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An Analysis Of The Significance Of Informal Financial Integration With Formal Finance For Economic Development, Case Of Zimbabwe.

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Declaration

I **B201309B** affirm that this dissertation represents the result of my independent work and research, with the exception of consultations and significant contributions acknowledged through references and citations. Further, I confirm that this academic study has not been previously submitted for any other degree or at any other educational institution

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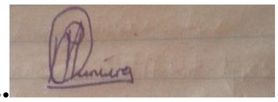
B201309B **…..****….**

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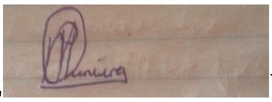
SIGNATURE  ` Date …3/10/2024…….

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Supervisor **Chairman**

Dedication

First of all, this research project was initiated by my parents, Mr…. and Mrs…. .I sincerely thank you for your love and unchanging support for caring for me and always doing my best. Thank you for letting me go through this phase and every other phase of my life. Thanks to my uncle Maxwell and Wilfred for always looking out for me and supporting me. Thanks to friends for giving me the reason to always smile and the strength to get through the hard times

Abstract

Informal finance is not unique to Zimbabwe as it has always been. However, during the last several years, the informal financial sector has become popular among local residents. The Zimbabwean government has tried to take steps to shut down the sector, but nothing has been done successfully**.** The primary objective of this study was to investigate potential methods for government institutions to seamlessly merge the informal sector with the formal one, thereby enhancing cooperation throughout the financial sector. To accomplish this objective, the study initially explored the drivers behind the informal financial sector. Data were gathered through questionnaires, interviews, and secondary research. Additionally, this study acknowledged the presence of the informal financial sector, quantified its actual size, and aimed to devise a method to independently assess its economic impact. Using the GDP gap model as a proxy, the study sought to estimate the informal financial sector's scale. The primary findings indicate that the informal financial sector contributes to the perpetuation of structuralism and incomplete information flows, although it is primarily a result of fiscally repressive policies. In addition, the sector accounts for approximately 80% to 90% of the Zimbabwean economy in the current period and contributes significantly to the development and continuity of individuals and businesses that are often marginalized in the formal financial system. Finally, given incentives, the study argues that it is also possible to consolidate the informal financial sector.

KEYWORDS: ***Informal financial sector, Formal financial sector, Integration***

Acronyms

AFDB	AFRICAN DEVELOPMENT BANK
BAZ	BANKERS ASSOCIATION OF ZIMBABWE
DCORP	DEPOSIT PROTECTION CORPORATION
FFI	FORMAL FINANCIAL INSTITUTION
IFI	INFORMAL FINANCIAL INSTITUTION
LDC	LESS DEVELOPED COUNTRIES
LFCLS	LABOUR FORCE AND CHILD LABOUR SURVEY
MSME	MICRO, SMALL AND MEDIUM ENTERPRISES
RBZ	RESERVE BANK OF ZIMBABWE
ROSCAS	ROTATING SAVINGS AND CREDIT ASSOCIATIONS
SACCOS	SAVINGS AND CREDIT COOPERATIVE SOCIETIES
USD	UNITED STATES DOLLARS

Acknowledgement

Countless praises to the Almighty for bestowing wisdom, comprehension, and fortitude to finish this study. Additionally, for my tireless efforts and valuable contributions to this research, my research advisor. This project would have been impossible without the assistance of friends and family. I want to extend heartfelt thanks to everyone who, directly or indirectly, aided me in my academic pursuits. Thank you for all your efforts to complete your training. Finally, I wish to convey my utmost appreciation to Chikwangwani Motors (PVT) for their assistance in developing future retailer technologies.

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CHAPTER I

INTRODUCTION

1.0 Introduction

An analysis of the significance of informal financial integration with formal finance for economic development. This chapter covers general background information that relates fundamentally to the emergence of the informal finance sector in Zimbabwe and its impending consequences. In addition to this, the problem statement is presented in this chapter and as a way to approach the problem; objectives and research questions have been established. The chapter also discusses the limitations and boundaries of the study, its relevance to both the researcher and the wider community, the assumptions underlying the research, and concludes with a summary of the chapter.

1.1 Background to the study

Zimbabwe our country has been a struggling economy for over ten years since the time of hyperinflation affect the developing country from 2000 up to 2008. During this phase the government made an analysis of the significance of informal financial integration with formal finance for economic development decisions that result to hyperinflations massive, economic collapse and an unprecedented humanitarian problem. Programs and policies such as the indigenization policy in which citizens were given a fifty-one percentile gain over foreign investors were put in place in the aim that they would benefit Zimbabwean citizens in general. Despite the effort made to strengthen national on their internal resources, business confidence has deteriorated. Foreign investors eventually withdrew from the country, ultimately causing stock markets to fall and a permanent shortage of foreign exchange (The Zimbabwe 2016).

The relocation ramified by investors to extract with their well-necessary impact has finally led the closure of many corporate formally recorded. The amount of money flowing outside the formal system in Zimbabwe ranges from $3 billion to 7 billion (Finscope Survey, 2014; The Herald, 2015). On other hand, these figures are uncertain as the actual amount of cash flow in this industry is not easy to quantify and may be more than stated. Most companies in this sector buy and sell their goods and services in cash and therefore don't mobilize their savings from formal financial institutions. Again, fears of losing their hard-earned money due to closure of the bank in this unstable economy have perpetuated the reluctance of citizens to resort to formal financial institutions, apparently avoided. A survey of the financial situation of the Zimbabwean economy hypothesized that almost 70% of the adult population is not banking. Of the population in debt and able to use banking products, only 9% have active accounts in terms of deposits and only 14% also have active accounts in terms of withdrawals. (Finscope survey, 2014). The main question now is where the rest of the population gets their money from.

As a result, informal financial institutions have sprung up, such as informal money lenders, money changer, loan groups commonly referred to as "round tables", as well as friends and family members, offering replication services from formal financial institution. 50 percent of registered owners of micro, small and medium enterprises (MSMEs) have or use informal mechanisms to manage their business finance. (Financial inclusion strategy, 2016-2020). In the end, the ongoing pattern of businesses shutting down and the expansion of the informal sector have caused Zimbabwe's government to suffer revenue declines.

