THE ROLE OF INFORMAL BUSINESSES IN RURAL LIVELIHOODS: THE CASE OF BOLERO GROWTH CENTRE.

MA (Development Studies) Thesis

BY

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DECLARATION

I, the undersigned, hereby declare that this thesis is my own original work which has not been submitted to any other institution for similar purposes. Where other people's work has been used, acknowledgements have been made.

Arthur Kambombe

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Signature

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Date

CERTIFICATE OF APPROVAL

The undersigned certify that this thesis represents the student's own work and effort and has been submitted with my approval.

Signature:_________________________________

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Supervisor

Date_______________________

DEDICATION

I would like to dedicate this work to the almighty God who favoured me throughout the period of the study. *Glory to His name!* I would also like to dedicate this thesis to my dear wife Chipiliro and our wonderful daughter Christine

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Abstract

This study sought to explore the role of informal businesses in meeting people's basic needs in Bolero in the wake of decreasing agricultural productivity, which is a major source of livelihoods in rural areas. Evidence suggests that agriculture alone cannot support rural livelihoods due to a number of factors including small acreage of land due to over population and loss of soil fertility due to soil erosion resulting from general environmental degradation. It was necessary to undertake this study in order to understand the role informal businesses play in sustaining livelihoods of the people around Bolero.

The study found out that people around Bolero organise these small businesses in response to unreliability of farming. The study found out that most people around Bolero use income from informal businesses to buy food buy farm inputs, pay for medical bills, pay for school fees and other basic needs. Both men and women were found to be actively participating in the operation of these informal businesses.

The study also found that despite the crucial role face a number of problems including lack of capital to expand their businesses, business seasonality, and lack of training opportunities which limit their effectiveness in providing for the basic needs of the people.

Based on these findings the study concludes that the role of informal businesses in sustaining rural livelihoods cannot be underestimated. Therefore, it recommends that rural people should be assisted in organising and running informal businesses as a means of expanding their sources of livelihoods. Access to capital, training opportunities would make a big difference in improving the effectiveness of the informal businesses around Bolero.

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LIST OF ABBREVIATIONS AND ACCRONYMS

CDRC	Global Development Research Centre
CIA	Central Intelligence Agency
DFID	Department for International Development
DEMATT	Development of Malawian Traders Trust
FINCA	Foundation for International Community Assistance
GDP	Gross Domestic Product
GOM	Government of Malawi
HDI	Human Development Index
ILO	International Labour Organisation
IDRC	International Development Research Centre
MEDI	Malawi Entrepreneurs Development Institute
MSE	Medium and Small Enterprises
NSO	National Statistical Office
SADC	Southern Africa Development Community
SME	Small Enterprises Development
SPSS	Statistical Package for Social Sciences
TA	Traditional Authority
TEVETA	Technical Entrepreneurial Vocational Education and Training
UCLA	University of Califonia

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Chapter 1: Introduction

1.0 Background to the Study: Rural Livelihoods in Malawi

Although subsistence farming forms the backbone of the rural economy in Malawi, farmers, in rural areas are facing challenges as farming is increasingly becoming unreliable as a single source of livelihood. Rapid population growth and environmental degradation are some of the factors contributing to dwindling productivity in agriculture. Despite all these challenges in agriculture, life in the rural areas has to continue and the people have to look elsewhere for alternative sources of income. Informal businesses are some of the alternative livelihood strategies that rural people use in order to supplement the income they get from agriculture. The full potential and contribution of these informal businesses in rural livelihoods can only be realised if they are well studied and understood. This study, therefore, explores the role of the informal businesses in rural livelihoods as a source of livelihood. Specifically, this study investigates the role of informal businesses in Bolero, a location in Rumphi district of the Northern part of Malawi.

The rural phenomena cannot be understood without taking into consideration the wider socio-economic structure of the country. The rise of informal businesses in rural areas has its roots from the general socio-economic profile of Malawi. Accordingly, this part of the thesis will look at the socio-economic profile of Malawi, dwelling on the nature of the rural economy as a way of shading light on the basis for the livelihood strategies employed by the people in the rural areas.

Malawi is among the poorest countries in Sub-Saharan Africa and within the SADC Region. It is estimated that over 50 percent of the people in Malawi live below the national poverty level of K16,165 per year for those considered 'poor' and K10,000 for the 'ultra poor' (NSO, 2005). With these levels of poverty, it is hard for most people to maintain a reasonable livelihood as they have to struggle to meet their basic needs such as food, health and decent shelter. Since Malawi got Independence from Britain in 1964, agriculture has continued to play a central role in Malawi's economy. As a matter of fact, agriculture is the single largest sector of the Malawi economy, contributing almost 40 percent of Gross Domestic Product GDP); employing 80 percent of the workforce; and contributing 90 percent of foreign exchange earnings (GOM, 2006). Tobacco is the major export earner and contributes approximately 65 percent of the country's export, earnings followed by tea at 8 percent and sugar at 6 percent while maize is the major food crop cultivated on over 60 percent of the arable area (Tchale, 2009). The manufacturing sector, which has been particularly singled out by the government in its efforts to diversify the economy, has grown minimally, only registering a growth of 0.3 percent between 1995 and 2001 (GOM, 2001). As can be seen from the preceding statistics, agriculture is the key sector of the economy in Malawi which controls the economy of the country and many people rely on it for their subsistence. The implication here is that any set back in agriculture has the potential of disrupting people's livelihoods, especially in rural areas. In fact, the dominance of agriculture in the economy is more pronounced in the rural areas where subsistence agriculture is the major source of livelihood. We get a sense of this when we analyse the population distribution of the country in terms of rural and urban and the occupation of the people in these areas.

To begin with, the 2008 Housing and Population Census estimated the country's population at 13.1 million of which 51 percent are females and 49 percent are males. This represents a 32 percent increase from a population of 10 million in 1998 (NSO, 2008). The census also revealed a 37 percent increase in the number of households from 2273, 846 to 2957, 683 in 2008 within the same period. This is a significant increase to note as it also suggests an increase in the people to be supported by the economy which is dependent on agriculture. It also signifies an increase in the number of people to share the farming land. Eighty five (85) percent of the population live in the rural areas of which many are classified as subsistence farmers who earn a substantial part of their livelihood from rain-fed agriculture. The remaining fifteen percent lives in the cities or urban areas of the country. It can be assumed that more of the people in the cities and urban areas derive their livelihood from formal employment, taking advantage of the industries, government and non-governmental institutions in these areas. For the rural people, however, there are limited opportunities for salaried or paid employment compared to the urban areas or cities because there are no processing, packaging and distribution industries in the rural areas which could be a source of employment (NSO, 2005). The importance of agriculture in rural areas can, therefore, not be overemphasised. In fact, almost half of the rural households depend on subsistence agriculture in the strictest sense in that they do not grow cash crops like tobacco. They only grow maize as a source of both food and income for their daily needs (NSO, 2005). They, thus, earn their living from agriculture directly by growing crops for food or for sale and also through casual labour during the growing season. With these statistics, one can safely conclude that agriculture indeed plays a key role in the livelihoods of many people in the rural areas.

Reliance on agriculture as a source of livelihood is, however, becoming more and more unsustainable in rural areas owing to a number of factors. Firstly, as Kanyama et al (2000) noted most of the land has lost its vigour to produce enough for the people to rely on. They argue that soil erosion and over-farming the land has lead to loss of soil fertility such that people no longer produce enough for their livelihood without the use of chemical fertilisers. Chirwa et al (2006) also agree with this observation and pointed out that generally, there is a sense in some quarters that most smallholder agriculture is unviable, now or in the near future due to ever smaller fragmented land holding, declining soil fertility and inability of most farmers to access credit for inputs. For example, because of the relatively higher poverty levels, in the rural areas, the people cannot afford to buy these production enhancing chemicals such as fertilisers or pest control chemicals. As a result the people are not able to produce enough food or cash crops for their livelihoods even with good rainfall. Secondly, because of population pressure, there are more people scrambling for the same small pieces of land which as already said are leached out and less productive. One alternative to this predicament is for the people to practice intensive farming which would enable them to produce more on a small piece of land. The problem with this idea, however, is that the people are too poor, as already noted to afford the technologies that go together with intensive farming. Intensive farming is, therefore out of the equation of enhancing rural livelihoods.

The unreliability of agriculture as a source of livelihood means that the people in rural areas have to find other ways of earning a living outside agriculture. In view of this occurrence, we see two rhythms taking place in rural areas; one, people engaged in farming during the growing season in order to get the little they can get from agriculture and secondly, people establishing small informal businesses during the agriculture off-season in order to supplement their income from agriculture. As Chirwa et al (2006) also noted that most people in rural areas find non-farm activities such as petty trading important for their livelihood during the off-growing season as a way of supplementing their income. It is common in the rural areas to see people selling mechandise ranging from food stuffs to hardware items along the roads, on their verandas and even in makeshift shops in villages and trading centres. This practice suggests that informal trading is an integral part of rural livelihoods which cannot be ignored if we are to meaningfully plan for sustainable rural development.

1.3 Problem Statement

As shown in the preceding section subsistence farming is becoming more and more in adequate as a source of livelihood in rural areas. Land is becoming more de-fragmented due to population pressure, soils are losing their fertility due to environmental degradation and the people are too poor to afford production enhancing technologies such as chemical fertilizers. This suggests that unless something is done to address this problem, the rural people will find it hard to provide for their basic needs. Potentially, this could trigger an outbreak of health and social problems which could be counterproductive to the development efforts of the country as the country would be forced to address these problems instead of concentrating on other development projects. In the wake of the inadequacy of farming, rural people can visibly be seen organizing and running informal businesses of one kind or another in an effort to supplement income from farming.

However, the extent of the role played by these informal businesses in rural livelihoods has not been fully studied and understood. As such, hitherto we can only assume that informal businesses indeed do play a role in rural livelihood. The point is that unless the informal businesses in rural areas are fully studied and understood, it shall always remain guess work in terms of what is required to support and facilitate growth of such a vital alternative source of rural livelihood. This study therefore sets out to understand the role played by informal businesses in sustaining people's livelihoods in Bolero.

1.4 Study Questions

In order to understand the role of the informal sector in rural livelihoods in the wake of the insufficiency of agriculture in sustaining rural livelihoods, the following questions were posed:

a) What are the major informal businesses around Bolero?

b) What are the main reasons people get into the informal sector?

c) What does it require to engage in successful informal sector business?

d) What are the major challenges facing the informal businesses?

1.5 Study Objectives.

In order to respond to the research questions, the study set itself the following specific objectives:

1. To establish the range of informal businesses at Bolero Growth Centre.
2. To investigate the reasons for establishing the informal businesses.
3. To gauge the role played by the informal sector in sustaining rural livelihoods
4. To investigate the challenges facing informal business operators.
5. To suggest ways of improving performance of the informal businesses as a means of enhancing rural people's livelihoods

1.6 Justification of the Study

The rural informal sector in Malawi has not been adequately studied such that there are no records of comprehensive studies regarding the role of the informal sector in rural livelihoods. Most of the data available for rural livelihoods has tended to concentrate on agriculture and not necessarily on the role played by the informal sector in particular. As noted by Chipeta (1990), the informal sector in Malawi has escaped systematic and detailed studies that would reveal its accurate manifestations. In view of the challenges facing agriculture, there is need to explore other avenues of improving rural livelihoods and that includes looking at alternative livelihood strategies such as informal businesses. A study in this area will be a useful contribution to knowledge in understanding; the common informal businesses in rural areas, the major reasons people establish these businesses, what is required to organise and run a successful informal business and the major problems faced by the informal businesses.

1.8 The Study Area

Bolero is located in Rumphi District in the Northern Region of the Republic of Malawi. The district is bordered by Chitipa to the North, Karonga to the North East and Mzimba to the South and South-West The district headquarters is approximately 64 km from Mzuzu City, the commercial capital of Northern Region. The major economic centres in Rumphi include Rumphi Boma, Chikwawa, Kawaza, Bolero, Chiweta, Chitimba, Luviri, Hewe and Kazuni. Chikwawa, Kawaza, Luviri, Hewe and

Kazuni. These are important centres where most business people from Bolero come from (GOM, 2002:1).

