CHALLENGES AFFECTING INFORMAL BUSINESS FUNDING IN ZIMBABWE: IMPLICATIONS FOR THE ZIMBABWE OPEN UNIVERSITY

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Abstract

This study was meant to establish the problems affecting the funding of informal business operations in Zimbabwe and what role the Zimbabwe Open University could play to solve these challenges. The study focused on twenty carpentry and metal fabrication operations in Marondera. It identified and analysed the major sources of capital for informal businesses and the problems faced in accessing business funds. Informal operators, government representatives and financial institutions were part of the subjects. The descriptive survey method was adopted for the study to provide information on the nature of problems affecting the funding of these operations. Questionnaires and interviews were used as research instruments. The findings revealed that the main source of business funds for informal businesses is personal equity which was found to be very inadequate. Financial support from institutions was also found inadequate and has reached relatively few operators. It was also established that complex and corrupt loan administrative systems and lack of collateral security were deterrents to business operators getting loans. This study recommended that ZOU should mount workshops to improve the business administration skills of operators, as part of its community service programmes. The evaluation of the effectiveness of loan distribution channels was also recommended. The government should create an enabling environment through policy formulation. ZOU as an institution of higher and tertiary education must craft a curriculum which is heavily inclined towards entrepreneurship.

Key words: Informal business, Funding, Open University

Introduction

The importance of informal business activities in the economic development of poor countries has been recognised in nearly all countries of the world (Imani, 1993). Harper (1984) asserts that there are several reasons why informal business operations merit attention especially in developing countries that are poor, labour being in excess, capital scarce and the means of production owned by a few foreign companies. Further, Harper (1984) argues that even in Great Britain they have explicit arrangements in favour of informal business operations.

In his research, William (1999) showed that 80% of Americans find their first jobs in the informal sector, 97% of non-farm businesses are informal and these contribute 40% of America's GDP. Similarly, studies by Jenkins (1988) indicated that informal sector absorbs more than 70% of urban labour force in most African countries and those by Kobb (1997) shows that in Tanzania, alone, the informal sector contributes more than 90% of the country's Gross Domestic Product. Surprisingly, studies by Block (1993) and Gemini (1993) in Mandizvidza (2000) respectively show that informal economy constituted 15% of Zimbabwe's Gross Domestic Product and 94% of the small scale businesses were informal during the same year.

The level of contribution of 15% by informal sector business in Zimbabwe is very low despite various policies such as ESAP in 1991 and the measures such as black empowerment and indigenisation of the economy being put into place to support the informal sector since 1993 (Mumbengegwi, 1993). Among the various problems cited for this important but insignificant contribution by informal businesses has been the lack of funding. The current survey was therefore to provide information on the nature of problems affecting the funding of informal business operations and what the Zimbabwe Open University could to help solve the challenges encountered by the informal businesses towards their quest to access funding.

Background to the study

In helping with the provision of solutions to solve societal problems, universities are in the fore front of such arrangements. The Zimbabwe Open University is one such instituion that has been mandated to assist the nation come up with effective means of overcoming problems affecting the citizens across all sectors. Being the only university located in all the ten geo-political regions of the country, the Zimbabwe Open University, therefore, is in direct confrontation with the societal challenges. The four faculties of the university; the Faculty of Arts and Education, the Faculty of Science and Technology, the Faculty of Commerce and Law and the Faculty of Applied Social Sciences surely should be teh touch bearers for the nation, hence this study was carried out under the auspicies of university community service programmes.

Most informal businesses, even the formal ones, in Zimbabwe are not expanding and some do not even survive for reasonably long periods of time. The overall contribution to the country's GDP has been significantly very low. There are various factors militating against the growth of informal business operations in Zimbabwe. This has therefore prompted the undertaking of this current study to analyse the nature of problems affecting the funding of informal business operations in Zimbabwe particularly in Marondera district.

Statement of the problem

The growth of informal business operations in Zimbabwe is very slow due to inadequate funding. If the problem is unabated, the informal business operations may never realise their full economic potential and their contribution to the national economy may remain insignificant. While there are over 241 registered micro-financial institutions in Zimbabwe, the question to be addressed is: Why then is it that some informal business operations are suffering from inadequate funding?

