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CHAPTER 1

INTRODUCTION TO THE STUDY

1.1 INTRODUCTION

A situational analysis of the informal sector in the three major cities (Blantyre, Lilongwe and Mzuzu) of Malawi (see appendix 1) is the primary focus of this study. According to Busch and Houston (1985:44), a situational analysis deals with factors inside and outside an entity or organisation. This thesis investigates both the internal and external factors affecting the informal sector in Malawi. In addition, it examines how the informal sector affects the business environment in which it operates.

In this chapter, background to the problem is provided followed by the problem statement, the study objectives formulated on the bases of the problem statement, a brief research methodology and the chapter outline. These aspects are discussed in further detail below.

1.2 BACKGROUND TO THE PROBLEM

The informal sector, as we know it today, first appeared in Africa in the 1960s as rural-urban migration gained momentum. Historically, the 1960s was the decade of independence in Africa. During this time, large numbers of people were attracted to the rapidly expanding and glittering cities by the prospects of employment in the modern sector of the economy (Oyowe 1993:244). As early as the 1950s, the situation in Malawi followed a similar pattern. A background on Malawi is provided below as the context for the problem this thesis will be addressing.

Before Malawi gained independence, the country belonged to the Federation of Rhodesia and Nyasaland, which was under the British Protectorate. This Federation consisted of Southern Rhodesia (now called Zimbabwe), Northern Rhodesia (now called Zambia) and Nyasaland (now called Malawi). The colony of Southern Rhodesia was part of Her Majesty's dominion, while Northern

Rhodesia and Nyasaland were territories under Her Majesty's protection (Constitution of the Federation Government 1953). This division meant that Southern Rhodesia was the capital of the Federation although the other territories had their own governments. In this arrangement, Southern Rhodesia was favoured by the representation of the people in the federal assembly. The contributions the territories were required to make to the federal government budget and the general policies of the Federation are summarized in table 1.1.

Table 1.1 Summary of three regulations in the Federation in 1957

Description of issue	Southern Rhodesia	Northern Rhodesia	Nyasaland	Totals
Representation into the Federal Government	26 members 68%	8 members 21%	4 members 11%	38 members 100%
Contribution to the Federal Government budget (in pounds)	130,000 52%	90,000 36%	30,000 12%	250,000 100%
Minimum debt to be supported by Federal Government	60 million 72%	17 million 20%	7 million 8%	84 million 100%

The implications of the above regulations for Nyasaland were as follows:

- (1) Development slowed as some money (12% of the federal expenses) was used for the running of the Federal Government rather than Nyasaland as a territory.
- (2) Nyasaland had difficulty developing because the Federal Government only supported a debt of 7 million pounds or more. This condition was difficult to fulfil for a country, which depended on subsistence farming and remittances from migrant workers.

- (3) In order for Nyasaland to contribute to the Federal Government budget, more migrant workers were sent to Southern and Northern Rhodesia, removing the most critical labour source in the country.

While simultaneously dealing with the issues of internal development, Nyasaland had to design ways to meet these obligations. Collard (1958:46-48) reports as follows:

- (1) The emigration of labour from Nyasaland was a matter of great importance both in Nyasaland and in the Federation. For the former, it was a way of obtaining the needed revenue while for the later it was a matter of cheap labour and a way of raising the payment required from Nyasaland to run the Federal Government. However, the migratory labour system, upon which industry and particularly agriculture (in Southern and Northern Rhodesia) relied, was extremely restrictive.
- (2) The population of Nyasaland totalled between 2,25 and 2,5 million people in 1957. The number of able-bodied adult males in this population was estimated at 504,000. Of the 504,000 adult males, 140,000 were already working outside Nyasaland, while 71,000 were in full-time employment within Nyasaland. In the same year, 74,000 emigrated in search of work; thus only 219,000 were engaged in full-time hoe-type agriculture. Of the 74,000 who emigrated in search of work, 24,000 were recruited and left the territory under contract. In that year, the Nyasaland Territory Government quota was 16,000; however, many more recruitment permits were issued under pressure. The rest travelled without permits in search of jobs.
- (3) If the emigrant was not recruited, but was travelling as a free agent, the Tripartite Migrant Labour Agreement of 1947 between Rhodesia and Nyasaland ensured that the employed emigrant made provision for family remittances in addition to accumulating funds for his return.

- (4) One result of this labour emigration was that huge sums of money were injected into the economy of Nyasaland through remittances, primarily as deferred pay. In 1955, the grand total of remittances was over one and a quarter million pounds. In 1956, the remittances totalled nearly one and half million pounds while in 1957 they amounted to 1,665 million pounds.

From what Collard says above, one may draw the following conclusions:

- (1) His figures on able-bodied people include adult males only, which seems to suggest that at that time only men were allowed to emigrate and find a job.
- (2) The annual remittance, which was the major source of income, amounted only to 1,7 million pounds in 1957. This amount was considered a large sum of money; yet, when one examines the minimum loan of 7 million pounds the Federal Government was willing to support, this amount was insufficient.
- (3) Men migrated alone. Their families, who were left behind, concentrated on subsistence farming. It is clear that more women than men were involved in agricultural production.
- (4) Some men travelled to Southern and Northern Rhodesia without permits and yet still managed to find jobs owing to the demand for cheap labour.

As a result of these economic and political variables, the economy of Nyasaland depended more heavily on remittances from migrant workers than on subsistence farming. Southern Rhodesia, with support from the British Government, opened farms, which created employment both for their people and for those who came from other territories, particularly Nyasaland. In addition, people were employed in industries and as cooks or garden boys at the houses of the British expatriates. Further, because Southern Rhodesia was the capital of the Federation, people from Nyasaland and Northern Rhodesia were free to travel to Southern Rhodesia to seek employment. Hence, the first migratory

exodus in search of employment was from Nyasaland and Northern Rhodesia to Southern Rhodesia. In some circumstances, the exodus moved from Nyasaland and Southern Rhodesia to the mines in Northern Rhodesia. Many of these migrants had to walk long distances to reach these territories to find work.

Nyasaland received its independence from the British in 1964 under the leadership of Dr Kamuzu Banda. The name of the country was then changed to Malawi. The people were still involved in subsistence farming, which focused mainly on the growing of maize. This situation became the priority of Head of State, Dr Banda, with a focus on self-sufficiency (Priggis 1998:15). Although emigration continued, there were now limitations because Malawi was no longer part of the Federation. Few people were therefore allowed to migrate to Rhodesia for employment.

As towns in Malawi grew, rural-urban migration increased. People emigrated from villages to towns primarily in search of employment. This exodus generated several problems including the following:

- The labour force exceeded the demand for labour.
- The demand for qualified labour became critical and yet the available labour was mostly unqualified.
- Owing to lack of employment, some decided to return to their villages while the rest stayed and were forced to find other means of survival. Since the expectation at that time was to be employed, several survived on casual jobs such as loading and unloading baggage for travellers as well as whatever piecework was available. Some decided to start small businesses; they became involved in taking food items from the villages to sell in town. Others brought firewood and charcoal to town to sell because many of the town dwellers did not have electricity. This economic reality in Malawi was the birth of the informal sector, as we know it today.

The result of this move to the city was the growth of informal “squatter” settlements around the major cities. Watson (1995:279) points out that urban growth is not necessarily a negative process. In fact, if correctly managed, it can raise the levels of development, improve the overall quality of life and facilitate economic growth. To some extent, this was the case in Malawi in the late 1970s, a fact that attracted a high level of migration to towns. The rural population saw their friends return to the villages well dressed and heard impressive stories about town life.

As increasingly more people moved to towns with the intention of settling and becoming involved in the buying and selling of food items, the informal sector in Malawi grew. Competition then led to the diversification of economic activities in the informal sector. As early as the 1970s, this diversification attracted the government’s attention and a law was promulgated under section 87 of the Local Government (Urban Areas) Act, which guided city councils in the creation of by-laws related to occupations and businesses, barbers, hairdressers and sellers of food items. According to the powers of section 87 of the Local Government Act, the Blantyre City Council created the by-laws for occupations and businesses in 1979. The Minister of Local Government approved these by-laws in April the same year. These appeared as Government Notice No 40. Some aspects of the by-laws are as follows:

No person shall, for gain or reward, engage in or pursue or hold himself out as engaging in or pursuing, within the area, any of the occupations specified in the first schedule hereto unless he is the holder of a current valid occupation licence authorising him to do so.

Every holder of an occupation licence shall at all times maintain in a clear and sanitary condition the premises where his licensed occupation is being carried out.

Any person who contravenes or fails to comply with the provisions of by-laws; or wrongly purports to lend, transfer or assign any occupation licence there under to any other person; or not being duly authorised in that behalf, alters any occupation licence or any particulars shown thereon; shall, be guilty of an offence.

The occupations requiring an occupation licence included:

Basket maker, Blacksmith, Bicycle repairer, Carpenter, Charcoal seller, Curio maker, Firewood seller, Laundress, Mat maker, Miller, Mortar maker, Plumber, Photographer, Radio repairer, Shoe cleaner, Shoe repairer, Tailor, Tinsmith, Tyre repairer, Watch repairer, Dry maize seller.

The range and type of occupations and businesses popular at that time are clear from sections of the by-laws. It is interesting to note that most of these activities were linked to production and service. As diversification continued, the city councils, guided by section 87 of the Local Government Act, continued revising the by-laws to include those new areas. The crucial factor in all of the above by-laws was that any person engaged in business in the city would be required to procure a business licence. These by-laws typify the legislation that regulated the operation of the informal sector participants.

Included in the later revisions (1990-1994) of these by-laws were clauses that forbade people from selling cooked maize during the maturity stage, or selling chips and some fruits when there was an outbreak of cholera or other food-related diseases. These were also enforced accordingly.

The by-laws have not evolved to meet a changing business environment, a fact which creates challenges as they are enforced and implemented.

According to Mgwadira and Chatsika, the Deputy Town Clerk and Chief Executive Officer of Blantyre City (Jan 1999), any person during Banda's rule

who did not comply with the by-laws would have their items confiscated and were then taken to court for trial. According to Mgwadira and Chatsika, since the people did not know their rights, in most cases they either paid a penalty to the city officers or simply left their items with them. This made entry into or operating in the informal sector difficult and encouraged mismanagement.

In 1994, Malawi experienced a change from a one-party to a multiparty system and the first democratic government was elected. People understood democracy to mean freedom; this included the freedom to live and trade when and where they wanted. The government by-laws controlling the operation of the informal sector (cited above) could no longer be enforced because of strong resistance from the members of the informal sector. Everyone operated in their own way and where they wanted to, resulting in a chaotic trading environment. In addition, the droughts of 1994/95 and 1995/96 forced many rural residents to abandon the agricultural sector and join the informal sector in urban areas.

According to the World Development Report (1997), Malawi has the seventh fastest urban growth rate out of the top 20 poorest countries. The urban population grows annually by 6 percent. Priggis (1998:23), in writing about Malawi, indicates that people typically migrate to these urban areas in search of work. It is obvious that not all are able to find work in the formal sector of the economy. They thus, end up in the informal sector, which at best, can be described as unstructured and ungovernable.

According to the Malawi Policy Framework for Poverty Alleviation (1995:4), the real incomes of smallholder wage earners and informal sector workers are estimated to have declined by 40 and 25 percent respectively between 1982 and 1992. The framework indicated that the rapid population growth, combined with stagnant growth in formal employment and the absorption of small numbers of the labour force, has resulted in high unemployment. On the basis of population growth alone, the economy needs to create 400 new jobs daily to accommodate

the number of new entrants to the job market. Further, the low labour returns in the smallholder subsector are leading to an increase in underemployment/unemployment, particularly in the urban areas. This also seems to explain why there is growth in the informal sector. However, there is a need to analyse why the sector is growing, despite the declining incomes. Some of the underlying questions are as follows:

- Is it because of the balance of supply and demand?
- Is it because the informal sector is directly related to survival and people join because they have no alternative?
- Is it because the environment is now conducive to informal sector activities?

As pointed out by the University of South Africa's Bureau of Market Research (BMR) (1995:6), the role of the informal sector is particularly relevant when levels of unemployment and poverty are high and economic growth is slow. The development of the informal sector has been suggested by people such as Bugnicourt, Ndiaye and Sy (1995:26) as a possible means of providing some form of survival or subsistence income. This needs to be analysed in the context of Malawi.

In terms of the standard of living, as measured by the Human Development Index (HDI) of the United Nations Development Programme (1994–2002), people in Malawi are becoming poorer. Although some authors (see Chilowa & Apthorpe 1997:8) have criticised the use of the HDI, it still gives a general picture of the situation in a country. The HDI for Malawi from 1994 to 2002 was as follows:

- In 1994 the HDI ranking was 157 out of 173 countries.
- In 1995 the HDI ranking was 157 out of 173 countries.
- In 1996 the HDI ranking was 159 out of 173 countries.
- In 1997 the HDI ranking was 162 out of 173 countries.
- In 1998 the HDI ranking was 166 out of 173 countries.

- In 1999 the HDI ranking was 159 out of 174 countries.
- In 2000 the HDI ranking was 163 out of 173 countries.
- In 2001 the HDI ranking was 151 out of 162 countries*.
- In 2002 the HDI ranking was 163 out of 174 countries.

*Note that for 2001, only 162 countries were included - hence the high rank for Malawi.

One of the reasons for this ranking may be the structural adjustment programme required by the International Monetary Fund (IMF), which Malawi has been implementing for the past 18 years. In fact, Leistner and Cornwell (1996:4.8) report as follows: “The general perception is that 15 years of structural adjustment have only contributed to worsen an already bad economic situation”. Two of the questions that may be asked are: Are the poor living conditions contributing to the growth of the informal sector in Malawi? What contribution is the informal sector making to reducing poverty in Malawi? These and other questions will form the backbone of the research undertaken in this thesis.

As noted by Chipeta (1990:9), until recently, the informal sector in Malawi has escaped systematic and detailed studies that would reveal its accurate manifestation. Consequently, little is known about the size and state of the sector, its operational characteristics and government intervention designed either to expand or control the development of the sector. This research therefore focuses on addressing and analysing some of these key issues.

Oyowe (1993:244), in writing about the informal sector, indicated that “its greatest virtue is that it creates jobs, accounting for between 50–70% of all total employment in all the countries studied by the International Labour Organisation, relieving unemployment pressures that otherwise would create serious political problems”. Is this the role the informal sector is playing in Malawi?

Several people support this sector. Van Dijk (1995:277), for example, states that economic growth is important for the reduction of poverty in developing countries and that the urban informal sector is one way in which economic growth filters through to the poorest sections of the population. Cornwell (1997:74) also indicates that about half the labour force in Third World cities is employed in the informal sector, so that it is a vital component in any strategy aimed at combating poverty.

However, contradictory views exist and these will also be explored in this thesis. Oyowe (1993:243) reports that development debates in recent years have seen the informal sector condemned in many quarters as a spoiler, a chaotic parallel or underground market acting like a parasite on the national economy. Mohr and Fourie (1995:411-412) also reported that some economists regard the informal sector as a survival sector in which people who cannot find formal employment can find legal or illegal means of survival. They regard the growth of informal sector as a symptom of a stagnating or declining economy.

While little documentation exists on the informal sector in Malawi, the present literature and the preliminary interviews with government officials (Ministry of Labour, Ministry of Commerce and Industry, Statistical Office, City of Blantyre Officials), Council for Social Research Officials, Chamber of Commerce Director, a vendor, an Indian businessman and field visits to both Blantyre and Lilongwe indicated the following:

- The informal sector has grown tremendously within the cities of Blantyre, Lilongwe, Mzuzu and Zomba and is mainly composed of traders (especially vendors), service providers and producers.
- There is no common understanding of the use of the word “informal sector”.
- Very little analysis of the operation of the informal sector and its role in reducing poverty of the people involved has been done, and any extensive

research in this area will be a useful contribution to knowledge and understanding.

- Mixed feelings exist within the formal sector and government circles on what role the informal sector is playing.
- The involvement of people in this sector appears to be far more dependent on the availability of capital than on lack of skill.
- There seems to be an organisation emerging within the sector itself that has started to regulate its operations.
- Government policies (by-laws) on the informal sector and the implementation of those policies (by-laws) pose a major challenge in the democratic environment.

1.3 PROBLEM STATEMENT

As can be seen from the above analysis, the role of the informal sector is not well understood in the context of Malawi. Its scope, operation and benefits are yet to be determined. Factors, if any, that make this sector a success are not known. The attitudes of formal businesspeople towards the informal sector are also not known. The support that government and other agencies are giving or need to give to this sector is not clear. All these aspects create a problem, because the government is unable to develop relevant policies to support and regulate the operations of the informal sector. This leads to both the failure of the government to make decisions on management of the informal sector and abuse of the available freedom by the informal sector participants to operate freely, creating a chaotic economic environment.

1.4 STUDY OBJECTIVES

1.4.1 Primary objective

Given the lack of knowledge on the scope, operation and benefits of the informal sector, the primary objective was to conduct a situational analysis of the informal sector in the three major cities (Blantyre, Lilongwe and Mzuzu) of Malawi.

1.4.2 Secondary objectives

The secondary objectives of this study were to

- (1) explore general concepts of the informal sector and development, as background for the analysis of the informal sector in Malawi
- (2) understand the business environment in Malawi within which the informal sector operates
- (3) provide a sound understanding of informal sector operations in the three major cities of Malawi
- (4) explore the contribution of the informal sector to reducing poverty in Malawi
- (5) determine the attitudes of formal businesspeople and the government towards the informal sector
- (6) assess the kind of support the informal sector requires from government and other agencies
- (7) make recommendations on how the government can effectively handle the informal sector and identify further areas of research

1.5 BRIEF DESCRIPTION OF THE RESEARCH METHODS

Both primary and secondary research methods were used in this study. As reported by Gupta (1993:131), when an original inquiry is conducted to collect data, this inquiry is the primary research method and the data that are collected are referred to as primary data. However, when data collected by some other agency are employed for the analysis of the problem at hand, this is the secondary research method and the data that are gathered are referred to as secondary data. The secondary research for this study concentrated on a literature review on the subject, which led to the writing of the theoretical chapters. The literature review is also used throughout the thesis. Primary research involved personal interviews with four different respondent groups, which included the informal sector participants themselves, government officials, representatives of the formal manufacturing companies and shop owners in the three major cities. Further details of the research methodology are contained in chapter 4.

1.6 ORIENTATION TO THE STUDY

To effectively analyse the situation of the informal sector in the three major cities of Malawi, a decision was made to sub-divide this thesis into six chapters. These are summarised below with a brief description of the content of each. The structure of the thesis can be seen when all six chapters are regarded as a whole.

- Chapter 1: **Introduction to the study**

Following a brief introduction, this chapter deals with the background to the problem, the problem statement, the study objectives, a brief description of the research methodology and the chapter outline.

- Chapter 2: **Analysis of the informal sector and its linkages to development: a theoretical perspective**

Based on the introductory background in the first chapter, chapter 2 examines the term “informal sector”, its definition, history, characteristics, advantages, disadvantages, benefits and the way in which it is linked to development. This is a theoretical chapter and includes relevant research findings and writings from several regions in the world that are critical to the understanding of the informal sector.

- Chapter 3: **Business environment analysis of Malawi**

On the basis of the understanding of what the informal sector is and the way in which it is linked to development, this chapter examines the environment surrounding the informal sector within Malawi through the use of a model of business environment developed by Cronje, Du Toit, Mol, van Reenen and Motlatla (1997:53-85). This model includes the following:

- the internal environment or microenvironment
- the market environment which includes the market, suppliers, intermediaries and competitors
- the macroenvironment which includes
 - the technological environment
 - the economic environment
 - the socio-cultural environment
 - the ecological/physical environment
 - the political/government environment
 - the international environment

- Chapter 4: **Research methodology**

Having dealt with the theoretical perspective on the informal sector and the environment surrounding it, this chapter contains the research methodology that was used, the method used to compile the different questionnaires, the method used to draw samples and collect, code and analyse the data.

- Chapter 5: **Research findings**

This chapter presents the findings from the primary data. It discusses them in light of the various perspectives and provides possible explanations of the results. Deliberate efforts were made to refer to the theoretical chapters, which contain the problem statements and the objectives of the study.

- Chapter 6 **Conclusion and recommendations**

This chapter draws conclusions and presents the major recommendations formulated on the basis of the findings in chapter 5. Areas of further or future research are then indicated and a conclusion presented.

CHAPTER 2

ANALYSIS OF THE INFORMAL SECTOR AND ITS LINKAGES TO DEVELOPMENT: A THEORETICAL PERSPECTIVE

2.1 INTRODUCTION

This chapter focuses on an analysis of the theoretical points of departure regarding the informal sector, major development theories and the interface between the two. It provides a brief overview of the theoretical background against which the author will be discussing the informal sector in Malawi. The chapter begins with an analysis of the history of the concept of the informal sector in general and then positions Malawi within this history. It examines the informal sector definitions, size, benefits and disadvantages. In addition, the linkages between the informal sector, development and development theories are presented and a conclusion is stated.

2.2 THE INFORMAL SECTOR ANALYSED

2.2.1 History of the concept of the informal sector

According to Bromley (1978a:1035), “although the terms ‘formal’ and ‘informal’ were used in anthropological circles in the 1960s, with meaning closely analogous to their current usage in development studies and employment policy, they were not introduced into the development studies literature until the early 1970s”. Bromley traces the origin of the term “informal sector” back to a conference in 1971 on Urban Unemployment in Africa held at the Institute of Development Studies in Sussex. At that conference, Keith Hart presented his much-quoted paper on the informal sector, which was based on his work in the low-income neighbourhood of Nima in Accra. At the same workshop, John Weeks also presented a paper which reviewed the literature on urban employment and introduced the term “unenumerated sector”, a close intellectual cousin of the “informal sector”. Bromely (1978a:1035) goes on to say that although the papers of Hart and Weeks were severely criticised, the conference

discussions served as a springboard for introducing the concept of the informal sector into wider discussions.

Within a year, the concept was incorporated in a substantially revised form into the International Labour Organisation's (ILO) report on Kenya. Shortly after, this report was debated in the Kenyan Parliament. This debate brought the issue of the informal sector into the political arena. From that point onwards, the informal sector was incorporated into the conceptual underpinnings of much of the urban research in the ILO's World Employment Programme and subsequently into the urban research programmes of other international organisations.

In documenting this history, Bromley (1978a) argued that the "informal sector" concept would have vanished without a trace had it been presented in a different forum. He gave examples of the work of Tina Wallace and Sheldon Weeks, which was released at the same time and included innovative ideas. This work is virtually unknown today because they did not have the springboard of a major conference and was published in a periodical that was not widely read. The author agrees with Bromley's observation that this practice still occurs today. If one writes and presents an article within certain forums of the United Nations, the chances of its being popularised are much greater whereas the same article presented in other forums will not have any impact. One may also argue that, in the 21st century, the particular website on which the article appears will influence its wider dissemination. If the article appears on a well-known website, it will be popularised.

In agreement with Bromley's history of the concept of the informal sector, Charmes (1990:12) indicated that Keith Hart was the first to use the term in 1971, although it was the ILO report of Kenya in 1972, which launched and popularised the concept.

As can be expected, there are different opinions on the history of the emergence of the concept of the informal sector. Thomas (1992:51) argues that while credit for introducing the term “the informal sector” into the discussion of developing countries by economists is generally given to Keith Hart in an article entitled “Informal income opportunities and urban employment in Ghana” (presented in Sussex in 1971, but only appearing in periodicals in 1973), the phenomenon was noted by earlier writers.

Thomas (1992:51) points out that Reynolds had, as early as 1969, developed a model containing two urban sectors. One of these sectors, the trade service sector, was described as “the multitude of people whom one sees thronging the city street, sidewalks and back alleys in the Less Developed Countries (LDCs): the petty traders, street vendors, coolies and porters, small artisans, messengers, barbers, shoe-shine boys and personal servants”.

Adding to the same argument, Rogerson (1985:2) indicates that the intellectual antecedents of contemporary informal sector studies may be traced back to the close of the 19th century when the British social scientist, Kingsley, began to study the lives of that “crowd of dwarfs and cripples” whom he viewed as such an inadequate measure of man’s historical evolution and achievement. Rogerson (1985:6) indicated that it was against the fabric of the changing intellectual landscape in development studies that the informal sector concept was born. Rogerson continued by stating that although it could be argued that there are prior claimants to the informal sector concept (eg Bauer and Yamey 1951; McGee 1971), it has become almost an accepted practice to apply the axiom “when talking of the informal sector, start with Hart in 1971”.

The above discussion suggests that people have been involved in the informal sector throughout many generations in different forms. The only difference seems to be the fact that they never used the term ‘informal sector’ until Hart introduced it in 1971.

It is also clear from the literature (Oyowe 1995:244; Charmes 1990:12; Mhone 1996:12; Sethuraman 1981:4; Fields 1990:55) that the development of the informal sector concept has been more highly associated with the migration of people from rural to urban areas than with population growth, which increases the labour force. Oyowe (1995:244) argues that the informal sector in the Third World is linked to the problem of rural exodus, the cause of which can be traced partially to rapid population growth. However, a more pervasive and persistent cause of rural exodus is the disruption wrought on the traditional social and economic fabric on many countries by Western influences: the introduction of Western education and the loss of traditional values, the establishment of a modern economy and urbanisation. In addition, Charmes (1990:12) reports that it was Mazundar in 1975 who introduced the informal sector as a model in which rural depopulation consisted of the following two elements: temporary migrants who came to seek employment in the informal sector because of ease of entry, and an urgent need for immediate income and permanent migrants who ultimately sought jobs in the modern sector but temporarily accepted an open unemployment situation. He indicated that, although this distinction between the two types of migrants could be contested, the fact remained that rural migrants who were underemployed in subsistence agriculture were attracted to the towns in the hope of obtaining a modern sector job. Failing to find one, they were necessarily relegated to the informal sector, which offered them earning opportunities at the level of simple subsistence.

In support of the above argument, Charmes (1990:10) indicates that the 1972 Kenya report highlighted the fact that rural depopulation and the resultant urban growth did not give rise to high open unemployment but rather to the development of small-scale activities which provided rural migrants and urban dwellers who were unable to gain employment in the modern sector with a means of living and surviving.

While most of these models refer to the African situation, the origins of the informal sector in Latin America e.g, Brazil are similar. The informal sector in Latin America has been associated with surplus labour, mostly migrants from rural to urban areas who were unable to find jobs in the formal sector, or those willingly employed in a traditional informal sector, which had not been transformed by the modernisation process (Tokman 1990:95). Confronted with the need for survival, this labour group had to find activities to perform which would provide them with income, because the absence of insurance or government welfare programmes made open unemployment a choice that the majority of the population could not afford. As stated in the background to the problem section in chapter 1, the situation in Malawi was much the same.

However, migration is not the only factor that has stimulated the growth of the informal sector over the years. Onchwari (1992:31) indicates that it is interesting to note that the recent political instability, and the war in Sudan and Ethiopia have both caused significant illegal immigration problems for the Kenyan Government. Most of those refugees who manage to cross the borders have swarmed to urban areas where they join those in the informal sector in a search for survival strategies. This current dynamic confirms what was said previously.

The migration and immigration of the population has therefore had a greater impact on the development of the informal sector within the urban setting than population growth. The same is true of Malawi and this phenomenon will be explored further in chapter 5. One would, however, need to examine the pull and push factors causing the migration of people to each of the cities because these may differ from one country to the next. Once understood, a precise analysis will provide an essential foundation for the development of policy by governments.

2.2.2 Definitions of the informal sector

Having briefly examined the history of the concept of the informal sector, it is clear that there is little agreement on the actual starting point of this sector. It is necessary to mention at this stage that there is no commonly agreed-upon definition of the informal sector. According to Haan (1989:6), frequently quoted study of small enterprises by the Georgia Institute of Technology, more than 50 different definitions were identified in 75 countries. There are at least as many ways of defining the informal sector as there are countries in which the phenomenon has been studied – every country has unique features and circumstances that make a universally accepted definition impossible (Anderson 1998:2).

In fact, some writers (Santos 1979; Mazundar 1976; and McGee 1971) tend to use other terms to deal with this phenomenon, which they feel are more descriptive than the “informal sector”. Terms such as “underground economy”, “black economy”, “informal economy”, “nonstructured sector”, “hidden activities or economy” and “survival sector” have been widely used. According to the author, however, the formulators of these terms fail to offer clear definitions and therefore lack the credibility to replace the term “informal sector”. Rogerson (1985:12-14) indicates that, dissatisfied with the term informal sector (versus formal sector), many writers have substituted alternative labels for what is essentially the same phenomenon:

- Geertz (1963): bazaar economy versus firm-centred economy
- McGee (1971): peasant economy versus capitalist production
- Emmerij (1974): unstructured versus structured economy
- Mazundar(1976): unprotected versus protected economy
- Santos (1979): lower circuit versus upper circuit economy

Roe (1992:2-5), who wrote about income-generating activities in Malawi, grappled with some of the problems associated with the informal sector and ultimately came up with the terms “the survival mechanisms within the hidden economy”. He acknowledged, however, that even these terms have problems that need to be addressed with respect to their use. Given the fact that even alternative labels to the term “informal sector” face the same problems of definition and dualism, a decision has been made to use the term “informal sector” in this thesis, particularly because this is becoming the more popular and widely used term in Malawi.

Several types of definitions have been given to the term “informal sector” which may be linked to specific views or identifiable schools of thought (Charmes 1990:13). The best known of these definitions is that formulated by the ILO Report on Kenya, which includes seven criteria for the informal sector, namely:

- (1) ease of entry
- (2) reliance on indigenous resources
- (3) family ownership of enterprises
- (4) small-scale operation
- (5) labour-intensive and adapted technology
- (6) skills acquired outside the formal schooling system
- (7) unregulated and competitive markets

In examining these criteria or list of characteristics, there are several issues that can be raised.

(1) *The first dilemma.* This has to do with applying the above criteria to distinguish informal from formal activities. To be classified as informal, should all activities satisfy all these characteristics? Should they satisfy only some of them? If so, which are essential and which are optional? When examining these characteristics, Fields (1990:53), asked the following question: “Of

these many distinguishing characteristics, which are most crucial?" His argument insists that instead of considering all of them, it is only necessary to examine the most crucial. For Fields, the crucial characteristic is *ease of entry*.

When commenting on a similar dilemma, Charmes (1990:12) indicated that while all these criteria combine to define a competitive market, some of them are relatively complex and cannot be reduced to simple observation.

Knowing that the informal sector has heterogeneous activities, the characteristics above may be extremely useful in defining certain activities while inadequate for others. This leads one to wonder whether this definition is in fact sufficiently comprehensive to cover the entire informal sector.

(2) *Ease of entry*. This term makes the assumption that all who wish to enter this sector can do so without problems. This, however, is not necessarily true. It overlooks the dynamics that accompany entry into the informal sector. These dynamics include informal regulations (which may prohibit or limit individuals from operating in a particular area), the issue of abuse of power (only those who are powerful are able to operate in particular areas) and the issue of charging rent for the other operators. Fields (1990:60) indicates that anyone who attempts to beg in front of the Hilton Hotel (in Kenya) would quickly find out that someone very strong and powerful would come along and either "shoo" that person away, by force if necessary, or demand a sizeable amount of protection money to permit the beggar to remain.

Concurring with Fields, Hart (1973:71-75) discovered that several methods were used in Nima, Ghana, to make ease of entry difficult. These methods included the following:

- Some activities fell within the domain of certain ethnic groups and it was difficult to enter into those activities if one belonged to another ethnic group. He gave a specific example of the Frafra in Accra, an ethnic group specialising in fowls, northern artifacts of straw, leather and bread. They controlled these activities either by access to supply sources, information control, trust or cooperation.
- The lack of social networks, informal skills and knowledge as well as the lack of availability of time, capital or credit made it difficult for some to enter the informal sector.
- In the case of begging, personal pride and some government or society restrictions reigned. He offered the example of Accra where begging at that time was largely restricted to disabled persons and children.

In addition to the above, Preston-Whyte (1991:48), in writing about domestic workers in Durban, South Africa, claimed that although entry into the service was easy, there were certain preconditions to employment. Whites preferred domestic workers who had some ideas of Western life and spoke either English or Afrikaans to communicate with employers.

Fields (1990:60) concluded his analysis on this aspect of the informal sector by saying that the popular image of the sector is that it is easy to enter because skill levels are low and the amount of money required to set up a business is paltry. His findings show that entry to the sector is clearly not as easy as the popular image would have us believe.

Ease of entry as a characteristic has its own limitations. Reality proves to be at variance with perception. As argued above, the dynamics of entry into the informal sector are complex. It is not acceptable to assume that anyone who wishes to enter this sector will be able to do so with ease. It should also be

pointed out that within the informal sector, which has heterogeneous activities, some of these activities will be easier to enter than others. Ease of entry depends upon the area, the culture or social structures as well as the political and economic situation that the people encounter. In Malawi, as shown in chapter 5, entry into certain activities by women, for example, is difficult.

(3) *Reliance on indigenous resources.* The first dilemma is to define exactly what the word “indigenous” means. According to the Pocket Oxford English dictionary (1992:449) the term means “native or belonging naturally to a place”. If a native woman is involved in the baking of doughnuts using cooking oil, wheat flour, salt, firewood, a pan and then sells the doughnuts along a roadside, can all the resources she used be classified as indigenous? Does “indigenous” refer to resources that are not imported into the country? If this were the interpretation, then many of informal sector activities would be classified as formal. One may claim that a woman who is brewing beer using finger millet or maize flour grown within the country is using indigenous resources and her beer activity is therefore part of the informal sector. What about an industry that is using the same resources in brewing beer? Could it then be classified as an informal activity? Surely not. Many street vendors today sell articles that are imported into the country, as we shall see in chapter 5. Should they be classified as formal because they are not using indigenous resources? This is a complex and difficult characteristic to use to distinguish between formal and informal sectors, particularly within the urban setting.

(4) *Family ownership of enterprise.* Families own several formal enterprises. Asians in countries such as Malawi have formal supermarkets, which are owned by families. This, however, does not classify them as informal. On the other hand, there are enterprises that are owned by an individual within the family, especially within the capitalist system. These enterprises will not

necessarily be classified as a part of the formal sector. It is therefore difficult to use this characteristic to distinguish between informal and formal activities.

(5) *Scale of operation.* Fields (1990:65) gives an example of professional service companies, which although small in scale, cannot be viewed in any meaningful way as part of the informal sector. He maintains that these belong to the formal sector even if they are very small in scale. It is clear from Field's example that not all small-scale operational activities will be informal. This characteristic can therefore create confusion if used in the strictest sense of the word.

(6) *Labour intensive and adapted technology.* This characteristic also applies to both formal and informal activities. One person can have a formal farm that is dependent on human labour while another can have a fully mechanised farm. All these farms involve formal activities but one is labour intensive in its approach while the other is not. One may also argue that participants in the informal sector such as street vendors, work within market forces. If they perceive the market to be conducive to trading, they will work up to 13 hours a day. The same trait applies to staff who work within the formal sector. Staff will either work late during peak periods or the owners will hire temporary staff to increase the labour force and meet the market demand. However, if participants in the informal sector see that demand is low during a particular period they may go home after working for five hours. This flexibility may not be the same in the formal sector. Employers may not go home early but will respond by not hiring temporary workers during that period or not asking employees to work overtime. Bromley (1978b:1163) found out that the number of street traders varied from one month to the next, according to the day of the week and the number of hours in a day. His findings in Cali (the third largest city in Colombia at that time) show that there were more street traders in November and December than the other months of the year, more on Saturdays than on other days of the week, and more between 07:00 to

about 18:00. He also records a decline in the number of street traders between 12:00 noon and 13:00. In addition to Bromley's findings, one can examine the dynamics of a supermarket. This is a formal economic activity but requires many staff members to sort items onto shelves and to sell and pack them. Hence, this activity is more labour-intensive than others. The same is true of certain activities in the informal sector.

Labour intensity as a characteristic therefore varies in both the informal and the formal sector depending on the activity, market demand, time of the year, week and day.

Some activities in the formal sector have adapted technology and this will not necessarily place them in the informal sector. It is also difficult to use this characteristic to define the informal sector.

(7) *Skills acquired outside the formal school system.* The assumption made in this characteristic is that people who work in the formal sector, or the owners of the formal sector, have acquired their skills through formal schooling. This is not always the case. Many have acquired skills outside the formal school system but in the formal sector. One can be the owner of a large transportation company and be able to manage it without acquiring any skill from the formal school system. The applicability of this characteristic in defining informal sector is therefore limited.

(8) *Unregulated and competitive markets.* The assumption one can make when examining this characteristic is that within the formal sector it is not possible to find unregulated and competitive markets. However, even in the formal sector, there are unregulated and competitive markets. In fact, vendors in the informal sector are often regulated (where they can sell their items) and sometimes actively discouraged by government (city councils chasing them or confiscating their items). As in most Latin American cities, the street traders of

Cali are closely regulated by the municipality and departmental authorities. Several hundred pages of municipal and police regulations specify in great detail where and under what conditions street trading may take place (Bromley 1978b:1163). Despite all these regulations, street traders do not pay taxes. However, it is true that the activities of the informal sector are normally unregulated. In competitive markets, both the informal and formal sectors face the same challenge, although, according to Weeks (1975:3), the viability of the formal sector economic operations relies to varying degrees upon the favour of the state. In some developed countries, the formal sector benefits from restrictions on domestic as well as foreign competition.

After examining both these characteristics and his own, Fields (1990:56-66), concluded that “free entry” was the defining feature of the informal sector. The other characteristics (which he listed) were attributive of that sector in a typical developing economy. However, he realised that “free entry” as a defining characteristic was not the same for all informal sector activities. Fields (1990:66) therefore came up with two categories in his analysis and included the following explanation for their emergence:

Within the informal sector, we find considerable diversity. The urban informal sector does not consist uniformly of free-entry, low wage, unorganised enterprises and workers, although some activities do indeed fit this characterisation. I would refer to these as the easy entry informal sector. Others do not. These others have significant barriers to entry, higher capital or skill requirements, and fairly regular labour relations arrangements; yet, they too may also be small, employ family labour, and operate at irregular hours and places. I shall refer to these as the upper-tier informal sector.

It is clear that although the characteristics help to define the informal sector, it is not always easy to apply them as factors that distinguish the informal from the formal sector.

Haan (1989:7) reports that Sethuraman (in 1976) proposed a number of similar “suggestive criteria” for identifying urban informal sector enterprises. For Sethuraman, an enterprise should be regarded as “informal” if at least one of the following conditions is met:

- (1) It employs 10 or fewer persons (all employees included).
- (2) It operates on an illegal basis contrary to government regulations.
- (3) Members belonging to the household of the head of the enterprise participate in the activity of the enterprise.
- (4) It does not observe fixed hours/days of operation.
- (5) It operates in a semipermanent or temporary structure or in a variable location.
- (6) It does not use electricity.
- (7) It does not depend on formal financial institutions for its credit needs.
- (8) The enterprise’s output is not distributed through other enterprises.
- (9) Almost all the persons associated with the enterprise have fewer than six years of schooling.

A critical analysis of the above criteria allows one to present several arguments such as the following:

- (1) Sethuraman claims that for an activity to be classified as “informal” it has to meet at least one of the above criteria. This argument does not withstand careful scrutiny because one can use some of the criteria to describe the formal sector. For example, a formal activity can also be described by the criterion “It does not depend on formal financial institution for its credit needs”. “Members belonging to the household of the head of the enterprise participate in the activity of the enterprise”. There are family businesses that have been passed from generation to generation and have accumulated enough resources to continue operating without reliance on any financial institution. The argument

the author is making here is that meeting only one of the conditions in defining an enterprise as part of the informal sector is not strong enough. There should be certain conditions which are critical in this criterion and which must be met for the activity to be “informal”. Sethuraman does not clarify what those criteria should be.

- (2) The criterion of an enterprise that employs 10 or fewer people is not relevant at the beginning of the 21st century because automation impacts on the workplace. In fact, in some formal enterprises, fewer people (less than 10) are able to do wonders. With mechanisation, there are now successful formal farms that are run with fewer than five people, and yet they cannot be classified as informal. To judge an enterprise by the number of people it employs is therefore misleading.

- (3) The enterprise operates on an illegal basis contrary to the government regulation. This is an interesting criterion because the word “informal”, according to the Oxford Students Dictionary (1988:328), includes an attribute of not needing to follow social conventions. This does not necessarily mean it is illegal since the word illegal in the same dictionary (1988:316) means “forbidden by law”. However, Bugnicourt et al (1995:27) argued that participants in the informal sector find themselves forced into illegality because the rules have been formulated to restrict or prevent them. This is true in circumstances where the government’s desire is to stop the informal sector from operating rather than encourage it. The participants will then not have any choice but to operate illegally. Bromley (1978b:1164), in writing about the street traders of Cali in Colombia, indicated that almost all street traders contravened official regulations in some way or other. About 80 percent of them did not have a trading licence. Furthermore, for several years, the authorities had refused to issue more than a few new licences as a measure used to control the number of traders. As a

result, of course, an increasing majority of the traders operated illegally. Even those who had the necessary licences frequently broke the law by using inaccurate weights and measures, trading in prohibited areas, selling illegal or contaminated goods or simply occupying too much space and littering the environment. Bromley argued that the participants of the informal sector will either be forced to act illegally or will decide to act illegally. He further contends that all participants in Cali were in some way or other illegal operators. While this might have been true in Cali, the situation is not the same in other cities. There are participants in the informal sector who operate legally in other countries. One can also argue that some of the formal sector participants also operate illegally in some areas but this does not make them a part of the informal sector. This topic will be discussed later.

Government officials have forced the informal sector participants to act illegally in some circumstances. Friedman and Hambridge (1991:169), writing about the informal sector, gender and development in South Africa, indicated that until recently black women found it difficult to obtain either casual work or trading licences in the cities. Much of their informal selling was thus defined by the authorities as “illegal”, and was open to prosecution. If it is difficult to obtain a licence then the rules or laws, as Weeks (1975:1-3) puts it, are there to protect the formal sector. In fact, Weeks (1975:3) argues that in some countries, many of the economic agents in the informal sector operate illegally, even though they pursue economic activities similar to those in the formal sector. Hence illegality is not usually a consequence of the nature of the activity but of official limitation of access to the formal sector.

Preston-Whyte (1991:267), in writing about petty trading at Umgababa in South Africa, indicates that most of the transactions of petty trading took place without the formalities of record books or receipts and that

no sales taxes were collected. Some of the petty trading was undoubtedly technically illegal. However, to the prospective participant, trading at Umgababa was attractive because it promised to be unusually profitable. Preston-Whyte (1991) makes an interesting point by using the term “technically illegal” (according to the law). The possible question to ask, is whether these activities are socially unacceptable (eg prostitution may be condemned by most sectors of the society but may be accepted by the law). Many of the informal sector participants operate on a social basis and one needs to analyse how socially unacceptable they are, in addition to what one may call “technically illegal”.

There is confusion about what is legal or illegal, even within government circles. Leiman (1985:122), in writing about Zimbabwe and the informal sector, indicates that because many informal activities are also illegal, problems clearly exist. In simple terms, socially undesirable activities are likely to be designated as illegal. Two clear-cut Zimbabwean examples are prostitution and the sale of illicitly distilled liquor (*kachasu*). Both have been consistently suppressed by the authorities, irrespective of the government in power.

Mohr and Fourie (1995:411) argue that people engage in the informal sector because they:

- do not wish to pay tax
- cannot find employment in the formal sector
- are engaged in illegal activities

To some extent these reasons apply in Malawi, as we shall see in the findings section in chapter 5.

Mohr and Fourie (1995) make another interesting point by separating two issues: illegal activity and deviating from the norm (not paying tax or tax avoidance). The author agrees that there are certainly illegal activities such as stealing and drug abuse, which occur in the informal sector and are not acceptable. The issue of tax avoidance, for example, is debatable as to its legality or illegality. Mohr and Fourie (1995), in separating the two issues, seem to suggest that they do not necessarily classify the non-payment of tax as illegal. In South African law, for example, there is a distinction between tax avoidance and tax evasion. Tax evasion is illegal while tax avoidance is not. This factor, legality versus illegality, is not peculiar to the informal sector only. It also occurs within the formal sector. Bromley (1978a:1039), while introducing the urban informal sector discussion, argues in his notes that the guidelines produced by Sethuraman in his article entitled "The urban informal sector: concept, measurement and policy" led the investigator to lump almost all activities into the informal sector. Bromley (1978a) cites the example of enterprises, which operate on an illegal basis or contrary to government regulations and are included in the informal sector. Many multinational companies and even more large local companies have been known to break government regulations (sometimes consistently and over many years), suggesting that even such corporate behemoths as ITT and Lockheed might be classified within the informal sector.

The above analysis shows that there are two ways in which an activity in the informal sector may be considered illegal. Either the activity is illegal or the way in which the informal sector participant operates is illegal. It is also clear from the above analysis that people differ in the way they perceive illegal operations in the informal sector because some formal activities also operate illegally. In addition, some see the government as forcing the informal sector participants to operate

illegally. Making the process of obtaining licences difficult or nearly impossible is a case in point. Although Sethuraman (1976:18) points out that one of the characteristics of the informal sector is that it operates on an illegal basis and contrary to government regulations, this definition does not apply to the informal sector only, and therefore fails to help distinguish the informal sector from the formal sector. It is not surprising to note that Sethuraman, in his subsequent definition (1981) of the informal sector, excludes this factor.

- (4) Members belonging to the household of the head of the enterprise participate in the activity of the enterprise. This criterion is also true of formal family businesses and therefore clearly does not help us to distinguish informal from formal activities.
- (5) It does not observe fixed hours/days of operation. This criterion is valid because most of informal sector participants operate on the basis of market forces. If demand is high, they operate for as many hours as possible. If demand is low, they are free to operate for fewer hours. This, however, is also true in a different way within the formal sector. Some companies operate on the basis of demand. If demand is high, they not only work late but also hire temporary staff to help. Despite this fact, the author believes that this is one of the criteria that is unique enough to assist in distinguishing between informal and formal sector activities.
- (6) It operates in a semipermanent or temporary structure or in a variable location. This applies both to the informal and formal sectors. Many small business people in South Africa operate in their garages, and homes. It is not uncommon to see preschools operating in garages and yet they are formal businesses. While it may be truer of the informal sector, there are also formal businesses that operate in

semipermanent places. This possibly refers to businesses that are in transit from the informal to the formal sector.

- (7) It does not use electricity. This depends on the area of operation and the activity itself. Some activities in both the formal and informal sectors do not require electricity. For example, some farms manage to do well without electricity. However, despite their lack of electricity, they cannot be classified as informal activities.
- (8) It does not depend on formal financial institutions for its credit needs. This criterion describes the informal sector, although per se, it cannot distinguish the informal from the formal sector. It is not by choice that informal sector participants do not depend on formal financial institutions. The reason is that financial institutions tend to make it difficult for the informal sector to obtain credit. This criterion can therefore only operate with other criteria if it is used properly.
- (9) The enterprise's output is not distributed through other enterprises. This is not necessarily true because there are several informal production activities that act as wholesalers for other informal sector participants. For example, popcorn is made by one enterprise, packed by another and sold by a third. There are several activities that interact in this format though the majority do not involve selling directly to people.
- (10) Almost all the people associated with the enterprise have fewer than six years of schooling. This depends on the country being analysed and the situation. If unemployment is extremely high, the chances are that even educated people will become involved in the informal sector. This phenomenon is increasing in Malawi where the structural adjustment programme demands that a number of skilled civil servants

be laid off. However, while working in Cali amongst the street traders, Bromley (1978b:1162), found out that a quarter of the street traders had only one to three years of primary education, and only five percent any postprimary education. Bromley does not mention of the remaining group and fails to compare this finding with the general situation in Colombia at that time (although he does mention that over 75% of these street traders were migrants to this city). This finding, however, still shows that there will be a percentage of participants in the informal sector who have had more than six years of schooling. This characteristic, therefore, has to be used with caution as criterion because it will not work in all circumstances.

As can be seen from the above analysis, it is not easy to use “suggestive criteria” to attempt to define the informal sector. Haan (1989:7) pointed out that use of multiple criteria to identify the population of the informal sector causes a number of theoretical and empirical problems. In the words of Sethuraman (1981:16), “the informal sector universe remains vague because of the multiple criteria: each criterion can be used to define a universe of its own”. Haan adds that it is not even at all clear to what type of units (persons, households, neighbourhoods or enterprises) the term “informal sector” refers.

The above two definitions (one by ILO and the other by Sethuraman) were formulated by developing a set of characteristics that would distinguish the informal from the formal sector. The above analysis demonstrates that the characteristics can be applied to both sectors. If these criteria were valid, the opposites of the above characteristics would describe the nature of the formal sector. Further, the informal/formal classification or dualism, as commonly depicted in the literature, has some additional and noticeable deficiencies which are worth emphasising as reported by Bromley (1978a:1034-1035). These are as follows:

- It is an extremely crude and simple classification, dividing all economic activities into two categories. A particularly attractive approach is to classify enterprises on a continuum between two opposite poles in order to emphasise intermediate categories and the processes of transition along the overall continuum.
- The informal/formal division is logically inconsistent because it is assumed that several different variables can be used to categorise a given economic activity into the formal or informal sectors, and yet no multivariate analysis procedure is used in classifications. Indeed no adequate guidelines exist on how to classify activities that possess characteristics of both the formal and informal sectors.
- Many investigators using the dualistic classification and terminology are inclined to assume that the two sectors are essentially separate and independent. It is more likely to be the case that they are in a continuously fluctuating state of interaction and that parts of one sector may be dominated and even created by parts of the other.
- It is often mistakenly believed that a single policy prescription can be applied to the whole sector. According to this belief, governments should adopt similar policies for artisans making furniture, artisans illegally manufacturing fireworks, sellers of basic foodstuffs and prostitutes or drug peddlers.
- There is a great lack of clarity about what else exists in addition to the “formal sector” and the “informal sector”. Most of the writings that define and use a formal/informal classification fail to classify the other components of the total national system.
- The “informal sector” is often depicted as having a present but no future, precisely by those who advocate aid for the “informal sector”. However,

government support and recognition of the informal sector will automatically convert informal enterprises into formal enterprises, because they will no longer possess the definitive characteristics based on the absence of government support and recognition.

- There is a tendency to confuse neighbourhoods, households, people and activities with enterprises. The informal/formal division cannot be applied to many people because they work in both sectors at different stages in their life cycle, times of the year or even times of the day. The division applies even less to households or neighbourhoods, since some members may work in the informal sector while others may work in the formal sector. It is also questionable whether the informal/formal terminology should be applied to activities (as in the ILO Kenya report), because the same activity (eg bricklaying or bus driving) may be performed in both formal and informal sector enterprises.

Bromley (1978a:1035) concludes by saying that all these failings could be remedied by greater clarity and rigour in the use of the formal/informal terminology and by the development of appropriate subdivisions within the two sectors.

Bromley's (1978a) analysis raises critical issues worth considering when examining the informal sector in any country. It is also clear that some of the issues raised, such as the dilemma of classifying activities that can be performed both in formal and informal firms, will be further complicated when one examines the different situations in various countries and cities. It is also clear that Bromley (1978a) does not condemn the formal/informal classification. However, as can be seen in his conclusion, he does advocate clarity in the use of the terminology. The underlying dilemma remains. Is it possible to achieve clarity, particularly if one recognises that the informal sector has heterogeneous activities?

In contrast to the informal/formal sector dichotomy, the critics suggest a continuum of economic activities and stress the importance of the political and social dimensions of development and the relations between “small-scale enterprises” and the “capitalist sector” (Thomas 1992:58). Thus a different framework focusing on the “relationship between the different elements of the ensemble” rather than on defining “two sectors” has been considered preferable (Moser 1978:1056). She (1978:1055-1062) outlines several important issues in relation to petty commodity production and the informal/formal sectors including the following:

- The inability of dualist models to handle the complexities of relationships such as those (eg subcontracting and the use of agents in retail businesses) which fit inadequately into a wage/self-employment or formal/informal sector dichotomy has resulted in the utilisation of an alternative framework more able to include the social as well as technical relations of production. This is based on an elaboration of Marx’s theory of different modes of production and their mutual articulation.
- Petty commodity production has never historically constituted the dominant or total production of a society but has always been articulated within another wider social formation whether this is dominated by feudalism or capitalism.
- Petty commodity production performs a number of important functions in the capitalist mode of production. At the same time, because of its dependent position, constraints and limitations on the level of capital accumulation are possible within it.
- Petty production is dependent on capitalism while the capitalist mode of production benefits from the existence and relative viability of petty production which maintains a low level of subsistence and a low cost of labour reproduction.

- The evidence thus far suggests that there are certain clear advantages in a framework which conceptualises the urban economy in terms of a continuum of production approach rather than one based on a dualist structure, which is true in most versions of the informal/formal sector approach.
- The dualist approach tends to assume that the conditions of the informal sector are benign, while the petty commodity production approach assumes that it is exploitative. These contrasting views lead to opposing policy measures, with the “dualists” advocating the development of closer links between the two sectors through subcontracting and credits and the “petty commodity production school” advocating the increasing autonomy of commodity producers and the cutting of ties with large capitalist enterprises.
- A framework that takes internal differentiation into account and categorises the urban economy in terms of a continuum of economic activities avoids some of the most difficult definitional problems attached to a priori dualist models. According to Moser (1978:1061), however, such a framework does not seem to exist.
- The importance of the petty commodity approach is not that it condemns the informal sector concept or state and international agency measures to promote informal sector development. The issue here is that it puts them in their appropriate perspective by showing that, in themselves, they cannot really provide solutions to the problems of unemployment and poverty. Because of the dependent relationship between large-scale capitalism and petty commodity production, policy solutions designed to assist the latter almost invariably end up promoting the former. Ultimately, only fundamental changes in the overall political and economic structure can change this.

Close examination of the critical issues raised by Moser (1978) above show several vital points including the following:

- The difficulty of defining informal/formal activities and classifying activities into those two separate areas tends to make critics prefer petty commodity production. Despite the advantages of this approach, one is still left with the dilemma of separating petty commodity production from capitalist production. One challenge is in determining where petty commodity production starts and ends in the continuum. The other challenge involves determining whether the middle of the continuum is petty commodity or capitalist production. How would one know that one has shifted from petty commodity production to capitalist production? It would seem that one simply cannot escape the need for clear definitions or classifications, both of which remain complex.
- Moser (the 4th bullet above) indicates that petty commodity production depends on capitalist production while capitalist production benefits from petty commodity production. This symbiotic relationship also exists in the informal/formal approach. The formal economic activities benefit from the informal activities and informal activities somehow depend on formal activities. Bromley (1978b:1165-1166) reported that street traders represented an important distribution system for many Colombian importers and manufacturers as well as for several multinational companies. Bromley identified the three categories of street traders as “commission sellers”, “dependent workers” and “independent workers” (the same applies to Malawi as shown in chapter 5). He also indicated that some workers combined commission selling and dependent working. To him “commission sellers” were retailers who primarily sold the products of a limited number of manufacturers, wholesalers or other retailers and who charged relatively fixed prices to the public. They received commission on each item sold. Newspaper sellers are a good example of this category.

“Dependent workers” were those who relied upon wealthier individuals or companies for the supply of a stall or for credit to obtain merchandise. However, they did not have a fixed commission for each item sold. The

“independent workers” were truly self-employed traders who were self-reliant. The intersection of the informal and formal sectors is therefore present, which shows that the two approaches (petty commodity production and the informal/formal) are not that different.

- While the explanatory model of the informal/formal sector is benign and the model for petty commodity production/capitalist is regarded as exploitative, this separation of the two approaches is more theoretical than practical. There are relationships within the informal/formal approach that are exploitative and one cannot therefore claim that they are always benign. The street traders in Malawi buy their goods from wholesalers before they resell. The wholesalers, according to the street traders, offer a fair price to formal retail shops and charge a higher price to street traders to discourage them. If this is true, this practice can be described as exploitative as we shall see in chapter 5.
- The thinking behind the framework for the petty commodity production is to provide increased autonomy to protect street vendors from exploitation. When viewed pragmatically, however, it is not that simple. In a relationship where one side is dependent, whether the relationship is exploitative or not, it is difficult for those who are dependent to become autonomous. The example cited above involving the street traders also applies here.
- It is interesting that the policies designed to assist petty commodity production end up promoting the capitalist mode of production. Weeks (1975:2-5) argues that the formal sector, unlike the informal sector, is protected by the state through the rules and regulations of the country. This implies that the policies created to assist the informal sector will also promote the formal sector. One wonders what differences there actually are between petty commodity production and the capitalist mode of production, on the one hand, and the informal/formal sectors, on the other.

Though Rogerson (1985:13-19) also highlights the shortcomings and criticisms of informal sector dualism, he concludes by pointing out that the dichotomy between the formal/informal sector does not break new theoretical ground because it corresponds to the formerly popular dichotomy between the traditional and modern sectors. He continues by stating that challenging dualistic writings is an expanding corpus of literature rooted in the application of what Moser in 1978 identified as the “petty commodity production” approach towards the analysis of small-scale economic activity. This alternative approach is denoted by its emphasis on the interconnections between coexisting modes and forms of production and of the processes whereby surplus is created and extracted. The petty commodity production approach shifts the research axis to an examination of “the structural linkages and relationships between different production and distribution systems” (Moser 1978:1061).

Charmes (1990:13) reports that functional definitions, such as those of petty production, place greater emphasis on the central importance of these interrelations between the two sectors which analysis should not dissociate. The role played by petty production in the development of capitalism (or at least in maintaining its profitability) and the determining influence of capital requirements on its existence and vigour are the primary areas of focus in this analysis. The informal sector is thus defined as a pool of labour from which the modern/formal sector takes what it requires and rejects what it no longer needs. While one can appreciate this definition in terms of labour demand and supply, it is limited in scope and does not in any way represent the broad nature of the informal sector. This definition of the informal sector differs from the current reality in Malawi, as the author will show in chapter 5.

Rogerson (1985:31) indicated that Forbes best summarised the major advantages claimed for the petty commodity production approach in 1981 as follows:

- It is argued that the approach focuses on process rather than on the characteristics of production alone. Attention is drawn to the changing nature of small-scale production, the movement of people, capital and commodities and ultimately underdevelopment.
- The petty commodity approach accords adequate recognition to the inevitable changes occurring in underdeveloped capitalist societies. The informal sector concept, it is averred, “implied a timelessness” with change being seen as a linear process from “informal” to formal sector. By contrast, the petty commodity production approach is deemed more flexible, not prescribing specific categories and therefore able to explain the dynamics of change in Third World societies.

Despite the above mentioned advantages of petty commodity production and the weaknesses of informal sector dualism, this thesis will use the term “informal sector” supported by the two reasons advanced by Rogerson (1985).

- (1) By investigating the role of petty commodity production in terms of the functioning of the overall political economy, the approach of petty commodity production raises serious questions about policy proposals for the promotion of petty production activities.
- (2) The impression should not be created that the approach of petty commodity production is unproblematic.

Wrestling with dualism and the informal sector, Thomas (1992:3) classifies informal economic activities into four sectors of production:

- (1) *The household sector.* This sector produces goods and services in the home, which are also distributed and consumed in the household sector. It

includes the unpaid economic activities that take place in a home such as the labour of housewives.

- (2) *The informal sector.* This generally consists of small-scale producers and their employees, together with the self-employed working in the production of goods. It also includes those engaged in commerce, transport and the provision of services. The important point here is that the goods and services being produced are perfectly legal and that generally no laws are being transgressed in their production or distribution.
- (3) *The irregular sector.* This involves some illegality, such as tax evasion or the avoidance of regulations such as minimum wage and social security fraud.
- (4) *Criminal sector.* This consists of goods and services that are illegal such as theft, extortion, drugs and prostitution.

According to Thomas, the four sectors comprising informal economic activity may be defined in terms of the two criteria namely market transaction and legality.

While there is logic in Thomas' model, it can be argued that there are formal economic activities, such as multinational corporations, that also hire specialists to advise them on strategies aimed at avoiding government regulations, that are involved in corruption and that avoid some tax responsibilities, as indicated earlier. Despite this type of behaviour, the industries cannot be classified as informal. In addition, it can also be argued that what he classifies as the informal sector (perfectly legal and no laws transgressed) may, in several environments, be classified as formal activities. This type of classification will therefore, eliminate the majority of the people such as taxi advertisers and food vendors (in the case of Malawi) involved in the informal sector.

Sethuraman (1981:17) suggests the following definition of the informal sector. “It consists of small-scale units engaged in the production and distribution of goods and services with the primary objective of generating employment and incomes to their participants notwithstanding the constraints on capital, both physical and human know-how.”

Sethuraman’s definition (1981) is helpful because it is positive and includes the critical aspects of size, production and the distribution of goods and services as well as the objectives of the participants. However, it fails to integrate the variable of the locations of these activities.

The South African government (1998:12) defined the informal sector as comprising those businesses which are unregistered and do not have a VAT number. They are generally small and seldom run from business premises. Instead, they are run from homes, street pavements or through other informal arrangements.

This definition is also useful. However, reference to unregistered businesses without a VAT number needs careful application for it assumes that only those that have a VAT number and are registered, are formal activities. Some small, informal businesses have a VAT number and are registered, yet they may not necessarily be formal activities.

The above definitions were developed in diverse ways. Some were generated in discussions, others after analysing literature, while still others after conducting surveys or through various direct experiences with the informal sector. Each therefore has its own merits. From this initial analysis it would appear that definitions of the informal sector will depend upon the following factors:

- the environment in which the person operates – defining the informal sector in France will differ from defining it in Malawi

- school of thought – economists may define the informal sector differently from sociologists
- purpose of analysis – a person analysing the informal sector in relation to employment may define it differently from one analysing it in relation to poverty or small businesses
- the type and organisation of the instruments available to collect the informal sector information will also determine the definition to be used

Despite the lack of concurrence over the definition, there is agreement that the informal sector exists in developing countries and these working definitions, which are mainly based on data pertaining to the self-employed and some minimum firm size, have been used to conduct empirical studies (Thomas 1990:81).

Hence, this study defines the informal sector as comprising small-scale traders, producers and service providers whose primary objective is to generate income and employment; operate their activities from homes, street pavements or through other informal arrangements; and who possess limited working capital.

Having defined the informal sector, it is now necessary to examine the size of this sector in different countries. This will be the objective of the next section.

2.2.3 The size of the informal sector

The size of the informal sector in each country depends on the definition that has been adopted in that country. Richardson (1984:9-10) indicates that it is impossible to be very precise about the share of the informal sector in total employment. It will vary substantially, not only according to the definition

selected, but also in terms of the level of economic development and intercountry differences in economic and social structure. There is, however, consensus that the informal sector in many countries continues to grow and can no longer be neglected. Thomas (1990:66) outlines two different ways of measuring the informal sector as follows:

- (1) by estimating the number of people employed in the sector (this is the easiest way and has been done for many countries)
- (2) by estimating the value of the goods and services produced by the sector (this measure is more interesting to the national income accounts but is more difficult to calculate)

Frey and Pommerehne (1982:3), however, state that the size of the hidden economy (informal sector) can be quantified in three ways:

- (1) by pure speculation – the rationale being that the public, politicians and academics should be made aware that the phenomenon exists and that it can no longer be disregarded. (this is what others may categorise as unscientific and usually overstated)
- (2) by using an educated guess – based on coherent reasoning
- (3) by using estimates based on well-defined methods

Frey and Pommerehne's methods (1982) are employed extensively because of their simplicity. They provide a wide variety of options and one is free to decide which method to utilise. However, they merely describe the different categories without offering essential information on the implementation of the methods. In the last method, for example, they say: "By using estimates based on well-defined methods". What are these well-defined methods?

Anderson (1998:16), who was requested to actually estimate the size of the informal sector in Ulaanbaatar and Mongolia, used four methods to estimate the size of the informal sector at macro-level:

- *Method 1.* Estimate the ratio of the informals (individuals) who are not counted as employed to those who are counted as employed; multiply this ratio by the number of people who responded that they worked for sole proprietorship during the 1996 labour census in that country.
- *Method 2.* Use the percentage of households with informal income and the average number of working age household members to calculate the percentage of the working age population with an informal income.
- *Method 3.* Estimate the aggregate percentage of informal income in aggregate total income using household survey data.
- *Method 4.* Attribute the increase in the ratio of currency to M2 (the indicator of “above-ground” economic activity) between 1990 and 1996 to an expansion in the “underground” economy (informal sector); combine with the velocity of M2, the current level of official GDP and the (assumed) pretransition level of “underground” economic activity, to arrive at an estimate of the current size of the “underground” economy.

While the methods that are used appear to be difficult, it was interesting in the Anderson case to observe that the estimates of the size of the informal sector using each of the above methods led to similar answers:

- Method 1 30–37%
- Method 2 30–33%
- Method 3 32%
- Method 4 33–38%

A close examination of the above methods seems to suggest that it is possible to ascertain an estimation of the size of the informal sector in Malawi at the macro-level. As of now, this estimate does not exist and would be helpful to the government in developing policies to enhance the operations of the informal sector.

However, it should be noted that it is not easy to measure the size of the informal sector at both the micro and macro-level for the following reasons:

- People enter and leave the sector every day. The information one possesses after measuring on one day is outdated the next.
- It is difficult to measure certain aspects of the informal sector because they are hidden and illegal.
- Any kind of measurement or survey, if not done carefully, would be interpreted by members of the informal sector as a way of determining how much to tax them. They are therefore unlikely to give accurate answers.
- A survey or measurement of this nature is politically charged because opposition parties can use the results of such measurements as an indicator of the government's failure to provide formal jobs to their citizens.

Because of problems experienced in collecting the relevant information, it is difficult to obtain consistent estimates of the size of the informal sector. Thus, what is available is a series of individual studies that serve as benchmarks (Thomas 1990:66).

However, within the existing literature, it is possible to find examples of the estimate of the size of the informal sector in certain countries. Examples that can be cited include the following:

- Despite the ongoing speculations about the size and proper measurement of informal sector activities in South Africa, it seems safe to put its overall contribution to GDP at about five to 10 percent and its involvement in employment at a minimum of approximately two million (Beavon 1989:2).
- The numerous studies in different countries in Africa, although all different in their methodology, scope and even use of the informal sector concept, clearly established that a significant and often growing part of the urban labour force (between 20 and 60%) is engaged in informal activities (Haan 1989:3).
- In South Africa, estimates of informal sector activity were first included in the GDP in 1994. This resulted in an upward adjustment of 5,6 percent in nominal GDP (Mohr & Fourie 1995:644).
- Despite the diversity of approaches in Mongolia, the estimates are surprisingly consistent, each suggesting that 30 to 35 percent of economic activity and/or employment resides in the informal sector (Anderson 1998:6).

There are no existing estimates for Malawi, the country on which this study focuses. This fact illustrates a further indication of the importance of a study of this nature.

The size of the informal sector in many countries is affected by several factors including the following:

2.2.3.1 *The Post-independence phenomenon*

The post-independence phenomenon had an impact on the growth of the informal sector. In some cases, it limited growth, and in others, enhanced it. Mhone (1996:12) argues that the development of the informal sector in Southern Africa was a predominantly post-independence phenomenon. He continues by

saying that the development of the informal sector was a spontaneous, unplanned offshoot of a combination of at least the following developments:

- the removal of colonial restrictions and regulations pertaining to labour flows and urban settlement
- the increase in population growth and the consequent increase in the labour force
- the tendency towards economic stagnation, particularly in agriculture in which most of the population is involved
- the growing urban-rural income differentials, which triggered a seemingly irreversible migration from rural to urban areas

While Mhone (1996) makes critical points above, restrictions and regulations pertaining to labour flows, urban settlement and the control of the informal sector operation remained the same even after Malawi's independence. The government had rules about what the informal sector was permitted to do and where informal sector activities were permitted to operate. The argument here is that the presence of rules and laws pertaining to the informal sector is not simply a colonial issue. Other countries such as Zambia, which are democracies, have strict rules applying to the informal sector operation. (Informal sector participants in Zambia were cleared from all the streets, as observed in November 1999.) However, the factors that Mhone (1996) emphasises above such as the increase in population growth, economic stagnation in the agriculture sector in particular and urban-rural income differentials also played a major role in the informal sector development or growth in Malawi.

2.2.3.2 ***The rate of unemployment and poverty***

The higher the rate of unemployment and poverty, the larger the informal sector will be. As was pointed out by the University of South Africa's Bureau of Market Research (1995:6), the role of the informal sector is particularly relevant when levels of unemployment and poverty are high and economic growth is slow.

This is true because where unemployment is high and economic growth slow, many of the new entrants to the labour market will not be able to find employment. The result of this is either increased impoverishment or a decision to take action by the new entrants. The most likely available action will be to join the informal sector. This scenario thus increases the size of the informal sector.

2.2.3.3 ***The rate of rural-urban migration***

As indicated by several writers (Charmes 1990:12, Oyowe 1993:244, Fields 1990:55), a higher rate of rural-urban migration is more likely to increase the size of the informal sector. Anderson (1998:18) indicates that in many countries, growth of the informal sector is associated with migration from rural areas to urban centres. New migrants arrive without jobs, providing a large pool of labour for informal "employment".

However, one needs to examine the pull and push factors of a particular rural-urban migration. People may be informed that town life will be an improvement on their current lives, and they migrate to towns on the basis of this perception. Having experienced the reality of life in the town or city, they may then decide to return because the "pull factor" in their perceptions was false. These migrants are what Mazundar (1976:657) calls temporary migrants. While rural-urban migration may lead to the increase in the informal sector, this may be temporary, because a percentage of the migrants will return. In addition, those who may have been previously involved in the informal sector may feel that the competition is too

intense and that the best plan may be to return to the villages and continue farming. If government supports the agricultural sector effectively, it may also encourage some of the poor urban dwellers to return to their villages. The essence of this argument is that one cannot conclude that rural-urban migration has increased the size of the informal sector without examining other factors.