Maize is grown as a food crop although it is also sold for disposable income while tobacco is grown primarily as a cash crop (GOM, 2005). Subsistence farming has formed part of livelihood strategies for this community for centuries and still occupies an important place in the livelihood portfolios of the people in the area. In 1983, the Government of Malawi declared Bolero a Rural Growth Centre. This was part of an Integrated Rural Development Programme initiated with the aim of upgrading rural areas in order to curb rural to urban migration (Kalipeni, 1997). Ultimately, it was envisaged that this would contribute to the uplifting of rural livelihoods by ensuring that goods and services normally found in urban areas were brought within reach of the rural people. Although it has not been easy to access an evaluation report on the impact of the Rural Growth Centre in Bolero, from observation one can see that the status did trigger the mushrooming of small businesses in and around the area. Going round Bolero, one cannot miss the presence of small businesses along the roads or in front of people's homes, suggesting that they have a role to play in the people's daily livelihood. Bolero was, therefore, chosen for this study because the area attracts a lot of small business operators from the surrounding centres who come to do business at the trading centre. It was therefore convenient for the researcher to take advantage of the rich and diverse sources of small business owners who come to ply their trade from the surrounding areas.

Chapter Two: Literature Review

2.0 Introduction

This chapter focuses on the analysis of the theoretical points regarding informal businesses and the theoretical concepts underpinning the connection between informal businesses and rural livelihoods. The chapter provides a brief overview against which the author will be discussing the rural informal businesses in Malawi, with particular reference to Bolero, the study area. It examines the concepts of development, theories of rural livelihoods and their diversifications and the relationship between informal businesses and rural livelihoods.

2.1 The Meaning of Development

This thesis is centred on rural people trying to supplement their income from farming through the establishment of informal businesses. The quest to improve rural people's livelihood has been one of the aspects at the centre of development efforts since the term "development "was coined (Sachs, 1993). This thesis is looking at people's livelihood strategies in rural areas and is, therefore, about development, rural development" to be specific. Accordingly, this chapter will start by looking at the concept of development and how the organising and running of informal businesses is linked to rural development in Malawi and indeed in Bolero, the study area.

For decades, scholars have debated the concept of development in trying to come up with the best way of defining and measuring it. Since then, several theories have influenced the conceptualisation and implementation of development policies, especially in developing countries. Growth theories have defined development strictly in economic terms, arguing that development should be defined by the capacity of a national economy to generate and sustain an annual increase. They advocated that development be measured in terms of Gross Domestic Product (GDP) growth rate of between 5-7 percent or more (Todaro, 1989). This way of looking at development assumed that if a nation was able to grow at the prescribed levels, then the economy was on the right track to generate wealth for its people. The set back with this way of conceptualising development is that it divorces the major aspect of development, that of improving people's livelihoods. As we can see, the interest for growth theories was on growth of the economy, not so much on quality of life. If development is only in figures without translating them into quality life of the people, then it is meaningless. There is also a danger that countries would be obsessed with attaining the growth figures without taking care of people's needs. A country may be doing well in statistical terms and yet not able to provide the necessary requirements for its people to live a better life. For example, it has been argued that although a large number of countries did achieve the overall United Nations growth targets of 6-7 percent in the 1950s and 1960s levels of living of the masses of the people remained for the most part unchanged. The growth did nothing to stop high illiteracy rates, high child and maternal deaths or high levels of malnutrition or indeed other social indicators, signalling that something was wrong with this narrow definition of development (Todaro 1989, Ray, 1998). The positive aspect of this of the growth theory, however, lies on the fact that it instils discipline in the way the economy is managed in order to attain the prescribed growth figures. It is equally important that the economy must be growing before it can be translated into people's well-being.

The shortfalls of the growth theories led to the new thinking which sought to define development by taking into consideration the quality of life in a given economy. This thinking led to the development of the Human Development Index (HDI) by the United Nations Development Programme which attempted to measure human well-being. The development of the Human Development Index by the United Nations Development Programme (UNDP) reflects the move away from a statistical definition of development to a more inclusive one which also looks at the quality of life in a given society. The (HDI) looks at development by examining three components of life; life expectancy at birth whose ultimate goal for life is taken to be 85 years; adult literacy, the measure of educational attainment of adults as a percentage of the population and per capita income (Ray, 1998). The argument is that a country that scores the best average on these components was on the right track on the development ladder. The advantage of this approach to defining development is that apart from looking at the means of achieving development, like per capita income growth, it also looks at how the growth has translated into change of life of the people in the economy. This also is a fair way of measuring development because as already stated, ultimately development means creating opportunities that lead to the betterment of people’s lives. The problem with this measure of development, however, is that it also leaves out some important components of life such as freedom or civil rights. People could be living longer or could be well educated and earning a lot of money. But one would be interested to know at what expense? For example, one would want to know if the people are able to make their own choices in terms of the means of achieving their goals. In response to these concerns, Amartya Sen (1999) brought into the development debate the concept of freedom.

For Sen (1999), freedom is the ultimate goal of economic life as well as the most efficient means of realising general welfare. He argues that overcoming deprivation should be central to development. For him deprivation or 'unfreedoms' include, hunger, ignorance, unemployment, premature death and the violation of political freedom and basic liberty. He argued that focussing on human freedoms contrasts with narrower views of development, such as identifying development with the growth of gross national product, the rise of personal incomes, industrialisation, and technological advancement or with social modernisation. He further argues that viewing development in terms of expanding substantive freedoms directs attention to the ends that make development important, rather than merely to some of the means that play a prominent part in the process. This argument is an extension of the critique to the growth theories and an addition to the social inclusion theories. The strength of this theory is that it looks at the people's ability to pursue or determine their own growth. Development, therefore also involves the creation of an enabling environment for people to pursue their well-being.

Despite the different approaches used to define what development is really about, there is a general agreement that development of a society has a lot to do with ensuring that people's basic needs are satisfied. These basic human needs include food, shelter, health and protection (Todaro, 1989, Peet, 1999). These are essentially the basic survival needs that every human being requires. What this general agreement entails is that development of a people should begin with access to these basics without which we cannot even talk about life. For rural people, especially in developing countries, agriculture is the major source of livelihood. However, agriculture is not the only source of rural livelihoods. Due to the inadequacy of agriculture people in the rural areas also do get their income from various other sources which include informal businesses which collectively form the informal sector. Bryceson and Jamal, 1997; Reardon, 1997; Little et al., 2001, noted that despite the persistent image of Africa as a continent, of “subsistence farmers” non-farm sources of income may already account for as mush as 40-45% of average income and seem to be growing in importance. As already noted, informal businesses are considered to be one of the important strategies in sustaining rural livelihoods.

Informal businesses form part of the informal sector. In this thesis, the small businesses will collectively be understood within the context of the informal sector. An understanding of the informal sector is, therefore, important at this point to create good ground for understanding its contribution to livelihoods, particularly in the rural areas.

2.2 The Informal Sector

As already alluded to, informal businesses are a common way into which many rural people diversify their livelihood portfolios. The term “informal sector” originated from International Labour Organisation (ILO) mission’s reports on Ghana and Kenya at the beginning of the 1970s (Helbing, 2000). Through this mission, the ILO found that a lot of unemployed people in Ghana and Kenya had resorted to establishing informal businesses as a way of earning a living after failing to secure formal employment or after losing it in one way or the other. Although their activities were not formally recognised, they constituted a very important aspect of people’s livelihoods. At this point the mission defined the informal sector in contrast to the formal one through seven distinguishing characteristics, namely ease of entry, reliance on indigenous resources, family ownership, small scale operations, labour intensity and adaptive technology (Liimatain, 2002). It was also noted during the study that most of the informal enterprises were established by people trying to get a livelihood after they had failed to secure employment in the formal sector. However, as Ratner (2000), noted, even people with formal employment do establish these businesses as a way of supplementing their income, suggesting that the informal enterprises indeed have a role to play in people's livelihoods whether as a single source of income or as a supplementary source. We see here, that the informal businesses are preferred both where agriculture or formal employment are inadequate as a sources of livelihood.

The recognition of the informal sector by the ILO triggered a debate as to what really caused the informal sector and whether it should really be supported. Some thought the informal sector enterprises were a result of failure of the formal economy to satisfy the majority of the poor by way of providing jobs and should, therefore, be encouraged to grow as they provide a source of livelihood to many people who would otherwise have no jobs to support them (Chen, 2007). Some thought informal sector enterprises were as a result of people who deliberately wanted to evade taxes and should therefore not be encouraged (De Soto, 1989). What is important for this study, however is the fact the there is the general agreement that the informal businesses do play an important part in the livelihoods of people, especially those who cannot sufficiently rely on agriculture or formal employment for their livelihood.

As seen from the preceding discussion the informal sector has been defined differently by different people. This study will adopt the definition that looks at the informal sector as all non-registered businesses regardless of size or number of employees (Allal, 1999). This definition includes all small enterprises operating in the rural areas which are the main subject of this study.

Following earlier studies in the informal sector, subsequent studies have tended to concentrate on the urban informal sector. For example, most of the studies conducted by the ILO have been in the urban informal sector. Very few studies have concentrated on the role of informal enterprises in the rural areas. As Haan (2000) noted, informal enterprises are common in rural areas and they play an important role in people's daily livelihoods and cannot be ignored in rural development planning. This view was shared by the Indian Government (Gurtoo, not dated), which noted that in the long run it must be recognised that agriculture and other land-based activities, will not be able to provide employment and adequate levels of incomes to all the rural workers. This realisation led to the Indian Government to look at rural informal businesses as a critical source of income for people in the rural areas and plan to support them. Marsland et al (2000) also argues that in many parts of the world, the number of poor people in rural areas exceeds the capacity of agriculture to provide sustainable livelihood opportunities, even with a decline in fertility rates and a slowing of population growth, this situation will not change significantly. Marshal et al (2000) further argue that whilst there is potential for out-migration, urban centres cannot be assumed to be capable of providing adequate livelihood opportunities for all those unable to make a living in agriculture. Their view is that informal enterprises should be encouraged and nurtured in rural areas so that people have a livelihood even with dwindling agricultural productivity.

Newman and Canagarajah (2001) point to a large body of recent research that indicates that the rural informal sector is now thought to be more dynamic and important than previously believed. They argue that the contribution of informal enterprises in rural areas is not limited to the individuals who own them, rather, they are also a source of employment to many people in the rural areas. This view is also shared by Reardon (1997), who documented small enterprise studies and showed that the typical rural household in Africa has more than one member employed in a non-farm enterprise. Islam (1997), reports that the share of the non-farm sector in rural employment in developing countries varies from 20% to 50%. Reardon (1997) finds informal businesses income shares ranging from 22% to 93%. Haggeblade et al (1987) found that more than 95% of informal enterprises are a source of employment to people other than the owners. As we can see these statistics reveal the remarkable contribution the informal businesses make in rural livelihoods considering the high rates of unemployment and the unreliability of agriculture as source of livelihood in rural areas. All these findings point to the fact that apart from agriculture the informal businesses do form an important part of rural livelihoods and the need to support them cannot be overemphasised. Efforts to reduce poverty in rural areas can, therefore, not be complete without the promotion of informal enterprises as they have been seen to, absorb surplus labour; help farm-based households spread risks; offer more remunerative activities to supplement or replace agricultural income; offer income potential during the agricultural off-season and provide a means to cope or survive when farming fails.

2.2.1 Informal Businesses in Rural Areas of Malawi

Evidence suggests that subsistence agriculture is indeed becoming a serous risk as a single most important source of rural livelihoods in Malawi and that many people do diversify into small businesses in order to supplement their income. There are several reasons behind this state of affairs. Tekane (2007) cites erratic rainfall as one reason for dwindling productivity. For example, he argues, since the start of the 1990s, Malawi has suffered crop failures in 1991/92, 1993/94, 1996/97, 2000/01, and 2004/05 growing seasons. In each of these years there have been low yields in all crops resulting in serious shortages of food, triggering malnutrition and other problems related to food shortages. Secondly, population pressure has resulted in many people scrambling on small pieces of land for subsistence. As a matter of fact, the population of the country increased from 10 million in 1998 to 13 million in 2008, suggesting that more and more people needed a piece of land to earn a living. The challenge is that while the population is growing, the land remains in-elastic, leading to decreasing land holding. For instance, it was estimated in 1997/98 that one third of smallholder households were cultivating between 0.5 and 1 hectare of land (GOM, 2001). These are small pieces of land considering that the land is leached out and most of the people cannot afford chemical fertilisers in order to improve crop yields. Even in the absence of hard facts, we can assume that this is even worse as the population continues to grow over the years. All these facts point to the reality that agriculture alone cannot sustain the livelihoods of rural people in Malawi.