The government is losing individual taxes because of unemployment in the formal sector. Though this is not the only way in which the government has been losing revenues, the conclusive end results is losing financial opportunities that it could be using to fund its expenditure on economy development pursuits. As can be seen, reduces the effective of macroeconomic policies, deforms the structure of the economy and worsens the investment climate.

1.2 Statement of the problem

The Zimbabwe government faces the challenge of a shrinking tax base in the formal sector due to unemployment. Accessing funds from the informal sector is difficult because many firms operate without registration or formal premise. The issue now is how the government can utilize resources from the informal sector to benefit the economy without harming its crucial role in sustaining the current economic situation.

1.3 Research objectives

1.3.1 To assess the nature, origins and extent of informal finance.

1.3.2 To evaluate the extent of the informal financial sectors in Zimbabwe.

1.3.3 To outline the impact of finance sourced from the informal sector on economic development.

1.3.4 To establish strategies that government can adopt to integrate informal finance with formal finance.

1.4 Research questions

1.4.1 What are the nature, origins and extend of the informal sector?

1.4.2 What approaches are available to evaluate the extent of the informal financial sector?

1.4.3 How has informal finance contributed to economic development in Zimbabwe?

1.4.4 What strategies can government adopt to integrate the informal finance with formal finance?

1.5 Significance of the study

1.5.1 To Bindura University of Science Education (BUSE)

This study can be used as a research data of Bindura State University and other students and other related institutions can also use it.

1.5.2. To the researcher

This study empowered the researcher by understanding deeper information on informal sector. The researcher also gained from the formal process of undertaking an empirical research in the following ways: Problem statement, crafting of research questions, and carrying out the data gathering process.

1.5.2 Zimbabwe

The goal of this study is to give in-depth knowledge about the collapse of Zimbabwe's financial sector and its consequences. Also to consider whether there are effective and viable strategies that can be used to consolidate the country's formal and informal finance in Zimbabwe to improve economic development. The researcher's goal is to recommend further improvement that can be made to improve the integration and use of informal sector resources in Zimbabwe to accelerate economic that will benefit all citizens. This study can be used as a yard stick for other researchers in other countries in similar situations to get out of such a situation.

1.6 Assumptions

1.6.1 The feedback provided on the questionnaires gave true, correct and unbiased representation of institution.

1.6.2 The researchers sample size would have provided a fair and accurate representation of the informal sector.

1.7 Delimitations

This study covers data from the Zimbabwean economic period which the crisis occurred to year end 2023. The research proposes actionable strategies for policymakers on utilizing informal financial sector resources and integration them with the formal sector to boost economic revival. The main target group for the study was informal financial institutions, where views on formalization issues were paramount.

1.8 Limitations

The researchers time was limited in the early days because it was difficult to achieve the desired level of trust. The time given for the researcher to conduct the study was due to the fact that they had to gather information. Due to some internal control practices or to confidentiality some participants will not disclose full information for researcher to become successful cooperation. Lack of funding also affected the quality of research in the most convenient areas of towns and cities. However, the researcher has used alternative means such as internet to overcome these obstacles. Some respondents were late to respond due to their busy schedules, and some did not even respond at all. Some respondents were concerned about confidentiality because some questions may not have answered them properly,

1.9 Definition of terms

Informal sector

The informal economy encompasses a range of economic activities, businesses, occupations and workers that operate outside of state regulation or protection (Chen M, 2012).

Integration

Integration is the process of achieving close and continuous coordination between multiple departments or systems (Business Dictionary, 2018)

Economic development

Economic development is described as efforts to improve the economic well-being and quality of the communities through job creation or retention and, income and tax-based support or increase. (Svbich, 2015)

Informal finance

Informal finance is financial capital raised from relatives, family, friends or personal lenders and is often associated with shadow finance (Elston et al, 2015).

Formal finance

Formal finance is capital received from banks and other official financial intermediaries (Elston et al, 2016). Official funds are regulated by central banks through commercial banks, building associations, microfinance institutions and savings banks.

1.10 Chapter summary

This chapter primarily addressed various aspects that initiated this study, covering its background, objectives, problem statement, research questions, assumptions, significance, delimitations, limitations and definition of terms. The next chapter explored the literature review.

CHAPTER II

LITERATURE REVIEW

2.0 INTRODUCTION

Many economic analysts carry out numerous research papers on issues affecting the informal and formal financial sector. This chapter aims to give clear understanding of the nature and origins of informal finance and indicators that can be used to assess the magnitude of the informal sector. The study also analyses the approaches and frameworks utilized in diverse countries to merge the informal and formal financial sectors.

2.1 Informal finance: general overview

Financial services such as saving and loans are the main drivers of economic development, and it is significant to pay more attention to these services to achieve the community's desire for development. Sharma (2006) argued that economic growth depends on the productive and efficient allocation of funds within the banking industry. The duty of the banking industry is to act as an intermediary between those who lack capital and those who have surpluses capital. On other hand, in most dual-economy countries for example Zimbabwe, Tanzania, Nigeria, Ghana and South Africa, only to cite a few, (Diao, 2014), formal finance sectors are difficult to meet this obligation, while informal finance sectors are increasingly popular with citizens. In this regard, it is vital to understand what informal finance is and who its customers are.

The approach to defining informal finance is illegal whereas formal finance is legal (ILO, 2015). What is regulated works within the limits and regulations of government, but what is not regulated is often the rule of law. Regulatory frameworks are necessary for influencing the way different types of services are provided and structured, but the simple regulation provided by this provided by this definition has limited applicability because the same financial services considered informal in a country may be formal, thanks to the various legal regimes.