2.2.3.4 ***Crash of the economy***

When the economy of a country crashes (a sudden drop of a country's economic performance as measured by growth of GDP), economic retrenchments become the solution for many formal enterprises and this leads to the growth of informal sector. Even those who are still employed find that the income from their formal jobs is no longer sufficient. They frequently become involved in informal activities to supplement their income. According to Anderson (1998:17), the contraction of the Mongolian economy during the early and mid-1990s caused the release of large numbers of workers from formal sector employment. A survey of privatised Mongolian enterprises, conducted by George Korsun, Peter Murrell and Anderson, found that between 1990 and 1995 employment fell by 50 percent for the average privatised enterprise. This was slightly more for the privatised sector as a whole. They continued by saying that those released from formal employment, combined with the large proportion of school dropouts inherent in a young population, produced a steady flow of workers, many of whom had to choose between informal employment or abject poverty. At that same time, declining real wages in the formal sector led many formal sector employees to supplement their incomes by moonlighting in the informal sector.

It should be noted, however, that the crash of an economy will not always lead to retrenchments. This depends on what measures the government is taking as well as what loans they are receiving and from whom. This will be discussed further in section 2.2.3.6 below.

2.2.3.5 ***Privatisation***

Privatisation normally leads to layoffs. In this case, people have no choice but to join the informal sector. On the topic of privatisation, Mohr and Fourie (1995:477), indicate that inefficient state-owned enterprises tend to employ surplus labour. When such enterprises are privatised, the new owners typically reduce the number of workers quite substantially. This is the primary reason why trade union Federations such as Cosatu are so strongly opposed to privatisation in South Africa.

Privatisation is normally carried out to improve the operation of an enterprise. In this scenario, there are several factors, apart from layoffs, that may improve the enterprise. There may be a need to increase capital, automation and improve the management systems. This approach may not necessarily lead to layoffs. In addition, even if the staff are laid off, the fact that they will be given severance packages may result in many returning to the villages to start a farm or a formal sector business. Hence, this may not necessarily increase the size of the informal sector.

2.2.3.6 ***Impact of IMF and World Bank conditions***

Among the many conditions that the IMF and the World Bank impose on the governments of many countries in the terms of their structural adjustment programmes (SAPs) are the layoffs of excess labour from the public services. This reduces increases in real wages and removes subsidies. Ninsin (1991:65) indicates that in the civil service and in the Ghana Education Service, about 45 000 workers were targeted for layoffs during the 1987 to 1989 period, when the implementation of IMF policy was expected to be completed. As stated above, such layoffs have a tendency to increase informal sector activities. However, this may not always be the case because some of the staff who have been laid off may also start formal sector activities.

2.2.3.7 ***World economy***

In the current global economy, economic dynamics around the globe impact on economic structures at local level, which may lead to layoffs. The price of gold, for example, is affected by the world economy. When prices decline, many mineworkers are laid off. Those who are already in urban areas become involved in the informal sector. The decision by Britain (in November 1999) to sell its gold reserves had a negative impact on South African gold mines; the management of those mines had no choice but to lay off some of their workers. While one can argue that this has a greater direct impact on the formal sector than the informal sector, the reality is that many of these employees will be involved in the informal sector either temporarily or permanently. This will obviously increase the number of people involved in the informal sector, hence increasing competition. This increase in layoffs may also have a negative impact on informal sector activities because some of the mineworkers are customers of the informal sector and thus a source of capital. Further, if the businesses in the informal sector fail, they will have a difficult time restarting them.

2.2.3.8 ***Other reasons***

Government policies, particularly in the agricultural sector (eg pricing), can either force people to move to towns or stay in the rural areas and concentrate on farming. If these government policies compel them to move to towns in search of a better livelihood, the result may be an increase in informal sector activities since not all of those who migrate will be able to find jobs in the formal sector.

The improvements in the area of information management have led to a demand for people with different skill sets. Many things are now done on computer and this has a dual impact. Firstly, it leads to fewer staff members needed for a particular job because the computer can do a great deal in a short time. Secondly, it leads to layoffs of those who are not computer literate. In addition, some jobs are being totally eliminated from organisations because of the

introduction of computers. Malawi, as a former British colony, adopted a system in which each supervisor in an organisation had his or her own secretary who were responsible for typing their work. These secretarial jobs in Malawi were and are still done by women. The advent of computers has led to supervisors acquiring laptops, which have culminated in a gradual laying off of secretaries. A percentage of the individuals who are laid off on account of automation join the informal sector thus leading to an increase in this sector.

Ease of entry (also termed, “low barriers of entry”) into the informal sector also makes it possible for those who are struggling to find a job to start something that can provide immediate income. They do not need to fill in application forms or obtain permission. They simply follow those who are already engaged in the informal sector. Since it is relatively easy to enter (see also section 2.2.2), the size of the informal sector can easily be increased.

The above analysis seems to suggest that layoffs, rural-urban migration, unemployment, the crash of an economy, automation and government policies can either lead to an increase or decrease in the size of informal sector. Before drawing any definite conclusion on the impact of these factors, it is critical to analyse them to determine the actual impact they do have on the informal sector. Despite this word of caution, in analysing the informal sector in any country, the above factors are essential indicators for determining the probable size of the informal sector in that country.

2.2.4 Advantages of the informal sector

The advantages of the informal sector at both micro- and macro-level in many countries are not clearly known because of the difficulties measuring them. However, there is clear evidence that the benefits of the informal sector in many countries can no longer be ignored. In addition to the examples provided in

section 2.2.3 on the size of the informal sector, Bugnicourt et al (1995:26) and Richardson (1994:21-22) indicate advantages of this sector both at micro- and macro-level. Some of these are listed and discussed below.

2.2.4.1 ***Work for new arrivals***

Of all the branches of the economy, the informal sector is the branch that consistently provides work for new arrivals. Although Bugnicourt et al (1995) limit this benefit to new arrivals, the reality is that it provides work even to those who have been in the urban setting for a long time. Richardson (1984:21) points out that the first benefit, and certainly one of the most important, is the role played by the informal sector in absorbing labour. His argument is that any study of the feasibility rates of job creation in the urban labour force makes it abundantly clear that there is a huge gap, which can be filled only by the informal sector. Richardson's observation is relevant for many countries, particularly where unemployment levels are rising and many people are forced to be creative in order to survive. The urban people who are working in this sector are able to provide for food and other basic needs through the income and wages they receive.

2.2.4.2 ***Provision of convenient services***

Informal sector participants provide convenient services - People do not have to go to the shops. While this applies to some people, for others it creates chaos and a threatening, insecure trading environment. As we shall see in chapter 5, there is a significant group that do not like the informal sector for this very reason.

In addition to what Bugnicourt et al (1995) state in the above point, Richardson (1984:21) indicates that the second major contribution or advantage of the informal sector is its provision of inexpensive wage goods and services,

particularly to the lower-income population. He indicates that a comparison of informal sector goods with their formal sector counterparts does not necessarily show that lower prices equate with lower quality. Lower prices are a result of the use of different materials and different technologies, to satisfy demands at an affordable cost. In addition, the goods are usually produced under intensely competitive conditions, which contrasts with oligopolistic control and the government protective measures, which keep prices artificially high in the formal sector. The fact that the informal sector provides useful inexpensive services explains its popularity. In fact, it meets not only the needs of the poor but also the rich.

The informal sector therefore provides services to both the rich and poor at reasonable costs in areas such as gardening, housekeeping, babysitting, plumbing and electrical work. Those employed in the formal sector are content to know that someone will take care of their needs. Hence, the informal sector supports the formal sector, because those employed in the formal sector are able to concentrate on their jobs, knowing that their problems at home will be dealt with effectively.

In addition, the informal sector supports the formal sector in providing low-cost raw materials and products. For example, a man involved in the manufacture of water and food troughs for chickens can support the formal chicken businesses in that area. Thomas (1992:80) reported the findings of Carbonetto et al in 1987, who said that at least 40 percent of clothing workers in the informal sector in Lima (Peru) were making pieces for finishing in the formal sector. The formal sector subcontracted the informal sector to produce processed raw materials for them. They also reported that nearly 60 percent of another group of informal sector enterprises were making cartons and boxes for the formal sector, while over 30 percent of those working with marble were preparing it for use in the formal sector. The informal sector therefore not only benefits individuals but also specific businesses in the formal sector.

2.2.4.3 ***Willingness to deal in small quantities***

The traders are willing to deal in small quantities, which means that they can adapt easily to the fact that their customers may have little to spend. Bugnicourt et al (1995) make an important point here. Many poor people in urban areas cannot afford to buy commodities in large quantities. The informal sector affords them an opportunity to purchase in small quantities. Many formal bakeries, for example, will sell only whole loaves of bread while an informal sector participant cuts the loaf of bread into four parts so that those who cannot afford a full loaf can still manage to purchase a quarter of a loaf. The informal sector therefore affords the poor an opportunity to eat the food and enjoy some of the products to which only the rich normally have access.

2.2.4.4 ***Variations in prices***

According to Bugnicourt et al (1995:26), traders vary their prices to suit the customer's purse, or may vary them on a whim if the customer haggles. In fact, the prices sometimes vary according to the way the customer is dressed and his or her general appearance. In some countries, the prices always begin at a higher rate because people are expected to bargain. This enables individuals of diverse financial standing to benefit from this practice and differs from the formal sector in which prices are generally fixed.

2.2.4.5 ***Selling at a loss***

Traders in the informal sector sometimes sell at a loss to win a customer's loyalty or to deal immediately with an urgent cash-flow problem. Bugnicourt et al (1995:26) mention another essential point here. When some informal sector participants are in need of cash, they take a risk and sell what they have at any price. This behaviour, however, contributes to the bankruptcy that many of them experience.

2.2.4.6 ***Lower capital-labour ratio***

Richardson (1984:21-22) indicates that the other advantage of the informal sector is that it has a lower capital-labour ratio compared with the formal sector. This enables the informal sector to create a large number of jobs at a minimal capital cost.

Richardson's point is crucial. Informal sector participants are either working without pay (since it is a family business) or they do not receive the employment benefits that are given within the formal sector. Both of these factors contribute to its low capital-labour ratio.

2.2.4.7 ***The injection of capital into the economy***

Richardson (1984:22) also mentions another important advantage of the informal sector. He indicates that the informal sector relies on the small savings of owners, family friends and relatives, which tends to inject capital into the economy which may not otherwise be invested.

This is an excellent point because many informal sector participants, without collateral, are not able to find financing. The informal sector therefore enables many people to invest their savings or money that would have simply been spent on luxuries. This practice enables the informal sector to benefit a nation's economy. However, not all informal sector participants benefit from this practice. There are several who struggle to raise start-up capital because their relatives or family members are not willing to help them raise the needed capital.

2.2.4.8 ***Reliance on indigenous materials and second-hand capital goods***

Richardson (1984:22) continues by saying that the reliance of the informal sector on indigenous materials and second-hand capital goods also explains another advantage or contribution of the informal sector. In other words, its contribution to the international balance of payments is largely the result of import savings. This is true to a certain extent, but one needs to remember that many countries in Southern Africa import second-hand clothes, groceries, electrical equipment and cars. Thus what one sees in the market as second hand, does not necessarily mean that it may not have been imported. In fact, many of the products that informal traders use or sell are normally imported. Any calculation of this benefit therefore needs to be approached with caution.

2.2.4.9 ***Role as a training ground for skills and entrepreneurship***

Richardson (1984:22) also pointed out that other possible advantages of the informal sector are its role as a training ground for skills and entrepreneurship, its capacity for innovations and its incubator function (the emergence of new establishments that subsequently grow and may ultimately develop into formal sector firms).

Richardson is not over assertive on this point possibly because of dearth of existing literature to support his position. However, there is an amount of literature to support the fact that many informal sector participants have learned their skills from the formal sector. The author would like to strongly support this point. It is difficult to enter into the technical arena of the formal sector (as in garages and in some factories and trades) without a rudimentary level of skill or training. Many participants in the informal sector can only learn these skills by participating in informal sector activities. While others may argue that the owners of those informal sector activities might have learned the skill from the formal

sector activity, it is also true that some of them might have learned their skills by participating in the informal sector. In addition, other informal sector participants are creative and have come up with new innovations. These unfortunately have either been bought or simply taken and used by formal sector firms. The author therefore supports the idea that one of the advantages of the informal sector is its contribution to skills training and innovations.

2.2.4.10 ***Recognition of human dignity and provision of opportunities***

Bugnicourt et al (1995:26) also argue that whenever one helps someone to live through his or her own trading or craft skills, one is actually respecting that person's dignity and providing him or her with an opportunity in life. The informal sector helps many people understand that they are worth something and can take action to support themselves and their families. This sector therefore also gives people a new confidence in life. Participation in this sector boosts their sense of self-worth or self-esteem, which is critical in any society. It may also be rightly argued that the informal sector helps to reduce the incidence of crime. The simple argument here is that people who have no option but to resort to crime can join the informal sector if they wish. However, there are exceptions. If the informal activity itself is illegal (eg drug dealing in which people live in fear of being arrested), the people involved will not gain self-confidence. Those who may be involved in prostitution may not necessarily preserve their dignity and those who fail to build a successful informal sector business may see themselves as failures, which will impact on their sense of self-esteem.

2.2.4.11 ***Stability***

The informal sector also helps to give stability to people who would otherwise cost the government money by demanding social security and welfare. The fact that people are able to take care of themselves through the informal sector

affords the government an opportunity to concentrate on public issues other than on individuals.

This advantage is critical to government. However, others, who believe that it is the job of the government to take care of its citizens, may argue against this. In addition, if the government is not improving the public facilities in towns in which informal sector participants are operating, the fact that they are not spending on social security and welfare clearly indicates that they will not divert these government resources into the public services required.

These are some of the advantages of the informal sector. It is clear that these advantages can no longer be ignored in many nations. The number of people becoming involved and the benefits are increasing. Chapter 5 deals with the advantages of the informal sector in Malawi as perceived by the informal sector participants themselves, and a comparison will be made with this section.

While the informal sector has numerous advantages (as outlined above), one also needs to look at the disadvantages, which will be discussed in the next section.

2.2.5 Disadvantages of the informal sector

Todaro (1994:256) highlights some of the disadvantages of the informal sector as follows:

2.2.5.1 *Aggravation of the urban unemployment problem*

Promoting income and employment opportunities in the informal sector may aggravate the urban unemployment problem by attracting more labour than either the informal or the formal sector can absorb. This means that the pull

factors in the urban setting outweigh the pull factors in the rural areas and rural-urban migration is encouraged.

Any policy that promotes the informal sector will need to take this important factor into account. The government must examine policies that promote both the informal sector and agriculture simultaneously so that a percentage of citizens in the rural area will see the value and advantages of agricultural production and remain in the rural areas.

2.2.5.2 *Environmental consequences of a concentrated informal sector in urban areas*

There is a concern about the environmental consequences of a highly concentrated informal sector in the urban areas. Many informal activities cause pollution and congestion, or inconvenience pedestrians.

Todaro (1994) also points out, however, that this is not only true of informal sector activities. In fact, the air pollution and polluted rivers caused by factories are much more significant than the pollution that the informal sector generates in many countries. However, the formal sector is regulated by government officials who can close down the informal sector if participants contravene the regulations. The challenge, however, is whether the governments in many countries are able and possess the political will to enforce these regulations in the formal sector.

Although Todaro makes a significant point here, there are opposing views. The informal sector in towns causes pollution because some people cook the food they sell in town. They block the drainage systems and dispose of their garbage indiscriminately. The location of their businesses may also obstruct the free movement of pedestrians.

2.2.5.3 ***Increased density in slums and low-income neighbourhoods***

Todaro also argues that increased density in slums and low-income neighbourhoods, coupled with poor urban services, could cause enormous problems for urban areas. This is a valid point. Any government policies that support both the informal and formal sectors need to take this issue into account as well.

2.2.5.4 ***Additional illegal activities***

It is important to refer to section 2.2.2 in which Mohr and Fourie (1995:411) also mention that other illegal activities occur in the informal sector. These include drug trading, trafficking, stealing and prostitution (in some countries), which discredit this sector.

These disadvantages also apply to Malawi, a country that has experienced major growth in the informal sector since 1994. Chapter 5 will briefly examine some of these disadvantages in line with the findings.

Although there are several disadvantages in promoting the informal sector, the advantages outweigh the disadvantages a fact that is recognised in some countries. Sound policies supporting the informal sector help to minimise such disadvantages.

This section examined the history of, the definition of, and the size of the informal sector, as well as the advantages and disadvantages thereof. In order to understand the role that the informal sector fulfils in the overall development of a nation, the next section will analyse definitions and promote an understanding of development as well as the range of development theories that throw light on the nature and dynamics of development.

2.3 DEVELOPMENT ANALYSED

2.3.1 Definitions of development

There are countless definitions of development. Variations thereof are influenced by the school of thought or the academic discipline of the person or group defining development. In addition the objectives and experience of the people, will influence their perspectives on the development process itself. Only a few of these many definitions will be considered here. Choices have been made on the basis of the author's judgement of their relevance to the subject under study. These definitions are stated below.

Development means increasing the capacity of society to ultimately raise the living standards of its people and eliminates absolute poverty, unemployment and inequality (Ninsin 1991:84).

Quoting Seers (1972:124), Ninsin (1991) explains his definition by saying that the questions to ask a country's development process are: What has been happening to poverty? ... to unemployment? ... and to inequality? If all of the above have become less severe, then beyond doubt this has been a period of development for the country concerned. If one or two of these central problems has increased severity, and if all three have, it would be false to call the result "development", even if the per capita income has soared.

Ninsin's definition highlights the issue of the elimination of poverty, unemployment and inequality in order to raise people's living standards. However, his definition of development fails to emphasise the process of development, which is equally important.

Development defined as poverty reduction. The claim here is that if a country reduces poverty, then development has taken place. This further clarifies one

aspect of Nansin's definition of development but is also not comprehensive. World Bank declared poverty reduction as the objective of development in the 1990s and it was the central theme of the United Nations Human Development Report in 1997 (Halvorson-Quevedo 2000:7). In December 1999, the Boards of the IMF and the World Bank approved a new approach to the challenge of reducing poverty in low-income countries on the basis of on country-owned poverty-reduction strategies that would serve as a framework for development assistance (International Development Association and International Monetary Fund 2002:6). Development is therefore seen as a tool for poverty reduction, which according to the author is a limited understanding of the definition of development.

Todaro (1994:670) defines development as the process of improving the quality of all human lives. He sees the following as three equally important aspects of development

:

- (1) raising people's living levels – their incomes and consumption of food, medical services and education through relevant economic growth processes
- (2) creating conditions conducive to the growth of people's self-esteem through the establishment of social, political and economic systems and institutions that promote human dignity and respect
- (3) increasing people's freedom by enlarging the range of their options - for example, increasing varieties of consumer goods and services

Todaro's definition is comprehensive. It does however, create the impression that someone else will raise the people's living standards, someone else will create a condition conducive to growth and someone else will increase people's freedom rather than emphasising the importance of empowerment and enabling the people themselves to do this as a part of their development process.

Some definitions emphasise the importance of understanding development as a process. Korten's definition (1990:67) below falls into this category.

Development is a process by which the members of a society increase their personal and institutional capacities to mobilise and manage resources to produce sustainable and justly distributed improvements in their quality of life consistent with their own aspirations.

In addition to the two definitions above, this definition emphasises the elements of institutional capacities and people's participation in their development process. The challenge, however, is for the countries to create a system with the capacity to ensure justly distributed improvements in their quality of life. Historically, development benefits, even within the household, are not justly distributed.

Burkey (1993:35-39) defines development by focusing attention on human, economic, political and social aspects. His four main definitions for development are as follows:

- (1) Human (personal) development is a process whereby an individual develops self-respect, and becomes more self-confident, self-reliant, cooperative and tolerant of others through an awareness of his/her shortcomings as well as his/her potential for positive change. This occurs through working with others, acquiring new skills and knowledge, and participating actively in the economic, social and political development of the community.
- (2) Economic development is a process in which people, through their own individual and/or joint efforts, boost production for direct consumption and to have a surplus to sell for cash. This requires people to analyse their problems, identify the causes, set their priorities and acquire new knowledge. They also need to organise themselves in order to coordinate

and mobilise the effective application of all the factors of production at their disposal.

- (3) Political development is a process of gradual change over time in which people increase their awareness of their own capabilities, rights and responsibilities. They use this knowledge to organise themselves to acquire real political power in order to (a) participate in decision making at local level, and to choose their own leaders and representatives at higher levels of government who are accountable to the people; (b) plan and share power democratically; and (c) create and allocate communal resources equitably (fairly) and efficiently among individual groups.
- (4) Social development is a process of gradual change in which people increase their awareness of their own capabilities and common interests. They use this knowledge to analyse their needs, decide on solutions, organise themselves for cooperative efforts, and mobilise their own human, financial and natural resources to improve, establish and maintain their own social services and institutions within the context of their own culture and political system.

Although Burkey's definition (1993) seems to be more comprehensive than any of those studied thus far, the idea of defining development by looking at different social sciences seems to divide development into segments that do not give a total picture. This total picture is critical to the development process as far as the author is concerned. In addition, one would argue that following Burkey's definition of development omit other aspects, which are equally important. The element of spiritual development, for example, does not feature in his definition and yet others like the author of this research study believes it is significant. Other definitions, which include the spiritual aspects, such as the one developed by Myers in 1999, are provided below.

Myers (1999:3;14;119) first decided to replace the term “development” with the term “transformational development”. According to Myers, the former is heavily loaded with past meaning, not all of which is positive. He also feels that development is understood by many to be a synonym for Westernisation or modernisation. He therefore, uses the term “transformational development” to reflect his concern for seeking a positive change in the whole of human life -- materially, socially and spiritually. He perceives transformational development to have twin goals, as explained below:

- (1) *Changed people.* – This means people who have discovered their true identity as children of God and who have recovered their true vocation as faithful and productive stewards of gifts from God for the well-being of all.

- (2) *Just and peaceful relationships.* – This involves having a relationship with a triune God, a relationship with oneself, a relationship with one’s community and a healthy and respectful relationship between the community and its environment on which it depends for food, water and air. In addition, an essential component of transformational development includes living at peace with those who are “other” (those who have done harm to you or your community).

He concludes by saying that these twin goals of transformational development apply to the poor, the nonpoor and development facilitators.

Myers’s definition has a specific view of spiritual development. There are other definitions with other views. However, the author accepts Myers’s view because it includes an element of transformed people vis-à-vis their identity with God and their true vocation. In addition, the element of just and peaceful relationships makes it even more interesting. The challenge, however, is how universally applicable it may be. In his analysis of development, Esteva (1992:8) indicates how others such as Bonnet in the 18th century linked development to God. As

time went by, God started to disappear in the popular conception of the universe. Myers, in his definition, is restoring what was perhaps lost at that time.

As part of his analysis of development Esteva (1992:11), indicates that development cannot detach itself from the words with which it is linked – growth, evolution and maturation. Regardless of the context in which it is used, or the precise connotation the person using the word endows it with, the expression frequently becomes qualified and coloured by possible unintentional meanings. The word “development” always implies a favourable change, a step from the simple to the complex, from the inferior to the superior, from worse to better. The word indicates that one is doing well because one is advancing in the sense of a necessary, ineluctable universal law and towards a desirable goal. However, this positive meaning is not what people have generally experienced.

After examining all the possible definitions of the word “development”, particularly the way it has evolved from one century to another, Esteva (1992:23) concluded by saying that “it is now time to recover a sense of reality. It is time to recover serenity. Crutches, like those offered by medical science, are not necessary when it is possible to walk with one’s feet on one’s own path, in order to dream one’s own dreams rather than the borrowed ones of development.”

The author agrees with his conclusion because it emphasises that the definition of development is in the people themselves. The author would complete the last part of the definition by saying “in order to dream one’s own dreams and realise them”.

The above definitions, although different, suggest that development has to do with the reduction of poverty, improvement in the quality of human lives (health wise or spiritually), improvement of the living standards of people, expansion of their choices and improvement in the care for one another and their environment. It is also clear that development is a process of change, which demands that

people participate. When people mobilise one another and organise themselves to establish cooperative efforts in order to deal with issues that affect them, the development process is said to have started. This process empowers them and leads to sustainability.

Development deals with issues such as poverty, unemployment, oppression, inequality or injustice and enables people to realise that they can do something about their situation without destroying their environment. Development takes place when people's income levels increase and the economic environment promotes growth. Hence when development occurs, people restore their dignity and self-confidence and are able to strive for higher goals.

Development will have taken place if people have improved their material, social and spiritual well-being.

With this understanding of development, an attempt will be made to analyse the development theories upon which these development definitions are based. An analysis of a selected number of development theories therefore follows in the next section.

2.3.2 Development theories revisited

Many development theories can be discussed here. However, the author has decided to refer to major theories that will make possible a subsequent analysis of the linkages between these theories and the informal sector.

Most of these theories were developed because of a crisis situation and over a period of time. According to Hettne (1990:10), a crisis implies that a certain arrangement no longer works and therefore opens up various fields of social life to new opportunities and the need for new solutions. In addition, some of the theories seemed to have been born out of a desire to control the world.

There are critiques for each theory, some of which are contradictory. However, the purpose of revisiting these theories, is not to highlight these critiques or contradictions but to analyse and discuss the claims of these theories and the explanatory power they still possess to highlight current development realities. The selected theories therefore offer different points of view in the development journey and are essential to the analysis of the informal sector.

The theories selected for this purpose are:

- modernisation theory
- dependency theory and underdevelopment
- sustainable development theories
- alternative development theories

Each one of these theories will now be briefly explained.

2.3.2.1 *Modernisation theory*

The idea of modernisation was primarily an American idea, developed by American social scientists in the period after the Second World War and reaching the height of its popularity in mid-1960s (Preston 1996:170-171). The Americans developed the modernisation ideology on the basis of their experience in rebuilding Europe, which was devastated after the Second World War. With this experience, it was felt that what they had done for Europe was the ideal process the developed world could use to assist the underdeveloped and developing worlds.

Modernisation theorists believed that modernisation is a process of conscious, purposeful nonviolent change. It involves transforming social structures, changing people's behaviour and leading people to a new sense of what should be done. It is an all-encompassing process, which, in the general perception of

these theorists, developing states have to undergo for development to occur (Du Pisani 1980:67).

Implicit in the meaning of modernisation was the concept of replacing or exchanging older things and ways with something more recent (Smith 1973:61). Modernisation was therefore seen as a process of transforming the traditional society into a modern society, which theorists regarded as an improvement.

A primary assumption in this theory was that planned change was not taking place at the right speed in the underdeveloped world and that the theorists therefore needed to ensure a process of planned change if development was to occur.

The theory of modernisation within the fields of sociology, social anthropology, political science, and so forth, rests on a supposed dualism between, the modern industrial sector on the one hand and a traditional, stagnant and underdeveloped sector on the other (Manghezi 1976:18). Proponents of modernisation believed that Third World countries lacked industrialisation and the potential for economic growth. Without intervention, they felt that those countries could only be classified as traditional, stagnant and underdeveloped. The theory claimed that there was a need for these traditional, stagnant societies to be modernised to make development possible.

Having conceptualised the whole arena of development in terms of the dichotomy between traditional and modern, the theorists of this school then attempted to elucidate matters by deploying a further set of dichotomous constructs. These included aspects of development such as agricultural and industrial, rural and urban, religious and secular, literate and preliterate, and so on (Preston 1996:172). Structuralist thinkers emphasised the transformation of the economy from an agricultural base to an industrial type. The thinking that accompanied this school of thought was that it would be easy to consciously plan

the direction future development would take. The only problem was the assumption that there was an inherent superiority in what they offered. Industrial development was superior to agriculture, for example, and urban life better than rural life.

According to Hettne (1990:27-69), Preston (1996:65-178) and Todaro (2000:78-104), the work of the following people played a major role in constructing the modernisation theory and approaches:

a) *Karl Marx (Hettne 1990:40-41)*

- He believed that development is, first and foremost the development of capitalism. Further, the more industrially developed country showed to the less developed the image of its own future.
- Capitalism should be regarded as progressive in spite of its social costs.
- New, higher relations of production (eg socialism) cannot, in his view, appear before the material conditions of their existence have matured in the womb of the old society.
- Marx's method rests upon the materialistic conception of history, which claims that people make their own lives in their productive activity.

It is clear that Karl Marx's work did play a role in understanding the modernisation process. His notion of the big brother making a path for the younger one (no matter the cost) seems to be central to the modernisation theory. Marx's emphasis on macro-level analysis without serious consideration of the impacts on the micro-level gives an incomplete picture of reality.

b) *Emile Durkheim (Preston 1996:88-89)*

- Durkheim's general interest was an attempt to comprehend the nature of industrial capitalism. He accomplished this through a comparison of traditional and modern societies.

- He offered a characterisation of traditional agrarian small-scale rural society in terms of its typically strong sense of community in which the moral web of rules binds people tightly together. He contrasted this with modern industrial large-scale urban society with its emphasis on individualism.
- Durkheim argued that the shift from traditional to modern society (a matter of social differentiation) is driven by an increase in the dynamic density of society characterised by the extent and character of interaction (itself further driven by population growth and the advance of technology).
- He also believed that the normal state of affairs of a complex division of labour is one of organic solidarity secured by the new moral code of individualism. He saw in the division of labour and the postulate of structural differentiation the driving force of modern societies.

Durkheim's approach was unique and seemed to start dissecting the sociological realities that required consideration before classifying any society as traditional or modern. Although the author appreciates Durkheim's approach of acknowledging the sense of community in what may be called traditional societies and the individualism, which accompanies capitalism, he failed to challenge the accepted basis on which one would classify a society in terms of traditional and modern. Moreover, he does not clarify whether a sense of community in traditional societies is less valuable than individualism in capitalistic societies or whether all aspects of traditional society are less valuable compared with those of modern society.

c) *Arthur Lewis (Todaro 2000:84)*

- Lewis's two-sector model proposed that the underdeveloped economy consists of two sectors: a traditional, overpopulated rural subsistence sector characterised by zero marginal labour productivity (surplus

labour) and a high-productive modern urban industrial sector into which labour from the subsistence sector is gradually transferred.

- The primary focus of the model is both on the process of labour transfer and the growth of output and employment in the modern sector.
- The speed with which this expansion occurs is determined by the rate of industrial investment and capital accumulation in the modern sector.

Lewis assumed that traditional societies are overpopulated - hence there is surplus labour. While this might be true in some circumstances, his argument failed to recognise the pull and push factors in rural and urban areas. If the agricultural sector is supported by price incentives, for example, all the surplus labour will be put into production, and the transfer that he claims is inevitable, will not occur. People follow where investment will benefit them, be it in the rural agricultural sector or the urban industrial sector.

d) *John Maynard Keynes (Preston 1996:154-155 & Hettne 1990:48)*

- Keynes delineated the critical role of the government in managing the economy by emphasising that development (modernisation) necessitates plans written by economists as well as strong, active governments to implement them.
- Keynes argued that government borrowing to finance expenditures is justified, since each unit of expenditure will have its beneficial effect multiplied as economic activity is encouraged. Eventually, the higher levels of economic activity will generate higher tax returns, the government deficit can be removed and debts repaid.
- Keynes influenced economic growth theory and descriptive historical and social scientific material related to the condition of the underdevelopment countries.

The more state-oriented strategies such as that of Keynes turned out to be more attractive for the “modern elite” in the Third World, since they, with exceptions, have close relations with the state and had fostered an antimarket bias. The burden of debt in many countries today is directly linked to the desire to modernise as influenced by Keynes. While his arguments are valuable in economic terms, his approaches fail to emphasise the importance of the social dimension.

A number of conceptual models merit mention in the examination of the modernisation process.

- *Progress versus growth.* In the Marxist variety of modernisation, all transitions to new stages of development are by definition “progress”, since every “mode of production” will exhaust its potential before being replaced by a “higher” mode (Hettne 1990:60). To Keynes and others like Harold (Preston 1996:154-160), economic growth is a critical element in the process of modernisation. The argument here is that progress alone is not sufficient. There is also a need to understand and support economic growth.
- *State versus market forces.* According to Keynes, who was more concerned about the macro-level, the state is an important vehicle for the modernisation of a society because it is a clear response to the modernisation imperative “industrialise or perish” (Hettne 1990:48). On the other hand, the liberal model implies reliance on the market forces, gradual industrialisation starting with light industries, a sufficient level of wages and the emphasis of technological advancement. All of the above necessitate capital accumulation and expanding markets (Hettne 1990:43). Despite the weakness of this liberal model, it led to the neoliberal wave of “liberalising the economies”.
- *Neo-classical free-market versus classical.* The neoclassical model can be well understood by examining the theory of international trade, which

stipulates that free trade will spread the benefits of development across the world through the kind of specialisation and division of labour enforced by competition. In the neoclassical worldview, underdevelopment does not exist except as evidence of a lack of entrepreneurial spirit (Hettne 1990:48). Classical models, however, argue in favour of planning for interventions and growth to ensure meaningful development.

The writings and speeches of a large number of theorists aimed to assist and advise the efforts of Western governments and Western-led international agencies (eg the World Bank) in their efforts to support the development of the poorer countries of the South (the Third World) (Stewart 1997:43).

It is clear that the approach was flawed from the outset. The expectation was that theorists would assist the Western governments and agencies in a transfer of all of their experiences to Third World countries, which possessed different contexts, cultures and values. The Western governments and international agencies were to do the development work, while the part to be played by the poor countries in the South was not clear. The message was “Go and tell them that unless they modernise, they will not develop.” This was a paternalistic approach from the outset.

Many countries in the Third World were proud of and deeply attached to their cultural heritage. While desiring Western standards of abundance, they had no desire to abandon their own lifestyles and values. The concept of modernisation recognised the strength of roots; it did not pose any overt threat to the cultural identity of the people aspiring to rapid change. To the elite of the Third World, the ideal of Westernisation was difficult to swallow although they accepted modernisation readily because it did not appear to offend their cultural identity. The change of terminology, however, did not change the objective and motivation of modernisation, which assiduously worked to Westernise the “backward cultures” of developing societies (Dube 1988:16).

As Dube (1988) points out here, the people of the South (Third World) thought that modernisation was better than Westernisation, and hence accepted it. The problem was the lack of clarity on the part the people from the South would play in the process.

While modernisation seemed to be understood as a process of growth in gross national product as a way to achieve development, it is important to mention that the theorists (according to their disciplines) had different approaches to how modernisation would be achieved. As pointed out by Weiner (1966:3), the social sciences (economics, sociology, anthropology and politics) each focused on different elements of the modernisation process. Economists saw modernisation primarily in terms of humanity's application of technologies to control nature's resources in order to bring about a marked increase in the growth of output per head of population. Sociologists and social anthropologists were primarily concerned with the process of differentiation that characterises modern societies. They explored the way in which new structures arose to assume new functions or to take on functions once performed by other structures. They focused attention on the differentiation occurring within social structures as new occupations emerged, new complex educational institutions developed and new types of communities appeared. Political scientists were concerned with some of the disruptive features of modernisation, but had focused particularly on the problems of nation and government building as modernisation occurred.

Santos (1979:12), while examining modernisation, also indicated that the semantics of the term "modernisation" were still subject to heated discussion, particularly among sociologists. However, if Moore's 1965 definition that modernisation involved "entering the modern world economically, politically and socially" was accepted, then one could safely state that several "modernisations" have occurred in the world to date. The changes from one ruling party system to a multiparty system, from dictatorship to democracy and from manual technology to automation are but a few of the examples one could cite.

Santos's interpretation of Moore's definition is extremely broad and thus compels one to define modernisation as every system, innovation or idea that is new. Entering the modern world economically, politically and socially, assumes that the modern world is better than the traditional world. This may not necessarily be true in all respects. For example, traditionally, in a rural setting, it used to be normal for people to help one another. The capitalist system created a mindset, however, that selling was better than giving. It is clear that it would be difficult to apply the modernisation theory to some of the social systems that one may consider traditional but are of value as far as human life is concerned.

According to Preston (1996:175), the discussion of modernisation theory can be finalised by looking at Rostow's stages of economic growth. In 1960, Rostow identified five stages through which all development societies have to pass in the process of modernisation:

- (1) the traditional society
- (2) the pre-take-off society
- (3) take-off
- (4) the road to maturity
- (5) the mass consumption society

Rostow explained each stage and its elements. This was seen as an improvement over the dualistic approach of the modernisation theory. However, it was also criticised because it presupposed a primitive starting point from which the presently developed are to have emerged (Preston 1996:174).

Rostow's approach suggested that development is a linear process, which is not always true. It also implied that development is a simple process, which is also false. It can easily be argued that, in a society, different aspects of life can coexist at different stages. Thus, Rostow's stages do not have sufficient explanatory power to classify that society.

While diverse thinkers summarise the modernisation theory differently, the author found Preston's summary (1996:178) to be encompassing, and it is used to summarise this theory as follows:

- The theory of modernisation follows on from the growth theory but is heavily influenced by the USA's desire to combat the influence of the USSR in the Third World.
- The theory of modernisation offers the new nation-states of the Third World an easy route to achieve the status of developed economies and societies.
- The theory of modernisation typically makes use of the work of all the social sciences to offer a general description of the shift to the modern world.
- The theory of modernisation rests on an optimistic version of economic growth models and on theories of stable change. A simple dichotomy is proposed between traditional and modern societies with modernisation as the process of moving from one situation to the other.
- The theory of modernisation was extremely influential in the 1950s and 1960s. However, it has subsequently been criticised for illegitimately generalising the model of the West and more particularly the model of the USA.

To conclude, this theory claims that the development process will have taken place when the traditional society has been transformed into a modern society.

2.3.2.2 *Dependency theory and underdevelopment*

The dependency school of thought emerged from the convergence of two major intellectual trends. One had its background in the Marxist tradition while the other was rooted in the Latin American structuralist discussion on development, which ultimately formed the Economic Commission of Latin America (ECLA) tradition (Hettne 1990:82). According to Hettne (1990:82-87), each of the major trends has specific elements worth noting.

a) *Marxist tradition*

- Marxism viewed imperialism in a centre perspective, while neo-Marxism saw it from a peripheral point of view.
- Although the Marxist analysis of classes, was based on the European experience, it helped to illuminate the relationship between the developed world and the Third World.
- The Marxist idea of objective conditions was positioned against the neo-Marxist idea which emphasised the subjective factors.

Factors such as centre and periphery, class differentiation, objective and subjective and their relationship helped to build the dependency theory.

b) *Latin America structuralism*

- The development of import substitution policy, an upshot of the Great Depression, and the idea that industrialisation would be achieved through import substitution, planning and state intervention in general (with a subsequent heavy emphasis on regional integration) all contributed to the construction of dependency theory.
- Raul Prebisch and Celso Furtado's writings helped Latin America to understand import substitution policy. The argument was that continued reliance on the export of primary products would only consolidate the peripheral position of the developing countries in the world economy.
- The approach to dealing with inflation, which was not related to money supply but to various inelasticities and institutional rigidities which could only be tackled through structural reforms, helped to explain the existing economic relationships.
- ECLA (CEPAL in Spanish) doctrine elaborated the centre-periphery model. According to this perspective, only the so-called "central" nations benefited from trade, whereas the so-called "peripheral"

nations suffered. There were several reasons for this, including trends in the terms of trade, political asymmetry and technological factors.

The model of centre and periphery played a major role in defining dependency theory. The understanding was that the developed countries were positioned in the centre of the model while the underdeveloped and developing countries were peripheral. The idea was that development would enable nations to move from the periphery to the centre. There were, however, factors that made this transition difficult. These included the terms and conditions set by the countries in the centre. Countries in the centre believed that this transition would take place through the modernisation process. Countries in the periphery believed this would happen only after examining the relationships between those in the centre and those in the periphery and transforming oppressive relationships into nonoppressive relationships.

Dependency theory was therefore the response from the South (Third World) to modernisation theory. It directly blamed the primary capitalist countries for the situation of poverty in the Third World countries. Dependency theorists believed that the more powerful states and economies (the core or metropolis) took the wealth from weaker countries (the periphery or satellites). They also held that the weaker countries were funding the growth of the stronger countries (Stewart 1997:59).

According to the author, this has elements of truth. The capitalist countries helped the Third World countries with mining industries, for example, and sent all the raw materials from the mines back to their countries for industrial advancement. Matsebula (1996:20) reported on two concessions made by the colonial government in 1860, which forced the people of Swaziland to lose their rights over their own land. These concessions comprised all rights pertaining to:

- the use of land surface, such as hunting, grazing livestock and cultivating crops
- the prospecting and extraction of minerals

Matsebula (1996) also indicated that the year 1882 saw the discovery of the first gold and tin deposits in Swaziland. This led to the partitioning of land so that the concession land was exclusively for the colonialists. Whatever they found was exported to their benefit.

Dependency theorists argued that many people are not simply born into a society or community - they are born into a dominated class and have to depend upon others. It is not enough to simply plan for development; it is critical to understand why people are underdeveloped.

The theorists make a valid point here. It only takes one visit to a poor community to observe how dominated the poor and their children truly are. The current circumstances make it clear that their children will also be poor unless something critical takes place.

In his examination of dependency theory with an external focus (and citing Santos), Long (1977:87) defined dependency in the following way:

Dependency is a conditioning situation in which the economies of one group of countries are conditioned by the development and expansion of others. A relationship of interdependence between two or more economies or between such economies and the world trading system becomes a dependent relationship when some countries can expand through self-impulsion while others, being in a dependent position, can only expand as a reflection of the expansion of the dominant countries, which may have a positive or negative effect on their immediate development.

One does not have to be a genius to understand the implications of this in our present situation. Madziakapita (1997:19) points out the paradox. Developed nations determine the prices of crops such as tobacco, minerals such as gold, copper and diamonds, and simultaneously set the prices of products (such as vehicles) that Third World countries need. While one may argue that the forces of supply and demand determine the prices, it is also important to note that it is possible to manipulate such market forces, especially when one has economic power in one's favour.

However, Long (1977:71), following a study of dependence with an internal focus, has this to say:

Just as underdeveloped societies are linked by dependency relationships to the outside and are unable to exert much influence on the operation of world markets, so within a nation there exist mechanisms of internal domination and striking inequalities between different sectors of the economy and in the social structure generally.

This makes sense. There are many legitimate businesses that have suffered from government restrictions because the government is protecting other firms on which it may depend. For example, World Vision Malawi once had a programme with Mozambican refugees who were in Malawi during the Mozambique War. The programme was aimed at developing a soap-making skill and income, specifically for women. The skill being developed required simple technology. The programme started and was a huge success. The women were able to produce good quality soap and then sell it in the areas in which they were operating. Since this was classified as humanitarian assistance, the raw materials for soap were imported to Malawi duty free. Lever Brothers, a large soap-making firm, saw what was happening, acquired samples of the women's soap, tested it and found that it was indeed of high quality. The company then demanded that the government charge import duty to World Vision, and

threatened to pull out of Malawi if the government did not do so. Since Lever Brothers was the only soap-making company in Malawi at that time, the government had no choice but to impose duty on the World Vision humanitarian activity. Because of this duty, the women were unable to make much profit, particularly at the prices they were charging fellow refugees and the surrounding area for their soap.

In writing on dependency and development in the Latin American situation, Cardoso and Faletto (1979:22), linked the external and internal dependence situations by arguing that dependence finds not only internal “expression”. Its true character also highlights a situation that entails a structural link with the outside, which serves as a two-way conduit between the internal and the external. There is always a two-way impact in any transaction. Thus the economic scenarios in a dependent country cannot be fully explained without taking into consideration the nature and extent of the links that internal social groups have with external ones.

Cardoso and Faletto (1979) make a critical point here. The linkage of local firms with the outside also makes them dominant within their countries. The government of the country in which the local firm operates or from whence the external linkages originate, does not always have the total picture. What is surprising, however, is that the local firm expands and dominates others easily. The process of globalisation has enhanced this.

Lewellen (1995:9) argues that dependency is a two-way street. The USA and Japan are equally dependent on the Third World for raw materials, cheap labour and markets. The First World, however, is dependent from a position of power. If Chile were to decide to nationalise its copper mines, for example, the USA and the multinationals centred there would have many alternatives: an embargo to destroy the heavily dependent Chilean economy, a cut-off of foreign loans and aid, manipulation of world copper prices, a shift of purchasing to another copper-

producing country such as Zaire (now the DRC), or even the secret destabilisation of the government (all these were used against Chile between 1970 and 1973). A Third World country, however, has little power to support its demands.

The author agrees with Lewellen's (1995) viewpoint on mutual dependency. The abuse of power by the First World (as explained in his example) has created a permanent dependency by Third World countries.

This theory claims that development can only be adequately understood by studying the forces at play in any society and between societies or nations. This makes sense when examining different situations in the Third World.

2.3.2.3 *Sustainable development theories*

Sustainable development theories have emerged in the last two decades and have concentrated on two approaches. First there are those that advocate principles that make programmes sustainable such as Myers (1999), Lele (1991), and Madziakapita (1987); and secondly those who advocate principles of ecological sustainability such as WCED (1987), Todaro (1994), Lele (1991), Myers, (1999). This section accordingly examines these two approaches.

Todaro (1994:704) defines sustainable development as patterns of development that permit future generations to live at least as well as the current generation. His definition makes it clear that sustainability has to do with the present and the future. Hence, sustainability requires approaching development now with due consideration of future generations.

Two approaches, can be identified regarding the differing arguments on how this can be done. These are explained below.

a) *First approach: principles that make programmes sustainable*

Before becoming involved in the first approach, Myers (1999:128-133) first acknowledged that even the poorest community already has some level of sustainability. If the community was not sustainable before the development agency intervenes, it cannot exist. Madziakapita (1987:11) also argues that every community is self-reliant in some respects but that level is generally so low that it depends upon outside help.

Myers (1999) and Madziakapita (19987) emphasise another element of sustainability. When discussing sustainability, people should realise that they are speaking of levels of sustainability. That understanding is crucial as people engage communities in a development process.

Myers (1999:128) indicates that sustainable development means that development initiatives are being maintained or that the project activities and impacts continue after the development agency leaves. He claims that there have been too many examples of development programming that seemed to be making a difference as long as the staff and the money of the development agency are present. Within a year or two, it is difficult to find any evidence of such a programme ever existing. To further clarify this point, Madziakapita (1987:13) states that, in such situations, the level of self-reliance of the people has not increased significantly - hence the possibility that social development programmes will be self-sustaining was poor. This maintenance and continuity approach is what Lele (1991:608) alludes to as one interpretation of sustainable development. In this interpretation, phrases such as “sustained growth”, “sustained change”, or simply “successful” development are often heard.

b) *Second approach: principles of ecological sustainability*

In this approach, sustainable development refers to development, which does not irreversibly destroy the environment (Stewart 1997:121). The following is a more comprehensive definition by the World Commission on Environment and Development WCED (1987:46):

In essence, sustainable development is a process of change in which the exploitation of resources, the direction of investments, the orientation of technological development and institutional change are all in harmony and enhance both current and future potential to meet human needs and aspirations.

The WCED also defines sustainable development as development that meets the needs of the present without compromising the ability of future generations to meet their own needs (Elliot 1994:5). Implicit in this statement is the fact that future growth and overall quality of life are critically dependent on the quality of the environment.

Sustainable development in the future will require a commitment to overcoming poverty through a focus on the welfare issues of the poorest sectors of society, particularly in developing countries. Their environmental concerns and development needs are associated with securing the most basic levels of economic and social well-being. Only through a global commitment to addressing these interdependent concerns of the poor will the environment be conserved or the development aspirations of individuals and nations be secured (Elliot 1994:21).

Elliot (1994) presents a viable argument in stating that sustainability cannot be achieved without tackling the issues of poverty. When people are poor, they are likely to exploit the environment as a means to survive. Caring for the

environment through a consideration of the future generation makes sense when one is thriving at present.

However Elliot's argument (1994) assumes that environmental concerns will only be dealt with if the well-being of people is improved. This fails to mention the other aspect of environmental concern, which has to do with industries. Air pollution and water contamination, which cause disease, are a common feature in industrialised nations. Stewart (1998:23-24) reports of the birth of the 10-year study aimed at tracking the effect of pollution on townships' residents and correlates this with acute respiratory infections. He indicates that the study shows higher road and mine dust values than expected in some areas of Soweto. Evidence indicates that the worst perpetrators of environmental destruction are the billion richest and the billion poorest people on earth (Todaro 2000:413). It is therefore critical to examine all development efforts to understand the impact they have on the environment as one examines sustainability.

In analysing the two above approaches to sustainability theory, Myers (1999:129-134) argues that there are four dimensions of sustainability that cut across these approaches. He contends that the community's understanding of sustainability should include the following:

- (1) *Physical sustainability*. This includes all the basics that people need to live - food, water, health, economics and a sustainable environment.
- (2) *Mental sustainability*. This includes the restoration of the psychological and spiritual well-being of people. People must come to believe in themselves and also be able to learn by themselves.
- (3) *Social sustainability*. This involves broadening local political participation, active mutual self-help, empowerment, social learning, local decision-making and a concern for building a civil society. Regarding civil society, Myers

(1999) indicates that, while one can fruitfully discuss the need to balance the rights of individuals with the rights of the community, it would be hard to imagine building a civil society while ignoring the issues of freedom to assemble, freedom to speak, freedom to choose one's own beliefs, and freedom to have a say in decisions affecting one's future.

(4) *Spiritual sustainability*. This begins with what seems to be a contradiction. A community needs to understand that it is dependent on God. No one is independent: we all depend on God, whether we acknowledge the fact or not. At the heart of spiritual sustainability is repentance and forgiveness, the twin foundations of reconciliation. Churches in the area have to commit to soul care and social care for this to be sustained.

Myers (1999) makes an interesting distinction in terms of sustainability. While others may not agree with his views on spiritual sustainability, the author thinks he makes an important point in this realm. His whole analysis helps to illuminate this theory.

It is clear from the above that sustainable development theories refer to development that can be maintained and development that meets the needs of the present generation while taking into account the needs of the future generation. This second aspect will be met when environmental issues are seriously taken into account in any development endeavour.

2.3.2.4 *Alternative development theories*

According to the alternative development thinking popularised by the Dag Hammarskjold Foundation and the *Journal of Development Dialogue* (Hettne 1990:153-154), alternative or any other development should be defined as follows:

- need-oriented (being geared to meeting human needs, both material and nonmaterial)
- endogenous (stemming from the heart of each society, which defines its sovereignty, values and the vision of its future)
- self-reliance (implying that each society relies primarily on its own strength and resources in terms of its members' energies and its natural and cultural environment)
- ecologically sound (rationally utilising the resources of the biosphere in full awareness of the potential of local ecosystems as well as the global and local outer limits imposed on present and future generations)
- based on structural transformation (in order to realise the conditions of self-management and participation in decision making by all those affected by it, from the rural or urban community to the world as a whole, without which the goals above can not be achieved)

This theory acknowledges the importance of people as subjects in the development process. Development has to be based on the needs of people who participate in defining their vision and create the path to its realisation. While some of the above characteristics also refer to other theories, the uniqueness of this theory is its people centred ness, as indicated in the above definition. However, it does not clarify how one should deal with the current relationships and the power struggles, which exist in many societies.

Alternative development, however, refers to a development vision that discards economic growth, especially industrial growth, as a route to development. It rejects the aim of economic development progress, which, in the words of James Robertson, as reported by Ekins, Hillman and Hutchison in 1992 (in Stewart 1997:145), implies a world in which

Everyone, in a human population, which is twice as large as it is now, should aspire to the high-consumption, high-pollution way of the rich minority today.

Instead, the aim of those supporting alternative development is “to build a materially more modest, culturally more diverse way of life – community based, convivial, sustainable and on a human scale – in which all people can participate and find fulfilment” (Ekins et al 1992:12). In agreement, Hettne (1995:199-204) saw alternative development as committed to local solutions, to cultural pluralism and to ecological sustainability.

By rejecting the growth paradigm, this theory opposes modernisation theory far more than the other theories. The challenge is how to operationalise it in a world already dominated by capitalism and modernisation.

It also opposes dependency theory in that the emphasis is on local solutions, pluralism, community-based solutions and reliance on local resources. The argument is that instead of creating or living in a dependent relationship, an individual or community should be self-reliant. While such arguments make sense in the short run, the reality is that the economies of the world affect what happens in a local setting.

Korten (1990:4) is one of the main theorists of alternative development. He argues that the critical issue is not growth but transformation. The future depends on achieving the transformation of institutions, technology, values and behaviour consistent with ecological and social realities. In his opinion, transformation must address the following three basic needs of the global society:

(1) *Justice*. This requires that all people should have the means and the opportunities to produce a minimum decent livelihood for themselves and their families. The transformed society must give priority in the use of the

earth's resources to afford all people the opportunity for a decent human existence.

(2) *Sustainability*. Sustainability requires that each generation should recognize its obligation towards stewardship of the earth's natural resources and ecosystem on behalf of future generations. The transformed society must use the earth's resources in ways that will assure sustainable benefits for our children.

(3) *Inclusiveness*. This requires that everyone who chooses to be a productive, contributing community member has the right and the opportunity to do so and to be recognised and respected for his or her contributions. The transformed society must afford everyone an opportunity to be a recognised and respected contributor to family, community and society.

While Korten (1990) puts forward an excellent argument here, the issue is neither growth nor transformation - it is the complementarity of both. One needs both growth and transformation. Furthermore, the issue of justice is stated as though it is easy to achieve. One only needs to refer to the dependency theorists' claim that people are born dominated even in rural societies and recognise the fact that it is not easy to operate in isolation. Poor societies or families do not have the time or strength to think about long-term goals. Their focus is on what they will eat today and how they will procure food. In that situation, it is difficult to focus on the future of their children. They are in survival mode and the issues of environment are secondary. They see the resources around them as a resource to be used in order to survive. While Korten's challenge (1990) to transformation is admirable, operationalising it poses extraordinary challenges.

Alternative development in the 1990s therefore can be characterised as militant, activist and radical (Stewart 1997:148) because of these challenges. It militantly rejects the mainstream's growth paradigm and aims at creating and expanding a social movement to oppose and transcend this paradigm. This differs from the comfortable view of participation in most development projects and programmes

and is further proof that one cannot operate in isolation from others, although this was the original idea in this theory.

This theory emphasises the importance of people-centred development with a strong focus on transformation and environmental issues. It aims at giving the masses power to act in a world dominated by the rich. It claims that the micro-level should be the primary focus and that the micro-level should determine macro-level growth. It emphasises the importance of social movements that are critical at micro-level in order to empower people to face the issues of justice, inequality and sustainability. It opposes the current economic growth models believed to perpetuate poverty, unemployment and social alienation. Alternative development is based on the empowerment of people to actively participate in a sustainable development process.

Alternative development theories differ from sustainable development theories in that mainstream sustainable development attempts to work within an economic growth model while alternative development theories claim the economic growth models should be abandoned.

The four development theories examined above lay a foundation upon which a certain specific view of development can be understood. The following section links the informal sector to these theories as well as to the development definitions given earlier.

2.4 LINKAGES OF THE INFORMAL SECTOR TO DEVELOPMENT AND DEVELOPMENT THEORIES

The above analysis hints at possible linkages between the informal sector and development as well as between the informal sector and development theories. This section will attempt to outline and further define these linkages.

2.4.1 Raising people's standard of living

According to several definitions stated in section 2.3.1, the main aim of development is to raise the standard of living of the people and communities it engages. Although there are many means for raising the people's standard of living, from the above analysis (section 2.2.4), it is clear that the informal sector offers people several alternatives to do just this. People, who are employed but are unable to meet their needs or improve their standard of living (as they define this), tend to become involved in the informal sector to meet both immediate and long-term needs. In addition, people who are poor turn to the informal sector for survival. This is particularly true in an urban setting because it is relatively easy to enter. To raise one's standard of living, one needs to start by meeting the basic needs of life. The informal sector thus fulfils two economic functions - it either helps people meet their basic needs so that they can start raising their standard of living or it assists those who are already able to meet their basic needs to raise their standard of living. The informal sector therefore supports the development process in a country. It also helps individuals create a sense of independence and take control of their lives and their destiny, which is a central theme in alternative development theories.

2.4.2 Reducing poverty

At its best, development helps to reduce poverty. In a developing country, the number of people in absolute poverty should be reduced to a point where it can be eliminated, as per Nansin's definition (1991) of poverty and the objective of development as indicated by World Bank in section 2.3.1. As indicated by Van Dijk (1995) in section 1.2, economic growth is important to reduce poverty in developing countries, and the urban informal sector is one way in which economic growth filters through to the poorest sections of the population. Informal sector activities therefore help poor people to move away from absolute poverty in several ways. Some of these ways were mentioned in section 2.2.4.

One of them was that the informal sector provides goods and services in small quantities in order to meet the needs of those who are operating on a limited income. This helps those who are in absolute poverty buy food and other items with the little they may have. This, according to Todaro's comments (1994) included in section 2.3.1, is development. In addition, the informal sector enables people to earn income, which helps them to survive or reduce their poverty. The informal sector is therefore, a tool for poverty reduction and is part of the development process.

However, one needs to emphasise that at macro-level, others, such as Mohr and Fourie (1995) as stated in section 2.2.2, believe that the informal sector denies the government the required resources that may have been raised through a taxation process. The informal sector does not contribute to the national tax income, which is critical in the reduction of poverty and the development of the country. Mohr and Fourie (1995) as stated in section 1.2, also indicate that some economists regard the informal sector as a survival sector and growth in this sector as a symptom of a stagnating or declining economy. In addition, as was indicated in section 1.2, Oyowe (1993) reported that development debates in recent years have seen the informal sector condemned in many quarters as a spoiler, a chaotic parallel or underground market acting like a parasite on the national economy. Taking these arguments therefore, one can also say that in some ways the informal sector does contribute to underdevelopment in a country.

2.4.3 Creating employment

When people are employed, they are able to look after their families, purchase what they want and even save or invest. This process leads to economic growth, which raises the standard of living. Employment thus enhances the process of development.

The informal sector is now known for creating employment. As stated in section 1.2, this created between 50 to 70 percent of the total employment of the countries studied by ILO. The other example cited in section 2.2.3, indicated that the informal sector created between 30 to 35 percent of the total employment. Whatever the percentage may be, if the informal sector can create this level of employment, even though it is survival employment, it makes a significant contribution to a country's development process and reduces the dependency that people may have on others or the government. In a country like Malawi, where unemployment is high and the economy needs to create 400 new jobs per day as indicated in section 1.2, the informal sector assists people who would otherwise have been jobless. In this sense too, the informal sector is a part of the development process.

While the creation of employment by the informal sector is beneficial, as pointed out in section 2.2.4, some people feel that it creates chaos and a threatening and insecure trading environment and that the government is taking advantage of this sector to placate people who would otherwise have demanded social security for lack of employment. Although social security is a critical issue in some countries, it does not exist in Malawi – hence without these activities the informal sector participants would have been worse off than they are now.

One can also argue that the informal sector participants have found their vocation as indicated by Myers's definition (1999) of development in section 2.3.1. However, it is clear that not all participants have entered the informal sector by choice and it may therefore not even be their vocation, but as of now this is the only alternative they have to survive. The issue of vocation therefore may not necessarily be the determinant of one's involvement in the informal sector. Myers's (1999) definition of development, which was supported by the author in section 2.3.1, may not necessarily correlate with the operations of the informal sector. In the informal sector there is no just and peaceful relationship between the participants and their God, others and their environment. While such

relationships may exist between participants, they are based on relations or the tribes from which the participants come. The linkage of informal sector to this specific view of development is therefore somewhat flimsy.

2.4.4 Developing self-respect, self-confidence and self-reliance

According to Burkey's definition (1993) of development as cited in section 2.3.1, point 4, a development process should enable people to develop self-respect, become more self-confident and ultimately self-reliant. In addition, Bugnicourt et al (1995), as cited in section 2.2.4, indicates that the informal sector helps people to make a living through the utilisation of their own trading or craft skills. This opportunity recognises that person's dignity and gives him or her an opportunity. Bugnicourt et al (1995), go on to say: "Of all the branches of the economy, the informal sector is the one that constantly provides work to the new arrivals." If people are able to generate income from informal sector activities, they are able to support themselves and their families. This leads to self-confidence and self-reliance. If this is indeed so, then both the process of development and informal sector activities help people to develop their self-respect, self-confidence and even self-reliance. Development and the informal sector are therefore linked.

2.4.5 Acquiring new skills and knowledge

The informal sector assists the entrants as they acquire new skills and knowledge on the job. In fact, the experience they gain becomes valuable as they progress. Once people acquire new skills, they are able to sustain and use them in future, which leads to self-reliance. According to Burkey (1993), Todaro (1994), Myers (1999) and Korten (1990) in section 2.3.1, this is development.

While most of the experience demanded by the development process, such as adult education or engineering, is learned in formal school, the knowledge acquired in the informal sector has contributed to the development of the

curriculum of such skills in the formal schools. This is because the curriculum is changing rapidly in many countries. Science is becoming focused on technology, mathematics skills are more comprehensively applied and both the practical arts and agriculture are more practice oriented (McLaughlin 1990:191). Research results from the informal sector activities have unearthed valuable information, which has later been used in formal schools in the acquisition of new skills and knowledge. King (1990:143) indicates that whole sections of the education sector, which is widely regarded as part of the formal sector, are actually imbedded in the informal economy. What is more, in some African countries, pre-school provision in its entirety in rural and poorer urban areas, is built and funded through informal levies and staff are paid in a similar fashion. Formal education is a part of the modernisation process and development. If the informal sector makes a contribution, it is directly linked to development. New skills and knowledge acquired in the informal sector become increasingly critical to the development process.

At this point it also important to mention that not all skills acquired in the informal sector are beneficial for the development process. Some participants start well with legal activities but in the process discover that there are activities such as drug dealing which are more profitable than the normal activities, and they end up developing skills on how to deal in drugs and avoid policemen in towns. Such skills are detrimental to the development process and can lead to underdevelopment.

2.4.6 Empowerment

Korten (1990) and Burkey's (1993) definitions of development (section 2.3.1) show clearly that the development process empowers people. Empowerment results from involvement in decision-making processes and this leads to sustainability. The informal sector also empowers people. People involved in the informal sector build their self-worth in the process of starting and maintaining

successful economic activities. Most of the activities are theirs - they make their own decisions on how to handle them, how many hours to work and what price to charge. This results in empowerment. If both development and the informal sector lead to empowerment, the linkage between the two is clear.

However, the dependency relationships inherent in the economics of the informal structure have a destructive impact on empowerment as well. Using Lewellen's (1995) example in section 2.3.2.2, the Chilean government became powerless because of its dependency. If an informal sector participant relies on credit, as was the case of Atinga as reported by Hart (1973:77–78), this leads to powerlessness and subsequent bankruptcy when the loan is cut off. While the informal sector empowers people, it is critical to note that this depends on several factors such as ownership, the approach adopted, the resources utilised and other family demands.

2.4.7 Modernisation theory

Both modernisation and the informal sector are exposed to the same problem of dualism. As indicated in section 2.3.2.1, modernisation rests on a supposed dualism between a modern industrial society, on the one hand, and a traditional, stagnant and underdeveloped sector, on the other. The informal sector (section 2.2.2) suffers the dualism between itself and the formal sector. It is easy to see that the informal sector can easily be linked to the traditional underdeveloped sector of modernisation, while the formal sector is linked to the modern industrial sector. Whatever view one adopts of the informal sector, "it is difficult to see any evidence that it acts as a barrier to modernisation" (Thomas 1992:81). In point of fact, authors such as Charmes (1990:12) regard it as a transitional refuge for optimists who see it as a staging post on the way to the modern sector. The informal sector helps in the process of modernisation. It is involved in the process of transforming traditional society into modern society. If the informal sector is a

part of the modernisation process, it is indeed linked to a specific view of development.

However, a word of caution - the linkages between the informal sector and modernisation may be complex and tricky. They can be interpreted in opposing ways. One possible view is that the informal sector benefits from the modernisation process while the alternative view may hold that the modernisation process blocks the growth of the informal sector. For example, appropriate technology introduced during a process of modernisation can enhance informal sector production activities. However, the modernisation process can lead to small producers, traders and service providers being exploited by a variety of mechanisms ranging from advanced technology, to the control of raw materials, production and marketing by large firms.

Participants in the informal sector have assisted in promoting a modernisation process in that they (especially traders) have promoted the new products that have been produced and/or imported by industries. As stated in section 2.2.2 by Bromley (1978b), street traders represented an important distribution system for many Colombian importers, manufacturers and several multinational companies. In this sense, the informal sector does enhance the modernisation process.

2.4.8 Dependency theory

According to the definition of the informal sector, as put forward by the ILO Report on Kenya, one of the criteria stated in section 2.2.2 is “ease of entry”. Having analysed this aspect (as indicated in the above section), Fields (1990) concludes that entry to the sector is clearly not as easy as the popular image would have one believe. A study of the above definition clearly shows that the claims of the dependency theory, which indicate that internal domination is prevalent even in nations or societies, are also true in the informal sector. There are forces at play in the informal sector that fulfils the dependency theory claims.

This being the case, the linkage between informal sector and dependency theory is also apparent.

As argued by Lewellen (1995) in section 2.3.2.2, there is mutual dependency between nations and even people. While the abuse of power is rife in this relationship, as indicated by Lewellen, the informal sector has its own power that has enhanced its existence in some nations. Bromley (1978b:1165) reports that a policy to eliminate street traders in Cali met with strong opposition because most street traders vote in elections and are considered fair game for populist politicians. While the informal sector activities are at the mercy of the politicians, as far as policy and regulations are concerned, politicians are also at the mercy of informal sector participants since most participants are vocal and form a political constituency, which commands a following during elections.

As also emphasised in section 2.2.2, Bromley (1978b) reports that dependent relationships exist between the formal and informal sectors. He cites examples of commissioned sellers in the informal sector who promote and sell the products of firms and receive a commission. In this situation, the commissioned seller depends on the firm for his or her business while the firm also depends on the commissioned seller for distribution of its products. Bromley (1978b) also cites an example of dependent workers who depend on wealthier individuals or firms to supply what they sell or give them credit to obtain merchandise. Another relationship exists here. The dependent worker depending on the product and the situation is more vulnerable to exploitation and abuse.

While some nations are developing policies and assisting informal sector participants, it is crucial to analyse these policies. They may simply be an attempt by the state or those in economic and political power to extinguish the aspirations of the poor and keep them locked into dependent relationships. This will be discussed further in chapter 5.

It is clear that the informal sector cannot operate outside the dynamics discussed in dependency theories. It can safely be stated that the informal sector is linked to underdevelopment.

2.4.9 Sustainable development theories

Many informal sector activities are sustainable. Those in the strictly business arena may go out of business in the same way as formal businesses. However, the knowledge they will have acquired in their business will be sustainable. Many of informal sector activities focus much of their attention on the current situation and may therefore, in some circumstances, be environmentally unfriendly. As reported by Mbogunje and Filani (1981:89), a major part of the informal sector activities in Kano, Nigeria, are carried out in residential premises and some of them seem to pose a threat to health and environment. The informal sector is therefore linked to sustainable development both positively and negatively. Businesses (as projects) may be sustainable but may not necessarily be environmentally sensitive because most of informal sector participants operate with the short-term objectives (survival) in mind rather than with what will happen with the future generation.

In a programmatic sense, the informal sector is not sustainable. It is easy to argue that with good economic growth and the creation of employment in a country, the chances of this sector diminishing are high. Participants become more organized and they advance from informal activities to small businesses that are critical to the development process.

Many of informal sector participants live in squatter settlements or poorly built houses. The Jakarta study (as reported by Moir 1981:118) shows that many participants in the informal sector live in poor housing conditions. This contributes to poor sanitation. The informal sector cannot stand on its own - it is a part of the

development process. Infrastructure development is critical to ensure the enhancement of the activities of the informal sector.

2.4.10 Alternative development theories

People-centred development is central to alternative development. It is based on the empowerment of the powerless. Social movements are critical in this process. The theorists of alternative development claim that progress should move from the micro- to the macro-level. To be sustainable, people have to build from the bottom upwards. The informal sector is a micro-sector and fits the alternative development claims. Informal sector participants easily form social movements and can advocate for themselves in their situation and for their situation. The government of Malawi, for example, went on television in February 2001 and announced that plans were at an advanced stage to build a flea market for the street vendors in Blantyre. They would therefore expect no one to trade along the sidewalks and streets. The vendors, association responded to the government using the same television station and made it clear that they were not going to use the flea market because they had not been consulted and their needs had not been taken into account. At that point, the government realised that it would not succeed, so started the process of consultation. This theory aims at empowering the powerless, and the informal sector does just that. It is clear that the informal sector is a part of the alternative development theories and hence the development process as a whole.

2.5 CONCLUSION

This chapter analysed the informal sector, development and development theories and the linkages between them. An analysis of existing literature and studies clearly shows that it is difficult to formulate generally acceptable definitions of both the informal sector and development. However, a number of

definitions were analysed in this chapter. Examples of the advantages of the informal sector for the overall economy were outlined, although the author emphasised the fact that economic measurements in the informal sector are difficult. In addition, the informal sector is growing in many countries in Africa and its benefits and contribution to the development process of a country can no longer be ignored. The role the informal sector is fulfilling in poverty reduction cannot be overlooked. Malawi is no exception to these critical issues - hence the importance of this current study.

In order to understand the informal sector in the Malawian context, it is vital to analyse the business environment within which the informal sector operates. The next chapter will concentrate on this analysis in order to promote a clear understanding of additional forces and economic factors the informal sector is experiencing in that country.