Purpose of the study

The purpose of this study is to identify and analyse problems affecting the funding of informal business operations in Zimbabwe taking a case study of Marondera urban district. The findings of this research are aimed at improving the awareness among policy makers, planners, implementers, private sector development agencies and the general public about the problems affecting the funding of informal business operators in Zimbabwe. This can prompt support and the findings may also contribute immensely to the development of the economy especially the manufacturing sector.

Research questions

The following questions were formulated to breakdown the main problem into smaller and manageable sub-questions.

1. What are the problems faced by the informal business operators in Marondera district in applying for funds from government and other financial institutions?
2. What are the major sources of business funds in the informal business operation in Marondera district?
3. How adequate is the funding of informal business operations in Marondera district?
4. What remedial measures can be put in place to make funding accessible to the informal business operators?

Review of literature

The world over, the current thinking is that much effort must be put into the promotion of informal economies because of their important role in any nations development (Mepherson, 1998). Vosloo (1993) in Mandizvidza (2000) says that the informal economy in South Africa is recognized by authorities as an important contributor to economic growth and employment creation. It has already been stated that estimated economic contribution of the informal sector in Zimbabwe is 15% of the country's GDP (Block: 1993), and Gemini (1993), further indicated that 94% of the enterprises in Zimbabwe were informal. A comparison of the percentage number in informal business operations (94%) and economic contribution of (15%) indicates that the informal business operations are facing several problems to grow.

Several authors, academics and bodies such as the International Labour Organization (ILO) and the World Bank (WB) have shown great interest and studied factors which affect the growth of informal business enterprises in various countries (Imani, 1993). The major hindering factors studied include capital shortage, poor management, technical and marketing skills. However, this study only reviews literature on the nature of financial problems affecting growth of informal business operations in developing countries with a special focus on Africa.

Informal business sector defined

Hart (1970) originally coined the term informal business sector to refer to the multitude of temporary economic strategies adopted by migrant workers in Ghana in the face of marginal job markets which in total response to social needs. Peatie (1987) and Bromley (1990) say that it is conceptually, methodologically and theoretically difficult to define informal sector in terms of its precise nature, size and significance. This has led some authorities to criticize the term informal sector for lack of clarity. The researcher has considered it worthy to define and describe the informal sector since it is in it where informal businesses are found. These two terms are inseparable.

The term informal sector describes economic activities that take place not in the formal norms of economic transactions as established by responsible government and formal business activities which are not clearly illegal take place Cross (1998). Portes (1989) say that informal sector refers to the general market income category where certain types of income and the means of their generations are unregulated by the institution of the society, in a legal and social environment in which similar other similar activities are regulated. The International Labour Organisation and United Nation Development Programmes (1972) define informal sector as the non structured sector that emerged in the urban centres as a result of incapacity of the modern formal sector to absorb new entrants. This is rightly in the case of countries such as Zimbabwe.

The nature and characteristics of informal business operators

Informal businesses are businesses that are not formally registered or at least violate one or more regulations (licensing, minimum wage, tax evasion and sanitation among others) of the central or local authorities (Jenkins, 1988). Harper (1984) says that informal business, in developing countries are notoriously difficult to count let alone to measure individually.

On the other hand Santos (1989) and Musabayana (1996) observed that most informal businesses are small, mobile and labour intensive. He says most of them employ traditional methods of production, occupy temporary or mobile facilities and are small in size. Jerkin (1988) further argued that owing to these characteristics, informal business operators are less likely to enjoy credit from formal lending institutions. This therefore means that they cannot extend credit to the own customers. Santos (1989) observed the following characteristics of formal and informal business operators.