Regardless of these setbacks facing agriculture the people in the rural areas still have to find ways and means of surviving. The people need to eat, clothe themselves, stay in good health or educate themselves. In the face of this risk, rural people have been seen to organise and run small-scale, informal businesses. Going round the villages and indeed along the roads of Malawi one notices an abundance of a variety of small-scale informal businesses. Most of them are seen during the after harvest period, suggesting that rural people get supplementary income from these informal businesses.

Several studies have confirmed the existence of informal businesses in the rural areas. To begin with, the second Malawi nation-wide GEMINI Micro and Small Enterprise (MSE) baseline survey (2001) found out that most of the small businesses were in the rural areas where 85 percent of the people live (NSO & ECI, 2001). This relatively high prevalence of informal businesses in rural areas is surely not just a coincidence. One would argue that it is a sign that they are important to the many people who establish them. In fact, the study found that about 75 percent of rural households in Malawi did establish informal businesses to enhance household incomes, as they could not sustain themselves through agriculture alone. These findings were also confirmed by Devereux (1999) who found, in a study of some villages in Zomba, that about 40 percent of households interviewed, were engaged in petty trading as part of their livelihood during the off-farming season. In a similar study of several villages in the central and southern region of Malawi DFID (2004) found out that, 44 percent of the households supplemented their income from agriculture with income from informal businesses, mainly petty trading. What is important to note is that most of these informal businesses only run during the agricultural off-season after which the people were preoccupied with farming activities again suggesting that they are a supplement to farming.

Tomato and firewood sellers

Figure 1: Typical Informal Businesses along the Roads of Malawi

What is also noticeable in these studies is the survivalist nature of the businesses as most of them are only temporary, suggesting that they are mainly used to absorb the financial shock experienced during the agriculture off-season or indeed due to the limitations in their agricultural productivity.

In as mush as these businesses have been seen to provide an alternative source of income, the studies have shown that they are faced with different challenges that undermine their productivity. For example, the National Statistical Office in 1998 in their study of Medium Business Economic survey found out that start up capital was the major challenge. They found that 73% of the respondents had established their businesses using their own household savings while only 7.3 % had accessed business loans from credit institutions (See Figure 2).

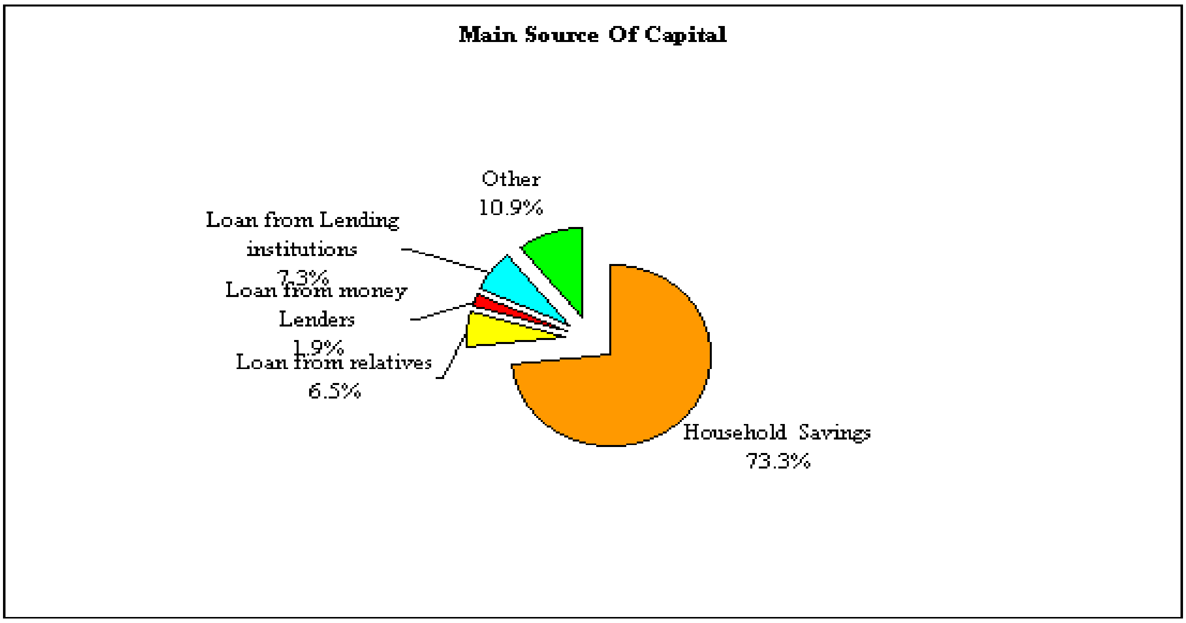


Figure 2: Main Source of Capital for Small Businesses in Malawi

Source: *Malawi Micro and Small Enterprises Survey, 2005.*

As we can see from the table not many are able to access loans from credit institutions and they resort to establishing their businesses using their own savings. Considering the relatively high levels of poverty in the rural areas, one would be justified to imagine that these household savings are so meagre that they cannot be enough to set up a profitable or lasting business. In line with this view, Orr and Orr (2002) also noted that lack of capital was the single most killer of rural businesses prompting most of the people only to establish their small businesses with little capital just as a survival strategy during farming off-season. They also argued that the major reason people fail to access business loans was because of the prohibitive nature of conditions offered by the micro credit institutions. In this case reference was made to the Foundation for International Community Assistance (FINCA), a credit institution whose methodology insists on weekly repayment. It was argued that this mode of repayment did not provide sufficient time for the micro entrepreneurs to make a profit and thus their businesses continued to be rudimentary. The study then suggested that allowing more players on the micro finance arena would bring in more competition and perhaps lead to change of lending methodology. While this idea is appreciated, my view is that bringing more players could not be an automatic solution considering that most of them work on the principle of maximising profits and therefore charge exorbitant interest rates much to the disadvantage of the rural poor. It is also important to note that credit repayment rate in Malawi has not been so good, prompting microfinance institutions to be even stricter in their dealings with loan seekers. On the one hand, one would argue that it is good that these people use their own money to establish these businesses without having to involve themselves in paying high interest rates, some of which go beyond 50%. On the other hand, this is a worrisome development because the amounts of personal money involved as capital are so small that they cannot come up with meaningful businesses as can be seen from the small businesses the people are engaged in. Unless something is done about this, a lot of people would be deprived of a chance to live a respectable livelihood simply because they do not have adequate land or enough capital to diversify into a meaningful business.

While the foregoing discussion has concentrated on the Malawian situation, studies in other countries have also shown that informal businesses are also common in rural areas. In fact, FAO (2005) noted that in sub-Saharan Africa, a range of 30–50% reliance on non-farm income sources is common, but it may attain 80–90% in Southern Africa. This is mainly because this part of Africa is the most poverty stricken and the economies are in bad shape so much that even subsistence agriculture is not as productive to be a single most source of livelihood. The following discussion presents a few country cases to highlight the existence of the informal businesses as part of livelihood portfolios in rural areas.

2.2.2 The informal Sector in Kenya

The rise of the informal sector in Kenya is linked to the lowering opportunities in the formal employment sector. Kenya's economy is fairly diversified although employment is still largely linked to agriculture. Wage employment in the modern sector has fallen in absolute terms over time in Kenya, a situation made worse in the 1980s and 1990s by retrenchment in the public sectors. Most people joining the labour force cannot secure employment and consequently remain unemployed or end up in the informal sector (Oxford Policy Management, 2004). In fact, Xaba et al (2002) reported that between 1991 and 1994, the informal sector grew by 16.1%, faster than the formal sector, which only grew at 1.6% during that period. The available data suggest that the down-turn of the economy led to growth of the informal sector as many people try to find a way of sustaining their livelihood. Similarly, the rural non-farm sector has increased in importance as an employment and income source. In a study by Gray et al (1997) it was proved that the informal sector indeed played a significant role in the livelihood of many people both in the urban as well as rural areas. The study found that each micro-business provided an income for the owner and his family and in many cases a livelihood for his/her extended family. This fact was brought home by one of the entrepreneurs in responding to the question as to why he considered his business successful. He replied: "Anyone who can be able to provide the basic necessities to his/her family aught to consider him or herself successful". Indeed, experience in Kenya and elsewhere in the developing countries indicates that micro-enterprises are more oriented toward the acquisition of basic needs than profit maximisation.

Just as in the Malawi situation, lack of capital was reported to be among the major challenges facing informal businesses and that most people established these businesses using their own savings. As a direct result, most were unable to get the appropriate tools or expand their businesses. Apparently, lack of capital has been reported in many countries as well. As Kapel (2006) put it, in developing countries, the majority of small enterprises lack access to formal financial services. Morrison, (1995) agree with this assertion and argues that between the years 1995 and 2005 only 9% of informal enterprises in Jamaica and 10% in Tunisia were projected to have access to bank loans (Morrison, 1995). Kapel (2006) agrees and observes that only 10% of informal firms in Nigeria and 4% in Uganda had access to bank loans. All these studies recommended the establishment of affordable loan facilities which could be easily accessed by rural people. What is missing from the recommendations, however, is the operationalisation of such an initiative in the face of not so encouraging loan repayment reports by credit institutions in many rural areas as can be noted, the Kenyan situation is similar to the Malawian case in the sense that although there is evidence that the informal enterprises play a crucial role in people's livelihoods, the businesses face enormous challenges as they do not get the required assistance beyond political rhetoric.

2.2.3 The Informal Sector in Ghana

The informal sector in Ghana includes mainly the rural agricultural sector, small time gold and diamond winners popularly known in local parlance as 'galamsey', small time garages and repair workshops, who at times venture into vehicle modelling (World Bank, not dated). According to Agricultural Fund for International Development (IFAD, 2008) the informal sector in Ghana employs about 25-33% of the working population. About 60-80% of these businesses are located in rural areas. It is estimated that three quarters of Ghanaian households depend on these small and micro enterprises for at least half of the household's income. According to the report, the majority of rural businesses are one-person businesses, though other family members may help out once in a while. Many have short life spans, of five years or shorter and some are part-time or seasonal (occurring during slack periods in agriculture), over 70% of them start up with capital of less than USD 100, and 45% with less than USD 20, the very large majority (close to 90%) are started with personal or "susu" savings, rather than with loans. Very few of the smaller enterprises experience growth, and very few women's businesses operate in sectors with the highest growth rates. Women tend to operate the more traditional and usually low-income businesses, such as food processing, handicrafts of various kinds, dress-making, beer brewing and retail trading. The plight of women in small enterprises does not seem to be limited to the Ghanaian experience alone. Chadha (1997) also noted that in India, rural informal businesses were more of a male dominion than females. He noted that culturally women in India were less mobile and, thus disadvantaged in terms of running better rural informal businesses. Generally, this seems to be the trend in most developing countries, women tend to establish lowly businesses compared to male counterparts.

On a positive note, however, the informal sector in Ghana has received increasing attention in the development discourse since the middle of the 1980s and the beginning of the 1990s. It has, in effect been the target of some policy initiatives and activities by governmental and non-governmental institutions and organizations, including the trade unions (The Statesman, 2007). Streetnet (2008) reported that over the last 20 years, as the informal sector has expanded, so have a variety of institutions and programs that relate to the sector. The plethora of established institutions and programs include the National Board for Small-Scale Industries , the Fund for Small and Medium Enterprises Development (FUSMED), the Programme of Action for the Mitigation of the Social Costs of Adjustment (PAMSCAD), the Ghana Regional Appropriate Technology Industrial Service (GRATIS, and the Council for Indigenous Business Associations (CIBA). Institutions like the Internal Revenue Service as well as the Metropolitan and District Assemblies provide the regulatory framework for the operations of the sector. This has enhanced the recognition and development of the informal sector in Ghana beyond political rhetoric. The other challenge in Ghana is that although Government has recognized the importance of the informal sector and its potential contribution to employment, incomes and even a domestic industrial base; it has not demonstrated the corresponding financial commitment to it. The Government’s budget for supporting the informal sector is at best inadequate. Even for the, non-governmental organizations who have sought to bridge the gap intervene in the informal sector have cited inadequate finance as their overriding constraint. For as long as the informal sector activities are ill-funded, a source of livelihood for many of the people in the rural areas will remain down trodden. The recognition, however, is a right move in the right direction towards the improvement of the conditions of the informal enterprises. Malawi needs to emulate this and try to come up with deliberate policies to guide the development of the informal sector which at the moment seems to be freewheeling on operators' anxieties and enthusiasm.