CHAPTER 3

BUSINESS ENVIRONMENT ANALYSIS OF MALAWI

3.1 INTRODUCTION

Businesses in the world operate within a specific environment, which may or may not be supportive of and conducive to business operations. Of course businesses also affect the environment or community in which they operate. These dynamics apply to the informal sector, which according to this thesis, comprises traders, producers and service providers. Hence, the Cronje et al's business environment model (1997:53-85), which outlines the impact of the business on the environment and the impact of the environment on the business, has been chosen to assist in the analysis of Malawi's business environment.

According to Cronje et al (1997:34), a business enterprise acquires inputs (capital, raw materials, labour and information) from the environment or community in which it operates, and transforms or processes them into products or services for that environment or community. It should be clear that a business enterprise depends on the environment (community) in which it operates and the environment (community) in which the business enterprise operates depends on the business enterprise to satisfy its (the community's) needs.

In addition, Hodgetts (1981:24) contends that every business is subject to environmental forces. Successful businesses are those that can respond properly to these forces by "cooperating" with them. This cooperation assumes various forms. If one's competition lowers its prices, cooperation may require meeting this threat with an identical price reduction. He argues that in all instances, business must interact with environmental forces to survive. Failure to do so invariably means bankruptcy.

This chapter analyses the business environment in Malawi in order to understand the environment in which the informal sector operates. In this process, the chapter describes Cronje et al's business environment model and relates it to the

situation in Malawi. The analysis starts at macro-level, moves to micro-level, and a conclusion is then drawn.

3.2 CRONJE ET AL'S BUSINESS ENVIRONMENT MODEL

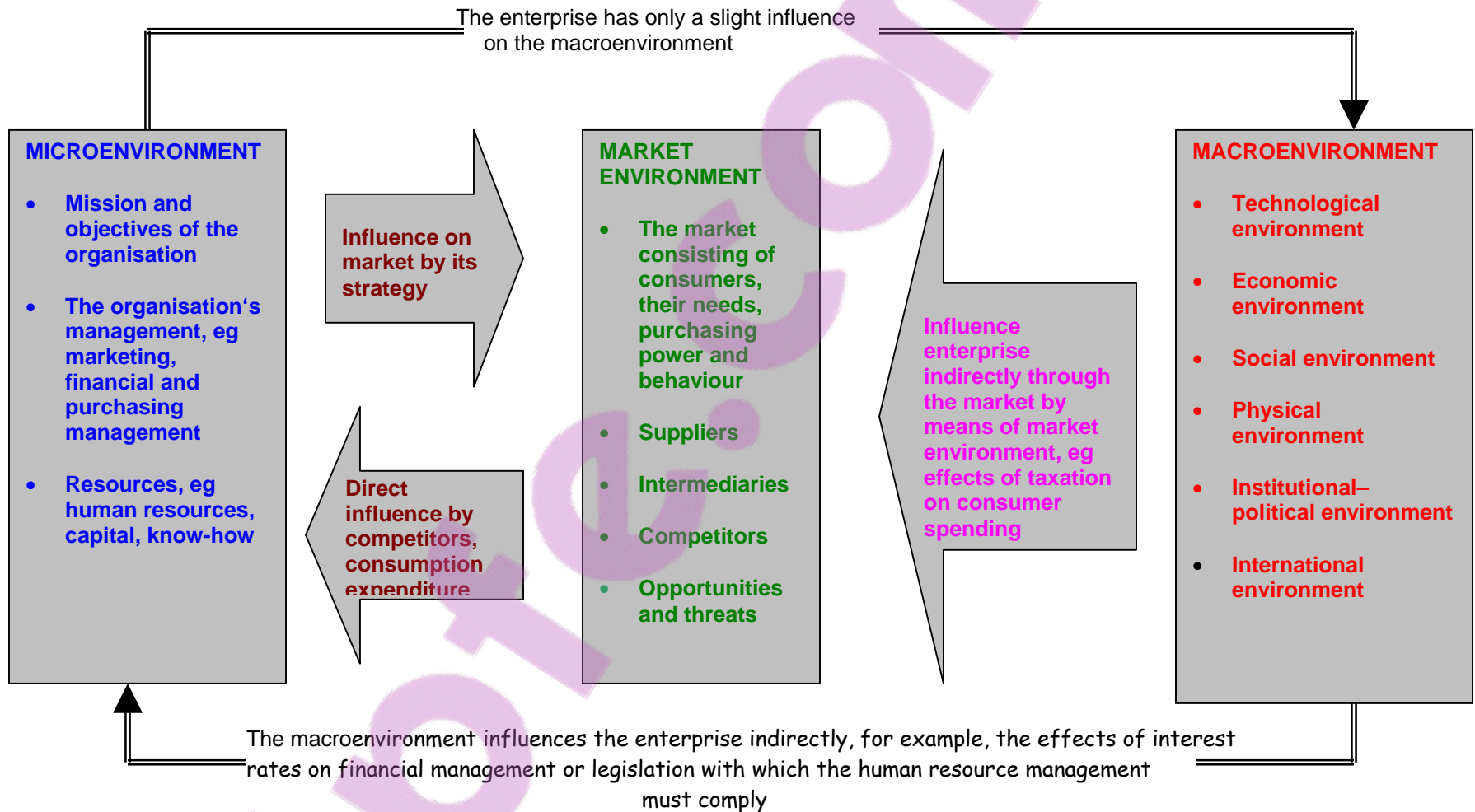
3.2.1 Description of the model

Cronje et al's (1997:53-85) business environment model consists of three distinct environments: the microenvironment (internal environment), the market environment and the macroenvironment. Each of these subenvironments has variables, which must be considered as one analyses that particular subenvironment. The model (Fig 3.1) shows how these three subenvironments and their variables influence one another and the enterprise or organisation at large. Changes in any of these environments impact on the business enterprise as a whole.

For effective use of this model in the analysis of the business environment in Malawi, a decision has been made to start with the macroenvironment analysis, proceed to the market environment analysis and then conclude with the microenvironment analysis.

Since it is critical to briefly analyse this model before using it in the analysis of the business environment in Malawi, the analysis follows below.

Figure 3.1: The composition of the business environment



3.2.2 A brief analysis of Cronje et al's business environment model

- The model has merits worth mentioning here. It is comprehensive and contains many of the characteristics one would look for in an analysis of a business environment. However, it was developed with a formal business enterprise in mind, which is obvious when one examines the examples used to clarify the model. The fact that both formal and informal sector businesses operate in the same business environment makes this model worth using.
- The relationship that this model depicts between a business and its environment as well as the mutual influence each exerts makes the model conceptually and methodologically sound for use in this analysis.
- The role of shareholders is not mentioned as a factor that influences a business. This factor should have been considered because companies need to win and retain a degree of loyalty from each of their active stakeholders - shareholders, customers, employees and suppliers. Without the support of these four groups, a company/business cannot function (Campbell & Alexander 1997:43-44). While one may argue that Cronje et al's inclusion of capital may include shareholders, the author disagrees. Shareholders fund and are owners of a business, which means that they have considerable influence on the direction and functioning of the business. This consideration cannot be ignored. The author therefore would add this variable to the microenvironment of Cronje et al's business model.

The board of directors, in some cases shareholders, are also important and influence the management of the business. This group should also be part of the microenvironment.

- Cronje et al do not include the historical environment as one aspect of the macroenvironment. Hodgetts (1981:24), however, argues that the historical environment provides the background for all the other environments. The past is a guide to what to expect in the future. By examining its historical past, a business builds its capacity to anticipate and plan for new developments. Hodgetts further states that, even for new businesses, past developments in that area of business are crucial to their success. Although Hodgetts argument is sound, the author believes that Cronje et al's division of the macroenvironment is more viable because one obviously has to examine the history of each variable (such as technology or economics). The historical aspect is therefore intrinsic to Cronje et al's model and does not need to be mentioned separately.

Cronje et al's model will therefore be used with the above understanding.

3.3 BUSINESS ENVIRONMENT ANALYSIS OF MALAWI USING CRONJE ET AL'S MODEL

3.3.1 The macroenvironment

According to Cronje et al, any organisation or business operates within a wider macroenvironment containing variables that directly or indirectly impact on the business and its market environment. These variables constitute the uncontrollable forces in the environment that are sometimes referred to as *megatrends*.

The contemporary literature on management, divides the macroenvironment into six variables: *technological, economic, social, physical, institutional or political* and *international* variables or subenvironments, which the organisation has to observe and react to. The macro-variables have an effect not only on the market

environment and on decision making by management but also on one another. This causes constant changes in the business environment. These same macrovariables also apply in the context of Malawi, as we shall see below. A brief description of these macrovariables and the way they affect the business environment in Malawi follows below:

3.3.1.1 *The technological environment*

A change in the environment is generally a manifestation of technological innovation or the process through which people's capabilities are enlarged. Technological innovations originate in research and development by business and government and result not only in the manufacturing of new machinery or products, but also in new processes, methods and even approaches to management. These changes generate change in the environment. Every new facet of technology and innovation creates opportunities and threats in the environment.

The most outstanding characteristic of technological innovation is probably the fact that it constantly accelerates the rate of change.

Technological progress therefore affects business as a whole, including its products, life cycle, supply of materials, production process and even its approach to management. These influences all require management to be increasingly on the alert for technological change.

During Kamuzu Banda's era (1964–1994), Malawi had a policy that favoured the use of unskilled labour over technology. This policy was put into effect to ameliorate an extremely high unemployment rate. There was a deliberate effort to reduce the use of technology in favour of using labour by government when entering into contracts with external companies. The Blantyre Water Board was forced to use labour to dig trenches from the Shire River to Blantyre rather than

to use the available technology. Guta and Kamanga (2000:4) argue that Malawi's investment promotion strategies should not emphasise job creation and manufacturing for export at the expense of building technological capability and self-reliance. Since technology is not only an integral part of the cost structure of modern goods and services but also affects their demand through quality and design, Malawi's technological weakness has had a negative impact on her manufacturing sector, import substitution policy, export orientation and includes her traditional industries such as agriculture and other primary sectors. Without domestic technological capacity, an import substitution strategy for industrialisation poses a heavy burden on trade and the balance of payments because to simply have goods manufactured in Malawi local industries have to pay the high costs of imported technologies, both hardware and software. Malawi therefore has no choice but to develop her technological capacity in order to gain and maintain a competitive advantage for her goods and services in the global marketplace.

It is clear from this analysis that Malawi refrained from the development of its technology because of its unemployment dilemma. This led to a gradual introduction of technology into many facets of the economy. In addition, the government did nothing to encourage technology development locally, which is a key to the manufacturing industry. The consequence of these decisions and policies is that since the beginning of 1994, Malawi has experienced closure or a reduced manufacturing capacity in industries such as David Whitehead and Sons, Brown and Clapperton Limited, Shire Trading Company and even Lever Brothers Limited. This has led inter alia to more imports than exports. While many of the informal sector participants used domestic products 10 years ago, most of them are now using imported items. Although one may argue that several factors led to the reduction or closure of these manufacturing industries, which is true, the issue of technology did play a decisive role.

The introduction of the computerised integrated financial management information system (IFMIS) in the accounting system of the government in 2000 (Chikaonda 2000:21) has improved the financial accountability and strengthen financial management with its emphasis on controlling and monitoring expenditure. In addition, the implementation of a new system which integrates personnel data with the payment of salaries, pensions and staff loans (in an effort to improve and strengthen the management of the wage bill and human resources in the government) will also improve Malawi's efficiency. According to the author, these positive changes should have occurred long ago to increase the government's efficiency. The government is currently retrenching many employees who lack computer skills. While one can argue that the government needs to train its staff to use computers in their work, which is what is happening now, computers require fewer people to do the same amount of work. Even with effective training programmes, the government still has the problem of retrenching staff members. Thus technology will continue to increase in unemployment rate in the short run. However, the long-term benefits justify the introduction of technology because it improves the business environment. When technology increases government efficiency, business organisations will benefit because the government render the required services efficiently.

The Malawi government has also introduced a new computerised system called ASYCUDA. According to the Chairman of the Chamber of Commerce and Industry (1999:5), the aim of this system is to assist members to process their goods more quickly. The Chamber of Commerce and Industry is therefore organising seminars to teach their members how to operate the new system. These changes are sure to improve the government operations and enhance business operations. The informal sector participants, however, will have to travel a difficult path to integrate this system into their businesses because there is no organisation to facilitate the training process.

If Malawi cannot rely on her own technology, (in selected sectors at least), there will be no permanent solution to the problems of economic growth and stability - issues of paramount importance to national development. Malawi has therefore signed bilateral cooperation agreements in the field of science and technology with a number of countries, including the Republic of China and Malaysia (Guta & Kamanga 2000:4). Since most of the technology required for solving Malawi's socioeconomic problems, according to Guta and Kamanga (2000:18), exists in the public domain and only requires adaptation to suit local conditions, this is seen as a helpful step.

Introducing appropriate technology will also help the informal sector participants to improve their work. Producers, for example, who use a frying pan and firewood to make popcorn can easily do their work more quickly than before by using an electric popcorn maker. This will increase their production capacity and improve their business as a whole. The informal sector traders, with the mere introduction of some means of transportation (such as the bicycles or tricycles used in other countries such as Philippines) would boost their operations considerably. The hope is not that the government will introduce these technologies itself, but that it will create an environment in which both formal and informal participants can import such technology to Malawi. The recent decision by the government to remove duty on any imported computers and printers is an example of one of the roles the government can play in encouraging the adaptation of such technology.

It is also critical to mention that as technology improves, both the operations of legal and illegal businesses will be enhanced. With technology, those involved in illegal businesses such as the printing of counterfeit money and the production of drugs will also improve their businesses. This will impact negatively on the whole business environment because genuine businesses will lose income with the circulation of counterfeit money and those involved in drugs will generally be involved in crimes such as stealing, which affects both businesses and

customers. The government has to ensure that the negative impact of the misuse of technology is minimised.

This brief analysis demonstrates that there is more room for technological development in Malawi. The implications of technological development are many. As new technologies are introduced, profound changes occur that will affect both the business environment and the way businesses operate.

3.3.1.2 *The economic environment*

While technology, politics and the social and international environments, assert some influences, they also impact on the economy of a country. These cross-influences cause constant fluctuations in the economic growth rate, levels of employment, consumer income, the rate of inflation, and the general state of the economy. In their path, these changes bring either prosperity or adversity.

The primary interface between the economic environment and a business relates to the *economic growth rate, consumer income, inflation, monetary and fiscal policy* and fluctuations in these variables.

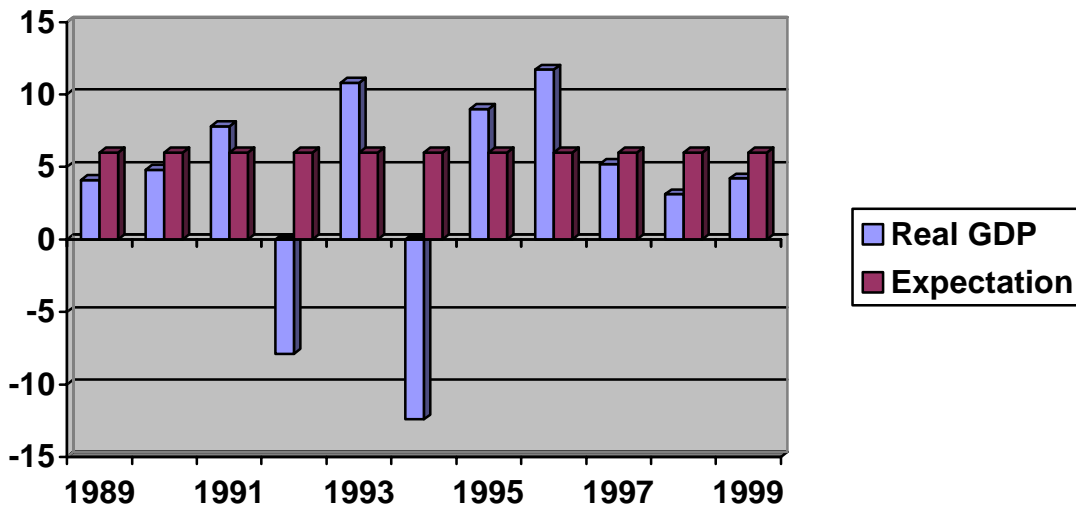
The *economic growth rate* directly affects the income of the end users of goods and services. The higher the growth rate, the higher the standard of living will be. The structural changes in the incomes of the different consumer groups, however, are of greater importance to management because they generate changes in the spending patterns in products and services such as food, clothing, housing and insurance.

Although the economic growth rate has a profound influence on a business and its market environment, it is the correct gauging of the upswing and downswing phases of the economy that has the greatest impact on the successful strategy of a business. If a business expects a recession, it can profit from this by reducing

its inventory beforehand since stocks will be difficult to sell at a rate that will maintain the business in a state of liquidity. Taking this precaution will enable the business to avoid high interest costs. Management can likewise defer any expansion in a recession. In an upswing, the correct strategy may be to build up sufficient inventory and conduct whatever expansion is necessary. This is not public knowledge and the informal sector participants have to learn as situations arise. Lack of understanding in this arena may lead to bankruptcy.

According to The Economist Intelligence Unit country profile (2000:19-22), the economic growth rates in Malawi as measured by growth in real GDP have been highly variable. This concurs with what the Southern Africa Economics indicated in May 1999 as is presented in figure 3.2 below.

Figure 3.2: Malawi's real GDP (as a percentage) for the past 10 years



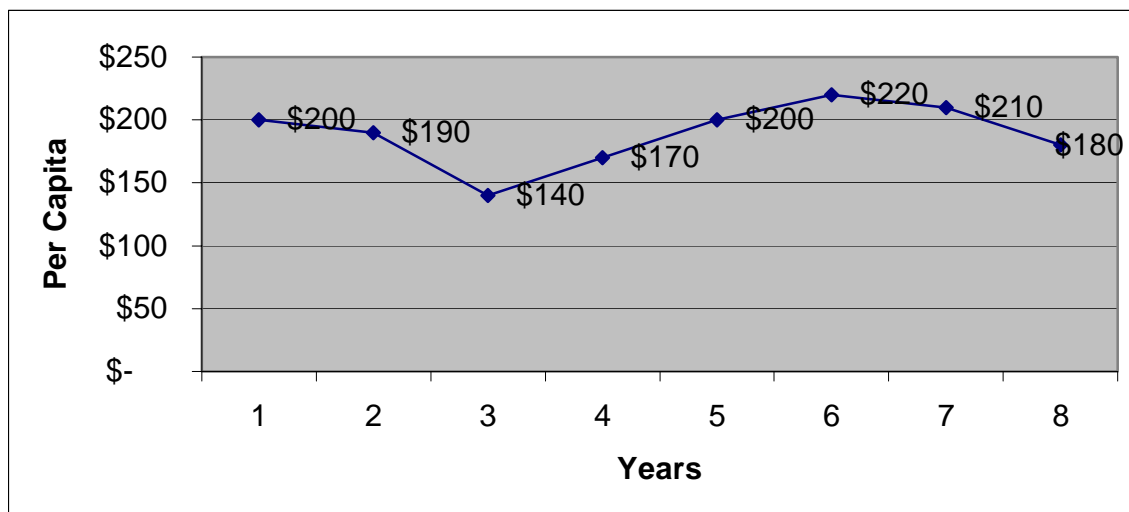
Source : Southern Africa Political and Economic Monthly 12(5) May (1999).

The performance of the GDP is largely a result of the economy's dependence on favourable climatic conditions. There has been little noticeable diversification in Malawi's production base, and the industrial sector is still very much in its

infancy. Despite a projected real growth of GDP by 5,1 percent in the 1999/2000 budget statement as reported by Chikaonda (2000:9), the real GDP grew by 4,2 percent in 1999. Although this was an improvement over the real GDP growth rate of 3,1 percent in 1998/1999, it did not have any positive impact on the poverty levels in the country. As indicated by the Minister of Finance, despite improvements in the macroeconomic indicators in 1998 and 1999, over 60 percent of Malawi's population still lived below the poverty line and income distribution was highly inequitable (Chikaonda 2000:25). In addition, the World Bank (The Economist Intelligence Unit 2000:21) estimated that for poverty to decline in the next two decades, economic growth rates in excess of six percent per year must be achieved. At present, the economy is falling short of this six percent requirement as indicated in figure 3.2 above.

Going further, the Gross National Product (GNP) per capita went down from US\$200 in 1992 to US\$180 in 1999 as can be seen on figure 3.3 below. Though the GNP per capita improved in 1997 and 1998, the improvements could not be sustained.

Figure 3.3: GNP per capita income for Malawi from 1992 (yr 1) to 1999 (yr 8)



Source: Southern Africa Political and Economic Monthly 12(5) May (1999) and Chikaonda 2000.

However, according to National Economic Council (2000:41), the poverty lines established on the basis of the different prices across the country for a comparable basket of goods necessary to meet the daily basic needs of an individual in Malawi were as follows:

Table 3.1: National and urban poverty lines for Malawi

Year	National poverty line per day	National poverty line per year	Urban poverty line per day	Urban poverty line per year
1998	US\$0,41	US\$150	US\$1,00	US\$365
2000 (using July prices)	US\$0,35	US\$129	US\$0,86	US\$313

Although the GNP per capita income for 1998 was higher (US\$210) nation-wide compared with the poverty line (US\$150), the situation of the urban areas was different because the poverty line was much higher (US\$365) than the GNP per capita income (US\$210). It is not surprising to note that 60 percent of the people were below the poverty line. In addition, the Gini coefficient in 1998 was 0,401 nation-wide and 0,520 for the urban areas (National Economic Council 2000:45) showing that the income distribution was also highly inequitable.

It is not easy to obtain accurate statistics on how much the lower four percent or the top four percent of the population per capita incomes for Malawi were. However, an examination of the cumulative distribution for total per capita daily consumption and expenditure as presented by the National Economic Council (2000:89) reveals that the lower four percent of the population spend about US\$43 per person per year, while the top four percent spend more than US\$600 per person per year.

Although the economic growth rates for Malawi increased every year, this economic growth did not have a noticeably strong positive impact on the business environment because it did not raise the standard of living. Thus the people did not have spare income to spend, even in the informal sector.

Inflation like economic growth, is an economic variable that affects management's decision making. The effects of inflation on a business are profound. It creates a situation of apparent profit, while in fact the organisation's capital is constantly being eroded. It makes cost accounting and the financing of credit difficult and forces the industrial buyer to build up supplies, while consumers adjust their behaviour to take account of keener price competition. This increases the importance of functionalism and buying early in anticipation of price rises – a practice which often leads to another round of inflation.

According to the Chairman of the Malawi Chamber of Commerce and Industry (1999:1), Malawi experienced a major devaluation of the local currency in August 1998. The devaluation swept through all business resources. The businesses were economically squeezed, if not paralysed. Some of the industries ceased production simply because they had become overstocked. Others preferred to import and resell (turning into distributors) and some were on the verge of closing down. Interest rates rocketed. The devaluation resulted in a high inflation rate. According to the budget statement (Chikaonda 2000/2001), the government set an inflation target of 21 percent by December 1999. The real rate, however, rose to 44,8 percent in 1999 compared with 29,7 percent in 1998.

According to the Chairman of the Chamber of Commerce and Industry (1999:2), the government developed appropriate policy initiatives aimed at improving the business environment. The most significant of these initiatives were those introduced in the 1997/1998 budget and included the following:

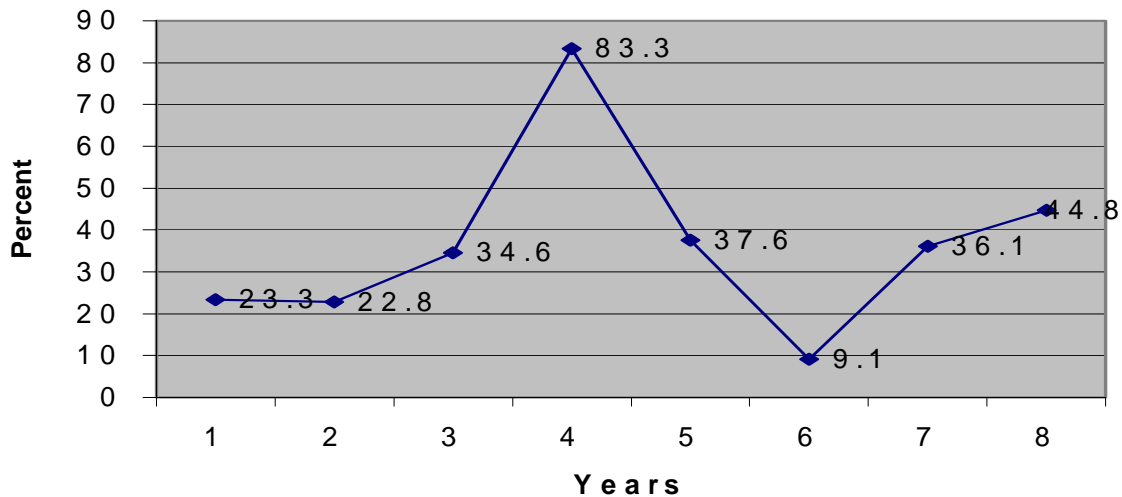
- the removal of duty on imported raw materials

- a reduction in the maximum tariff rate
- a reduction in surtax on the hotel industry from 20 to 10 percent
- a reduction of excise tax on tobacco, sugar and tea from eight to four percent
- a reduction in corporate tax of firms manufacturing in export-processing zones to zero percent.
- a reduction in import surtax on crude oil from 25 to 10 percent
- the introduction of tax incentives for investment of between US\$5 and US\$10 million.

While the author concurs with the Chamber of Commerce Chairman that these changes helped improve the business environment to some extent, it is important to mention that these changes coincided with propitious weather conditions, which increased the harvest and provided a surplus for resale. Hence, it is not entirely accurate that only the changes made at the macro-level brought about improvements in the economy. Since Malawi's economy is based on agriculture, when there is drought, even the best macroeconomic policies do not seem to have a positive impact, including the effect of these policies on inflation.

The annual inflation figures for Malawi from 1992 to 1999 are presented in figure 3.4. The figure shows that 1997 experienced the lowest inflation (9,1%), which was excellent. This created optimism in the people in Malawi that the government policies were right this time and they wanted those policies maintained. The per capita income that year was US\$220 (the highest over a 10 year period), which was another good indicator of progress in the living standards of the people. This, however, happened primarily because the 1996/1997 growing season was good. People were able to harvest much more than they had in previous years. It seems to the author that Malawi needs either to diversify its economic base or ensures that there are ways of increasing production even in years of drought for the business environment to improve. This improvement will generate improvements in all other economic indicators.

Figure 3.4: Annual inflation figures for Malawi from 1992 (year 1) to 1999 (year 8)



Source: Southern Africa Political and Economic Monthly 12(5) May (1999) and Chikaonda 2000.

The exact impact of inflation on the informal sector in Malawi from 1992 to 1999 is unknown, because it was not documented. However, one can assume that most of the informal sector participants were also negatively influenced by the high inflation rates.

The Chairman of the Malawi Chamber of Commerce and Industry (1991:2) indicated that the private sector continued to face a number of problems including the following: the high cost of borrowing; competition from cheap imports; high customs duties; rising insecurity; poor and unreliable posts and telecommunication services; delays in refunds of duty drawbacks and surtax on export; the high cost of SGS pre-shipment inspection; power outage; the poor transportation infrastructure; and the unreliable water supply. According to him, these issues needed to be addressed in order to build a vibrant private sector.

A close examination of some of the above issues seems to suggest that inflation played a role as in the case of the high cost of borrowing and high customs duties. It is clear that these problems had a negative impact on the business environment, which also affected the operation of the informal sector in some way.

In dealing with the telecommunication problems, as stated by the Chairman of the Malawi Chamber of Commerce above, the Malawi Investment Promotion Agency (MIPA) indicated in 1999 that the telecommunications network in Malawi was rapidly improving, and becoming one of the most reliable and inexpensive in the region. International direct dialling was now available on 98 percent of the country's telephones. In an effort to update Malawi's telecommunications system, thousands of digital lines were being installed in the major cities each year. The two cellular phone companies in operations are operating and have plans to eventually provide services even in the rural areas, which should supplement this drive to modernize the country's telecommunication systems.

Nevertheless, Malawi currently has 65 000 fixed lines of which only 35 000 are fully utilised (The Economist Intelligence Unit 2000:15). This could be because the unused lines are not working and require maintenance. The Malawi Telecommunication's Department spends an ordinate amount of time (weeks) to just maintain the lines that have problems. If one considers the fact that 35 000 lines are fully utilised, the ratio of lines per 100 000 people is about 300:100 000, which is much lower than many of the SADC countries. While there are now a few Internet service providers, in addition to the main Malawi net, connectivity is difficult, particularly in some hotels because of lack of telephone lines or old switchboards cannot handle e-mail demands. Hence, there is still room for improvements to the telecommunication systems to enhance the business environment.

The Chamber of Commerce, however, does not only observe the problems that face businesses. When the private sector is hit hard, the Chamber of Commerce meets with the government to discuss improvements in the business environment. The other positive policy initiatives that the government has undertaken in conjunction with the Malawi Chamber of Commerce and Industry include the revision and/or formulation of trade and industry policies, competition policy, the revision of land policy by the Land Commission, cooperatives policy, the production of Vision 2020 and the Environment Act, to mention but a few.

As far as the trade and industry policies are concerned, the government had decided to impose a tax on all imported goods with the understanding that a company that is exempt from tax, will later claim back the tax money from the government. This policy had a negative impact on the private sector, because businesses never received their tax refunds in time and, after discussions, the government decided to reverse the policy. However, by the time the government reversed its decision on charging tax, the companies had already raised their prices on the assumption that they were not going to receive a refund from the government. This also impacted on the informal sector because the prices of the wholesale goods rose and the informal sector participants had to raise their prices as well in order to make a profit.

Chikaonda (2000), in the 2000/2001 budget statement, also highlighted the economic reforms the government (under various programmes funded by the World Bank) intends implementing which will help to:

- improve the quality of government expenditure allocation
- improve public financial management and accounting
- improve civil service efficiency through civil service and salary reforms
- privatise telecommunication's financial sectors and assets of ADMARC,
- improve the environment for private sector development by instituting systematic government/private sector consultation.

The expectation is that once the above steps have been taken, the business environment will improve dramatically.

The government has also introduced tax measures (Chikaonda 2000:37-41) in order to continue increasing efficiency and the competitiveness of Malawi businesses through a reduction of duty on strategic capital inputs, intermediate goods and raw materials as well as increasing disposable income through the provision of tax relief for low-income earners and reducing the tax burden for companies and individuals in order to improve *consumer income*. Some of the income measures that were presented in the Bill were as follows:

- Increase the income tax threshold exempt from tax, from K1 000 to K2 000 per month.
- Expand the income tax brackets from K12 000, K24 000, and K42 000 to K24 000, K42 000 and K60 000. This will reduce the tax burden for all salaried employees.
- Encourage a contribution to capacity building in the country by making tuition/training contributions tax deductible, particularly by the private sector. The government will establish a training fund for all its nationals.
- The following were some of the customs measures introduced to enhance the business environment:
 - Reduce the remaining tariff rates on intermediate goods and raw materials from 15 to 10 percent.
 - Reduce import duty rates on computers, UPSs and computer printers from 25 percent to zero. This was intended to encourage the use of modern information technology in the country, enhance efficiency in business operations and promote competition.
 - Eliminate import duty rates under the COMESA Trade Protocol by October 2000. Under the SADC Trade Protocol, there was to be a 10 percent reduction in import duty rates starting from January 2001.

It is clear that the government is trying to create a favourable business environment, although it requires domestic revenue to run the country's affairs. The Chamber of Commerce helps to ensure that the government establishes policies that are pro business, and MIPA helps the government to attract investors, and to establish them in Malawi, and supports both local and foreign investors wherever possible. The expected result of these initiatives is a favourable business environment that will boost the economy and, inter alia, reduce the inflation rates.

A critical examination of the work MIPA and the government are doing reveals that they are creating unfair competition between local and foreign investors. Checkers (a South African-based retailer) is currently operating in Malawi and its business is doing extremely well, compared with Kandodo and PTC (the local competitors) which are on the verge of closing down. The reason is simple. Checkers has an agreement with the government to import items free of charge for the next five years while Kandodo and PTC do not have such privileges. Hence they cannot compete with the low prices of Checkers and many people now prefer to buy from Checkers. According to the author, this is unfair competition, and tends to discourage local industries in favour of foreign industries. The upshot, of this policy, is that local industries close down and the imports increase which has a negative effect to the country's balance of payments.

While the Chamber of Commerce and the government hold discussions to improve the business environment for the formal sector, there is nothing of this kind in the informal sector. It is totally excluded from these discussions. MIPA helps new investors, but new entrants to the informal sector have no one to help them except for fellow participants in certain circumstances. However, an association is emerging, in the informal sector and this will be discussed in chapter 5.

Another economic variable affecting a business and its market environment is the government's *monetary policy*. This policy impacts on and determines the money supply, interest rates and the level of the local currency relative to the currencies of other countries. Fiscal policy affects both the business and the consumer through taxation rates and tax reforms.

According to The Economist Intelligence Unit (2000:19), the principal fiscal measure adopted by the Muluzi Government has been the "cash budget system", through which ministries are forced to spend no more than the amount allocated by the Minister of Finance. Banks refuse to honour any cheques that are not covered by cash in the relevant ministerial account. In 1996/1997 the cash budget system improved expenditure control and helped bring the budget deficit down from double-digit levels to 2,6 percent of GDP. This had both positive and negative effects on businesses. Businesses were able to provide goods and services to the government and receive timely payment, which had not been the case in the past. However, if a business provided goods and services without knowing that the Ministry had exhausted their budget, they had to wait a long time before receiving payment for services or goods. This had a negative liquidity impact on some businesses. The level of impact depended upon the nature of the business, the goods and services provided and whether or not the capital used in the process had been borrowed from the bank. The cash flow in the businesses concerned was also affected.

The Muluzi Government projected the domestic revenue, as a percentage of GDP for 1999, to be at 14,3 percent. Overall expenditure was projected at 25,08 percent of GDP. The overall deficit, excluding grants, was expected to be at 10,55 percent of GDP while the deficit, including grants, was expected to be at 1,95 percent. These targets were perceived to be consistent with a money growth of 28 percent. The reality was that domestic revenue as a percentage of GDP was 15,92 percent. The overall deficit excluding grants was 9,3 percent, while the

deficit including grants was 1,78 percent. (Chikaonda 2000:9). Because of the failure to achieve the targets, the money supply needed to be adjusted.

Ngalande (2001:10) indicated that the country's total imports and exports of goods and services in 1999 were estimated at US\$755 and US\$482 million respectively, resulting in a deficit of US\$273 million. The deficit was to be financed by donor grants and loans. This level of donor dependency has been chronic and reflects underlying structural rigidities as well as inappropriate exchange rate policies over the years.

About 40 percent of the recurrent budget and 80 percent of the development budget are donor funded. This reliance has caused problems in budget implementation, particularly because of irregular inflows of donor resources. There was also a slippage on expenditure, which resulted in the government resorting to domestic borrowing at a high cost to finance its operation. Owing to this heavy government borrowing from the banking and nonbanking sectors, the private sector was denied the opportunity of using such funds for investment (Chikaonda 2000:10). It is clear that there is an overreliance on donor funds, which is not a healthy situation.

The liberalisation policy that the Muluzi Government implemented had its own effects on the economy.

Ngalande (2001:3) reported that the current liberal exchange and payments system came into effect over several years of economic reforms aimed at creating an efficient and competitive business environment. The reforms began in 1988 with the gradual liberalisation of imports under the Industrial and Trade Policy Adjustment Credit (ITPAC) and supported by the World Bank. The IMF also supported the ITPAC programme with the Enhanced Structural Adjustment Facility (ESAF). The process culminated in the complete removal of all exchange controls on current transactions and the floating of the Kwacha in 1994. In terms

of that ITPAC programme, Malawi can no longer unilaterally introduce exchange controls or multiple exchange rates, even for temporary balance of payments purposes, without consultation with the IMF.

In the author's opinion, this is a sad situation. While the IMF is instrumental in helping nations move in these directions, it does not necessarily assist countries to meet the consequences of their policies. It is unacceptable for an independent and democratic nation like Malawi, to be deprived of the powers to make an independent decision on exchange rates. Controls such as these are generally more beneficial to IMF repayment schedules than to the people of a developing nation like Malawi. As pointed out above, since 40 percent of the recurrent budget and 80 percent of the development budget are donor funded, Malawi has no choice but to accede to such conditions.

Figure 3.5 below provides the author's framework of the understanding of the business environment after the introduction of the liberalisation policy. The decision to liberalise the economy produced the following challenges as shown in figure 3.5 and explained below.

- Liberalising the interest rates means that government can invest its funds at a 39 percent interest rate and yet borrow at a 73 percent interest rate. The banks are free to use any rate that suits them. This fiscal policy has impact not only on government but also on the formal and informal sectors.
- Since Malawi depends on donor money, which does not necessarily flow at the expected time, domestic borrowing becomes inevitable. Repaying this loan at the interest rate determined by the bank when the funds arrive poses a challenge. The chance of devaluing the currency at that time so that there is no loss on the part of the government becomes a strong temptation. Unfortunately this devaluation causes increasing inflation but may also

discourage imports (which is sometimes good) and lead banks to further increase their interest rates.

- Liberalisation of foreign currency enables individuals and companies to take money out of the country and increases imports. As reported by Ngalande (2001:9), existing regulations permit any Malawian travelling outside the country to purchase foreign exchange in amounts of US\$3 000 for holidays, US\$4 000 for medical expenses and US\$5 000 for business. These are only indicative limits, and larger amounts may be purchased depending on needs and as judged by the authorised dealer. There is also no limit on the number of trips a person may take or purchases he or she may make. This increases imports, discourages production and causes a reduction in the balance of payments. As reported by Kasunda (2001:10 appendix 8), farmers from Mchinji complained that major companies that used to buy their vegetables have resorted to importing them from countries such as Zimbabwe and South Africa. However, there has been a general outcry from the local manufacturing industries and other stakeholders that there is no control of what is imported into the country for either consumption or commercial purposes. The net result is a government that is increasingly dependent on donor funds.
- Owing to the competition of cheap foreign goods, formal sector manufacturing companies end up reducing their manufacturing of goods and tend to increase their trading operations. There are several scenarios here, as reported by Mapemba (2001:10):
 - Economic constraints have forced some companies to halt manufacturing and concentrate only on the marketing of products manufactured by their sister companies based in other countries such as Zimbabwe (Levers Group) and South Africa (BAT).

- Other companies involved in the processing activities of several products using local produce have resorted to either closing down or scaling down their processing plants. They concentrate on the purification of processed products with minimum labour and enjoy a local processing status within the country. An example of this is the processing of cooking oil, which is largely undertaken by two major players. They have both abandoned their crushing plants and are now only involved in the purification of crude oil imported from South America.

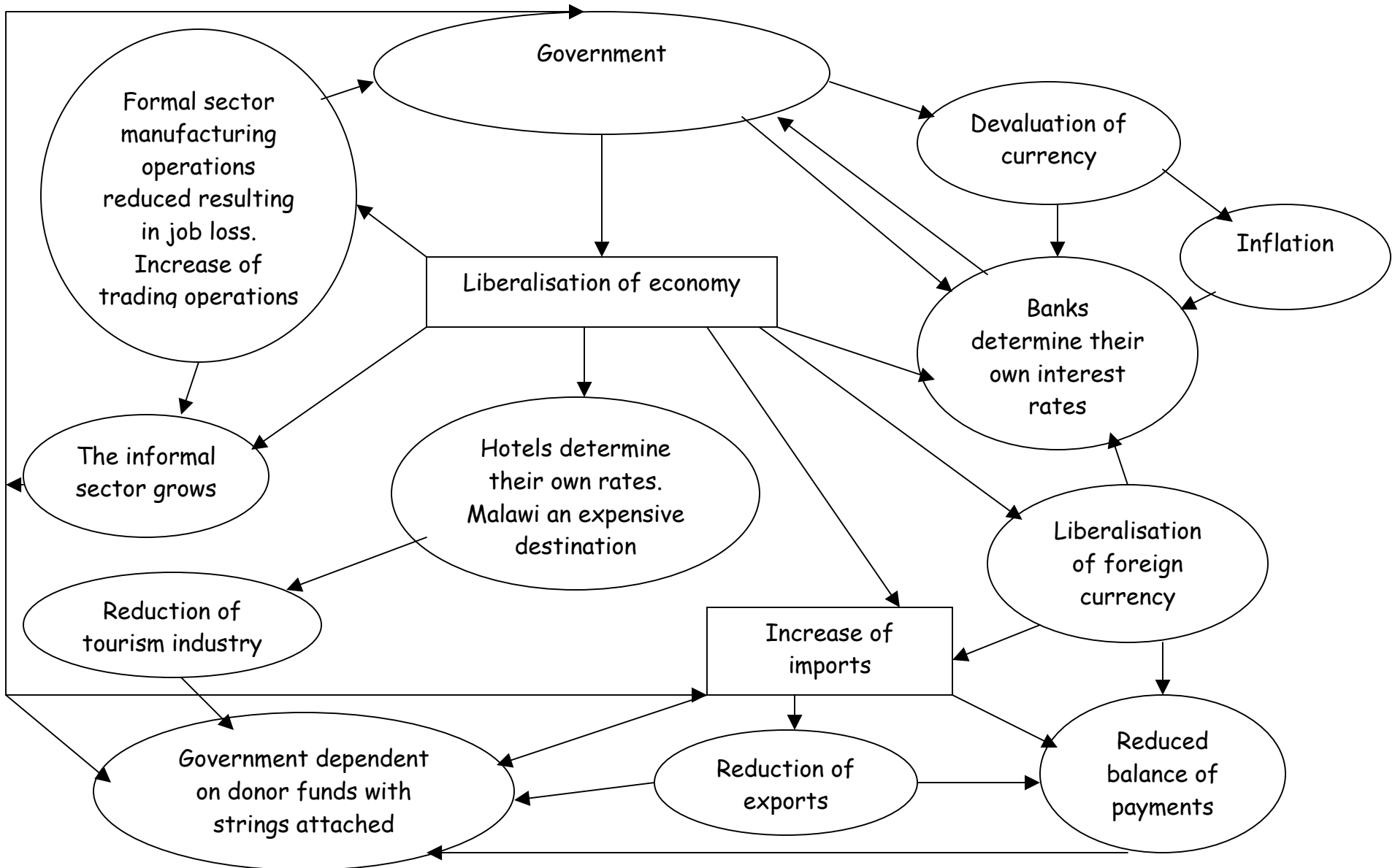
- Some of the manufacturing companies such as Optichem and local engineering giant, Brown and Clapperton Group have closed down. Between them, they employed a thousand people throughout the country.

From the author's point of view, it is clear that the above scenarios caused layoffs. There was a good chance that a significant number of previously employed people would end up in the informal sector.

- The fact that hotels are free to charge for their rooms and services at the rate appropriate to them in an environment where there are few hotels, has turned Malawi into one of the most expensive countries in Southern Africa, as far as hotels are concerned. This is a blow to tourism industry and also reduces the flow of foreign currency.

- According to Vision 2020 (41-44) to promote sustainable economic growth and development, Malawi needs to develop the manufacturing sector, the mining sector, the agricultural sector, the financial sector, domestic and international tourism, the business culture and an export-oriented economy in addition to increasing savings and investment. See figure 3.5 below.

Figure 3.5: The impact of the liberalization of Malawi's economy



To realize Vision 2020, there is a need to study the impact of the liberalisation of the economy in Malawi and how it affects the business environment. Mapemba (2001:10, appendix 7), for example, argues that this will only happen when the government intervenes to save some of these companies. He contends that, while this may not be acceptable to the World Bank or IMF, the government needs to take a stance. When this happened in other countries such as Germany and Japan, companies were saved from closure. The US President George W. Bush recently (BBC March 2002) enacted measures to protect the steel industry, and yet a country like Malawi, with its liberalisation policy, does not have the power to do that.

According to Chipeta (1999:36-37), the adoption of a floating exchange rate regime in 1994 has made exchange rate management more difficult. Malawi does not have the large amounts of foreign exchange required to sustain a stable exchange rate. Reliance on donor funds is not sustainable. This has created new risks and uncertainties that have discouraged investment and production.

According to Guta and Kamanga (2000:26), the current lending rates are not conducive to long-term investment. These rates encourage increased trading investment instead of manufacturing investments. These rates pose a huge challenge to the activities of the technology development institutions in the country because the decrease in the demand for credit resulting from the high cost of borrowing leads to a decline in the demand for technology acquisition. This affects both technology development and transfer.

It is in this volatile and unstable economic environment that businesses are operating. It is clear from the above analysis that the economic environment impacts on the operation of businesses. The management of businesses constantly have to make decisions on how to operate in this type of economic environment if they are to survive. Some of these decisions include changing from manufacturing to trading activities. The same challenges face the informal sector in Malawi. There are now fewer manufacturing or production activities and more trading activities in the informal sector. This does not bode well for a nation and is one of the challenges facing the government.

3.3.1.3 *The social environment*

Of all the environmental variables, social change is possibly the most subject to the influence of other variables, particularly technology and the economy. It is precisely because it impacts on management indirectly (through individuals in the roles of both consumers and employees) that its ultimate effect on the strategy of a business should not be underestimated. The individual is a product of his or her community. The culture, the sum total of a group of people's way of life influences the individual's way of life - hence consumption cannot be explained solely in economic terms but also as a function of culture.

A business is the core of social change. While it contributes to social change, on the one hand, it should constantly be aware of the major influences of social currents on business, on the other. The influence of certain observable social trends merits brief discussion here.

Demographic change - that is, change in the growth and composition of populations - is a social variable that has huge impact on the market because it alters people's ways of life. Obviously, changes in population growth, ages and composition will have certain effects on the needs, incomes and behaviour of consumers, as well as on employment patterns and the attitudes of workers toward their places of employment.

The final results of the 1998 Malawi Population and Housing Census (National Statistics Office of Malawi, press release 2000:1), puts Malawi's population at 9,9 million with a population growth rate of two percent per annum. Fifty-one percent of the population are female and the rest male. In the 30 years following Malawi's independence in 1964, the population more than doubled from an estimated four million, partly because the rate of contraception usage by women was low, even by the African standard of seven percent (The Economist Intelligence Unit 2000:11).

The rapid population growth, combined with stagnant growth in formal employment and its small absorption of the labour force, has resulted in high unemployment. As indicated in section 1.2, on the strength of the population growth alone, the economy needs to create 400 new jobs daily to match new entrants to the job market. Further, the low labour returns in the smallholder sub-sector are leading to an increase in underemployment/unemployment, particularly in the urban sector (Malawi Government Policy Framework for Poverty Alleviation Programme 1995:4-5). The upshot of this is that employees receive low wages, which makes it difficult for them to improve their living standards. As for the many who cannot find a job, the informal sector seems to be the solution - hence the focus of this thesis.

Of the total population enumerated during the 1998 census (National Statistics Office 2000:1), 86 percent reside in rural Malawi, although urbanisation is a growing trend. With a population density of 105 people per square kilometre and 171 people per square kilometre of arable land, Malawi is one of the most densely populated countries in Africa (The Economist Intelligence Unit 2000:12). This leads to constant pressure on the country's limited available resources.

According to the World Bank, infant mortality was 133 per 1 000 births in 1996. The child mortality rate was 217 per 1 000 births. Chronic malnutrition was a serious problem, with 28 percent of children under five years of age deemed to be malnourished. Maternal mortality was particularly high at 620 per 100 000 births. Life expectancy of 43 years of age, already the lowest in Southern Africa, was set to decline further as the HIV/AIDS pandemic began to take an even greater toll. In urban areas, the prevalence of HIV among pregnant women attending clinics in 1998 was estimated at 33 percent. According to the World Bank and the IMF estimates of 1998, two million Malawians will have been infected with HIV and some 35 000 children will have been orphaned by 2000. There was also evidence that urban and educated segments of the population were disproportionately affected, which was expected to affect productivity in the future.

The malnutrition situation in the country is likely to continue because the agricultural sector is no longer producing enough for the nation because of poor rainfall and lack of government support. Inputs are not easily available to the farmers, and when they are, they are so expensive that some farmers cannot afford them. Decreased agricultural production is also one of the negative effects of HIV/AIDS because people are simply sick and do not have the strength to work in their gardens. The result is that people will not grow enough to feed their families - hence the continuation of the malnutrition problem.

It is also critical to point out that, while HIV/AIDS is serious problem, the malfunctioning of the health system and the breakdown of the health infrastructure have led to more deaths as well as reduced life expectancy. The major hospitals run by government have either no medicines and doctors or no equipment to handle serious sicknesses, and people are dying. Even the small supply of medicine that the government provides to the central stores for the hospitals filters through to the formal private hospitals first because the control system is weak. Certain individuals are profiting because they sell some of these medicines at high prices at the expense of others who are sick and would have benefited. Furthermore, since the government is having difficulty controlling the situation in its hospitals, it is not easy for it to control the sale of all medicines on the streets by vendors who do not have the training to explain how to use the medicine. In addition, most of the medicines the vendors sell have expired: yet people depend on them because they are cheaper and available source of medicine. In the author's opinion, expired medicines and lack of knowledge on which medicines to use have also contributed to some deaths.

The impact of the HIV/AIDS pandemic and the breakdown of the whole health infrastructure is that staff may not come to work regularly either because they have a sick/dying relative or they themselves are ill and are not able to obtain the right medication to be healed quickly and return to work. Their responsibilities are increasing by the day because they have to take care of the orphans of their relatives. The result is that the production and productivity of the workforce are affected. In addition,

increasingly more consumer income is spent on health services, funerals and caring for orphans, which means that other businesses, which could have benefited had it not been for this problem, no longer benefit. This affects both the formal and the informal sectors.

Because of the population's limited purchasing power, the retail sector in Malawi is small. The main retail chain is People's Trading Company, owned by PTC, while the National Insurance Company (NICO) owns other large shops. Urban centres have numerous small shops selling fabrics, shoes, basic stationery and imported electrical equipment. These shops are largely owned and run by Malawi's minority Asian population, which is estimated to control more than 30 percent of commercial activity. In keeping with the basic nature of Malawi's retail sector, a great deal of activity is informal, transacted by street vendors who sell everything from firewood and vegetables to imported manufactured products. The government itself is the largest single consumer in Malawi (The Economist Intelligence Unit 2000:29). The trend is now changing with South African companies such as Supreme Furniture, PEP Stores and Checkers investing in Malawi.

Malawi has skilled and semiskilled labour - a disciplined, hardworking and intelligent labour force according to Malawi Investment Promotion Agency (MIPA) (1999). Owing to low wages in Malawi, most of this skilled and semiskilled labour is leaving the country for jobs in other countries such as South Africa and Botswana where remuneration is much better. This impacts on some businesses because they lose the skilled labour they need in order to operate.

The government does not interfere in the employers' choice of the workforce. Further, the government recognises that investment may require expertise not available in Malawi. Accordingly, it continues to make Temporary Employment Permits (TEP) readily available for key positions in investments. Trade unions are a negligible factor in Malawi because less than 10 percent of the workforce belongs to unions. Although the

people are industrious and reliable, labour rates in Malawi are lower than those in many other African nations (MIPA 1999).

Malawi is known as the “Warm Heart of Africa”. The people are friendly and hospitable and therefore do not pose a threat to businesses, the climate is temperate and the landscape and views breathtaking (MIPA 1999). These attributes enhance the business environment and attract investors to Malawi.

However, while MIPA’s statement above is true, the lack of security is a major concern for businesses. The action the government takes to deal with crime that affects businesses needs to improve in order to attract large investors. The lack of trained personnel in the police department, corruption, the lack of understanding of what democracy is and a lack of funds have all led to poor policing services. Crime syndicates are a threat to businesses and their owners.

Another social trend that greatly affects management is the *population’s level of education*. It influences the skills levels of both managers and workers, while higher education results in new demands for quality articles, such as books, magazines and newspapers. Furthermore, better education and training will mean a more sophisticated consumer with definite demands on management regarding the quality of goods, advertisements and working conditions.

Adult literacy levels are improving in Malawi. The National Statistics Office of Malawi (2000:1) indicated that of the 8,3 million persons aged five years or older, 58 percent were literate compared to 42 percent in 1987. Literacy rates among males and females stood at 64 percent and 51 percent respectively, compared with 52 percent and 32 percent for males and females respectively in 1987. Only about 4,5 percent of Malawian students who attend primary school go on to secondary education. Malawi’s poor educational standards make people ill suited for industrial and manufacturing employment, and surveys have found that the poorly educated rural poor are not well equipped to grow crops such as tobacco, which need intensive tending (The Economist

Intelligence Unit 2000:12). Standards at secondary schools are declining because of the poor performance of students, which is an indicator of poor primary education. The temptation for the government is to increase the pass rate by lowering the pass mark to approximately 25 percent. This is intended to reduce the pressure from the opposition parties who capitalise on issues such as this. However, this results in poorly prepared students for university. This level of preparation reduces the standards at universities and colleges. According to the author, lowering the educational standards carries with it the consequence of destroying the future of the nation.

When the government of Bakili Muluzi abolished fees for primary schools in September 1994, primary enrolment increased dramatically from 1,9 to 2,9 million. Enrolment in secondary and higher education also continued to grow through the 1990s. The 1998 Census (The National Statistical Office 2000:1), however, shows a decline in these figures to 2,4 million for all those attending primary and secondary schools or university. This may be because of poverty and the under-emphasis of education on the part of government.

The country had three technical colleges available to students who could attend if they had finished their secondary education and wished to learn a skill. Although these colleges were rendering a satisfactory service, they were technologically limited and therefore not that relevant to some industries. Recent developments seem to suggest that these were closed because of financial problems. The industries in Malawi are on their own because they train their employees in the skills they need. This reduces the performance of industries in Malawi.

The few educated people in Malawi have problems finding employment. Chipeta (1999:38) indicates that the slower growth of formal sector wage employment means that a larger proportion of new labour entrants have been absorbed into smallholder agriculture, the nonagricultural informal sector or are unemployed. The exodus to other countries has therefore been inevitable.

Another social variable with clear implications for management is the *changing role of women* in developed societies. The developments entail changes in the lives of women and consequently their families. Their behaviour has affected patterns by shifting women's shopping hours primarily to weekends and favouring shopping centres that cater to practically all their needs.

Women, who constitute 51 percent of the population in Malawi, experience extensive socioeconomic problems. These problems include gender imbalances and inequalities in all sectors, low levels of education, large household sizes and structures, negative attitudes and practices, limited access and control to means of production such as land, credit and technology and limited rights and control of their reproductive health. The illiteracy rate of women is 49 percent, which is higher than that of men at 36 percent. The dropout rate among schoolgirls is about 34 percent, which is extremely high. Normally, girls drop out of school because they are unable to pay their school fees - priority is given to boys' education and early marriages.

In addition to the above pressures, HIV/AIDS has created another pressure for women because they normally have to look after sick husbands, even though they may be employed. They have to take care of the orphans of their relatives, even though they may be running a female-headed household. All these factors lead to the feminisation of poverty, where not only more women than men are classified as poor, but poor women are also actually worse off than their male counterparts (Cornwell 2000:7).

The above means that working women are under tremendous pressure. They face tough competition and have to perform while balancing other demands at home such as taking care of the children, their husbands and the household.

Secretarial work in Malawi has always been regarded as a woman's job. The many women secretaries are now facing the threat of losing their jobs because of automation. Most bosses have laptops and the need for secretaries is diminishing. Some secretaries have lost their jobs. This is over and above the loss of jobs that some women have

experienced because of structural adjustment programmes as pointed out in section 2.2.3.6. The informal sector may be one solution, but women have to break the cultural barrier, which classifies certain of the most profitable trades or services as the exclusive domain of men. This will be further clarified in chapter 5.

Another social trend that has to be considered is *consumerism* – that is, the social force that protects the consumer by exerting legal, moral, economic and even political pressure on management. This movement is a natural consequence of a better-educated public who resist such things as misleading advertisements, unsafe products, profiteering and other objectionable trade practices, and press for the putative rights of the consumer. Under the market system, these rights are generally recognised as the following:

- the right to safety
- the right to be informed
- the right to freedom of choice
- the right to be heard

While there is freedom to purchase what one wants, the people's purchasing power requires them to accept substandard goods in Malawi. This means that they can easily be exploited. The presence of the Consumer Association in Malawi, although not very active, does provide some help. The government also assists consumers, although it is ill equipped to do so at this point. Both the formal and informal sectors in Malawi can take advantage of this factor in the business environment and make a profit from substandard items.

A final aspect of the social environment that merits attention is the pressure that society exerts on business organisations, forcing them to be *socially responsible*. This means that business organisations should constantly consider the consequences of their decisions and actions. In most instances, criticisms are levelled at marketing

management. This is probably so because marketing management are the closest link between the organisation and the consumer.

These social trends have many implications for an organisation's products and markets, and for management. If management fail to meet social demands, the government may be compelled to intervene as a result of political pressure. Thus consumer demands may ultimately be enforced at the cost of entrepreneurial freedom.

The impact of HIV/AIDS, for example, is costly to the business organisation. If an organisation cannot take care of its staff who are sick, the chances of this being reported to the government are high. There is currently a need for business organisations to develop approaches that show that they care for their employees but also promote the business.

Society also exerts pressure on the owners of the business to take care of their relatives because every decent Malawian is expected to take care of his or her extended family as a social obligation. The medical policies of organisations are therefore becoming difficult to write because staff have many dependants. This factor impacts on some organisations.

The situation is the same in the informal sector. When relatives are sick, the expectation is that the informal sector participant will be able to pay for the sick relative's medical bills. This may lead to personal bankruptcy.

3.3.1.4 *The physical environment*

The physical environment involves the limited resources from which a business obtains its raw materials. It is also the environment into which the business discharges its waste. This has a bearing on various forms of pollution. The following are some of the interfaces that pose opportunities as well as threats to a business:

a) *Scarce resources.*

A broad range of resources, which are becoming increasingly scarce such as raw materials, energy and foodstuffs are of concern to management. Shortages affect the supply of goods, aggravate inflation and cause severe price rises. They often necessitate different methods of production and a reorientation of marketing policy when purchasing management attempts to find substitutes for unobtainable materials.

The situation in Malawi is exactly as described above. There is currently a shortage of raw materials, which means that just-in-time production approaches, as outlined by David (1999:238), cannot be implemented. In a scenario of shortages, it is difficult for parts and materials to be delivered to a production site as and when they are needed. This is one of the reasons why some manufacturing industries such as Lever Brothers Limited have reduced their manufacturing activities and increased their trading activities. In addition, the raw materials that are available seem to be expensive and thus increase the cost of production and make it difficult for industries using these products to compete with those importing cheap raw materials.

Increasingly more manufacturing is becoming unprofitable. There is, however, another just-in-time model in the area of stationery or supplies in the formal sector. Informal sector participants are able to supply what is needed in the formal sector just-in-time. It is now common knowledge that informal sector participants are able to supply toilet tissues, coffee mugs, diaries and office supplies to, say, major formal companies such as Lever Brothers as and when they need them. The formal shops involved in these businesses are meeting stiff competition from informal sector participants who are also involved in importing some of these supplies. This competition somehow reduces the overall prices and this is helpful to the consumer further down in the process.

However, there is a shortage of the goods that some of the informal sector participants' use. The monopoly that many Asians have in the wholesale market makes it difficult for

informal sector participants to find goods at a reasonable price. This point will be explored later.

b) *The cost of energy.*

The increasing cost of energy also has a direct bearing on the business environment, with concomitant threats and opportunities for business.

Wood fuel, both firewood and charcoal, is Malawi's primary source of energy. It is estimated that wood fuel provides for about 90 percent of the total annual primary energy demand. Demand in 1998 was estimated at 16,65m cubic metres and is growing at around six percent per year. Households consume about 70 percent of total demand, while the remainder is used by agro industries, mainly for the curing of tobacco and tea. Wood fuel consumption has contributed to severe deforestation in Malawi: an estimated 56 percent of total wood fuel consumption is supplied from sustained yield, but 44 percent comes from nonsustainable stock. Moreover, land clearing for agriculture is reducing the amount of forest available for sustainable collection of wood fuel (The Economist Intelligence Unit 2000:16).

Despite efforts by government to encourage people to plant trees and control the careless cutting of trees and the production of charcoal, their efforts have not been that successful. This is so because of the rampant poverty within the country. As indicated by Chikaonda (2000:25), despite improvements in the macroeconomic indicators, over 60 percent of the Malawian population still live below the poverty line, and income distribution is highly inequitable. Poverty creates an increased demand for firewood and charcoal among urban dwellers, because they cannot afford the more expensive form of electricity. This leaves those who produce wood fuel no choice but to disobey the government rules and supply as per demand.

Electricity is used as a source of power by both the formal and informal sectors. It is, however, unreliable and it is thus not uncommon to find that many industries have

generators as an alternative source of energy when the power goes off. This is expensive because fuel for generators, which is imported, is also costly. As indicated by The Economist Intelligence Unit (2000:16), Malawi's power supply is often unreliable, particularly during the dry season. This has not only caused inconveniences, but has seriously impacted on the operations of the country's industrial sector. As part of a 10-year donor development programme, four new hydroelectric stations have opened on the Shire River since 1989. Unfortunately, low flow levels and high siltation have hindered their operation, and many experts now question the wisdom of putting so much of Malawi's electricity-generating capacity along the same river.

Despite the increase in capacity, the supply of electricity remains insufficient to meet the domestic demand. Only 50 000 urban households are legal consumers and another 40 000 tap into the grid illegally. Domestic consumers account for about 20 percent of electricity sales, whereas industrial users account for 60 percent, with service industries accounting for the rest (The Economist Intelligence Unit 2000:16). The illegal tapping is common because electricity is perceived to be extremely expensive, even though the Electricity Commission of Malawi (ESCOM) is operating at a loss. This situation led to the government's decision to privatise it.

While coal is a major source of energy in other countries, Malawi produces 34 000 tonnes per year of coal, though the demand is 74 000 tonnes per year. The rest is imported. It is hoped that the privatisation of the Mchenga Coalmines, Malawi's sole producer of coal, will bring in the needed investment to increase production and reduce imports (The Economist Intelligence Unit 2000:17). It is difficult to use coal as a source of energy because it is also expensive. Generally, people end up using charcoal and firewood. Both of these are less expensive to the consumer and the demand for them benefits informal sector participants.

It is critical therefore for both the formal and informal sector participants to examine the cost and availability of the energy sources if they wish to run a profitable business.

c) *The growing cost of pollution.*

This has a bearing on what pollution costs the community in terms of destroying living space, as well as the expense of preventing and remedying this while complying with laws designed to minimise it. Here opportunities also present themselves in the form of new methods of producing and packaging goods to reduce pollution to the minimum.

While pollution is more common in the formal manufacturing industries, the informal sector participants also create pollution. This is especially true in squatter camps because squatters use charcoal or firewood for cooking and the smoke causes pollution. While the laws governing this may be in force, enforcing them is a challenge within Malawi for it may not be a top priority compared with other issues.

d) *Environmentalism.*

Inhabitants and government institutions in defence of the natural environment may define this as an organised movement. Business organisations must ensure that their business does not adversely affect the environment. Litter and damage to the ecology come from various sources, such as, advertising boards and packaging materials in the form of beer-cans, soft-drink bottles, and an infinite variety of paper containers, all of which cause pollution, as do substances harmful to people and their natural environment. Business should respond to these objections by taking timely steps to limit any deleterious effects on the community as far as possible. This is part of the thinking of sustainable development theorists as pointed out in section 2.3.2.3.

The formal sector in Malawi causes the most pollution by dumping wastes in rivers near their companies. The unfortunate part of it is that squatters use the water from the rivers either for bathing or even drinking. A case in point in Blantyre is the Mudi River, which is polluted and yet is used by some of the informal sector participants. Among other things, this practice can cause diseases such as diarrhoea.

However, the informal sector participants are blamed for littering or creating an environment in which their customers litter. They are blamed for the poor sanitation in some towns. The solution of the town councils is either to chase the informal sector participants out or ban them from operating in certain areas. To solve this problem, some towns such as Blantyre forbid certain activities to operate without a licence. The unfortunate part of this practice is that these are the activities that women tend to do culturally. Owing to corruption, the enforcement of such regulations is not consistent and often exploitative.

The challenge for the government is to practise consistent enforcement of these regulations.

3.3.1.5 *The institutional-political environment*

Management decisions are continually affected by the course of politics, particularly the political pressures exerted by the ruling administration and its institutions. As a component of the macroenvironment, government affects the business environment and business enterprise in a regulating capacity. By promulgating and enforcing legislation, it creates order by means of political measures, steering economic policy in a particular direction. Furthermore, the government influences the market through government expenditure. To an increasing extent, it is the task of management to study the numerous and often complex activities of government as well as the legislation and political developments in order to determine their influence on the profitable survival of the business.

The inauguration of a new government in May 1994 not only heralded Malawi's first democratically elected government in 30 years, but also brought with it a new constitution. This constitution guarantees the people of Malawi freedom of speech, religion and assembly.

The ruling party was re-elected in June 1999. Attempts by the current President to change the Constitution so that he can be considered for a third term, has had a negative impact to the business environment. Investors are no longer confident and this is affecting the whole economy.

The city assembly and the police in the country are working hard to enforce their regulations on the operation of the informal sector participants. This has an impact on the operations of informal sector participants, as we shall see in chapter 5.

The enforcement of these regulations is done cautiously since the ruling party has always capitalised on the freedom they give to the informal sector participants in order to win their votes.

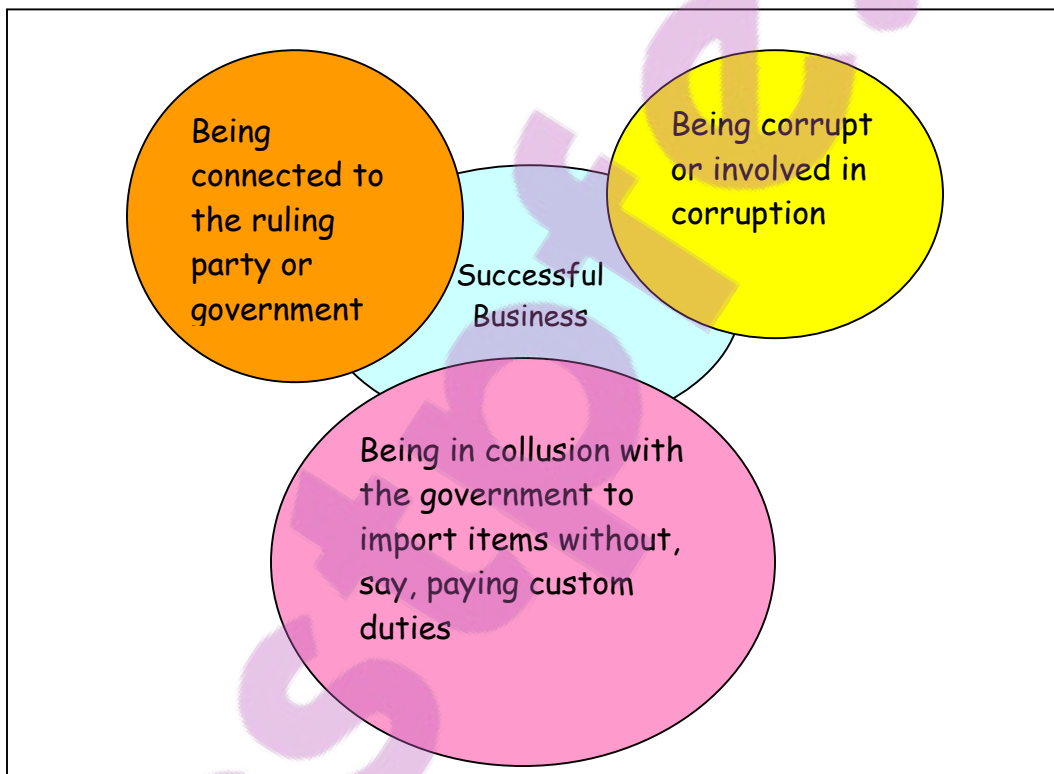
Government is also playing a part in improving the business environment by being a consumer. It creates a demand for goods and services, which can be provided by both the formal and informal sectors. The ongoing construction and supplies needed in different government departments, for example, give both the formal and informal sectors an opportunity to grow their businesses. Political affiliation for Malawi determines government contracts, which they can win, which is a sad state of affairs. Hence, some for the sake of enhancing their businesses have joined the ruling party. In addition, some businesses survive and thrive if a major politician is one of the shareholders. This enhances clearance of their goods, procuring the required services from the government in time and even opening a market share for their goods.

In addition, although commercial banks operate as independent entities, political influence is involved in pressure to grant loans to politicians who do not have business experience. The consequences are that these politicians end up defaulting on their business loans. In addition, this practice hinders those who would have put the money to better use. The informal sector participants struggle to obtain loans from the banks, as we shall see in chapter 5.

According to the author, in Malawi, there are three “C’s” which seem to determine the path of a highly successful business in addition to Cronje et al’s business environment model. These are **C**onnection, **C**orruption and **C**ollusion. Thus, success in business is therefore a function of how connected and corrupt you are and how much collusion you engage in. Figure 3.6 below illustrates this concept:

The gist of the argument is that if you tell the author how connected, corrupt or how engaged in collusion you are, he will easily understand how successful you are in your business in Malawi. This practice is not exclusive practice in Malawi - it also happens in Africa and around the globe.