Santos (1989) pointed out that the major differences between formal and informal business enterprises are that, informal businesses are family based while large scale businesses are capital intensive and bureaucratic. Another notable difference is that customer relations are personal in the informal while it is impersonal in the formal enterprises. Thomas (1992) and Schneider & Enste (2000) say the nature and characteristic of informal businesses are dynamic and the concept of informal business sector is still in debate. They say the most difficult thing in debate is to make an agreement in setting definite boundaries between informal and formal sector. Peatie (1987) and Bromley (1990) argue that informal businesses are characterised by being individualistic in nature. Bromley (1990) refers to them as family self employment. He said that the nature of informal sector is a necessary survival strategy in countries that lack social safety nets such as unemployment insurance or where wages especially in the public sector and pensions are low and such is the case with Zimbabwe.

The major sources of business funds for informal business in Zimbabwe

Whilst many business owners may not think beyond the local banks for their financing, Blanchard and Elkin (2008) remark that reality shows several alternative sources of financing for small businesses other than banks existing in normal economies. These other sources are often not considered because the business owners are too preoccupied with their day to day business to spend time on working out a financing strategy. Miller (2006) mentioned that owner's equity is an important source of financing for every business. Bankers like to see equity in business because it cushions for any loan they may make to the business since it does not have to be repaid as long as the business is surviving, neither does it carry any fixed rate of interest.

Jordan (2003) argues for and against both equity and debt financing. Merton, (2000) shares the same view by stating that the most important advantage of equity funding is that, unlike debt funding, equity funds typically do not have to be repaid on any strict payment schedule. Menton (2000) says equity investor's compensation is paid to investors in the form of dividends, but only if and when the business has made profit and that profit is not to be reinvested in the business.

Banks

The Uganda Centenary Bank was said to be providing micro finance services to small and macro enterprises for the past three to four years. At the same time, two or three NGOs, among them PRIDE, the largest and best performing one in the country have been considering to transform into non banking financial intermediaries and were most interested in mobilizing servings. On the other hand, The Standard Chartered Bank of South Africa, though not specifically targeting micro and small businesses, has been providing small loans for the past five years to micro and small businesses (Young & Pearson, 2007).

Commercial bank financing

ILO (1999) says commercial banks offer a wide range of loans to businesses. Commercial banks are said to be the most conservative lenders. Weijsena of ILO says the loan products of commercial banks tend to provide the best interest rate and terms. The loans can take the form of secured and unsecured loans. In Marondera, there are commercial banks like Barclays bank and Agricultural Bank of Zimbabwe from which informal business operators can source funds.

Secured loans

These are the form of loans where the lender has specific right to take over specified assets of a borrower in case of default on interest payment or capital repayments. Examples mortgage on buildings owned by a company. Generally, secured loans carry the most attractive interest rate and longest repayment period (Mosase, 2000). Most banks in Marondera offer secured loans including the Agricultural Bank of Zimbabwe on farmers.

Guaranteed loans

Osius and Putnam (1992) suggested that a guarantee is a written obligation on the part of the third party to repay a debt in case of default by the borrower. They therefore further said that, guaranteed loans are similar to secured loans in that the lender has a charge on assets, but these will be assets outside the business premises which have been pledged as security. The pledged assets may be belonging to the borrower or to a third party who is willing to act as guarantor.

Unsecured loans

Saunders, (2000) observed that secured loans are those loans that are backed by specific assets. If a borrower is broke, a lender has first lien on those assets. He said, banks grant loans without any specific security or guarantee if they consider the business to be sound and low risk. The interest rate is usually higher to cover the additional risk compared to secured or guaranteed loans. The banks in Marondera offer such loans.

The problems faced by informal business operators in applying for finance

Complex Loan Administration system

Informal business operators find it difficult even to raise the smallest amount of capital they need for business. Manu (1998) says that the shortage of funds is not a problem but the complex loan administration systems by financial institutions. The process to get a loan is too long such that many intended beneficiaries give up before they get the loans. Blanchard, (2000) considers the following credit characteristics as key during credit standard assessment process: type of entity, Profit range, Years business exist, Building owned or rented, Credit reference from banks and Payment history

It is much better to deal with a registered company. The sole trader is much more risky. A client who is consistently profitable and has been in business for a long time is less risky to loan funds. The ownership of property and bank reference by the client is also a positive indicator (Blanchard; 2000).

Emphasis is also need to provide complete and accurate information in a timely manner. Delaying response to requests of information by an applicant further slows down the entire process. He said the problem faced by informal business applicants is that, they fail to provide sufficient information during the process of loan application (Blanchard; 2000).