2.2.4 The informal Sector in Zimbabwe

Although Zimbabwe has a rich presence of the informal businesses, very few studies have been conducted in the rural informal sector. One of such studies was carried out by Veronica Brand, a Senior Lecturer at the School of Social Work in Harare in 1986 in Magaba location of Harare. The objective was to study the general nature and operations of informal sector activities in the location. This was done after it was noted that the informal sector was a pre-occupation of many people in the area and yet did not get adequate attention from policy makers. Brand found that the informal sector in Magaba served as a safety net for those who lacked an alternative source of income and livelihood. The study also revealed that a significant number of them earned a reasonable livelihood from the businesses and were committed to their enterprises and had every intention of continuing and expanding them, even if other employment options were open to them (Brand, 1986). Just as in the other countries, the informal businesses in Zimbabwe were also constrained by a number of challenges. The majority of the operators appeared to have little knowledge of co-operatives and indicated little understanding of the potential advantages to be derived from co-operative endeavours. The study recommended that a community worker be assigned to organize the informal sector into co-operatives as a way of promoting informal businesses. The study further recommended that the municipal council should take a leading role in promoting the work and organisation of the informal businesses. The role of the informal sector in rural people of Zimbabwe was found to be equally important even ten years later by the Zimbabwe Vulnerability Assessment Study (2006). The study also found that 80% of rural people relied on the informal sector for their livelihood.

Although there is no evidence that these recommendations were implemented and reviewed, they could also be relevant in the case of the area under study. For example, the municipal council could indeed be the right institution to deal with issues of promoting the informal sector since they control most of the places where informal businesses take place. For instance in Bolero, the District Council owns the shelter used by some of the informal business operators; however, their interaction ends at the collecting market fees. Other than this they do not do much to promote the informal businesses. If they were given the mandate and adequate support, the District Council would be the right institution to organise and improve the conditions of the informal sector. Until there is a deliberate policy to mandate the District Council to get involved in the promotion of the informal sector, the businesses will remain less productive.

2.2.5 The Informal Sector in Botswana

In Botswana a study conducted by Kapunda et al (2003) from the department of Economics at Botswana University also confirmed that the informal sector played a vital role in people’s livelihood in rural areas. The objective of the study was to

examine the role of the informal sector and self-employment in poverty alleviation in Botswana. The study was prompted by the realization that self-employment had been increasing in the past three decades or so. It involved, men and women who owned informal businesses in the city out-skirts. Mainly, the study found that the income realised from the informal businesses went a long way in supporting the livelihoods of the households, especially in the acquisition of basic needs Kapunda et al, 2003).
Having proved that the informal businesses had a positive impact on the people's livelihood, the study recommended that Governmental and Non-Governmental Organisations should encourage the informal sector activities by providing supporting services like credit and training facilities. Noting that women and the youth were actively involved in the informal businesses, the study also recommended that special attention should be on vulnerable groups such as women and the youth. It was further suggested that the education system should be designed towards a more practical and entrepreneurial orientation so that there is a balance between technical/vocational and liberal education since many schools and university graduates lacked self-employment skills. To this effect, the study suggested that the graduates who would like to venture into self-employment activities which create employment to others especially the poor, women and the youth should be supported by the relevant Government and NGO agents.

The recommendations in this study could be relevant to the case of Malawi especially where the vulnerable need to be targeted. Targeting them with assistance to establish small informal enterprises would be a way of empowering them for self-reliance. Adapting the education system to respond to the high rates of unemployment by providing entrepreneurial orientation to students is also an important initiative as it would ensure that graduates do not only look at formal employment as the only solution to their livelihood dilemma after school. Such a curriculum would be very beneficial to school leavers as they would have some basic knowledge in handling small businesses. It is, however; also important to understand that training alone may not be the magic pill for small businesses to flourish. As Vuuren (2002) put it, constraints such as the lack of financial resources, lack of access to markets, lack of support services, and low literacy levels should also be addressed if we are to fully solve the problems of informal enterprises in rural areas. This suggests that supporting the informal businesses would need a multifaceted intervention which would look at a number of issues like capita, training and many others at once.

2.2.6 The Informal Sector in India

The National Alliance of Street Vendors of India (NASVI) initiated a study of street vendors with an aim of understanding the extent of the role of the informal sector to the owners of the informal enterprises. The study wanted to understand the problems they face, the perceptions of the urban population and their position in the urban society. This study was conducted on the premise that in most Indian cities, the poor survived by working in the informal sector. Poverty and lack of gainful employment in rural areas and in the smaller towns drive large numbers of people to the cities for work and livelihood. For These people generally possess low skills and lack the level of formal education that would enable then access formal employment. The informal businesses are, therefore, their only means of survival (Sharit 2003). The study indeed confirmed that the informal sector played a big role in the livelihood of the people who would other wise not have been able to get formal employment. The businesses also provided a cheap source of goods and services for urban dwellers as many of them patronized the informal businesses to buy goods. As Sharit reports: *"The main reason for patronizing hawkers is that their perishable goods (fruits and vegetables) are fresh and the prices of their goods are cheap"* (Sharit, not dated: 24). The major challenge however, was that their activities were not formally recognised and regulated by the Government and therefore did not get adequate attention from Policy makers. The study recommended that the best way to address the issues of the informal sector was to recognize them before regulating them. It was further recommended that the recognition of the informal sector should begin from the development planning phase where the informal sector businesses would be given priority and budgeted for.

As has been seen in the studies, the informal businesses are part of rural people's livelihoods. They provide an alternative source of livelihood to both those who cannot find formal employment or who cannot get sufficient income from subsistence agriculture.

Kapel et al (2006) have documented some of the best practices of supporting the informal enterprises as adopted by the Chinese and South African Governments. The Shanghai Municipal Government set up a programme to assist retrenched workers from individual labour organisations. In cooperation with volunteer experts it tries to enhance growth and development of these organisations. To speed up the registration process and assist informal enterprises, the Shanghai Municipal Government established special administrative organs known as Employment Service Organisations (ESO) at different levels: city, district and street committee. The general duty of this organisation was to assist those aspiring to establish small businesses with business registration, setting up of bank accounts and formation of working groups. It also acts a guarantor for informal business groups applying for bank loans and represents the informal business groups during discussions with government institutions. The government also issued special protective measures to assist informal businesses. These measures include preferential policies for their participation in basic social insurance schemes, free training and preferential tax policies for a period of three years. It would be a good move if the Malawi Government did something like this as it would ensure that informal businesses have access to the support they need. This however would require the political will to go beyond mere rhetoric, something that has been common in Malawi for some years. The government has on most occasions promised to improve the conditions of small businesses but not much has been done, thus the challenge continues to exist.

A similar approach was introduced in South Africa. High unemployment and inequality forced the South African Government to re-shape its private sector promotion strategies and give special attention to small enterprises and the disadvantaged population. In 1994 a national small business strategy was formulated to create an enabling environment for small enterprises, to facilitate the equalisation of income, wealth and economic opportunities, to create long-term jobs, to strengthen networking among small enterprises, to level the playing fields between big and small business and to support small enterprises international competitiveness.

As we can see from the literature, agriculture alone cannot support rural livelihood. Many people organise and run informal businesses due to the inadequacy of agriculture as a source of livelihood. From the country studies, we have seen that informal enterprises do play an important role in rural people's livelihoods. All the studies have advocated for the recognition, promotion and regulating of informal sector activities because they provide a crucial alternative source of livelihood to a lot of people. Ignoring the sector is to ignore the efforts and lifeline of the people participating in this sector. Men, women and the youth equally find these informal enterprises important as a means of getting their daily needs like food, clothes, health care or education. As we have already seen, development is all about creating an enabling environment for people to be able to access their basic needs. It is important, therefore, that any meaningful rural development planning should include supporting informal businesses as they are critical in the people's daily livelihood. With agriculture already proving inadequate as a source of rural livelihood, disregarding the informal businesses could be a development blunder which could have far reaching consequences. For example, if the people cannot get enough from agriculture and also fail to run successful businesses, we can assume that the people would find it hard to get their basic needs like food, health care or education. This could result in people suffering from malnutrition and related diseases and we could also be risking high levels of illiteracy as some people may not be able to pay for school fees and other education related costs. In the end, this would put pressure on the government in dealing with such consequences. Studying and understanding the nature of the informal businesses in the rural areas is therefore important if meaningful interventions are to be made.

2.3 Study Theoretical Framework: Why Rural Households Diversify into Non-Formal Businesses.

Scholars have debated and theorised rural livelihoods diversification in various ways. This study analyses the diversification of rural livelihoods into informal businesses based on two theories; the *demand-pull versus the distress- push factors* and *the livelihood approach*. These two theories will guide the study in understanding why rural people diversify into informal businesses among other non-farm activities and what building blocks are required to run successful businesses and also in understanding the sources of the challenges faced by the informal businesses by way of reviewing the livelihoods framework.

2.3.1 Demand-Pull versus Distress-Push Factors to Diversification

The demand-pull theory argues that people diversify their livelihoods in order to take advantage of a perceived opportunity (Davis, 2003). In other words, this is diversification that is triggered by a perceived demand for goods or services. The argument is that people will establish the small businesses in order to get additional income from a perceived opportunity. Islam (1997) further argues that factors that lead to *demand-pull* diversification would include the increased income of lower and middle-income households and increased demand from urban areas for rural products. The argument is that, for example, when people in the urban areas have more disposable income, the demand for rural products grows and the people in the rural areas produce more for sale, taking advantage of the demand. On the other hand, *Distress-push* diversification takes place due to dwindling opportunities in a livelihood portfolio. This could, for example, be a response to such factors as, declining farm productivity, declining returns to farming, lack of access to farm input markets, decline of natural resource base, lack of access to rural financial markets, population growth, increasing scarcity of arable land and decreasing access to fertile land (Davis, 2006). Looking at the literature reviewed thus far, it is clear that most of the informal businesses in rural areas are formed as a result of the *distress- push* factors. They are formed by a people that want to survive due to dwindling agricultural productivity as a result of a number of factors such as loss of soil fertility. An understanding of the forces behind rural diversification is therefore, important as each force requires its own interventions in as far as rural development is concerned. As Davis and Pearce (2000) noted, it is important for policymakers to make this distinction between distress-push and demand-pull since each may require different policy responses. They argue that the latter may require policymakers to develop appropriate social safety net and interventionist policies to mitigate the short-run negative effects that sometimes accompany this type of diversification (for example, over-rapid urbanisation, negative environmental impacts etc.). Where demand-pull factors are driving the process of diversification, policy-makers might seek to provide a suitable "enabling environment" to support the development of the sustainable rural livelihoods.

From the literature, we note that most of the businesses are established just as a survivalist strategy by people who do not find agriculture adequate to meet their needs. We could, therefore argue that they are primarily triggered by distress factors and not necessarily by demand factors.

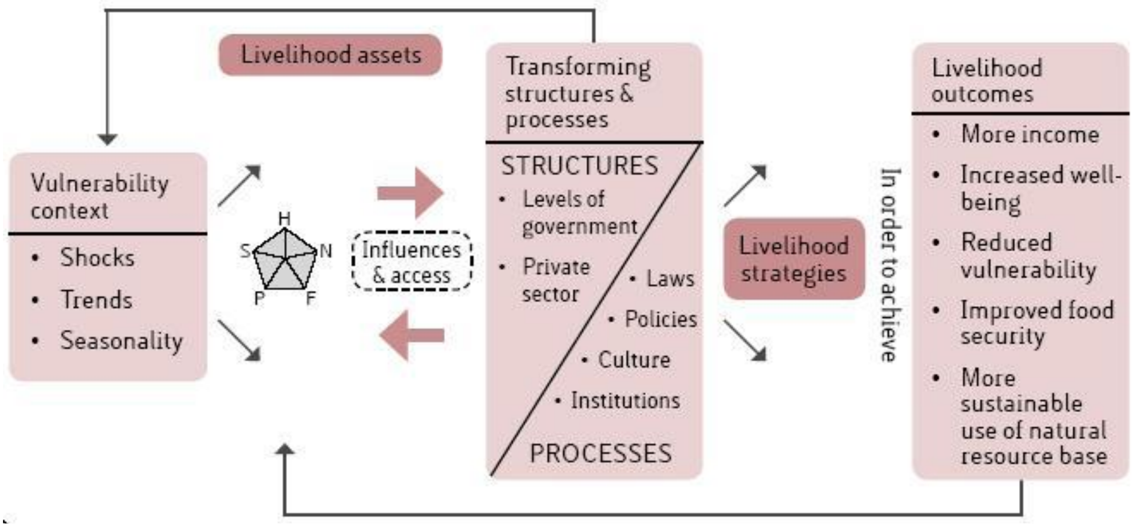
2.3.2 The Livelihoods Approach

Livelihoods approach views the world from the point of view of the individual, households and social groups who are trying to make a living in volatile conditions and with limited assets. Chambers and Conway (1992) were among the first to give a scholarly definition of livelihood, defining it as comprising "the capabilities, assets and activities required for a means of living. According to Ellis (2000), a livelihood comprises the assets (natural, physical, human, financial and social capital), the activities and the access to these (mediated by institutions and social relations) together determine the living gained by the individual or household" (See fig 1). This approach provides a framework for understanding the opportunities and assets available to poor people and the sources of their vulnerability, as well as the impact upon them of external organisation, processes and policies (Timalsina, 2006). For example, if we take farming as a livelihood strategy, then one would need land, water and other inputs as assets in order to successfully grow and harvest crops. The central point of the livelihood approach is that every livelihood is determined by an array of interplaying assets and capabilities which act as raw materials for a living.