FIGURE 3.6: Author’s understanding of some of the major success factors in the business environment in Malawi



According to Agbese (1998:x-xxiii), corruption and collusion in Africa are so rampant that even the anticorruption measures fail dismally. He argues that uncertainty, poverty

and the anxiety of Africa's neocolonial dependent and underdeveloped economies provide fertile grounds for corruption. The government's tendency not to pay salaries on time and the generally poor conditions of service for most civil servants often accentuates corrupt practices. Of late Malawi has struggled to pay the civil servants, and corruption has equally increased. Customs officers at border crossings in contemporary Africa have introduced a communal practice of taking bribes. Bribes given to customs officers are deposited into a common fund (Agbese 1998:xxi). Corruption on the borders of Malawi is also high, but the practice is slightly different. Individual custom officers and their supervisor decide what to do. They benefit for that day and no money is kept in a bank account. Sometimes it is individual officers who practise corruption. Another practice in Malawi, which is also common in Africa is that many of the goods clearing agencies and even the businesspeople who import goods from other countries use women to clear the goods. The women use their bodies to corrupt the customs officials to clear goods at extremely low prices. No wonder the rate of HIV infection is the highest in border posts in Malawi and other neighbouring countries.

The Malawi government has been involved in the privatisation of some of the state-owned enterprises as a part of meeting the requirements of IMF and World Bank loans. The only problem was that, while the enterprises were privatised, the proceeds from such transactions were never seen. However, government officials often benefited as individuals in the process. Privatisation therefore enhances corrupt environment (Agbese 1998:xviii).

Agbese (1998:xix) also indicates that, in many cases, multinational corporations, foreign governments and expatriates are the main conduits for corruption in Africa. Moreover the proceeds from corrupt enrichment by African leaders are frequently lodged in foreign bank accounts. Thus, collusion between African leaders and foreigners and/or foreign-owned enterprises is a significant element of corruption. Any anticorruption campaign in Africa that does not take the international dimension into consideration is bound to be incomplete. The agreement between the government and Checkers in Malawi therefore needs to be scrutinised for it may constitute a serious act of corruption.

As pointed out by Agbese (1998:xi), the dilemma in the campaign against corruption is that once corruption has deeply permeated the fabric of society, even the anticorruption measures designed to root out the problem may instead be turned into opportunities by the crusaders for further enrichment through more insidious means of corruption. In Malawi, an anticorruption bureau started off well, but subsequently virtually ground to a halt. Those involved in corruption bought out the officials of the anticorruption bureau so that they could not investigate or say anything about them.

Even in the political arena, the ruling party has been using money to buy prominent opposition leaders as a way to ensure that they move from the opposition to the ruling party. When the church in Malawi decided to speak out against the corrupt behaviour of the ruling party and certain government officials, an unfortunate thing happened. The ruling party bought out some church leaders so that they now support the government in their sermons. Corruption and collusion have indeed divided even the church in Malawi.

In addition, Sobel (1977:1) points out that corruption in business is frequent, widespread and familiar. Corporate executives, bankers, secretaries and clerks are disturbingly convicted often of such acts as looting their own companies, cheating customers, bribing public officials and even plotting with gangsters. Government employees, political leaders and labour union officers have accepted or demanded bribes, election campaign contributions and other favours from businesspeople in return for legal or illegal considerations. The businesspeople do this in order for their businesses to be more profitable or to benefit as individuals. This is not true only in Malawi and Africa - the same practices occur globally. American businesspeople doing business abroad often assert that bribery is a "way of life" in many countries and that no wheels can turn in such lands until enough "grease" has been applied at the proper points (Sobel 1977:1).

Corruption, collusion and connections therefore affect the business environment in Malawi. The way the Malawi government operates and the political influence of the ruling party affect the business environment in which both the formal and informal sector

operates. If a business is in opposition to the ruling party, the chances of that business going bankrupt are extremely high. It should also be noted, however, that some of the formal and informal sector participants propagate corruption, collusion and connection, which in turn leads to the corruption of the government officials. One cannot operate a successful business in Malawi without understanding how corruption, connection and collusion will affect them. While not all the informal sector participants are involved in corruption, the chances are that it does affect them in their daily operations. Their success is based on how skilled they are in handling it.

3.3.1.6 *The international environment*

While each of these factors, to a greater or lesser extent, exerts an influence on the business environment, the further opportunities and threats render the situation even more complex if an international dimension is added to each of the environmental factors. Businesses that operate internationally find themselves in a far more complex business environment because every country has its own peculiar environmental factors that impact on technology, economy, culture, laws, politics, markets and competition. The influence of international economic and political developments on local enterprises, particularly in the light of their closely interrelated nature, is multiple.

Many developing countries, including those from the sub-Saharan region, have introduced investment promotion programmes with the primary objective of improving the investment climate in their respective countries. Likewise, Malawi introduced a number of important measures in 1990 to improve the investment climate. The Investment Promotion Act in 1991 and the formation of the Malawi Investment Promotion Agency (MIPA) in 1993 have spurred on several measures including the expansion of export incentives, investment of import requirements, relaxation of foreign exchange controls, and measures to improve investors' access to industrial land (MIPA 1999).

To date, Malawi has not performed well despite all the efforts in the incentives, promotion activities and missions abroad. Some countries in the region that started this process are boasting about higher investments and noticeable improvements in their living standards over time. A case in point is Mauritius, which moved from a mono-crop producer to a middle-income country. A study undertaken in 1994, which published regional rankings, placed Malawi's competitiveness at number 7 out of 12 countries. For this study, the decisive factors were as follows:

- (1) investment climate comprising political stability, domestic market size, inflation/interest rate, quality of life, access to export market and exchange rate flexibility
- (2) labour resources including labour costs and labour skills/quality
- (3) business conditions covering domestic finance, physical infrastructure, other infrastructure, foreign exchange access, domestic partner access and business profitability
- (4) regulatory regime comprising basic tax, customs procedure, access to land, foreign ownership law, duty exemption, labour laws, permits for expatriates, repatriation of profits
- (5) FDI policy and regulations.

(Each factor was rated on a scale of 1 to 5: 1 being "very negative" and 5 "very positive").

In 1998, another study was undertaken to measure the competitiveness of 23 African countries based on estimates for their medium-term economic growth and controlling levels of initial income. In simple terms, the overall competitiveness was calculated on the basis of an average of six indices: openness, government, finance, labour, infrastructure and institution. In this study, Malawi rated 21 out of 23.

While it is important to continue promoting Malawi to investors, these international indicators work against the country and have to be taken into consideration in any promotional campaign.

The international business environment has had some influence on Malawi. The antismoking campaigns in the world have impacted on the demand for and prices of tobacco, which is the primary export crop in Malawi. Since prices are based on demand and the international business environment, Malawi is under pressure because tobacco is the main source of foreign currency. The competition that Malawi faces with countries such as Zimbabwe, which have better technology for curing tobacco, exacerbates the situation for Malawi.

The international business environment also influences the price of fuel because Malawi imports it. The price has been rising of late and this is one economic factor that easily creates inflation. Despite the importance of this economic variable, Malawi has no control over it.

Globalisation has impacted on the business environment as well. The fact that the Internet facilitates business has created some challenges. The Internet provides information that is critical to business. The challenge in a country such as Malawi is that telecommunications are not well established which means that the use of the Internet and e-mail is limited. Even for those who are able to use it, the lines are not always reliable, slow or function intermittently. Malawi can therefore easily be excluded in many global issues and endeavours.

The recent political (land issue) and economic (devaluation of currency) scenario in Zimbabwe has had a negative impact on Malawi. The country now imports many inexpensive products such as chickens, eggs and vegetables from Zimbabwe rather than producing them locally, which is expensive. In this sense, Zimbabwe is having a negative impact on some of the manufacturing industries in Malawi.

The challenge that both the formal and informal sector participants face is to create a competitive advantage not only in the country but also internationally. This may be difficult, but it is critical to their survival.

3.3.2 The market or task environment

The environment most intimately surrounding the enterprise is the market environment, which consists of *the market, suppliers, intermediaries* and *competitors*. All of these groups are sources of both opportunities and threats to the enterprise itself. This environment contains those variables that revolve around competition, presenting challenges to the enterprise when management attempt to obtain the necessary resources or market their goods or services profitably. A close examination of the variables in the market environment follows.

3.3.2.1 The market

The market consists of people who have both needs to be satisfied and the financial means to satisfy them. If a business is to achieve any success with a strategy of influencing consumer-buying decisions in its favour in this competitive environment, it follows that management need to be completely up to date on all aspects of *consumer needs, buying power* and *purchasing behaviour*. Furthermore, management must understand that these conditions are directly influenced by variables in the macroenvironment. Demographic trends influence the numbers of consumers, economic factors determine the buying power of consumers, and cultural and spiritual values exert certain influences on consumers' buying habits. Management should also understand that this continuous interaction between the market variables and the variables in the macroenvironment give rise to changes in both environments. In addition to the number of consumers and their purchasing power, other characteristics such as language, age, structure, gender distribution, marital status, size of family and literacy influence the purchasing patterns of the consumer market.

In addition to the market in consumer goods there are also *industrial markets* in which products and services are supplied by manufacturing enterprises for the production of further products and services. Thus, we also find the resale markets positioned here.

Resale markets are enterprises that buy products and services in order to resell them at a profit. This is common in the informal sector in Malawi.

Government markets involve the purchase of products and services by the central government, provincial governments and local authorities.

International markets include foreign buyers: consumers, manufacturers, resellers and governments.

An enterprise cannot function successfully without an ongoing assessment and analysis of this component. Moreover, variables in the macroenvironment such as economic factors, political dispensations, population growth and urbanisation also give rise to changes in the market environment.

The challenge in Malawi, as mentioned in section 3.3.1.2, is liberalisation. It is difficult (for both the formal and informal sector participants) to sustain a competitive advantage for their goods and services once they have created it. This challenge poses a threat to businesses in both sectors.

Participants in both the formal and informal sectors are involved in all four markets: industrial, resale, government or international. Because of the unstable business environment, businesses are shifting or combining these markets in order to be profitable. Competition is becoming stiffer by the day, and it is crucial for participants to reflect on how they can maintain relevance in this situation if they wish to continue being profitable.

3.3.2.2 Suppliers

According to the systems approach, an enterprise is regarded as a system that receives inputs from the environment and converts them into outputs in the form of products or services for sale in the market environment. The inputs required are mainly *materials*,

including raw materials, equipment and energy as well as *capital* and *labour*. Suppliers provide these items. If an enterprise cannot obtain the necessary inputs of the necessary quality in the right quantity and at the right price to achieve its objectives, then it cannot hope to succeed in a competitive market environment.

The interaction between the organisation and its supplier network is one of the clearest examples of the influence of environmental variables on the enterprise. An organisation depends on suppliers of capital as well as on suppliers of materials. Both the formal and informal sectors have developed their own supplier networks, which are crucial to the success of their businesses. The challenge is to maintain them. In this volatile business environment, it is also vital to ensure that a business has several suppliers in case one supplier goes out of business.

The provision of labour is another environmental variable that influences an enterprise's success or failure. Labour in Malawi is cheap and reliable. A business can procure the necessary labour at any point, which is helpful.

Trade unions and other pressure groups can also be regarded as "suppliers" of labour. Commonly, enterprises, particularly manufacturing and mining enterprises, have complex relations with these groups. In Malawi, trade unions and pressure groups exist but they are not influential. They have a small membership and cannot exert much influence since there is an abundance of cheap labour. If employees decided to go on strike, for example, it is easy to replace them.

Obtaining capital from banks is not a simple process for formal sector participants. In fact it is almost impossible for informal sector participants. The interest rates are extremely high (45-60 percent) - hence it is easy to become bankrupt if one relies on bank loans. The practice of selling shares to raise capital is uncommon. Owing to this difficulty, the informal sector participants have survived using other methods of acquiring capital, which will be discussed in chapter 5.

3.3.2.3 Intermediaries

Besides consumers and competitors with whom market management have to contend in the market environment, intermediaries also play a decisive role in bridging the gap between manufacturer and consumer. Intermediaries include those involved in wholesale and retail, commercial agents and brokers, commercial representatives, and in Third World countries, even *spazas*. Also included in this group are financial intermediaries such as bankers and insurance brokers which, from a financial perspective, are also involved in the transfer of products and services.

As previously mentioned, both the formal and informal sector participants are moving from manufacturing to trading activities. Many are becoming intermediaries and specialising in the areas of wholesaling and retailing. While the availability of goods is not an issue, the price of goods is a challenge. This point will also be examined in detail in chapter 5.

3.3.2.4 Competitors

Every business that tries to sell a product or service in the market environment is constantly up against competition. It is often competitors rather than consumers who determine how much of a given product can be sold and the asking price. As a variable in the market environment, competition may be defined as a situation in the market environment in which several businesses offer more or less identical products or services and compete for the business patronage of the same consumers. The result of competition is that the market mechanism keeps excessive profits in check, stimulates higher productivity and encourages technological innovations. Although the consumer benefits from competition, it is a variable that management have to take into account in both their entry into and continued operations in the market. Management should bear in mind that the nature and intensity of competition in a particular industry are determined by the following five factors:

- (1) the possibility of new entrants (or departures)
- (2) the bargaining power of clients and consumers
- (3) the bargaining power of suppliers
- (4) the availability or nonavailability of substitute products or services
- (5) the number of existing competitors

All five forces are responsible for competition in any particular industry. The collective strength of these five forces determines the competitiveness in the industry and therefore its profitability.

The business environment in Malawi is also shaped by competition. Indian businesspeople used to control much of the wholesale and retail businesses in the major towns in Malawi. The growth of the informal sector has created a challenge, which the author shall examine in chapter 5. In addition, the new entry into the business environment by South African companies such as PEP, Checkers and Supreme Furniture has created a major challenge to those who traditionally controlled these areas. Some of this competition is unfair, since foreign investors such as Checkers are granted duty-free status, which enables them to sell their items at a lower price and still achieve profitability. Businesses cannot assume that while they are in control today, they will be in control tomorrow. Competition is playing a role.

3.3.2.5 Opportunities and threats

The changes effected in the market environment by the respective variables and their interactions as well as the trends that constantly develop in the macroenvironment can ultimately be classified into two groups, namely:

- (1) those changes that offer an opportunity
- (2) those changes that pose a threat

An *opportunity* may be defined as a favourable condition or tendency in the market-place environment, which can be favourably exploited by means of a deliberate management effort. However, it should be clearly understood that the possibilities inherent in an opportunity always have to be assessed against the background of the organisation's resources and capabilities. The success of a business in utilising an opportunity depends on its ability to satisfy the requirements for success in that particular market.

In contrast to an environmental opportunity, an *environmental threat* may be defined as an unfavourable condition or tendency in the market environment which, in the absence of a deliberate effort by management, may lead to the failure of the business, its product or service. In view of the constant changes in the market environment, it is management's responsibility to identify any such threats, both actual and potential, and develop a counter-strategy or contingency strategy to handle them.

The scanning of the market environment for opportunities and threats entails an examination of such variables as the economy and technology in the macroenvironment, as well as trends in the variables in the market environment, namely those factors that influence consumer spending, suppliers and competition in the market.

An examination of threats and opportunities by a business in Malawi is crucial because of Malawi's liberalised economy. Business owners and management must examine their threats and opportunities to design strategies that will allow them to make the profits required for the survival of their business. In addition, there are some threats in the economy that cannot be effectively managed and countered by individual businesses. The Chamber of Commerce in Malawi helps businesses to reduce threats from the economy by holding discussions with government on ways to improve the business environment. Likewise, there are issues that affect the informal sector which are brought to government's attention by the informal sector association. As we shall see in chapter 5, this association is currently emerging and starting to influence government decisions.

3.3.3 The microenvironment

The microenvironment comprises the enterprise internal environment, over which management has complete control. The microenvironment can be regarded as an environment, with three sets of interacting variables: the *mission and objectives* of the enterprise or organisation, the *organisation and its management* and *resources*. These variables are responsible for the enterprise outputs, and are under the control of management. Each variable in the microenvironment is linked to the external environment at a certain level. It is influenced by the variables in the external environment on the one hand, by the variables in the microenvironment, on the other. The decisions made by the management influence the external environment of the enterprise – that is, the market environment and the macroenvironment. Management decisions will also impact on the market environment through the strategy it employs to protect, maintain or increase its share of the market.

The *mission (purpose)* and *objectives* of the enterprise are the very reason for its existence. Without definite objectives to strive for, there would be no need for an organisation. The external environment influences these objectives. Similarly, objectives concerning raw materials will affect suppliers, and suppliers will impact on the organisation with changes to the specifications of their raw materials, components or products.

Many of the well-established organisations in Malawi, such as Lever Brothers, have mission statements and objectives. These are clearly posted on walls and one cannot but see them. The challenge, however, is that the business environment has been changing so rapidly that in some circumstances it has demanded a review of the actual mission statement. As for objectives, these can be reviewed quarterly or even monthly because of the threats and opportunities businesses are facing.

While the informal sector participants may not necessarily have formulated a mission and objectives, they are present and operate much as the unwritten law of social

customs. The author's finding was that they do use them in most cases. This topic will be addressed in chapter 5. Specific objectives, however, emerge as the business grows.

The *organisational structure* constitutes another set of variables in the microenvironment that has certain interfaces with the external environment. The organisation should be structured in such a way that it is able to accommodate influences from the environment and still operate productively within the environment, particularly the market environment.

While the formal sector will have well-defined organisational structures with clear roles and staff responsibilities, the informal sector may not necessarily have them. Some informal sector businesses are managed solely by the owner, others are managed by the owner plus a relative or family member, while others still employ some staff, as shown in chapter 5. Because of the small operations in the informal sector, the roles of these staff members are understood in general terms, even if the staff component is large. This practice also prevents threats of specialisation and loss of staff members.

An enterprise's *resources* are the last set of variables that have certain interfaces with external environments. These include human resources, capital and expertise. For instance, an important resource such as a particular production process may be threatened by the external environment in the form of new technology or a new invention. Alternatively, some special skill or knowledge can be employed to exploit an opportunity in the environment.

Personnel or human resource management may influence the environment through its employment policy, just as trade unions, strikes and wage demands may affect its decisions. The organisation should be structured in such a way that it is able to accommodate influences from the environment and still operate productively in the environment, particularly the market environment.

Both the formal and informal sectors use resources such as human resources, capital and expertise. The difference between the two sectors is in the way they procure these resources. Chapter 5 will explain this area in detail because it is critical to the operation of the Malawi's informal sector.

In conclusion, it should be remembered that the microenvironment varies from one enterprise to the next, as do interfaces between organisation and environment. While all organisations face the same business environment, the way the decisions are made, the factors they consider in making those decisions as well as the information they collect to make those decisions may determine their competitive advantage. In the informal sector, these management decisions and strategies are crucial. If poor decisions are made in this area, some businesses may go bankrupt.

3.4 CONCLUSION

A business and the community it serves are not self-sufficient, closed entities - they depend on each other for survival. Together, they form a complex business environment in which changes in the environmental variables continually determine a business level of prosperity. Since variables are often beyond the control of the business, it is the task of management to adapt the business to change. Knowledge of a changing environment through sustained scanning is a prerequisite for taking advantage of opportunities and averting threats. This chapter examined the business environment in Malawi within which the informal sector is operating. This examination was done using Cronje et al's business environment model, which comprises the macroenvironment, market environment and microenvironment. In addition to Cronje et al's business environment model, the issues of corruption, collusion and connections were also examined for their influence on the business environment.

Now that the business environment in Malawi has been analysed, the next chapter will examine the research methodology used in conducting both secondary and primary

research in this environment. A description of both the research methodology and the way in which the research was conducted follows.

CHAPTER 4

RESEARCH METHODOLOGY

4.1 INTRODUCTION

Research methodology is the focus of this chapter. As stated in chapter 1, the primary objective of the study was to conduct a situational analysis of the informal sector in the three major cities of Malawi. The secondary objectives were as follows:

- (1) to explore general concepts of the informal sector and development, which would form a background upon which the analysis of the informal sector in Malawi would be based
- (2) to understand the business environment in Malawi within which the informal sector operates
- (3) to provide a sound understanding of informal sector operations in the three major cities of Malawi
- (4) to explore the contribution of the informal sector to reducing poverty in Malawi
- (5) to determine the attitudes of formal businesspeople and the government towards the informal sector
- (6) to assess the kind of support the informal sector requires from the government and other agencies
- (7) to make recommendations on how the government can effectively handle the informal sector and identify further areas of research

The research was divided into two areas. Secondary research concentrated on current literature on the subject. Primary research focussed on personal interviews with respondents to attain the primary and secondary objectives. Both primary and secondary methods of data collection were therefore used in this research.

The chapter starts with a description of the secondary and primary research, followed by an outline of the respondents in the primary research. The procedures used in the questionnaire design, selection and training of interviewers, sampling, collection of data and the methods used to analyse the data were then described. The chapter ends with a summary of the primary sections therein.

4.2 SECONDARY RESEARCH

Secondary research concentrated primarily on a literature review of the subject. The available literature was used to gain an understanding of the informal sector and also to compile the theoretical chapters. In addition, literature on the informal sector and development theory was used throughout the thesis to support the author's viewpoints or provide alternative viewpoints. It was also used as a reference point to determine what other authors have discovered on this subject, which may or may not be similar to the author's findings.

As pointed out by Gupta (1993:146), the chief sources of secondary data may be broadly classified into the following two groups:

4.2.1 Published sources

These include national (government, semigovernment and private) organisations, individuals and international agencies that collect statistical data on business, trade, prices, consumption production, industry, income, agriculture, currency and exchange, health, population and a number of socio-economic phenomena and which publish their statistical reports on a regular basis. These reports include,

- (1) official government publications
- (2) publications of semigovernment statistical organisations such as the Reserve Bank.
- (3) publications of research institutions
- (4) publications of commercial and financial institutions
- (5) reports of various committees and commissions appointed by government
- (6) newspapers and periodicals
- (7) international publications such as those of the International Labour Organisation
- (8) books

4.2.2 Unpublished sources

Unpublished sources include any paper or publication that has not yet been released or is considered to be a draft.

Sources of literature for this secondary research included both published and unpublished sources obtained from Unisa Library, the Chancellor College Library in Malawi, the Social Research Council in Malawi, the Africa Institute Library in South Africa, the Chamber of Commerce in Malawi, World Vision libraries, the government, international agencies, the Internet, pamphlets and handouts supplied in the streets, and papers from friends in Malawi.

A list of the secondary sources used for this thesis is found in the bibliography.

4.3 PRIMARY RESEARCH

Primary research involved personal interviews of different respondent groups, which were divided into the following two categories:

4.3.1 Indirect respondent group

This group included men and women from relevant government departments and the formal business sector. These men and women were not involved in the informal sector - hence, they were classified as part of the indirect respondent group. Two categories were selected within the formal business sector, namely industry representatives and shop owners. Primary research was conducted in this indirect respondent group in order to understand their respective viewpoints on the informal sector.

4.3.2 Direct respondent group

Six hundred men and women involved in the informal sector in Blantyre, Lilongwe and Mzuzu were selected as the direct respondent group. This group was divided into three categories: traders, producers and service providers. A personal survey research method of collecting data was used. This involves self-report measurement techniques to question people about themselves – their attitudes, behaviour and demographics (Cozby 1992:56).

The selection of respondents was done using a judgement sampling method and stratified random sampling methods. Details of these sampling methods are provided in section 4.4.5.

4.4 PRIMARY RESEARCH PROCEDURE

4.4.1 Questionnaire design

Using the work of Berdie (1986), Denzin and Lincoln (1994) and Oppenheim (1986), four separate questionnaires were designed for the purpose of primary research. Three of these were for the indirect respondent group (government officials, industry representatives and shop owners) while the fourth was for the direct respondent group (the informal sector participants). The three questionnaires for the indirect respondent group were designed in a similar fashion. In fact, a percentage of the questions were identical. The questionnaires included both closed-ended and open-ended questions. The questionnaires, however, included more open-ended questions to enable the research to clearly discern the respondents' perspectives on the informal sector.

The questionnaire for the informal sector participants was the longest, with mostly closed-ended questions and few open-ended questions. The questionnaire was divided into the following eleven sections:

(1) Participant/respondent background

- (2) Participant housing situation
- (3) Participant responsibilities
- (4) The characteristics of the enterprise
- (5) Source of capital for the enterprise
- (6) Training and job creation
- (7) Location and storage
- (8) Raw materials and earnings
- (9) Competition
- (10) Organisation
- (11) Problems and future plans

All the questionnaires had a two-page cover, which outlined the three areas (traders, producers and service providers) in the informal sector. In addition, details of the interviewer and reviewer, a definition of the informal sector according to this thesis and instructions to the interviewer were also outlined. Appendices 3, 4, 5 and 6 contain details of the above.

4.4.2 Identification and training of Interviewers

Five research assistants and one supervisor were identified and recruited. Three of the research assistants had degrees in agriculture economics, the fourth a degree in medicine and the fifth an honours degree in agriculture. The supervisor had an honours degree in education. Both the research assistants and the supervisor had more than one year of experience in conducting surveys. In fact, they had just finished a six-month nutritional survey with World Vision Malawi at the time of their recruitment. They therefore had the appropriate experience to enable them to support the author in conducting this primary research. In addition, all of them spoke Chichewa (the main local language), while three of them spoke Tumbuka, the other critical language for the respondents in this survey.

Despite their experience, the author spent two days training them in the methodologies used to conduct this primary research. This training included the following areas as pointed out by Gupta (1993:123)

- (1) issues of interviewer-respondent rapport
- (2) the importance of being thoroughly familiar with the questionnaires
- (3) asking the questions exactly as they are worded in the questionnaires
- (4) asking the questions in the order in which they are presented in the questionnaires
- (5) asking every question specified in the questionnaire unless this was not necessary
- (6) using probing techniques to encourage the respondent to answer the questions by either repeating the question, repeating the respondent's response, by reassuring the respondent of the objective and the confidentiality of the survey if he or she was hesitant and by asking for further clarification if necessary
- (7) compiling the sampling frame and sampling interval
- (8) other general issues on conducting surveys such as appropriate attire

Careful screening and training of interviewers can help to limit interviewer bias (Cozby 1993:65). This was the intention of the training provided.

As part of the training, the team carefully examined the questionnaires and made a few changes before proceeding with the work.

4.4.3 Translation of questionnaire

After a lengthy discussion on which sections were necessary for translation, it was decided that only the questions for the informal sector participant would be translated into Chichewa. It was agreed that the responses would remain in English since it was easy to understand the local languages and select an option in English. Discussions were held to find out if there was a need to translate the questions into Tumbuka; ultimately, this deemed to be unnecessary. The three Tumbuka speaking research assistants read through the questions and discovered that they could easily be

translated from Chichewa into Tumbuka or from English into Tumbuka on the spot. It was also noted that almost all the informal sector participants spoke some Chichewa, because most of their customers were Chewa speaking. It was agreed that the questionnaire, which had questions translated into Chichewa, would be administered in the three cities of Blantyre, Lilongwe and Mzuzu. If a participant in Mzuzu could not understand the question in Chichewa, the research assistant would translate it into Tumbuka. It was later discovered that only four of 600 informal sector participants needed this language support. The rest fully understood Chichewa.

The other three questionnaires did not require translation and were administered exactly as they were because the target audience understood English well.

4.4.4 Pretesting the questionnaire

Before proceeding with pretesting, contacts were made with the informal sector leaders to obtain permission to conduct this research among the participants in their city. The letter the author had obtained from the University of South Africa was used in this process. The informal sector leaders of Blantyre City (Main), Lilongwe City and Mzuzu City all agreed that the team should conduct this research. The informal sector leaders of Limbe, which is part of Blantyre City, refused to allow this research to be conducted in their part of the city. They wanted to be paid as leaders and for the research team to pay each participant they intended interviewing. Several meetings were held to try to convince them but they refused and indicated that they were not willing to be used. In addition, they indicated that there were several groups who had come to interview them and who had received a great deal of money because of the information they had gathered. Yet, they never received anything. After a long discussion, they later angrily indicated that the research team was free to go ahead. However, if the team were beaten up in the process, they would not be responsible. This being the case, a decision was made not to include Limbe as part of Blantyre City in this survey. This did not have any significant impact in the representation of the participants in Blantyre City because the leaders indicated that the participants in Limbe and Blantyre were

operating according to the same principles and there was always movement from Blantyre proper to Limbe and back in search for a profitable place, as far as some participants were concerned.

Pretesting of the informal sector participant questionnaire was done at Ginnery Corner in Blantyre and the results used to review the questions that were not clear. It was discovered that there were only three questions that required reviewing. In addition to the modification of these three questions, there was a need to increase the list of options for some of the questions in the original questionnaire. This was done. It was also agreed that the research assistants were free to use the “other” option if the response given by the respondent was not included in the options listed on the questionnaire. This would be helpful because the “other” option demanded that respondents elaborate on the different response. This decision would facilitate the use of this information in analysing the data and ensure that the author did not lose any of the options that might have been overlooked in the design of the questionnaire.

Pretesting of the other questionnaires was also done but it was discovered that there was no need to change the questions because they were clear and easy to understand.

4.4.5 Sampling

According to the research proposal, the work of Fink (1995), Bureau of Market Research (1995), Henry (1990) and Chadwick, Bahr and Albrecht (1984), four samples were drawn from four different populations: government officials, industry representatives, shop owners and the informal sector participants themselves. The sample size for each group was based on the population estimates, purpose of study, time and money available. Sample sizes were based on the recommendation made by Chadwick et al (1984:68) who stated the following “Researchers have developed certain rules of thumb about sample sizes. According to Bailey (1982), 30 is considered by many as a minimum size for a sample. Others opt for a minimum sample of 100 units and we encourage the selection of at least 200 cases.” Consideration was also given to

the standard errors of the statistics and confidence intervals. Details on the way sampling was done in each group are provided below.

4.4.5.1 *The Government officials*

The judgement sampling method was used. According to this method, there is a deliberate selection of certain units on the judgement of researcher and nothing is left to chance (Gupta 1993:111). The officials selected using the judgement sampling method were town clerks, city councillors, district labour officers, district commerce and industry officers, district census officers, district community development officers, district health inspectors, district town planning officers and district tax officers in each city. The principal secretaries in the Ministry of Trade and Commerce, Ministry of Labour and senior officer in the Economic Planning Department at the headquarters were also included in the sample. A sample size of 30 was drawn using this method, and details of this are provided in section 4.4.6.1.

4.4.5.2 *Industry representatives*

The first step was to obtain a list of companies from the Chamber of Commerce and Department of Trade and Industry in the government. Using these lists, a further list was drawn using judgement sampling, which formed the sampling frame. The list and the decided sample size helped to determine the sample interval, which helped select the industries to be visited. The respondents in this case were the marketing directors/managers or the managing directors themselves. A sample of 10 representatives was drawn using this sampling method.

4.4.5.3 *Shop owners*

Since the expected list of shops in the three towns was not available, a decision was made to develop a sampling frame. This is the actual set of people (shop owners in this instance) who may be included in the sample after the population has been defined. If

one defines one's population as "residents in my city", the actual sampling frame may be residents who can be contacted telephonically (Cozby 1993:62) In this instance, only the shop owners along the major city roads were considered. A sampling frame was developed by going through the major roads in each city and counting the number of shops. This resulted in a list (sample frame). Development of a sampling interval was done using the decided sample size and this list. The sample interval therefore helped to determine the 20 shop owners to be interviewed.

4.4.5.4 *The informal sector participants*

A sample of six hundred respondents involved in the informal sector in the three major cities of Malawi (Blantyre, Lilongwe and Mzuzu which are approximately 350 km apart) was drawn. This sample included both men and women. According to the National Statistics Office (July 1994), the estimated populations were 528 400 for Blantyre, 548 200 for Lilongwe and 76 600 for Mzuzu. The sample size was taken proportionally to the population in the cities and was as follows:

- Blantyre 275 respondents
- Lilongwe 285 respondents
- Mzuzu 40 respondents

The respondents were between the ages of 15 to 65 and were recruited using the stratified random sampling method. This is analogous to quota sampling in that the population is divided into subgroups (or strata). Random sampling techniques are then used to select sample members from each stratum (Cozby 1993:60). The informal sector respondents were therefore divided into three strata: traders, producers and service providers. No information existed on the proportions of these three strata. Kachiza (12 August 1998) from the Ministry of Commerce and Industry in Malawi, and Chikanza (12 August 1998) from the National Statistics Office agreed that recent government records estimated that 90 percent of the people involved in the informal sector were traders, eight percent were services providers while about two percent were

producers. Mgwadira and Chatsika (January 1999) from Blantyre City indicated that there were no records because individuals who had access to capital were entering the informal sector daily. They did estimate however, that 70 percent were traders, 19 percent were producers and 11 percent were service providers. An average of the two estimates was used to determine the size of samples in each stratum. Thus, 80 percent of the selected respondents were traders, 10 percent were producers and 10 percent service providers. Using estimates from Blantyre City, the strata were further divided into subgroups as indicated in table 4.1 below.

Table 4.1: Details of the category of the informal sector and the sample size

Category of informal sector	Nature of activity	Sample from Blantyre	Sample from Lilongwe	Sample from Mzuzu
TRADERS	Street vendors for assorted items (50%)	110	114	16
	Second hand clothing sellers (30%)	66	69	10
	Food, fruit and vegetable sellers (16%)	35	36	5
	Metal, wood products and handcrafts (4%)	9	9	1
PRODUCERS	Tailors and knitters (60%)	16	17	2
	Furniture makers (20%)	5	5	1
	Tin and pots makers (20%)	6	6	1
SERVICE PROVIDERS	Hairdressers, barbers (20%)	6	6	1
	Shoe, watch and radio repairers (48%)	13	14	2
	Minibus advertisers (32%)	9	9	1
TOTALS		275	285	40

Before any of the above samples were drawn, a sampling frame was developed using the method described under the “shop owners” section. Sampling frames were developed for each subgroup within a stratum, and a sample was drawn from each subgroup after determining the sampling interval.

This method of sampling gave all the informal sector participants in the cities an equal chance to be chosen for the interview.

4.4.6 Data collection

Data was collected in each city in the manner outlined below.

4.4.6.1 *Government officials*

While the plan was to interview a total sample of 30 officials (nine per city and three from the headquarters) and all the officials would hold the same positions in the three cities except the ones at the headquarters, in practice this did not happen. When actually conducting the survey, it was difficult to meet all the officials. Many of them were either out attending a workshop, out of the country or on leave. A judgement sampling method was therefore used on the spot to determine if either the deputy or another person in the department could be interviewed. In addition, some of the officials who were sampled did not want to be interviewed because they felt that they did not know much about a new government structure that had just been implemented. They were still ‘trying to find their ground’, as one of them put it. Data were therefore collected from five officials from Blantyre, seven officials from Lilongwe and six officials from Mzuzu. Since the intention was to find out how the government viewed the informal sector in Malawi, the collected information was adequate to form an opinion.

4.4.6.2 *Industry representatives*

Many of the representatives did not have the time when they were visited, or a scheduling conflict emerged and they were unable to meet the interviewers. Many of

them suggested that the questionnaire should be left for them to fill in, in their own time. Some of the sampled industries were on the verge of collapsing and were not keen to be interviewed. This therefore meant that the interviewers collected data from seven industries compared with the planned 10. These seven included Lever Brothers Limited (which makes soap, cooking oil and other products); Plastic Products Limited (which makes plastic products); Pharmanova Limited (which is a pharmaceutical company); Southern Bottlers (which manufactures soft drinks); David Whitehead Limited (which manufactures cloth and clothes); Universal Industries Limited (which manufactures biscuits and sweets); and Candlex Limited (which manufactures candles). The interviewers conducted all seven interviews personally. The three who insisted that the questionnaire be left did not return it despite the telephone calls and visits that were made to encourage them to do so. However, the information collected from the seven was adequate to meet the objective of the study.

4.4.6.3 *Shop owners*

This was the most difficult group to interview because of their perceptions. Despite the fact that contacts were made with their leader, a significant number regarded the interview as either spying or politically based and deduced that it would mean trouble for them. Some were angry with the government for allowing the informal sector participants to operate on their verandas and their responses tended to be emotional. However, all 20-shop owners were interviewed and data collected as planned.

4.4.6.4 *The informal sector participants*

Contrary to expectation, this group was easy to interview. The informal sector leaders, per the research team's request, informed their participants about this survey and they were ready and willing to be interviewed. As far as street vendors, second hand clothing sellers, food, fruit and vegetable traders, minibuses advertisers were concerned, interviews were conducted the same day or a day after the sampling frame had been compiled since some of them were extremely mobile. The rest of the informal sector

participants who occupied the same spot every day were not a problem and their interviews were conducted one to three days after compiling their sampling frame.

Several challenges were faced when collecting data from the informal sector participants as explained below.

(a) *Time*

Each participant was interviewed while working; some interviews were time consuming because the participants continued serving their clients while the interview was in progress. This freedom was necessary to prevent them losing business because of the survey.

(b) *Suspicious*

Some informal sector participants were still not sure if the stated objectives were genuine or the interviewers were there to try and find out how the government could tax them or chase them from the place where they were working. This challenge required a detailed explanation of the reason for the survey, which was also time consuming.

In addition, the interviewers were uncertain about the responses some of the participants gave, especially in the area of how much money they made per day. A further sample (10%) was made for those whose response looked dubious. The interviewers visited them again to observe how much they made within a given two-hour period of time. The good news was that the interviewers confirmed that the responses on estimated income per day were valid.

(c) *Contacts with leaders*

It became abundantly clear that there were a plethora of leaders within the informal sector itself. The challenge was to make sure all of them were aware of what the

research team was doing before they did it. The advantage, however, was that the informal sector participants themselves indicated to the interviewers who their leaders were and who had to be contacted first. Once these contacts had been made, it became less difficult as the leader informed his or her committee members (who were also section leaders) about the survey.

(d) *Women participants*

Some participants, especially women who were selling food and vegetables, had difficulty responding to how much they made per day or how much they spent. The interviewers had to take time with them analysing these considerations to ensure they reflected the truth, without necessarily affecting their final response.

The supervisor and author made sure that all the questionnaires were complete. Because the sample size was large, a decision was made to review the completeness of the questionnaires as a team. After a day's interviews, all the interviewers and their supervisor sat down to examine the questionnaires to ensure that all the relevant questions had been answered and that the questionnaire was complete. After this exercise, whoever reviewed these questionnaires, signed to show they had reviewed them. This worked well because of the training the interviewers had undergone. At the beginning of this exercise, the supervisor and the author spot-checked the questionnaires that the interviewers had filled in to check that they were complete, acceptable and factually correct.

4.4.7 Data coding and entry

The questionnaires were deliberately not designed to include the coding of the information section on the questionnaire itself. This was done because it was decided that the coding would be done later, and to ensure that the qualitative information would also be included in the analysis.

Coding refers to assigning number digits, letters or both to various responses to make possible easy tabulation of information. The purpose of coding is to classify the responses to a question into meaningful categories, which is essential for tabulation (Gupta 1993:153).

While many of the informal sector participant's questions were closed, they had the option of "other" at the end of each question. This enabled the interview team to include essential factors in the interview, which the question options might have overlooked. Instead of coding the "other" category as one category, a decision was made to code each of the issues in the "other", to specify sections separately. After the interviews, an examination of each question and its responses was made. This allowed the team either to accept the assertions or options as they were or to add another category based on the "other" section when coding.

On completion of this simple manual coding, the variables (in this case, the questions) and the assertions were entered into the SPSS program. This entry for each variable represented the required coding needed.

The keying in of information from the questionnaires into the computer was relatively easy after the coding had been completed. Since the questionnaire for the informal sector participants was lengthy, this process took three weeks to complete. The same process was followed for the government, shop owners and industry questionnaires although some of the open-ended questions were not included in this coding and keying into the computer.

4.4.8 Data analysis

The data were analysed in two ways as follows:

4.4.8.1 *Quantitative data*

The data entered into the computer were easily analysed using the SPSS program. Using commands in SPSS, all the required analysis was done, frequency tables were generated and histograms or pie-charts compiled.

4.4.8.2 *Qualitative data*

As for the qualitative data, which were generated from the open-ended questions, summaries of the major or interesting points were made and reported as the results of this survey.

4.5 CONCLUSION

This chapter clearly outlined the research methodology used. It explained the two research methods used and exactly how this was done. It also outlined the methods used to collect, code and analyse data. The next chapter examines and discusses the results of the research.

CHAPTER 5

RESEARCH FINDINGS

5.1 INTRODUCTION

While the research methodology was outlined in the previous chapter, this chapter concentrates on the actual research findings. These are presented in four sections. Firstly, the findings on the government officials are examined; secondly, the findings on the industry representatives are presented; thirdly, those of shop owners are outlined and finally, those of the informal sector participants themselves are presented. In each section, the results are presented in a simple report, which is divided into three subsections: the finding, a discussion and a conclusion. In addition, the results of the informal sector participants are depicted using pie charts, histograms or frequency tables wherever necessary.

The research findings of the informal sector participants are presented according to the 11 sections of the questionnaire as set out in section 4.4.1.

5.2 FINDINGS ON THE GOVERNMENT OFFICIALS

Eighteen government officials were interviewed. Twelve of them were officers, three directors and the remaining three either human resource managers or administration managers. The main objective of interviewing this group was to discover the government's perception of and attitude towards the informal sector. The assumption made at the outset was that the government employees working in diverse strategic positions would represent the government's perception of and attitude towards the informal sector. This section therefore examines the responses of these employees in the three major cities of Malawi.

Number of years in the position

Findings

More than 66 percent of the government officials who were interviewed had been in their present positions for less than five years. No respondent had been in the position

between six to 10 years. The remaining 33 percent had been in their positions for more than 10 years.

Discussion

There are several possible reasons for the above finding. The most probable is the fact that the ruling party was re-elected to run the government in 1999, and it may have changed its approach and employed new staff to assume the responsibilities. Others included the following:

- Those who would have been in their positions for six to 10 years belonged to the previous government, and because they were possibly affiliated to the old party they were no longer welcome in new government. As for the 33 percent who had worked for more than 10 years, the chances were that they had affiliated themselves to the new party even prior the elections.
- Some of the government employees might have resigned from government job either because they had found another good job, retired, started their own business or died.
- Others might have been promoted or transferred to other departments.

However, all the officials were involved in the informal sector in their day-to-day jobs.

Conclusion

Although the majority of the officials had been in their current position for less than five years, their perceptions represent the government policy because they deal with the informal sector in the execution of their day-to-day jobs.

How does the government define the informal sector?

Findings

Government officials gave different statements on the way in which the government defined the informal sector. Generally, the greater the number of years the government official had been on the job, the more comprehensive his or her definition of the informal sector was. Three officials could not give any definition because they simply did not

know. Some of the definitions/statements of the informal sector provided were as follows:

- In the informal sector, people operate businesses without any record anywhere. They have no address, and it is difficult to follow them up. They are people who would like to receive free services from the government but are not prepared to give anything back to government in return.
- The informal sector is composed of small-scale traders/businesspeople who are not generally registered with the Ministry of Trade and Industry and operate in mostly undesignated (especially urban) areas. (This is not necessarily a government definition, but this is how the respondent sees the informal sector)
- All people involved in small businesses, occupations or trade for the purpose of gain or reward on a piece of land with or without building are regarded as informal sector participants.
- The policy document categorises all enterprises with fewer than five employees as micro-enterprises. This category includes artisans, traders, producers and providers of various services.
- The informal sector is any development or settlement, that has no order, has not been planned by an institution and is sporadic.

Discussion

While one may argue that there are too many definitions of the informal sector (section 2.2.2), the findings here seem to suggest that many of the officials gave their own definitions of the informal sector. It is possible that the government had not yet developed or widely circulated any policy defining the informal sector in Malawi. It is also possible that the informal sector is a term that is not commonly used. As indicated by Roe (1992), although previous papers employ the terms “informal sector” and “survival mechanisms”, occasionally interchangeably, in Malawi, he rejects the term “informal sector” and accepts the term “survival mechanism/strategies” for the purpose of describing micro-level income generating activities. Other government officials may have been more comfortable with the term “survival mechanisms” rather than “informal

sector". The definitions above, however, show that there is a working knowledge of specific characteristics of the informal sector such as the involvement of traders, producers and service providers as well as that of people operating businesses without official records. These characteristics, some of which are outlined in section 2.2.2, demonstrate that it would be possible to find a commonly accepted definition for Malawi.

Conclusion

The lack of a common definition of the informal sector in the government could be a contributing factor to the government's difficulty in dealing with this sector.

Do you have statistics on how many people are involved in the informal sector in this town?

Findings

Eighty-nine percent of the government officials did not have any statistics on how many people were involved in the informal sector. Further, they were unable to make an estimation, and those who did, tended to give scanty and unreliable estimates.

Discussion

The fact that there is no official definition of the informal sector makes it difficult to come up with statistics on how many people are involved in this sector in the three towns of Blantyre, Lilongwe and Mzuzu, as stated in section 2.2.3. As also pointed out by Richardson (1984:3), the informal sector plays a crucial role in absorbing urban labour and its role cannot be fully appreciated without research into its size, a challenge which presupposes a precise definition. Without an official definition of the informal sector, it was not surprising to find out that the Malawi government did not have statistics to guide the thinking of government officials on the informal sector in the three towns. In addition, there was no information management system focused on the informal sector, which would have helped capture the critical informal sector information for the country.

Conclusion

A clear and official definition plays a key role in gathering the statistics or estimates of the informal sector in a country. Without this definition, measurement becomes difficult.

Do government rules and regulations require all informal sector participants to have a licence to operate?

Findings

Sixty-one percent of the government officials made it clear that not every informal sector participant requires a licence to operate and that the licence requirement depends on the economic activity involved. The remaining 39 percent, however, thought a licence was still required.

Discussion

This finding suggests that there is no commonly held understanding of the government requirements for the informal sector. As for those who said that a licence was not required for everyone involved in the informal sector, it was clear to them that the present regulations only demanded certain occupations to have licences. Others were merely required to pay a market fee, if necessary. The difference in opinion possibly reflects their own understanding. It might also indicate the type of government documents to which they were exposed. This may also be an indication that there is no database containing this information, available to all staff. As pointed out by Sethuraman (1997:17), the regulations are not strictly enforced either because they are not clearly defined (and hence subject to various interpretations by enforcing officials) or because of weaknesses in the institutional capacity to enforce them uniformly. Whatever the case may be in Malawi, the lack of a common understanding by the officials is a clear indication that the rules and regulations on the informal sector are not uniformly enforced.

Conclusion

The lack of clear and widely distributed rules and regulations on the informal sector made it difficult for the government officials to have a common understanding of which enterprises required a licence to operate.

How do you feel about the informal sector participants and their activities in this country?

Findings

Thirty-nine percent of the officials felt it was fine for the informal sector participants to continue to operate in the current configuration, while 27 percent felt there was a need to reorganise the sector to enable the participants to operate in an orderly fashion. Twenty-two percent did not like the operations of the informal sector and would have loved to see them removed. The remaining 12 percent did not comment.

Discussion

The responses given by the government officials were divergent because they indicated how they felt about the informal sector. It is possible that the way they felt also influenced the way they treated the informal sector participants. The way the officials felt was also influenced by the fact that there was no official government voice on this issue. As indicated by Bromley (1978b) (section 2.4.8), informal sector participants are important to politicians because of their votes. This is the situation in Malawi. The country's President publicly supports the operations of the informal sector; other politicians also seem to encourage it, not only for the sake of economic development but also as a way to secure coveted votes from the participants. However, some government senior staff and City Assembly staff feel that it should be controlled. The responses of the government officials reflect this complexity.

Conclusion

While the rules and regulations of government should influence the way government officials feel about the informal sector, it is clear that what politicians say in public

affects their perception. It was also clear that government officials tend to share a perception with interviewers that does not jeopardise their work or their political future.

How does government view informal sector participants? (Read the statements to the respondent and tick as many as possible.)

A number of statements were read to the government officials who were asked to tick and prioritise as many of them as possible.

Findings

According to the government officials, the government viewed the role of the informal sector participants in the following order of priority:

- They help to reduce poverty in the country (16,0%).
- They promote economic growth in the country (14,7%).
- They help the poor to survive in town (14,7%).
- They create an unhealthy environment (13,3%).
- They are destroying the environment and need to be controlled (12,0%).
- They have created an environment conducive to stealing (10,7%).
- They are causing confusion, thus destabilising market prices (8%).
- They are a sound checkpoint for market prices (6,6%).
- Other reasons include the following: they provide cheap labour, cause accidents, abuse women and girls and cause congestion on the roads. (4%).

Additional comments made in this area were as follows:

- There is need for the government to have strict measures on the operation of the informal sector.
- The service providers need civic education on environmental health to improve the health status of the cities.
- The sector should be developed and organised by government in order to improve the economic situation of the country.
- Flea markets should be constructed for the informal sector so that the city can be cleaned up.

- The formal sector is unable to create employment for all citizens – hence the need to promote the informal sector

Discussion

While the first three priority views were positive and 52 percent of all the views were positive, there were also negative views, particularly in the area of the environment. These negative views were also elucidated in section 2.2.5 as the disadvantages of the informal sector.

It is interesting to note that other government officials think that according to the government, the informal sector is destabilising market prices and causing confusion. This does not seem to be the government's perspective. It is the officials' perspective because the government has implemented the liberalisation policy promoting free trade. The government is more concerned about fair prices for the people in the marketplace, which is happening because of the competition the informal sector participants have created. If the government officials had understood the government policy of free trade or the liberalisation policy, they would only have expressed negative opinions on the destabilisation of market prices if they had not agreed. Further, these government officials could have had doubts about the liberalisation policy, as analysed in section 3.3.1.2.

Additional comments focused on what the officials thought should happen to improve the operation of the informal sector.

Conclusion

The government views the informal sector positively because of its critical contribution to the economy of the country. However, it is widely believed that there are issues that need to be addressed to improve this sector.

Does the government have a strategy on how it wishes to handle the informal sector? If “yes”, do you have a copy that I can have? If “no”, what does the strategy say?

Findings

Forty-four percent of the government officials agreed that the government does have a strategy on how to handle the informal sector while 39 percent do not think so. Seventeen percent do not know whether or not the government has one. None of the 44 percent who said the government had a strategy had a copy of the strategy. The author therefore neither had access to the strategy nor did he see any evidence of the existence of such a strategy. When asked exactly what the strategy said, some of the responses were as follows:

- The aim of the strategy is to control the informal sector operations by providing special markets where informal sector participants can operate.
- One of the components of the strategy is the introduction of flea markets and training for entrepreneurship so that the self-employed can also employ others.
- The occupational and business by-law of 1982 regulates the operations of vendors and helps to regulate the operations of the informal sector. However, the current control is based on market by-laws as well as the Town and Country Planning Act.
- The enterprise development programme of the government focuses on the training of the informal sector participants to support them in the formation of formal small enterprises.
- Micro-enterprises have been included under the Malawi Small and Medium Enterprise (MSME) development programmes draft strategy document. The emphasis is on facilitating the graduation of the informal enterprises into formal micro-enterprise and small enterprises that will make a greater contribution to the economy.
- The city assembly is expected to form a committee to regulate the operations of the informal sector. The committee will enforce the market fee and collect it from all the informal sector participants.

One of the respondents, who indicated that the government had no strategy, also pointed out that the government was reviewing the Town and Country Planning Act and other related trade laws, which would assist the operations of the informal sector.

Discussion

Three things emerge from the findings above as a government strategy:

- the need to construct flea markets to control the operations of the informal sector
- the need to have a structure that will regulate operations and collect market fees
- the need to train and encourage the informal sector participants to organise themselves into formal businesses so that they can contribute more fully to the economy of the country

While the responses were diverse, the impression given by the government officials was that the government intended to provide the infrastructure to the informal sector to enhance control and ensure that it contributed more to the economy of the country. However, the fact that some officials stated that the strategy was in place but were unable to provide a copy or explain what it said in the same words seemed to suggest that there is, in fact, no written strategy. Even in interviews with those who felt the by-laws were being implemented, it seemed clear that these by-laws were not for the informal sector per se but only for certain aspects of it. If the strategy did indeed exist, there was need to have it disseminated to all concerned so that they could have a clear understanding of the government's direction. The lack of a strategy (according to the author there was no evidence of it) gave the media space to speculate on what they deemed the strategy to be. They either based their speculations on what the politicians and government officials said in some public meetings or on their speculations about rumours. The danger is that the media tend to be biased on behalf of either the ruling government or the opposition, and this bias can mislead the people.

In addition, Bromley (1978b:1163-1164), working in Cali, observed that the municipal and the departmental authorities regulated the street traders. The problem here was that there was considerable overlapping and duplication between departments in their

dealings with street traders, and the actions of one department frequently contradicted those of the other. It is possible that the situation in Malawi is similar to that of Cali. While the city assembly may have a clear strategy on what needs to be done, the health department, the social welfare department and the police may not necessarily agree with it. Hence, different departments and officials within the government implement different strategies. This confuses people because they have no idea what the government strategy actually is.

Conclusion

The Malawi government does not have a commonly understood strategy on how to handle the informal sector. The strategies shared by government officials from different departments, if combined, would form a comprehensive government strategy for Malawi.

What do you think about the micro-finance institutions in Malawi? Do politicians influence them to the extent that they are not helpful to the poor informal sector participants?

Findings

Sixty-seven percent of the government officials did not agree that politicians influence the micro-finance institutions, while 33 percent thought they did. Those who did not agree gave the following reasons:

- There is no political influence, anyway. The only problem is that the interest rates of the institutions are prohibitive.
- The politicians do not influence the institutions but are in fact the primary beneficiaries of these institutions. The politicians are rich and able to repay, so they are the preferred clients.
- The institutions are influenced by the resources they have rather than by politicians.
- While politicians do not influence the institutions, individual politicians' views destroyed the repayment policies in their political statements.
- Micro-finance institutions are independent and cannot be influenced by politicians.

- Politicians do not influence institutions, but the institutions' terms and conditions are so difficult that their loans are not available to the informal sector participants.

Those who agreed that politicians do influence the micro-finance institutions, advanced the following reasons:

- If government is involved in the setting up or funding of the institution, the politicians influence it. Institutions such as the Development of Malawian Traders Trust (DEMATT) and Small Enterprise Development Of Malawi (SEDOM) are political campaign instruments.
- The institutions are not only influenced by politicians but are also actually under the strict control of politicians, so that only those who are favourites of the politicians are able to access loans.
- Some institutions only grant loans if the applicant belongs to a certain political party, which makes it clear that the politicians influence them.
- Politicians influence the institutions. In addition, nepotism and renowned people or their sons and daughters benefit from these institutions.

Discussion

The majority of the government officials did not think the politicians influenced the micro-finance institutions. While this may reflect the genuine point of view of some of the officials, the responses of others may have been affected by their allegiance to the ruling party. However, those who thought the micro-finance institutions were being influenced by politicians, may have responded in this way on the basis of the experience of a relative or a friend, or from what they had heard and observed. These findings suggest that while the micro-finance institutions should be independent, politicians in some way influenced them. The influence differed depending on the way the institution is organised. In addition, it was also clear that the institutions' terms and conditions, as well as their interest rates, make it difficult for the informal sector participants to benefit from them. As pointed out in section 3.3.1.5, connection, corruption and collusion epitomise the business environment in Malawi, and these three "Cs" influence the operation of the micro-finance institutions. The only time an informal

sector participant benefits from these institutions is when he or she has a relative who is a politician or because the three “Cs” work in his or her favour.

Conclusion

Politicians influence some of the micro-finance institutions in Malawi. More influence is experienced in government-run institutions than in others. In more independent institutions, the issue of conditions and rules (in addition to connection, corruption and collusion) make these institutions unhelpful to poor informal sector participants.

In your own view, what problems, if any, do these informal sector participants pose for the town?

Findings

Ninety-four percent indicated that the informal sector participants pose several problems for the town, while six percent did not think so. The problems that the majority of the officials mentioned were as follows:

- They cause overcrowding and accidents.
- They help spread communicable diseases such as cholera.
- They pollute the environment.
- They sell spoilt and expired commodities.
- They overcharge the consumer.
- They encourage stealing, and some of them are actually criminals hiding in the informal sector.
- They are responsible for the rapid growth of squatters and urban slums.
- They are involved in drug, alcohol and sex abuse.
- They dump garbage anywhere and burn papers or other materials anywhere.
- They clog the sidewalks and streets where they operate.
- They cause too much noise, which disturbs office workers.
- They create disorder, which may discourage potential investors in the country.
- They tend to locate their businesses in highly unsuitable places, thereby inconveniencing other economic players.

- They do not meet certain minimum standards for operations in town.

Six percent still insisted that the informal sector participants do not cause problems because they create employment, which the government is failing to do for its citizens.

Discussion

While it is true that the informal sector participants do cause several problems in the towns, this does not necessarily apply to every participant. The problems stated can be summarised in five areas of security, health, environment, cheating and abuse. Todaro, as mentioned in section 2.2.5, underlines some of these problems. In addition, many of these problems are also experienced in the formal sector although possibly in different forms. As for those who think that the informal sector does not cause problems, the chances are that either they are themselves involved in the sector or their relatives are and their views therefore tend to be subjective. The critical issue, however, seems to be the government's failure to regulate both the formal and informal sectors.

Conclusion

The informal sector participants seem to cause several problems in towns. These problems, however, are more a function of how much government regulation is being enforced.

What role does the government want NGOs to play in the informal sector?

Findings

Eighty-three percent of the government officials had something to say about this. The remaining 17 percent did not know. The responses given by the 83 percent were as follows:

- NGOs should assist the informal sector participants with small low-interest loans.
- They should train the informal sector participants in financial and business management, environmental issues and the principles of marketing.

- They should help in the provision of infrastructure where orderly trading can take place.
- NGOs should support informal sector participants by providing support services such as storage places, marketing of their goods and advocacy.

Discussion

Not all officials know what the government can expect from NGOs. This may be because it is not clearly stated in the government policies. This section and the section on government strategy have responses in common. The issues indicated above suggest that there is a need for NGOs to help the government organise and support informal sector operations. The fact that there is no commonly agreed-upon government strategy means that the expectations indicated above could simply be the opinion of the government officials rather than what the government actually expects of the NGOs. It is, however, clear that the government supports the operations of the informal sector as indicated earlier. Sethuraman (1997:22) also points out that the informal sector has acted as a safety valve and ensures political and social stability. Furthermore, because it is contributing to the reduction of unemployment and poverty, most governments have become more tolerant and even supportive of this sector. The Malawi government is no exception. It is fair to assume that the government expects NGOs to be supportive of the informal sector as well. Without a clear internal strategy, however, the chances are that the NGOs will operate in any mode that suits their own internal objectives.

Conclusion

Except for the general role of supporting the government to enhance the activities of the informal sector, additional or more specific roles that the government wants NGOs to play in the informal sector in Malawi are unknown.

There are now several places in town where notices have been put up indicating that no one is allowed to sell or do business on those premises. Has the government approved this or can anyone do so at will?

Findings

Sixty-six percent of the officials indicated that there is no need to have any government approval for a formal business owner to put up a notice forbidding the operations of the informal sector on their premises. Some of the reasons advanced were as follows:

- Formal business owners have leased the land and they are free to ban anyone from doing business on their premises
- Government has promulgated a Business Licensing Act prohibiting the operations of hawkers and this has given the formal business owners the power to place a notice anywhere since they know they are supported by the Act.
- If the land is public, then any notice requires government approval.

The other 22 percent indicated that they did not know if approval was required, while the remaining 18 percent were unsure.

Discussion

While the reasons advanced above make sense, it is not clear why shop owners who lease land have not put up such notices. This may be out of fear, which may be generated by political speeches, which seems to have given power to the informal sector to operate wherever they want to. As pointed out in section 1.2, people also understand democracy to mean the freedom to do whatever they want or trade wherever they want to. In addition, the government is interested only in ensuring that certain locales such as banks or offices are protected.

Conclusion

The government is not required to approve the posting of notices prohibiting the informal sector participants from doing business on leased land. However, for the rule of law to be respected, the politicians should first respect it in all their speeches. It should also be applied without partiality.

Some informal sector participants think that when they pay a market fee they do not need to have a licence. What are your comments on this statement?

Findings

Seventy-two percent of the officials disagreed with the statement and for the following reasons:

- The market fee and the licence are different although they can be linked.
- The licence comes first, and then the market fee. Those who are responsible for issuing licences are disorganised and therefore allow people to start operating without a licence. This often causes problems.
- The market fee is for the daily running of the city (cleaning and sanitation) the purpose of the licence is to authorise them to do business legally in the city.
- There is a lack of civic education for the informal sector participants. This has resulted in a great deal of confusion about whether they need to obtain a licence and pay a market fee or whether they need to pay the market fee but do not need a licence.
- The government is generally emphasising less control and more promotion of the informal sector. Government officials are inclined not to encourage too many fees because this may discourage informal sector participants. Licensing will soon not be required for many small-scale activities.

Twenty-two percent of the government officials agreed with the statement. Their reasons were as follows:

- Those who pay market fees are exempt from obtaining a licence under the Businesses Licensing Act, chapter 46:01 of the laws of Malawi.
- When the informal sector participants pay a market fee, this enables them to sell. If they pay a market fee, they do not need a licence because this will mean paying twice.

Discussion

There are obvious differences of opinion on the part of government officials about whether the informal sector participants should obtain a licence as well as pay a market fee. It is possible that these differences of opinion arise from the fact that in the informal sector certain activities require a licence while others do not. For example, selling food requires a licence because the Health Department wants to make sure the food that is sold is of good quality and will not cause diseases like cholera. Also, if the informal sector participants are operating near a marketplace, they will be required to pay a market fee as well. The problem, however, is that not all the government officials who were interviewed had a common understanding. As pointed out by Sethuraman (1997:17), more often than not the regulations are not strictly enforced either because they are not clearly defined (and hence subject to various interpretations by enforcing officials) or because of weaknesses in the institutional capacity to enforce them uniformly. There are, however, three scenarios that seem to emerge from the findings. These are as follows:

- (1) There is no need to obtain a licence or pay a market fee.
- (2) There is a need to pay a market fee because of the place where the person intends operating.
- (3) It is necessary to obtain a licence for certain activities and also pay a market fee if the person is located near a market.

Not all the government officials were able to apply the conditions depicted in the above scenarios, nor did they have the necessary information to do so. Again, a database that clearly provides information on which activities require a licence and which do not, is lacking. In addition, if what one of the officials said is true, the government seems to be generally emphasising less control and more promotion of the informal sector. Thus, additional fees will not be encouraged and licensing will soon not be required for many small-scale activities. Given all these conflicting opinions and government policies, it is not surprising that there is confusion about which rules and regulations to enforce.

Conclusion

It is not true that one does not need a licence if one pays a market fee. The need for a licence depends on the particular activity in the informal sector while the market fee depends on the place of operation. It is absolutely imperative for the government officials to have clear guidelines on and understanding of the areas of licensing and market fees.

Some people think that the informal sector participants are avoiding tax and most of their activities are illegal so they should be controlled. What are your comments on this statement?

Findings

Sixty-seven percent of the government officials agreed with the above statement for the following reasons:

- Most of the informal sector activities are illegal because many of the informal sector participants started their businesses without a licence.
- It is a fact that the informal sector participants are avoiding tax and conducting business in illegal places, and causing disorder in the city.
- Control is critical for it will provide the government with the required revenue.
- It is important to control their operations in order to have some record of their contribution to the economy.
- Many of the informal sector participants are mobile in order to avoid tax.
- When the informal sector participants bring in merchandise from other countries, they avoid the border posts and use other routes to avoid customs duty, which is not acceptable.
- The political situation has made it difficult to control them. If flea markets were to be built for them, it would be possible to control their activities.

The twenty-eight percent who disagreed with the statement advanced the following reasons:

- There is indeed some evidence of tax avoidance but not all activities are illegal.

- It is not true that all their activities are illegal but that there is a need for them to operate in designated places with a licence.
- The participants are regarded as being in the category of citizens who do not meet the minimum requirement to pay tax and therefore do not need to.

Discussion

The statement that the informal sector participants are avoiding tax is false, unless one understands how much profits they make per month. Taxation is only applicable at certain income levels (K2 000 per month or more) as discussed in section 3.3.1.2. Many of the participants are not required to pay tax when one examines the amount of profit they make per month, as we shall see later. Although some of the participants may be in those brackets where taxes have to be paid, they were few and far between. Consequently, one would first need to ascertain the profits they make before taxing them. It is understandable that the responses of the government officials diverge on this point.

Those who opposed the statement were also right to indicate that not all informal sector activities are illegal. As discussed in section 2.2.2, the illegality depends on people's perception. It would be difficult for someone to conclude that all informal sector activities are illegal. The author observed that the confusion seemed to stem from the lack of differentiation between a definition of illegal activities and whether or not the participants are operating illegally. Many of the informal sector activities are not illegal but when one examines the way the participants operate, then many may be operating illegally. As indicated by Bromley (1978:1164), in Cali, an increasingly large majority of the traders were operating illegally. Even those who had licences operated illegally because they were breaking the law in other ways, such as using inaccurate weights and measures, trading in prohibited areas, selling contaminated goods or lettering the area. However, one can also argue that the same applies to many formal sector operations.

Conclusion

One cannot conclude that all the informal sector participants are avoiding tax or operating illegally until one carefully examines the activity they are involved in, their method of operation and the profits they are making.

Some people think that the economy of this country will only improve if the activities of the informal sector are enhanced and supported. Do you agree or disagree with this statement?

Findings

Seventy-eight percent of the government officials agreed with the statement for the following reasons:

- Economic growth is about per capita income and it makes sense to uplift those living below the poverty line. Enhancement of the informal sector, therefore, can help many to advance above the poverty line.
- The informal sector activities, when supported, become formal activities, which has a more positive impact on the economy.
- The informal sector in Malawi is a large sector - hence supporting it will result in the growth of the economy.
- The informal sector participants are extremely innovative, have new concepts and ideas and if supported will enhance their businesses so dramatically that the economy will grow substantially.
- If the informal sector activities are enhanced, many people will be self-employed. They, in turn will employ others, which will undoubtedly boost the economy.
- Enhancing the informal sector will lead to poverty reduction and hence improve the economy of the country.

The twenty-two percent who either disagreed with the statement or did not know gave the following reasons:

- This is not the only way, but one way to improve the economy.

- Most of the items sold by the informal sector participants are imported and foreign exchange is involved. Yet the participants do not pay tax. If anything, enhancing this sector would retard economic growth.

Discussion

It was true that the informal sector is one means of improving the economy of the country but not the only way. It is also true that if the sector were to be enhanced there would be some improvement in the economy. This would require creativity both on the part of the government and the participants themselves. Other writers such as Sethuraman (1997:19) have argued that with a rise in real incomes of households in the long run one can expect, diminishing opportunities for the informal sector. This, in part, explains why the importance of the informal sector tends to diminish with economic growth, as has been observed in recent years in some southwest Asian countries (eg Thailand). If the government were to succeed in raising the economic growth, the importance of the informal sector would diminish.

Conclusion

The economy of Malawi will also improve when the informal sector is enhanced. The informal sector currently helps many poor people cross the poverty line and therefore improves their standard of living. This boosts the economic growth of the country.

Some people think that for political reasons, the government or city assembly rules and regulations on the operations of the informal sector are not being enforced. Do you agree with this statement?

Findings

Fifty percent agreed with the statement, 39 percent did not and 11 percent did not know. The 50 percent, gave the following reasons:

- Political reasons are one part of it while the other is lack of capacity to enforce the rules and regulations. Political reasons include a wish to avoid destabilisation, which would happen if the government were to enforce some of the regulations.

- The government does not have alternative solution for the informal sector participants. In this scenario, enforcing the rules would thus cause riots.
- The sector contains many people who are critical voters for the ruling party. Enforcing the rules and regulations will result in lost votes.
- Individual political views destroy many otherwise sensible government rules and regulations.
- People tend to interpret democracy differently. Some participants, because of a lack of education, may react badly if the rules are enforced. They may interpret this as a denial of their freedom as citizens.
- There have been cases where, say, vendors have complained to the politicians, and the politicians have then openly supported them against the rules and regulations of the government.
- It was the informal sector that supported the change of government in Malawi. The government therefore needed to move slowly, and education was the key if it was to enforce the rules and regulations.
- Political campaigns cause misconceptions. Some politicians have said publicly that no one will touch the vendors. This has made it difficult for government employees to enforce the rules and regulations.

The thirty-nine percent of respondents who disagreed with the statement, gave the following reasons:

- It is not clear how the politicians have influenced this, other than misunderstanding the free market and trade by the informal sector participants themselves.
- This has nothing to do with politicians. The boom in informal sector activities has overwhelmed the city assembly, which has been compelled to develop ways to enforce these rules and regulations.
- The set-up of the government or city assembly is weak. Most of the persons entrusted with the enforcement of the by-laws are inadequately trained to handle the job.

Discussion

The reasons mentioned by the government officials all contribute to the explanation of why the rules and regulations are not enforced. The enforcement of rules and regulations is a complex issue and needs to be done properly. As pointed in section 2.2.2, (Weeks 1975), many of the rules and regulations normally protect the formal sector, which contributes more to the economic growth of a country. The Malawi government, however, has had problems protecting the formal sector because the informal sector participants voted them into power. Bromley (1978b:1165), examining the street traders of Cali, found that regulations chasing them off the streets would not be popular both for political reasons and because street traders represented an important distribution system for many Colombian importers and manufacturers, not to mention several multinational companies. This reality has also created a dilemma in enforcing the rules in Malawi. It is also true that the informal sector has grown in Malawi and the city assembly or government does not have the required capacity to enforce the rules and regulate the sector.

Conclusion

It is not true that government or city assembly rules and regulations on the operations of the informal sector are not being enforced for political reasons only. Lack of capacity on the part of the government or city assembly and lack of infrastructure and pressure from those in the formal sector benefiting from the operations of the informal sector; make it difficult for government to enforce the rules and regulations.

Some people think that the informal sector is the only solution to poverty. Do you agree with this statement?

Findings

Seventy-two percent of the government officials disagreed with the statement. Their reasons were as follows:

- There are several avenues to follow to arrest the ills of poverty, and the informal sector is one of them.
- The informal sector merely minimises the extent of poverty.