Osius and Putnam (1992) in their Banking and management Training Handbook, observed that borrowers in developing nations are able to obtain loans on the basis of their creditworthiness so well established .They wrote the basic Cannons of lending

- **Character**: Willingness of the customer to pay (as supported by reference)
- **Capacity**: The ability to pay (supported by projected incomes and cash flows)
- **Condition**: Prevailing economic conditions and conditions of potential customer (supported by analysis)
- **Capital**: Availability of funds/customers net worth (supported by balance sheet where applicable).
- **Collateral**: Value and nature of security (supported by value of security)

Sounders (2000) observed that most small and medium enterprises and informal enterprises in developing countries fail to meet the requirements of the 5Cs listed above.

Reputation of financial indiscipline and abuse of resources given

The RBZ had this observation that, informal businesses have a reputation of high financial indiscipline. After submitting an appetizing project proposal and granted a loan, the informal business operators divert the funds to other personal expenditures like buying luxury cars, gold and foreign currency in the black market. This has been happening mostly in September 2008, when most farmers were abusing farming inputs and applying for large loans claiming that they are for meeting wages for farm worker. Some went even to the extent of selling farming inputs received from the Operation Maguta, an agriculture intervention meant to boost agriculture output through the provision of free inputs to farmers in the Zimbabwean small holder sector.

Another related problem is that informal business operators have a record of poor loan repayment (Helmising, 1993).That further discourages formal financial institutions from lending them money for business. Harper, (1984) advises that measures such as adverting auctions sales of the property seized from defaulters by government were used elsewhere to encourage lenders to remind other borrower to repay their loans.

Harper, (1984) further suggests that a more positive approach may be to mobilize group pressure by requesting the entrepreneurs to borrow funds in groups. Default by one member must lead to demand for payment from all other members and the group is barred from future loans. Such measures encourage all other group members to put pressure on the defaulter to repay the loan.

The government of Zimbabwe gave the informal business operator some export advance loan, but on retain, the businessman understated the sales value to the government making it lose confidence in giving money to such people and tighten the screening process. This is another unethical business practice.

Lack of financial records

Some researchers revealed that, informal business often do not make optimum use of their existing resources and argue that they are unlikely to do better even if they get enough loans (Siddiqui and Nyagura, 1993). The argument is that they do not have strategic business plans and financial record s which may guide the effective and efficient use of any available resources.

Mepherson (1988) said that management training may enable the business owners to apply for, and use a loan more effectively, and also improve the use of resources so that they achieve set objectives without additional finance. However, Siddiqui and Nyagura, (1993) warn that classroom training is only effective for a small group of informal business operators who have at least completed secondary education. The majority of business operators in developing countries have enjoyed only a few years of primary education and hence will not make the training so seriously.

In a survey of small scale business management deficiencies, it was found that small enterprises fail to keep book of accounts for their business operations, or if they do, they are inadequate (Levitky, 1989). The inadequacies result from the fact that they do not provide data for appraisal to ascertain its profitability and hence loans applicability.

In an effort to justify the deficiencies, Herper (1984) argues that the owner of an informal business is a specialist worker (carpentry and mental worker) and also performs the various management tasks of planning, directing, controlling, leading, and organizing the operations of a business. For that reason, Herper (1984) asserted that the informal business operator would not require cumbersome, time consuming book keeping systems maintained by large enterprises.

Manu (1998) shares the same view with Herper, (1984) when he says that bookkeeping is not a magic which in itself can keep a business right. In addition to that, Jenkins, (1988) pointed out that in some research, 50% of informal business operators who received loans abandoned the accounting system after one year and almost 90% of the failed loan applicants discontinued their bookkeeping immediately after their failure. That means the concept of profitable use as opposed to mere possession of records in determining the profitability of a business is necessary management skill for informal enterprises.