2.3.3 The Livelihood Framework

At the centre of the livelihood approach to understanding rural livelihoods is the livelihood framework which is a tool used to improve our understanding of livelihoods, particularly the livelihoods of the poor (Timalsina, 2006). The framework highlights five interacting elements: context, resources, institutions, strategies and outcomes. The way these elements interact determines the livelihood outcome achieved by an individual or a community (see figure 3). It is important to understand this framework as it helps us understand why people in different areas adopt different types of livelihood strategies and more importantly factors that lead to successful diversification of livelihood strategies. For example, an understanding of the framework may give an indication of why some people are able to establish successful businesses while others are not able to do so. Ultimately, an understanding of these factors would provide the insight into the dynamics of rural livelihoods and enable us plan better for rural development. Following is a detailed analysis of the components of the framework and how they relate to the subject under study, rural livelihood and diversification into informal businesses.

Figure 3: The Livelihood Framework.



Key: H= Human Capital, S= Social Capital, P= Physical Capital, F= Financial Capital, N= Natural Capital.

Source: Adapted from Timalsina (2006)

2.3.4 Livelihood Assets on Asset Pentagon

Livelihood assets are the basic building blocks upon which households are able to undertake production, engage in labour markets and participate in reciprocal exchange with other households (Ellis, 2000). In other words they can be described as a collection of various capital assets that are utilised to generate the means of survival for a household or a community. These are natural capital, physical capital, human capital, financial capital and social capital.

The argument in this framework is that for a people to engage in a successful and sustainable livelihood strategy, they must have a balanced access to all these assets). An imbalance in the interplay of the assets supporting a particular livelihood, as outlined in the livelihood framework, may lead to failure to get the required output, rendering the people unable to attain their needs, and may force the people to diversify into other forms of livelihood. Failure to access natural capital like land or financial capital in form of loans can disrupt a people's livelihood as they may not be able to grow enough crops for their livelihoods. For example, as it has been argued, most smallholder farmers in Malawi fail to adopt new farming technologies such as the use of hybrid seeds or chemical fertilisers due to lack of finances with which to acquire these technologies (Tekane, 2007). Most rural people have also argued that lack of financial capital has been responsible for their failure to diversify into small scale businesses (Devereux, 1999). In the same way, each of the assets on the livelihood framework is equally important for people to eke out a successful livelihood.

As we can see the two theories are complementary in explaining rural livelihood diversification. While the Demand-Pull Versus Distress-Push Factors theory explains livelihood diversification by way of Demand and Distress factors, the livelihood framework goes further to outline what is necessary for a sustainable livelihood and how the distress is leads to diversification.

CHAPTER 3: Methodology

3.0 Introduction

This was a case study which combined both qualitative and quantitative research techniques. A case study is a research methodology based on an in-depth investigation of a single individual, group, or event to explore causation in order to find underlying principles (Baxter and Jack, 2008). The aim was to find out the role of informal businesses in the daily livelihood of the people of Bolero.

3.1 Study Design

The study was conducted in Bolero, a location in Rumphi district of the Northern part of Malawi. The area was chosen because it is a trading centre with a concentration of informal traders from the villages within Bolero and the surrounding areas like Luviri, Kawaza and Nkhozo. Conducting the study in Bolero would therefore provide the researcher with the opportunity to interview people from various villages in and around Bolero operating various types of businesses.

Data was collected from 206 various informal business owners, running their businesses in and outside Bolero market. Four key informants were also identified and interviewed on key topical issues. These were; Traditional Authority Chikulamayembe, former Member of Parliament for Rumphi West which includes Bolero, Assistant Agriculture Officer for Bolero Field Office and the Bolero Market Supervisor. These were chosen, one by virtue of their positions and because they had lived in the area long enough to understand issues under investigation. A focus group discussion comprising a representative of each interviewed business category was organised to probe and discuss some of the issues raised during the individual interviews.

3.2 Sampling Technique

In order to identify respondents for this study, the researcher used both purposive and snowball sampling techniques for interviews and the focus group discussion. Purposive sampling is a type of non-probability sampling which is characterized by the use of judgement and deliberate effort to obtain representative samples by including typical areas or groups in the sample (Kerlinger, 1986). Because the businesses were so varied and so many, one needed to purposively sample a few major ones to concentrate on. The researcher, therefore identified relevant categories of research subjects and then decided how many to get into each category. The individual respondents were then identified through snowball sampling, a sampling method where one respondent identifies another until a sample size is reached or saturated (Kerlinger, 1986). Snowball sampling was ideal in this research because there was no sampling frame from where the researcher could draw a sample of the informal business operators to be involved in the study. In many cases, the businesses operators were so scattered in secluded places that one needed to be guided during data collection. The researcher was fully aware of the biases associated with snowball sampling and inquired about all possible candidates before making a decision on who to interview. Prior knowledge of the area and the people also assisted the researcher to control for any possible abuses of the snowball sampling procedure by the respondents. Thus the researcher made the final decision on who to interview apart from being guided by the other interviewees.

3.3 Data Collection Techniques.

Prior to the data collection exercise, the researcher sought permission from the local assembly to carry out the study in the area. The researcher also sought permission from police for security back-up during the whole period of data collection. The researcher also identified and oriented two research assistants with Malawi School Certificate of Education to assist in collection of data. They were advised to take advantage of their knowledge of the area and the people to avoid the biases associated with snowball sampling. Data was collected through documentary analysis, direct observation and informal discussions, researcher administered questionnaires, key informants interviews and focus group discussions. Questionnaires were used as data collection instruments during the interviews.

3.4 Documentary Analysis

Documentary analysis is an art of examining and extracting information from written accounts such as notices, correspondences, government documents, books, minutes of meetings and other relevant publications from libraries (Saunders et al, 2003). Documentary analysis has constituted an on-going process of gathering and vetting information throughout the study. These included papers by the International Labour Organisation, Newspapers, website data, research journals and books. This technique is yielded all information regarding the literature review theoretical frame work and socio-economic profile of the country and the area of study.

3.5 Direct Observation and Informal Conversations

Some information that has informed this study was obtained during the seven years that the researcher has been working in the area. Prior knowledge of the area assisted the researcher to identify the businesses to target and the key informants to involve in the study. The disadvantage of this method is that the researcher may not be objective in his/her interpretation of behaviour. The researcher, however, controlled this bias by considering only information that had been consistently observed over the past years and further sought views of key informants on the same. As such, the researcher only chose to interview key informants who had lived in the area long before the researcher came to the area.

3.6 Interviews

Data from business owners was collected through a researcher-administered questionnaire. This technique involves oral questioning of respondents while the researcher takes down the responses (International Development Research Centre, 2008). The data collected was in two main categories, socio-economic and enterprise specific information and role of the business in livelihood. Socio-economic and enterprise specific information included such data as; type of business and activities involved, sex of the operators, education level, number of dependents, of structure where the business was located, constraints experienced in the business. On the role of business in livelihood the researcher wanted to know from the respondents how they spent the income they get from the businesses. This technique was appropriate as it gave the researcher/interviewer the opportunity to interact with the respondents and probe where further clarification was needed (Saunders, 2003). The major challenge with this technique is the interviewer bias where the interviewer records information of his/her interest since as he/she is in-charge of the data recording during the interview. The researcher, however, avoided this challenge by training all the interviewers and also by scrutinising all the data as soon as it was submitted to check for obvious inaccuracies and inconsistencies.

3.7 Focus Group Discussions

Focus groups are a form of group interviews that seek to confirm the information collected during one-to-one interviews. The method is also particularly useful for exploring people's knowledge or experiences about specific issues. A focus group discussion allows a group to discuss a subject exhaustively with guidance of the researcher (Kitzinger, 1995). In order to verify and probe on some issues raised during individual interviews a focus group discussion was organized where the researcher solicited information from the group of purposively selected individuals. Representatives of the sampled businesses were then invited for a focus group discussion. The main points of discussion were sources of business capital, role of businesses in their livelihood and challenges the businesses face. It was important that these issues be discussed at length as they were the major subjects of the study. Because of time and financial limitations one meeting combined 18 representatives of the sampled businesses. The drawback of this method is that, if not well handled, only few people can dominate the discussion and therefore some people's opinions may not be heard. To control for this, the researcher took an active role of moderating the discussions, encouraging all the participants to freely express themselves. Equal participation of the representatives was encouraged by giving chance to everyone present to comment on the topics under discussion. At the end of the exercise the researcher was satisfied that respondents had provided the information required for the study.

3.8 Key Informant Interviews

Key informant interviews were also used as a source of information for this study. These are qualitative in-depth interviews with people who know very well the community in the study area. The purpose of this technique is to collect information from a wide-range of people, such as community leaders, professionals or residents who have first hand knowledge about the community (UCLA Centre for Health Policy Research, 2008). Four key informants were sampled for interviews. These interviews were important for the study because the people interviewed had first hand experience of the area under study and the operations of the informal businesses in the area and as they had lived or worked in the area for a long period. They were, therefore, deemed to be the right people to consult on issues concerning the area under study.

The key informants interviewed were traditional leader, Paramount Chief, Traditional Authority (TA) Chikulamayembe, former Member of Parliament in the area, a representative of the Rumphi District Assembly and an Agriculture Officer. This was necessary in order to gain insight on the study topic and also to authenticate some information collected from other sources. From the TA and the former Member of Parliament, the researcher wanted to collect information regarding the history of Bolero and the informal businesses. From the successful micro-entrepreneur, the researcher wanted to know what it takes to be a successful micro-entrepreneur. The advantage of this method is that issues are debated and resolved allowing the researcher to get well informed opinions. The major disadvantage of this method is that it becomes difficult to generalise the results if few informants were involved. The number of informants involved in this study, however, was deemed sufficient and credible enough to control this limitation.

3.9 Data Analysis

Both qualitative and quantitative data were collected and analysed in this study. Quantitative data comprised information which could be numerically qualified such as number of male or female operators in various types of businesses, age and education status of business operators. Qualitative data involved non-numerical aspects of the phenomenon under study such as values, experiences or people’s perceptions, attitudes and beliefs about some aspects of the topic under study (Sandelowsk, 2000). Quantitative data were analysed using the Statistical Package for Social Science (SPSS). Through this package, the researcher was able to generate frequencies, cross-tabulations and tables. Such summaries were necessary as they assisted the researcher to make inferences from the data. Qualitative data was analysed using content analysis method. Content analysis is a research tool used to determine the presence of certain words or concepts within texts or sets of texts. Researchers quantify and analyze the presence, meanings and relationships of such words and concepts, then make inferences about the messages within the texts, the writer(s), the audience, and even the culture and time of which these are a part (Colorado State University, 2009). Through this method data were grouped into common themes and trends which enabled the researcher to theorise about role and challenges of informal sector businesses in Bolero area. The results of the analysis are presented in the results and recommendation chapter.

3.10 Study Limitation

The major limitation for this study was that it was done in partial fulfilment of a degree course and had a short time frame in which it was expected to be completed. Studying human behaviour requires more time as human behaviour changes with changing socio-economic, political or environmental factors. To reasonably understand the behaviour of people in relation to the topic under study would have required a longitudinal study which could have studied the people for a longer period of time so that the results could reasonably reflect the nature of human behaviour.