- It is not the only solution. For Malawi to make any meaningful impact on poverty reduction, high levels of economic growth have to be achieved.
- Poverty reduction involves many areas, some of which are adequate health facilities and services, safe water, satisfactory housing, adequate food, good education, and so on.
- There are many ways to tackle poverty and there is no need for everybody to be involved in the informal sector. There is a need for some to work in the formal sector, others to be involved in agriculture and fishing, others to work as commercial traders and others as manufacturers in order to enhance all aspects of the economy.

The twenty-two percent of the respondents who agreed with the statement, gave the following reasons:

- Many poor people cannot be employed and the informal sector therefore is the only solution to their poverty
- The government is trying to find ways to formalise the informal sector because it has realised that the informal sector is the solution to poverty.

Discussion

Indeed, there are many solutions to the problem of poverty reduction and the informal sector is one of them. The informal sector plays a vital role because it is the survival sector for many of the urban poor. As indicated in section 2.2.4, the informal sector has many benefits that help it reduce poverty. There are, however, other ways to reduce poverty such as manufacturing, agriculture, education, health and employment in the formal sector, which goes hand in hand with strong economic growth.

Conclusion

There are many solutions to the problem of poverty reduction and the informal sector is one of them.

Some people think that the informal sector in Malawi has grown rapidly for the following reasons (choose whatever option is applicable, in order of priority):

Findings

The government officials who were interviewed gave the following reasons for the rapid growth of the informal sector in Malawi.

- Unemployment is very high (29%).
- People do not have any choice and the informal sector helps them survive (24%).
- Poverty has increased (19%).
- People have developed entrepreneurial abilities (19%).
- Informal sector participants work for themselves and make money everyday. (9%).

Discussion

There is recognition even within the government circles that not enough jobs are being created in Malawi for people who were willing and able to work. As stated in section 1.2, based on population growth only, the economy needs to create 400 jobs per day if it is to meet job demands. This was not possible at that time when this problem was identified and the ad hoc solution was the informal sector. This fact, in addition to reasons indicated in section 2.2, led to rapid growth in the informal sector in Malawi.

Conclusion

Unemployment and survival are the two major causes of the rapid growth of the informal sector in Malawi.

Do you have any general comments you would like to make?

Sixty-one percent of the government officials commented as follows:

- All the government needs to do is minimise the negative effects of the informal sector rather than to discourage it.
- Informal sector participants should contribute something such as tax, on a voluntary basis.
- There is a need to control the operations of the informal sector through proper registration and licensing, where applicable.

- The government policy makers should think twice before they make policies that affect the nation.
- The informal sector requires promotion. This can be done through civic education for the participants, by providing training in general business management and sanitation, by increasing the number of lending institutions, opening up special places from where they can operate and providing support structures to advise the participants.
- Many of the NGO programmes are in the rural areas. Although the indicators show that many poor people reside in rural areas, there are huge numbers of poor people in the cities – hence the need for the NGOs to introduce programmes in the urban areas.
- Some officials are against the informal sector, especially the involvement of young women because their families are suffering. Children are being neglected and the welfare of the family is being ignored.
- There is a need for the government, NGOs, religious leaders and the participants themselves to discuss ways in which the informal sector could operate in Malawi and then come up with solutions that would benefit everyone.
- Clean-up operations generally affect food and fruits sellers in the streets. Many of the victims of such clean-ups are women. The Social Welfare Department, which is concerned with the welfare of the people, was not consulted during a recent clean-up operation. The Department was extremely disappointed that the operation had been poorly executed that many women, who were merely trying to survive in an acceptable proper way, had suffered. There is need for appropriate consultation in the future.

It is clear from the comments above that the government officials support the operations of the informal sector. However, they emphasised that additional steps need to be taken to make the operations acceptable – hence the need to involve all stakeholders including the government, NGOs, religious leaders and participants themselves.

This section outlined the findings on the government officials. It is clear that many of them have a positive perception of and attitude towards the informal sector. One possible reason is that they themselves have relatives involved in the sector or they feel this is the only survival mechanism for people who would otherwise have nothing to do. Their perception, backed by the politicians, is that the government supports the informal sector and encourages stakeholders to help participants to enhance their activities.

5.3 FINDINGS ON THE REPRESENTATIVES OF LARGE INDUSTRY

Seven representatives from seven industries were interviewed. The representatives were either marketing directors or senior level staff who knew the company well. The purpose of interviewing this group was to learn about their perceptions of the informal sector. This was critical in this research study because industry representatives influence government policies, which in turn, impact on the informal sector. This section provides an analysis of the representatives' responses.

When did this company start business in Malawi?

Findings

Seventy-one percent of the industries that were involved in this research had been established in Malawi for more than 35 years. In fact, three of them had been in the country for 45 years, 52 years and 55 years respectively. Only 29 percent (2 of them) had been operational in the country for 5 and 20 years respectively.

Discussion

It is clear that the industries used in this study are well established and are aware of their business environment – hence it was easy for the representatives to give their perception of the informal sector. It is not surprising that the industries had been in operation for a long time because, as pointed out on chapter 3, the business environment in Malawi is not an easy one and only those who understand it have thriving businesses. Also as pointed out in section 3.3.1.2, economic constraints have

compelled many companies either to halt manufacturing and concentrate on marketing the products manufactured by their sister companies outside Malawi, or close down their operations altogether. These industries have therefore continued operating because they understood the business environment on the basis of their experience.

Conclusion

Many of the industries included in the research are well established and have been operating in Malawi for a long time.

How do you feel about the informal sector participants and their activities in this country?

Findings

Fifty-seven percent of the representatives indicated that they do not have a problem with the informal sector, while 29 percent stated unequivocally that they dislike it. Fourteen percent indicated that they have no problem with service providers and producers in the informal sector but that they are opposed to traders that import goods into the country. The reason given was that the informal sector traders who import goods never pay duty and therefore have a competitive advantage over the goods manufactured in the country.

Discussion

The industries that manufacture goods for exports such as David Whitehead, or those that are not in serious competition with the informal sector, tend to have no problem with the informal sector. However, those industries that manufacture goods, which the informal sector can also easily import from other countries (eg Lever Brothers), have problems with the informal sector traders. This was also Bromley's finding (1978b:1165) in his study on the street traders in Colombia. Colombia's national association of medium to large-scale commercial enterprises frequently protested that street traders were disloyal competitors because they did not pay the wide variety of taxes that were paid by established shops and supermarkets. Section 3.3.2.4 also made it clear that competition is a crucial element of profitability and it is therefore not surprising to see

the reaction of industries such as Lever Brothers towards the informal sector. The industries that benefit from the informal sector as distributors of their products are happy with the operations of the informal sector. The vested interest they have in the informal sector influences their perception. This is not unique to Malawi – it also applies to business transacted internationally.

Conclusion

The perception of the industry representatives on informal sector participants is influenced by how much the informal sector participants enhance the activities of their industries, whether or not the informal sector participants are regarded as competitors and whether or not competition is fair.

How does your industry (company) view the informal sector participants? (Read the statements to the respondent and tick as many as possible.)

Findings

When the statements on the questionnaire were read to them, the options they chose in order of priority, were as follows:

- They enhance the activities of this company (25%).
- They are a good gauge of market prices (20%).
- They influence changes that occur in a company (10%).
- They cause confusion and destabilise market prices (10%).
- They have created an unhealthy environment (10%).
- They have created an environment that encourages stealing (5%).
- Do not know (5%).
- Others (15%) for the following reasons:
 - They have nothing to do with us because we target industries and not individual customers.
 - They have created unfair competition (they do not pay tax or import duties) are therefore the main cause of the closure of some industries.

- Their activities help generate income, which can be used to buy our products.
- They are destroying the activities of this company (0%).

Discussion

The activities of the informal sector enhance the activities of some industries because they operate as a market for their products. This is similar to what Bromley (1978b:1165) found in Cali, where the street traders represent an important distribution system for many Colombian importers, manufacturers and several multinational companies and were therefore supported by these industries.

The informal sector is also seen as an accurate barometer for market prices because industries need to consistently check to see where they stand in the business environment, particularly in relation to prices. It is also interesting to note that informal sector activities influence some industries in making operational changes. Since 65 percent of the responses above were positive and none of the representatives confessed that the activities of the informal sector were destroying their companies, this seems to suggest that the informal sector is somehow regarded as helpful.

Conclusion

Many industries view the informal sector positively, except for a few which see it as a threat.

Are the products of this company being used as raw materials or sold on the market by the informal sector participants? If “yes”, has this in any way enhanced the company’s performance?

Findings

Seventy-one percent of the industries’ representatives indicated that the informal sector participants are using their products and this has enhanced their company’s performance. This does not apply to the remaining 29 percent because their main customer is the other industries or export market.

Discussion

This finding shows that the attitude of the industry representatives above is reasonably positive. If the informal sector participants enhance the company's activities in some way, obviously the company representatives will have a positive attitude towards them. As pointed out in section 2.3.2.2, Lewellen (1995) argues that there is mutual dependency in many relationships. This is one of many examples where the formal and informal sectors are mutually dependent. In the same vein, Richardson (1984:14) argues that the informal sector and the formal sector rise and fall together because growth in the informal sector is dependent on growth in the formal sector. One cannot examine the informal sector without looking at its links with the formal sector.

Conclusion

The informal sector represents an important distribution system for many of the industries and this enhances the performance of the industries.

Has your company worked on the reduction of production and marketing costs based on the pressures created by the informal sector participants? If “yes”, have you in any way reduced the number of employees of this company? If “yes”, has this somehow led to a decline in the quality of your products?

Findings

Forty-three percent of the representatives agreed that the competition they have with the informal sector has led them to reduce both their production and marketing costs, while 57 percent disagreed. Of the 43 percent that agreed, 33 percent said that they had even reduced the number of employees in order to survive in the current business environment. None of the companies said that there had been a decline in the quality of their products.

Discussion

The competition that the informal sector participants have created in the business environment has impacted on many industries. The industries that have been affected are compelled to reduce their production and marketing costs to make their products

cheaper and more competitive in the marketplace. This is undoubtedly good for the customers, as pointed out in section 3.3.2.1. However, since one of the main production costs is labour, the fact that they have had to reduce their production and marketing costs means that they have somehow had to reduce their number of employees. This could have led to the growth of the informal sector, since many of these employees were accustomed to town life and a return to their villages would not be easy. On the other hand, it was difficult for them to find jobs because so many people were looking for work. The only available sector to join was therefore the informal sector. Regarding those who were not compelled to reduce their production and marketing costs, this is possibly because their products were being exported, there was no competition with the informal sector or their clients were other industries.

It was probably difficult for the industries to admit that they had in fact reduced their product quality, because this would not reflect sound marketing strategy.

Conclusion

When there is strong competition, industries tend to focus their attention on the reduction of their production and marketing costs in order to continue their share in the market, even if it means retrenching some of their employees.

Are you by any chance using the informal sector participants to sell your goods?

Findings

Forty-three percent of the industry representatives indicated that they used the informal sector participants to sell their products. These industries did this in different ways, as indicated below:

- *Southern Bottlers*: only assist the informal sector participants to establish themselves in the business of selling soft drinks or improving them.
- *Lever Brothers*: use the informal sector participants as market distribution points, only giving them the product when they ask for it.

- *Universal Industries*: give their products (biscuits) to the informal sector participants to sell for them and the participants, in return, receive 16 percent of the profit margin as payment

Discussion

The link between the formal and the informal sector can easily be established if it is beneficial to both the formal and informal sectors. As pointed out by Bromley (1978b:1165-1166), this arrangement was common in Colombia when he conducted his research (see section 2.2.2.). For those whose markets are not individual customers, there is obviously no need for them to have links with the informal sector.

Conclusion

Industries that manufacture products, which the informal participants sell, have no choice but to try to establish links with the informal sector participants if they wish to maintain or increase their market share.

How much do they normally make per month?

Findings

Only 29 percent of the industries' representatives were able to indicate that those they assisted received between K1 001 to K2 000 per month and K2 001 to K4 000 per month.

Discussion

It is clear that while they were able to discuss the amount they thought the informal sector participants earned per month, these were only estimates. If the figures they gave are correct, then according to the tax brackets (section 3.3.1.2), few of these participants would be required to pay tax. According to the United Nations minimum income per day of 1US\$, few of them are able to earn more than 1US\$ per day which is an indication that their living conditions are substandard.

Conclusion

It is difficult for the industries to know exactly how much the informal sector participants with whom they collaborate earn, for these amounts vary according to the skills of the participants and current demand.

If you do not use the informal sector participants, is it possible for you to estimate how much you think they make per month? Do you supply goods to informal sector participants on credit? If you do not supply goods to informal sector participants, would you consider doing so if approached?

Findings

Only 29 percent of the industry representatives responded and gave figures on how much they thought the informal sector made per month. One estimated the traders' earnings at about K4 000, while another stated that producers probably make K7 000 per month.

None of the industries included in the survey give its products to informal sector participants on credit.

Seventy-one percent of the industry representatives indicated that if approached they would consider giving their products on credit to informal sector participants.

Discussion

There is generally a lack of information of how much the informal sector participants make per month. This is because no research has been conducted to give the industry representatives some idea. In addition, their earnings depend on the activity, the participant's skill, the location and product demand.

While no industry seems to be giving their products to the informal sector participants on credit, 71 percent are willing to look at the informal sector because they need to link up to this sector in some way in order to increase their market share (as stated above). Their openness is an indication of this. The above 71 percent represent all the

industries whose products can be sold by the informal sector while the remaining 29 percent do not need the informal sector because they are concentrating on export markets or industrial markets.

Conclusion

Although industries are willing to use the informal sector participants as distribution agencies by giving their products on credit, they do not seem to know how to do so successfully.

Where do you think the informal sector participants obtain the goods they sell?

Findings

Their responses were indicated below. They obtain them from:

- the Asian traders in town.
- wholesalers and other registered traders
- wholesalers and our sales trucks
- two of our plastic competitors
- outside the country (Zimbabwe and South Africa)

Discussion

In this section some of the representatives did not respond in general terms but instead looked at their competitors, especially those representatives who feel the informal sector should either obtain products from them or from their wholesale channels. It is also clear that there are intermediaries (as discussed in section 3.3.2.3) between the industries and the informal sector participants. These were mainly Asian traders. The informal sector participants therefore seem to obtain most of their products from these intermediaries who are either wholesalers or retailers.

Regarding those industries that do not benefit directly from the informal sector, their representatives responded to this question only in general terms.

Conclusion

Many industry representatives would love to see the informal sector participants sell their products or provide distribution channels for their products as opposed to the participants doing the same for the industry representatives' competitors.

Do you think the presence of the informal sector participants has reduced your business profits?

Findings

All the representatives indicated that their profits were in no way reduced by informal sector activities.

Discussion

Their responses here seem unusual, particularly for those industries that have reduced their production costs because of competition from the informal sector. While they might have been telling the truth, one would expect them to also acknowledge that their profits have in fact been affected by this competition. It is true that their profits have not been reduced, possibly because the informal sector is enhancing the businesses of 71 percent of the industries that were part of this study. The informal sector, in fact, might have created an opportunity (see section 3.3.25) for the industries to exploit a market environment that leads to a higher profit. As for the 29 percent of the industries whose activities were in direct competition with the informal sector participants, changes in their approaches may have led them to continue to make the needed profit to stay in business. As pointed out, Lever Brothers, for example, decided to stop manufacturing and became a trading company of the products produced by a sister industry in Zimbabwe, which were cheaper. Approaches like these might have led them to continue to make profits despite the stiff competition.

Conclusion

Profits are affected by production and marketing costs as well as competition.

What problems, if any, do these informal sector participants pose for your company or town?

Findings

The respondents mentioned the following problems:

- They refill their containers with nonoriginals and fake products, which is unacceptable.
- They easily override the formal sector.
- They destabilise the market.
- They force the prices up and down to suit them.
- They sell expired products.
- They do not cause any problems.

Discussion

A critical examination of the problems stated above seems to suggest that in some respects, the industries are facing unfair competition because the informal sector participants are resorting to unacceptable practices. In addition, they destabilise the market prices, which forces the industries to rethink production modes and market costs, which are normally difficult to decrease. Ultimately, however, this is good for the consumer, as pointed out in section 3.3.2.4. Market mechanisms keep excessive profits in check, stimulate higher productivity and encourage technological innovations. Surely, for the industries to still have the market share or compete in this type of environment, they need to examine their production and market processes to discover how innovative they can be to survive. Those industries that benefit from the informal sector did not mention any problems.

Conclusion

The industries focused their attention on profitability and factors that pose a threat to them.

If government were to ask you to help develop the best strategy to handle informal sector participants, what would you recommend?

Findings

The industry representatives had the following to say:

- Introduce flea markets and allow all informal sector participants on the streets to trade there.
- Fund informal sector activities to enhance their businesses.
- Help the informal sector participants with advertisements so that customers can buy their products more easily.
- Ensure that the informal sector participants pay the import taxes and other taxes (pay as you earn).
- Check the activities of the informal sector and make sure they conform to the required standards.

Discussion

It is clear from the above responses that the focus of the industry representatives is on how best they can benefit from this proposed strategy. As for those who benefit directly from the activities of the informal sector, they want the government to enhance these activities because this will boost their business, while those who see the informal sector, as a threat to their business would like taxes or restrictions to be imposed on participants. The management of opportunities and threats by a business, as explained in section 3.3.2.5, is critical to profitability. A business has to take advantage of opportunities and develop counter-strategies to deal with threats if it wants to survive in the business environment - this is what the industries are doing.

Conclusion

The perspective of the industry representatives on the informal sector will mostly be determined by whether or not the informal sector is enhancing their business. If it is, they will ensure that the government strategy supports and expands the informal sector. If it is creating a threat, they will want restrictions imposed on it.

There are now several places in town where notices have been posted indicating that no one is allowed to sell or do business on those premises. What are your feelings about this? (Tick whatever is applicable)

Findings

In order of priority, the responses were as follows:

- It is a good idea and all shops should be encouraged to do so (42%).
- This is a sign that the city assembly is not in control (25%).
- No one is controlling the situation (17%).
- The informal sector participants create an insecure environment (17%).
- The informal sector participants are bad news and should not be allowed in town (0%).

Discussion

While the majority of the industries benefit benefiting from the informal sector, they still prefer some order. Hence, they tend to support signs on shops barring the informal sector participants from trading on shop verandas. Their responses are also a reflection of what they want to see happening on their premises, and in the town as a whole. They may also harbour the fear that if this chaos is allowed to continue, it will affect their place of business. They therefore support the fact that leased properties are private; as such, the owners are free to put up such signs. It is not surprising that none of the respondents indicated that this is a negative practice.

Conclusion

Industrial representatives are more aware of the law. They therefore feel that since these are private properties, there is nothing wrong with putting up signs prohibiting activities by the informal sector participants.

Some people think that the informal sector participants are avoiding tax and that most of their activities are illegal and should be controlled. What are your feelings on this statement?

Findings

Fifty-seven percent of the representatives did not agree with the statement and gave the following reasons:

- There is no government mechanism to collect tax from the participants.
- Their activities are not illegal because most of their goods are bought from the Asian traders. Even if they were controlled, the government would not make much money out of them.
- The “big fish” do not pay tax and the government should concentrate on those businesses rather than the informal sector participants.

Forty-three percent agreed with the statement for the following reasons:

- Their businesses are illegal and should be controlled. Business should be conducted in a shop and not outside it.
- Vendors evade tax.
- The government is losing millions of Kwachas in revenue by not collecting tax.

Discussion

According to the author, there is some truth in what fifty-seven percent of the representatives said. The government does not have the mechanism to collect tax and not all activities are illegal. One would need to study the taxation policy and the amount of money made by the informal sector before drawing a conclusion. As indicated by the representatives, it is also important, to ensure that large businesses are audited so that they pay their fair share of taxes rather than wasting time with the informal sector participants who in fact make very little. Furthermore, what they do make is used to survive.

Some of the representatives feel that the government is losing important revenue by not collecting tax. These representatives may be those who regard the informal sector as a

threat and want the government to collect tax and impose restrictions on participants. The same trend, as discussed above, seems to be in evidence here. If the industry is benefiting from the informal sector, it tends to support the sector. If not, it would obviously prefer government to control it. The fact that there is no database with easily accessible information makes it difficult for them to know, say, how much the informal sector participants actually make and whether or not they should be taxed.

Conclusion

The perceptions of the industry representatives vary according to whether the informal sector is providing a business opportunity for them or is posing a threat to them. However, one cannot conclude that informal sector participants are avoiding tax or are illegal until one examines the activities in which they are involved and the profit they are making.

Some people think that the economy of this country will only improve if the activities of the informal sector are enhanced and supported. Do you agree with this statement?

Findings

Seventy-one percent of the industry representatives agreed with the statement, and gave the following reasons:

- A high percentage of people are employed in this sector – hence the potential for growth.
- This sector creates competition, which is a healthy state of affairs for quality improvement and, if enhanced, to the benefit of customers.
- There is a need to support a few participants initially in order to make an impact.
- They should be funded to support expansion of their businesses.
- This is another source of money that enables them to improve their quality of live.

Twenty-nine percent of respondents disagree with the statement for the following reason:

- Experience has shown that when such people are granted loans, they never repay them.

Discussion

Many of the representatives support the statement because they are benefiting from the informal sector, and enhancing the informal sector activities would obviously also improve their industries. However, they might just be convinced that enhancing and supporting the informal sector would indeed improve the economy. The argument here seems to be that the more you support the informal sector, the more the units of the sector are transformed into the formal sector which, in turn, will enhance the economic growth of the country. Support will enhance the process of modernisation (section 2.3.2.1), which is critical for economic growth. The opposite is also true. When you promote a country's economic growth, the informal sector tends to diminish. Sethuraman (1997:19) supports this idea by indicating that the importance of the informal sector tends to diminish with economic growth (as observed in other countries like Thailand). However, it is clear to the author that the economy will not improve if support is given to the informal sector only. There are several elements that will lead to the economic growth of a country such as Malawi. As indicated in section 3.3.1.2, agricultural production is another important factor. Supporting the informal sector is thus one approach that could improve the country's economy.

Regarding loans, one could argue that there are many issues that determine successful loan repayment, including loan systems and procedures, analysis of the proposed use of the loan, the amount and the lending methodology. One cannot simply conclude that the informal sector will not repay the granted loans to them. One example of a credit institution that gives loans to poor people is the Grameen Bank of Bangladesh (Sethuraman 1997:23). It provides loans to small businesses and has succeeded in having the loans repaid.

Conclusion

The perception of the majority of industrial representatives is that enhancing and supporting the activities of the informal sector will indeed improve the economy of the country.

Some people think that the government or city assembly rules and regulations on the operation of the informal sector are not being enforced for political reasons.

Do you agree with this statement?

Findings

Fifty-seven percent agreed with the statement for the following reasons:

- It is difficult to distinguish between the government and party politics. Politicians feel that they are in power because of the votes of the informal sector participants and tend to support whatever the informal sector participants do.
- When the city officials demolished some of the temporary structures of the informal sector as per law, the politicians condemned the action and spoke out in support of the informal sector, indicating that they were free to do their businesses wherever they wanted.
- Informal sector participants are influential and can vote out the ruling party by demonstrations and looting in major cities – hence politicians tend to support them even if what they are doing is illegal.

Twenty-nine percent disagreed with the statement for the following reason:

- It is not for political reasons. The government is too inefficient to enforce anything.

Fourteen percent did not want to comment on this issue.

Discussion

The reasons advanced by both those who supported the statement and those who were against it are all true. The same findings were observed when government officials were asked this question. Politicians supported the operations of the informal sector with a specific end in mind – to win their votes, as pointed out on section 3.3.1.5. They forget,

however, that the country has rules of law and that by allowing the informal sector participants to operate without restrictions, they are in fact undermining the rule of law, which is not a sound state of affairs. On the other hand, as also confirmed by the government officials above, the government and the city assembly are not sufficiently organised to handle the informal sector in the major towns of Malawi efficiently. This is partly because of the rapid and relatively unexpected growth of the informal sector. It requires research and reflection to design and enforce effective policies. One of the specific challenges is the fact that several government departments currently deal with the informal sector. While the city assembly may have its strategy for handling the informal sector participants, unless both the Social Welfare Department and the police agree upon that strategy, it may not be well implemented.

Conclusion

While the city assembly and government may be inefficient in enforcing its rules and regulations for the informal sector, the pressure that politicians exert on them, plays a major role in what they are able to accomplish.

Some people think that the informal sector is the only solution to the problem of poverty. Do you agree with this statement?

Findings

Eighty-six percent of the representatives disagreed with the statement for the following reasons:

- Most of the street vendors have limited capital and what they make they use to buy food. Thus, the informal sector cannot be the only solution to poverty.
- It is not the only solution, but one of the best solutions in a less developed country.
- Their contribution is insignificant because Malawi relies heavily on agriculture. The informal sector participants should be given land to grow crops.
- The contribution of the informal sector is a reality but should not be regarded as major. In fact, it generates more poverty if prolonged. Industries will start laying off their staff because of competition if the informal sector is strongly encouraged.

- Poverty is a multisectoral problem. The informal sector is one of the smaller sectors within the economy and cannot be the only solution to the problem of poverty.
- It is the main solution but not the only one.

Fourteen percent agreed that the informal sector is the only solution, their reason being that those involved in the informal sector make a good living compared with the masses in the villages - hence, the informal sector is the only solution to the problem of poverty.

Discussion

The comments of the industrial representatives clearly show their intent. Several sectors in the economy contribute to the eradication of poverty; the informal sector is but one of many, and its contribution is minor. The industry representatives also highlighted a critical point, namely that the economy in Malawi is agriculture based and everything depends on it. In years when the rainfall is heavy, and the harvest is good the economy improves dramatically. This improvement even spills over into informal sector activities and the income they generate. The opposite is also true as pointed out in section 3.3.1.2 and figure 3.3, which show the correlation between a good harvest and per capita income.

Conclusion

The informal sector makes a contribution to the economy but it is not the only solution to the problem of poverty.

Some people think the informal sector in Malawi has grown rapidly for the following reasons, (choose whatever option is applicable, in order of priority):

Findings

The respondents gave the following reasons for the rapid growth of the informal sector, in order of priority:

- They do not have any choice - the informal sector helps them survive (30%).
- Unemployment was extremely high (25%).
- People have developed entrepreneurial abilities (20%).

- Poverty has increased (15%).
- Others (10%) namely:
 - People think that there is more money in town than in the villages.
 - Companies and organisations have made deliberate efforts to develop the informal sector.

Discussion

These results are consistent with those of the government officials who also rated survival and unemployment as the major reasons for the rapid growth of the informal sector. It follows that if the economy of Malawi creates more jobs in the formal sector, then the growth of the informal sector will be reduced. This coincides with Mohr and Fourie's contention in section 1.2, that some economists regard the informal sector as a survival sector in which people who cannot find formal employment seek legal or illegal means of making a living. They regard the growth of the informal sector as a symptom of a stagnating or declining economy. However, this rationale does not explain why some people who are employed are leaving their employment in order to become involved in the informal sector. The fact that the participants have developed some entrepreneurial skills, as well as the need to be independent, has also boosted the growth of the sector.

In addition, it is also important to consider the issue of urban growth rate. As was pointed out in section 1.2 of the World Development Report (1997), Malawi has the seventh fastest urban growth rate of the top 20 poorest countries in the study. The urban population grows annually by six percent. The lack of employment compels people to join the informal sector and also impacts on the overall growth of the sector.

Conclusion

Unemployment and the need to survive are the two major causes of the rapid growth of the informal sector in Malawi. There are, however, other causes such as the ability to develop entrepreneurs, the need to be independent and the overall urban growth rate, which also seem to influence the growth of the sector.

Are there any general comments you would like to make at this stage?

Eighty-six percent of the industrial representatives made the following general comments at the end of their interviews:

- The government must find ways of managing the informal sector to ensure the empowerment of those involved.
- The informal sector has a great deal to offer to the economy of Malawi. This is a sector that gives people dignity because they can take care of themselves instead of expecting handouts from the government.
- The informal sector is good for the consumer because it widens their choices. The informal sector, however, has to be promoted with caution because it can lead to the closure of formal sector companies which will ultimately create more unemployment and hence more poverty.
- There is a need to promote agricultural production so that the informal sector participants can be absorbed into that sector. It was felt that this move will help to control the theft and the filth they generate in towns.
- The informal sector participants help companies to create a market for the products of the formal sector. This should be encouraged.
- Many of the formal sector companies have in fact evolved from informal sector activities. Such activities should therefore be encouraged.
- The information collected on this crucial subject should not only be an academic exercise but also help the government to formulate sound policies. This is a vital subject and merits serious consideration.

Conclusion

This section outlined the findings of the industry representatives. It is clear that many of them have a positive perception of, and attitude to the informal sector. This is primarily true because their industry is benefiting directly from the activities of the informal sector participants. Those who are not benefiting from the informal sector can be divided into two groups. The first group comprises those who are not affected by the activities of the informal sector because they focus on exports or wholesale, and are in no way linked to the operations of the informal sector. The second group comprises those who are facing

competition and have a negative attitude towards the informal sector. Their desire is to see it controlled and even discouraged. The attitude of the industry representatives will therefore differ on the basis of whether or not the activities of the informal sector enhance their business. This dichotomy shows the need to encourage those activities within the informal sector, which enhance Malawi's industrial production rather than those informal sector activities that import products and hence harm the industries in Malawi. As pointed out in figure 3.5, more imports mean a reduction in the balance of payments, which is critical for the economic health of any nation. An imbalance creates dependence on aid, which is subject to own conditions. At the time of this research, 40 percent of Malawi's recurrent budget and 80 percent of its development budget were funded by the donor community (see section 3.3.1.2), and this needs to change. The informal sector activities can make a positive contribution if they enhance locally produced industrial products. This, in turn, will enhance the positive perception of the industries towards the informal sector.

5.4 FINDINGS ON SHOP OWNERS

Twenty shop owners or managers were interviewed in all three cities. The reason for interviewing this group was to find out their perceptions on the informal sector. This was critical in this research because shop owners influenced government policies, which affect the informal sector. This section therefore analyses the responses of the shop owners, and draws a conclusion.

When did you start the business here (year)?

Findings

Fifty-five percent of the shops were established 10 years ago, while the remaining 45 percent were established more recently.

Discussion

The shops that were established 10 years ago were established during the previous government and have continued with the new government. All the shops sampled for this survey belong to Asians. They tend either to pass on the shop from one family member to another, or from one Asian to another. These shops therefore have probably been in existence for more than 10 years. The above results reflect the period of current ownership rather than the length of time that the shop has been in existence.

Conclusion

Many of the shops included in the research were well established, having been in existence for more than 10 years.

How do you feel about informal sector participants (vendors, producers, service providers) working on the veranda of your shop?

Findings

Forty-five percent of the shop owners do not like the fact that some informal sector participants work on their verandas, thirty-five percent do not have problems, while 20 percent do not wish to comment.

Discussion

It is clear that the shop owners have different feelings on the issue of the informal sector participants working on their verandas. As for those who do not like it, it emerged clearly during the interview that they feel powerless because, despite their feelings, they can do nothing about it. Those who do not have a problem might have responded this way either because they are working well with the informal sector participants or because they are not exactly certain who is really conducting the survey. It therefore came as no surprise that approximately 20 percent of the respondents did not wish to comment. This may have been because they suspected that this survey was politically motivated and that their responses might mean trouble for them. As indicated in section 3.3.1.5, the ruling party openly supports the operations of the informal sector in order to win their

votes. With this knowledge, it was difficult for many of the Asian shop owners to comment fully.

Conclusion

Many shop owners are unhappy about the use of their verandas by the informal sector participants but were afraid to say so openly.

Did the informal sector participants on your veranda ask your permission to use this space to conduct business?

Findings

Forty-five percent of the shop owners indicated that the informal sector participants had asked their permission to use their verandas. Another forty-five percent indicated that they had not sought their permission, while the remaining 10 percent indicated that they did not know.

Discussion

It is interesting to note that some of the informal sector participants had had the courage to ask the shop owners for permission to use their verandas. A deeper analysis shows that many of those who had sought permission were service providers such as tailors who also needed support from the shop owners to store their machines and other items. In addition, some shop owners had had the courage to establish an agreement with the informal sector participants, which included making specific arrangements for use of the veranda. In fact, one of the shop owners had bought off the informal sector participants, thus preventing them from using his veranda. He paid the leaders of the informal sector so that no one would use his veranda. As a result of the payments to them, the leaders of the informal sector in that area had protected his veranda from being used. Shop owner's ulterior motive was that he simply did not want anyone from the informal sector to use his veranda.

The shop owners who had established a clear agreement with the informal sector participants did not have a problem with the informal sector participants using their

verandas. These same shop owners were the respondents who, in the previous question, had showed a positive feeling towards the informal sector participants working on their verandas.

Conclusion

Shop owners do not mind having the informal sector participants use their verandas for their business as long as there is a clearly established agreement.

If “no”, did you try to chase them away?

Findings

Ten percent of the shop owners had tried to chase the informal sector participants away. However, they were unsuccessful. Forty-five percent had never even tried to do so. The remaining other forty-five percent did not need to do so because they had an agreement with the informal sector participants.

Discussion

As pointed out in the previous two sections (the government officials and the industrial representatives), politicians publicly support the informal sector and encourage them to trade wherever they wish. To chase them from the verandas would have been seen as a move against what some of the politicians were advocating. Even though these were private properties, the informal participants knew that they had the support of the politicians. Thus, the likelihood of the informal sector participants agreeing to move away upon request was extremely slim. In fact, some of the informal sector participants threatened the shop owners who had tried to chase them away. They indicated clearly that they would organise their friends and vandalise the shops. The shop owners therefore, had no recourse but to accept them. The situation was further complicated by the fact that there was no alternative place the informal sector participants could be chased to. As also indicated by Bromley (1978b:1165), street traders represent an important distribution system for many Colombian importers and manufacturers. This is also the case in Malawi, as pointed out above. While the industrial representatives would love to see the informal sector more organised than it is now, they do not want to

see it eliminated. Hence, like the politicians, many of the industrial representatives support the operations of the informal sector.

Conclusion

Chasing the informal sector participants from the verandas was not an option because of the lack of an alternative place for them to do business, the power they possessed and the political and industrial support they enjoyed.

If the informal sector participants requested you for space and you said “yes”, what agreement, if any, did you have with them?

Findings

The agreements were in several forms. Some (in order of priority) were that they:

- should keep the verandas clean at all times (43%).
- should pay a fixed rental (29%).
- Simply have a mutual understanding (28%)

Discussion

All these agreements were verbal and informal, and based on trust. The operation of this mutual understanding is interesting to analyse. It took on several forms including, “If I have a problem and I need help, you will help me.” In some cases, when a shop owner brought goods for sale from a warehouse, all those working on his veranda would freely help with offloading. At times, the shop owner would give them some items to sell as a thank you. Some shop owners simply required the informal sector participants on their verandas to provide security while they were offloading their goods.

The beauty of these agreements is that the shop owners have developed an excellent relationship with these informal sector participants, which is supposed to be of mutual benefit. However, the probability that these agreements are exploitative is high.

Conclusion

The agreements forged between the shop owners and the informal sector participants enhance their relationship and trust.

Did the city assembly approach you for the use of your veranda by the informal sector participants? Would you have been happy if they had done so on behalf of the informal sector participants?

Findings

Ninety-five percent of the shop owners indicated that the city assembly had not approached them, while the remaining five percent did not know. Out of the 95 percent, 70 percent indicated that they would have been pleased if the city assembly had taken the trouble to discuss this matter with them. Twenty percent would not have wanted any discussion with the city assembly, while the remaining 10 percent did not know how they would have felt.

Discussion

According to the informal discussion the author had with the city assembly, it had no courage to discuss the matter with the shop owners because they themselves had the right to decide how to handle affairs on their own property without interference. The city's job was to enforce the rule of private property rather than to request the shop owners to accept the presence of the informal sector participants. As one informant put it: "The city has problems enforcing the law because of political pressures and lack of capacity. Once they get organised all will happen according to the law."

Conclusion

The city assembly understand the rights of the shop owners and the role it is supposed to play. However, political pressure and lack of capacity make it fail to uphold the rule of the law.

Did any of the informal sector association or organization leaders approach you for the use of your veranda by the informal sector participants? Would you have appreciated being approached by the leaders before the participants used your veranda?

Findings

The informal sector leaders had approached 15 percent of the shop owners, while the remaining 85 percent had not been approached. Sixty-five percent of the shop owners would have appreciated being approached to discuss the matter while 35 percent would not have appreciated it.

Discussion

Generally, the shop owners would have profoundly appreciated the fact that someone had taken the time to discuss the use of their verandas with them prior to the informal sector participants moving in. The 15 percent who had been approached were happy about it. However, other shop owners did not want anyone to approach them because they felt that it was their private land and they had full rights of usage as well as the right to prohibit others from using it.

Conclusion

The shop owners had the right to accept or refuse the use of their verandas by the informal sector - hence, the need for the leaders of the informal sector to approach them.

Are you by any chance using the informal sector participants to sell your goods? Do you know how much they normally make per month?

Findings

None of the shop owners were using the informal sector participants to sell their goods, neither did they have any idea about how much these participants were making per month.

Discussion

On the basis of the information passing between the shop owners and the informal sector participants, there seems to be a lack of trust between them. The fact that these participants are also competitors makes it even more difficult for the shop owners to enter into an agreement with them. Giving them goods to sell would also mean that they agree about the use of their verandas by the informal sector participants. The issue of dependent workers and commission sellers, as indicated in section 2.2.2, does not apply here; neither does the issue of mutual dependency (Lewellen 1995) as pointed out in section 2.3.2.2.

Conclusion

The shop owners are retailers and not wholesalers, and it is therefore difficult for them to use the informal sector participants for the sale of their goods.

Do you supply goods to informal sector participants (vendors) on credit? If “yes”, do they conscientiously pay back what they owe you? If you do not supply goods to informal sector participants, would you consider doing so, if approached?

Findings

Only five percent of the shop owners are supplying goods to the informal sector participants on credit but they were unhappy with this arrangement, because the informal sector participants are not conscientiously about paying them back. The remaining 95 percent of the shop owners are not doing it. Fifteen percent, however, are willing to consider it if approached.

Discussion

Use of an individual or another retailer as a market outlet requires a sound relationship, particularly if one gives them products on credit. The fact that some of them are slow to pay back, as expressed by those who are involved, is an indicative of the level of risk in such an arrangement. It is possible that the informal sector participants are unable to make enough profit for them to repay the loans because of high levels of competition. Competition, as indicated in section 3.3.2.4, determines how much profit one can make.

Other factors that impact on the level of profit include the management of production and marketing costs. If the shop owners were selling the same items as the informal sector participants, customers would gradually not see the need to enter the shops at all. This would, in effect, cause the shop owners' businesses to fail. The other challenge is that this arrangement would probably be informal and the risk extremely high. Without a formal agreement, neither party can take the other to court if there is a dispute. Under this agreement, it would also be difficult to increase profit if the informal sector participant was receiving goods from a retailer and paying the retailer's price. If the arrangement were to be made with a wholesaler, the chances of succeeding would obviously be higher. Some shop owners, however, are willing to take the risk if asked to do so.

Conclusion

Very few shop owners supply goods to the informal sector participants because of the risk involved. Business is all about taking risks, but it needs to be a calculated risk that will not lead to the closure of the business.

Where do you think the informal sector participants obtain the goods they sell?

Findings

Seventy-five percent indicated that the informal sector participants obtain their goods from wholesalers and other retail shops. Fifteen percent did not know and 10 percent indicated that they procure their goods from friends or an informal source.

Discussion

None of the shop owners indicated that the informal sector participants buy things from them for resale. This would be difficult for them to ascertain because the informal sector participants, like any other customer, come to the shops to buy their goods. However, there is a probability that they knew them well and it was fairly easy to find out. The fact that the informal sector participants mentioned retail shops as one of their procurement sources indicates that there is a good chance that shop owners do sell goods to the vendors in the informal sector. It is interesting to note that the shop owners mentioned

that the informal sector participants also procure their goods both from friends and informal sources. According to the shop owners, the informal sources include goods such as those stolen from their shops as well as houses and goods that are imported illegally. This consideration extends the definition of dependent workers which Bromley (1978b:1166-1167) used in his study of the street traders of Cali. While his definition was limited to more affluent individuals or companies, this survey suggests that friends and other informal sources can also be suppliers of the dependent worker. The dependent worker therefore does not only need to be dependent on wealthier individuals but also peers. As pointed out in section 3.3.1.5, being connected, corrupt and in collusion are major success factors in the business environment in Malawi. It is not surprising therefore that the dependent worker has many sources beyond the wealthier individuals they know. This issue will be discussed further when examining the finding of the informal sector participants.

Conclusion

The informal sector participants obtain their goods for resale or use in their business from any available and profitable source.

Do you think the presence of the informal sector participants has reduced your business profits?

Findings

Forty percent agreed that the activities of the informal sector had indeed reduced their profits, while 55 percent disagreed. Five percent were unsure.

Discussion

It was encouraging to hear the shop owners admit that the activities of the informal sector have reduced their profits. This could have been because of competition because they were selling the same items, which could have led to the reduction of market prices as pointed out in section 3.3.2.4. It was also clear during the interview that the shop owners had had a tough time responding to this question, even those who said “no”. The profits of almost 90 percent of the shop owners appeared to be declining but they

could not admit this. This was, possibly the result of the political pressures they were facing. Unfortunately, this is the first time that these Asian shop owners have faced such strong competition and it is a major challenge for them to enjoy the same market share as previously.

Conclusion

Competition is good for the consumer but demands creativity on the part of the competing sellers if they have to maintain their profit margins.

What problems, if any, do these informal sector participants pose for your shop or the town?

Findings

The shop owners indicated the following problems:

- They block people who want to buy goods from our shop.
- The participants steal our goods in the shops in agreement with our worker, because they sell similar items to ours.
- Decent women find it difficult to move along the verandas, and when they try to enter our shops, the informal sector participants shout at them. This discourages them which affects our business negatively.
- It is difficult to load and unload goods for the shop because they block the passage.
- There is no problem in the shop because we are friends, but movement is a problem in town as they block the passages.
- They have a bad attitude. They force customers to buy their goods if they touch them.
- There is too much noise, because those selling radio tapes play their radios at full blast.
- Customers buy the items that are sold outside the shop and our business has declined dramatically as a result.
- Customers easily buy from them because their items are more visible than in our shops. Some customers feel that the items in shops are more expensive than those

sold by the informal sector participants, but this is not true because the participants buy their goods from us and they have to make profit by selling at a higher price.

- They steal the customer's belongings and shout at them.
- There is no problem because we are all doing business and competition is an integral part of business.
- They make the town dirty.
- The security of customers is a risk because of overcrowding.

Discussion

Except for a few problems that were unique to this group, the problems indicated by the shop owners were similar to those indicated by the industry representatives and the government officials. These unique problems are related to competition more than anything else. As indicated in section 3.3.2.4, competition determines profitability, and it is clear from the finding that the shop owners face tough competition from the informal sector participants, which create a problem for them. There are, however, other shop owners who do not have a problem with the informal sector participants because the goods they sell are different from those sold by the informal sector participants. Like the industry representatives, the shop owners who experience direct competition with the informal sector participants mentioned many problems, while those, which are not in competition with them, do not seem to have problems.

Conclusion

There are several problems that the informal sector causes as far as the shop owners are concerned. The major one, however, is the competition they create. The perception of the shop owners of the informal sector is therefore determined largely by whether they are competing with them or not.

If the government asked you what the best strategy would be to handle the informal sector participants who occupy your veranda, what would you recommend?

Findings

The shop owners gave responses to this question as follows:

- Build them a proper flea market place and chase them from our verandas.
- All traders in the informal sector should have business licences.
- Informal sector participants should be forced to provide accounts (eg receipts) in order to control stealing.
- Leave the situation as it is.
- I do not know.
- I would go for any option the government would support, but, I am against the present situation.

Discussion

More than 70 percent of the shop owners indicated that the government should construct a flea market for informal sector participants and chase them from the streets. While this proposed strategy is consistent with what government officials and the industry representatives suggest, the shop owners were not recommending this strategy for the benefit of the informal sector participants. Instead, they wanted to remove their direct competition. It is clear from this research that Asians, who have controlled the retail market for many years, have never faced major competition like this before. Handling this competition effectively is no easy task. Many feel that they would regain their monopoly if the informal sector participants were placed in a flea market. Those who did not have competition, did not have any problem with maintaining status quo, while a few shop owners indicated that they did not know what an effective strategy would be. Those who had no opinion were either the managers of the shops or were afraid to respond because they were uncertain who was conducting the survey.

Conclusion

The strategy most people would suggest to the government is the one that would directly benefit their situation. Self-interest continues to be a common factor in any business.

There are now several places in town where notices have been posted indicating that no one is allowed to sell or do business on those premises. If you had a chance, would you do the same here?

Findings

Fifty-five percent said that they would post a notice forbidding the informal sector from trading on their verandas if they had the opportunity to do so while 35 percent said they would not and 10 percent did not comment.

Discussion

The shop owners demonstrated their powerlessness in controlling the situation. If they had their say, they would have put up notices forbidding the informal sector to transact business on their verandas. Others indicated that there was no need for them to do so. In some cases, this was because they did not face any competition from the informal sector while in others they may have found ways to cope with the situation or did not think this would be the optimal solution to their problem. Since this was a political issue, as indicated in section 3.3.1.5, some shop owners even indicated that they had no comments on the question. This may have been a sign of fear because they were still not sure who the researchers were and whether they were sincere about their objectives.

Conclusion

While many of the shop owners were interested in having the informal sector participants removed from their verandas, they did not agree that the best way to do it was to put up notices banning them from doing business.

Do you have any general comments you would like to make now?

Forty-five percent of the shop owners had comments, while the remaining 55 percent did not comment. The 45 percent commented as follows:

- The informal sector participants should not use the verandas for their businesses - they should have a place of their own.
- Micro-businesses are reducing poverty in Malawi and everyone should be given a chance.
- It is not appropriate to comment here because many informal sector participants think that democracy means freedom to conduct business anywhere one wants to.
- It is necessary for me to regain my customers so that I can recoup my business losses.
- I do not think anyone can chase the informal sector participants from Haille Salasie Street because this street is regarded as the main business area in Blantyre.
- The city assembly should have made efforts to tax all the informal sector participants operating on the verandas.
- The informal sector participants also do business on the verandas of large food retail shops such as Kandodo and Kwiksave and it is therefore difficult to chase them off our verandas.

The above comments have one motive in mind - remove competition and everything will be fine. It is interesting to note a particular comment by one shop owner, namely that informal sector participants equate democracy with the freedom to trade anywhere. As indicated in the introduction to this thesis, (in section 1.3.5.) politicians may have propagated this understanding.

Conclusion

The findings on the shop owners suggest that their perceptions of the informal sector differ depending whether they benefit from the sector or whether competition from the informal sector affects their business performance. Since more than 70 percent of the shop owners are seriously affected by the competition, their perception of the operations of the informal sector is generally negative.

5.5 FINDINGS ON THE INFORMAL SECTOR PARTICIPANTS

Six hundred informal sector participants were interviewed in the three major cities of Blantyre, Lilongwe and Mzuzu following the planned sampling procedures. The primary objective of interviewing this group was to collect information on the scope, operation and benefits of the informal sector. The group was also interviewed to enhance author's understanding of the specific levels and types of support they feel they need from government and other agencies.

The findings on the informal sector participants have been presented on tables, histograms and pie charts imported from SPSS as indicated in section 4.4.8.1. SPSS automatically compiles the tables and some parts of them will not necessarily have lines to separate all the elements. Although an attempt was made to create extra lines, the problem was that these lines did not fit exactly into these automatically drawn tables. In addition, some of the pie charts labels were longer than the system could handle. They will therefore be incomplete when one examines the pie chart itself. To deal with this problem, a key showing all the complete labels is indicated below each pie chart where this problem was experienced. SPSS also automatically puts a full stop to separate percentages other than a comma (for example 43.5% other than 43,5%). The text will therefore show percentages with a comma while the tables will show a full stop.

The report below is organised into 11 sub-sections following the informal sector questionnaire as indicated in section 4.4.1, and provides the information collected in the research.

5.5.1 Participant/respondent background

Sex of the participants

Findings

Of the 600 informal sector participants who were interviewed, 89 percent were male and 11 percent were female. When the author examined the sample from the three cities, it was found out that there were relatively more women involved in the sector in Mzuzu, followed by Blantyre, and then Lilongwe, as can be seen from the cross-tabulation in table 5.1 below.

Table 5.1: Cross-tabulation of city and sex of participants

City of the informal sector participant * Sex of the respondent Crosstabulation

			Sex of the respondent		Total
			Male	Female	
City of the informal sector participant	Lilongwe	Count	266	19	285
		% within City of the informal sector participant	93.3%	6.7%	100.0%
	Blantyre	Count	239	36	275
		% within City of the informal sector participant	86.9%	13.1%	100.0%
	Mzuzu	Count	31	9	40
		% within City of the informal sector participant	77.5%	22.5%	100.0%
Total		Count	536	64	600
		% within City of the informal sector participant	89.3%	10.7%	100.0%

Discussion

This finding differs somehow from Bromley's (1978:1162) finding in Cali where 67 percent were men and 33 percent were women. Owing primarily to cultural and economic barriers, it generally takes a great deal of courage for women to be involved in the informal sector. The informal sector in Malawi is associated with immoral behaviour as well as a lack of security and capital. This makes things extremely difficult for female participants, despite the reality of the feminisation of poverty as indicated in

section 3.3.1.3. The trading environment in Lilongwe, for example, is rather rough compared with Blantyre and Mzuzu, and it was therefore not surprising to see fewer women involved in the informal sector in Lilongwe than in the other cities.

Conclusion

Women are capable of becoming involved in the informal sector if they are given the opportunity, and the environment is secure enough for them.

Marital status of the participants

Findings

Seventy-two percent of the participants were married, 23 percent were single, while the remaining five percent were divorced, widowed, separated or in a polygamous relationship. Examining the marital status of the respondents according to sex revealed that 73 percent of the women and 72 percent of the men were married. Twenty-six percent of the men were single, while only three percent of the women were single. Thirteen percent of the women were widows while only 0,6 percent of the men were widows. Nine percent of the women were divorced, compared with only 2 percent of the men. It is interesting to note that 83 percent of the participants in Mzuzu were married compared with 76 percent in Blantyre and 67 percent in Lilongwe. In Lilongwe, 28 percent of the participants were single compared with only 20 percent in Blantyre and 15 percent in Mzuzu, as indicated in table 5.2 below.

Discussion

Many of the informal sector participants were married. Lilongwe had the lowest number of married participants and the highest number of single participants compared with the other two cities. This may be because of the rough informal sector environment in Lilongwe compared with the other two cities. It may also be because more young people are involved in the informal sector in Lilongwe than in the other cities. Very few (3%) of the informal sector participants were single women. A possible reason for this

could be that single women have greater difficulty raising start-up capital, and the stigma of immorality was stronger for single women than for married women.

Table 5.2: Cross-tabulation of city and marital status of participants

City of the informal sector participant * Marital status of the respondent Crosstabulation

			Marital status of the respondent						Total
			Single	Married	Divorced	Widowed	Separated	Polygamous	
City of the informal sector participant	Lilongwe	Count	79	192	7	5	1	1	285
		% within City of the informal sector participant	27.7%	67.4%	2.5%	1.8%	.4%	.4%	100.0%
	Blantyre	Count	54	208	7	6			275
		% within City of the informal sector participant	19.6%	75.6%	2.5%	2.2%			100.0%
	Mzuzu	Count	6	33	1				40
		% within City of the informal sector participant	15.0%	82.5%	2.5%				100.0%
Total		Count	139	433	15	11	1	1	600
		% within City of the informal sector participant	23.2%	72.2%	2.5%	1.8%	.2%	.2%	100.0%

Conclusion

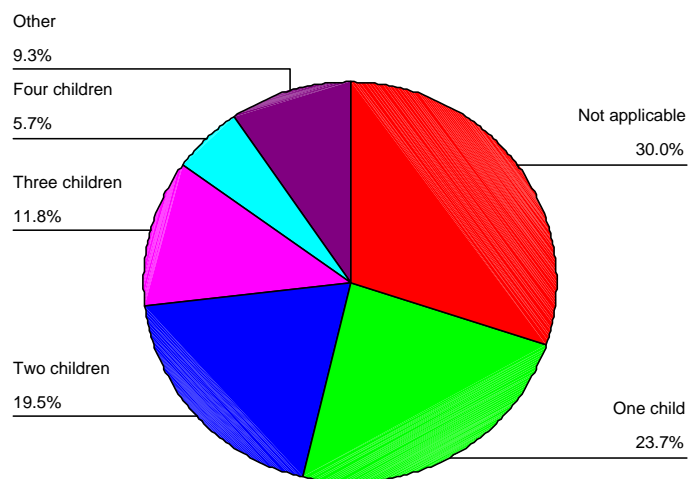
Many of the informal sector participants are married and many of those who are single are men.

Do you have any children?

Findings

Seventy percent of the participants had children while 30 percent did not. Twenty-four percent of all the participants had only one child, 20 percent had two children, 12 percent had three children, and the remaining 15 percent had four or more children as indicated in exhibit 5.1 below. Details of the number of children and their ages are provided in table 5.3 below.

Exhibit 5.1: Number of children of the informal sector participants



Discussion

Thirty percent of the participants did not have children as shown in exhibit 5.1. Of those who did not have children, 78 percent were in the youth category (14 to 25 years per Malawi standard), which probably explains why many of them were not yet married. The remaining 22 percent came primarily from the young adult group. It is possible that many of these may have been between the ages of 25 to 30 and may not have been married or may have been married but had not yet had children. This statistic lowered the average number of children per participant to 1,82 and it led to an average of 3,59 persons per household, which is lower than the Malawian standard of 4,3 persons per household. However, if one considers only those who were married, widowed or divorced, the average number of persons per household amounted to 4,36, which is slightly above the national average. One would have expected that a young group such as these informal sector participants (with 37% younger than 25 years of age and 90% younger than 40 years of age) would have had fewer children, especially in this modern society. However, this was not the case, and the statistics agree with the World Bank findings (section 3.3.1.3) that usage of contraceptives in Malawi is low even compared with the African standard.

Table 5.3: Cross-tabulation of age of respondent and number of children

number of children of the respondent * Age of the respondent Crosstabulation

			Age of the respondent				Total
			14 to 25 (youth)	25 to 40 (young adults)	40 to 65 (adults)	Over 65 (elderly)	
number of children of the respondent	Not applicable	Count	141	38	1		180
		% within number of children of the respondent	78.3%	21.1%	.6%		100.0%
	One child	Count	62	78	2		142
		% within number of children of the respondent	43.7%	54.9%	1.4%		100.0%
	Two children	Count	17	94	6		117
		% within number of children of the respondent	14.5%	80.3%	5.1%		100.0%
	Three children	Count	3	60	8		71
		% within number of children of the respondent	4.2%	84.5%	11.3%		100.0%
	Four children	Count	1	23	10		34
		% within number of children of the respondent	2.9%	67.6%	29.4%		100.0%
	Five children	Count		12	6		18
		% within number of children of the respondent		66.7%	33.3%		100.0%
	Six children	Count		8	9		17
		% within number of children of the respondent		47.1%	52.9%		100.0%
	Seven children	Count		1	5		6
		% within number of children of the respondent		16.7%	83.3%		100.0%
	Eight children	Count		2	5	1	8
		% within number of children of the respondent		25.0%	62.5%	12.5%	100.0%
	Nine children	Count			3	1	4
		% within number of children of the respondent			75.0%	25.0%	100.0%
	Ten children	Count			2		2
		% within number of children of the respondent			100.0%		100.0%
	More than 10 children	Count			1		1
		% within number of children of the respondent			100.0%		100.0%
Total		Count	224	316	58	2	600
		% within number of children of the respondent	37.3%	52.7%	9.7%	.3%	100.0%

Conclusion

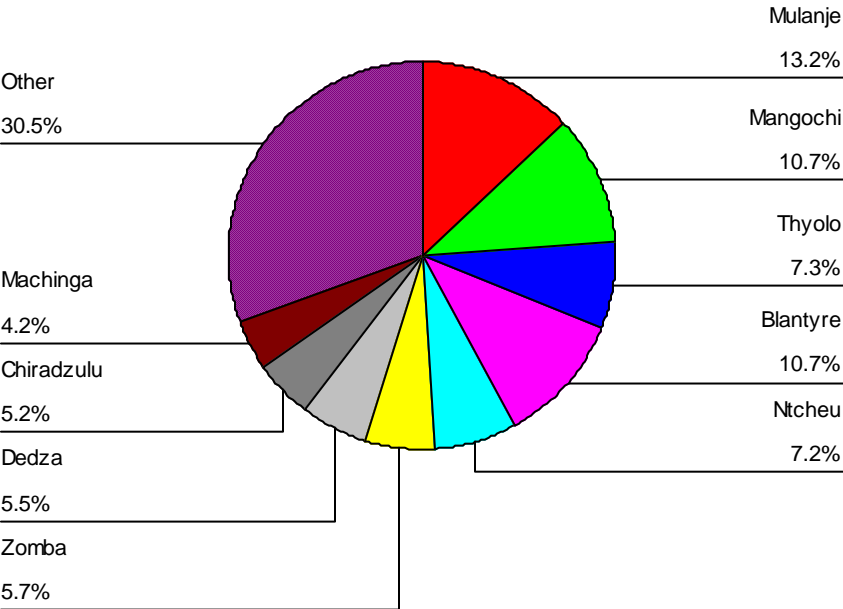
A significant number of the informal sector participants were young and did not have children. For those who did have children, the average number of persons per household was higher than the Malawian standard of 4,3.

Original home and tribal affiliation

Findings

Thirteen percent of the participants came from Mulanje one of the largest districts in the country. Following Mulanje, many of the participants came from Blantyre (11%) and Mangochi (11%). Details of this are contained in exhibit 5.2 below.

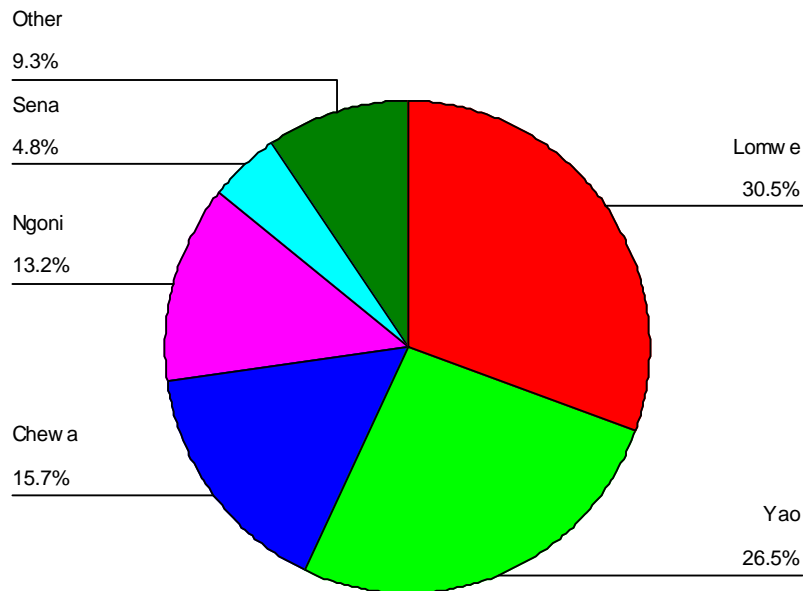
Exhibit 5.2: Home district of the participants



Thirty percent of the participants were from the Lomwe tribe, 27 percent from the Yao tribe, 16 percent from the Chewa tribe and 13 percent from the Ngoni tribe. Nine

percent were from other small tribes, while five percent were from other countries such as Zimbabwe and Mozambique. See exhibit 5.3.

Exhibit 5.3: Tribe of the participant



Despite the district of origin and the tribe, 80 percent of the participants used Chewa as a trading language because more than 80 percent of the customers understood the language.

Discussion

The results of the home district and the tribe correlate well. Those from Mulanje normally speak Lomwe while those from Mangochi speak Yao. Those from Blantyre normally speak Chewa, Lomwe or Yao. The fact that 30 percent of the participants were Lomwe, 27 percent Yao, 16 percent Chewa and 13 percent Ngoni, does not correlate with the national statistics on the size of the tribe. One would have expected the Chewa to be in the majority because the Chewa constitutes 57 percent of the population followed by Nyanja with 13 percent, Yao with 10 percent, Lomwe with two percent and Ngoni with one percent (if one considers the language used at household level in the

country as an indicator of tribe). It is clear from the findings that the Lomwe, Ngoni and Yao, despite their low population numbers in the country, are more enterprising than the Chewas. As pointed out by Hart (1973) (section 2.2.2), some businesses in the informal sector are difficult to enter because they are dominated by one tribe, which has strong ethnic relationships and is closed to entry by others. As Hart observed, the findings indicate that the Lomwe, Yao and Ngoni tribes help one another establish their businesses in the informal sector and possibly prevent others from joining the sector. It is not, however, surprising to see that the main trading language is Chewa.

Conclusion

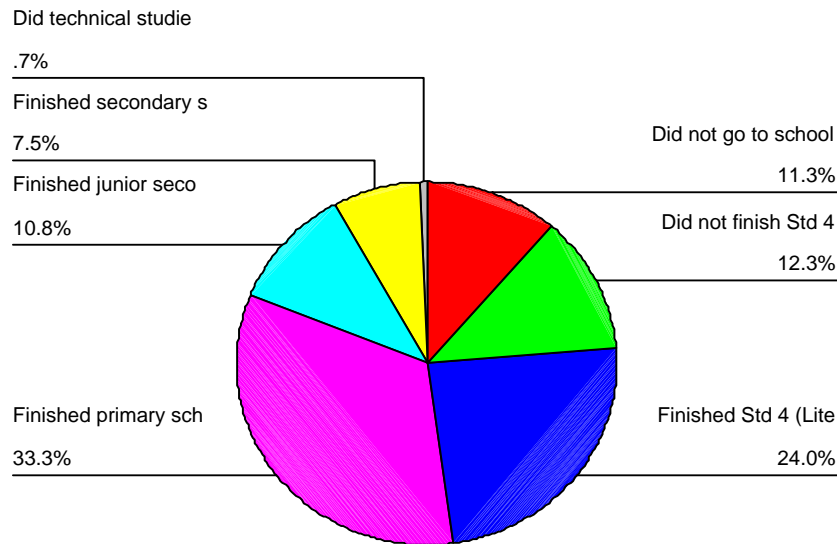
Many of the informal sector participants are from the Lomwe and Yao tribes, despite the fact that they are small tribes in the population, and come mainly from Mulanje, Mangochi and Blantyre.

Education level of the participant

Findings

Seventy-six percent of the participants were literate while 24 percent were illiterate, according to the Malawian standard. Fifty-one percent of those who were illiterate had attended school although they did not reach a level of functional literacy and are thus considered to be functionally illiterate. Eighteen percent had finished secondary school while 0,7 percent had even attended technical school. Many of the illiterate participants also came from the Lomwe (7%) and Yao (8%) tribes compared with the Chewa (3%) tribe. Exhibit 5.4 provides details.

Exhibit 5.4: Education level of the participants



11,3% - Did not go to school (illiterate)

12,3% - Did not finish Std 4 (illiterate)

24,0% - Finished Std 4 (literate)

33,3% - Finished primary school

10,8% - Finished junior secondary school

7,5% - Finished secondary school.

0,7% - Did technical studies

Discussion

It is clear from these findings that many of the informal sector participants were literate. Some of these participants may have tried to find a job, but with the high unemployment rate in Malawi, were unsuccessful, and, thus ended up in the informal sector. These findings differ from that of Bromley (1978b:1162) who found that 25 percent of the street traders in Cali had three years of primary education while only about five percent had any postprimary education, as indicated in section 2.2.2. However, these findings agree with those of Bromley as far as the involvement of the illiterate participants is

concerned. While it seems inconceivable that an illiterate person would be able to run a business, the situation in the informal sector demonstrates that it is possible if they have acquired the necessary skills, as indicated by Richardson (1984:17). Through experience, some of these participants have learned how to count and are thus able to run their businesses.

Conclusion

Anyone can function and be involved in the informal sector, even those who are classified as illiterate by Malawian standards.

5.5.2 Participant housing situation

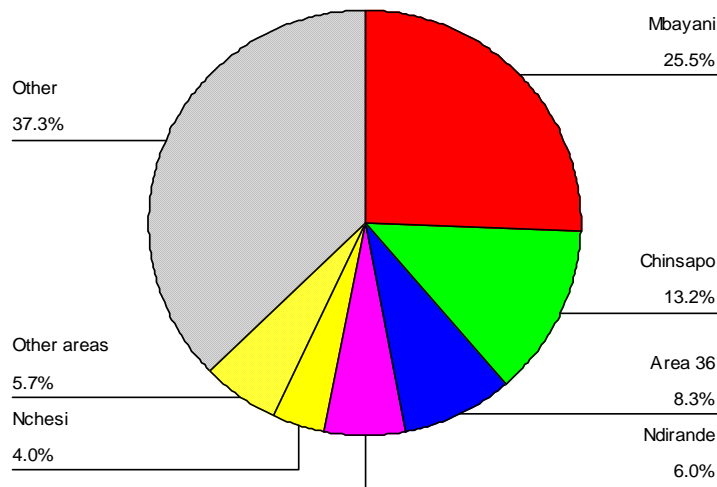
Where do you stay? Are you staying in your own home? If “no”, with whom are you staying? Do you have to pay rent or contribute to the payment of rent where you are staying? If “yes”, how much do you pay per month?

Findings

The participants lived in many different areas. However, the primary six areas were Mbayani (26%), Chinsapo (13%), Area 36 (8%) Ndirande (6%), other areas (6%) and Nchesi (4%), as indicated in exhibit 5.5 below. The other 38 percent were scattered all over the townships. According to the findings, 90 percent of the participants lived alone with their families in houses which were either their own (40%) or rented (60%), while the remaining 10 percent lived either with their relatives (70%), their friends (20%), on the street, where they operated their business and at the bus or train station (10%).

Apart from those who lived in their own homes, the rest paid rent in some way or other where they lived. Of the participants who paid rent, 84 percent paid rent of less than K500 (US\$7) per month, 13 percent paid rent between K501 to K1 000 (US\$7-US\$13) per month, while the remaining three percent paid more than K1 000 (US\$13) per month.

Exhibit 5.5: Participants areas of residence



Discussion

One commonly held characteristic of these participants was the desire to be independent rather than dependent on someone else for their housing. This afforded them an opportunity to have their families live with them in town. On the other hand, they might have built their own homes (the 40% who owned homes) using the money they earned from their businesses. What was also common about the areas in which these participants were living was that there were many squatter shelters, and it was possible to acquire land to build their own homes or to rent one. Squatter shelters were the starting point for many participants because, as Sethuraman (1997:4) points out, the pace of urbanisation has far exceeded the rate at which urban infrastructure and services are being improved. As for those who rented property, it is clear from the figures that an attempt was made by the participants to rent the cheapest place possible. It is interesting to note that those who lived with relatives or friends also contributed to the payment of rent, if the property was rented.

Conclusion

Many of the informal sector participants in Malawi live with their families in their homes, while those who rent homes, pay the minimum rent possible.

Are you staying with your children here in town? If “yes”, how many children? If you are staying in your own house here in town, are you staying with any relative? If “yes”, how many?

Findings

Sixty-three percent of the participants lived with their children in town, while the remaining 37 percent did not. Of all those who supported children, 34 percent supported one child, 32 percent two children, 16 percent three children, eight percent four children, while the remaining 10 percent supported more than four children. Exhibit 5.6 shows the percentage of the total participants who supported children, and how many they supported. In addition, 51 percent of the participants supported relatives in town. Exhibit 5.7 shows the percentage of the participants who supported relatives and the number involved.

Exhibit 5.6: Number of children staying with them in town

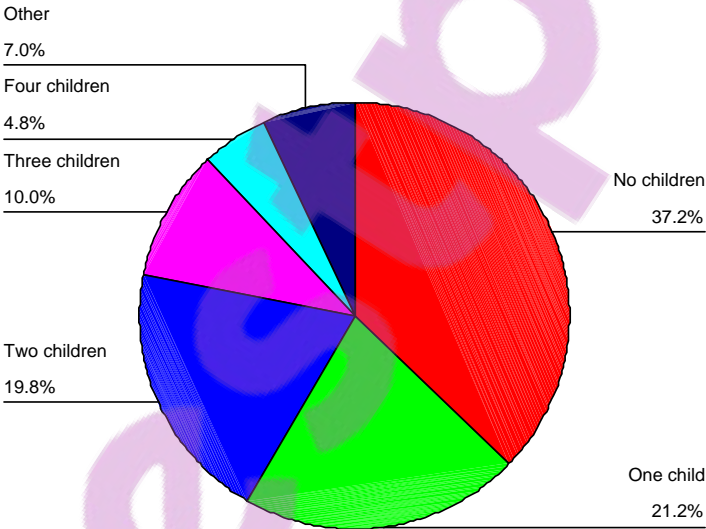
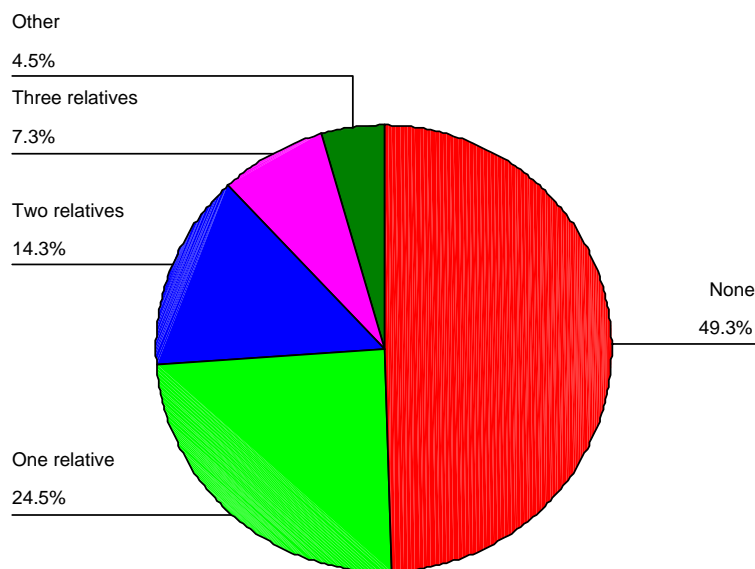


Exhibit 5.7: Number of relatives staying with them in town



Discussion

Many participants lived with their children and their relatives. A comparison between the number of the children the participants had and the number they supported in town (exhibits 5.1 & 5.6) revealed that 7,2 percent of the participants were not staying with their children in town. The children may have stayed in the villages or with relatives in other parts of the town. These could have been new participants who had just joined the sector and were not yet established. In addition, some participants who were either divorced or widowed did not keep their children with them in town. This may have been because the children were either being kept by their previous spouse or staying with their relatives.