Another important management aspect that affect operations of informal business people in developing countries is that countries is that, they do not separate business personal resources from business resources, (concept of business entity) (William;1999). This means that they should have separate bank accounts from business bank accounts. This would enable the operator to limit or monitor the amount of money they with draw from their businesses. It gives them a clear picture of the retained earnings, which save as a source of new capital. The records that a business should maintain involve the following:

- Sales day book
- Purchases day book
- The ledger
- Cashbook
- The income statements (trading and profit and loss account, balance sheet and the cash flow statement)

Banks require audited financial statements so that they give loans to businesses. Audited statements are preferred since they are accredited by a third party being an independent expert (Puttick and Van esch, 1990).

Lack of collateral security

Informal businesses are usually small growing businesses with high labour to capital ratio and lack access to infrastructure and land (Nyoni, 2007). This therefore means, they substantially have no assets of value to pledge against a loan. Osius and Putnam (1992) said collateral or security is the assets provided to secure an obligation which a lender sells in the event of a default. It also includes the assets which the lender seizes in the event of default.

Bessis (2003) said collateral security and loan contracts serve to control borrowers risk taking propensity and increases chances of recovery under default. Bessis (2003) alluded to the fact that collateral is one way of mitigating risk of loss since it provides the bank with safety net which provides a cushion against losses in the event of primary repayment fail to perform. Banks need this to offer loans with certainty.

Inadequate management and entrepreneurship skills

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

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

- Starting with too little capital
- Starting with too much capital and being careless in its use,
- Borrowing money without planning how much is enough and when to pay it back,
- Doing too much business with too little capital,
- Ignoring taxes and insurance and other cost of running a business.

The government of Zimbabwe, through financial institutions the likes of SEDCO gives informal business operators management in addition to financial support (Non Financial Services). SEDCO research results, on research conducted on problems faced by informal businesses in the year 2000, shows that the following are the top major problem areas of informal business operations.

- Financial planning
- Capital appraisal
- Safeguarding business resources
- Working capital management
- Financial control

Management is one of the generalized tasks in any organization. Like Smith and Cronje, (1992) observed, management is a process of planning, organizing, directing and controlling people in any organization and the going set of tasks. The informal business operators being the sole proprietor tend to perform most or all management tasks by himself. Since a man cannot be a jack of all trades, some tasks are either under performed or not even given attention under this one man band kind of operation. Strategic planning and financial management are usually not given enough attention (Rhodes; 1996). As a result of lack of management specialization, investors have no faith in giving them loan funds.

Lack of legal supporting framework

In the American Business Association of Zimbabwe, Mutambara argued SMEs, small and micro enterprises to register. He said, "Registration is crucial since it enables operators to access working capital." He also said, "Registration is a form of infrastructure that would furnish players with borrowing powers." He however sited the need to put in place a supportive registration fees saying the current USD800-00 to USD900-00 is just too much and unaffordable to many." (Sunday Mail Business: 7 June 2009; Page B6)

Inability to defend a proposal

Zimbabwe is among the least developed countries in the world. According to Todaro, (1997), in spite of impressive quantitative advances in school enrolment, literacy levels remain strikingly low compared with developed nations. He said in 31 LDC literacy rates average only 34% of the population which is correspondingly 65% and 99% in third word countries and developed countries, respectively. Normally informal business operators hire consultancy for project proposals. At the end, they fail to defend their proposal because it is prepared by someone else.

Research methodology

This research took form of a descriptive survey. Surveys have the advantages that they can be used to collect a lot of data with relatively small expenses and that data comes from real world situation. The descriptive survey enabled the use of words to compliment figures and numbers. The design, therefore, gave a better situation surrounding the premises of financing the informal business operators. Specifically the views, perceptions and information from the government official and financial institution were compared and contrasted with that from the informal business operators. Inferences were made and recommendations drawn.

Research instruments

Interviews and questionnaires are the research instruments used in this survey. The interview facilitated personal contact between researcher and the respondent. Probes were made in face-to-face situations. An interview schedule of questions was designed for use to solicit data and information from financial institutions, SEDCO and Ministry for Youth development, Indigenization and Employment. Interviews were used to ensure a high response rate and to allow motivation of subjects and probing information required from the respondents. This study used questionnaire because the results can be relatively easy to quantify and data can be analyzed quickly and efficiently owing to its standardized questions. The questionnaires enabled the researcher to collect data from carpentry and metal workers in Marondera district. The instrument enabled the subject to respond freely because of their great anonymity.