Another definition is that informal finance includes unregistered activities that occur outside of the formal finance institutions. Provided this definition, the previous definition can be merged with the current one. In this situation, the definition of informal finance would be illegal and often unregistered activities that, for a short period, take place outside formal financial sectors such as investment banks, construction associations, financial firms and commercial banks. Formal financial institutions (FFIs) and informal financial institutions (IFIs) technically offer the same range of financial products and services, but differ in the nature. As described, IFIs have little or no record keeping and savings on deposits and loans are carried out on a small scale, primarily based on personal recommendations (Hanedar, 2014). In addition, there are no barriers to entry, so anyone can easily become an exchange or lender company. On top of that, IFIs are limited in scope and geographically limited compared to their unlike and, peers formal finance institutions, have no formal premise to do their business activities. Therefore, the basic idea is that the opportunities available in formal institutions are not exactly the same as opportunities available within the informal segment.

The informal financial industry has existed in the light of the fact that 19th century and is growing, thriving and surviving better than the stated sector. This raises the question of who are the customers supporting this sector. In most sector of the world, the poor have been largely marginalized by lending from the official finance system (Chioma et al, 2014). As a result, poor people without banks accounts have developed a wide range of informal financial mechanism to meet their financial needs, and IFI can therefore be viewed as poverty alleviation tool. Most studies conclude that IFI is for the poor, but this is not always the case. Informal sector businesses and registered SMEs desperately need the services of informal financial institution and prefer them for purposes other than poverty alleviation.

2.2 Origins of informal finance

Many analysts have conducted studies that generalize the causes of informal finance. The most prominent of these reasons are articulated in the Theory of Financial Repression promoted by Ronald McKinnon and Edward Shaw, the Structuralism

School promoted by Phillip Hugon, and the Philosophical Incomplete Information School promoted by Carla Hoff and Joseph Stiglitz.

2.2.1 Financial Repression Theory

Over past 40 years there has been a lot of debate in the corporate community on financial oppression practices. This scenario implies that the government implements policies to restrict and enhance the flow of money throughout the economy including direct lending, raising interest rates (i.e. decreasing real interest rates), and concessional loans to the government. According to the hypothesis, interest rate ceiling boost public goods appeal by stifling private sectors rivalry. This works with an optional credit policy. In this situation, only the “profitable” industry is given priority by the government, and receives more financial loans that the other industry.

The primary drivers of these regulations have been the government’s aim to oversee or collect rents from the financial system. (Yulek, 2017). In 1973 McKinnon and Shaw suggested that financial repression had a detrimental effect on economic growth and financial development, particularly in emerging nations. The majority of emerging nations have unknowingly co me under financial hardship. Other enterprises in the sector confront financial difficulties as the government imposes rigorous regulations to further its own interests and fundamental aims of economic development. For those who work in unregulated finance, this funding imbalance is motivating. IFIS have developed as a means of these survival and support as a result of these financial policies, which are preventing an increasing number of individuals from using official financial institutions.

Recent advancements in this theory highlight government regulations mandating banks and other financial intermediaries to hold more treasury bonds, leading to financial oppression (Chari et al. al, 2014). This entails the government compelling financial institutions and authorized intermediaries to hold government bills. They propose that such fiscal constraints, necessitating banks to retain government cannot commit to debt repayment.

According to study conducted in China and supported by a careful approach to deregulation, financial repression often promotes economic growth. (Xun, 2013) The same author contends that financial repression can cause domestic companies to make international investments, which would cause foreign direct investment to leave the country.

The growth of the informal financial sector is not, however, primarily due to government rules and limits on the transfer of financial resources. Other variables noted by Philip Hugon in 1990 in this structuralism theory are attributed to the emergence of the informal financial sector. According to a study conducted in China and supported by a careful approach to deregulation, financial repression often promotes economic growth. (Xun, 2013) The same author contends that financial restraint can lead to

2.2.2 Structuralism

A different viewpoint, associated with the existence of informal financial institutions (IFIS). This perspective holds that FFLS are necessary for IFIS to segment the market (Soyibo, 2006). Scholars belonging to this school of thought noted that formal financial institutions structural flaws are a major factor in the financial sectors segregation (Sile, 2015). When the legitimate financial system fails to fulfil the requirements of the entire economy, consumers 'are forced to choose between it and the unofficial marketplaces that exist.

In support of this background, a study conducted in Malawi indicates that a prevalent issue in developing nations is the deficiency of infrastructure, which may be contributing to the decline of formal financial institutions. Due to factors including road networks, undeveloped communication and power outages, institutions are forced to work only n metropolitan regions, abandoning rural communities (Mandiwa, 2014). This is a result of IFIs lack of infrastructure limitations. They can disperse income to others without formal access, thereby serving as a kind of social security. The information gap, for example, is one of the gaps that the IFI is intended to bridge.

If gathering prospect information through formal agencies can be costly, IFIs employ local personal data, and informal agents supply funds on a customer's reputation in the community rather than asking for security in the form of loan. For the origins of informal finance, insufficient information is another factor that the Structuralism brings up.

2.2.3 Imperfect information Hypothesis

K. Hoff and J. E. Stiglitz theorized the presence of informal financial markets in developing nations, which 'are thought to arise from insufficient information, in the early 1990s. According to Seinfield (20I8), incomplete information occurs when there is discrepancy in the information that the parties to a transaction have information asymmetry and moral hazards are two issues that are linked to incomplete information. There is a danger in all financial markets that borrowers of funds will take actions that the lender deems undesirable, creating the appearance that borrowers would be unable to pay back their loans.

The organizational framework and capacity to evaluate applicants for credit bureaus are absent from official financial institutions. As a result, in order to avoid moral hazard, FFIs typically demand high fees and depend on high-quality data to identify their clients. Mahdi, (2018). However, this protection alienates potential customers like tiny and micro-businesses, whose financial needs are exclusive to the unorganized sector and who lack the resources to pay for FFI services.

2.3 The nature of informal financial institutions

The most reasonable assumption is that each type of informal institution and the products they supply correspond to the formal financial sector. Some of the most common of these informal funding channels are.