It was also found that up to 50 percent of the participants were living with their relatives. The number of these relatives ranged from one to 11 which is high by Malawian standards. While supporting relatives is a common occurrence in Malawi because of the extended family cultural practice, the number of relatives being supported increased from the normal one or two relatives to as many as 11. Among other reasons, this may have been caused by the impact of HIV/AIDS. As pointed out in section 3.3.1.3, the

HIV/AIDS pandemic is claiming the lives of many people (especially parents) in Malawi and the number of orphans was estimated to have reached 35 000 in the year 2000. In addition, the poor education standards, especially in the rural areas, are forcing people to send their children to towns where the educational standards are much higher. This may have contributed to the increase in the number of relatives being supported by the informal sector participants.

The fact that the participants have to support their children and relatives means that they are carrying huge responsibilities.

Conclusion

The informal sector participants in Malawi have a huge responsibility because they have to look after their families and relatives.

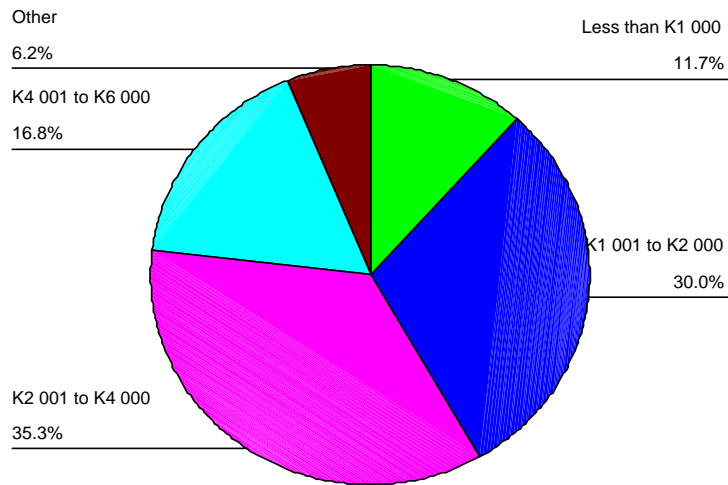
5.5.3 Participant's responsibilities

How much do you spend on average on food for you and those you support per month? How much money on average do you spend per month in order to meet other needs such as school fees, groceries and transport? How much money on average do you spend per month on health services for you and those you support? How much money on average do you send home per month, to those you take care of, if any?

Findings

Exhibits 5.8 to 5.11 show the average amount spent per month in the area of food, school fees, groceries, transport, health issues and any average amount the respondents send to their home villages to take care of their parents or other relatives.

Exhibit 5.8: The amount they spent on food per month



This exhibit shows that 58 percent of the informal sector participants spent more than K2 000 (US\$27) per month on food. Thirty percent spent from K1 001 to K2 000 (US\$13-27) per month while only 12 percent spent less than K1 000 (US\$7) per month. The majority (35%) of the participants spent from K2 000 to K4 000 (US\$27-53) on food alone per month. A close examination based on sex of the respondents showed that women spent more money on food than men. Thus more women (34%) spent more than K4 000 (US\$53) per month, while only 21 percent of the men spent the same amount per month.

Exhibit 5.9: The amount spent on other household needs per month

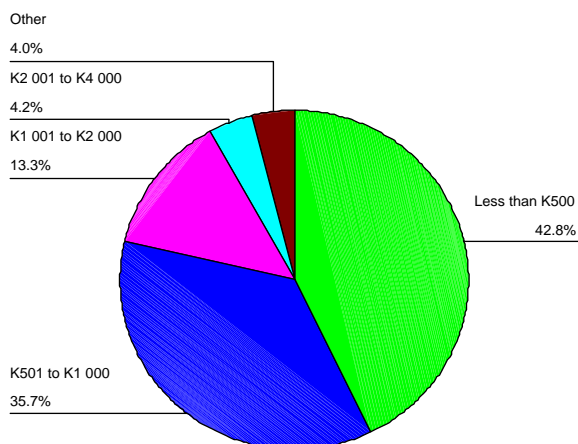
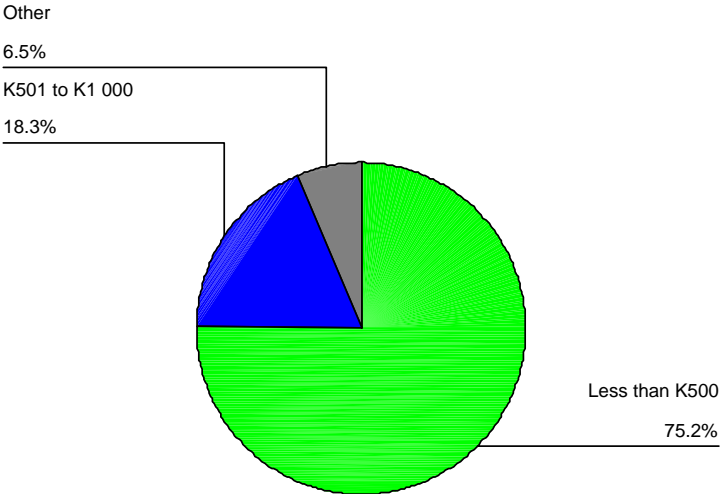


Exhibit 5.9 shows that 57 percent spent more than K501 (US\$7) per month on groceries and other expenses, while 43 percent spent less than K500 (US\$7) per month. The majority of the participants (36%) spent from K501 to K1 000 (US\$7-13) per month. More women (31%) spent more than K1 000 (US\$13) on groceries compared with 20 percent of the men who spent the same amount.

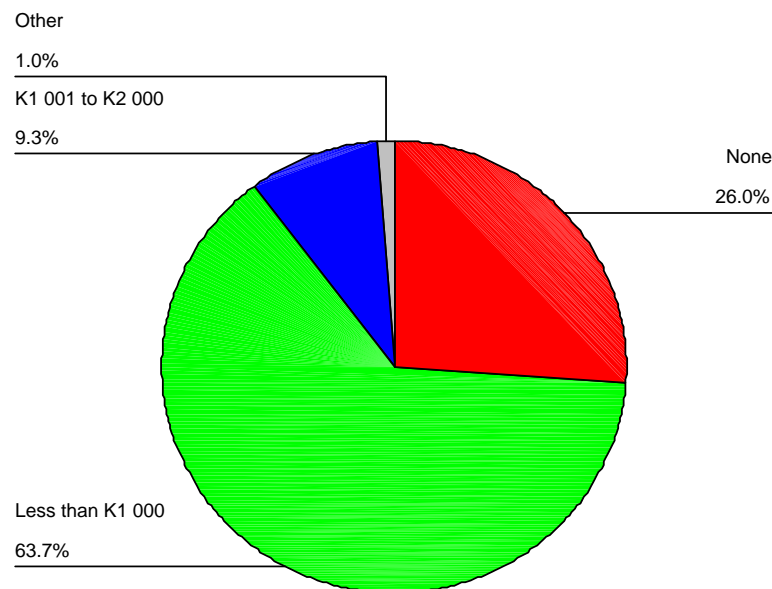
Exhibit 5.10 below shows that many participants spent less on health services. Seventy-five percent spent less than K500 (US\$7) per month, while the remaining 25 percent spent more than that. In fact, the 25 percent comprises 18,3 percent who spent between K501 to K1000 (US\$7-13) per month and 6,5 percent who spent more than K1000 (US\$13) per month, as reflected below.

Exhibit 5.10: Amount spent on health services per month



Sixty-four percent of the participants sent less than K1000 (US\$13) to their home villages to support their parents and relatives, while 26 percent never sent anything, and the remaining 10 percent sent more than K1 000 (US\$13) per month as depicted in exhibit 5.11 above.

Exhibit 5.11 How much sent per month to their home village



Discussion

It is clear from the above exhibits that many of the participants spend a significant amount of their money on food and groceries. However, they spend some money on health services and are even able to send money home to help their parents and relatives. On average, about 60 percent of the participants spend about US\$2 per family per day excluding what they send to their home village, which is less than the UN target of US\$1 income per person per day. In addition, US\$2 per family per day is lower than the income poverty line per family per day of US\$4,3 for the urban areas in Malawi, as indicated in table 3.1 (thus US\$1 per person per day). This may be because they are able to obtain cheaper sources of food items. It is also possible that they use more of the informal and traditional health services, which do not require money. Some of the participants may have gardens and grow their own food and therefore do not need to spend as much on it. The US\$2 per family per day is, however, higher than the national poverty line of US\$1,72 per family per day. Thus, these participants at national level are well above the poverty line. Based on this finding, one may argue that the informal sector is indeed contributing to the well being of individuals who would otherwise be extremely poor. The remaining 40 percent spend less than US\$2 per family per day and

can be classified as being below the poverty line both at national and urban level in terms of expenditures.

The findings also show that women spend more than men on food and groceries. This is normal because women are more caring and nurturing than men, and it is therefore obvious that they tend to spend more on the basic food and groceries than men, who tend to concentrate on luxuries. As pointed out by Dom (1995:57), women traditionally meet everyday household costs and often also take responsibility for children whom they want to see cared for, well nourished and possibly better educated. It is therefore possible that the expenditure figures that the married male participants mentioned are lower than the figures the family actually spend because these married male participants may not be aware of how their wives are budgeting their own or the family money. One may argue that the percentage of those who are above the poverty line could well be more than 80 percent, showing that the informal sector is indeed an effective strategy for poverty reduction as pointed out in section 2.4.2.

An interesting finding is that women seem to spend much less on medicine than men. This is either because they and their children are healthy and they are free to spend more of their money on food, as stated above, or because they buy their medicine from the informal sector, which sells medicine more cheaply.

The fact that 64 percent of the participants send something back to their home villages to support their parents and relatives also show that the informal sector benefits are trickling down to the rural areas as well, although as mentioned in section 2.2.4, this is not considered to be one of the potential benefits of the informal sector. This practice, however, is not unique to the informal sector participants because even those employed in the formal sector help to support their families in the rural areas.

Conclusion

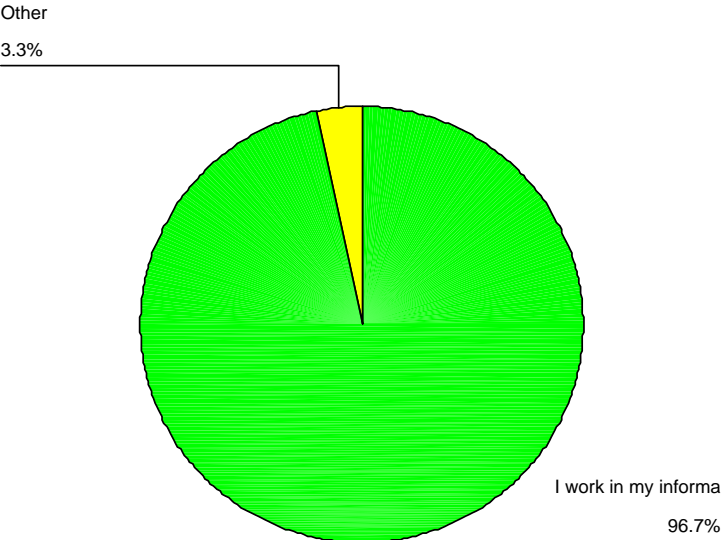
The more responsibility one has, the more one will spend. However, women are likely to spend more on household necessities because they are by nature nurturers.

What are your sources of income? (Tick as many as applicable but rate the source of income from highest (1) to lowest (5) in the second column.) If you are without money, what do you do?

Findings

Ninety-seven percent of the participants' source of income is from their informal sector business, as shown in exhibit 5.12. The few whose source of income does not emanate from the informal sector business are either employed by an informal sector participant or do piecework to raise additional money.

Exhibit 5.12: Participant's source of income

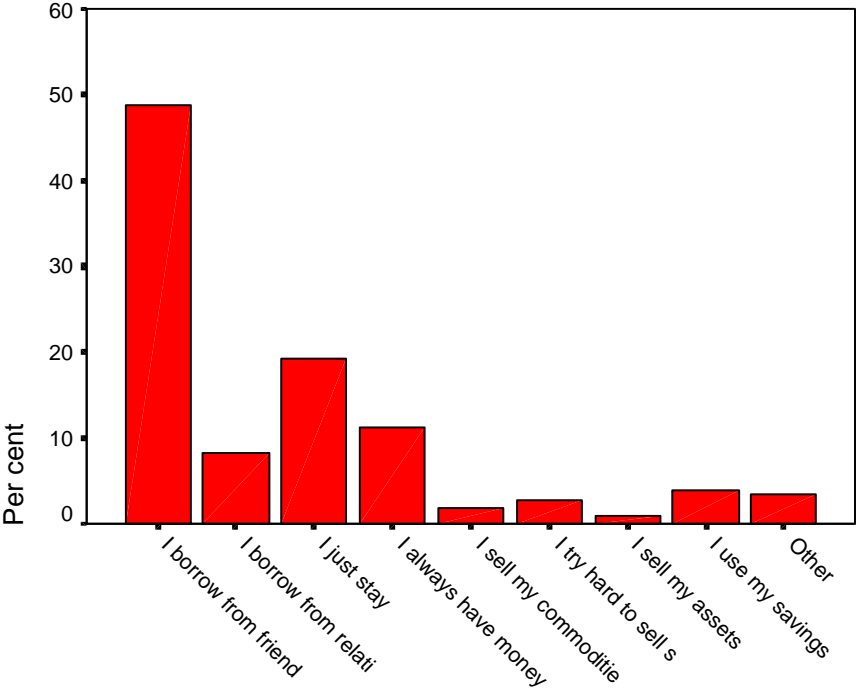


96,7% - I work in my informal sector business

3,3% - Other

While the primary source of income for the participants is the informal sector business, 14 percent also have a secondary source of income. Of these, 27 percent have another informal sector business, 27 percent are married to spouses who work in the formal sector, 17 percent have a house or warehouse which they rent out, 16 percent have spouses who are involved in another informal sector business, while the remaining 13 percent do piecework or receive money from relatives, parents or friends.

Exhibit 5.13: What participants do when they have no money



- 49% - I borrow from friends
- 8% - I borrow from relatives
- 19% - I just stay
- 11% - I always have money
- 1.8%- I sell my commodities at wholesale prices
- 2.7%- I try hard to sell something
- 0.8% - I sell my assets
- 3.8% - I use my savings
- 3.5% - Other

Forty-nine percent of the participants borrow from friends, 8 percent borrow from relatives and 19 percent simply stay where things are when they have no money. Eleven percent declared that they always have money and have never been in such a situation, which is interesting to note. Four percent use their savings, while the remaining 9 percent either sell their goods at wholesale prices or sell their assets. Exhibit 5.13 above depicts these findings.

Discussion

The results show clearly that many participants depend on their informal sector activity or business for their livelihood. Some have several informal sector businesses, others are able to save their money in the bank and others are able to buy assets, all of which shows that there is the potential for a livelihood in the informal sector. While Cronje et al's (1997) business environment model used in the analysis of Malawi (section 3.2) is sound, the model assumes that there is only one business. This is clearly not always the case in the informal sector. Diversification is critical for survival in the informal sector. It is therefore not surprising that 27 percent have other businesses, in addition to the one business they were interviewed on.

The fact that some participants indicated that they have never experienced a shortage of money shows that their businesses have stabilised and are flourishing. This is a clear indication that they are no longer reliant on anyone and the negative implications of the dependency theory, as elucidated in section 2.3.2.2, no longer exert much influence on them. It is also possible that some of the respondents gave that response because of a sense of personal pride. As indicated in section 2.2.4, the informal sector has the benefit of recognising a person's dignity, which in turn, builds his or her sense of self-worth or esteem, as was the case here.

It is worth noting that when the informal sector participants are broke, they borrow from their friends more than from their relatives. This may be because they have developed a mutual sense of trust, they are in close proximity to another and a sense of community

is developing. A number of participants also simply stay where they are when they are broke. This shows that they have developed some kind of coping mechanism.

Conclusion

Informal sector businesses are a good source of income, and in most instances, it is possible to make a sustainable livelihood from them.

5.5.4 Characteristics of the enterprise

Describe the enterprise and its assets.

Findings

The description of the informal sector businesses and assets that form part of this study are contained in appendix 7. Besides those with kiosks, many of the assets are movable such as tailoring machines, tools, baskets, buckets, benches, musical instruments and chairs.

Discussion

The type of businesses in which the informal sector participants are involved in Malawi do not require major, sophisticated assets. In one way, this makes entry into this sector quite easy. The participants do not need to make major investments in order to participate in the sector. They can start small, according to their financial abilities, and gradually grow. This strategy is in accordance with the ILO's definition of the informal sector and the one developed for this thesis in section 2.2.2.

Conclusion

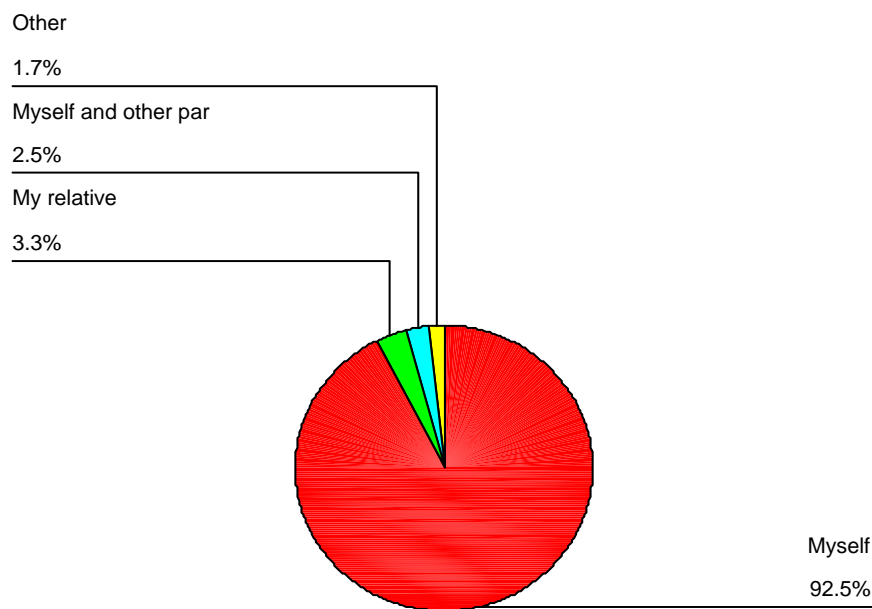
The informal sector in Malawi is involved in businesses that are small and do not require sophisticated assets in order to operate.

Who is the owner of enterprise/business?

Findings

The participants themselves own ninety-three percent of the informal sector businesses while relatives, participants and other partners, parents and some businesspeople own the remaining 7 percent. Exhibit 5.14 provides details.

Exhibit 5.14: Owner of business



92,5% - Myself

1,7% - Other

3,3% - My relative

2,5% - Myself and other partners

Discussion

The fact that many participants own the informal sector businesses is positive because they do not rely on anyone. Although they are not in control of the business environment, as pointed out in section 3.1, the fact that they are the owners makes it easy for them to take quick decisions and implement them if there are any changes in

the business environment in which they operate. This ability is critical to any successful business. This finding is contrary to the myth that many informal sector businesses belong to the Asian traders, and the informal sector participants are simply either commission workers or employees of the Asian traders.

Conclusion

Many of the informal sector participants in Malawi own the informal sector businesses with which they are involved.

Reasons for starting the business

Findings

Forty-six percent of the participants indicated that they are involved in the informal sector because formal jobs are not available while 21 percent indicated that they need a business to support themselves and their families. Eighteen percent indicated that they started the informal sector business because they can earn more in this way than working in the formal sector. The others advanced other reasons such as:

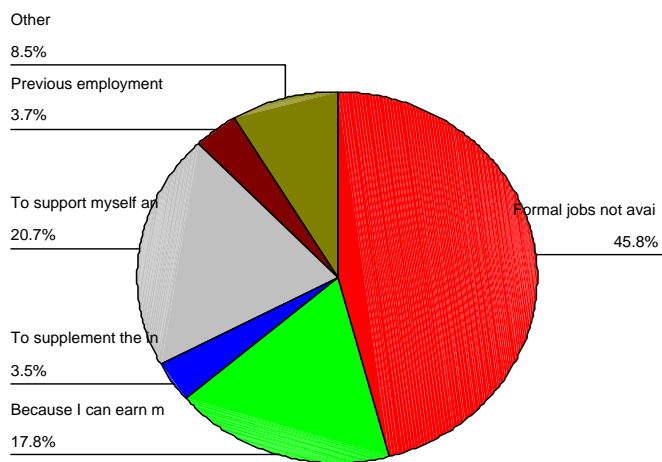
- previous unsatisfactory employment conditions
- to supplement the income my spouse or I earn

Exhibit 5.15 below provides the details of this finding.

Discussion

While there were many reasons for the participants joining the informal sector, the fact that there is no formal employment seems to be the main reason. The participants need to support themselves and their families and yet there is no employment. It is also important to note that some join the sector because formal employment conditions are unsatisfactory. These participants therefore decided to leave their formal jobs to join the informal sector.

Exhibit 5.15: Reasons for starting the business



45,8% - Formal jobs not available

17,8% - Because I can earn more in this business

3,5% - To supplement my income or that of my spouse

20,7%- To support myself and or family

3,7% - Previous employment conditions not satisfactory

8,5% - Others

The reasons stated by the participants are partly contrary to Mohr and Fourie’s (1995:411) argument, that the informal sector participants join the sector because they do not want to pay tax, cannot find employment and are engaged in illegal activities, as pointed out in section 2.2.1. The fact that others move out of a formal job to join the informal sector shows the value people attach to this sector.

Conclusion

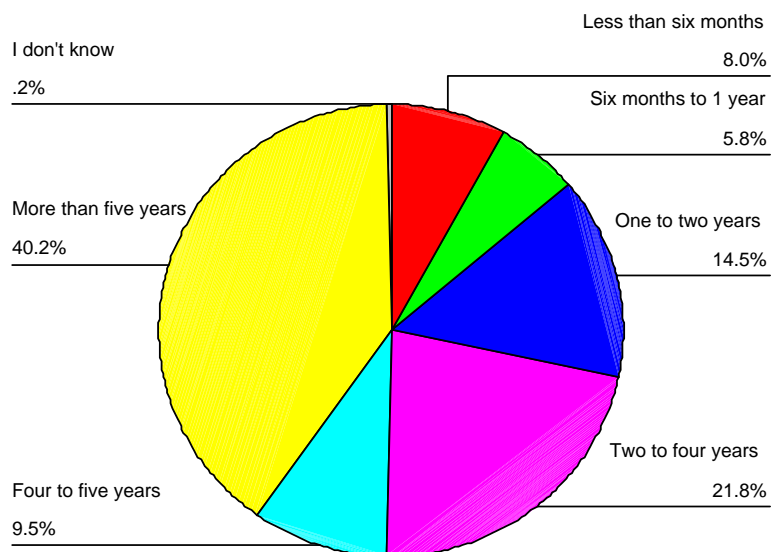
Malawians join the informal sector because it is a form of employment that enables them earn the income they need.

How long have you been involved in this enterprise/business?

Findings

Forty percent have been in the business for more than five years. Fifty percent have been in the business for more than four years and the remaining 50 percent for less than four years. Eight percent have joined in the last six months. Exhibit 5.16 provides details.

Exhibit 5.16: Participant's period of involvement in the informal sector



Discussion

More than 72 percent have been in the business for more than two years, which seems to suggest that business is stable and they have acquired the needed experience. However, one can argue that some people join the sector as a temporary survival mechanism but simply stay because they lack alternatives.

Eight percent of the participants joined the sector in the last six months and a total of 14 percent joined during the last year. In one way, this shows that the informal sector is growing, as pointed out in section 2.2.3. This growth, however, has to be regarded with

caution because of the dynamic nature of the informal sector and the operation of the surrounding macro- and microenvironment. While some individuals are joining the sector, others are leaving it because they are bankrupt, have lost interest, have found a formal job or have other reasons for doing so. In addition, the growth may be an indicator of the favour the informal sector participants receive from political leaders (government) as pointed out by Bromley (1978b:1165) in section 2.4.8, an increase in migration from villages to towns as pointed out by Charmes (1990:12) in section 2.2.3, or of the stagnation of the economy (Mohr & Fourie 1995:411-412) as discussed in section 1.2.

Conclusion

The majority of the informal sector participants in Malawi have been involved in the informal sector for more than two years.

How many hours per day do you work? How many days per week do you work?

Findings

Seventy-six percent of the participants work more than eight hours per day in their business, 22 percent work more than six hours per day and the remaining two percent work fewer than six hours per day. Sixty percent of the participants work six days per week, 34 percent work seven days per week, while the remaining six percent work for five or fewer days per week. A study of this finding from a gender perspective shows that 78 percent of the men and 63 percent of the women work eight hours per day, while 21 percent of the men and 32 percent of the women work more than six hours per day. Thirty-five percent of the men and 23 percent of the women work seven days a week, while 60 percent of the men and 61 percent of the women work six days per week. It is also interesting to note that 11 percent of the women and three percent of the men work five days a week, as in formal sector jobs. Of the top 10 participants who make between K5 001 to K20 000 (US\$67-267) per day, nine of them work more than eight hours per day while the others work six to eight hours a day. Twenty-five percent of the women, compared with 11 percent of the men, who work six to eight hours per day and 30 percent of the women (compared with 36% of the men,) who work more than eight

hours per day all make the same amount of less than K500 per day as depicted in table 5.4. Ninety-five percent of the women and 99 percent of the men work more than six hours per day.

Table 5.4: Cross-analysis table showing sex, hours worked and income

				sex of the respondent			
				Male		Female	
				Count	Col %	Count	Col %
Working hours per day for the respondent	Less than four hours per day	average income per day for the respondent	Less than K500 per day	1	.2%	1	1.6%
			K500 to K1 000			1	1.6%
	Four to six hours per day	average income per day for the respondent	K2 001 to K3 000	1	.2%		
			Less than K500 per day	4	.7%	1	1.6%
	More than six hours but less than eight hours per day	average income per day for the respondent	K1 001 to K2 000	2	.4%		
			Less than K500 per day	57	10.6%	16	25.0%
			K500 to K1 000	33	6.2%	2	3.1%
			K1 001 to K2 000	10	1.9%	2	3.1%
			K2 001 to K3 000	6	1.1%	1	1.6%
			K3 001 to K4 000	2	.4%		
More than eight hours per day	average income per day for the respondent	K4 001 to K5 000	2	.4%			
		K5 001 to K10 000	1	.2%			
		Less than K500 per day	194	36.2%	19	29.7%	
		K500 to K1 000	117	21.8%	12	18.8%	
		K1 001 to K2 000	59	11.0%	4	6.3%	
		K2 001 to K3 000	30	5.6%	2	3.1%	
		K3 001 to K4 000	5	.9%			
I don't know	average income per day	K4 001 to K5 000	6	1.1%			
		K5 001 to K10 000	3	.6%	2	3.1%	
		K10 001 to K15 000	1	.2%	1	1.6%	
		K15 001 to K20 000	1	.2%			
		K500 to K1 000	1	.2%			

Discussion

The findings seem to suggest that it is necessary to work longer hours in the informal sector than in many of the formal sector jobs. The fact that many of the participants are owners of the businesses, seem to suggest that their businesses are a part of their lives. These results are similar to those of Bromley (1978b:1062) in Cali, Colombia. The number of days per week and hours per day is similar for both men and women. This

may be because of the fact that the women are also heads of households either because they are widows or divorcees or temporarily because their husbands are not staying with them. In addition, all the women are the sole owners of their businesses except for one woman who runs the business in partnership with a friend. The fact that they own these businesses also requires long hours of work since it is a difficult sector in which to make money. The chances of women being overburdened with work in these circumstances is extremely high, because after more than eight hours of work they still have to return home and do their household chores. Children suffer in this scenario, particularly the younger ones, because childcare is inadequate and the possibility that older siblings are taking care of the children is high. However, those who devote more time to their business are extremely successful.

Conclusion

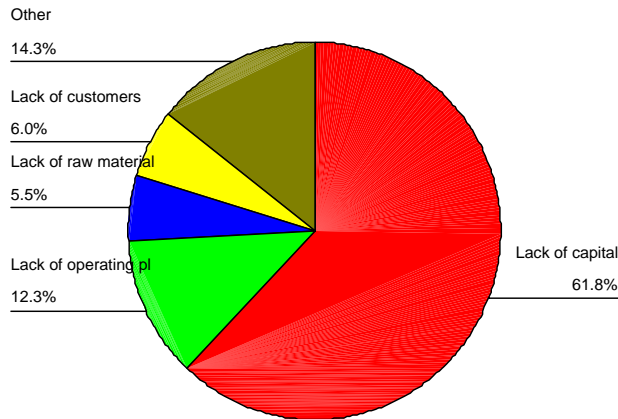
One needs to devote more days and more hours per week to informal sector businesses to be successful.

What was the single most important difficulty you faced in establishing your business?

Findings

Sixty two percent of the participants experienced difficulty finding the capital to start their businesses. Twelve percent had problems because of lack of a business locale, while 23 percent had problems finding customers and raw materials. They also experienced resistance from those who were already involved in the sector. Three percent of the participants, however, did not have any problems. Sixty-seven percent of the women, compared with 61 percent of the men, expressed lack of capital as the principal problem. Exhibit 5.17 below gives details.

Exhibit 5.17: Difficulties experienced in establishing informal sector businesses



61,8% - Lack of capital

6,0% - Lack of customers

12,3% - Lack of operating place

14,3% - Others

5,5% - Lack of raw material

Discussion

The fact that the informal sector participants struggle to raise capital for business start-up costs is not at all surprising because they are not eligible for bank loans or loans from lending institutions. This was because of a lack of assets or collateral at the time of start-up of their businesses. In addition, some institutions require proof of business experience on the part of the participant before they risk lending money to him or her, which tends to be a major problem for new participants. As indicated by Sethuraman (1997:14 & 15), it is for this reason that the informal sector participants are obliged to start their businesses with their own savings supplemented with money they borrow from friends and relatives. According to Sethuraman this constraint is particularly severe for women in the informal sector because on average they generally have less schooling than men and are faced with insurmountable social, cultural and political obstacles when it comes to acquiring skills and capital. This is also true of Malawi.

Lack of a business locale was also indicated as a problem by 13 percent of the men and 11 percent of the women. Even if someone has capital, this can be a significant obstacle. As pointed out in section 2.2.2, entry into the informal sector is not always as easy as some may think. One has to overcome several barriers before one can become involved. In Malawi, finding a business locale is one of them.

Conclusion

Lack of capital and a business locale are the two main obstacles to entry into the informal sector in Malawi.

5.5.5 Source of capital for the enterprise

How did you start your business? If you obtained items from a businessperson, what was the agreement? If you agreed on commission, how much was the commission per item or in total or how much as a percentage did you receive per item or in total? If you used money, with how much capital did you start your business and what was the source of your initial capital?

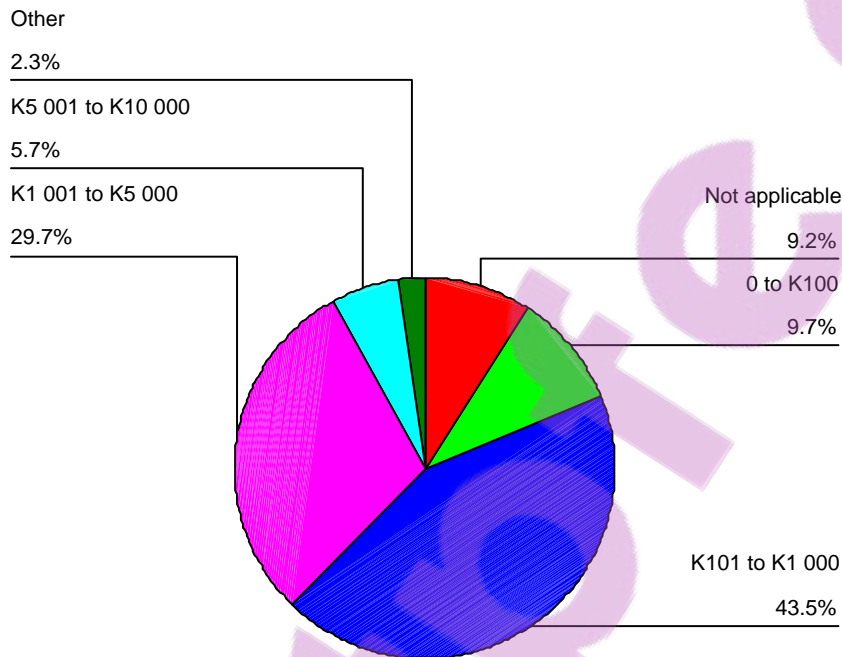
Findings

Ninety-one percent of the participants used money to start their businesses while six percent procured raw materials from businesspeople, other informal sector participants, parents and relatives. Those who obtained items from a businessperson entered into the following agreements:

- There was no agreement. The participant obtained the items, sold them, returned the money and the businessperson simply gave him or her what he or she wanted (47%).
- They would return the value of goods taken in monetary terms (20%).
- They would receive commission for whatever they sold (13%).
- They would exchange labour for items, that is, they would pay rent for the machine they used or the materials were given to them free of charge (20%).

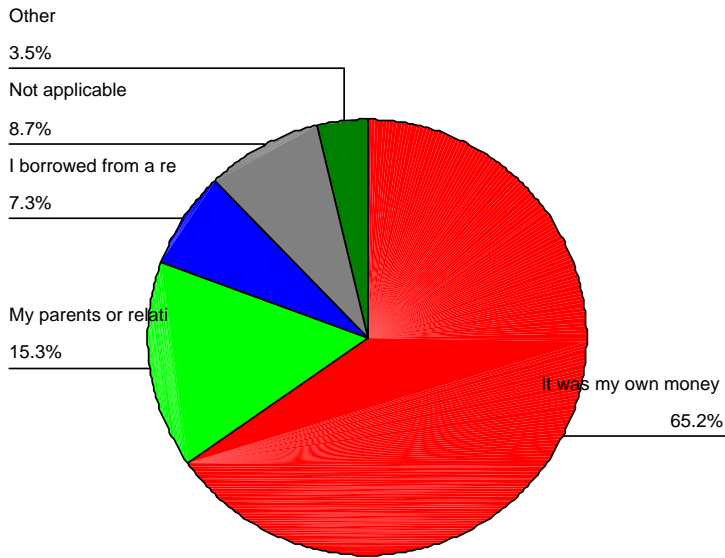
Regarding the three participants who agreed on commission, the commission ranged from K500 to K1 000 (US\$7-13) per the lot they took. In the case of those who started their business with money, the majority (53%) used less than K1 000 (US\$13), while 47 percent used more than K1 000 (US\$13) as their initial capital. It was worth noting that 98 percent of the women used their own money as capital, compared with 90 percent of the men, while the remaining two percent of the women sold farm produce to obtain capital. Exhibit 5.18 shows the distribution of the amounts used as initial capital.

Exhibit 5.18: Amount of money used as initial capital



There were few sources of this initial capital. The major three sources were the participants themselves (65%), parents or relatives (15%) and borrowing from a friend (7%). Exhibit 5.19 gives the details.

Exhibit 5.19: Source of money used as initial capital



- 65,2% - It was my own money
- 15,3% - My parents or relatives
- 7,3% - I borrowed from a relative
- 8,7% - Not applicable
- 3,5% - Other

When one examines the sources of this initial capital by sex of the respondent, it is clear that while men tend to have many sources, women have fewer. The main sources of initial capital for women were their own money (42,2%), parents or relatives gave it to them (39,1%), they borrowed it from a relative or friend (12,5%) and their spouse gave it to them (3,1%). Regarding the male respondents, their main four sources were their own money (67,9%), they borrowed from parents or relatives (12,5%), they borrowed from a relative or a friend, and not applicable (9,5%). See table 5.5 below for details.

Table 5.5: Sources of initial capital by sex of the respondent

Source of money used as initial capital * Sex of the respondent Crosstabulation

			Sex of the respondent		Total
			Male	Female	
Source of money used as initial capital	It was my own money	Count	364	27	391
		% within Sex of the respondent	67.9%	42.2%	65.2%
	My parents or relatives gave it to me	Count	67	25	92
		% within Sex of the respondent	12.5%	39.1%	15.3%
	I borrowed from a relative or friend	Count	36	8	44
		% within Sex of the respondent	6.7%	12.5%	7.3%
	I borrowed from a businessman	Count	5		5
		% within Sex of the respondent	.9%		.8%
	I borrowed from a micro-finance institution	Count	4	1	5
		% within Sex of the respondent	.7%	1.6%	.8%
My spouse gave me capital	Count		2	2	
	% within Sex of the respondent		3.1%	.3%	
My partners and own money	Count	3		3	
	% within Sex of the respondent	.6%		.5%	
Not applicable	Count	51	1	52	
	% within Sex of the respondent	9.5%	1.6%	8.7%	
Other	Count	6		6	
	% within Sex of the respondent	1.1%		1.0%	
Total	Count	536	64	600	
	% within Sex of the respondent	100.0%	100.0%	100.0%	

As indicated in table 5.6 below, it is difficult to correlate the amount of capital that was originally invested and the current average income per day. While it appears that the more the person invested, the higher average income he or she would make (eg one woman who invested more than K40 000 (US\$533) and was making between K10 001

to K15 000 (US\$133-200) per day), there are also variances in that norm as indicated in table 5.6.

Table 5.6: Capital invested versus average income per day

				sex of the respondent			
				Male		Female	
				Count	Col %	Count	Col %
Amount of money used as initial capital	Not applicable	average income per day for the respondent	Less than K500 per day	30	5.6%	1	1.6%
			K500 to K1 000	17	3.2%		
			K1 001 to K2 000	5	.9%		
			K2 001 to K3 000	1	.2%		
	0 to K100	average income per day for the respondent	K5 001 to K10 000	1	.2%		
			Less than K500 per day	27	5.0%	11	17.2%
			K500 to K1 000	10	1.9%	1	1.6%
			K1 001 to K2 000	7	1.3%		
	K101 to K1 000	average income per day for the respondent	K2 001 to K3 000	1	.2%		
			K5 001 to K10 000	1	.2%		
			Less than K500 per day	128	23.9%	18	28.1%
			K500 to K1 000	63	11.8%	7	10.9%
			K1 001 to K2 000	26	4.9%	1	1.6%
			K2 001 to K3 000	12	2.2%		
			K3 001 to K4 000	2	.4%		
			K4 001 to K5 000	1	.2%		
	K1 001 to K5 000	average income per day for the respondent	K5 001 to K10 000			1	1.6%
			K10 001 to K15 000	1	.2%		
			K15 001 to K20 000	1	.2%		
			Less than K500 per day	64	11.9%	6	9.4%
			K500 to K1 000	49	9.1%	4	6.3%
			K1 001 to K2 000	21	3.9%	5	7.8%
	K5 001 to K10 000	average income per day for the respondent	K2 001 to K3 000	20	3.7%	2	3.1%
			K3 001 to K4 000	4	.7%		
K4 001 to K5 000			2	.4%			
K5 001 to K10 000					1	1.6%	
Less than K500 per day			5	.9%	1	1.6%	
K500 to K1 000			11	2.1%	2	3.1%	
K10 001 to K15 000	average income per day for the respondent	K1 001 to K2 000	8	1.5%			
		K2 001 to K3 000	2	.4%	1	1.6%	
		K3 001 to K4 000	1	.2%			
		K4 001 to K5 000	1	.2%			
		K5 001 to K10 000	2	.4%			
		Less than K500 per day	2	.4%			
K15 001 to K20 000	average income per day for the respondent	K500 to K1 000			1	1.6%	
		K1 001 to K2 000	3	.6%			
		K2 001 to K3 000	1	.2%			
Over K40,000	average income per day	K4 001 to K5 000	4	.7%			
		K10 001 to K15 000			1	1.6%	
I don't know	average income per day	K1 001 to K2 000	1	.2%			

For example one man invested only K100 (US\$1,33) but was making K 5,001 to K10 000 (US\$67-133) per day while another invested K101 to K1 000 (US\$1,33-13,33) and was making K15 001 to K20 000 (US\$200-267) per day (the best of all participants). A woman who invested K101 to K1 000 (US\$1,33-13,33) was making K5 001 to K10 000 (US\$67-133) per day.

Discussion

Many participants started their informal sector businesses with their own money. This was because of the lack of other sources of capital. The fact that they used their own capital means that they would have started with very little – in fact, many of them started the businesses with as little as K1 000 (US\$13). The only other source of capital for them was parents, relatives and friends who generally did not give them much. This seems to be the norm as pointed out by Sethuraman (1997:15) who indicated that many of informal sector participants start their business with their own savings supplemented by borrowed money from friends and relatives. Since most of the friends and relatives are also poor, they consequently start their businesses with very little capital. There are both advantages and disadvantages to this problem. One of the advantages is that they start small and gain the required experience as they grow. This helps the business to survive. In fact, there were some who went out of business and managed to borrow a little capital to restart. When they started the second time, they corrected the mistakes they had made the first time. However, one of the disadvantages of beginning with such a small investment is the amount of time required to start making substantial profits. The challenge is that, as they develop their business, they still need to take care of themselves and their families. With a small profit each day, balancing the needs of the business with the daily expenditures required for their families, is a huge task.

Compared with the male respondents, women obtained their initial capital from few sources because of cultural barriers as pointed out above. However, the activities that many women were involved in were also on a smaller scale and did not require a high level of capital investment. As Bromley (1978b) discovered in Cali, women traders tended to have smaller-scale operations and to deal much more in food items. While

this was typically the case, the few women who began with sizeable capital for their activities began the types of businesses that men normally run. Therefore, given the capital, women would naturally want to engage in the more profitable activities.

The few participants who obtained products from the businesspeople to start their operations did not continue in this way because they felt it was exploitative and they were not making much progress. In Malawi, the dependency relationships do not appear to be as highly functional because they are invariably exploitative.

The capital investment and average income per day ratio for all the participants differed for various reasons including the following:

- The businesses differed and some were more profitable than others.
- The skills of the participants were different and these also determined the profit they would make
- The businesses were started at different times. Those that had operated for more than five years were well established and more profitable than the very new ones.
- The business environment in which they were operating impacted on the running of the business, as pointed out in sections 3.1 and 3.2.

Conclusion

The informal sector participants lack the capital to start their businesses and this affects the size and rate of growth of their businesses. Social and cultural barriers affect women more. It does not follow that the more one invests, the more profit one will make, for profit levels depend on the business itself, the skill of the participant, the business environment and sometimes the length of the period that it has been operational.

5.5.6 Training and job creation

Before you started this business, did you have any sort of training? If “yes”, what sort of training?

Findings

Twenty-one percent of the participants received training while the other 79 percent had never had any. Of the 21 percent who had training, 74 percent received their training through attachments to other informal sector businesses (which can be regarded as in-house training or apprenticeship), 10 percent received it from a formal training school, nine percent received it from workshops held by the enterprise development units and the remaining seven percent were either employed in the formal sector where they learned the skill or they learned by reading books and doing research. A study of this aspect according to sex of respondents revealed that 22 percent of the men and only nine percent of the women had had training. Of the women who received training, many (67%) received their training from the workshops while many men (76%) received it in the informal sector.

Discussion

Many participants started their informal sector businesses without training. This may have been for the following reasons:

- The participants were in survival mode and therefore had to start the business. There was no time for training.
- There were no such opportunities for them.
- They were starting small businesses, which did not require training at that time.

It was interesting to note that, of those who had training, the majority received their training through apprenticeships to others in the informal sector. This finding is in agreement with what Sethuraman (1997:14) indicated in his critical assessment of the informal sector. This type of training gives them practical skills on how to run their businesses because the owners themselves instruct them. It was, however, surprising that the participants did not seem concerned about providing training to a future

competitor. This training may have been offered because they were relatives, friends or came from the same tribe.

Women received training through workshops more than apprenticeships. This may have been because an apprenticeship in an informal sector business is generally arranged with a relative or parent business. In fact, many women normally operate businesses they have a passion for and where they have a particular skill. The business management training would be more suitable for them than skills training.

Conclusion

The best initial training for the informal sector participants is the practical type of training, which can be offered through workshops and apprenticeships with those who own businesses in the informal sector.

Have you employed people to help you in your business?

Findings

Twelve percent of the participants had employed other people to help them in their businesses. Of these 12 percent, eighty-four percent had one to two assistants while 14 percent had three to four assistants, and only three percent had five to six assistants. Both women and men tended to have one to two assistants, while a few men had three to four or more than four assistants. Tables 5.7 and 5.8 provide details of these findings.

Table 5.7: Number of assistants according to initial capital and sex of respondent

				sex of the respondent			
				Male		Female	
				Count	Col %	Count	Col %
Number of assistants employed	No assistants	Amount of money used as initial capital	Not applicable	45	8.4%	1	1.6%
			0 to K100	46	8.6%	12	18.8%
			K101 to K1 000	214	39.9%	24	37.5%
			K1 001 to K5 000	138	25.7%	15	23.4%
			K5 001 to K10 000	19	3.5%	2	3.1%
			K10 001 to K15 000	3	.6%	1	1.6%
			K15 001 to K20 000	4	.7%		
			Over K40,000			1	1.6%
	I don't know	1	.2%				
	One to two assistants	Amount of money used as initial capital	Not applicable	7	1.3%		
			K101 to K1 000	20	3.7%	3	4.7%
			K1 001 to K5 000	17	3.2%	3	4.7%
			K5 001 to K10 000	8	1.5%	2	3.1%
			K10 001 to K15 000	1	.2%		
			K15 001 to K20 000	1	.2%		
	Three to four assistants	Amount of money used as initial capital	Not applicable	1	.2%		
			K1 001 to K5 000	5	.9%		
			K5 001 to K10 000	2	.4%		
			K10 001 to K15 000	2	.4%		
	Five to six assistants	Amount of money used as initial capital	Not applicable	1	.2%		
K5 001 to K10 000			1	.2%			

Table 5.8: Number of assistants according to average income per day and sex of respondent

				sex of the respondent			
				Male		Female	
				Count	Col%	Count	Col%
Number of assistants employed	No assistants	average income per day for the respondent	Less than K500 per day	240	44.8%	37	57.8%
			K500 to K1 000	131	24.4%	12	18.8%
			K1 001 to K2 000	56	10.4%	5	7.8%
			K2 001 to K3 000	28	5.2%		
			K3 001 to K4 000	6	1.1%		
			K4 001 to K5 000	7	1.3%		
			K5 001 to K10 000	1	.2%	1	1.6%
			K10 001 to K15 000			1	1.6%
			K15 001 to K20 000	1	.2%		
			One to two assistants	average income per day for the respondent	Less than K500 per day	16	3.0%
	K500 to K1 000	15			2.8%	3	4.7%
	K1 001 to K2 000	13			2.4%	1	1.6%
	K2 001 to K3 000	6			1.1%	3	4.7%
	K3 001 to K4 000	1			.2%		
	K4 001 to K5 000	1			.2%		
	K5 001 to K10 000	1			.2%	1	1.6%
	K10 001 to K15 000	1			.2%		
	Three to four assistants	average income per day for the respondent	K500 to K1 000	3	.6%		
			K1 001 to K2 000	2	.4%		
			K2 001 to K3 000	3	.6%		
K5 001 to K10 000			2	.4%			
Five to six assistants	average income per	K500 to K1 000	2	.4%			

Discussion

The informal sector creates some jobs in the economy, as also pointed out by Bugnicourt et al (1997). Twelve percent of the informal sector participants in Malawi employ an assistant. In Cali, Bromley (1978b:1062) found that less than 20 percent employed assistants. Informal sector participants with assistants are found only in Blantyre and Lilongwe, not Mzuzu. Perhaps the most unique aspect of these jobs is that many employees do not necessarily stay employed for long because they tend to leave after acquiring a skill and gathering enough capital to start their own business. Men tend to have more assistants than women. There is no relationship between the amount of money invested and the number of assistants employed. Many of those who invest more money (see table 5.7 above), for example, the respondent who invested more than K40 000 (US\$533), do not have any assistant. There is also no clear relationship between the amount of income the business makes and the number of assistants it has. Even those who make less than R500 (US\$7) per day have assistants, and yet the respondent who made K20 000 (US\$267) per day did not have assistants, as shown in table 5.8 above. The participants make decisions to employ assistants based possibly on the type of business or simply to help other people survive.

It is important to remember that, apart from having assistants as employees, the participants themselves are self-employed, thus increasing the number of people employed in Malawi.

Conclusion

The employment of assistants in the informal sector in Malawi is not based on the amount invested or the average income made per day but possibly on the type of business being conducted or the need to help another person.

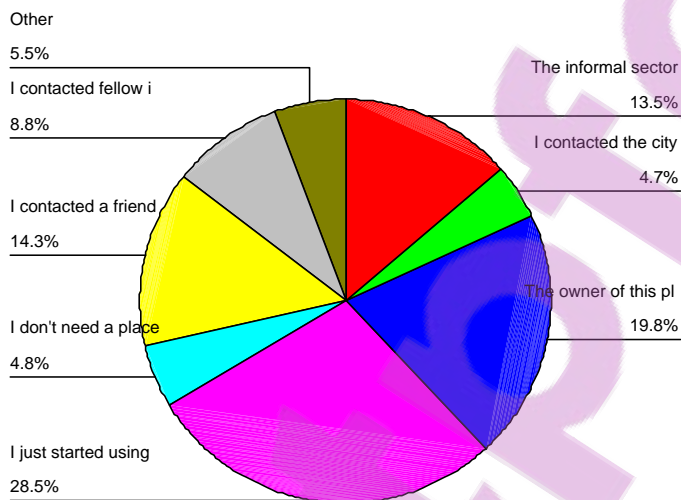
5.5.7 Location and storage

Do you always work from here? If “yes”, how did you find this place? Do you pay any form of rent? If “yes” how much per month? Give two reasons why you chose this place for your enterprise.

Findings

Ninety-five percent of the participants work in the same place every day while five percent do not. When asked how they found the place they are using for their business, several reasons were given by participants who work in the same place every day. These are contained in exhibit 5.20 below.

Exhibit 5.20: How the participant found the place from which he or she was operating



13,5% - The informal sector chairman gave it to me

4,7% - I contacted the City Assembly/Police and they allocated it to me

19,8% - The owner of this place/shop/plot/building allowed me to use it

28,5% - I just started using the place without contacting anybody

4,8% - I don't need a place since I move around to any place I want

14,3% - I contacted a friend/relative/parent who gave it to me

8,8% - I contacted fellow informal sector participants

When the participants were asked why they use the same place every day they gave two main reasons:

- It is near customers. (70%)
- They do not have any choice because this is the only place available. (20%)
- Other reasons (10%)

Only 13 percent of the participants paid rent for the place they were using. Ninety-three percent of them were paying less than K500 (US\$7) per month while the remaining seven percent were paying between K500 and K1 000 (US\$7-13) per month. These amounts were paid to the landlords of these places. Fourteen percent of the male participants and six percent of the female participants paid rent for the places they were using. Fifteen percent of the participants in Lilongwe and Mzuzu, and 11 percent of the participants in Blantyre paid rent while the rest did not.

Discussion

Although many of the participants did not have a permanent structure in which to conduct their businesses, they tended to use the same place every day. Their reasons for doing so had to do with proximity to customers and availability. It is interesting to note that even the police and the city assembly allocated a place to some of the participants for their business, while one would have thought these groups would only do so in flea markets. Further probing into this issue compelled the police and the city assembly to claim that they only allocated places to the informal sector participants near a government property. However, as pointed out in section 3.3.1.5, corruption, collusion and connection might explain why they allocated places to some of the participants.

The leaders of the informal sector in Blantyre and Lilongwe allocated places to participants but this did not happen in Mzuzu, which seems to suggest that the informal sector organisation that has emerged in Blantyre and Lilongwe may not be functioning in Mzuzu.

The participants who paid rent ensured that they paid the lowest possible amount because they were aware that others were not paying rent. More than double the number of men paid rent compared with the women because the informal sector activities in which many women were involved were temporary owing to cultural pressures and lack of capital. Few participants paid rent in Blantyre compared with participants in the other two cities, even though Blantyre is the commercial city in Malawi. This may have been because the participants in Blantyre were more politically involved than the participants from the other cities and felt that it was their right to use the places without rent. This may have evolved through involvement in political campaigns since prospective political leaders promised they could set up business anywhere they wished if they won the election.

Conclusion

It is imperative that the informal sector participants work in the same place every day and avoid paying rent whenever possible as they build up a successful business.

Do you have to pay a market fee? If “yes”, how much per day? Who receives this market fee? What is this market fee used for?

Findings

Twenty-seven percent of the participants paid the market fee. Sixty-nine percent of the female participants and 22 percent of the male participants paid the market fee. Seventy-three percent of the participants in Mzuzu, 36 percent of the participants in Blantyre and 12 percent of the participants in Lilongwe paid the market fee. Ninety-four percent of those who paid a market fee paid K20 (US\$0,27) or less per day while the rest paid anything between K21 to K50 (US\$0,27-0,67) per day. The city assembly collected this money from the participants. Fifty-two percent of the participants did not know how the market fee was used by the city assembly, while 40 percent were sure that it used the market fee to help clean up the city surroundings and to pay for other jobs. Table 5.9 presents a comparison between those who paid a market fee and the average income they made per day.

Table 5.9: Market fee according to average income per day and sex of respondent

				sex of the respondent			
				Male		Female	
				Count	Col%	Count	Col%
Amount of fee that is paid	Not applicable	average income per day for the respondent	Less than K500 per day	215	40.1%	11	17.2%
			K500 to K1 000	107	20.0%	5	7.8%
			K1 001 to K2 000	53	9.9%	2	3.1%
			K2 001 to K3 000	28	5.2%	1	1.6%
			K3 001 to K4 000	5	.9%		
			K4 001 to K5 000	6	1.1%		
			K5 001 to K10 000	2	.4%	1	1.6%
			K15 001 to K20 000	1	.2%		
			K20 or less per day	average income per day for the respondent	Less than K500 per day	39	7.3%
	K500 to K1 000	42	7.8%		8	12.5%	
	K1 001 to K2 000	17	3.2%		4	6.3%	
	K2 001 to K3 000	9	1.7%		2	3.1%	
	K3 001 to K4 000	2	.4%				
	K4 001 to K5 000	2	.4%				
	K5 001 to K10 000	2	.4%		1	1.6%	
	K10 001 to K15 000	1	.2%		1	1.6%	
	K21 to K50 per day	average income per day for the respondent	Less than K500 per day		2	.4%	3
	K500 to K1 000		1	.2%	2	3.1%	
	K1 001 to K2 000		1	.2%			
K51 to K100 per day	average income per	K500 to K1 000	1	.2%			

It is clear from table 5.9 that the participants who made a higher average income per day never paid any market fee. There is no clear indication that those who earned more paid the market fee or those who earned less paid a market fee.

Discussion

Many participants agreed to pay a market fee rather than rent. This was because the market fee was paid to the city assembly, which had the authority to enforce rules and regulations on the informal sector operations in the cities. If city officials decided to collect a market fee, the participants would agree to avoid problems. The regulation, however, only allowed the city assembly to collect market fees from participants who were doing business in the market and those operating within a 100 to 200 metre radius of the market. Hence, not all the informal sector participants were paying the market fee. In addition, all those who were selling their goods at the open flea market were expected to pay a market fee.

More women participants paid the market fee than did men participants possibly because of the type of activities in which the women were involved. In addition, women tend to be more loyal to the authorities than men. The women wanted security and protection from the harsh environment, and felt that repayment of a market fee would help ensure that. The system may have been exploiting the women because men enforced it. The women may also have been conducting their businesses near the market rather than along the streets because the men participants had monopolised the prime business spaces and it was difficult for a woman to find a suitable space there.

More participants in Mzuzu than the other cities paid a market fee, possibly because the flea market was in operation. More participants in Blantyre tended to pay the market fee compared with participants in Lilongwe because the city assembly in Blantyre was able to enforce the regulations much more effectively than in Lilongwe. This was partly because of the way the informal sector operated in Blantyre.

The amount that many paid per day was relatively small. This may have been so because this fee was charged for the open flea market in which many participants were involved on particular days. The fact that many did not know how the fee was used was not because of the lack of explanations given by the city assembly members, but rather because of disbelief on the part of the participants. This was particularly true in the cases where there was no visible evidence of some of the examples the officials cited for use of funds.

The results seem to suggest that the primary determinants for paying the market fee were the activity in which the informal sector participants were involved in and the place from which they were operating rather than the average amount that they were earning per day.

Conclusion

The informal sector participants, particularly women, are likely to cooperate with authorities in paying a market fee if they understand the regulations and the

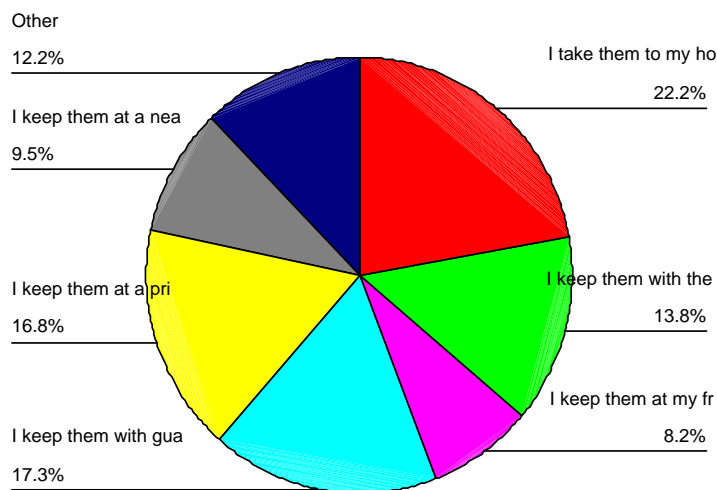
consequences of not abiding by them. Many participants are likely to pay a market fee if the authorities are capable of enforcing the regulations.

After a day's work, where do you store your goods/assets?

Findings

The informal sector participants use many places to store their goods after a day's work. Exhibit 5.21 below provides a representation of this.

Exhibit 5.21: Where participants store their goods after a day's work



22,2% - I take them to my home

13,8% - I keep them with the owner of the shop here

8,2% - I keep them at my friend's/relative's place nearby

17,3% - I keep them with guards at the nearby shop

16,8% - I keep them at a private warehouse/shop/house at a fee

9,5% - I keep them at a nearby office/shop/building

12,2% - Others (kept them where they operated since they slept there; others kept them at a bus or train station at a fee; others kept them at the formal market while it did not apply to others who did not need storage)

The women participants used two primary means of storage. They either took the goods home (44%) or they kept them in a private warehouse/shop/house at a fee (16%), while the men kept their goods at any place that was available. Participants from Lilongwe kept most of their goods at private warehouses/shops/houses at a fee, with the owner of the shop or with guards at the nearby shop. Blantyre participants took their goods home or kept them with guards at a nearby shop while others kept them with the owner of the shop. Participants from Mzuzu kept them at a private warehouse/shop/house at a fee or at a bus or train station.

Discussion

It is clear from the findings that the informal sector participants struggled to find a suitable place to store their goods. Hence, they had to either take them home (which required them to pay for transport every day), leave them with someone, or pay a storage fee. They were not as concerned about the payment of a fee as they were about the security of their goods. If there was a warehouse designated for them in town, they were happy to keep all their goods in town. The women tended to be limited in the safe keeping of their goods. One possible reason for this could be because men, who could easily cheat the women, dominated many of the places in which the women could store their goods.

Conclusion

Storage is one of the critical challenges that the informal sector participants in all the major cities of Malawi face, and applies more to the female participants.

5.5.8 Raw materials and earnings

Where do you obtain your raw materials/goods? What factors determine where you obtain your raw materials/goods?

Findings

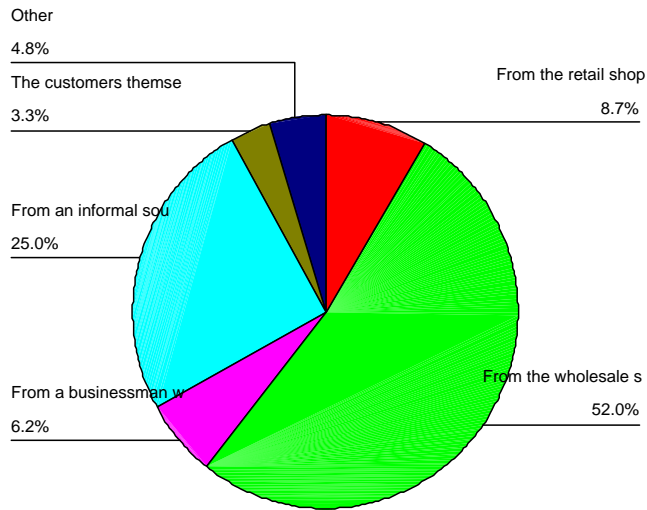
Fifty-two percent of the participants purchased their raw materials from the wholesale shops while 25 percent purchased them from informal sources. Eight percent of the participants purchased their raw materials from the retail shops near their business locales, while six percent procured them from businesspeople with whom they had an agreement. The others procured them from the customers themselves, the formal markets, from an organisation called "Development of People to People", from foreign markets and from the factory. Exhibit 5.22 provides details of this.

Fifty percent of the women participants obtained their raw materials from an informal source compared with 22 percent of the men. Twenty-eight percent of the participants in Lilongwe, 25 percent in Mzuzu and 22 percent in Blantyre procured their raw materials from an informal source.

The decision to obtain these raw materials from the described sources above was based on several factors, some of which are presented in exhibit 5.23 below.

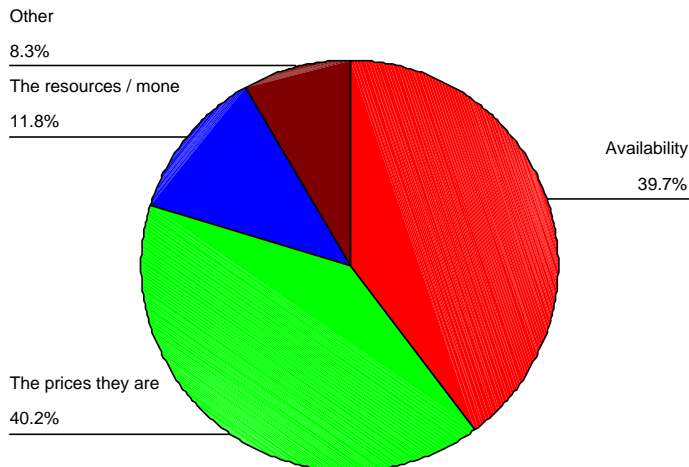
As shown below, 40 percent of the participants' decisions about where to procure raw materials were determined by the availability of the raw material. Forty percent of the participants decided on the basis of the prices that were charged while 12 percent based their decision on the available capital. The remaining four percent decided on the basis of the quality and the security of the raw materials they were buying - thus, a source that would provide receipts so that if police invaded the participants they would easily prove they are genuine in their businesses. This did not apply to the other four percent of the participants who had an agreement with the suppliers.

Exhibit 5.22: Sources of the raw materials for participants



8,7% - From the retail shops 52,0% - From wholesale shops
 6,2% - From a businessman with whom I have an agreement
 25,0% - From an informal source
 3,3% - The customers themselves 4,8% Other sources

Exhibit 5.23: What determines the source of raw materials



39,7% - Availability 40,2% - The prices they are charging 11,8% - The resources /
 money they have 8,3% - Other

Discussion

It is obvious that the informal sector participants procured their raw materials from the wholesale and retail shops. However, a significant number obtained them from an informal source. An in-depth analysis showed that there were several informal sources including:

- informal sector participants who brought the raw materials from other countries
- formal sector workers
- informal sector participants who obtained them in the country in many different (including illegal) ways

In fact, there was a general complaint from the Asian shop owners operating along the streets that their workers were stealing from them in order to sell the goods to the informal sector participants and this practice was creating unfair competition. While some of the participants obtained stolen goods for sale, not all of them were buying such goods. Other participants were only acquiring raw materials from well-established institutions (wholesalers) so that they could produce receipts showing where they had bought the materials. This was important, for it would enable them to prove that they procured their raw materials in a proper manner in the event of a police raid.

More women than men were buying their materials from the informal source possibly because of lack of capital. Also, many of their businesses did not require the materials found in wholesale or retail shops, and both the wholesalers and those who sold them the materials easily cheated them. It was also amazing to note that more participants from Lilongwe and Mzuzu used the informal sources compared with participants in Blantyre. This may have been because the police in Blantyre were extremely active in checking whether the informal sector participants were obtaining their raw materials legally.

More than 30 percent of the informal sector participants indicated that they were compelled to find informal sources for their raw materials to enable them to remain in business. The reason for this was that the wholesale shops were involved in unfair

practices and the government was doing nothing to protect the informal sector participants. According to the informal sector participants, the wholesalers, most of whom were Asians, had two prices in their shops. One price was for a fellow Asian trader who owned a retail shop and the other price for any other buyer, including the informal sector participants. Obviously, the prices for a fellow Asian were lower to help them maintain a competitive advantage against all the informal sector participants. This scheme was aimed at discouraging customers from buying their goods from the informal sector participants who were compelled to charge high prices in order to make a profit. This economic reality compelled some informal sector participants to start an import business so that they could supply cheaper raw materials/products to their fellow informal sector participants. When the Asian wholesalers were asked whether what the informal sector participants were saying was correct, they denied it. It was obvious that even if they were doing this, they would not have admitted it for it was an illegal practice. Although Malawi was in the process of implementing the liberalisation policy, as stated in section 3.3.1.2, the practice of establishing two prices for two different buyers was racist and, if proven, would be prosecutable. As argued in section 3.3.1.5, corruption, collusion and connection are the critical ingredients for the success of a business in the business environment in Malawi. The author therefore would not be surprised if it were true that the Asian traders were in fact colluding.

While prices and quality should normally determine the decision on where to obtain the raw materials, it was amazing to find out that a significant number were simply buying their raw materials on the basis of availability. This indicates that there are limited sources of some of the raw materials.

Conclusion

The informal sector participants in Malawi obtain raw materials from any informal or formal source that can create a profit margin for them. The promotion of a free market approach by the government should constantly be checked to ensure that it does not become exploitative. If not, it may create chaos.

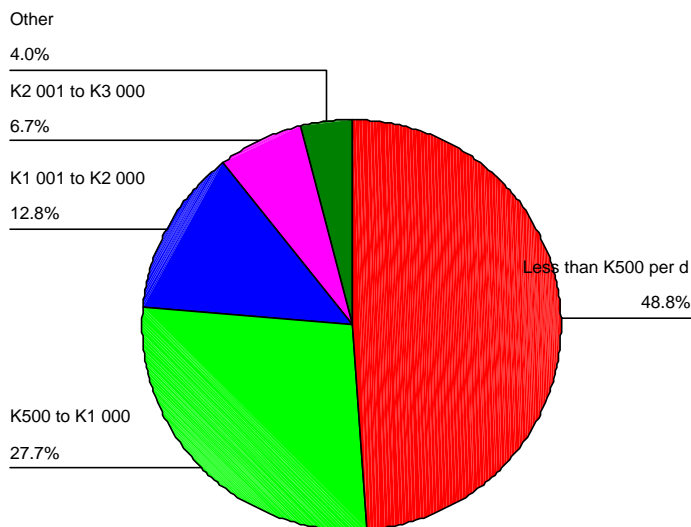
How much do you normally make per day?

Findings

Forty-nine percent of the participants made less than K500 (US\$7) per day while 28 percent made an average of K501 to K1 000 (US\$7-13) per day. Twelve percent made K1 001 to K2 000 (US\$13,3-26,7) per day. Seven percent made K2 001 to K3 000 (US\$26,7-40) per day while the remaining four percent made more than K3 000 (US\$40) per day, as shown in exhibit 5.24 below.

Fifty-seven percent of the participants in Lilongwe, 47 percent of the participants in Blantyre and 43 percent of the participants in Mzuzu made more than K500 (US\$7) per day. However, of the 17 participants who made more than K4 000 (US\$53) per day, 10 were from Blantyre and seven from Lilongwe. The top three participants who made more than K10 000 (US\$133) per day came from Blantyre as indicated in table 5.10 below.