Population

Tuckman (1994) defines population as the targeted group, that is, the group about which the researcher was interested in getting information from and drawing conclusions on. Population in this study refers to the entire group of informal business operators in the manufacturing sector in Marondera district. There are thirty-four informal business enterprises in Marondera district. The businesses are distributed as follows; eleven are at light industry, nine are from the Home industry and finally fourteen are from the heavy industry. It should be acknowledged that same informal businesses located in the three mentioned places do not look viable enough to be considered and hence were left out of the study.

The sample and sampling procedure

Twenty out of thirty-four business operators were part of the sample for the study. The sample size of 20 subjects is representatives since it is 59% of the total population. To ensure that a representative was obtained, the stratified random sampling technique was employed. This gave all types of informal operators a proportional chance of being selected into the sample. A pilot test was done in the light industries to make necessary adjustments to the instruments.

Data Presentation and analysis

The targeted twenty informal operators and financial institution representatives were interviewed giving a 100% response rate. However, seven questionnaires were not returned. The informal business operators were reported to have relocated to other untraceable locations after ending of lease contracts. However, the response rate of 71% was deemed adequate and justifiable for the findings of this research to make meaningful and generaliseable conclusions.

Ages of informal Business Operators in Marondera urban District

The respondents were mostly mature people within the productive age group of 21-30 years (60%) and (40%) were over 30 years. All of the operators contacted were males. This therefore means the sample comprised of economically active individuals. In this research, age and experience were directly linked.

Academic qualifications of informal business operators in Marondera district

The research findings support the findings of Michael Todaro (1990) when he indicated that informal business operators are usually school leavers who fail to continue with education. The explanation of this outcome could be that, school leavers have, poor financial backing to meet fees or high level of unemployment in the formal sector in Zimbabwe. Results also suggest great validity of the sources of data used to make conclusions and recommendations of this study since the respondents are educated.

Professional qualifications of informal business operators in Marondera district

The findings show that most of the informal business operators were not much educated. The explanation for this outcome could be lack of financial back ground exacerbated by poverty stricken economic environment, formally with hyper inflation, persistent droughts and social unrest caused by political tensions.

According to one SEDCO official representative, one of the principal factors considered when assessing loan applications, is availability of technical skills as possessed by the individual applicant or group member. The official said the funds they issue should not be channelled towards hiring of key employees, for this reduces the business viability. The results suggest that most of informal traders are failing to access funds because of lack of certificates to support their skills. Some have experience only, and that makes it difficult for them to convince potential sponsors.

Experiences of informal business operators in Marondera district

The results seem to suggest that there is a lose entry barrier into the informal sector, supporting Santos (1989) who eluded that, entry barrier is low into the informal sector. This was supported by a broad base in the lower age of five year old businesses. The 20 year old businesses are very few.

The explanation for this outcome could be the numerous problems related to being in the informal sector that make most of new businesses die a natural death. These problems could encompass poor financial accessibility and stiff competition against the market giants. At the end informal businesses loose credibility in financial market because of their high failure rate and short life span.

Ownership status of land occupied by informal business operators

The findings show that 90% of informal business operators in Marondera urban district are operating on leased premises while only 10% is operating on its own premises. Making reference to Osius and Patnum (1992), lack of collateral is one of the reasons why informal business operators fail to get loans. However, according to Ross (2000), leasing is a cheap and flexible source of financing. In an interview with SEDCO official representative, it was found out that some of the reasons why loan applications of informal business operators are denied include lack of title deeds of owned property and lack of lease contract agreements if the assets are leased.

Eighteen of the informal business operators when asked why not acquiring their own premises answered that, they lacked funds and it was difficulty for them to borrow such large sums of money since they have no collateral security. Some of them indicated that they did not even know where and how to apply for the funds. The findings show that lack of collateral security is a course of failure to those operators seeking funds.