2.3.1 Informal loan group

Since there is no laws governing small informal lending groups, they are seen as semi-informal but not illegal. These are little social clubs established to assist people of the community in setting aside funds for particular goals, either personally or collectively. These organizations can be Savings and Credit Cooperative Societies (SACCOS) AND Rotating Savings and Credit Associations (ROSCAs)

A common term for ROSCAs is "playing the round table" or "Chimbadzo" in Zimbabwe. They go by many names, such as "isusu" in Nigeria, "Susu" in Ghana, "chit fund" in India, and "chimbadzo" or "round table" in Zimbabwe. Each member of the group deposits a universal fixed amount each month to a designated treasury/treasurer, and the total monthly amount is then given to one member of the group (Cheruiyot el al 2016). The monthly payee rotates according to a pre-planned rotation, guaranteeing that every member receives a substantial amount in the end.

SACCOS differs from ROSCA in that group members must make regular contribution to the group's treasury. Instead of rolling payments, group members and/or trusted third parties can get the amount they want in an interest-bearing loan. SACCO's group funds are 'used to provide loans with interest. After a specified period (usually six months to one year), the group's funds and interest income are returned to the original members (Invested, 2012)

2.3.2 Informal moneylenders

The ethical person who works as an informal moneylender is the focal point of informal finance (Aliber M, 2015). Lending money to individuals and small enterprises specifically satisfies the role og the cash lender. The informal cash creditors are 'known for their capability to supply funds instantly access to the highest possible credit score upon request. GDRC (2015) this is quite attractive to borrowers since it saves them time compared to using FFIs, which are often plagued by long mortgage processing times. Some important characteristics of cash lenders are that they are available throughout the day and do not observe regular business hours as traditional financial institutions do. They are also commonly determined in near proximity to the borrower so get entry to the cash creditors is not limited.

In addition, the borrower must always provide enough security to safeguard against repayment default in any situation involving bank borrowing. Because most of them no longer have collateral and are priced similarly to a bank mortgage, this feature of FFLs leads individuals and businesses to opt to utilise informal cash creditors (Karaivanov et al., 2017). The borrower however, also found himself in the position of having to deal with a lender who controls all digital access to information related to credit scores. The absence of opposition is a crucial factor that permits this to happen because the cash lender is the best option available locally (Karaivanov et al., 2017). With this power over the cost of hobbies, creditors may take advantage of borrowers and impose exorbitant fees for recreational activities, leaving borrower potentially trapped in a never-ending debt cycle.

2.3.3 Informal remittance of money

According to the African Development Bank (2009), recurrent cross-border transfers in relatively small amounts made by migrant worker to family members to as informal remittances. Both legal and informal financial channels are available for these transfers. When it comes to unofficial financial channels, migrants frequently use them to send money to their home countries instead of using the official banking systems in both their home and host nations. Many temporary employees and migrants use a courier service, which entails using a regularly scheduled taxi or bus or having friends or family bring cash while they are travelling from their home or host nation (Chisasa, 2014). These informal moneys transfer services are quick, affordable, dependable, adaptable, and culturally convenient in comparison to formal money transfer mechanisms, which often have high transaction cost, costly fees, lengthy processing times, and extremely bureaucratic procedures. For individuals who are not eligible for the legitimate services provided, these unofficial channels present respectable substitutes to established financial institutions. However, the biggest drawback is that security is a concern. Stealing makes it impossible to ensure that the money you send will reach its intended reach its intended receiver.

2.3.4 Informal currency markets

The emergence of parallel currency markets in less economically developed countries (LEDCs) can be attributed mainly to capital controls and limitations on foreign trade transactions. These measures greatly restrict the use of local credit cards or currencies overseas or online without authorization from the Foreign Exchange Commission or relevant authorities (Agenor et al, 2012). High rates of inflation, depletion of foreign exchange reserves, and a lack of trust in the home currency have all been mentioned as additional causes. As a result, there is a strong demand for foreign currency as people attempt to protect their financial resources and preserve its value. (Investopedia, 2013).

It is challenging people to purchase foreign currency at the official exchange rate due to capital controls like the ones stated above, and following the established protocols- such as using a bureau de change or Conti-cash may often prove to be time-consuming and laborious. For foreign currencies, a parallel currency market subsequently emerges. The drawback of using the parallel market is that providers of the service frequently charge a substantial premium over the official exchange rate.

2.3.5 Family and friends

Although there is little research on financing by family and friends, existing informal finance models are better suited for informal moneylenders. When compared to all other informal finance, funds from friends and family are the least expensive (Lee, 2015). Family investors frequently take low to no returns because they do not charge interest on the loans they give to their relatives (Collins et al., 2010). As a result, one would anticipate that the borrower would turn first to friends and family. That is not always the case, though. That is not always the case, though. In a survey conducted in rural India, the participants chose who should get money first.

The majority of the villagers stated they disliked having debt in family relatives (Guerin, 2012). Given the shadow costs associated with family financing, most people prefer the inherent detachment that other informal financial institutions possess. Obtaining financing from friends and family frequently causes tension in the lender-borrower relationship. A positive family relationship can break down due to arguments if the borrowing relative is unable to pay back the lender. Moreover, family finance tends to lessen the borrower's appetite for risk, which discourages entrepreneurial investment even though it broadens access to capital (Persson, 2015)

2.4 Measuring the size of the informal financial sector

(IFIs) are hard to measure and track meaningfully, despite the fact that their qualitative traits and structural characteristics are 'well documented. There are advantages and disadvantages to each of the direct and indirect methods that have been developed to try to quantify the true contribution of the informal sector. Below is a general discussion of these approaches.

2.4.1 Direct approaches

"Investigation, voluntary sampling, tax audits and other compliance techniques" are examples of direct measurement approaches (Echavarria, 2014). One would need to use primary research methods that gather "first time" data in order to apply this measurement technique. This approach has been shown to be the most valid and reliable means of determining the size of the sector being studied. Since the study is set up to make it possible to collect pertinent data, it provides more far detailed information (Park, 2015). The main issue with primary research, though, is that the findings are directly influenced by the questions the survey asks. These inquiries frequently have a narrow focus, and there is no assurance that the respondent will answer honestly, particularly when it comes to material that the respondent might view as being too sensitive (Alderslade et al., 2006). Furthermore, due to distinct economic features, the metrics employed to gauge and contrast the informal economy might not be applicable in other eras or nations. Direct methods of measurement are by definition expensive, time-consuming, and challenging to implement. Schneider (2002) said.