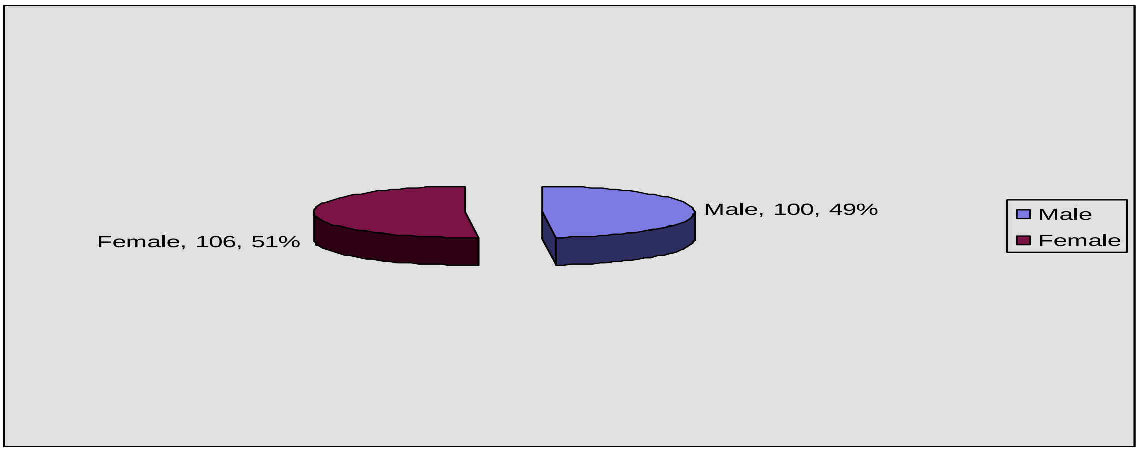
CHAPTER 4: Findings and Discussion

4.0 Introduction

This study set out to find out the role of the informal businesses in rural livelihoods at Bolero Rural Growth Centre in Rumphi district. The argument was that due to the inadequacy of agriculture as a source of livelihoods, people in the rural areas organise and run small informal businesses as a way of diversifying their livelihood portfolios. To establish the role of informal businesses at Bolero, the study had five main objectives and these are: to establish the range of available informal sector activities at Bolero; to investigate reasons for establishing informal businesses; to gauge the role played by the informal businesses in sustaining rural livelihoods; to investigate the challenges facing informal business operators; and finally to identify ways of improving the performance of informal sector businesses. Before presenting the results along these objectives, below are some of the characteristics of the respondents.

4.1 Characteristics of Respondents

Figure 4: Gender Distribution of Respondents.



The results show that out of the 206 business operators who were interviewed, the majority (51%) were women while 49% were men. The proportions, however, are not significantly different, suggesting that informal businesses are not a domain of one gender. Both men and women have a role to play in day to day household activities in rural areas and it is, therefore, not surprising that both genders are actively involved in these small-scale businesses.

4.1.1 Age of respondents

The study found that although the informal enterprises were established by people across all ages, most of the businesses were owned by the youth and middle aged. Table 1 shows detailed results.

Table 1: Age Distribution of Respondents

N= 206

Age Group	Frequency	Percent
20-30	117	56.8
31-40	60	29.1
41-50	22	10.7
51-60	6	2.9
Over 60 years	1	.5
Totals	**206**	**100.00**

As can be seen in the table the informal businesses at Bolero are dominated by young people in the age brackets of 20-30 and 31-40 years. Together, they form about 86 percent of the total number of respondents. This result agrees with the national census results of 2008 which found that Malawi is a relatively youthful nation with most of its population within these age brackets while only 4 percent were aged 65 or older. One of the key informants attributed this to the fact that these are young people in their reproductive years, with children under their care and constantly in need of income to support them. His suggestion was that they went into business as a way of getting money to meet their responsibilities which could not be met by concentrating on agriculture alone. Table 2 outlines the results.

Table 2: Distribution of Number of Dependents by Age

N = 206

Age of Respondent	**Number of Dependents**					
	Non	**1-3**	**4-6**	**7-9**	**Over 9**	**Totals**
41-50	0	57	34	8	9	**117**
31-40	0	19	28	9	4	**60**
20-30	0	2	7	7	7	**22**
51-60	0	4	5	4	1	**6**
Over 60 years	0	0	1	0	0	**1**

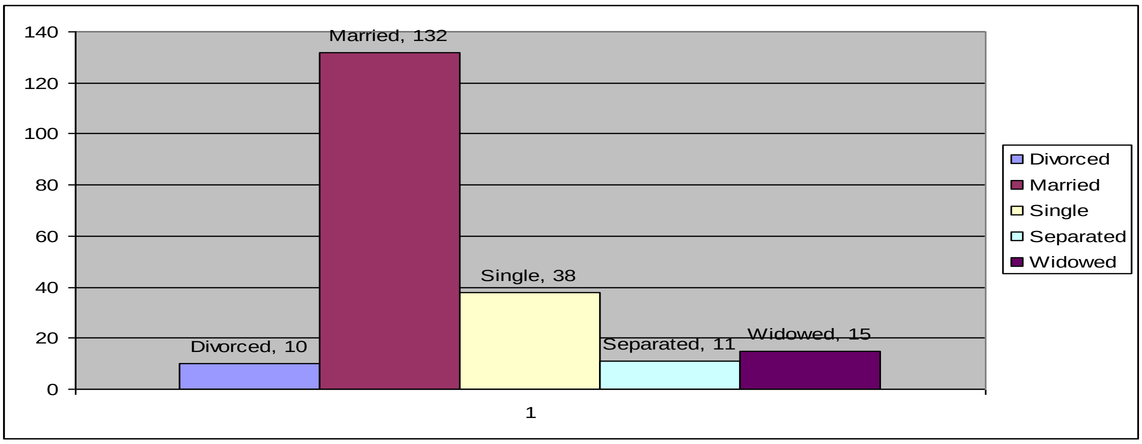
The results in the above table indicate the respondents who had the larger number of respondents were in the age brackets of 41-50, 31-40 and 20-30. It has to be noted here that the number of dependents does not only mean their children, in this case it also means supporting members of the extended family including their parents. Most of the respondents indicated that they go into these small-scale businesses under the pressure of supporting the relatively large number of dependents under their care. One of the key informants, the Traditional Authority attributed this occurrence to the fact that there are a lot of orphans in the area and that both the young and old had assumed the responsibility of looking after orphans and, therefore, most people had more than one dependent.

4.1.2 Marital Status

The researcher wanted to know the marital status of the respondents. The results showed that the majority of the respondents were married people.

Figure 5: Marital Status of Respondents

N= 206



From the graph, it is clear that most (132, representing 64 percent) of the business owners are married people. A cross tabulation analysis of "married against number of dependents" showed that one hundred (100) percent of the married respondents had dependents, one hundred (100) percent of respondents who were on separation with their spouses had dependents, one hundred (100) percent of the divorced respondents had dependents, ninety-three (93) percent of widowed respondents had dependents and seventy-eight (78) percent of the single respondents had dependents. These figures show that almost all the respondents had dependents under their care, while only a small number of them said they did not have dependents. During the focus group discussion, those who had dependents argued that the income they get from the sale of their agricultural produce was not enough to meet all their needs, such as buying food when their reserves were depleted or paying school fees and other household requirements. They argued that they found informal businesses a convenient way of diversifying their livelihood, especially during the agriculture off-season season when they were not busy in their fields. This finding confirms what was noted in the other studies in the literature review that most rural people organised and run informal business during the farming off-season when they are not busy in their gardens, suggesting that these informal businesses are part of rural livelihoods diversification.

4.1.3 Education Status

The researcher also wanted to know the education status of the respondents to ascertain if education played a role in the establishment of these informal businesses. The distribution of the education status across the businesses is summarised in table 3.

Table 3: Education status of Respondents

Level of Education	Frequency	Percentage
Primary Upper (8)	96	46.6
Junior Certificate of Education	45	21.8
Primary Lower (std 1-4)	33	16.0
Malawi School Certificate	30	14.6
Tertiary	1	.5
No Formal Education	1	.5
Total	**206**	**100.0**

N= 206

As can be seen from the table, a relatively higher percentage (62.6%) of the respondents had only attained primary school qualifications, while the rest had attained Junior Certificate of Education, Malawi School Certificate of Education and above.

One of the observed characteristics of the informal sector is that it does not require formal skills for one to carry out business. Anybody who has the will and capital can establish an informal business. Two things could be observed here, one is the ease with which people can enter in these businesses without having to have higher academic qualifications, and the other is that these statistics indicate the plight of primary school leavers in securing meaningful formal employment. These results suggest that, education is not really a limiting factor for those who may want to set up small businesses. They also suggest that informal businesses do provide an opportunity for those who may not be able to secure formal employment to earn a respectable living.

4.2 Variety of Informal Businesses

The researcher also wanted to establish the number and variety of businesses at Bolero. In order to do this the researcher had to move around, taking note of the type of businesses, snow-balling the respondents, and interviewing them. The researcher also thought it would be interesting to see the pattern along which the businesses were established i.e. what businesses were commonly established by men or women and why. Table 4 summarises the results.

Table 4: **Diversity and Gender Distribution of Business Ownership**

N = 206

Type of Business	Frequency	Male	%	Female	%
Fruits and Vegetables	**32**	**5**	*16*	**27**	*84*
Fish Selling	**28**	**9**	*32*	**19**	*68*
Grocery Shops	**24**	**18**	*75*	**6**	*25*
Traditional Beer Brewing	**17**	**1**	*6*	**16**	*96*
Cooked Food	**16**	**3**	*19*	**13**	*81*
Cereals	**14**	**8**	*57*	**6**	*43*
Bicycle Repair	**11**	**11**	*100*	**0**	*0*
Second Hand Clothes	**11**	**6**	*55*	**5**	*45*
Carpentry and Joinery	**8**	**8**	*100*	**0**	*0*
Barber Shop	**8**	**8**	*100*	**0**	*0*
Hawker	**8**	**4**	*50*	**4**	*50*
Tailoring	**8**	**6**	*75*	**2**	*25*
Restaurant	**7**	**0**	*0*	**7**	*100*
Metal Welding	**6**	**6**	*100*	**0**	*0*
Crafts	**5**	**5**	*50*	**0**	*50*
Saloon	**1**	**0**	*0*	**1**	*100*
Shoe Repairing	**1**	**1**	*100*	**0**	*0*
Timber Selling	**1**	**1**	*100*	**0**	*0*
Totals	**206**	**100**		**106**	

The results indicate that the people in Bolero and the surrounding areas do establish a wide range of informal businesses in the retail, production as well as service sectors. The results also indicate that most common ones (65%) are in the retail or trading category which include fruit and vegetable selling, fish selling, grocery shops, cooked food cereals businesses, second hand clothes selling, Timber selling and hawkers operation. They are followed by production businesses (21%) such as beer brewing, carpentry and joinery, tailoring, metal welding and hand crafts. The rest are service businesses included bicycle repairing, barber shops, restaurants, hair saloon, shoe repairing and radio repairing. It is also worth noting that most of the highly patronised businesses, especially in the retail sector are simple in nature in the sense that they do not require skills training or a particular skill, suggesting that anybody with interest and a modest seed capital can venture into such businesses. This confirms what was observed in the other studies featured in the review which showed that most of the rural informal businesses involved simple petty trading. The researcher wanted to know why these businesses were common and asked the respondents to explain during the focus group discussions. Several reasons were given to explain this trend. One of the reasons given was that these popular businesses require less capital and skill or professional training, relative to the skill-businesses such as Welding or Carpentry and Joinery. As one respondent commented, "*With these businesses one can easily save a little capital and get going. The other businesses require skills which I do not have. I started my fish selling business with the K5000 saving I made in the year 2005 from the sales of my groundnuts and potatoes and I am happy".* It was also expressed during the focus group discussion that the preponderance of these 'simple' businesses was due to the fact that Bolero is relatively not sophisticated in terms of consumption of goods. Fish and vegetables are rather cheaper and, therefore, affordable by many people in the rural area and therefore there was demand for these 'simple and cheaper goods on the market. Fish and vegetables form a bigger part of people's diet in the rural area. The relatively high demand for fish and vegetables and groceries, therefore, also explains why most people prefer to go into such businesses since they can be afforded by the people in rural areas. The challenge, however, with this is that the people create unnecessary competition amongst themselves as there are too many people selling the same goods or services. When this issue was tabled during the focus group discussion the respondents agreed that many established their businesses by simply copying others who they thought were doing well in their businesses and not necessarily out of a perceived opportunity. They further argued that with little seed capital at their disposal it was difficult for them to establish meaningful and competitive businesses.