Major sources of business funds in Marondera urban district

The results suggest that the major source of financing for informal business operators is self sponsorship. The reason for this could be that, banks and other financial institutions were under tight and aggressive directives of the RBZ during the past ten years. The RBZ formalised tightly the issue of loans due to escalating deterioration of business ethics and emigration. Some of the requirements called for were not obtainable to informal business operators. These included Certificate of Incorporation, Collateral security, viable business plans, title deeds and lease agreements among others.

Informal business operator's perceptions of the gravity of factors affecting business operations

Different people, business operators and representatives of financial institutions consulted had varied perceptions on the nature of problems affecting the growth of informal business operators in Zimbabwe. Figure 4.4 shows that the informal business operators perceived shortage of financial resources (68%) as their number one limiting factor followed by poor markets (10%).

Poor marketing, technical and legal factors were not seen as their most serious problems. This confirms Jerkin's (1988) observation that lack of demand is ranked second after shortage of capital by majority of informal business operators.

The results suggest that lack of finance is the major problem constraining the growth of informal businesses, and hence this justifies the need for this research study. All other indicated problems were given less than an average of 10% impact.

The explanation for this finding could be that, informal business operations, despite facing other problems, are actual disadvantaged by inadequate funding.

Similarly, officials from financial institutions consulted, confirmed that the problem of inadequate funding affected the growth of informal business operators most. 87% of financial institution officials testified that their funding is inadequate.

The informal business operator's perceptions of factors that disqualify them from loan acquisition

Manu (1998) concurs that the financial problems of informal business operators are not just mainly inadequacy of business funds. The problems are source and administrative related. Similarly, Jenkins (1998) asserts that financial support schemes fail because of the relationship between the institutional sources of funds and the informal business operators. The findings in this study confirmed that, there are several factors which make it difficulty for informal business operators to access loans from financial institutions.

Eighty five percent of the informal business operators felt that they were discouraged from applying for business loans by the too long administrative processes. The research findings support Manu's (1998) observation that shortage of finance is not a problem, but complex loan administration system. One of the respondents indicated, that, the credit assessment process involves the sitting of a loans committee chaired by the branch manager and seeking clearance of loan applicants by clearance houses like The Trans Union in Harare. This takes long. Seventy-five of the respondents also felt that the loan administrative problems were associated with high levels of corruption, nepotism and bribery.

The results seem to suggest that corruption is currently a talk of the day in Zimbabwe and government should set a commission of enquiry into this area. Those already rich seem to stand a better chance in accessing funds since they can pay bribery. The poor informal business operator would not strike a chance in a corruption race.

One more suggestion is that informal business operators find it difficulty to qualify for business loans because they have no collateral security (90%), no business licences (90%) and no title deeds (95%).

Results from the study show that 80%, 60% and 80% of the officials rated lack of collateral security, business licences and title deeds as principal factors affecting the qualifications or application of loans by informal business operators.

The explanation for these research findings could be that, there are bureaucratic red taps in the loan administration systems, high social unrest that resulted in corruptive practices, high registration cost discouraging possession of business licences, lack of management training, high inflation rate and political instability that has discouraged investor confidence.

The most common books of accounts maintained by informal business operators

Another limiting factor to loan qualification by informal business operators is that they neither keep accurate financial records nor making effective records if any. Figure 4.6 shows the most common book of accounts kept by informal business operators

It would appear that most informal business operators keep the sales day book. 55% of informal business operators said that they keep sales day books while 31% said they keep the purchases day books and the expenditure books. Very few business operators keep the income statements, the ledger and cash flows.

The results seem to suggest that most informal business operators did not understand the importance of bookkeeping. As a result, they omitted important expenses such as transport, food, tax and insurance charges, personal drawings and wages for personal labour force from their records. The results seem also to agree with Levtky (1988) who noted that informal business operators keep inadequate books in the sense that they do not provide data for appraisal to determine profitability and hence loan applicability.

The explanation for this outcome could be that some business operators feel that their businesses were too small to justify cost of maintaining detailed accounting systems. One more explanation is that, they lacked knowledge of bookkeeping. Failure to keep records is one of the principal factors contributing to denial of loan applications since the books especially cash flows, are used by loans managers to determine business viability.