2.4.2 Indirect Approaches

The informal sector is measured using macroeconomic parameters to determine its size and growth overall. This approach, also known as an indicator approach, comes in a variety of forms, but the financial or finance measures of the informal sector-such as the discrepancy between national expenditure and income statistics, the currency deposit ratio-are of interest in this study.

a) Discrepancy between the National Expenditure and Income Statistics

The core principle of this approach lies in the difference between expenditure and income figures. According to national accounting standards, GDP's income and expenditure components ideally balance each other out (Schneider, 2016). Estimates of these two parameters are typically available and if their comparison indicates that, there is a difference between the incomes and spending components, the difference between is regarded as a sign of the informal economy. If both components are accurately measured, this method produces a reliable estimate of the size of the unorganized sector.

However, this is not always continually the case. The problem with this estimate is that statisticians would love to make the difference a few of the as small as possible and so have a propensity to cast off the preliminary measures of the additives and put up the adjusted figures (Echavarria, 2014). Sampling and statistical mistakes are profoundly entangled in those estimations and so this degree might not completely provide a clean image of the actual scale of the economy. As an example, the expenditure degree is at maximum tough to decide items and offerings intake and so the additives in query are held in query (Moldovan et al, 2008)

b) The Currency Demand Approach

Cagan in 1958 first used this technique as a hallmark of the dimensions of the informal sector (Ardizzi, 2014). This technique attempts to set up the correlation between foreign currency call for and tax burden, assuming that informal sports are accomplished the usage of coins. Shadow (or covert) transactions are 'made within side the shape of coins bills to go away no seen mark at the authorities. Thus, boom within side the informal sector routinely ends in a growth in foreign currency call for (Schneider, 2016). In addition, variables, which include direct and oblique tax burden, authorities regulations, authorities agencies, and tax morals, are taken into consideration to be principal elements that make human beings paintings within side the informal economy. Therefore, a growth within side the tax burden additionally will increase the call for cash.

However, the inherent boundaries of this technique are first, it does now no longer recall the reality that within sides the shadow economy, now no longer all transactions are paid in coins, and bills may be made the usage of cell programs and financial institution transfers. In addition, its miles believed that the growth in overseas foreign currency call for is because of a slowdown in call for deposits as opposed to a upward thrust within side the alternate price because of informal financial sports. Some research additionally endorse that the rate of cash move is the identical in each formal and informal economies (Canavese, 2004). An essential examine of the technique deemed it to be unrealistic within side the experience that the proved degree for the foreign currency call for assumes that there may be a scarcity of transactions within side the base year. The foreign currency call for additionally purports that tax burden is the only determinant of informal sector however does now no longer do not forget different elements which include marketplace regulations, politics (Petraglia, 2012).

c) The Transactions Approach

The buying and selling technique become advanced in 1979 with the aid of using an economist named Edgar Feige primarily based totally at the quantitative principle $M * V = P * T$. in which M is money, V is speed, p is price, and T is overall quantity of trades. (OECD, 2002) The simple assumption of this method is that there\ is a positive dating among buying and selling extent and authentic gross countrywide product (GNP) over time. Thus, overall transaction value (PT) affords an estimate of nominal GNP (Echavarria, 2014). Thus, the contribution of the informal financial system is the distinction between expected nominal GNP and authentic GNP. However, as with different approaches, this degree has numerous limitations. Initially, it is miles very probably that the transaction will contain a few sort of financial transaction that is not associated with receipt of income. This reduces the reliability of the numbers used to calculate the informal financial system.

In addition, correct facts on overall transaction extent 'might not be furnished because of problems in measuring the quantity of coins' transactions. Cash transactions depend (amongst different things) at the sturdiness of banknotes in phrases of the excellent of the paper on which they\ are printed (Schneider, 2016). Considering the idea that the distinction among the overall transaction quantity and the formally measured GNP is because of the underground financial system, because of this a good-sized quantity of facts is needed to exclude finance transactions from criminal and legalized cross-settlement. It's unrelated to the shadow financial system. Generally, this method is theoretically appealing; however, its software might also additionally cause questionable outcomes due to the fact it\'s miles too hard to fulfill the empirical necessities for acquiring dependable estimates (Buehn, 2017).

d) The currency deposit ratio

The coins' deposit technique is primarily based totally at the ratio of coins to transferable coins and became evolved via way of means of Gutmann in 1977 (Kagtla, 2016). These prices are primarily based totally on empirical programs within side the United States and make the subsequent assumptions.

• "In the formal (official) financial system, the ratio of coins' deposits does now no longer alternate.

• Transferable cash is 'used most effective within side the formal financial system.

• Free coins is used most effective within side the shadow financial system. This surplus is calculated because the distinction among the real amount of money in flow and the quantity of coins anticipated in line with the ratio of coins' deposits within side the public financial system.

• A greenback in coins is most effective within side the hidden financial system. And within side the informal financial system, a greenback in coins creates as a good deal delivered fee as a greenback within side the formal financial system" (Ligthelm, 2006).

Gutmann agreed that this charge could most effective be tormented by modifications in taxes and different authorities' rules that alternate how they are paid. It was argued that charge behavior is altered to cover positive sports and keep away from taxation (Pickhardt, 2011). These hidden sports are used to estimate the dimensions of the informal financial system. Nevertheless, like several different measures, there is usually criticism. This ratio is appeared as a beside the point degree for the shadow financial system due to the fact the flow pace varies relying at the form of currency, suggesting that the entire amount of money and financial institution switch is the quality indicator (OECD, 2002). All of these strategies therefore measure the size of the informal sector to determine the proportion of the informal sector in relation to economy activity. After this status quo, it is miles of paramount significance to decide the effect of those economic sports on each the micro and macro environment.