Exhibit 5.24: Average income per day for the participant



48,8% - Less than K500 per day 6,7% - K2 001 to K3 000 4,0% - Other
27,7% - K501 to K1 000 per day 12,8% - K1 001 to K2 000 per day

Table 5.10: Average income according to city and sex of respondent

				sex of the respondent			
				Male		Female	
				Count	Col%	Count	Col%
city of informal sector participant	Lilongwe	average income per day for the respondent	Less than K500 per day	113	21.1%	11	17.2%
			K500 to K1 000	82	15.3%	6	9.4%
			K1 001 to K2 000	39	7.3%		
			K2 001 to K3 000	19	3.5%	2	3.1%
			K3 001 to K4 000	6	1.1%		
			K4 001 to K5 000	6	1.1%		
			K5 001 to K10 000	1	.2%		
	Blantyre	average income per day for the respondent	Less than K500 per day	126	23.5%	20	31.3%
			K500 to K1 000	59	11.0%	6	9.4%
			K1 001 to K2 000	31	5.8%	6	9.4%
			K2 001 to K3 000	15	2.8%	1	1.6%
			K3 001 to K4 000	1	.2%		
			K4 001 to K5 000	2	.4%		
			K5 001 to K10 000	3	.6%	2	3.1%
	Mzuzu	average income per day for the respondent	Less than K500 per day	17	3.2%	6	9.4%
			K500 to K1 000	10	1.9%	3	4.7%
			K1 001 to K2 000	1	.2%		
			K2 001 to K3 000	3	.6%		

Fifty-eight percent of the female participants compared with 48 percent of the male participants made less than K500 (US\$7) per day. Of the 17 participants who made more than K4 000 (US\$53) per day, 14 were men and three women. Of the top three participants who made more than K10 000 (US\$133) per day, 2 were men while one was a woman.

Discussion

Forty-nine percent of the participants made less than K500 per day, which translates into less than K13 000 (US\$173) per month. Even if they made half the amount, which was K7 500 (US\$87) per month, this was still a substantial amount. If one assumes that they made a 25 percent profit, then K3 250 (US\$43) was still more than the amount the labourers were earning in the formal sector. According to the poverty line for the year

2000, to be considered above the poverty line, the participants needed to make more than US\$129 per person per year nationally and US\$313 per person if they were in an urban setting (see section 3.3.1.2). Assuming they were making US\$43 per month for an entire year, they would be making US\$516, which is significantly above the poverty line. With this income in mind, one may conclude that the informal sector participants were doing very well. However, the average number of people per participant household was 3,59, which means that with this income each one was considered to have received US\$144 per year. This however was still higher than the national poverty line of US\$129.

According to the UN, a family of four people would need a minimum of K9 200 (US\$123) per month to be able to live comfortably. Considering the average household size of 3,59 this translates to K8 257 (US\$110) per month. While about 49 percent of the participants in this research might not have been able to reach that type of profit, they had sources of food that were cheaper than the UN's estimates, which indicates these businesses still helped them survive.

It is also important to mention that the research was conducted during a difficult period of the year when the businesses were not doing extremely well and yet more than 51 percent were earning enough to meet the UN minimum. Considering that their business profits would improve during the festival and harvest period, the chances are that more than 80 percent of these participants would reach the UN minimum comfortably if one examined the whole year.

While many of the female participants were in the category of less than K500 (US\$13) per day because most of them had small vegetable or food businesses, there were others who had well-established businesses. In fact, one was in the top three participants earning the highest level of income per day.

Participants from Blantyre made the highest income per day, compared with those in Lilongwe and Mzuzu. Lilongwe, however, had more participants who made more than K500 (US\$7) per day, compared with Blantyre and Mzuzu. This suggested that, on average, many participants were doing better in Lilongwe than in Blantyre and Mzuzu. This is contrary to the belief that participants in Blantyre should be more prosperous because it is regarded as the commercial city of Malawi.

Conclusions

More than 80 percent of the informal sector participants earn enough money through their businesses to make an excellent livelihood. Given the same opportunities, women are just as capable of establishing and running profitable businesses as men. Blantyre is more profitable than the other two cities in Malawi.

Are your earnings per day increasing or decreasing? why?

Findings

Twenty-eight percent of the participants indicated that their income per day was increasing, 70 percent indicated that it was decreasing and three percent indicated that it was constant. Twenty-nine percent of the participants in Blantyre, 28 percent in Lilongwe and 15 percent in Mzuzu indicated that their income was increasing. Table 5.11 provides details. There were no significant differences between men and women in this area.

Table 5.11: Cross-tabulation of city and increase or decrease of income

City of the informal sector participant * Whether the income per day is increasing or decreasing
Crosstabulation

			Whether the income per day is increasing or decreasing			Total
			Increasing	Decreasing	Constant	
City of the informal sector participant	Lilongwe	Count	80	193	12	285
		% within City of the informal sector participant	28.1%	67.7%	4.2%	100.0%
		% within Whether the income per day is increasing or decreasing	48.5%	46.3%	66.7%	47.5%
	Blantyre	Count	79	190	6	275
		% within City of the informal sector participant	28.7%	69.1%	2.2%	100.0%
		% within Whether the income per day is increasing or decreasing	47.9%	45.6%	33.3%	45.8%
	Mzuzu	Count	6	34		40
		% within City of the informal sector participant	15.0%	85.0%		100.0%
		% within Whether the income per day is increasing or decreasing	3.6%	8.2%		6.7%
Total	Count	165	417	18	600	
	% within City of the informal sector participant	27.5%	69.5%	3.0%	100.0%	
	% within Whether the income per day is increasing or decreasing	100.0%	100.0%	100.0%	100.0%	

The major reason for income increasing per day for those who indicated this, was because the number of customers had increased. The major reasons for the decrease in income per day were indicated as follows:

- fewer customers or less demand (39 %)
- too much competition (14%)
- high wholesale prices (13%)
- people did not have money, they were waiting for the harvest (13%)

(If one adds the above three reasons except the wholesale price, the total is 66 percent, which shows that there was not enough demand)

- small amount of capital or small enterprise (10%)

Discussion

The majority of the participants were experiencing decreased incomes and gave the reasons for this. The situation was worse in Mzuzu possibly because it is a small city compared with the other two. It is interesting to note that because the economy in Malawi is agro-based, this also affects the informal sector participants. As pointed out in section 3.3.1.2, Malawi experienced the lowest inflation rate (9,1%) and the highest per capital income of US\$220 (the highest so far in 10 years) in 1997 because the 1996/1997 growing season was excellent and the farmers had exceptional harvests. Thus the reasons given by the informal sector participants for the decrease in income were valid. This research was conducted just before harvest, and the participants were expecting their businesses incomes to increase after the harvest.

On the basis of the above findings, one may conclude that the research was conducted during a difficult economic time of the year. It was after the Christmas season but before the harvest when people did not have money. This is also the time of the year when people pay school fees for their children, and possibly a time when many families struggle financially. Furthermore, it is during the rainy season when farmers invest more of their money in inputs such as fertiliser and hiring labour rather than purchasing products. It was therefore obvious that the incomes the participants were making would improve after the harvest. If a good number of the participants were making an adequate income during difficult economic times, it follows that the number of participants above the poverty line during the harvest would increase substantially.

Conclusion

The earnings per day of the participants seem to have declined during this period. The informal sector participants in Malawi make more money during the festival seasons and after the farmers have harvested their crops because they have more customers at those times.

Does this business owe money to anybody? If “yes”, how much and how much do you have to repay per week or month?

Findings

Ninety-four percent of informal sector participants did not owe anyone any money while six percent did. Of those who owed money in Lilongwe, 88 percent were male, while 12 percent were female. In Blantyre, 90 percent were male and 10 percent female. Mzuzu had one woman who owed money as indicated in table 5.12. Of those who owed money, 50 percent repaid K500 (US\$7) per month, which was comfortable for them. There were others, however, who were able to repay more than K5 000 (US\$67) per month.

Table 5.12: Money owed according to city and sex of respondent

				Sex of the respondent			
				Male		Female	
				Count	Row %	Count	Row %
City of the informal sector participant	Lilongwe	If the business owe money to anybody	Yes	15	88.2%	2	11.8%
			No	251	93.7%	17	6.3%
	Blantyre	If the business owe money to anybody	Yes	17	89.5%	2	10.5%
			No	222	86.7%	34	13.3%
	Mzuzu	If the business owe money to anybody	Yes			1	100.0%
			No	31	79.5%	8	20.5%

Discussion

It was not by choice that many of the participants had no debts. They did not have access to credit to boost their businesses. Sethuraman (1997:14) argues that the lack of access to credit and training also explains why the units in this sector function the way they do – that is, use of simple technology, small-scale operations, avoiding rent by choosing unauthorised locations, and avoiding compliance with regulations to save costs. All of this has a negative influence on productivity and investment. While lack of access to loans was negative because the participants could not expand their businesses, it was advantageous in the sense that the participants developed ways of operating without depending on loans. The participants started small and developed the required skill and experience in their businesses, which were critical for their success.

Some of those who went bankrupt easily restarted their businesses because their investments were small, and it was easy to restart. Regarding those who borrowed money, they were able to repay even high sums per month showing that if there were opportunities, they would be able to make the most of them. Women were also able to borrow money for their business. A critical examination of the sources of money for women showed that they either borrowed from relatives or from the Development of People to People, an organisation involved in women's development.

Conclusion

Many of the informal sector businesses did not have loans because of a lack of access. Many owners, however, would have welcomed an opportunity to procure a loan and would probably have been able to pay it back because they were earning enough income to do so.

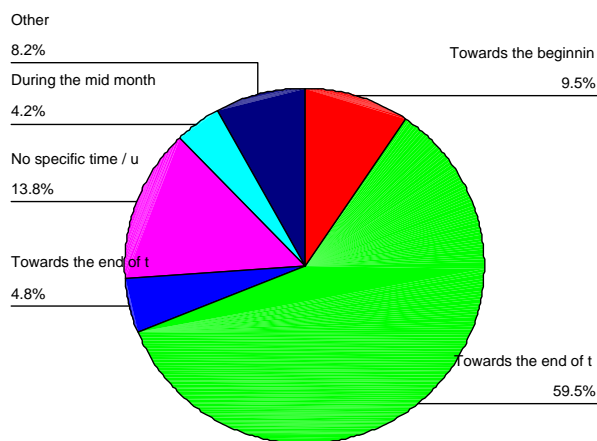
5.5.9 Competition

At what time of the month do you have many customers?

Findings

Sixty percent of the participants did business with many of their customers towards the end of the month, while 10 percent served them towards the beginning of the month. Fourteen percent had customers throughout the month, while five percent indicated that they served many customers every weekend. The remaining 11 percent mentioned serving customers at different times such as quitting time for formal sector workers, lunch hour, on market days and in the middle of the month. Exhibit 5.25 provides details of the responses.

Exhibit 5.25: Times of the month the participants have customers



9,5% - Towards the beginning of the month 4,2% - During the mid month
59,5% - Towards the end of the month 13,8% - No specific time / unpredictable
4,8% - Towards the end of the week 8,2% - Other

Eighty-five percent of the participants in Mzuzu, 60 percent of the participants in Blantyre and 55 percent of the participants in Lilongwe had customers towards the end of the month. Eighteen percent of the participants in Lilongwe, 11 percent in Blantyre and eight percent in Mzuzu served their customers throughout the month. There was no significant difference between the responses of the male and female participants.

Discussion

It was clear that the informal sector also depended on the formal sector. They needed those who were working in the formal sector to earn their salaries so that they could have the buying power to buy from the informal sector. It also follows that the formal sector workers probably need to buy the farmers' products much more than informal sector goods and services. The farmers in turn, would probably want to buy goods from the informal sector. Be this as it may, the end of the month was the time when many of these transactions were carried out. As pointed out by Richardson (1997:12), it is widely accepted that the prospects for growth in the informal sector depend heavily on what happens in the formal sector and the economy as a whole. In the same way, the

demand for goods and services in the informal sector will depend on the formal sector and the way the whole economy is functioning. Links between the formal sector and the informal sector are therefore inevitable.

It is also important to note that some businesses serviced their customers throughout the month because their businesses are unique. For example, food outlets (food is needed every day) had customers throughout the month. Many Lilongwe participants made money throughout the month possibly because they had Zambians and other foreigners as customers, which was not the case in the other cities.

Conclusion

The informal sector businesses serve many customers towards the end of the month once the formal sector workers have received their salaries.

Do you in any way advertise your products/service in any way? If “yes”, how do you advertise?

Findings

Nineteen percent of the participants stated that they advertise their products and services while the remaining 81 percent do not. Twenty-five percent of the participants in Mzuzu, 19 percent in Blantyre and 19 percent in Lilongwe advertised their products. Thirty-one percent of the women participants said they advertise their products and services, while only 18 percent of the men did. Seventy-nine percent of those who advertise do so by word of mouth themselves, nine percent use music (either on radio or cassette) while the remaining 21 percent hire young boys to advertise by word of mouth. Others use signposts. Eighty-nine percent of the women who advertise do so themselves by word of mouth, while the remaining 11 percent use hired boys. See tables 5.13 and 5.14 below.

Table 5.13: Advertising products/services according to sex of respondent

Advertising products/services sold * sex of the respondent Crosstabulation

			sex of the respondent		Total
			Male	Female	
Advertising products/services sold	Yes	Count	96	20	116
		% within sex of the respondent	17.9%	31.3%	19.3%
	No	Count	440	44	484
		% within sex of the respondent	82.1%	68.8%	80.7%
Total		Count	536	64	600
		% within sex of the respondent	100.0%	100.0%	100.0%

Table 5.14. Type of advertisement versus sex of respondent

Type of advertisement * sex of the respondent Crosstabulation

			sex of the respondent		Total
			Male	Female	
Type of advertisement	Not applicable	Count	443	45	488
		% within sex of the respondent	82.6%	70.3%	81.3%
	By word of mouth myself	Count	71	17	88
		% within sex of the respondent	13.2%	26.6%	14.7%
	By word of mouth, hired boys	Count	4	2	6
		% within sex of the respondent	.7%	3.1%	1.0%
	Using music on radio cassettee	Count	10		10
		% within sex of the respondent	1.9%		1.7%
	Using a speakerphone	Count	1		1
		% within sex of the respondent	.2%		.2%
	Systematic display of items/products	Count	2		2
		% within sex of the respondent	.4%		.3%
	Using signposts	Count	5		5
		% within sex of the respondent	.9%		.8%
Total		Count	536	64	600
		% within sex of the respondent	100.0%	100.0%	100.0%

Discussion

Although few participants advertised their products and services in the three cities, it is interesting to note that more women advertised than men. This may have been because the type of businesses in which they were involved required advertisements for them to be noticed. Many of the men who advertised did so as an informal activity (minibus advertisers) while women did so as a way of ensuring their products and services were purchased. The few men who actually advertised their products and services did so using radio cassettes, signposts or loud speakers. These required less effort to use. It was also interesting to note that of all the participants who advertised, many came from Mzuzu which seems to suggest that there was need to make a greater effort in order to sell in Mzuzu (because of the stiff competition, as explained in section 3.3.2.4) compared with Blantyre and Lilongwe, which have many customers. Many of the participants used word of mouth as a means of advertising. This was so because it was less expensive and possibly more effective than the other methods.

Although the number of those who indicated that they advertised their products and services was small, the reality is that many of them were in fact advertising their products and services informally. The participants know many of the customers who pass by. The participants advertise although they are not sure what type of commodity the customer is looking for. Several customers tend to buy things they do not plan to buy because the informal sector participants make it worthwhile for them to buy. The participants did not see this method of selling as advertising, but it is. The participants who move from locale to locale, for example, are always advertising their products, although they may not regard it as advertising.

Conclusion

Few informal sector participants advertise their products and services in the limited sense of the word, that is, newspaper and radio advertisements. However, most of them promote their products and services informally. Most of those who do advertise are women. Those who advertise use word of mouth more frequently than any other method, and more advertising is done in Mzuzu than the other two cities.

How do you determine the price of your products/service?

Findings

Sixty percent of the participants first calculate the profit they want to make and then determine the prices of their products and services. The remaining 40 percent price them as follows:

- They calculate the profit by taking bargaining into account (11%).
- They follow the prices determined by the informal sector association (7%).
- They determine prices on the basis of quality, style and size or type of commodity or service (7%).
- They simply decide at random (6%).
- They follow prices set by the formal sector (3%).
- They receive the value of a single fare (as minibus advertisers) per each trip advertised (3%).
- Others (3%) use the following methods:
 - They find out what their competitors are charging and then lower the price marginally.
 - They look at the way the customer is dressed and charge accordingly.
 - Prices depend on the labour input.
 - They receive 50 percent of the money their boys make (minibus advertisers).

Table 5.15: Determination of price according to sex of respondent

**Determination of price of the respondent's products/services * sex of the respondent
Crosstabulation**

			sex of the respondent		Total
			Male	Female	
Determination of price of the respondent's products/services	I calculate the profit I want to make & then determine price	Count % within sex of the respondent	314 58.6%	44 68.8%	358 59.7%
	I calculate the profit by taking into account bargaining	Count % within sex of the respondent	59 11.0%	7 10.9%	66 11.0%
	I find out what my competitors are charging then lower a bit	Count % within sex of the respondent	6 1.1%		6 1.0%
	I look at the way the person is dressed	Count % within sex of the respondent	8 1.5%		8 1.3%
	I follow prices determined by the informal sector associatio	Count % within sex of the respondent	36 6.7%	6 9.4%	42 7.0%
	I decide at random	Count % within sex of the respondent	34 6.3%	2 3.1%	36 6.0%
	I follow the prices set by the formal sector	Count % within sex of the respondent	17 3.2%		17 2.8%
	I receive the value of single fare per each trip advertised	Count % within sex of the respondent	17 3.2%		17 2.8%
	Price is based on quality/style & size/type of commodity	Count % within sex of the respondent	36 6.7%	5 7.8%	41 6.8%
	Depends on labour input	Count % within sex of the respondent	4 .7%		4 .7%
	I receive 50% of the money my boys make	Count % within sex of the respondent	2 .4%		2 .3%
	Other	Count % within sex of the respondent	3 .6%		3 .5%
	Total	Count % within sex of the respondent	536 100.0%	64 100.0%	600 100.0%

As shown in table 5.15 above, sixty-nine percent of the women participants make calculations to determine prices, while only 57 percent of the men do so. Eleven percent of the women and 11 percent of the men calculate the prices by taking the bargaining factor into account. The remainder of the women, either follow the prices set by the informal sector participants, determine prices at random or on the basis of the quality, style, size and type of product, while the men use all the methods outlined above.

Seventy percent of the participants in Mzuzu, 63 percent of the participants in Lilongwe and only 55 percent of the participants in Blantyre calculate the profit they want to make in order to determine the prices. Fourteen percent of the participants in Blantyre make calculations by taking bargaining into account while only 10 percent do so in Lilongwe and none do so in Mzuzu. Fifteen percent of the participants in Mzuzu determine their prices on the basis of the quality, style, size and type of product, while only eight percent in Lilongwe and five percent in Blantyre do so.

Discussion

Although the participants use different methods to determine what prices to charge for their products and services, it is clear that a significant number do calculate the profit they intend making before selling their products or charging for their services. It is also clear that the participants use many different methods to price their products in the presence of their customers. While some may calculate the price of the product beforehand, others tend to increase the price when a well-dressed customer appears. The opposite also occurs. When a poor person needs the product, they start with a lower price to accommodate him or her. Bugnicourt et al (1995:23) indicated similar practices in their article on the informal sector participants.

More women participants tend to adhere to the prices they determine before they display their product for sale. For example, it is rare for them to base their prices on the way a person is dressed. This might be because of the honest nature of many of the women. Other women, however, appear to take bargaining into account when they determine their prices. This is possibly more important for women participants because

even if they do not take bargaining into account, the customers will bargain (especially in Blantyre and Lilongwe). Hence, the chances of the women selling at prices lower than the profit margin are high.

It is interesting to note that bargaining is not taken into account in price fixing in Mzuzu. This may suggest that there is little bargaining in Mzuzu compared with Blantyre and Lilongwe. The fact that there are fewer customers is possibly the reason for sellers adhering to their prices to allow them to remain in business, while in Blantyre and Lilongwe the participants have to take risks to make a profit when the situation is good and make less if the situation is not conducive to thriving business.

Conclusion

Many of the informal sector participants make careful calculations in order to determine the prices of their products and services. However, the application of these prices differs according to the participants' situation at that time.

Do you have competition? If “yes”, who are your competitors?

Findings

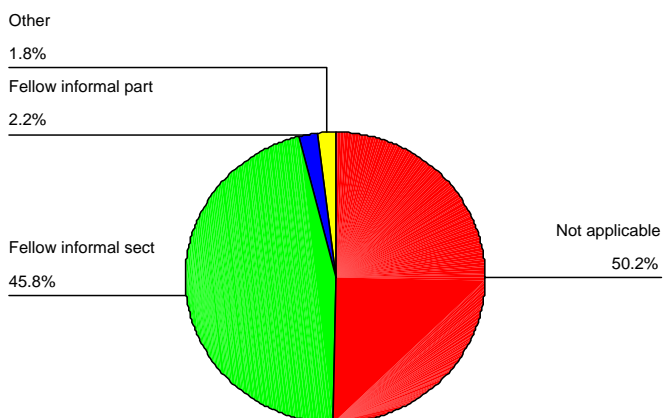
Fifty percent of the participants agree that they face competition in their businesses while the remaining 50 percent do not think so. Fifty-five percent of the participants in Blantyre, 47 percent in Lilongwe and 43 percent in Mzuzu agree that they face competition in their businesses. Fifty-one percent of the male participants and 45 percent of the female participants agree that they face competition in their business. Those who face competition have different competitors, as depicted in table 5.16 and exhibit 5.26.

Table 5.16 Source of competition according to city of participant

Source of competition * city of informal sector participant Crosstabulation

			city of informal sector participant			Total
			Lilongwe	Blantyre	Mzuzu	
Source of competition	Not applicable	Count	151	127	23	301
		% within city of informal sector participant	53.0%	46.2%	57.5%	50.2%
	Fellow informal sector participants who sale same commoditie	Count	118	141	16	275
		% within city of informal sector participant	41.4%	51.3%	40.0%	45.8%
	Fellow informal participants who sell superior products	Count	6	6	1	13
		% within city of informal sector participant	2.1%	2.2%	2.5%	2.2%
	Formal shops / established saloons	Count	4	1		5
		% within city of informal sector participant	1.4%	.4%		.8%
	Fellow informal participants who sell substitute products	Count	6			6
		% within city of informal sector participant	2.1%			1.0%
Total		Count	285	275	40	600
		% within city of informal sector participant	100.0%	100.0%	100.0%	100.0%

Exhibit 5.26: Their competitors



50,2% - Not applicable

45,8% - Fellow informal sector participants who sell the same commodity

2,2% - Fellow informal sector participant who sell superior products

1,8% - Other

As indicated in table 5.16 and exhibit 5.26 above, the participants face two critical competitors, namely those who sell the same commodities and those who sell superior products. There is no difference in the three cities and between men and women.

Table 5.17: Average income per day according to source of competition

average income per day for the respondent * source of competition Crosstabulation

			source of competition					Total
			Not applicable	Fellow informal sector participants who sell same products	Fellow informal participants who sell superior products	Formal shops/established saloons	Fellow informal participants who sell substitute products	
average income per day for the respondent	Less than K500 per day	Count	136	146	7		4	293
		% within source of competition	45.2%	53.1%	53.8%		66.7%	48.8%
	K500 to K1 000	Count	94	64	2	4	2	166
		% within source of competition	31.2%	23.3%	15.4%	80.0%	33.3%	27.7%
	K1 001 to K2 000	Count	42	31	3	1		77
		% within source of competition	14.0%	11.3%	23.1%	20.0%		12.8%
	K2 001 to K3 000	Count	16	24				40
		% within source of competition	5.3%	8.7%				6.7%
	K3 001 to K4 000	Count	6	1				7
		% within source of competition	2.0%	.4%				1.2%
K4 001 to K5 000	Count	3	4	1			8	
	% within source of competition	1.0%	1.5%	7.7%			1.3%	
K5 001 to K10 000	Count	4	2				6	
	% within source of competition	1.3%	.7%				1.0%	
K10 001 to K15 000	Count		2				2	
	% within source of competition		.7%				.3%	
K15 001 to K20 000	Count		1				1	
	% within source of competition		.4%				.2%	
Total	Count	301	275	13	5	6	600	
	% within source of competition	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	

As indicated in table 5.17 above, competition is stiff among those who sell the same commodities or superior products, and make less than K500 (US\$7) per day. The more income the participants make, the lower the competition possibly because the business is now well established. The converse is also true.

Discussion

Although only fifty percent agree that they face competition, the situation seems to suggest that all the participants face competition, and that this competition is increasing. In fact, the number of new entrants to the sector is growing, and hence increasing the competition. The activities that are simpler, and require less skill and capital also have the highest competition, because anyone can do them. As pointed out by Sethuraman (1997:14), many new entrants to the sector with little schooling, skills and capital choose informal sector activities against which there are few barriers to entry such as petty trading or services which require simple skills and little or no capital investment. These activities also yield low incomes. While competition is good for the customer, too much competition does not promote business because it tends to decrease the prices of the products and services, thus reducing profits. Only three men and two women participants felt that the formal sector is also a competitor, while the other participants did not think so. This is possibly because the moment a customer decides to enter a shop, the informal sector participants disregard him or her and concentrate on those who are shopping outside. Regarding those involved in manufacturing or services, competition is not perceived to be an issue since their operations are too small to experience the competition.

It is normal for those who are facing less competition to make more money – hence the good correlation between the results of average income and competition in Malawi.

Conclusion

The informal sector participants face competition every day. This competition, however, is more keenly felt when a fellow participant sells the same products and services or he or she sells superior products and services.

What do you do to ensure you win the interest of customers?

Findings

Participants use primarily the same means to promote their products and services to their customers. These are as follows:

- They use their personal selling skills to convince people to buy or use their services (marketing) (35%).
- They sell quality products or services (differentiation) (23%)
- They sell low quality products or provide reasonable quality services (pricing) (12%).
- They display their products in an attractive way (merchandising) (8%).
- They give gifts and treat their customers with respect (providing value and building customer relationship) (6,2%).

Exhibit 5.27 below provides details.

Exhibit 5.27. Methods used to promote products and services



6,8% - I advertise more 9,5% - Others

7,8% - I display my products in a very decent way (merchandising)

11,8% - I sell at reasonable price/provide reasonable quality service (pricing)

23,2% - I sell quality products/service

34,7% - I use my personal selling skills to convince people to buy or use my service.

6,2% - I give gifts and treat my customers with respect

Mzuzu participants never rely on the following three methods but these are common in Blantyre and Lilongwe:

- displaying products attractively
- moving around searching for customers
- selling an assortment of goods to win customers

The main methods, however, are the use of their personal selling skills to convince the customers to buy their products or use their services (53%) and selling quality products (23%). Participants from Blantyre and Lilongwe use a variety of ways, although these two methods are also the main ones they use.

Female participants tend to rely more heavily on selling quality products compared with male participants who rely more heavily on their personal selling skills to convince customers to buy their products or use their services.

A cross-tabulation of average income per day and ways used to promote products and services (which could not be presented because of size) show that those who make less than K500 (US\$7) per day use all the promotional skills followed by those who make K501 to K1 000 (US\$7-13,3) and those who make K1 001 to K2 000 (US\$13,3-26,7). The less income they make per day, the more promotional skills they need to use, while the more income they make, the less promotional skills they need to use.

Discussion

The strength of the informal sector lies, among other things in the promotion of products and services. Many informal sector participants develop personal selling skills while conducting their business. In their opinion, this is the most important skill required by an informal sector participant.

The participants from Mzuzu use this skill far more, possibly because the other skills never work for them. All the participants arrange their products attractively in Mzuzu. Thus, this one fact does not make a significant difference in the number of sales. They

do not sell assorted products or move around, possibly because the city council has organised them and enforces the rules and regulations.

Female participants tend to value the quality of what they are selling more compared with the male participants possibly because that is the best way to compete with the men. The products speak for themselves.

As indicated above, the competition is stiffer with the participants who are making less than K500 (US\$7) per day. The same is true here. The less the participants make per day, the more promotional skills they use to advertise their products. As pointed out on section 3.3.2.4, competition is determined by the following:

- *The possibility of new entrants.* The activities pursued by those making less than K500 (US\$7) are easy to enter.
- *The bargaining power of clients and customers.* Since many competitors are selling the same products, the chances are that the customers bargain and decide where to buy on the strength of the lowest prices. In this scenario, the chances of informal sector participants reducing their prices are high - hence they tend to make a lower profit.
- *The bargaining power of suppliers.* Because there is such a demand for simple products and an oversupply of simple services, the chance of the wholesalers increasing their prices is high, as are the chances of the service becoming inexpensive.
- *The availability or nonavailability of substitute products or services.* In the participant's current situation, if one of them finds a substitute product, another looks for it, and soon everyone is selling the same product.
- *The number of existing competitors.* Since these are simple activities and services, the number of those involved in them is high and many of the new entrants enter at this level, thus causing a glut of businesses and increasing competition with lower prices.

Conclusion

Several methods can be used to promote products and services. The major ones, however, are personal selling skill to convince customers to buy a product or use a service, and the choice to sell quality products and provide excellent services.

5.5.10 Organisation

Do you belong to any association or group? If “yes” do you have to pay a membership fee? If “yes”, how much do you have to pay per year? What are the advantages of this association/group, if any?

Findings

Twenty-four percent of the participants belong to associations or groups that they have formed, while the remaining 76 percent do not. Of these 24 percent, only 17 percent pay membership fees to their association or group. Thirty-one percent of the participants in Blantyre, 19 percent in Lilongwe and 10 percent in Mzuzu belong to associations or groups. Twenty-five percent of the male participants belong to associations or groups compared with only 17 percent of the female participants. Fifteen percent of the male participants and 36 percent of all the female participants who belong to associations pay membership fees. Sixty-eight percent of the participants pay less than K100 (US\$1,33) fees per year, 23 percent pay between K101 to K200 (US\$1,33-2,67) per year, and the remaining nine percent pay between K201 to K500 (US\$2,67-6,67) per year.

Those who belong to associations or groups mentioned the following as advantages of belonging to that association or group:

- The chairman and his committee provide assistance to the participants (33%).
- The chairman resolves disputes whenever they arise (23%)
- They assist one another as members and share ideas (21%)

Seventeen percent, however, do not think there is any benefit to belonging to a group.

Discussion

More participants belong to associations in Blantyre than in the other two cities simply because there are more associations in Blantyre. This is possibly because, as the commercial city of Malawi, there is a need for the participants to organise themselves if they want to have a voice. Also, many of the government actions, such as chasing them away from their businesses on the streets, actually started in Blantyre. These actions require an organised response from the informal sector participants. In addition, this is also the political centre, and an organisation helps them work together to avoid exploitation. Many of those who belong to associations do not pay membership fees because not all associations require it. The advantages of being in a group, as outlined above, attract others to join the associations. Members normally help one another with financial support if one of them loses a relative at home, one of them has problems at home, if they go bankrupt or the police arrest one of them.

It should be noted that participants joined these associations voluntarily. In addition, when the female participants joined an association, they were more conscientious about paying the membership fees compared with their male counterparts. The membership fees for all participants were so low so that it was possible for them to pay the fees. This finding is similar to Bromley's (1978b:1167) finding in Cali. There, the membership fees were extremely low and not all members paid them. Membership fees were based on how lucrative the business was. More membership fees were demanded in locales where business was good. Of the seven people who paid more than K100 (US\$1,33) per year, five were from Blantyre and two from Lilongwe. The two who paid more than K200 (US\$2,67) were from Blantyre. Table 5.18 below shows that there is no direct correlation between the average amount they make per day and the payment of membership fees. Regarding those who earn less than K500 (US\$7) per day, they pay membership fees covering the whole spectrum. Those who earn more pay the minimum amount possible.

Table 5.18: Cross-tabulation: Average income per day and amount of membership fee

average income per day for the respondent * Amount of membership fee Crosstabulation

			Amount of membership fee				Total
			Not applicable	Less than K100	K101 to K200	K201 to K500	
average income per day for the respondent	Less than K500 per day	Count	282	7	3	1	293
		% within average income per day for the respondent	96.2%	2.4%	1.0%	.3%	100.0%
	K500 to K1 000	Count	162	3	1		166
		% within average income per day for the respondent	97.6%	1.8%	.6%		100.0%
	K1 001 to K2 000	Count	76	1			77
		% within average income per day for the respondent	98.7%	1.3%			100.0%
	K2 001 to K3 000	Count	37	3			40
		% within average income per day for the respondent	92.5%	7.5%			100.0%
	K3 001 to K4 000	Count	7				7
		% within average income per day for the respondent	100.0%				100.0%
	K4 001 to K5 000	Count	8				8
		% within average income per day for the respondent	100.0%				100.0%
	K5 001 to K10 000	Count	5		1		6
		% within average income per day for the respondent	83.3%		16.7%		100.0%
	K10 001 to K15 000	Count	1			1	2
		% within average income per day for the respondent	50.0%			50.0%	100.0%
	K15 001 to K20 000	Count		1			1
		% within average income per day for the respondent		100.0%			100.0%
Total		Count	578	15	5	2	600
		% within average income per day for the respondent	96.3%	2.5%	.8%	.3%	100.0%

It was clear that an organisation has emerged that requires one to contact the leaders before holding any meeting with a group of the informal sector participants in these three cities. Without the consent of their leader, one confronts major problems in meeting the informal sector participants. In fact, in Limbe, the team that conducted this research failed to conduct the pretest because the leaders refused unless they and their participants were paid. Where the team was allowed to conduct this research, it was only possible after the leaders had both accepted the team and informed their participants. In other cases, the leaders themselves introduced the research team to the participants and indicated that they had been authorised to go ahead with the research. These leaders were responsible for between 15 to 20 informal sector participants who worked on their street. Furthermore, each group of leaders had a senior leader who made final decisions on major issues. All the leaders were also involved in the sector itself, either directly, where they were selling, by providing a storage facility to the participants, or indirectly, in cases where participants were operating their business. This seems to suggest that, in a certain sense, most participants belong to this informal sector organisation.

Conclusion

A powerful organisation has emerged in the informal sector, which has leaders who control the operations of this sector using informal rules and regulations.

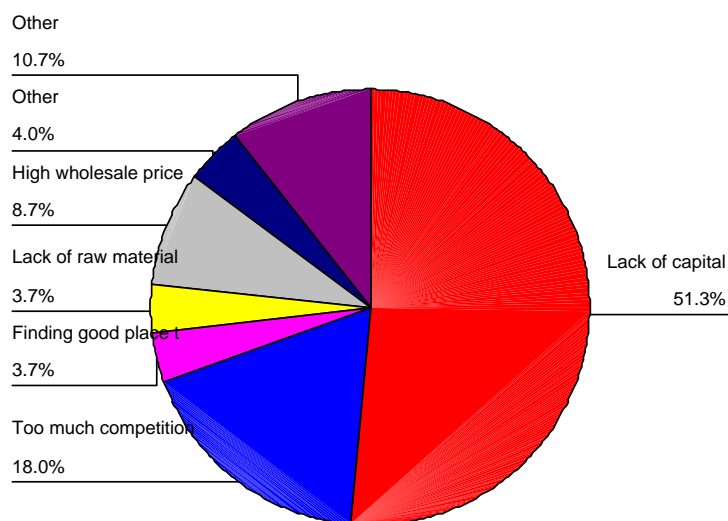
5.4.11 Problems and future plans

At present, what are the three major problems you face in order of priority?

Findings

Fifty-one percent of the participants indicated that their major problem is lack of capital while 18 percent mentioned too much competition. Exhibit 5.28 provides the details of these major problems.

Exhibit 5.28: Major problems faced by the participants



- 51,3% - Lack of capital
- 18,0% - Too much competition
- 3,7% - Finding a good place to use for business
- 8,7% - High wholesale prices
- 3,7% - Lack of raw materials
- 14,7% - Other

Although the five major problems for all the participants are lack of capital, too much competition, high wholesale prices, lack of materials and difficulty finding a suitable operational locale, the five major problems in the three cities do not follow the same sequence. Fifty-seven percent of the participants in Lilongwe, 47 percent in Blantyre and 48 percent in Mzuzu indicated that their major problem is lack of capital. Twenty-three percent of the participants in Mzuzu, 18 percent in Blantyre and 18 percent in Lilongwe indicated that their second major problem is too much competition. The third and fourth major problems varied from city to city and were as follows:

- Blantyre - high wholesale prices (11%) and lack of security (11%)
- Lilongwe - high wholesale prices (8%) and lack of raw materials (3%)
- Mzuzu - lack of raw materials (10%) and finding an adequate business locale (5%)

An examination of these problems on the basis of sex of the respondents reveals the data contained in table 5.19.

Table 5.19. Major problems according to sex

Major problem	Percentage of Men who mentioned this as a problem	Percentage of Women who mentioned this as a problem
Lack of capital	52%	42%
Too much competition	18%	16%
High wholesale prices	8%	11%
Lack of raw materials	3%	6%
Finding a good place	4%	5%
No problem	2%	6%
Other	4%	6%
Weather problem	2%	3%
Lack of storage space	2%	3%

Discussion

It is clear that the three major problems facing the informal sector participants are lack of capital, too much competition and high wholesale prices. This is the same when one examines the results of all of the participants and when one analyses the participants' response according to sex. Examining the problems by city revealed a number of differences. While high wholesale prices are the third problem for Blantyre and Lilongwe, possibly because it is in those cities that Asian wholesalers are marking up prices either because of collusion (see section 3.3.1.5) or because there is less competition in the wholesale market (see section 3.3.2.4), the critical problem in Mzuzu is the lack of materials to sell. This may be because many of their materials, apart from those imported into Malawi from Tanzania, still came from either Blantyre or Lilongwe. The fourth major problem is interesting when one compares the results for the three cities. In Blantyre, it is security, in Lilongwe lack of raw materials, and in Mzuzu, lack of an adequate business locale. As a commercial city, Blantyre faces the problem of lack of security more severely than the other two cities. This may be because the lack of storage facilities results in goods being stolen at night. As in Mzuzu, Lilongwe

experiences a lack of materials possibly because they come from Blantyre only periodically. One possibility is that because Mzuzu had a flea market at the time this research was conducted, those participants who were not in the market felt they needed a suitable place such as a flea market to do business. This factor may have influenced their responses.

Lack of capital as the major problem makes sense if one examines the participants' sources of capital, as discussed above. It was clearly indicated that the participants' sources of capital are primarily their own savings, money borrowed from parents and relatives, and finally, money borrowed from friends. It is clear that these sources cannot generate enough capital, and thus explain the lack of capital as the major problem facing participants. The only advantage in this situation is that many of the participants have managed to operate their businesses without incurring debt. To the author, this is a positive factor although this also signifies limited business growth and expansion. The participants face the same problem when entering the sector. However, this lack of capital continues to be their major problem because they were established and wished to expand their businesses. Lack of access to resources therefore enhances the vulnerability of those in this sector (Sethuraman 1997:14).

Too much competition was mentioned as the second major problem. If there is intense competition with minimal capital, one wonders what would happen if the informal sector participants were given the opportunity to expand. Chances are that supply would outgrow demand. One consolation, however, is that the participants are astute. They would probably adapt their businesses to the changing circumstances or start new ones. With capital, some may start in the wholesale business and be fair to their fellow participants or start import and export businesses. With the many ideas that this sector generates, if sufficient capital were to be available, the participants would not eliminate competition but would deal with it creatively and stay in business. Access to capital would also enable a significant number of participants to gradually move from the informal to the formal sector. This is the government's strategy for the development of the small and medium enterprise, as indicated in section 5.2.

If access to capital increases, one element that needs to be addressed, is migration from rural to urban areas. If access to capital is available only in urban areas, the result would be an increased exodus from the rural areas to urban areas. As pointed out on section 2.2.1, migration stimulates the growth of the informal sector and if access to capital is improved without due consideration of the rural areas, the chances are that the urban areas will be flooded with people wanting to join the informal sector. This could upset the equilibrium of the business environment, and the resultant increase in competition could cause many businesses to fail.

Conclusion

Lack of capital, high levels of competition and high wholesale prices are the three major problems that all the informal sector participants face in each of the cities.

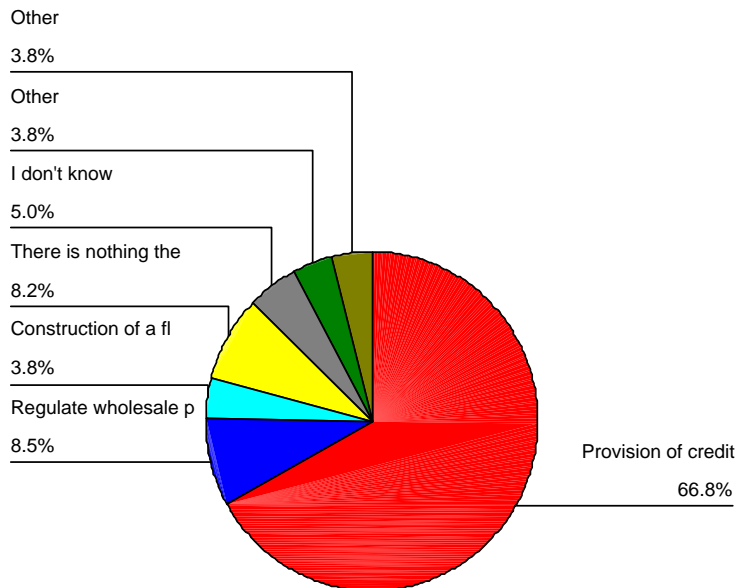
What do you think the government and nongovernmental organisations should do to help solve these problems?

Findings

Sixty-seven percent of the participants indicated that the best approach for both the government and NGOs would be to provide credit to enable the participants to increase their capital base.

In addition to the participants' need for capital, they also indicated that they would expect the government and the NGOs to help regulate the wholesale prices (price maintenance) so that the Asian wholesalers could operate with one fair price for all customers. They also want the government to reduce customs duty to enable the participants to import goods into the country at a reasonable price. Other participants, however, felt that there is nothing the government and NGOs can do. Exhibit 5.29 provides details.

Exhibit 5.29: Solution to be provided by government and NGOs



- 66,8% - Provision of credit
- 8,5% - Regulate wholesale prices
- 3,8% - Construction of a flea market
- 8,2% - There is nothing the government can do
- 5,0% - I don't know
- 7,6% - Other

Seventy-three percent of the participants from Mzuzu, 68 percent from Lilongwe and 65 percent from Blantyre indicated that the most crucial intervention is provision of credit. In terms of regulating the wholesale prices, 10 percent from Lilongwe, eight percent from Blantyre and five percent from Mzuzu felt this is also necessary. Six percent of the participants in Blantyre, three percent in Lilongwe and none in Mzuzu would like the government and NGOs to assist with the construction of the flea market. Ten percent of the participants in Mzuzu, nine percent in Blantyre and seven percent in Lilongwe also felt there is nothing the government or NGOs can do. Table 5.20 provides details.

Table 5.20: Cross-tabulation of solution by government and NGO according to city of informal sector participant

Solution to be provided by government or NGOs * city of informal sector participant Crosstabulation

			city of informal sector participant			Total
			Lilongwe	Blantyre	Mzuzu	
Solution to be provided by government or NGOs	Provision of credit	Count % within city of informal sector participant	194 68.1%	178 64.7%	29 72.5%	401 66.8%
	Low interest rates and good repayment conditions	Count % within city of informal sector participant		1 .4%		1 .2%
	Regulate wholesale prices / reduce customs duty	Count % within city of informal sector participant	27 9.5%	22 8.0%	2 5.0%	51 8.5%
	Provision of training	Count % within city of informal sector participant	4 1.4%	1 .4%	1 2.5%	6 1.0%
	Construction of a flea market	Count % within city of informal sector participant	8 2.8%	15 5.5%		23 3.8%
	There is nothing the government can do	Count % within city of informal sector participant	20 7.0%	25 9.1%	4 10.0%	49 8.2%
	Provision of licenses or legalizing the business	Count % within city of informal sector participant	3 1.1%	5 1.8%		8 1.3%
	I don't know	Count % within city of informal sector participant	15 5.3%	13 4.7%	2 5.0%	30 5.0%
	Provision of storage place / sheds	Count % within city of informal sector participant	4 1.4%	3 1.1%	1 2.5%	8 1.3%
	Other	Count % within city of informal sector participant	10 3.5%	12 4.4%	1 2.5%	23 3.8%
Total	Count % within city of informal sector participant	285 100.0%	275 100.0%	40 100.0%	600 100.0%	

While 68 percent of the men would love to see higher available levels of credit, only 55 percent of the women want this. Sixteen percent of the female participants indicated that the most important support from the government and NGOs is regulation of wholesale prices. Only eight percent of the men agreed.

Discussion

It is to be expected that the participants considered the four most important solutions to be access to credit, regulating wholesale prices to make them fair for all, reducing import and customs duty and construction of flea markets. These solutions correspond to the major problems that were presented. While access to credit is an important solution for many participants, it is more critical for Mzuzu participants because in that city there seem to be fewer opportunities compared with the other two cities. Regulating wholesale prices is more a critical solution to Lilongwe participants and to women. This may be because the wholesalers in Lilongwe tend to charge more (possibly because of limited supply) and take advantage of the informal sector participants. Regarding women, this solution may have emerged as a top priority because the wholesalers take advantage of the fact that women have less power to negotiate price. A significant number of the Blantyre participants also indicated that they need a flea market because at the time of the research the discussions were under way about the construction of a flea market for their businesses. However, in Mzuzu only a few respondents indicated the need for a flea market because they already have one. It is also possible that the participants who indicated that there was nothing the government and NGOs could do, had either become independent or their response was conditioned by long waits for government promises that never materialise. In addition, a critical examination of the responses show that many of those who indicated that there is nothing the government and NGOs can do were referring to high levels of competition, indicated as the second most important problem.

The informal sector participants responded to this question by examining their situation in the microenvironment of the business environment, as indicated in figure 3.1. Weeks (1975:3), however, argues that the problems the informal sector face are associated with the fact that the government protects the formal sector with rules and regulations. Sethuraman (1997:19) agrees with Weeks and indicates that the government is biased towards the formal sector. This bias is shaped by the government belief that modernisation is synonymous with development. This bias obviously means that the formal sector needs are to be promoted as a priority. One wonders if the government

can indeed assist the informal sector with access to capital or in creating an environment in which access to capital is facilitated for the informal sector participants. In Malawi, where the liberalisation policy has been implemented, the government allows the market forces free rein. While this may be a healthy economic situation, if unchecked, it could lead to exploitation of the poor or economically disadvantaged.

Conclusion

The government and NGOs can support the informal sector participants by providing opportunities for credit, by ensuring that the wholesale prices are fair to all and by making sure there are flea markets where the participants can operate.

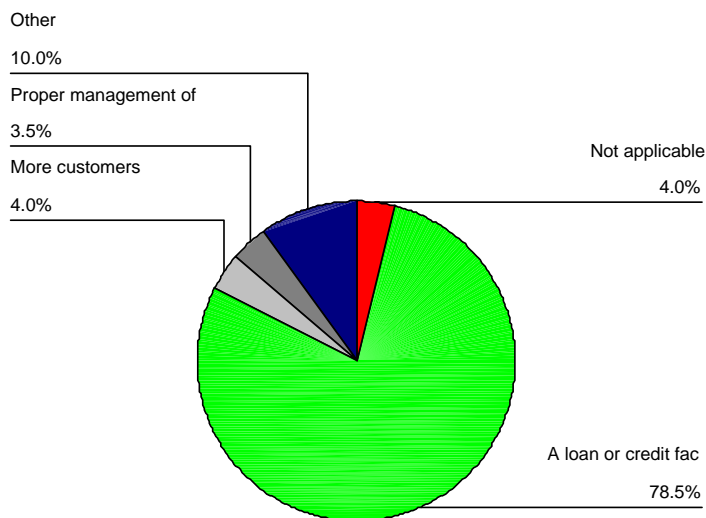
Do you want to expand your business? If “yes”, what would make you expand your business?

Findings

Ninety-six percent of all participants indicated that they would need to expand their business. Ninety-seven percent of the participants in Blantyre, 96 percent in Lilongwe and 93 percent in Mzuzu want to expand their businesses. Ninety-seven percent of the female participants and 96 percent of the male participants want to expand their businesses. Eighty-one percent of those who want to expand their businesses indicated that they would easily do so if they had an opportunity to increase their capital. Exhibit 5.30 also indicates the other reasons.

Other participants, as shown below, indicated that they would need more customers and proper management to expand their businesses. Other reasons include low cost of goods (wholesale) and the need for training.

Exhibit 5.30: Factors that can lead to the expansion of businesses



- 4,0% - Not applicable
- 4,0% - More customers
- 78,5% - A loan or credit facility
- 10,0% - Other
- 3,5% - Proper management of the business / hardworking

Discussion

Almost all the participants wanted to expand their businesses. This is because everyone wants to progress in what they were doing. In addition, expanded businesses would enable them make more profit which, in turn, would help them to improve their standard of living. As stated above, the main obstacle to expansion is lack of capital.

Conclusion

The majority of the informal sector participants in the three major cities of Malawi want to expand their business. Expanded access to capital would enable them do so.

If the government were to build a marketplace in town, would you be interested in having a place for your business? Why?

Findings

Forty-five percent of all the participants said they would be interested in space for their businesses if the government were to build a flea market, while the remaining 55

percent would not. Sixty percent of the participants in Mzuzu, 50 percent in Lilongwe and 38 percent in Blantyre indicated that they would want space if the government were to build a flea market. Sixty-one percent of the female participants and 43 percent of the male participants agreed that they would want space if a flea market were built.

The 45 percent who would want space if a flea market were built, advanced many reasons depicted in table 5.21 below.

Table 5.21: Reasons for wanting/not wanting space in a flea market

Reasons for wanting space	%	Reasons for not wanting space	%
A market is suitable/stable for business	23%	Too much competition in the market	30%
There are more customers in a market if it is in strategic place	21%	They are already established where they are	25%
They will have a decent place for business	16%	It is difficult to do business in the market because there are few customers	15%
There will be shelter which will reduce weather problems	14%	Market is not a strategic place for this business	13%
There will be good security in a market	7%	They have a small size of enterprise to operate in a market	7%
They will have fewer arguments because they own the place	6%	They are used to the streets	4%
It will be easy to obtain credit facilities	3%	Others	6%
There will be more storage place in the market	3%		
Others	7%		

Discussion

The reality of the situation is that there are already so many participants along the streets that even if flea markets were to be constructed, there would not be enough room for everyone. The fact that more participants are joining the sector every day also makes it difficult to create a venue in which there will be enough space for all the participants. The percentage of participants wanting space is highest in Mzuzu, possibly because they have seen the advantages of those who have space in the Mzuzu flea market. More female participants probably want space there because it would be a more secure environment for them than the business locales located on streets.

It is interesting to note the reasons of those participants who indicated that they did not want space, as depicted in table 5.21. However, it is clear that one of the primary considerations is to operate their businesses in a space that attract customers. Those not in favour of having this space were not convinced that a flea market would be a strategic business locale. In addition, they had established themselves in their current locales. To move would mean losing some of their faithful customers and it would be difficult to replace them. The chances that their businesses might fail would be high. However, it is also true that some of the business types may not prosper in a flea market environment, and it would not be therefore the right place for such participants.

Conclusion

The informal sector participants would be willing to have space in a flea market if they are sure that the flea market is in a strategic business locale in which their business would flourish.

If you were to start all over again, would you have the same business? Why?

Findings

Sixty-two percent of the participants indicated that, if they had the opportunity to start all over again, they would start the same business, while 37 percent indicated that they would not. The remaining one percent did not know. Seventy percent of the participants from Mzuzu, 61 percent from Lilongwe and 61 percent from Blantyre all said they would

start the same business. Sixty-three percent of the male participants and 53 percent of the female participants also indicated that they would start the same business if they were to start all over again. There was no significant difference in the responses given by men and women, when asked what they would do if they were to start their business again.

Those who would want to start the same business again, mentioned three main reasons:

- (1) They are skilled in that area (50%)
- (2) It is a profitable business (37%)
- (3) It is an easy business to run (12%)

Those who would not want to start the same business, gave the following three main reasons:

- (1) It is a difficult business (40%)
- (2) Things have changed and it is no longer profitable. (30%)
- (3) There is too much competition. (12%)

Discussion

Three areas seem to emerge as the most critical when starting a business in the informal sector. These areas are clearly highlighted in the reasons advanced by the participants when they were asked if they would start the same business again if they had a chance to do so. Both those who said “yes” and those who said “no” mentioned reasons that suggested that there were three issues that had to be considered when starting a business in the informal sector in Malawi. These were:

- (1) the skills the participant possessed
- (2) the profitability of the business
- (3) the ease with which the business could be operated

Many participants in Mzuzu, compared with Blantyre and Lilongwe, indicated that they would start the same business if they were asked to. This could have been because the

limited number of customers in Mzuzu also means that there is a limited number of business types. It is also worth noting that fewer female than male participants indicated that they would start the same business if they were given another chance. This may have been because the female participants started those particular businesses because of the limited capital at their disposal. If more capital had been available, they would have started other businesses. This adds another factor that should be considered when starting a new business, namely available capital.

Conclusion

Many of the informal sector participants would start the same business if they had the opportunity to do so. The informal sector participants in Malawi start businesses on the basis of their skills, how profitable they think the business will be, how easy the business is to operate and the capital they have.

What are the benefits of being an informal sector participant? What benefits does the informal sector provide to people in town?

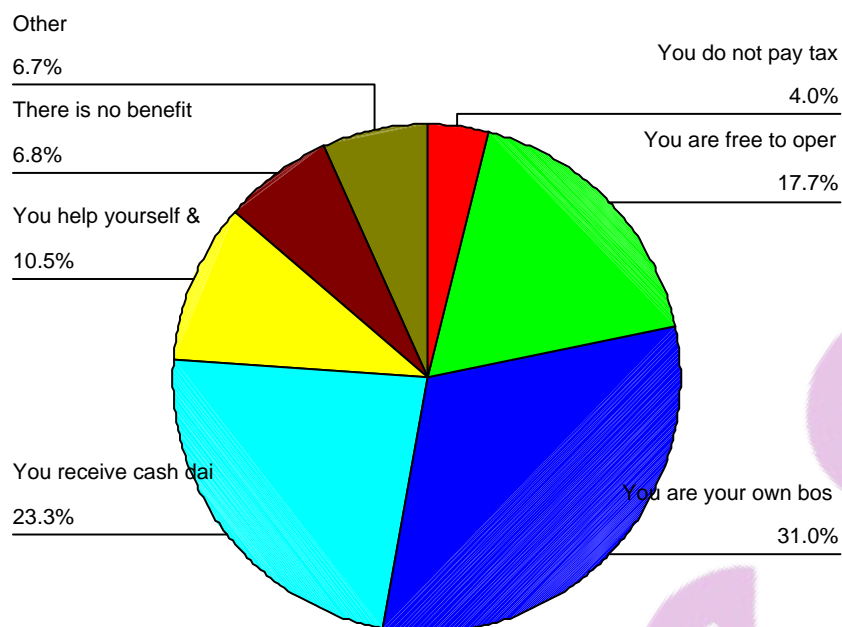
Findings

The participants mentioned several benefits of being involved in the informal sector. The four main benefits depicted in exhibit 5.31 below are as follows:

- (1) The participants are their own boss (31%).
- (2) They receive cash daily (23%).
- (3) They are free to operate wherever they want to (18%).
- (4) They help themselves and their family to alleviate poverty (11%).

The four benefits that were highlighted were common in all three cities of Blantyre, Lilongwe and Mzuzu. Some participants in Lilongwe and Blantyre mentioned that some of the critical benefits are that they do not pay tax and their earnings are much higher than those working in the formal sector. There were no major differences between the female and male participants in terms of the perceived benefits. It is interesting to note, however, that 13 percent of the female participants and only six percent of the male participants indicated that there are no benefits.

Exhibit 5.31: The benefits of being an informal sector participant



4,0% - You do not pay tax

6,8% - There is no benefit

17,7% - You are free to operate where you want

6,7% - Other

31,0% - You are your own boss

23,3% - You receive cash daily

10,5% - You help yourself and your family alleviate poverty

The benefits the participants perceived for the customers and other people in town are as follows:

- People are able to buy what they want more easily than before (51%).
- People buy goods and services at low prices because informal sector participants can take risks (19%).
- People are able to buy in small quantities, which benefits the poor (14%).
- People/passengers buy/receive quality goods and services (5%).
- Informal sector participants are accessible to customers (4%).
- Do not know (3%).

- Competition between the informal sector and formal sector reduce prices (1%).
- There is an increase in employment opportunities (0,7%).
- People are directed to the service or goods they need (0,7%).
- People can buy other items on credit (0,5%).
- Other reasons (1%).

Discussion

Many of the benefits of being an informal sector participant, as outlined by the participants themselves, are different from those highlighted by Bugnicourt et al (1995:26) and Richardson (1984:21-22), as indicated in section 2.2.4. According to the informal participants themselves, the benefits the town people or customers experience because of the presence of the informal sector, match those benefits indicated by Bugnicourt et al and Richardson. These benefits were slightly different from the first ones mentioned because they are viewed from two different perspectives. However, they complement one another admirably.

According to the participants, the freedom one experiences when one is one's boss, the freedom to operate wherever one wants to, and the opportunity to have daily infusions of cash are all rated as important benefits. This may explain the elements that the participants do not like about formal sector jobs. Some of the female participants may have indicated that there is little benefit to them as participants, because, in their perception, the cash they earn is lower than the amount earned in a formal job.

According to the informal sector participants, finding what one wants to buy easily and the opportunity to buy in small quantities and at low prices, are the three major benefits the informal sector offers customers. These benefits can also be regarded as a contribution by the informal sector to the community, as perceived by the participants themselves. With as many as 60 percent of the people in Malawi living below the poverty line, as indicated in section 3.3.1.2, the informal sector seems to be relevant to those existing at this minimal economic level and helps them survive because they can buy in small quantities with the little they have. For example, those who otherwise

cannot afford a whole loaf of bread, but can afford a quarter of a loaf, can manage to buy bread in the informal sector.

Conclusion

The benefits of the informal sector differ when one examines them from the perspective of the participants themselves and the non-participants. All these benefits, however, make the informal sector in Malawi increasingly relevant.

Do you have any general comments to make? If so, what are they?

Findings

The participants had several comments, some of which are indicated below.

- Government should not continue with its plans to force the informal sector participants into a marketplace because many small businesses will die.
- It would be helpful if institutions could openly train informal sector participants.
- Government should monitor prices in Asian wholesale shops.
- Small businesses are difficult to manage with large families.
- Limited capital is a major problem in the growth of this business.
- The city assembly (council) should build toilets for the street vendors, not only for the main market.
- Small businesses have helped many people to stop stealing and prostitution has decreased.
- It would be ideal if something positive could come from this research so that everyone can benefit in some way or other.
- The Asian shops occupy the best business locales.
- When the NGOs grant loans, they should not look at faces.
- The price of raw materials should be reduced to assist customers because they complain of high prices.
- Since the informal sector sells goods more cheaply than most shops in town, the government should encourage people to buy from them so that the Asians can reduce the exorbitant prices they charge.

Discussion

The issues that were mentioned as general comments make sense. However, not all of them can be implemented. The issue of self-interest stands clearly, in the same way as it was mentioned by the industrial representatives and the shop owners. When one operates in a liberalised market environment, each person is free to charge what he or she wants and the market forces have the freedom to rule. The informal sector participants do not seem to comprehend this and feel that there is need for some kind of price regulation. The fact that they have large families and they depend on these business activities for their livelihood makes progress difficult for them. It is true that some people who may have been thieves or prostitutes, have joined the sector and are making decent money to support themselves. The informal sector participants appreciated the author's wish that they should benefit from the research, and for that reason efforts will be made to distribute this thesis in Malawi.

Conclusion

The informal sector participants in Malawi have ideas on how to improve their businesses but most of them require support from the government, NGOs and other persons or institutions to do so.

Conclusion on findings of the informal sector participants

This section outlined the findings of the informal sector participants. It is clear from the findings that the participants are making a substantial contribution to the lives of the people in town and that, according to them, things would improve if there are price regulation, particularly in the area of wholesale prices. The need for opportunities to obtain credit was underlined, and they are of the opinion that this would further enhance their activities. A large percentage of the participants are supporting themselves and other family members on the basis of their informal sector businesses. These businesses help them survive and live comfortably in the three major cities of Malawi. An organisation has emerged in the informal sector and is operating as an advocate to help stop the exploitation of the members of the informal sector. It is also a forum in

which the participants in the informal sector can help one another. The conclusions drawn in each section provide the required details.

5.6 CONCLUSION

The findings of this research were presented in four areas, namely the government, industry representatives, the shop owners and the participants themselves. As expected, there was a tendency for each group to express opinions that would directly benefit them personally. The government officials were interested in how they could control the operations of the informal sector participants. The industry representatives were interested in how they could make the informal sector participants operate in such a way that they would boost their industrial businesses. The shop owners were interested in learning how the government could enforce regulations to chase the participants from the streets so that competition could be reduced, and they could once again make the profits they used to make. The participants themselves were interested in how the government, other NGOs, institutions or individuals could help them enhance their activities so that they could expand and support their families. Chapter 6 will examine the conclusions drawn in each section, and then draw main conclusions and make recommendations.

CHAPTER 6

CONCLUSION AND RECOMMENDATIONS

6.1 INTRODUCTION

A situational analysis of the informal sector in the three major cities of Malawi was the primary objective and focus of this study. The secondary objectives for this study were to

- (1) explore general concepts on the informal sector and development, which would form a background upon which the analysis of the informal sector in Malawi would be based
- (2) understand the business environment in Malawi within which the informal sector operates
- (3) provide a sound understanding of the informal sector operations in the three major cities of Malawi
- (4) explore the contribution of the informal sector to reducing poverty in Malawi
- (5) determine the attitudes of formal businesspeople and the government towards the informal sector
- (6) assess the kind of support the informal sector requires from government and other agencies
- (7) make recommendations on how the government can effectively handle the informal sector and identify further areas of research

Having explored the general concepts on the informal sector and development in chapter 2, analysed the business environment in Malawi in chapter 3 and examined the findings and drawn conclusions for each finding in chapter 5, this chapter briefly discusses these issues in light of the primary and secondary objectives outlined above. Recommendations are then made on the basis of the main findings and areas for further research that were identified, are stated.

6.2 SUMMARY OF THE MAIN FINDINGS

A summary of the main findings critical to the objective of this study has been drawn from chapter 5 and introduced into this section to enable the author to make comprehensive recommendations later. These main findings have been grouped into 20 categories and are presented below.

6.2.1 Common definition and strategy

The main findings in this category relate to whether there is a common definition of the informal sector in Malawi and whether the government has a strategy on how to handle it. These findings are as follows:

- (1) A common definition of the informal sector within the government is lacking. This may be one of the reasons why the government finds it difficult to deal with this sector. A clear official definition helps to collect the statistics or estimates of the informal sector in a country. Without it, measurement becomes difficult.
- (2) The government in Malawi does not have a commonly understood strategy on how to handle the informal sector. Government officials from different departments use different strategies, which are conflicting in some ways but could be combined to devise a comprehensive government strategy for Malawi.
- (3) The perspective of the industry representatives and the shop owners on the informal sector is determined by whether or not the informal sector enhances their business. If it is enhancing their business, they will ensure that the government strategy supports the ongoing activities and expansion, while if it is creating a threat, they will want restrictions to be imposed on the sector. People are likely to propose a strategy to the government that primarily benefits them. This confirms that self-interest is a common factor in any business.

These main findings are not unique to Malawi when one examines this issue at a global level. Different countries struggle to formulate a definition of the informal sector, which can help them classify activities between the formal and informal sector, as stated by

Bromley in section 2.2.2. They end up with statements that cannot be applied nationally. It was also indicated in section 2.2.2, that more than 50 definitions were identified in 75 countries that were studied because of the unique features of each country. The advantage of having a definition was that each country was able to suggest a strategy on how to handle the informal sector in that particular country and then measure its contribution. It is therefore critical for Malawi to have a common definition that will assist in the development of a strategy on how to handle the informal sector in the country.

6.2.2 Informal sector participants' background

This category provides a background on the informal sector participants themselves in an attempt to ascertain exactly who they are. The main findings on the participants' background are as follows:

- (1) Anyone can be involved in the informal sector, even those who are classified by Malawian standards as illiterate.
- (2) The majority (72%) of the informal sector participants are married and 99 percent of those who are single are men.
- (3) Women are capable of becoming involved in the informal sector if they are given the opportunity and the environment is secure enough for them.
- (4) Ninety percent of the informal sector participants in Malawi live with their families in their homes, which they either own (40%) or rent (60%). The majority (84%) of those who stay in rented homes pay the minimum rent possible (less than US\$7 per month).
- (5) A significant number (63%) of the informal sector participants who have no children, are young (14-25 years old). Of those with children, the average number of persons per household is higher (4,36) than the Malawian standard of 4,3.
- (6) Fifty-seven percent of the informal sector participants are of the Lomwe and Yao tribes despite the fact that these tribes are small (12% of the total population) and they come primarily from Mulanje, Mangochi and Blantyre.

(7) The majority (73%) of the informal sector participants in Malawi have been involved in the informal sector for more than two years.

Both men and women, young and old, married and unmarried, literate and illiterate participate in the informal sector in Malawi. Some of the factors mentioned here such as literacy and ethnicity are similar to Bromley's findings in Colombia, and Hart's findings in Nina when they examined this sector (as indicated in section 2.2.2. and the analysis in section 5.5.1). There are, however, clear unique features in the characteristics of the informal sector participants in Malawi, which will help in the development of the informal sector strategy in the country. This strategy therefore will differ from those for other countries.

6.2.3 Informal sector participants' responsibilities

This category presents the main findings on the responsibilities of the informal sector participants in Malawi. These findings are as follows:

- (1) The informal sector participants in Malawi carry a huge responsibility because they have to look after their families and relatives.
- (2) The more responsibility they have, the more they tend to spend. However, women are likely to spend more on household necessities because of their nurturing nature. There was evidence of an increased propensity to spend - those with higher incomes, tend to spend more.
- (3) The informal sector businesses are a good source of income and it is possible to create a sustainable livelihood with them.

The informal sector participants in Malawi have responsibilities like any employed person. They have to look after their families living in town as well as support their relatives and parents both in town and in their village. They support many relatives, particularly orphans. The increased number of orphans in Malawi is partly a consequence of the impact of HIV/AIDS. These added responsibilities necessitate

higher spending. Women participants spend even more because of their nurturing nature and this is not unique to Malawian women for it is common to women in other countries as well. The informal sector therefore enables the participants to meet their responsibilities and reduce poverty in the lives of their families and relatives.

6.2.4 The characteristics of the enterprise, ownership and organisation

This category summarizes the main findings on the characteristics of the enterprise, ownership and the organisation. The findings are as follows:

- (1) The informal sector participants in Malawi are involved in small businesses that do not require sophisticated assets to operate.
- (2) Ninety-three percent of the informal sector participants in Malawi own the informal sector businesses with which they are involved.
- (3) A powerful organization (not yet named) has emerged in the informal sector and its leaders are controlling the operations of this sector using informal rules and regulations.

These findings are common to other countries such as Zambia. There are, however, some unique features, for example, in the way the informal sector organization has emerged and is organized in Malawi. The methods of operations are greatly influenced by the business environment in Malawi, as examined in chapters 3 and 5. These factors, however, will be critical when Malawi finalizes the definition of the informal sector and the strategy needed to handle it.

6.2.5 Capital required by the informal sector enterprise

This category presents the main findings relating to issues of capital for the informal sector enterprise as follows:

- (1) The informal sector participants lack capital to start their businesses, which affects the size and the rate of growth of these businesses. Women are more affected than men because of social and cultural barriers. In Malawi there is no direct correlation between the amount of capital invested and profitability. Variables that may influence profit are the type of business, the stage in the life cycle of the business, geographical location and the business environment.
- (2) The majority (96%) of the informal sector participants in the three major cities of Malawi would like to expand their business and but lack additional capital.
- (3) Ninety-four percent of the informal sector businesses do not have loans because of lack of access to credit institutions. Many owners, however, would welcome an opportunity to procure a loan and would probably be able to pay it back because they are making enough money to do so.
- (4) Lack of capital and an operating locale are the two main issues that make entry into the informal sector difficult in Malawi.

Capital determines the type of business in which the informal sector participants are involved, a situation, which is common to many countries where the informal sector is operational as indicated in section 5.5.5. Women participants tend to have limited sources of capital because of cultural barriers - a feature unique to many Third World countries. Many of the participants would love to have more capital to expand. However, a higher level of investment in Malawi does not guarantee a higher profit because an increase in profit depends on several other factors, including the type of business itself, the skill of the participant, the business environment in which he or she operates and even the time of the year.

6.2.6 Source of raw materials/goods the informal sector participants sell or use

This category summarizes issues relating to the raw materials/goods the informal sector participants sell and use.

- (1) The informal sector participants in Malawi procure raw materials from any formal or informal source that increases their profit. The major sources, however, are wholesale and shops (52%) and an informal source (25%). Promotion of the free-market approach by the government should be constantly checked to ensure it does not become exploitative because this can create chaos.
- (2) The shop owners investigated in this research are retailers and not wholesalers. They do not use the informal sector participants as part of their forward vertical integration strategy. Very few shop owners supply goods to the informal sector participants because of the financial risk of nonpayment.

The informal sector participants procure their raw materials/goods for use or sale from any available source, formal or informal. Their main focus is to continue with their business and make a profit as contended in section 5.5.8. Any source that helps them achieve their objective is therefore vital. This is not only unique to the informal sector participants in Malawi, but to other countries as well.

6.2.7 Skill, training and job creation

This category summarises the main findings on training and job creation.

- (1) The best initial training for the informal sector participants is practical hands-on type of training, which can be offered through workshops and apprenticeships to those already engaged in business.
- (2) Sixty-two percent of the informal sector participants would start the same business they are doing now if they were given the opportunity. The informal sector participants in Malawi start businesses based on the skill they have, how profitable

they think the business is, how easy the business is to operate and the amount of capital at their disposal.