The most important use of accounting records by informal business operators

Results also show that 88% of the informal business operators use their records for profit calculations and 12% used their records to apply for loans.

These results seem to suggest that the informal business operators only think profit calculation is the sole use of books. Very few of them seemed to understand a variety use of books of accounts like costing, pricing and also enhancing planning. Yet another suggestion of the results is that the informal business operators work with high legal risk at times aware or unaware of them since they do not recognise tax and insurance as expenditures.

The explanation for this outcome could be lack of management training. This is probably explained by the fact that financial institutions are not giving sufficient management support (50%).This is another reason for their failure to access funds from the financial market.

The perception of informal business operators on some basic business ethics

The results generally show that most informal business operators (75%) do not treat their business as separate entities and hence they are not active for money lending. All financial institutions consulted said that informal business operators lacked financial discipline and commitment to their business and that discouraged them from funding their projects. Such shortcomings of poor business ethics by informal business operators have also been identified by Harper (1984).

This is an attitudinal problem which calls for government’s intervention and involvement in the training and provision of incentives to informal business operators. Standard business ethics should be a prerequisite to getting loans and regular follow-ups should be made (pre disbursement and post disbursement monitoring) to ensure that proper records are kept and loans are used for intended purposes.

It appears that most of business operators are not aware of business ethics. The results seem to suggest that either ignorance or reluctance to conform within good business ethics make them be at high legal risk and hence perceived high risk businesses by financers.

Workshop attendance by informal business operators in Marondera

It would appear that most of the informal business operators (86%) have never attended business training workshops. However, it was so much interesting to find out that the few who attended workshops showed the researcher their certificates of attendance. The researcher got a chance to probe further and asked one operator the purpose he was putting his certificate to. On answering the respondent said at times he used it for searching for a job and sometimes used it when applying for loans and also when marketing his service.

The explanation for this could be that business operators see no importance in training or they resist knowledge. There could be also lack of effective communication between the business operator s and the financial institutions. This could be reducing the chances of informal business operators to obtain technical training and therefore their chances of obtaining loans.

Conclusions

Funding of informal businesses is affected by a complex network of problems. Lack of technical skills has resulted in loan application denial. Some MFIs consider technical skill and expertise availability as a key factor in loan assessment.

Very few proprietors are trained and as a result very few also are competent on loan application since they would be having no evidence of knowledge the management of the business to be financed. It appears debt financers attach high risk to traders since their businesses lack perpetual succession and most of them are operating on temporary basis.

The fact that informal business operations are taken as part-time jobs would also mean that little financial resources are channeled towards such businesses even by the business operators themselves. In addition to that having the majority of them operating on leased property would also mean that the informal operations are being inadequately funded.

The complex loan administration system is yet another factor which is impeding informal business operators from getting funds. Since the research findings testify that informal business operations are not registered, this could be the reason why most of them fail to access funds. MFIs prefer loaning to registered business entities to unregistered ones.

Collateral security is seemingly central to loan acquisition. It seems many MFIs strongly consider collateral security more than any other factor. Unfortunately, most informal business operators lack collateral security. Zimbabwe being perceived a risky country this could be one of the reasons why donor funds and other international investors are shunning it for other politically settled countries like Mozambique.

Recommendations and implications for the Zimbabwe Open University

Due to the serious challenges confronting the informal businesses, the researchers recommend that these businesses be registered with the Registrar of Companies so as to get a better chance in borrowing funds. Good bookkeeping practice is also recommended since financial statements are required by lenders for evaluation purposes. Financial institutions should consider guarantors such as Members of Parliament, councilors and Ministers in place of collateral security. The process of loan evaluation should be streamlined to remove nepotism, bureaucracy and corruption which have acted as impediments to loan acquisition.

The poor knowledge levels of the majority of the proprietors require that the Zimbabwe Open University mount workshops for the business operators in general business administration in the province. The Faculty of Commerce and Law should be heavily involved and expand its activities to include current and former students in community service. ZOU must also craft a curriculum which is heavily inclined towards entrepreneurship. Another area needing ZOU`s attention is how to improve agro-based industries in the rural areas.

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