart as the association was too centralized and failed to take off.

With the onset of ESAP in 1991, ZCTU was concerned about the impact of retrenchments on its membership. In this regard, and with financial assistance from the Norwegian People's Aid (NPA), it established a Projects Department. This department was expected to provide training for retrenchees who wanted to start their own entities and to provide them with start up capital. The project also sought to assist workers who wanted to take over enterprises in distress. Through this initiative, workers at Sayprint were able to take over the company. However, this was the only company that the project managed to successfully transform into a wholly-worker-owned enterprise. Another struggling company that was almost transformed into a wholly worker-owned company was Craster Engineering. With a Z\$150,000 loan from the Social Dimensions Fund, the project carried out feasibility study that established that Craster Engineering was viable. However, when politicians got hold of the feasibility report and realized the potential that this company had, the bid from the workers collapsed at the eleventh hour as the politicians theSMElves decided to take it over instead. At that point, the workers were struggling to raise the required funding. This clearly illustrated the financial limitations of the project, for the lack of financial resources effectively hamstrung the efficacy of the initiative.

A total of ten retrenchees were assisted in starting their own firms. However, there were serious repayment problems, which resulted in several defaulting SMEs being taken to the debt collectors. The culture amongst the beneficiaries was that because they were subscription-paying members of trade unions, they were therefore entitled to assistance from the unions. So acrimonious was the issue that the relationship between the project and loan recipients became strained. It emerged that once the businesses were up and running, the owners no longer wanted to associate with their labour,

identifying the SMEs more with the business community instead. By the end of the 1990s, the project was almost moribund. The withdrawal of the sole donor to the project in 1999 effectively killed it off, and it has not been resuscitated. One weakness of the project was that like other initiatives discussed above, it was concerned with assisting retrenched workers start a new life without focusing on the core trade union business of redressing decent work deficits.

In 'Beyond ESAP' (1995-96), a more detailed and systematic study, ZCTU analysed the potential role of the non-formal economy. As the ZCTU (1996) observed, by focusing exclusively on the formal economy as the engine of growth, ESAP neglected the sectors with greatest potential for employment creation, i.e. the informal small-, and medium-sized enterprises. The study argued that the cost of creating a formal sector job worked out at Z\$80-100,000, while that of creating a job in the small and medium scale enterprises (SMEs) was only Z\$10,000, and contended that it was more cost-effective to focus on the promotion of small and medium enterprises. In addition, it argued that apart from being labour-intensive, these enterprises made small demands on high-cost imported inputs. The study recommended the adoption of a strategy that stood on two feet: promoting the capital-intensive formal economy while simultaneously promoting and integrating into the mainstream the labour-intensive non-formal economy. It also emphasized the importance of decent jobs in all 'sectors.'

With the assistance of the ILO, ZCTU organized a leadership workshop from 14-16 August 2000. The Bulawayo Upcoming Traders' Association (BUTA), which was formed in November 1999, was invited in order to assist the workshop in understanding the workforce characteristics, problems, potential, and likelihood of establishing linkages between ZCTU and BUTA.

The workshop called upon the ZCTU to facilitate the establishment of a well co-ordinated informal economy national association by:

- Identifying existing associations nationally
- Establishing a national interim co-ordinating committee
- Organizing awareness programmes
- Assisting in the drafting of a national constitution
- Sourcing funding for organizing, education and training, and working capital
- Assisting with the marketing of products in local, national, regional, and international markets
- Assisting in putting in infrastructure in the form of storage facilities and market stalls
- Assisting in organizing and transporting goods and inputs by creating linkages between informal traders and transport operators

Areas of potential trade union membership were identified as clothing, commercial, textile, engineering, agriculture, transport, education, vocational training, automotive, leather and shoe-making, graphical, furniture, building, catering, and mining.

Strategies for organizing and recruiting membership were outlined as follows:

- ZCTU and affiliate unions to collaborate with informal economy associations in organizing and recruiting of all allied informal economy trade union members
- Formalising employment conditions of service
- Establishing social security schemes in the informal economy e.g. health, burial, education, etc.
- Putting in place mutual interest schemes, e.g. a working capital fund (to provide soft loans to informal economy operators)

With respect to the legal/political framework, the workshop recommended that all stakeholders be involved in drafting laws that will govern the informal economy. National unions were challenged to organize the informal economy and agitate for improved working conditions that respect the Fundamental Rights at Work.