2.5Contribution of the informal sector to economic development

2.5.1 Informal finance and employment creation

With the advent of globalization, formal employment has seen a decline worldwide. (Stein, 2008). As governments struggle to generate sufficient jobs and the formal sector struggles to absorb expanding populations, a considerable segment of the population has shifted to the informal sector. Those involved in informal economic activities have carved out meaningful employment opportunities for themselves, steering their income based on their entrepreneurial pursuits. Consequently, the informal sector has bolstered the livelihoods of its participants and facilitated both local and international trade.

2.5.2 Informal finance and SMES

Small and medium-sized enterprises (MSMEs) are fundamental to economic development, comprising over 90% of new business establishments globally (World Bank, 2014). Supporting the growth of SME's is crucial for creating jobs and fostering economic advancement. However, these enterprises face significant financial constraints, with access to formal external finance falling short of expectations (Beck et al., 2014).

2.5.3 Informal finance and informal sector businesses

Informal sector agencies are greater or much less like MSMES however their economic state of affairs is tons greater dreadful due to the fact those agencies are not registered and due to their nature, they do now no longer preserve right economic statistics and do now no longer normally have any right collateral. Formal economic establishments generally tend to disregard those companies due to their unsure future. However, the informal economic sector is available in as a pacifier, presenting economic offerings to those firms and thereby helping them to hold their commercial enterprise operations. (Aryeety, 2008).

2.5.4 Informal finance and poverty alleviation

Poverty discount through the years been a global concern. The United Nations describes poverty as relative poverty, that is described as absolute poverty whilst an own circle of relatives cannot offer primary requirements which includes food, apparel and shelter, and poverty whilst the usual of residing falls under the overall fashionable of residing. (UNESCO). Empirical proof from Vietnam (which has been a success in poverty discount) installed that informal finance in particular informal credit score helped boom capital flows in addition to mitigate intake fluctuations and consequently permit the terrible to develop out of poverty (Viet et al, 2011). If that is the case, then it\'s far vital that poverty afflicted economies need to in truth include informal finance and governments need to make strides to assist those institutions.

However, on the alternative hand, a few authors have brushed off that there may be a advantageous results of informal finance sector on poverty alleviation. They said that such financing schemes are not an option to finishing poverty as in maximum instances the poorest humans are made worse-off via way of means of informal credit score and rates (Mohammed, 2015), the case of the Zimbabwean economy.

2.6 Integrating the informal and formal financial sectors

The degree of development in a country's financial system influences changes in the informal sector and the advancement of financial relationships (Conning et al, 2002). When both formal and informal institutions are weak, the potential for transformation and linkage is limited; however, in robust systems, the potential for connection is high. To achieve desired linkages, national policies need strong incentives and regulatory frameworks. These frameworks should leverage broader financial relationships to ensure demand-driven processes from the real sector. This section explores effective strategies for fostering synergy in the financial sector.

2.6.1 Regulation of the informal financial sector

In integration, the most concepts that one could have is to institutionalize or alter informal economic establishments as opposed to try to take away the world absolutely given the advantages that the informal economic sector has to the improvement of the economy. A hit try and alter the informal sector turned into performed in 2005 whilst the Tanzanian authorities added what\'s referred to as the Block Management System (BMS). Though this turned into carried out in the feel of seeking to tax informal businesses, the principle concepts ‘may be followed to fit the informal economic sector. The following steps concerned in the utility of BMS were:

Physical identification and mapping of informal operators

The start line of the BMS becomes to bodily perceive the operators in the informal region in addition to denote the regions wherein they completed their trade (African-Tax-Administration-Forum, 2014). This manner entailed within the overall performance of a survey if you want to set up the suggest variety of human beings working inside a distinctive region and the possibly the sort of items and offerings that they provided. Additionally, with the intention to increase the consequences from the surveys, the Tanzanian authorities contacted neighborhood government and enterprise institutions, which had jurisdiction over the regions under study and requested them to contribute to this manner with the aid of using sharing the applicable statistics that they\, had approximately their regions of influence.

Block allocation

After the identity and mapping manner turned into done, the authorities initiated the block allocation scheme at district and local level. This scheme concerned the introduction of the blocks sub-blocks (African-Tax-Administration-Forum, 2014) in distinctive sectors. Each block turned into a special achievable region with one of a kind limitation like road names wherein informal operators had been located.

Block Administration

All significant tax administration tasks, including registration, assessment, revenue collection, and accounting for every kind of activity, fall under the purview of each department. A leader was tasked with overseeing the block's overall operations and handling any relevant issues in each of these blocks. The leader reported an assistant manager from the Tanzanian Revenue Authority (TRA) (Fjeldstad et al, 2011). This meant that all operators falling under a particular block had to register and abide by the segment's predetermined rules and regulations. This could also imply that the authorities would investigate operators discovered in undesignated sectors.

Furthermore, the TRA established three registers computerized block management registers; late income management registers, and tax settlement registers that ‘were required to be kept up to date for BMS purposes in order to monitor the events taking place in each block (AfDB, 2010). In order to verify that all operators were registered, the TRA assigned personnel on a regular basis to conduct field surveys in each block and sub block. This also served as an information update strategy that allowed the government to have knowledge about each operators personal and business information. (AfDB, 2010) This structure made it simpler for TRA staff given the task to each department to contact taxpayers identified and registered in that specific department.

The outcomes and benefits of the project

To the government

Since its introduction, the implementation of the BMS has led to a rise in revenues and an increase in the number of taxpayers who have registered, according to the African Tax Administration Forum on 2014. The system has made it easier to register traders, individuals who were previously not registered, and tax defaulters within the tax network by closely monitoring and collaborating with local governments. Additionally, it has empowered governments to exercise control over the informal sector (Fjeldstad et al, 2011).

To the informal operator

Operators have taken advantage of user-friendly deployments that increase cost effectiveness (AfDB, 2010). The block management system made it cheaper and easier for informal businesses to be registered as well as providing security over business and a designated place of operation meant that these informal operators had a designated place for operation allowed the operators to work without fear of negativities with local authorities.