The results also show that more women were involved in retail or trading businesses and the service businesses other. Actually, they owned about 60 percent of the total businesses in the retail category. It is also evident that few women participate in the production businesses, as they only contributed about 40 percent of the total production businesses interviewed. Precisely, there were more women in the non-technical businesses such as bear brewing (96 percent), selling fruits and vegetables (84 percent), selling cooked food (81 percent). Even the 7 women who had restaurants confessed that they had not undergone any formal training in their businesses. There were literally no women in skill-businesses such as, metal welding, carpentry and joinery, bicycle repairing, radio repairing shoe repairing, tinsmith, and hand crafts.

Male dominance in the skill-businesses could also be attributed to cultural influences in Malawi. Until recently, technical occupations such as carpentry, tinsmith and metal welding have culturally been considered to be the domain of males such that it has been considered culturally out of order if a woman ventures into such trades. For a long time, females were not encouraged to venture into professions like bricklaying carpentry and joinery or metal welding, just to mention a few. As a result, even the education system has over the years been admitting only males into technical schools, making it difficult for females to venture into these male dominated trades. Going round the technical schools in Malawi one notices that even now there are very few females in technical trades such as carpentry and joinery or welding. Because of lack of skills due to this cultural bias most women have tended to establish non-skill businesses as evidenced in these results. The problem with this bias is that it leaves women with limited business choices compared to their male counterparts. This is a set back considering the significant role played by women in rural livelihoods, especially when agriculture alone cannot satisfy all their needs.

It was also noted that 80 percent of the interviewed men in the skills businesses had acquired their skill through the traditional apprenticeship system, further validating the observation that the absence of women in the skill-based businesses is culturally influenced. During the focus group discussion, it was indicated that most of the young people who had acquired their skills in technical schools usually preferred to establish their businesses in the urban centres such as Mzuzu, Rumphi Boma or indeed elsewhere to seek formal employment or establish their own businesses. This is why the study did not find many of them in the study area.

4.3 Reasons for establishing informal businesses

The researcher wanted to know why the people established the informal businesses. In order to get this information the researcher asked them to state the reasons for establishing their businesses. Their responses are summarised in table 5.

Table 5: Reasons for Establishing Informal Businesses

N= 206

Reason for Establishing Business	Frequency	Male	%	Female	%
Extra Income	206	100	*49*	106	*51*
Inadequacy of Farming	206	100	*49*	106	*51*
Lack of Jobs	204	100	*49*	104	*51*
Jobs Pay Little	189	114	*60*	75	*40*
No other Source of Livelihood	112	99s	*88*	13	*12*
Too Many Dependents	106	15	*14*	91	*86*
Inadequate farming land	26	19	*73*	7	*27*
Retired from formal Employment	19	16	*84*	3	*16*
No one to Help	6	0	*0*	6	*100*
TOTALS	1074	563		511	

The results show that the most common reasons for establishing businesses at Bolero are; to get extra income, in adequacy of farming and lack of jobs. Looking at the responses we notice that everybody said that they established their businesses because farming was inadequate, confirming an earlier argument that farming is becoming more and more inadequate as a single source of livelihood. Again, looking very carefully at the response table we can see that all the reasons given have got to do with providing for people's basic needs. It is also clear from the table that there is no significant gender difference in terms of the factors that drive them into establishing informal businesses, suggesting, that for all of them the reason is one, to get basic needs.

4.4 The Role of Informal Businesses in people's livelihoods

In order to find out the role of the small businesses in the people's livelihood, the respondents were asked to state how they spend the money they get from their small businesses. This question was put forward to assess the livelihood outcomes from the informal businesses. This was important in order to ascertain the extent to which the informal businesses contribute to the people's livelihood especially on the premise that agriculture proves to be inadequate as a source of income in rural areas. The results are summed up in table 6.

Table 6: Uses of Income from Informal Businesses

N=206

Use of Money	**Frequency**	**%**[1]	**Male**	**%**	**Female**	**%**
Buy Food	**206**	*100*	**100**	*49*	**106**	*51*
Buy Farm inputs	**206**	*100*	**100**	*49*	**106**	*51*
Buy Groceries	**198**	*96*	**92**	*46*	**106**	*54*
Meet Transportation Costs	**186**	*90*	**84**	*45*	**102**	*55*
Supporting School going	**169**	*82*	**89**	*53*	**80**	*47*
Buying Medicine	**64**	*31*	**35**	*55*	**29**	*45*
Pay Hospital Bills	**12**	*6*	**10**	*83*	**2**	*17*
Totals	**1041**		**510**		**531**	

According to the findings, the money realised from the businesses is used primarily towards covering household expenditures. The items which topped on the expenditure list were buying food, buying farm inputs, buying groceries, meeting transport costs and paying school fees. Most of them argued that their food harvests do not last the whole year and the businesses did provide them with a of source money with which to buy food. It should be noted that food in this case does not only mean maize or cassava, but also other related food items such as fish, beans, vegetables, tomatoes, onions or cooking oil. Bearing this in mind, we would expect that even those whose maize stocks would last the whole year still said they used their money to buy food as they would not be expected to grow all of their food requirements.

The respondents also said that proceeds from the businesses played a big role in supporting their farming activities. During the focus group discussions, respondents stated that farming and business actually compliment each other. They argued that most of them got their

[1] Note that these are percentages of total number of respondents and not of the frequencies.

business capital from the savings they made from the sale of their farm produce. They also said that part of the profits contributed to the purchasing of farm inputs such as hybrid seeds, chemical fertilisers and weeding chemicals, confirming the symbiotic relationship that exist between agriculture and the informal businesses.

As already stated, most of the money from the businesses is spent on basic household needs. This is further emphasised by another high response rate of 198 (96 percent) of people who said the spent part of the proceeds from their businesses on acquiring groceries. In the focus group discussion it was indicated that these included salt, sugar, cooking oil, soap, just to mention a few. The significance of this contribution cannot be underestimated. These items form an important part of the basic needs required for the people to live a reasonably decent life.

The results also show that a considerable amount of the proceeds from these businesses is spent on transportation. Rural life is a struggle for survival and travelling from one place to another in search of the daily needs is just one part of it. Most of the respondents said they spent on transportation since they had to purchase their merchandise away from their homes. Others bought their goods from neighbouring villages while others travelled to Rumphi which is about 30km away from Bolero or Mzuzu City, a distance of about 130km. Travelling is part of rural livelihoods as people have to move from one place to another to accomplish various socio-economic or cultural activities. It is, therefore, not surprising that it takes up a considerable amount of the daily expenditure.

Education is also a basic need sought after by many in the rural areas. From the results, 169 respondents (82 percent) indicated that they use part of the money they get from their businesses to support school going children or dependents. This commitment to education is reflected in the high literacy rate for Bolero as well as Rumphi Boma as a whole, pegged at 86 percent. Actually the district education plan of 2007 indicates that Bolero is one of the zones with high enrolment rate, (GOM, 2007). The researcher wanted to know why 82 percent of the respondents indicated that spent on education considering that primary school education was free. In a focus group discussion, the respondents argued that although primary education is free, they still needed to provide their children with school uniforms, clothes, food, exercise books or pencils. Others said they supported children in secondary school which is not free, meaning that they have to pay school fees for them apart from supporting them with the other needs like uniform or clothes.

The least responses came on the issue of medication. Actually, 31 percent indicated that they sometimes used the money to buy medicine while 6 percent said they sometimes spent proceeds from their businesses on medical bills. Bolero has a health centre which caters for the area and the surrounding areas. Furthermore, the hospital at Rumphi Boma is also accessible to the people of Bolero and the neighbouring villages. The services in these health facilities are virtually free, and this could explain the low response rate in this category. During the focus group discussion the people argued that the significant expenditure on medication despite the free hospital was due to the fact that the hospitals do not stock sufficient drugs, forcing them to source them from the open market. Others deplored the long time they spent at the hospital just to get a pain killer and, therefore, opt for buying them from shops.

Looking at these responses we see that they all point to the fact that the money from the businesses is generally spent on basic or bio-physical needs, first level needs in Abraham

Maslow's theory of needs. Abraham Maslow's hierarchy of needs categorises all human needs into physiological needs, safety needs, need for love, affection and belongingness, need for self esteem and need for self-actualisation (Gambrel, 2003). According to Abraham Maslow's hierarchy of needs physiological needs are first level needs that consist of, for example, oxygen, water and others that are required for the body to survive. To live a healthy life, the people need food and they have to have a steady income to make sure the food supplies don't run dry. Farming is one way of getting food and the badly needed income for other needs, but when farming alone is not adequate we see people looking at these informal businesses as another potential source of income in the quest for their basic needs. Transportation is equally important to facilitate all the processes of attaining the basic needs, the people need to move from one place to another as they try to put together the survival puzzle in the rural areas. Education is also considered a basic need at this level. During the focus group discussion the people argued that most parents supported the education of their children or dependents because it is considered to be a ladder to greater heights in life. Thy argued that with education, there are high chances that the people would be able to get formal employment or engage in successful agriculture or even run successful businesses. Looking at development from a basic needs point of view, then, it is obvious that these informal businesses do play a crucial role in the attainment of such needs in the rural areas.

These findings confirm that informal businesses do play a crucial role in sustaining the livelihoods of the people of Bolero and underpin the need to support these businesses just as agriculture is supported.

4.5 Challenges Facing the Informal Businesses

The fourth and last objective of the study was to find out the problems which informal sector businesses face in their day to day operations. In order to get this information, the respondents were asked to state what they considered to be major constraints facing their businesses. Table 7 summarises the results.

Table 7: Challenges Facing Informal Businesses

N=206

Problem	**Frequency**	*%*[2]	**Male**	*%*	**Female**	*%*
Lack of Capital	**204**	*99*	**100**	*49*	**104**	*51*
Seasonality of Demand	**201**	*97*	**99**	*49*	**102**	*51*
Lack of training	**156**	*76*	**68**	*44*	**88**	*56*
High Transportation costs	**109**	*53*	**46**	*42*	**63**	*58*
Too many competitors	**78**	*38*	**32**	*41*	**46**	*59*
Lack of Shelter	**56**	*27*	**20**	*36*	**36**	*64*
Late payment of credit	**44**	*21*	**15**	*34*	**29**	*66*

The results in this category show that the most common challenges are lack of capital, seasonality of demand, lack of training, high transportation costs and late-payment of credit. As a matter of fact, the three top challenges cut across the three categories in the same order.

[2] Note that these are percentages of total number of respondents (206) and not of the frequencies.

4.5.1 Lack of Capital

On capital, the argument was that they failed to establish or expand meaningful businesses because of the limited capital. Asked whether they had applied for loans, 63 percent of the total respondents (206) said they had done so and did not succeed, 32 percent said they had never tried, only 5 percent said they had been successful. Those who had never applied for a loan said they would not even bother to do so because they knew they would not be successful after they had seen many of their friends' applications turned down. Many said they did not have the collateral demanded by the money lending institutions. Looking at the poverty levels in the rural areas, only few people own the assets like furniture, motor cars or refrigerators which are usually demanded as collateral by the microfinance institutions. No wonder, only few are able to secure the highly sought loans. Any business, modest as it may be requires some sort of capital either for starting up or expansion. Lack of capital as a major problem makes sense if one examines the respondents' sources of capital. Most of them indicated that their sources of capital were their own savings from sales of agriculture produce such as potatoes, maize and money borrowed from parents or relatives. In this study only 5 percent indicated that they had been successful in seeking loans from Micro Finance Institutions. These were 3 metal welders, one second had clothes seller and a grocery shop owner. Apparently these were able to secure the loans because they had stayed long enough in their businesses and had reasonable assets to convince the Malawi Rural Finance Company to provide them with loans. From observation, these were also successful tobacco farmers and had assets which could have attracted the attention of the credit institution. The only advantage in this situation is that many participants have managed to operate their businesses without incurring debts from credit institutions that usually have stricter repayment conditions with interest rates of up to 60 percent (ADB, 2003). The disadvantage, however, is that most of the operators have not been able to expand their businesses. They argued that because of inadequate start-up capital, they have not been able to meet the basic requirements of the business. For example, it was argued during the focus group discussion that due to inadequate capital most of the business owners were not able to acquire adequate capital assets such as a business shelter, nor have they been able to stock enough goods or provide adequate services. They argued that all these factors made the business so small that they can not be competitive enough.