The problems affecting trade union work in the informal economy were identified as follows:

- Lack of separation between labour and capital – no clear-cut distinction between employer and employee
- Strong family/kinship bonds, which brings participants closer to each other than to unions
- Low levels of unionization in the formal economy, implying unions opt out and focus on the formal economy at the expense of the informal economy
- Survivalist nature of the informal economy, which makes entities flexible and highly mobile
- Lack of formalized structures, locations and underground nature of some of the activities

The way forward was identified in the following terms:

- Creation of awareness on the existence and relevance of the informal economy
- Setting up of structures at district, regional, and national level
- Promoting networking with and amongst activities in the informal economy
- Lobbying for tax exemptions and access to micro-finance
- Creation of linkages between existing policies in the formal economy to benefit the informal economy
- Supporting the development of special services tailor-made for the informal economy such as provision of transport and technical advice
- Lobbying for the repeal and/amendment of prohibitive/restrictive and outdated legislation

- Formulating training and organizing programmes to equip the informal economy with business management skills (book-keeping, marketing, etc.); and strengthening and supporting the formation the informal economy associations, which will then affiliate the SMEs with the ZCTU

A detailed plan of action was also adopted. On the basis of this workshop, ZCTU developed a project proposal for strengthening the voice of unorganized informal economy workers. Because of the predominance of women in the informal economy, the Women's Department of ZCTU was also involved in the design of the project. As a result, a joint project between ZCTU and the Commonwealth Trade Union Council (CTUC) was established and started operations in May 2001. Two full-time officers were recruited under the three-year project, which is scheduled to end in June 2004. The project seeks to strengthen the organization and representation of informal economy workers through the building of alliances between the SMEs and trade unions. The expected outputs from the project include a ZCTU strategy to support informal economy workers and work with them to bring legislative changes; development of new methods of organizing workers (e.g. through communities and joint union/informal economy lobbying activities); and adjustment to union structures to facilitate the participation of informal economy workers in trade unions. The project also envisages the development of pilot projects with trade unions interested in organizing the informal economy and establishing links with workers in that part of the economy. The ZCTU is yet to decide whether to use existing unions or form new ones covering the informal economy or both.

The activities under this project involve: a) running technical information sharing (one-day) workshops between the formal and informal economy workers; b) providing skills training for union organizers (e.g. on community-based recruitment); c) workshops to develop joint campaigns (e.g. on social security, access to credit, vocational training etc); d) literacy and numeracy skills training programmes. So far, the project has run activities around the first two activities. Six workshops were organized for skills training of unions in organizing the informal economy. Through the project, an apex body, the Zimbabwe Chamber of Informal Economy Associations (ZCIEA) was formed.

At a review workshop held in Harare on 27-28 May 2003, it was agreed that ZCIEA and ZCTU should consolidate their relationship on a strong bipartite basis, and that ZCTU should continue to play a leading role in assisting ZCIEA. The following gaps were identified as requiring action: employment creation and employment security; job and labour market security; HIV/AIDS information and related services; research; education and training; access to extension services; access to resources and decent incomes; recognition and representation; fair trade practices; access to information and information technology; housing, shelter, and business premises; other social services; and networking and exchange programmes, both locally and internationally.

As a follow up to this workshop, a strategic planning workshop was held in Kariba on 4-6 August 2003. It was attended by the leadership of both ZCTU and ZCIEA. On the basis of this workshop, the ZCTU and ZCIEA developed a Memorandum of Understanding (MoU) to be signed by both parties.

Zimbabwe's polarized political environment has constituted a serious challenge to the project. For instance, BUTA, which had worked closely with ZCTU since 2000 was affected by the political environment to the extent that the organization had to dissolve and another one was formed in its place. The two project officers were once detained. However, the Ministry of Public Service, Labour and Social Welfare has played a critical role in recognizing the project and giving it moral support.

Importantly, the ZCTU has so far promoted a networking arrangement between itself and the informal economy. The idea is to help the informal economy organize itself into associations. This appears to suggest that ZCTU recognizes the inability of the informal economy in its current state to meet current labour standards and decent working environments. It has realized that for this to be achieved, concerted stakeholder interventions that are coordinated and synchronized are required. It is in this vein that ZCTU is consciously assisting ZCIEA to create effective structures upon which the industrial relations will build. Part of the education programme provided by the project involves awareness-training on the eight core ILO Conventions and legal provisions (especially the Labour Relations Act). While other stakeholders working in the informal economy have scaled-down their interventions (see Section 3), it appears the ZCTU initiative is among the few remaining visible ones. This project has also taken high risks to continue to exist.

## 5. Conclusion and the Way Forward

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The massive expansion of the informal economy since 1980 has been extensively discussed, as have been the various initiatives targeting the informal economy that have been undertaken.

In mapping out the way forward, it is important to build on some of the emerging good practices. The first important lesson emerging from the interventions on the ground is that Government has to play a facilitating and co-ordinating role rather than simply enmeshing itself in the actual delivery of programmes. This is the lesson learnt from the South African experience, which is embedded in its policy on SMEs.