- (3) Employment of assistants within the informal sector in Malawi is not based on the amount invested or the average income made per day but is influenced by the type of business being conducted or the empathy the person has with others - referred to as Ubuntu in South Africa.

On-the-job training is the best initial training in the informal sector in Malawi. Many informal sector participants started as an apprentice working for a relative or friend. Others found a job as an assistant to acquire the skill even though the payment was far from adequate. Hence the number of assistants in informal sector businesses does not depend on the investment they have made but more on the need to help another person and the type of business in which they are involved. Many participants would start the same business if they had the opportunity to do so because they now have a skill in that business. Many of these findings are not unique to Malawi but to many countries with an informal sector, especially in the Third World, as pointed out in section 5.5.6.

6.2.8 Location and storage

There were a number of main findings relating to the location of the business and the storage required. These are as follows:

- (1) It is imperative for the informal sector participants to have a permanent position from which to work. They are also of the opinion that where possible, they should not pay rent since they are still in the process of building a successful business.
- (2) The informal sector participants would be willing to occupy space in a flea market if they were assured that the flea market would be in a strategic location in which their businesses could flourish and their regular clientele would be able to buy from them.
- (3) Storage of products and equipment is one of the critical challenges that the informal sector participants in all the major cities of Malawi face. This is especially applicable to the female participants.

Many informal sector participants work in the same location every day to avoid paying rent and to cater for customers who are used to seeing them there. To move from that location would only be possible for them if they were assured that the new location would enable them obtain more customers than those they would lose in the present location. Storage of their goods/raw materials after a day's work is a major challenge because they operate in temporary open places and cannot store their goods there. This challenge is more significant for the women participants. These findings are not unique to Malawi, but are common to informal sector participants in other countries, especially in the Third World.

6.2.9 Income the informal sector participants make

There are several main findings on the income the informal sector participants make. These are as follows:

- (1) Seventy-one percent of the informal sector participants make use of the price calculations in order to determine the prices of their products and services. However, prices may differ according to the situation, for example, the time of the day and the day in the month.
- (2) The informal sector participants work longer hours and days per week in order to be successful.
- (3) The informal sector businesses tend to generate higher turnover and profits towards the end of the month after the formal sector employees have received their salaries.
- (4) The overall average earnings per day were decreasing at the time the research was conducted. The informal sector participants in Malawi make more money during the festival seasons (eg Christmas) and after the farmers have harvested their crops because there are more customers and money available during those seasons.
- (5) More than 51 percent of the informal sector participants earn enough to make a livelihood. The women are capable of competing on an equal footing with their male counterparts. Blantyre is seen to be more profitable by the informal sector participants than the other two large cities in Malawi.

The informal sector participants, like the formal sector businesses, use the business principle of calculating their costs and determining the profits they want to make. However, the difference in the informal sector is that this price can be changed frequently according to the prevailing situation, especially because bargaining is common in Malawi (as in many African countries). If they are in a desperate situation for cash they will even sell their goods at retail price or lower to meet their daily cash-flow needs as pointed out by Bugnicourt et al (1995) in section 2.2.4. If the customer is well dressed, the participant may sell at a high price and make a higher profit because he or she knows the customer can afford it. Since bargaining is common in Malawi, a participant's skill in marketing and selling his or her product is critical. Long working hours per day and many days per week are required for them to be successful. The businesses do well towards the end of the month when the formal sector participants are paid, during festival seasons such as Christmas and when farmers are harvesting and selling their crops because more money is available during those periods. This means that more than 80 percent of the participants would have been earning enough to make a livelihood had this research been conducted after a good harvest season. As pointed out in section 3.3.1.2, the excellent climatic conditions in the 1997/1998 growing season were responsible for the rise in the per capita income to US\$220, which was outstanding by Malawian standards. This shows that not only the informal sector but also the formal sector and the whole economy in Malawi depend on good harvests. The same applies in many countries, especially in Third World countries whose economy is agriculture based.

6.2.10 Rules and regulations

There were several main findings on to the rules and regulations in Malawi. The rules and regulations were either to be adhered to by the informal sector as per government requirement or ignored. The participants also commented on why the rules and regulations were not followed, enforced and possibly not universally applied. The findings are as follows:

- (1) The lack of clear and universal rules and regulations on the informal sector in Malawi makes it difficult for government officials to have a common understanding of what type of enterprises require a licence to operate.
- (2) The lack of capacity of the government or city assembly, lack of infrastructure, the political pressure and some pressure from the formal sector benefiting from the operations of the informal sector, are the reasons that were mentioned regarding why it is difficult for government officials to enforce rules and regulations.
- (3) While the government rules and regulations should guide government officials in their dealings with the informal sector, it is clear that what the politicians say publicly affects the officials' perception. Government officials generally share a perception that does not jeopardise their work.
- (4) The officials reiterated that the payment of a market fee does not absolve the owner from obtaining a licence. The need for a licence depends on the specific activity performed in the informal sector while the market fee depends on the specific location. It is imperative, for the government officials to have clear guidelines on and an understanding of the use of licensing and market fees.
- (5) More female informal sector participants are likely to cooperate with the authorities in paying a market fee if they understand the regulations and the consequences of not adhering to them. All participants are likely to pay a market fee if the authorities are capable of enforcing the regulations.
- (6) The statement that all the informal sector participants are avoiding tax or are operating illegally is false. The specific activity they are involved in, the way they operate and the profits they make are all variables to be considered before generalizing this issue.
- (7) The government is not required to approve the posting of notices prohibiting the informal sector participants from doing businesses on certain premises where the land is leased. The application of this issue is so sensitive that in order for the rule of law to be respected, the politicians also need to respect it in their speeches and the government should apply it without partiality.

- (8) Industry representatives are more informed about these laws and do not have problems putting up signs prohibiting the informal sector participants from using private property areas.
- (9) Shop owners have a legal right to accept or refuse the use of their verandas by the informal sector.
- (10) While more than 90 percent of the shop owners stated that they were interested in having the informal sector participants removed from their verandas, they did not agree that the best way to do it was to put up notices banning them from doing so.

Several factors make the enforcement of the rules and regulations more difficult for the government. Some of these include lack of a common understanding among government officials about what the rules and regulations are, political speeches which contradict the government rules and regulations, lack of capacity to enforce the rules and regulations, lack of understanding of the informal sector businesses and the pressure experienced in terms of the business interests involved. There is also a misconception that the activities of the informal sector are illegal and the participants avoid paying tax. However, the author could only draw this conclusion after examining each business and the profit the person was making compared with the tax brackets, as pointed out in section 3.3.1.2. While there is a need for rules and regulations, the starting point is for the government and the informal sector participants to have a common understanding of such rules and regulations. The author suggests the development of a common database, which outlines these rules and regulations as a solution. In addition, radio and TV programmes, conducted by the informal sector participants, would support the capacity of the government officials in enforcing the rules and regulations. Government issues and political issues need to be separated so that political speeches do not affect government operations.

6.2.11 Agreements

Few agreements were made or proposed between parties. The ones that emanated from the main findings are as follows:

- (1) Shop owners do not mind having the informal sector participants use their verandas for their businesses if there is an agreement between the parties concerned.
- (2) Agreements between the shop owners and the informal sector participants enhance the relationship of trust between these two groups.

According to this research, the only important agreement is that between the shops owner and the informal sector participants using their veranda as the trading or service-providing locale. It is not possible to enter into official agreements unless the shop owners decide to do so because the shops are located on leased land and the shop owners therefore have the right to forbid traders from using their veranda. However, many of the shop owners would prefer to enter into agreements to avoid problems, because they do not have a choice. Those that do have informal agreements with the informal sector participants operating on their verandas seem to have developed a good relationship with them, which is helpful to both parties. These informal agreements are nothing new but are typical of informal sector participants who operate on the verandas of shop owners.

6.2.12 Competition and advertising

The main findings outlined below relate to competition and advertising and how these affect the operations of the informal sector.

- (1) Competition is good for the consumer but demands creativity on the part of competing sellers if they wish to maintain their profit margins.
- (2) Informal sector participants face competition every day. The competition is keener when a fellow informal participant sells similar products and services or when he or she sells superior products and services compared with his or her competitors.

- (3) In response to increased competition, industries tend to focus their attention on the reduction of their production and marketing costs even if it means retrenching some of their employees.
- (4) The profits of industries are affected more by production and marketing costs than mere competition between industries.
- (5) Seventy-one percent of the industry representatives would like to see the informal sector participants procure products for sale from them or from their distribution channels rather than use their competitors' products.
- (6) Few informal sector participants advertise their products and services. Only thirty-one percent of the women and 18 percent of the men advertise their products and services. Those who advertise use word of mouth more than any other method, and more advertisements are used in Mzuzu than in the other two cities involved in this research.
- (7) Several methods can be used to promote products and services. However, the major promotional methods used are personal salesmanship to convince customers to buy a product or use a service. Another way to promote sales is to sell quality products and services (differentiation approach).

The informal sector participants face the same competition as the formal sector. To them, a fellow participant selling the same product or a superior product is a major competitor. While industries normally have to reduce the production and marketing costs when they meet tough competition, the situation in the informal sector demands that they advertise more using word of mouth and personal salesmanship to persuade the customers to buy. The use of word of mouth as an advertising medium is also common in the informal sector in countries such as Zambia and Zimbabwe as observed by the author when he visited those countries. Women tend to advertise more than men because it is difficult for them to compete with men in an environment in which they face cultural and social barriers.

6.2.13 Profitability

The following main findings focus on the profitability of the informal sector. Since the research also involved the industries and shop owners, their profitability in relation to the informal sector is also outlined in the main findings below.

- (1) Bottom-line profits are affected more by production and marketing costs than by the competitive behaviour of competitors.
- (2) The industries' main focus is on profitability and anything that threatens or poses a problem to their profitability.
- (3) More than 80 percent of the informal sector participants make a good livelihood from their businesses. Given the same opportunity, women, like their male counterparts, are capable of establishing and running profitable businesses. Blantyre is more profitable to the informal sector participants than the other two cities in Malawi.

Blantyre is more profitable than the other two cities as far as the informal sector participants are concerned because it is the commercial city of Malawi. Profitability does not depend upon sex of the respondent but the skill that he or she has and the business environment. While factors such as availability of cheap raw materials/goods, personal skill, competition, time of the month and season tend to affect profitability in the informal sector, production and marketing costs affect profitability far more in the formal sector. With the profits that the informal sector participants make, they are able to reduce poverty not only in their families but also in their extended families. This shows that the informal sector does make a critical contribution to poverty reduction.

6.2.14 Growth of the informal sector

The following main findings relate to the growth of the informal sector in Malawi:

- (1) According to government officials, industrial representatives and the informal sector participants themselves, unemployment and survival are the two major reasons for the rapid growth of the informal sector in Malawi.

- (2) Other reasons advanced for the growth of the informal sector are entrepreneurial skills, the need to be independent and ongoing urbanization.

The fact that Malawi needs to create 400 jobs per day (see section 1.2) in order to satisfy the demand (which is not possible) shows that the informal sector is a source of employment for those involved in it. However, it is interesting to note that some people even leave formal employment in order to join the informal sector because they feel they will make more money in the informal sector compared with the salary they are earning in the formal sector. Many factors have led to the growth of the informal sector in Malawi including entrepreneurial skills, the need to be independent and the ongoing urbanization. These findings are similar to Bromley's findings in Colombia, and one would expect similar findings in many Third World countries.

6.2.15 Political influence and fear

Some of the findings reflect political influence and fear. These affect the business environment and have both positive and negative impacts on the operations of the informal sector. The main findings in this regard are as follows:

- (1) The pressure that politicians place on government officials and city assembly staff plays a major role in the way they enforce rules and regulations in the informal sector.
- (2) It is clear that what politicians say publicly influences the perception and action of government officials, who do not want to jeopardise their work by opposing what the politicians say in their speeches.
- (3) The city assembly understands the rights of the shop owners and the role played by the assembly. However, political pressure and lack of capacity prevent them from upholding the rule of law pertaining to the operations of the informal sector.
- (4) Politicians influence some of the micro-finance institutions in Malawi. More influence is experienced in government institutions than others. The issue of loan conditions and the interest charged on loans, in addition to connection, corruption and

collusion, makes some of the more independent financial institutions irrelevant to poor informal sector participants.

- (5) Many shop owners are unhappy about the informal sector participants using their verandas for their business, but have been intimidated and tend to do nothing about it.
- (6) Forbidding the informal sector participants to work on their verandas is not an option because of the lack of an alternative place, the power of this sector as a group and the political and industrial support they enjoy.

Politicians are only too aware of the fact that the informal sector participants are a strong political force - hence they tend to support their operations in order to win their votes as indicated in section 3.3.1.5. This is in agreement with Bromley's findings in similar research in Colombia, as stated in section 2.4.8. The politicians do this openly through speeches and other support. They contravene some of the rules and regulations that the city assembly should be enforcing, thus making it extremely difficult for them. Since the politicians support the informal sector openly, the shop owners are afraid to ban them from operating on their verandas even though these are leased properties. Politicians also influence some of the micro-finance institutions, and the issues of corruption, collusion and connection, as stated in section 3.3.1.5 mean that the informal sector participants do not benefit from many of the finance institutions in Malawi. These findings do not only apply to Malawi – the same situation prevails in many young democracies where the political leaders want to remain in power.

6.2.16 Perception of specific groups on the informal sector

The main findings below show the perception of the government officials, the industrial representatives and the shop owners on the informal sector:

- (1) The government views the informal sector positively because of its critical contribution to the economy of the country. However, the fact that certain issues need to be dealt with to improve this sector, is recognized.

- (2) The perception of the industry representatives towards the informal sector participants is influenced by how much the informal sector participants buy from them, whether the informal sector participants buy from a competitor and whether they perceive competition to be fair.
- (3) Sixty-five percent of the industry representatives view the informal sector positively except for a few who regard this sector as a threat.
- (4) The perspective of the industry representatives on the informal sector is generally determined by whether or not the informal sector promotes their business. If it does, they tend to support the government strategy to enhance it. However, the opposite also applies – if the informal sector poses a threat, they want restrictions to be imposed on it.
- (5) The perception of the majority (71%) of the industry representatives is that promoting and supporting the activities of the informal sector will indeed improve the country's economy.
- (6) The informal sector causes several problems for the shop owners. The major problem is the competition they generate. The negative perception of many of the shop owners on the informal sector is determined therefore largely by the competition they face from the sector.

The general perception of the government officials on the informal sector is positive. The industry representatives who benefit from the informal sector as a distribution channel and those who are not engaged in this sector because they are involved in export businesses have a positive perception of the informal sector. The industry representatives who experience competition because the informal sector imports similar products or uses the products of their competitors within the country, have a strong desire for the sector to be controlled. Some feel that current policies are unfair because the formal sector is paying taxes while the informal sector participants are not. The prices in the formal sector have to be higher to include a profit margin. Conversely, the informal sector participants are able to charge lower prices, which give them a competitive advantage, because they do not pay government taxes. Their message to the government is to control and regulate the informal sector. The perception of many of

the shop owners towards the informal sector is negative because this sector operates in direct competition and they are encountering stiff competition for the first time. Although the general consensus is in support of informal sector operations, there is also a feeling that further organization and regulation of the informal sector will solve some of the problems.

It is clear that the personal interest of the industry representatives or shop owners plays a major role in determining this perception. If the informal sector is enhancing the activities of that industry, this is positive. The converse is also true. The same applies to the shop owners. It is clear that the linkage between the informal sector and formal sector is critical in the development of Malawi. For example, there is a need for the industries to manufacture goods and for the informal sector to use them wisely rather than to import similar products at a lower cost. This is not unique to Malawi - it is a worldwide trend.

6.2.17 Contribution of the informal sector

The main findings on the contribution of the informal sector emerged from the informal sector participants themselves, government officials, industrial representatives and the shop owners. These are as follows:

- (1) People in Malawi join the informal sector because it is a form of employment that helps them to make a living.
- (2) There is a direct correlation between growth in the Malawian economy and enhancing the informal sector. If anything, the informal sector is seen to help poor people cross the poverty line and improve their standard of living, which contributes to the country's economic growth.
- (3) The perception of the majority of industry representatives is that enhancing and supporting the activities of the informal sector will indeed improve the country's economy.

- (4) According to the industry representatives and shop owners, the informal sector makes a contribution to the economy but it is not the only way to reduce poverty.
- (5) The informal sector represents an important distribution system for many of the industries and enhances the industries' performance overall.
- (6) Industries that manufacture products that the informal participants sell have no choice but to establish links with the informal sector participants if they wish to maintain or increase market share.
- (7) The benefits of the informal sector will be different when one examines them from the perspective of the participants themselves and the nonparticipants. However, it is clear that the benefits of the informal sector make its contribution in Malawi more relevant than before.

The contribution of the informal sector in Malawi is seen from different perspectives. The sector provides employment to those who would otherwise not have employment. The sector gives the poor opportunities to cross the poverty line and therefore improve their standard of living and contribute to the country's economic growth. The sector helps to reduce poverty and crime and boosts the general economy of Malawi.

6.2.18 Problems the informal sector causes or faces

The informal sector causes or faces many problems in its operations. The main findings are as follows:

- (1) The informal sector participants cause numerous problems such as littering, security and overcrowding. However, these could be overcome if the officials were to enforce government regulations.
- (2) The informal sector poses several problems for shop owners. The major problem, however, is the competition they generate.
- (3) Lack of capital, intense competition and high wholesale prices are the three major problems that informal sector participants face in the three cities.

Sanitation issues, congestion and the safety of pedestrians are some of the problems that the informal sector cause in towns, as indicated by those who were interviewed. To them this is indicative of a lack of government control and regulation of the sector. The shop owners however, view the competition, which emanates from the informal sector as one of the major problems they cause. This was indicated despite the liberalization policy that Malawi is following, as discussed in section 3.3.1.2. As far as the informal sector participants are concerned, they face problems such as lack of capital, too much competition and high wholesale prices. According to those interviewed, competition is the only problem they face and cause. It is clear that with government support and control of the sector the problems the sector cause could easily be sorted out in Malawi. Some of the problems the sector face such as lack of capital could also be easily solved by allowing suitable finance institutions to operate in favour of the informal sector.

6.2.19 The role of government and NGOs as viewed by the informal sector

There are a number of main findings relating to the roles that the informal sector would like the government and NGOs to play. These are as follows:

- (1) The role that government would like NGOs to play in terms of the informal sector in Malawi is not known except for the general role of supporting the government to enhance the activities of the informal sector.
- (2) The government and NGOs can support the informal sector participants by providing opportunities for credit, ensuring that wholesale prices are fair to all and providing flea markets in which the participants can operate.
- (3) The informal sector participants in Malawi have ideas on how they can improve their activities but need the support of government, NGOs and any organized business institution.

It is clear that the informal sector expects the government and the NGOs to support them to enable them promote their activities. This support would be in the form of providing opportunities for credit, ensuring that the wholesale prices are fair and

constructing flea markets in strategic places for the businesses. It is obvious that the role indicated here has to do with the enhancement of the sector. The government would also support the sector if policies were developed that support the operations of the informal sector without necessarily jeopardizing the support they give the formal sector. Government and NGO support is important because the informal sector plays a critical role in reducing poverty.

6.2.20 General

The general findings are set out below:

- (1) Although the majority of the government officials had been employed for less than five years (at the time of the research), their actions are seen to represent the government because they deal with the informal sector in their day-to-day work.
- (2) Ninety percent of the industries used in the sample for this research were well established having operated in Malawi for more than 20 years.
- (3) Fifty-five percent of the shops included in the research were well established having been there for more than 10 years.

It is clear that the government officials who were interviewed have something to do with the informal sector in their day-to-day work while the industries and shops used in the sample are well established.

Having examined the main findings and commented on them, the following section highlights the major conclusions drawn from the findings and the research as a whole.

6.3 MAJOR CONCLUSIONS

Several major conclusions can be drawn from the main findings and the above comments. Some of these are as follows:

- (1) The informal sector in the three major cities of Malawi has grown and is making a substantial contribution to the lives of the poor in the urban areas who otherwise remain below the poverty line.
- (2) People join the informal sector in Malawi for three main reasons; the lack of formal employment, the desire to make an honest living and survive and because of their entrepreneurial spirit.
- (3) People in Malawi choose an informal sector business on the strength of their skills, how profitable they think the business is, the ease of business operations and the amount of capital at their disposal.
- (4) While the government and the city assemblies are willing to regulate the operations of the informal sector in Malawi, they have two major problems to overcome - the lack of capacity to implement legislation and the influence of the political leaders of the ruling party who are interested in ensuring that they elicit votes of the informal sector participants.
- (5) The government and all industries and shop owners benefiting from the operations of the informal sector, have a positive perception while those industries and shop owners who do not benefit, have a negative perception. However, they all believe that the situation would improve if the government and city assemblies were to enforce the rules and regulations.
- (6) Not all government officials understand who should have a licence and under what circumstances the informal sector participants have to pay a market fee. This creates confusion in the application of these rules.
- (7) To succeed in the informal sector, entrepreneurs have to work hard - long hours and many days per week.
- (8) The informal sector depends on the employees of the formal sector as customers and their activities are therefore enhanced towards the end of the month. In addition,

the festival season and harvest time are the most profitable times for the informal sector.

- (9) One cannot blame the informal sector participants for not paying tax or operating illegally unless they are tested against the different benchmarks set. This research has revealed that many of the informal sector participants do operate legally and some do not need to pay tax according to the government tax brackets and the amount of profit they make.
- (10) The informal sector participants require support from all stakeholders regarding the business activities of receiving credit, storing goods, finding cheaper sources of raw materials, training and generally organizing their activities. They also need moral support to change the general perception that they are thieves.
- (11) Given equal opportunities, the women are just as capable as the men of running successful businesses in all cities. Lilongwe, however, has a much rougher and tougher business environment for women than the other two cities.
- (12) Benefits regarding the informal sector depend on the perception of the person surveyed and this is influenced by his or her interaction with this sector.
- (13) The informal sector has created a culture of entrepreneurship and reinvestment of capital, which is critical for economic growth in Malawi.
- (14) An organization has emerged in the informal sector which plays more of an advocacy and support role for the participants to ensure that they are not exploited, their disputes are sorted out, they are not falsely accused and that the leaders of the organization can discuss with government and the city assembly any issue on the informal sector before a final decision is made.

On the basis of these conclusions and some of the main findings above, the next section discusses the recommendations emanating from this thesis. The recommendations have been divided into four groups, namely those for the government, industrial representatives, shop owners and the informal sector participants themselves.

6.4 RECOMMENDATIONS

There are several recommendations that can be made based on the findings and conclusions made above. However, the author decided to look only at the major recommendations, as elucidated below.

6.4.1 Recommendations for the government

- (1) Malawi needs to compile a formal definition of the informal sector that will help the operations of this sector and measure its contribution to the Malawi's economy. This thesis offers a simple definition that could help the government in this process.
- (2) The government, the city assembly, other stakeholders and the informal sector participants themselves should form a consultative forum in which issues of policy, regulations and the operations of the informal sector can be discussed, agreed upon and a plan of action devised on how the city assemblies and government departments can enforce these regulations.
- (3) There is need for the government, private sector, NGOs and other stakeholders to develop dedicated finance institutions with regulations that suit the operations of the informal sector and are accessible to all informal sector participants. These institutions should be registered to cater for informal sector participants and help them to acquire the required credit or capital for their business operations.
- (4) There is need for Malawi as a country to introduce some kind of formal identification document for all citizens - in addition to passports, which are affordable by the privileged few. This document would not only help in elections, but could also be used to screen informal sector participants if necessary. These documents would also help them to easily obtain loans from the financial institutions willing to grant loans without collateral.
- (5) The government needs to re-examine its investment policies, which allow foreign companies to pay no customs duties for their imports for five years while the local industries still have to pay duties. This creates unfair competition and leads to closure of some domestic businesses in both the formal and informal sectors.

- (6) There is need for the government and the stakeholders to intensify the training of informal sector participants on their rights, the rules and regulations, business management principles and how they can efficiently organize themselves as a sector. Programmes on the radio and TV, which would afford informal sector participants the opportunity to speak about these rules and regulations, are also recommended.
- (7) Instead of giving authority only to the city assembly to deal with the informal sector, the government should consider developing a dedicated ministry whose role is to deal with the issues of this sector in Malawi. This department would handle all issues that need to be dealt with to make the operations of the informal sector participants successful. The city assembly could then concentrate on sanitation and the cleanliness of the cities.
- (8) There is need for the government and the city assembly to operate independently of the political leaders. The government and the city assembly should not be driven by political statements but by their own policy, rules and regulations. The enforcement of these rules and regulations should therefore not be influenced by what the politicians say in public.
- (9) The government and other stakeholders should assist the informal sector participants with infrastructure and technology development critical to the informal sector operations. The informal sector participants require infrastructure development in the form of flea markets, storage facilities, appropriate technology, toilets and sanitary facilities in the cities to allow them to operate properly.
- (10) As the government improves the conditions of the informal sector, it is also recommended that they do the same for the agricultural sector in the rural areas in order to stimulate primary production and the development of a market economy. This will promote the informal sector and may prevent the ongoing urbanization in Malawi.
- (11) There is need for government and NGOs to assist the governance structure that has emerged in the informal sector so that its functions can benefit all informal sector participants in Malawi.

6.4.2 Recommendations for the industrial representatives

- (1) There is need for vertical integration between the formal manufacturing industries and the informal sector and between the informal manufacturing industries and the formal sector to promote synergies in order to make local industry competitive. This will counter costly imports, which have a negative impact on the country's balance of payments.
- (2) There is need for the industrial representatives through the Malawi Chamber of Commerce to challenge the government to change the policies that allow foreign traders to enjoy tax rebates, while domestic traders are excluded from these rebates.
- (3) The Malawi Chamber of Commerce should interact with government to ensure that there is clear delineation between politics and the commercial governing of businesses, both formal and informal.

6.4.3 Recommendations for the shop owners

- (1) There is need for the shop owners to participate in solving the problems of the informal sector in conjunction with the government and other stakeholders, as opposed to them merely being intimidated by political speeches.
- (2) The shop owners need to find ways in which the vertical integration approach can be used between them and the informal sector.

6.4.4 Recommendations for the informal sector participants

- (1) There is need to strengthen the governing structure that is in place in the informal sector by making sure it has a constitution and is able to represent the needs of all informal participants.

- (2) There is a need for the informal sector leaders to engage with government on issues that concern the informal sector participants in order to come up with solutions critical to the success of their businesses.
- (3) There is need for the informal sector leaders to ensure that the informal sector participants deal with the environmental issues in a manner that enhances the health of the people in the city.

After making these recommendations, it is also vital to mention a number of areas for further research that were identified. These are outlined in the next section.

6.5 AREAS FOR FURTHER RESEARCH

Several areas for further research were identified during the study. The following areas are crucial for Malawi:

- (1) There is need to investigate the operations of the wholesalers in Malawi as well as the pricing process. At present the informal sector participants claim that there is discriminatory pricing between the Asian and African traders.
- (2) There is need to investigate the capacity of the city assemblies to enforce the rules and regulations in the operation of the informal sector. This is essential to promote change and provide capacity building accordingly.
- (3) Further research needs to be conducted into the existing financial institutions to find out if they are accessible to informal sector participants. Research is also required on alternative financial instruments that will facilitate the funding of the informal sector in an orderly manner.
- (4) Another possible area of research would be on consumer perceptions of the informal sector as well as their perceptions of the benefits they derive from this sector.
- (5) It is also necessary to investigate the functioning of the emerging business organization in the informal sector.

6.6 CONCLUSION

The informal sector is a key sector in Malawi because it is a major source of employment and income for the urban poor. It provides jobs to people who would otherwise be unemployed. As stated in chapter 1, Malawi needs to create 400 jobs per day to meet the labour demand and this is not possible with the present economic growth rates being experienced in the country. Hence in this study, the informal sector is seen as providing some sort of livelihood for those who would otherwise be unemployed and living below the poverty line. The informal sector generates knowledge and ideas because it is not easy to operate in this sector, and the participants have to be creative. The promulgation of any rules and regulations on the operations of the informal sector should therefore involve them and other stakeholders to ensure that the regulations are comprehensive and relevant. The formal and informal sectors in Malawi are interdependent. If this interdependency is not exploitative, then the citizens of Malawi benefit. The government needs to ensure that this relationship is not exploitive and that it does not favour the operation of one sector at the expense of another, because in the case of Malawi, both sectors are critical to the overall performance of the economy. Only if all the stakeholders can work together, will the informal sector in Malawi thrive and prosper to the benefit of all its citizens.

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Appendix 1. Map of Malawi



Appendix 2.

SAMPLING PROCEDURE

The following sampling procedure has to be followed when selecting the respondents to be interviewed during the primary research.

GOVERNMENT OFFICIALS - Judgement Sampling Procedure

The officials to sample are already determined using judgement sampling and we have to follow that list. The Officials are The Town Clerk, City Councillor, District Labour Officer, District Commerce and Industry Officer, District Census Officer, District Community Development Officer, District Health Inspector, District Town Planning Officer and District Tax Officer in each city. In addition to that the Principal Secretaries in the Ministry of Trade and Commerce, Ministry of Labour and Senior Officer in Economic Planning Department at the headquarters were also sampled. If the Official is not there, then we have to use a judgement sampling procedure and select either the Deputy Official or any Official that can represent the original official.

SHOP OWNERS - Systematic Sampling Procedure

1. Find out if all the shops in that particular town are part of the Shop Owners Organization. If yes, meet the leader and get a list of all shops in that town. If the list is not available or is not inclusive of all shops, then you need to follow the following procedure;
 - Get a town map showing the major roads and indicate where the shops are on the map
 - Go to all the streets and count all the shops so as to come up with an idea of how many shops there are to help compile the sampling frame.
2. Since the sample size was already determined for each city (10 from Blantyre, 7 from Lilongwe and 3 from Mzuzu), divide the number of shops by the sample size to determine the sampling interval
3. Using the sampling interval, determine the shops to be included in the sample (Select any number at random from the first interval and the subsequent samples at equal intervals).

4. Visit those sampled shops for interview
5. If they refuse or for other reasons they are not interested to be interviewed, then the following shop automatically qualifies to be part of the sample.

INDUSTRY REPRESENTATIVES - Judgement Sampling and Systematic Sampling

1. Get a list of industries or companies from the Chamber of Commerce and department of trade and industry within the government
2. Using judgement sampling, select the relevant industries to form the sampling frame.
3. Then follow the systematic sampling procedures as outlined under SHOP OWNERS above.

THE INFORMAL SECTOR PARTICIPANTS - Stratified Random Sampling and Systematic Sampling

1. Based on preliminary investigations, the population estimates for the three major cities (Blantyre, Lilongwe and Mzuzu) were compiled. A sample size was then determined proportionally to the population of the city. Estimates of traders, producers and service providers were also determined during the same preliminary investigations. Using these estimates a table of sampling size for each stratum (using stratified sampling procedure) was determined and presented into a table which was made available to the interviewers.
2. Then follow the systematic sampling procedure as outlined under SHOP OWNERS above for drawing a sample in each and every strata
3. For all mobile participants, interviews to be done the same day the sampling frame has been compiled. Using the interval, move in one direction (the direction used when developing the sampling frame) and sample the participants on the basis of the ones you meet at the required interval.

Appendix 3

THE INFORMAL SECTOR GOVERNMENT OFFICIAL QUESTIONNAIRE - 2001

CITY _____

QUESTIONNAIRE NUMBER _____
DEFINITIONS

THE INFORMAL SECTOR

This study defines informal sector as consisting of small-scale traders, producers and service providers who have the primary objective of generating income and employment, are operating their activities from homes, street pavements or other informal arrangements and have limited capital.

TRADERS INCLUDE:

- 1.1 Street vendor
- 1.2 Second hand Clothing Vendor
- 1.3 Food, Fruit and Vegetable Vendor
- 1.4 Metal, Wood products & handcrafts

PRODUCERS INCLUDE:

- 2.1 Tailor & Knitter
- 2.2 Furniture Maker
- 2.3 Tin & Pots Maker

SERVICE PROVIDERS INCLUDE:

- 3.1 Hairdresser / barber
- 3.2 Hairdresser / Saloon Owner
- 3.3 Shoe, Watch & Radio Repairer
- 3.4 Mini Bus Advertiser

NAME OF INTERVIEWER _____

DATE COMPLETED _____

REVIEWERS NAME _____

DATE REVIEWED _____

INSTRUCTIONS TO THE INTERVIEWER:

1. Ensure that the sampling procedure has been followed before starting the interview.
2. Only Relevant Government Officials as per plan should be interviewed.
3. Book an appointment with them in advance and ensure that you have explained the purpose of the survey.
4. Greet the respondent and re-explain the purpose of the survey.
5. Tell the respondent the time it will take and make sure they are comfortable to go with it.
6. Before commencing with the questionnaire, complete the information required above.
7. Read the questions to the respondent the way they appear in the questionnaire without any explanations unless there is need.
8. Do not skip any question because you think it is unnecessary unless that is what is expected.
9. Record the answers that, the respondent gives rather than making up what you think the respondent is saying or what you think they should have said.
10. Many questions require one choice from different alternatives. Make sure that only one answer is marked.
11. Ensure that the respondent is not being influenced by anyone when answering the questions.
12. Ensure that all the questions are answered unless they do not apply.
13. Go through the completed questionnaire again and make sure all the questions that apply have been answered.
14. Give an opportunity to the responded to ask questions or comment on the interview if need be.
15. Thank the respondent after the survey and assure them that their answers will be treated with all confidentiality.

INTERVIEW WITH GOVERNMENT OFFICIALS

1. Position of the respondent _____

2. Number of years in this position? _____

3. How does Government define the Informal Sector?

4. Do you have statistics on how many people are involved in the Informal Sector in this town? Yes No

5. If yes, can you give an estimate figure using the following categories:

a) Traders	_____	_____%
b) Producers	_____	_____%
c) Service Providers	_____	_____%
d) Others if any	_____	_____%

6. Do government rules and regulations require that all informal sector participants should have a licence to operate. Yes No

7. If yes, would it be right in the context of Malawi, to indicate that one can only be categorized as involved in the informal sector if they do not have a licence? Yes No Explain your answer.

8. How do you feel about informal sector participants (vendors, producers, and service providers) and their activities in this country?

a) No problem	<input type="checkbox"/>
b) I do not like it	<input type="checkbox"/>
c) No comment	<input type="checkbox"/>
d) Other <input type="checkbox"/>	Specify _____

9. How does the government view informal sector participants? (read the statements to the responded and tick as many as applicable)

- a) They help in the economic growth of the country
- b) They help in poverty reduction in the country
- c) They are destroying the environment and they need to be controlled
- d) They are causing confusion, destabilizing the market prices.
- e) They have created an un-healthy environment
- f) They have created an environment that is conducive to stealing
- g) They are a good check point for market prices
- h) They help the poor to survive in town
- i) Other Specify

Any additional comments can be indicated below:

10. Does the government have a strategy on how they want to handle the informal sector? Yes No

11. If yes, do you have a copy that I can have? Yes No

12. What does the strategy say?

13. What do you think about the Micro-Financing Institutions in Malawi; are they influenced by politicians so that they are not very helpful to the poor informal sector participants? Any comment?

14. In your own view what problems if any do these informal sector participants pose to the town?

15. What role does the Government want NGOs to play as far as the informal sector is concerned?

16. There are now several places in town where there are notices indicating that no one is allowed to sell or do business in those premises. Has the Government approved this or can anyone do so at their own wish? Any comment.

17. Some informal sector participants think that when they pay market fee they do not need to have a licence. What comment can you put on that?

18. Some people think that the informal sector participants are avoiding tax and most of their activities are illegal so they should be controlled. What do you think about that statement? Do you;

- a) Agree with the thinking
- b) Disagree with the thinking
- c) Do not know

Reasons for your answer;

19. Some people think that the economy of this country will only improve if the activities of the informal sector are enhanced and supported. Do you;

- a) Agree with this thinking
- b) Disagree with this thinking
- c) Do not know

Reasons for your answer;

20. Some people think that the government or city council rules and regulations on the operations of the informal sector are not being enforced because of political reasons. Do you

- a) Agree with this thinking
- b) Disagree with this thinking
- c) Do not know

Reasons for your answer;

21. Some people think that the informal sector is the only solution to poverty. Do you;

- a) Agree with this thinking
- b) Disagree with this thinking
- c) Do not know

Reasons for your answer;

Appendix 4.

THE INFORMAL SECTOR INDUSTRY / COMPANIES QUESTIONNAIRE - 2001

CITY _____

QUESTIONNAIRE NUMBER _____

DEFINITIONS

THE INFORMAL SECTOR

This study defines informal sector as consisting of small-scale traders, producers and service providers who have the primary objective of generating income and employment, are operating their activities from homes, street pavements or other informal arrangements and have limited capital.

TRADERS INCLUDE:

- 1.1 Street vendor
- 1.2 Second hand Clothing Vendor
- 1.3 Food, Fruit and Vegetable Vendor
- 1.4 Metal, Wood products & handcrafts

PRODUCERS INCLUDE:

- 2.1 Tailor & Knitter
- 2.2 Furniture Maker
- 2.3 Tin & Pots Maker

SERVICE PROVIDERS INCLUDE:

- 3.1 Hairdresser / barber
- 3.2 Hairdresser / Saloon Owner
- 3.3 Shoe, Watch & Radio Repairer
- 3.5 Mini Bus Advertiser

NAME OF INTERVIEWER _____

DATE COMPLETED _____

REVIEWERS NAME _____

DATE REVIEWED _____

INSTRUCTIONS TO THE INTERVIEWER:

1. Ensure that the sampling procedure has been followed before starting the interview.
2. Only Marketing Directors / Managing Directors or equivalent should be interviewed.
3. Book an appointment with them where you explain the purpose of the survey.
4. Greet the respondent and re-explain the purpose of the survey.
5. Tell the respondent the time it will take and make sure they are comfortable to go with it.
6. Before commencing with the questionnaire, complete the information required above.
7. Read the questions to the respondent the way they appear in the questionnaire without any explanations unless there is need.
8. Do not skip any question because you think it is unnecessary unless that is what is expected.
9. Record the answers that, the respondent gives rather than making up what you think the respondent is saying or what you think they should have said.
10. Many questions require one choice from different alternatives. Make sure that only one answer is marked.
11. Ensure that the respondent is not being influenced by anyone when answering the questions.
12. Ensure that all the questions are answered unless they do not apply.
13. Go through the completed questionnaire again and make sure all the questions that apply have been answered.
14. Give an opportunity to the responded to ask questions or comment on the interview if need be.
15. Thank the respondent after the survey and assure them that their answers will be treated with all confidentiality.

INTERVIEW WITH INDUSTRY / COMPANY REPRESENTATIVES

1. When did this company start business in Malawi?
_____ (Year).

2. How do you feel about informal sector participants (vendors, producers, and service providers.) and their activities in this country?
 - a) No problem
 - b) I do not like it
 - c) No comment
 - d) Other Specify _____

3. How does your company view informal sector participants? (read the statements to the responded and tick as many as applicable)
 - a) They enhance the activities of this company
 - b) They are destroying the activities of this company
 - d) They have influenced the changes that have taken place in this company
 - d) They are causing confusion, destabilizing the market prices.
 - e) They have created un-healthy environment
 - f) They have created an environment that is conducive to stealing
 - g) They are a good check point for market prices
 - h) Do not know
 - i) Other Specify _____

- Any additional comments can be indicated below:

4. Are any of the products of this company being used as raw materials or sold on the market by informal sector participants? Yes No
5. If yes has this enhanced in anyway the performance of this company?
Yes No

6. If No in (5) above, have the informal sector participants introduced raw materials or products that have created competition with your company products? Yes No

7. If yes, how have you handled the competition problem?

- a) _____
- b) _____
- c) _____
- d) _____
- e) _____

8. Has your company worked on the reduction of production costs and marketing costs based on the pressure created by the informal sector participants?

Yes No

9. If yes in '8' above, in reducing the production costs, have you in any way reduced the number of employees of this company? Yes No

10. If yes, has this led to the reduction of your product quality somehow?

Yes No

11. Are you by any chance using informal sector participants to sell your goods?

Yes No

12. If yes, is it on employment basis or on commission for what they sell or produce?

a) On employment basis

b) On commission basis

13. How much do they normally make per month?

a) Less than 500

b) K501 to K1 000

c) K1 001 to K2 000

d) K2 001 to K4 000

e) K4 001 to K8 000

f) Over K8 001

14. If you do not use the informal sector participants is it possible for you to estimate how much you think they make per month? Yes No

15. If yes, how much can you estimate for:

- a) Traders (Vendors) K_____
- b) Producers (Tailors, knitters) K_____
- c) Service Providers K_____
- d) Other Specify _____K_____

16. Do you supply goods to informal sector participants (vendors) on credit?

Yes No

17. If yes are they faithful in paying back what they owe you? Yes

No

18. Do you have any experience where one paid well while another failed?

19. For the one that failed, what did you do?

- a) Took them to court
- b) Took their other remaining items
- c) Removed them from the list of those we work with
- d) Other Specify _____

20. If you do not supply goods to informal sector participants, would you consider that, if you were approached? Yes No

21. Where do you think the informal sector participants get the goods they sell?

22. Do you think the presence of the informal sector participants has reduced your business profits? Yes No

23. What problems if any do these informal sector participants pose to your company or the town?

24.If the Government asked you to help develop the best strategy to handle informal sector participants, what would you recommend?

25. There are now several places in town where there are notices indicating that no one is allowed to sell or do business in those premises. What do you think about that? (Tick whatever is applicable)

- a) This is a sign that City Council is not in control
- b) No one is controlling the situation
- c) That is good and all shops should be encouraged to do so
- d) That is bad and should not be allowed in town
- e) The informal sector participants create insecure environment
- f) Other Specify _____

26. Some people think that the informal sector participants are avoiding tax and most of their activities are illegal so they should be controlled. What do you think about that statement? Do you;

- a) Agree with the thinking
- b) Disagree with the thinking
- c) Do not know

Reasons for your answer;

27. Some people think that the economy of this country will only improve if the activities of the informal sector are enhanced and supported. Do you;

- a) Agree with this thinking
- b) Disagree with this thinking
- c) Do not know

Reasons for your answer;

28. Some people think that the government or city council rules and regulations on the operations of the informal sector are not being enforced because of political reasons. Do you

- a) Agree with this thinking
- b) Disagree with this thinking
- c) Do not know
- Reasons for your answer;

29. Some people think that the informal sector is the only solution to the problem of poverty. Do you;

- a) Agree with this thinking
- b) Disagree with this thinking
- c) Do not know

Reasons for your answer;

30. Some people think the informal sector in Malawi has grown fast because:
(Choose whatever is applicable in order of priority)

- a) Unemployment is very high
- b) Poverty has increased
- c) People have developed entrepreneurship abilities
- d) They do not have any choice, the informal sector helps them survive

e) Other Specify

31. Do you have any general comments you would like to make now? Yes
No If yes please go ahead and make them.

END OF INDUSTRY / COMPANY REPRESENTATIVES QUESTIONNAIRE

Appendix 5.

THE INFORMAL SECTOR SHOP OWNERS QUESTIONNAIRE - 2001

CITY _____

QUESTIONNAIRE NUMBER _____

DEFINITIONS

THE INFORMAL SECTOR

This study defines informal sector as consisting of small-scale traders, producers and service providers who have the primary objective of generating income and employment, are operating their activities from homes, street pavements or other informal arrangements and have limited capital.

TRADERS INCLUDE:

- 1.1 Street vendor
- 1.2 Second hand Clothing Vendor
- 1.3 Food, Fruit and Vegetable Vendor
- 1.4 Metal, Wood products & handcrafts

PRODUCERS INCLUDE:

- 2.1 Tailor & Knitter
- 2.2 Furniture Maker
- 2.3 Tin & Pots Maker

SERVICE PROVIDERS INCLUDE:

- 3.1 Hairdresser / barber
- 3.2 Hairdresser / Saloon Owner
- 3.3 Shoe, Watch & Radio Repairer
- 3.4 Mini Bus Advertiser

NAME OF INTERVIEWER _____

DATE COMPLETED _____

REVIEWERS NAME _____

DATE REVIEWED _____

INSTRUCTIONS TO THE INTERVIEWER:

1. Ensure that the sampling procedure has been followed before starting the interview.
2. Interview the owner of the shop.
3. Greet the respondent and explain the purpose of the survey and ask them if they are willing to participate.
4. Tell the respondent the time it will take and make sure they are comfortable to go with it.
5. Before commencing with the questionnaire, complete the information required above.
6. Read the questions to the respondent the way they appear in the questionnaire without any explanations unless there is need.
7. Do not skip any question because you think it is unnecessary unless that is what is expected.
8. Record the answers that, the respondent gives rather than making up what you think the respondent is saying or what you think they should have said.
9. Many questions require one choice from different alternatives. Make sure that only one answer is marked.
10. Ensure that the respondent is not being influenced by anyone when answering the questions.
11. Ensure that all the questions are answered unless they do not apply.
12. Go through the completed questionnaire again and make sure all the questions that apply have been answered.
13. Give an opportunity to the responded to ask questions or comment on the interview if need be.
14. Thank the respondent after the survey and assure them that their answers will be treated with all confidentiality.

INTERVIEW WITH SHOP OWNERS

1. When did you start this business here? _____(year)
2. How do you feel about informal sector participants (vendors, producers, service providers.) who are working on the verandah of your shop?

- e) No problem
- f) I do not like it
- g) No comment
- h) Other Specify _____

3. Did the informal sector participants on your verandah request you for use of this space to do their business? Yes No
4. If no, did you try to chase them? Yes No
5. If yes what problems did you face in chasing them?

- a) _____
- b) _____
- c) _____
- d) _____

6. If the informal sector participants requested you for space and you said yes, what agreement if any did you have with them?

- a) _____
- b) _____
- c) _____
- d) _____

7. Did the city council approach you for the use of your verandah by informal participants? Yes No

8. Would you have been happy had they done it on behalf of the informal sector participants? Yes No

9. Did any of the informal sector association or organization leaders approach you for the use of your verandah by informal sector participants?

Yes No

10. Would you have appreciated to be approached by the leaders before the use of the verandah? Yes No

11. Are you by any chance using informal sector participants to sell your goods?
Yes No

12. If yes, is it on employment basis or on commission for what they sell or produce?

a) On employment basis

b) On commission basis

13. How much do they normally make per month?

a) Less than 500

b) K501 to K1 000

c) K1 001 to K2 000

d) K2 001 to K4 000

e) K4 001 to K8 000

f) Over K8 001

14. If you do not use the informal sector participants is it possible for you to estimate how much you think they make per month? Yes No

15. If yes, how much can you estimate for:

a) Traders (Vendors) K_____

b) Producers (Tailors, knitters) K_____

c) Service Providers K_____

d) Other Specify _____K_____

16. Do you supply goods to informal sector participants (vendors) on credit?

Yes No

17. If yes are they faithful in paying back what they owe you?

Yes No

18. Do you have any experience where one paid well while another failed?

19. For the one that failed, what did you do?

- a) Took them to court
- b) Snatched their other remaining items
- c) Chased them from my verandah
- d) Other Specify _____

20. If you do not supply goods to informal sector participants, would you consider that, if you were approached? Yes No

21. Where do you think the informal sector participants get the goods they sell?

22. Do you think the presence of the informal sector participants has reduced your business profits? Yes No

23. What problems if any do these informal sector participants pose to your shop or the town?

24. If you were asked by the Government on what the best strategy to handle informal sector participants who are on your verandah, what would you recommend?

25. There are now several places in town where there are notices indicating that no one is allowed to sell or do business in those premises. If you had a chance would you do the same here? Yes No

26. Do you have any general comments you would like to make now?
Yes No If yes please go ahead and make them.

END OF SHOP OWNERS QUESTIONNAIRE

Appendix 6.

THE INFORMAL SECTOR PARTICIPANT/ RESPONDENT
QUESTIONNAIRE - 2001

CITY _____

QUESTIONNAIRE NUMBER _____

TYPE OF INVOLVEMENT (Identify the group and select the type)

TRADERS

- 1.1 Street vendor
- 1.2 Second Hand Clothing Vendor
- 1.3 Food, Fruit and Vegetable Vendor
- 1.4 Metal, Wood products & handicrafts

PRODUCERS

- 2.1 Tailor & Knitter
- 2.2 Furniture Maker
- 2.3 Tin & Pots Maker

SERVICE PROVIDERS

- 3.1 Hairdresser / barber
- 3.2 Hairdresser / Saloon Owner
- 3.3 Shoe, Watch & Radio Repairer
- 3.4 Mini Bus Advertiser

NAME OF INTERVIEWER _____

DATE COMPLETED _____

REVIEWERS NAME _____

DATE REVIEWED _____

INSTRUCTIONS TO THE INTERVIEWER:

1. Ensure that the sampling procedure has been followed before starting the interview.
2. Only those who fit the informal sector definition below should be interviewed.
3. Greet the respondent and explain the purpose of the survey and ask them if they are willing to participate.
4. Tell the respondent the time it will take and make sure they are comfortable to go with it.
5. Before commencing with the questionnaire, complete the front page.
6. Read the questions to the respondent the way they appear in the questionnaire without any explanations unless there is need.
7. Do not skip any question because you think it is unnecessary
8. Record the answers that the respondent gives rather than making up what you think the respondent is saying or what you think they should have said.
9. Many questions require one choice from different alternatives. Make sure that only one answer is marked.
10. Ensure that the respondent is not being influenced by anyone when answering the questions.
11. Ensure that all the questions are answered unless they do not apply.
12. Go through the completed questionnaire again and make sure all the questions that apply have been answered.
13. Give an opportunity to the responded to ask questions or comment on the interview if need be.
14. Thank the respondent after the survey and assure them that their answers will be treated confidentially

DEFINITION OF THE INFORMAL SECTOR

This study defines informal sector as consisting of small-scale traders, producers and service providers who have the primary objective of generating income and employment, are operating their activities from homes, street pavements or other informal arrangements and have limited capital.

SECTION 1.

PARTICIPANT / RESPONDENT BACKGROUND

1. Sex ____

2. Marital Status a) Single b) Married c) Divorced
d) Widowed e) Other Specify _____

3. Do you have children? Yes No If yes, how many?

4. In which age bracket do you fall?

- a) Less than 14 Children
- b) 14 to 25 Youth
- c) 25 to 40 Young adults
- d) 40 to 65 Adults
- e) Over 65 Aged

5. Where is your original home? _____ and what tribe are you?

- a) Chewa
- b) Lomwe
- c) Tumbuka
- d) Yao
- e) Other Specify _____

6. Education of participant

- a) Did not go to school Is illiterate
- b) Did not finish Std 4 Is functionally illit.
- c) Finished Std 4 Is literate
- d) Finished primary school
- e) Finished junior secondary
- f) Finished secondary school
- g) Did technical college studies
- h) Did some years of university
- i) Has a University Degree

SECTION 2 PARTICIPANT HOUSING SITUATION

7. Where do you stay? _____ Township
8. Are you staying in your own home? Yes No If No, who are you staying with?
- a) My parents
 - b) My relatives
 - c) My friends
 - Other Specify _____
9. Do you have to pay any rent or contribute to the payment of rent where you are staying? Yes No If Yes, How much do you pay per month?
- a) Less than K500
 - b) K501 to K1 000
 - c) K1 000 to K1 500
 - d) More than K1 501
10. Are you staying with your children here in town? Yes No
If Yes, how many?
11. If you are staying in your own house here in town, are you staying with any relative? Yes No If Yes, how many?

SECTION 3 PARTICIPANT RESPONSIBILITIES

12. How much do you spend on average on food for you and those you support per month?
- a) Less than K1 000
 - b) K1 001 to K2 000
 - c) K2001 to K4 000
 - d) K4,001 to K6 000
 - e) K6,001 to K8,000
 - f) Over K8,000

13. How much money on average do you spend per month in order to meet other needs like school fees, groceries and transport?

- a) Less than K500
- b) K501 to K1000
- c) K1 001 to K2 000
- d) K2 001 to K4 000
- e) K4 001 to K6 000
- f) Over K6 000

14. How much money on average do you spend per month on health issues for you and those you support?

- g) Less than K500
- h) K501 to K1 000
- i) K1 001 to K2 000
- j) K2 001 to K4 000
- k) K4 001 to K6 000
- l) Over K6 000

15. How much money on average do you send home per month, to those you take care of if any?

- a) None
- b) Less than K1 000
- c) K1 001 to K2 000
- d) K2 001 to K4 000
- e) K4 001 to K6 000
- f) K6 001 to 8 000
- g) Over K8 000

16. What are your sources of income? (Tick as many as applicable but rate the source of income from the highest (1) to lowest (5) in second column.)

- | | | Most Income ↷ |
|--|--------------------------|--------------------------|
| a) I do piecework | <input type="checkbox"/> | <input type="checkbox"/> |
| b) I work on my informal business | <input type="checkbox"/> | <input type="checkbox"/> |
| c) I am working for someone in the informal sector | <input type="checkbox"/> | <input type="checkbox"/> |
| d) I get a commission for what I do | <input type="checkbox"/> | <input type="checkbox"/> |
| e) Friends and family support me | <input type="checkbox"/> | <input type="checkbox"/> |
| f) Other <input type="checkbox"/> Specify _____ | | |

17. If you are stranded without money what do you do?

- a) I borrow from friends
- b) I borrow from relatives
- c) I just stay
- d) Other Specify _____

SECTION 4 THE CHARACTERISTICS OF THE ENTERPRISE

Describe the enterprise here and the assets it has.

18. Who is the owner of this enterprise / business?

- a) Myself
- b) My relative
- c) My parents
- d) A certain businessman
- e) Myself and other partners
- f) Other Specify _____

19. Reasons for starting the business:

- a) Formal jobs not available
- b) Because I can earn more in this business
- c) To supplement the income I get
- d) This work is interesting
- e) It is a family business
- f) Because I am skilled in this area
- g) Other Specify _____

20. How long have you been involved in this enterprise / business?

- a) Less than six months
- b) More than six month less than a year
- c) One to two years
- d) Over two years but less than four years
- e) More than four years but less than 5 yrs
- f) More than 5 years

21. How many hours per day do you work?

- a) Less than four hours per day
- b) Four to six hours per day
- c) More than six hours but less than eight hours a day
- d) More than eight hours a day

22. How many days per week do you work?

- a) Two days or less
- b) More than 2 days but less than 3 days a week
- c) More than 3 days but less than 5 days a week
- d) 5 days a week
- e) 6 days a week
- f) 7 days a week

23. What was the single most important difficulty you faced in establishing your business?

- a) Lack of capital
- b) Lack of operating place
- c) Lack of raw materials / goods
- d) Resistance from those who were already in this business
- e) Obtaining a licence
- f) Lack of knowledge / information
- g) Other Specify _____

SECTION 5 SOURCE OF CAPITAL FOR THE ENTERPRISE

24. How did you start your business?

- a) I got items from a business man to start my business
- b) I used money to buy my raw materials / items
- c) Other Specify _____

25. If you got items from a businessman, what was the agreement?

- a) That I would get a commission for whatever I sold
- b) That I would return the value of goods taken in monetary terms
- c) There was no agreement, I just used the items, returned the money I got from the items and he gave me what he wanted.
- d) Other Specify _____

26. If you agreed on commission, how much was the commission per item or in total? K _____ Or how much in percentage did you get per item or in total? _____%

27. If you used money, with how much capital did you start this business? K _____ and what was the source of that initial capital?

- a) It was my own money
- b) My parents or relatives gave it to me
- c) I borrowed from a friend or relative
- d) I borrowed from a business man
- e) I borrowed from the micro-finance institution
- f) I borrowed from an informal money lender
- g) Other Specify _____

SECTION 6 TRAINING AND JOB CREATION

28. Before you started this business, did you have any sort of training? Yes
No

29. If yes, what sort of training was it?

- a) Formal training at a business school
- b) Workshops held by the enterprise development units
- c) Attachments to my friends, relatives or another business
- d) Was employed in a company where I learnt the skill
- e) Other Specify _____

30. Have you employed people to help you in the business? Yes

No

If Yes, how many?

SECTION 7 LOCATION AND STORAGE

31. Do you always work from here? Yes No

32. How did you find this place?

- a) I contacted the informal sector chairperson and he gave it to me
- b) I contacted the city council and they allocated it to me
- c) I contacted the owner of this shop who accepted me to use this place
- d) I just started using this place without contacting anybody
- e) I do not need a place since I move around to any place I want
- f) Other Specify _____

33. Do you pay any form of rent? Yes No If yes, how much is the rent per month?

- a) Less than K500
- b) Between K501 to K1 000
- c) Between K1 001 to K2 000
- d) Between K2 001 to K4 000
- e) More than K4 000

34. Give two reasons why you chose this place for your enterprise;

- a) Because it is near where customers are
- b) I had no choice (this is the place that was found)
- c) It is near where I live
- d) Because I do not need to pay rent
- e) Because there is security
- f) Other Specify _____

35. Do you have to pay a market fee? Yes No If yes, how much per day?

- a) K20 or less
- b) K21 to K50
- c) K51 to K100
- d) K100 to K200
- e) Over K200

36. Who receives this market fee?

- a) The City Council Officer
- b) The Chairman of the Vendor association
- c) The shop owner
- d) Other Specify _____

37. What is this market fee used for?

- a) To help clean up the city surroundings
- b) Don't know
- c) Other Specify _____

38. After a days work, where do you store your goods / assets?

- a) I take them to my home
- b) I keep them with the owner of the shop here
- c) I cover them and keep them here for I sleep here
- d) I keep them at my friends place near by
- e) Other Specify _____

SECTION 8 RAW MATERIALS AND EARNINGS

39. Where do you get your raw materials / goods?

- a) From retail shops
- b) From the wholesale shops
- c) From the factory
- d) From a business man with whom I have an agreement
- e) From an informal source
- f) Other Specify _____

40. What determines where you get the raw materials / goods?

- a) Availability
- b) The price they are charging
- c) The resources / money that I have
- d) Whether they allow part payment
- e) Other Specify _____

41. How much do you normally make per day? K _____

42. Are your earnings per day increasing or decreasing? And why is this so?

43. Does this business owe money to anybody? Yes No If yes how much? K_____ How much do you have to repay per week or month? K_____

SECTION 9 COMPETITION

44. When in the month do you get many customers?

- a) Towards the beginning of the month
- b) Towards the end of the month
- c) Towards the end of each week
- d) Other Specify _____

45. Do you in anyway advertise your products / services? Yes No

If yes, How do you do that?

- a) By word of mouth myself
- b) By word of mouth (hired boys)
- c) Using music on a radio cassette
- d) Using a speaker phone
- e) Other Specify _____

46. How do you determine the price of your products / services?

- a) I calculate the profit I want to make and then determine the price
- b) I calculate the profit I want to make, determine the price, but I always add to that price to take into account bargaining
- c) I first find out how my competitors are charging and then provide a bit of a lower price
- d) I look at the way the person is dressed. My starting price for the well dressed is higher than those that look poor.
- e) I follow the prices that have been laid by the informal sector group
- f) I just decide at random
- g) I follow the prices that have been set by the formal sector.
- h) Other Specify _____

47. Do you experience competition? Yes No If yes, who are your competitors?

- a) Fellow informal sector participants who sell the same products like me
- b) Fellow informal sector participants who sell same but superior products than mine
- c) Formal shops
- d) Others Specify _____

48. What do you do to make sure you win the interest of customers? (Choose all applicable)

- a) I advertise more
- b) I lay my products in a very descent way
- c) I sell at cheap prices / provide service at cheap price
- d) I sell quality products / service
- e) I use my skill of convincing people to buy / use my service
- f) I use magic charms
- g) Other Specify _____

SECTION 10 ORGANIZATION

49. Do you belong to any association or group? Yes No
If yes, do you have to pay a membership fee? Yes No
If yes, how much do you have to pay per year? K_____

50. What are the advantages of this association / group if any?
a) _____

b) _____

SECTION 11

PROBLEMS AND FUTURE PLANS

51. What at present are the three biggest problems you are facing in order of priority?

- a) Lack of capital
- b) Lack of licence
- c) Lack of storage space
- d) To much competition
- e) Finding good place to use for the business
- f) Lack of credit facilities
- g) Too much interest charged on loans
- h) Lack of training
- i) Lack of transport
- j) Lack of raw materials / goods
- k) Other Specify _____

52. What do you think the government / non-governmental organizations should do to help solve these problems?

- a) _____

- b) _____

53. Do you want to expand your business? Yes No If yes, what would make you expand your business?

- a) A loan or credit facility
- b) Training
- c) Descent market place
- d) A licence
- e) Other Specify _____

54. If the government had to build a market place in town, would you be interested to have a place for your business? Yes No

Why? _____

55.If you were to start all over again, would you do the same business?

Yes No Don't Know If yes, why?

- a) It is more profitable
- b) Because I have a skill in this area
- c) Because it is easy to do
- d) Other Specify _____

If No, why?

- a) It is a difficult business
- b) There is too much competition
- c) It is difficult to get raw materials / goods
- d) Things have changed and it is no longer profitable
- e) Other Specify _____

56.What are the benefits of being an informal sector participant?

- a) You do not pay tax
- b) You are free to operate where you want
- c) You are a boss of yourself
- d) Other Specify _____

57.What benefits does the informal sector provide to people in town? (Select as applicable)

- a) People are able to buy in small quantities and hence the poor are able to buy.
 - b) People are able to buy what they want easier than before
 - c) The competition within the informal sector and the shops has an impact of reducing the prices
 - d) People can buy things at reduced prices since the informal sector participants are prepared to take a risk of low price and small profit margin
 - e) Other Specify _____
-
-

58.Do you have any general comments to make? If so what are they?

- a) _____
- b) _____

END OF PARTICIPANT / RESPONDENT QUESTIONNAIRE

APPENDIX 7

DESCRIPTION OF THE ENTERPRISE AND THE ASSETS IT HAS

ENTERPRISE	ASSETS
Assorted drugs, speakers	Wooden box and a shed
Ballpoint pens, pencils, cigarettes, metal spoons, pegs, plastic combs, batteries, toothbrushes, sweets	A bench
Assorted sweets, cigarettes, biscuits and matches	Wooden box
Umbrellas	None
Mathematical instruments, ballpoint pens, sockets, exercise books, wallets and diaries	None
Assorted kitchenware	Wooden bench
Kitchenware and toys	None
Primary school books,	Plastic sheet
Primary & secondary books	Table and carton
Ballpoint pens, irons plugs	Cartons
Cell phone covers,	Silver tray, carton
Kitchenware, pens, batteries, plastic bags	Bench
Notebooks, clothes, spanners, knives, torches and mathematical instruments	Travelling bag
Ballpoint pens, food containers, tea strainers, plates, combs, lamps, pencils, make-up mirrors	Bench
Rim locks, ordinary locks, adapters, electric iron, cups, pots, travel bags, paraffin lamps, pens, food containers, teapots,	Wooden bench
Papers, plastic basins, scissors, slippers,	Wooden bench

bags, paraffin lamps	
Newspapers	Umbrella
Shoes	Bench
Shoes, belts, notebooks, wallets, schoolbags	Wooden bench, cartons, chair
Radio cassettes tapes	Table, musical system
Hardware items, cutlery, scissors, plastic carrier bags	Metal box, black plastic sheet, bicycle, small radio
Mugs, cutlery, food containers, toys, rim locks, watches, electric iron, lamps, pots, wallets, travelling bags, plastic basins	Wooden bench, cartons
Sunglasses,	Bench
Pots, lamps, watches, clocks, tea cups, balls, tumblers, radios, iron, calculators, toys, headphones, flasks	None
Hardware, kitchenware	Bench
Balls, iron, lamps, toys, watches, kitchenware, torches	Bench
Pens, spoons, clothes, pegs, combs, thread, razorblades, notebooks, pencils, scissors, brushes, handkerchiefs, knives	Bench
Baby cups, dishes, brushes, flowers vessels, toothbrushes, feeding bottles, nets, flowers, baby boots, photo albums, watch	None
Watches, tennis balls	Table
Envelopes	Wooden bench
Newspapers	
Tooth brushes, plastic combs, scissors, plastic rulers, torches, assorted sweets, plastic bags	Wooden tray
Underwear	Wooden bench

Cups, pegs, pens, mirrors, photo albums, sellotape, brushes	Wooden bench
Tumblers, ballpoint pens, mirrors, knives, headbands, tea strainers, toys, shoe brushes, dolls, paraffin, lamps, nail cutters,	Wooden bench
Groceries, stationery	Wooden bench
Spoons, knives, socks, mirrors, shoe polish, toothpaste, wallets, vests	Wooden bench
Plastic shoes, underwear,	Wooden bench, cartons, travelling bag, umbrella, black plastic paper
Sweets, combs, knives, cups, tea strainers, lamps, exercise books, envelopes, torches	Wooden bench, black plastic paper
Sweets and biscuits	Bench
Soaps & kitchenware	Bench
Bathing towels	None
Exercise books, tea strainers, combs	none
Tennis balls, plastic combs, rulers	none
Books, envelopes	Bench
Plastic bags, pesticides, vegetable seeds	Bench
Envelopes, stamps	Wooden bench, chair, small radio
Sweets, envelopes, writing paper, ballpoint pens, cigarettes	Wooden bench
Assorted plastic products, metal plates, mirrors, tooth paste	Wooden bench
Cigarettes	Wooden bench
Footballs, extension wires, cotton sticks, pegs, cellophane toys	None
Cups, socks, mirrors, shoe polish, spoons	Wooden box and bench
Flowers, perfumes, body lotions	Plastic chair, table, kiosk
Batteries, electrical appliances, shoe	Wooden bench

brushes, rulers, knives	
Tooth paste, soaps, mirrors, lotions, batteries, tooth brushes	Wooden bench
Plastic containers, shoe brushes, shoe polish, assorted plastic products, tooth brushes	Board for displaying the products
Gents underwear	Mat, sack
Girls dresses	Hangers, wooden rack
Shirts, T-shirts, blouses	Black plastic paper
Socks, blouses, trousers	Hangers, wooden shade, black plastic paper
Trousers	Plastic paper
Shirts	Travelling bag, plastic paper
Ladies underwear	None
Assorted clothes	Kiosk
Jerseys, T-shirts, clothes in general	-
Shirts, shorts	None
Ladies underwear, ladies wear	Kiosk
T-shirts	Kiosk
Shoes	None, kiosk
Shorts, track suits	Kiosk
Ladies wear	Kiosk
Belts, scarves, socks	Kiosk
Shorts	kiosk
Trousers, baby clothes, bed sheets	Wooden shade, sacks, plastic paper
Bed sheets, curtains,	Plastic sheet shade
Bed sheets	Plastic sheet shade
Shirts, trousers	Wooden shade, plastic paper, hangers

Belts, shoes	Kiosk
Jerseys, shirts	Kiosk
Children's clothes, T-shirts	kiosk
Boys' clothes, socks, skirts	Wooden shade, plastic sheet
Trousers, scarves, coats	Wooden benches, mats, tent
Girls' & boys' clothes	Tent
Ladies' & gents' underwear	None
Sock	Shade
Potato chips	A shade of wooden poles, frying pan, 'mbaula', water jars, plastic plates & a large metal pallet spoon
Fresh & roasted g/nuts and <i>nzama</i>	Winnowing basket
Green maize	<i>Mbaula</i> and wire mesh
Fruits	Woven basket
Assorted vegetables	Woven basket
Cassava	Plastic sheet
Doughnuts	Plastic basin
Irish potatoes	none
Rice	Measuring scale & sack
Apples & buttercup margarine	Boxes
Cassava & bananas	Basket
Wood handcrafts (curving)	None
Picture frames	None
Wooden beds	none
Wooden chessboards	Cartons
Wooden beds	Plane, g-cramp, saw, brace, square chisel, tape measure, mallet, spokeshelf
Assorted handcraft items made from wood	none

and stone	
Tailoring	Sewing machine, table, chair, tape measure and a pair of scissors
Tailoring	Bench, a pair of scissors, tape measure
Tailoring	Cloth, sewing machine (manual)
Tailoring	Sewing machine (manual)
Tailoring	Electric sewing machine
Wooden beds, chairs, sofa, coffins	Plane, saw, tape measure, cramp, pliers, chisel, hammer, shade made of wooden poles and plastic sheet.
Furniture making	Plane, saw, chisel, hammer, cramp, tape measure, pliers.
Furniture making	A big pair of scissors, wood material, cushions, hammers, needles.
Furniture making	Hammers, scissors, saw, hardboard for sawing, wood, leather, vanish cream, nails.
Tins and pots making	Hammer, spanner, iron bar, hub
Tin making	Iron bar, hammer, hub
Tin metal, pails, pots	Hammer, chair, iron bar, hub
Tins, 'mbaula', dust bins	Hammer, hub, iron bar.
Tins, pails, pots,	Hammers, chairs, pliers
Watch repairing	Wooden bench, chair, grinding stone
Shoe repair	Knives, grinding stone, shoe-mending needle, metal box, shoe

	shaped metal and sandpaper.
Watch repair	Tweezers, fixing glass, pliers, grinding stone, wooden bench, chair, tester meter, and screwdrivers.
Barber shop	Shed, solar pan, inventor, car battery, shaver, chairs and mirror.
Barber shop	Dressing mirror, bench, chair, (HB 03?)
Barber shop	Radio, chair, mirror, electric shaver.
Barber shop	Tent, electric shaver, aprons, spirit, brushes and plastic combs.
Hair salon	Braiding mesh, candles, hair chemicals, scissors, sink, hair dryer, tent.
Minibus advertising	none

Appendix 8.

NEWSPAPER EXTRACTS