This finding confirms what literature has said about capital being the most challenging aspect of small informal businesses. Considering that these businesses are a lifeline of many rural people, the need to provide seed capital cannot be overemphasised. On way of supporting these businesses with capital is by borrowing the Chinese and South African experience as outlined in the literature, by forming a special institution to support both individuals and groups of rural people wanting to establish small businesses with seed capital or business advisory services. The challenge, however with adopting the Chinese or the South African model is that it would require heavy financial investment on the part of the government which could not be an easy feat for the Malawi government whose economy is not as vibrant as that of the Chinese or the South African Governments.

4.5.2 Seasonality of Demand

Another challenge cited was seasonality of demand of goods and services. This was noted to cut across the three business categories. This is a reality as it is a function of circulation of cash at a particular point in time. In rural areas and indeed in Bolero people have relatively more money to spend during the harvesting period when they are selling their farm produce. This is also the time when informal businesses flourish, thanks to the high circulation of cash. In the same manner, business slows down during the growing season when people spend more on farming activities and inputs and less on other goods and services offered by the informal businesses. The respondents argued that seasonal demand slowed down their businesses and they experienced low turn over which resulted in fewer profits. They also argued that this resulted in less disposable income to spend on basic necessities. This problem will continue to bother the informal businesses for as long as there is seasonal flow of cash in rural areas. The solution lies in implementing policies that will enhance job creation in rural areas which becomes a source of steady income during the off-agriculture season. One such strategy could be to encourage addition of value to the various agricultural products. In other words, this would entail encouraging farmers to process their agricultural produce, package and distribute or retail them. This way, farmers would create employment as well as income at all these levels of activity. More important is that they naturally become diverse business organisers and operators. Apart from encouraging agricultural productivity in rural areas, these industries will also promote job creation and a steady flow of cash. When people have money in their pockets, they are likely to demand goods and services, thus putting the informal businesses on a better platform to succeed as well as enabling people in the rural areas to access their basic needs.

4.5.3 Lack of Training in Business Management

The other challenge, which many respondents mentioned, was lack of training in business management. Indeed the researcher noted that most of the operators go into business only armed with start-up capital and the zeal, and not the ability or the knowledge to run the businesses. In this study ninety-five (95) percent said they had not undergone through any business management training. They argued that no institution had offered such trainings in their locality. Others said they had heard about such programmes being offered in Mzuzu but could not afford them since the organisers charged exorbitant participation fees. The other reason for this scenario could also be the fact that most of these businesses are seasonal, thus business management training may not be a priority to many of the micro entrepreneurs. Five (5) percent of the respondent said they had gone through some business training. Apparently, their training was facilitated by an institution that gave them a business loan, Malawi Rural Finance Company. To run these businesses successfully, the people need at least basic knowledge in management of businesses which include customer care and basic book keeping. While some have managed to operate their businesses successfully, others have not been so lucky. This is not strange, as many of them are forced into business as a way of complementing their farming activities and not as a career. Because of these deficiencies, most of them do not know how to care for customers and cannot maintain a simple cash account. Good customer care skills would enable the business operators to attract and retain customers for their goods or services. Sound book keeping skills would enable the business operator to keep track of financial transactions thus enabling the operator to easily determine whether the business was making profits or losses. More importantly, the operator would be able to make necessary adjustments to the business.

This finding confirms what has been echoed in the literature. Just like lack of seed capital, lack of business management skills was reported in almost all the cases which have been cited in the literature review. One way of combating this problem is to borrow the Ghanaian or the Chinese model as discussed in the literature by setting up or strengthening institutions working in the Small and Medium Enterprise Sector so that they can also work towards easing the problems faced by the rural informal sector.

4.5.4 High Transportation Costs

The other challenge facing informal businesses at Bolero, according to the results is high transportation cost. This is a genuine challenge mainly to those who get their supplies from Rumphi or Mzuzu, the two main trading centres. Unreliable transportation limits movement and availability of supplies for the small businesses thus affecting their performance. The people argued that it is a disadvantage as they spend a lot on transport which translates to high purchasing costs. This, they argued, affects prices of their goods and services as they have to charge a higher price to cover the costs thereby negatively affecting business performance and operation as they sell less over time, meaning reduced turnover. Their livelihood equally gets affected since they also depend on the small profits for their subsistence needs. Looking at this problem closely, it hinges on several aspects including lack of cooperation amongst the business owners. This is similar to what was highlighted by Veronica Brand (1986) that the business operators had little understanding of working in cooperatives and suggested that they be organised into cooperative so that they could operate as a unit. This idea could also be helpful in Bolero. One way of dealing with this challenge is for the business owners to be organised in groups and work as cooperatives. In this way they could deal with the issue of high transportation cost by buying stocks in bulk as a group. The challenge with this suggestion would, however, be logistical or practicality of organising the people, most of them with small and temporary petty businesses into functional cooperatives. The best way, however, would be to start with the more established businesses.

4.5.5 Late Payment of Credit

Late-payment of credit was also mentioned by many as a challenge to the operations of their businesses. For people who are already operating on limited capital, credit transactions further diminish money available for maintaining and expanding the business. One would argue that this is a common challenge to all kinds of business that sell on credit, whether formal or informal. What makes it more challenging in these informal businesses is that credit transactions are in some cases tied to social relations. For example, it may culturally be impolite not to allow relatives such as parents to get items on credit. At the same time, it is considered culturally improper to ask them to pay back the money. This negatively affects the businesses as it erodes the capital and profit base of the business. While we appreciate this challenge, it is important that the business operators be able to overcome this challenge as it has the potential to paralyse or kill the businesses. The operators would only need to take a stand against this malpractice. They need to make a decision to treat any credit transaction on business terms rather than on social ties. It is obvious that if social ties are allowed to reign supreme over business ethics, the business may not survive. This may also be a consequence of lacking business skills as seen earlier. Business management training may be helpful as it will enlighten the business owners on how to deal with such issues.

4.5.6 Lack of Shelter

The results indicate that lack of shelter was one of the least faced problems by the respondents. This problem, however did not seem to affect most of the respondents in the production and service businesses. From observation, it was noted that most of them were established businesses who had secured good shelter for their businesses, while others were operating from their homes. There was also a relatively low response rate on this challenge from the respondents in the retail category as only four (4) percent indicated that this was a problem to them. This could be explained by the observation that these retail businesses are simple, temporary and mobile such that owning a permanent shelter may not be a priority to them.

Chapter 5: Conclusion and Recommendations

5.1 Conclusion

This study set out to explore the role of informal sector businesses in rural livelihood. The argument was that there were indications that subsistence agriculture is more and more becoming insufficient as a source of livelihood in the rural areas due to a number of challenges. For example, landholding is becoming smaller and smaller due to population pressure; soils are becoming more and more infertile as a result of environmental degradation and rural people cannot practice intensive farming because they cannot afford the technologies that are involved due to poverty. Accordingly, the first task was to gauge the kind and range of small-scale informal businesses operating around Bolero. The findings indicate a range of small-scale informal businesses operated by people around Bolero. The common ones include carpentry and joinery, tinsmith, radio repair, local beer brewing and selling, fish mongering, metal welding, tailoring, fruit and vegetable selling. A close examination of these businesses revealed that they are simple in organisation and operation and require modest start-up capital. This suggests that anybody with interest and will can launch himself or herself into such businesses by way of complementing agriculture which is in many cases inadequate as a source of livelihood. It was also clear from the results that most of the businesses are not driven by demand-pull factors whereby the people were driven into the businesses due to the inadequacy of agriculture to provide for all their needs. It was noted that most of the businesses were established as a survival strategy and not necessarily out of a perceived business opportunity and many of them only appeared during the farming off-season which usually last for eight months.

The findings suggest that informal businesses in Bolero play an important role in people's livelihoods. The income generated from their businesses is mainly used on meeting people's daily basic needs such as education, food, clothing, medication, education transport and other daily needs. The argument, therefore, is that without complementary income from these small businesses, people around Bolero as in other rural areas would have an uphill struggle to provide for their basic needs since agriculture is proving to be insufficient. It can safely be inferred that small-scale informal businesses play a vital role in sustaining livelihoods of the people around Bolero. While this is the case, the findings have also shown that these businesses face a number of challenges. Of these, the major one is start-up capital, implying that a good number of people without start-up capital are not able to establish these vital small scale businesses. The study also revealed that training and transport are other formidable challenge to facing operators of informal small-scale businesses. In a nutshell, this study, within the limits of its design has suggested that rural people of Bolero find informal businesses vital for their livelihoods in particular and will need to be assisted to set up small scale informal businesses if they are to provide for their basic needs throughout the year.

5.2 Recommendations

Having established that informal businesses play an important role in rural livelihoods in the face of the insufficiency of agriculture, the need to support the informal businesses cannot be overemphasised. Based on these findings, the researcher is of the view that rural development would not be complete if support of informal businesses was not incorporated in the national plans for rural development. The researcher, therefore, recommends that there be a nationwide concerted effort on supporting rural informal businesses. These efforts should include committing more resources to relevant institutions that support rural informal businesses. This could also include encouraging and supporting more studies on ways of improving service delivery to the informal businesses. To this effect, the study further recommends that organisations that are currently working on supporting the informal businesses in rural areas like Development of Malawian Traders Trust (DEMATT), Technical Entrepreneurial Vocational Education and Training Authority (TEVETA) be supported adequately so that they reach out to as many people as possible in the rural areas who derive their livelihood from these informal businesses.

The study also recommends further studies in the operations of existing financial institutions to find out how best to reach out to the rural informal businesses in order to alleviate rural poverty. First of all, however, is the need to recognise that the informal businesses do play a role in rural livelihoods, as the study has shown.

Appendix A: Informal business owner's questionnaire.

MICRO ENTREPRENEURS QUESTIONNAIRE

THE ROLE OF THE INFORMAL SECTOR IN RURAL LIVELIHOOD:

A CASE OF BOLERO GROWTH CENTRE

A. IDENTIFICATION INFORMATION.

Questionnaire Number:……………………………………………………..

Occupation:……………………………………………………………

Occupation code:………………………………………………………

Date of Interview:……………………………………………………...

Name of Respondent:…………………………………………………

B. Background Information.

No.	**Question**	**Answer**	**Code**
B.1	Sex of Respondent	1[ ] Male 2[ ] Female	
B.2	Age of Respondent	1[ ] 20-30 years 2[ ] 31-40 years 3 [ ] 41-50 years	

		4 [ ] 51-60 years 5 [ ] over 60 years	
B.3	Highest Education of Respondent.	1 [ ] No formal education 2 [ ] Primary Lower (std 1-4) 3 [ ] std 8 4 [ ] JCE 5 [ ] MSCE 6 [ ] Tertiary 7 [ ] Adult Literacy	
B.4	Marital Status of Respondent	1[ ] Never married 2[ ] Married 3[ ] Widowed 4[ ] Divorced 5[ ] Separated	
B.5	Number of Dependents	1 [] 1-3 2 [] 4-6 3 [] 7-9 4 [] More than 9	

C. **Reasons for Establishing Business**

No.	Question	Answer (s)	Code
C.1	Why did you establish this business?		

D. **Role of Businesses in Livelihood**

No.	Question	Answer	Code
	On what do you spend the income you get from your business?		

No.	Question	Answer	Code
F.	**Challenges**		
F.1	What problems do you face in your business?		

F.2	What was the source of your business capital?		
F.3	Have you ever applied for a loan?		
F.4	If Yes, were you successful?		
F.5	If no, why?		

APPENDIX B: GUIDE FOR A FOCUS GROUP DISCUSSION.

1. Why do people establish informal businesses?
2. What is the role of the businesses in your daily life?
3. What major challenges do you face in your businesses?
4. How do you think these problems can be solved?

APPENDIX C: GUIDE FOR KEY INFORMANTS INTERVIEW

1. Traditional Authority/Former Member of Parliament

a) Tell me the History of this area

b) Why are more people establishing informal businesses in your area?

c) What does it take to run these small businesses?

c) What problems do these small businesses face?

d) How do you think these problems could be solved?

e) What role do you play in the promotion of these businesses?

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