For interventions targeting SMEs to be efficient, effective, relevant, and sustainable, what is required is a stakeholder approach as envisaged in the policy matrix adopted in 2000 (see Appendix). All key stakeholders have to be harnessed in a win-win environment whereby all the multi-faceted factors required to build strong, durable, profitable, and sustainable SMEs can be addressed simultaneously. The best environment under which this can be achieved is probably through a protocol under a Social Contract or Accord. Without sustainable and viable SMEs, labour standards cannot be sustained and vice versa. The synchronization of these objectives is therefore critical and is best achieved under a Social Contract.

In the meantime, the interventions by ZCTU through the Informal Economy Project are timely and should be encouraged. It is also important to borrow good practices from elsewhere. The organizing department of ZCTU is putting together a study visit of the Congress of South African Trade Unions (COSATU) to look at its organizing strategies, especially those targeting the informal economy.

It is reported that a project of the Indian National Trade Union Congress (INTUC) and the ICFTU-APRO has trained organizers on problems of the informal economy and developed relevant approaches. Within two years (1996-98), the project claimed to have enrolled 179,799 members into 60 trade unions in ten states. The Self-Employed Women's Association (SEWA) in Ahmedabad and the Women Workers' Forum (WWF) in Madras in India are considered as successful examples of organizing women in the informal economy (Ratman, 1999). Chiripanhura's study (op. cit.) pointed to some good practices with respect to the introduction of a health insurance scheme, citing Senegal and Tanzania as good examples. Under an ILO project, Tanzania introduced UMASIDA (a Health Mutual Society for Healthcare in the Informal Economy) in Dar es Salaam, which initially covered some 1,500 informal economy workers as well as their families.

A databank containing good practices at national, regional, and international level should be developed to help disseminate 'good practices' in the area of successful interventions targeting the informal economy.

Meanwhile, there is need for a new development strategy that integrates the hitherto dual and enclave structure of the Zimbabwean economy, as recommended by ZCTU in its 'Beyond ESAP' study of 1996. Figure 1 below illustrates the structure of the Zimbabwean economy.



### **Figure 1: Structure of the Zimbabwean economy**

By focusing on the male-dominated formal sector, past policies have neglected the non-formal sectors that accommodate the majority of the population, and women in particular. They have therefore reinforced the inherited dual (separate) and enclave (isolated) structure of the inherited economy. With this structure, the economy cannot rely on the formal economy alone to meet the development needs of the people. The expected 'trickle down' from the formal to the non-formal economy has not, and will not, occur, thus implying the need for conscious policies of integrating the non-formal economy into the mainstream .

Mhone (1993 & 1999) uses a technical framework to draw out the structural implications of the inherited economy. He summarizes these inherent anomalies under four distortions or inefficiencies, i.e. distributive, allocative, microeconomic, and dynamic inefficiencies. Distributive inefficiencies refer to the unequal or restricted access to key economic assets (such as land, education and training, finance), which undermine the participation of the majority in productive activities. Such distortion conditions the extent of participation and benefit from growth in the economy. The structure of the asset base therefore determines the nature of growth. The narrow base, whereby a small elite owns the bulk of resources, delivers a skewed distribution of income, resulting in jobless, ruthless, voiceless, rootless, and futureless growth. The other extreme, a broad-based structure, will only ensure that an inclusive growth pattern, which is driven by, and benefits the majority, emerges.

Allocative inefficiency refers to the situation where a significant proportion of the labour force is under- or un-employed. This suggests resources are being wasted. Over time, it is argued that such under- or un-used resources will depreciate in value and thus affect productivity. This under- or un-used labour represents foregone productive potential and incomes. Unleashing an inclusive growth path releases this potential productive energy and unravels a 'virtuous cycle' of self-reinforcing growth.

Microeconomic inefficiencies relate to those distortions at enterprise level that undermine economic efficiency, competitiveness, and employment absorption. One example is the limitations imposed by the inherited inward-looking development strategy, the inefficiencies of the non-formal sector. In such situations, human capabilities, value channels (work, production, management, and marketing processes and capabilities) and value chains (linkages in distribution of inputs and outputs, marketing structures, financial intermediaries) undermine the economy's productive potential. This in turn undermines capital accumulation and overall development and largely constrains employment creation and reinforces the enclave relationship of the sectors.

Dynamic inefficiencies result from all other inefficiencies and hinder the movement to an inclusive and sustainable growth pattern as the economy becomes trapped in a vicious circle of low income, low demand, low savings, low investment, low growth, and low employment. The inequitable distribution of resources will result in the fulfilment of the needs (mainly luxuries) of the privileged (e.g. importation of luxuries) at the expense of the basic needs of the majority.

It is therefore important to remove these distortions to ensure that a broad-based, inclusive, and sustainable growth path is taken, one that ultimately promotes sustainable human development.

What compounds this challenge is the observed informalization of the formal economy, which creates even more formidable challenges.

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