Chapter 9

The Nature of Informal Trade Sector in Zambia and Its Implications for Government’s SMEs Regulatory Framework

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ABSTRACT

Zambia’s efforts to create a viable SME sector – after the successes of SMEs in Southeastern Europe faces numerous constraints. The nature of the informal trade sector in Zambia and how the same would provide implacable complexities for the envisaged policy framework has not been determined. This chapter explores the nature of the informal trade sector in Zambia and the implications of its nature on the new policy framework. This chapter based its argument on a case study conducted in Makululu Compound in Kabwe amongst small-scale informal traders (n=99). The majority of informal traders operated individually-based, unregistered, non-tax compliant activities to create self-employment and generate household income. The larger majority of the traders were unwilling to move from informal trading to the envisaged SMEs. Policymakers should not abruptly replace informal trading with SMEs as envisaged. Instead, informal trading should be allowed to co-exist with the envisaged SMEs.

INTRODUCTION

The continued expansion and growth of the informal trade sector in Zambia poses some critical policy complexities to Zambia’s initiative to shift the informal trade sector to a viable Small Medium Enterprises (SMEs) sector. The complexities are mainly based on the nature of the informal trade sector which influences the new SME development policy direction. This chapter therefore seeks to explore the nature of the informal trade sector in Zambia and the implication of this nature on the new Enterprise Regulatory Framework policy targets. Tamukamoyo (2009) conducted similar
study in Zimbabwe except that the current study goes a step further to investigate the link between the nature of the sector and the transformation policy which the Zimbabwe study failed to do. The contribution of this chapter is crucial for the growth of the informal-SME transformation debate in the developing regions since it is not only Zambia involved in these transformations. The overall purpose of this chapter is to present strategic policy recommendations and guidelines on how best to approach the envisaged informal trade-SME Regulatory Framework and its subsequent implementation in Zambia. However for the purpose of this chapter, since the larger portion of informal trading in Zambia is mainly funded and supported by microfinance service activities which assist prospective small-scale informal traders with start-up and sustenance capital – especially those traders who are denied opportunity to access loans from mainstream formal banking systems to back their businesses (Mafukata, Kancheya, & Dhlandhlara, 2014), this chapter focuses therefore on microfinance-sponsored informal traders.

THEORETICAL AND METHODOLOGICAL APPROACHES

Theoretical Considerations

This chapter is based on the assumptions made by Sarr (1995) “As the end of the economic and financial crisis in Africa is not yet in sight and is not likely to be achieved for some years to come, - the informal sector has potential for independent development even for making it the nexus of industrialization”. This assertion is supported by Tshuma and Jari (2013) and Palmer (2004) who argued that informal trade would develop into the driving force of economic development, increased production, job creation, poverty alleviation and increased Gross Domestic Product (GDP) of emerging economies sooner than later. Furthermore, this chapter draws its theory from Mafukata et al. (2014) who argued that microfinance-sponsored resource-poor beneficiaries were capable of establishing flourishing informal trading enterprises to provide employment and household income for a living – especially for those who fail to find economic space and participation in the formal economy. The informal business practices increase the share of informal traders in wage employment (Peprah, 2012; Palmer, 2004).

This chapter also borrows from one Praveen Kumar’s advice “give adequate focus on informal trade” to reduce poverty in Zambia (Chanda, 2014). This paper hypothesizes therefore that “the informal economy is “here to stay” and would expand with modern industrial growth” (Ndhlouvu, 2011) as evidence is already there of such expansion (Palmer, 2004). The expansions might be encouraged by the non-guarantee on the one hand of the SMEs for economic growth (Gomez, 2008).

This chapter argues that the nature of the informal trading in Zambia is largely unknown at policy level and therefore greatly misunderstood for policy and development debates in particular. In Zambia, it is clear that the informal trade sector is viewed as comprising entities while grassroots evidence points to mostly individuals who trade as hawkers, street vendors and many other home-based small-scale retailing practices among others. This paper is envisaged to make contribution for Zambia’s informal trade sector-SME new policy and the debate thereof by removing falls assumptions, misconceptions and flawed conclusions on the current state and the future of informal trading in Zambia.

Materials and Methods

The context of this chapter emanates from a qualitative-quantitative study conducted among purposively and randomly selected microfinance-sponsored informal traders (n=99) belonging to the