Limitations of regulating the informal financial sector

Although there is enormous public, assist for the desires of maximum regulatory programs. In exercise, law is generally summarized in unique policies and plenty of files and may be very high priced and bulky for the ones who have to comply (Beales et al, 2017). By imposing the BMS program, expenses related to sporting out the surveys, the workforce required to assimilate the method and properly as shopping for the era had to absolutely combine this system can be better than first of all expected.

In addition to this, utility of the BMS in large part relies upon on authorities' belief of the informal economic establishments, as instance cash changers'. Moneychangers are' taken into consideration to be unlawful establishments whose very lifestyles threaten finance stability. The main belief is that cash changers generally interact in crook transactions and for this reason, regulating those may be a proactive manner of fostering unlawful sports in the economy (Simorangkir, 2017).

2.6.2 Vertical linkages between the formal finance and informal finance

Forging a vertical Vertical linkage 2among formal and informal finance markets has 'been taken into consideration to be one of the many unique methods to knit collectively the finance sector in rising economies. Linkage efforts 'may be classified into dimensions specifically direct linkages and facilitating linkages (Pagura, 2006). Initially below the direct linkage policy, regulated credit score is availed to informal industry creditors with the aid of using formal establishments consisting of banks. After receipt of those price range, the informal finance establishments (IFIs) then on-lend the received price range to the very last debtors (Chaudhuri et al, 2011). Facilitating linkages contain formal finance establishments (FFIs) using informal finance retailers as informants (Pagura, 2006). This form of linkage permits the FFIs to take benefit of the informal agent's facts relating capability customers. By so doing, the formal finance establishments could be capable of displays all capability customers and offers them with finance offerings. The direct linkage version 'may be changed to consist of non-governmental organizations (NGOS) as finance intermediaries (Carpio, 2004). The NGO acts as a proper interface among the IFIs and the FFIs gambling a function this is a great deal just like that of a financial institution in credit score acquisition and next disbursement (Sithanathan, 2011). The NGO obtains credit score from the financial institution after which disburses it to informal finance establishments. Apart from this, the NGO might also additionally provide different non-finance offerings consisting of education and operational control consultancy carrier as incentives for operation (Carpio, 2004). What this indicates is that the NGO could be additionally chargeable for giving informal finance retailers excellent motives to enroll in the direct linkage network. Such collaboration relieves stress that formal finance establishments 'can be subjected to in seeking to account for all of the sports of informal cash creditors and on the equal time seeking to offer finance offerings to different customers. Unilaterally, the delivery of formal credit score to the informal creditors complements opposition among the creditors and so the final borrower gets credit score at an inexpensive hobby charge.

Establishing linkages with the informal finance sector can be a feasible answer in that those linkages permit the formal establishments to fulfill their assignment with the aid of using taking benefit of the ability and traits of the informal finance retailers (Roberta, 2013). Financial establishments ‘could be enabled to channel the financial savings amassed from informal creditors to effective regions of the financial system (Aryeetey, 2008). In addition to this, formal finance establishments in maximum instances regularly face impediments associated with bodily infrastructures and geographical coverage (Miller, 2005). The vertical linkage has the gain of assisting FFIs triumph over this problem.

However, adopting this method would possibly show to be a venture in the feel that this method can be counterproductive. One of the maximum influential traits of the informal finance financial system is that of ease of access (Boliva, 2006). Bringing collectively informal finance establishments below one employer might also additionally permit the formal finance sector to govern the glide of finance sources however ease of access into the informal marketplace will nevertheless be very excessive. So, rather than making sure that the very last debtors acquire an inexpensive charge of hobby, the use of this constant provide could simply growth hobby fees in the informal sector as formal loans to informal creditors pave the manner for brand new creditors to go into the informal credit score marketplace. Can. This makes it extra tough to get a mortgage from the borrower and will increase the price of dealing with the mortgage for every lender. (Dvibedi et al., 2014). Others research cited that the possibilities that the informal creditors might also additionally conspire among themselves; growing a digital monopoly which might also additionally decide excessive hobby fees and accordingly ensuing in the exploitation of the very last borrower in the informal credit score marketplace (Kumar et al, 2016).

More current works in this vertical linkage method decided that the opportunities of corruption have been very excessive accordingly making this version undesirable. Closely following the paintings of Chaudhuri et al (2011), it turned into decided that extra instances than not, formal finance establishments remitted restrained finance sources to a sure middleman (NGO) to be allotted to a homogenous institution of creditors. The selection on who receives those sources and the corresponding quantity to be acquired totally lies with this finance intermediary. Prior to distribution of those price ranges, the intermediary might also additionally call for a bribe in the case of individuals who need extra credit score than others or from fringe moneylenders who are not a part of the precise crew of creditors (Chaudhuri et al, 2011). Despite the constraints mentioned above, the changed vertical linkage has been finished with a few achievements in numerous countries. One first-rate country has been the changed vertical linkage turned into initiated is the Philippines which a South Asian country.

Empirical evidence

The vertical linkage coverage became experimented with a few fulfillments in the Philippines. Just like every other, the country's finance gadget became subdivided into 3 components:

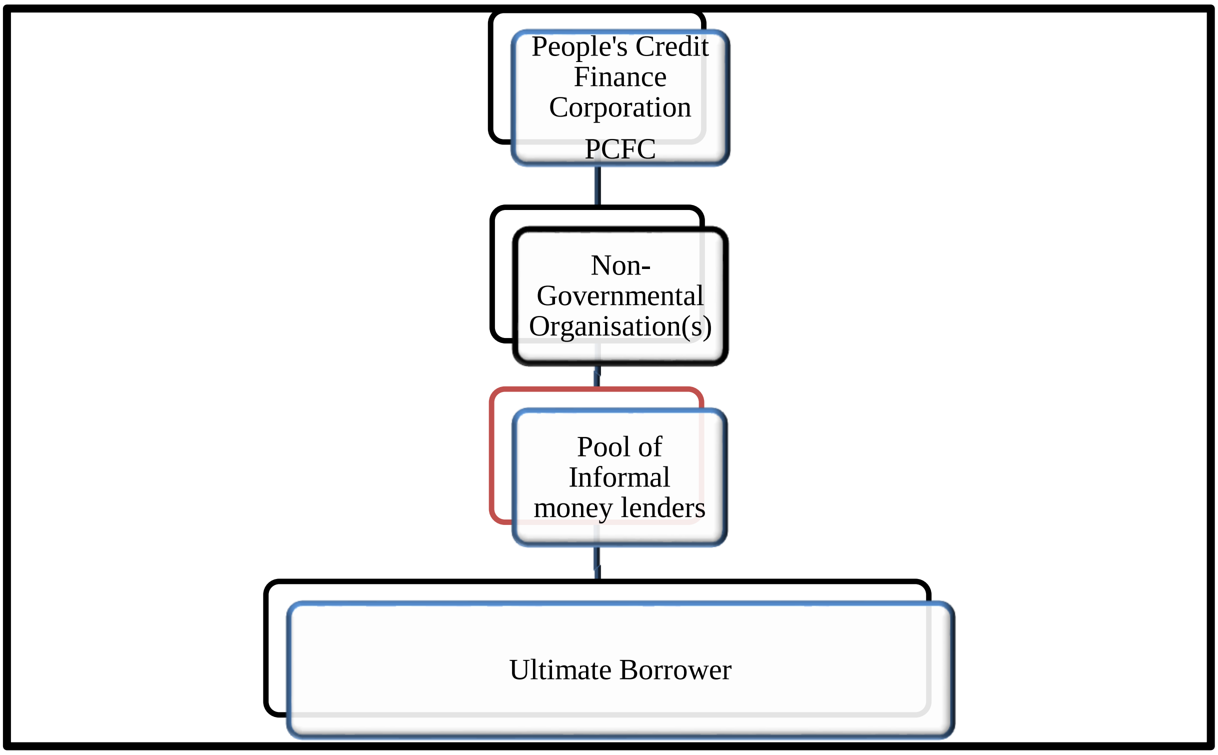
• The respectable sector below that manage and supervision of the Central Bank and the Insurance Commission (Carpio, 2004).

• A semi-formal sector that is not problem to finance law however operates below the supervision of non-governmental corporations (NGOs) registered with the Securities and Exchange Commission (SEC) and cooperative improvement agencies (CDAs) (Carpio, 2004).

• A in basic terms informal sector made of character operators or corporations that are not registered. It is assumed that this sector isn't managed or regulated with the aid of using any authorities' agency. (Carpio, 2004). Though the formal finance sector became the maximum evolved with greater than fifty industrial banks in operation and with they all imparting an extensive variety of finance offerings, the offerings did now no longer cater for the unincorporated companies as they had 'been taken into consideration to be volatile elements. Consequently, with a purpose to survive, the marginalized agencies grew to become to the informal finance sector.

Because of the truth that the informal sector became now no longer regulated, it supposed that the authorities became now no longer capable of manage the motion of the finance sources and so the arena have become a reason for concern. This became while the vertical linkage technique became 'introduced. With the assist of NGOs, the Philippine authorities installed the People's Credit Financial Corporation (PCFC), a finance group, which 'became modeled in, recognize of the Grameen model (Joshee, 2010). The primary mission of this institute became to avail credit score to the credit score granting NGOs whose primary position became to behave as a finance intermediary among the financial institution and informal cash lenders.

Figure 2.1 provides a clear understanding of the approach used



The dating between the NGO and the financial institution entailed that the NGO needed to undergo the contractual duty of repaying the road of credit score prolonged to it via way of means of the PCFC and so the financial institution changed into protected from bad publicity to threat of default. In addition to this, it gave the authorities manage over the motion of economic sources inside the sector.

After receiving credit score from the financial institution, the NGO's venture changed into too upon request, avail credit score to any informal economic group or self- assist economic agencies that have been 'registered below the non- governmental enterprise.

Given the traits of informal economic establishments defined in advance on this chapter, it's miles hard to consider that informal economic establishments might simply forego their freedom of will and function below the precepts of some other enterprise except there have been positive incentives in place.

What made this reputedly profitable to the informal economic group changed into that the NGO changed into now no longer simplest a certain manner of investment commercial enterprise however it additionally presented consultancy offerings and primary education round economic and operational sectors. (Floro, 1997).

2.6.3 Self -Help Group Banking Model

Most empirical research on informal finance listen especially at the lending spectrum however regularly forget about the position of financial savings mobilization that informal finance incorporates (Sile, 2015). The forthcoming result is that there are fewer researches in the direction of the combination of establishments, which include saving clubs, ROSCAs and/or ASCAs. However, the maximum of the few researches to be resided had a whole lot on what is ‘called self-assist organization financing.

This version is pretty just like the vertical linkage exercise and is ‘broadly practiced in Asian international locations, which include India and Indonesia (Sinha, 2010). The SHGs are ‘created and or supported with the aid of using NGOs, or they are taken on with the aid of using Government groups and from time to time at once with the aid of using banks (Union Bank of India, 2012). This particular method to economic integration targets to offer cost-powerful economic offerings to the terrible and so this can contain reworking those small-scale deposit creditors into economic intermediaries with everlasting mortgage funds. (Tokman, 2007). Self -assist organizations are defined to be small and economically homogenous affinity organizations of rural terrible who voluntarily meet to gain targets, which include saving cash often with the aid of using jointly, agreeing to contribute to a not unusual place fund. The fund is ‘mounted to serve emergency desires of the organization individuals. (Shodhganga, 2017). Linking with SHGs lets in the formal economic establishments to serve the terrible on the equal time the use of cost-powerful credit score mechanisms (Rao, 2010). However, right linkage with the banks may also show to be a undertaking due to loss of credit score worthiness of a collection. Furthermore, the threat taking capacity of the organization ‘might not be well hedged and so banks may determine now no longer to avail credit score to such organizations (Voice, 2008). In addition to this, every other undertaking is the sturdiness of the organization. In examine executed in India, terrible survival price of organizations after a mission mortgage become sanctioned become mentioned as a main concern. (Rao, 2010).

Regardless of the seamless dangers of financing Self-Help organizations, Indonesia ‘may be mentioned to be one of the few international locations to efficaciously put into effect this version.

Empirical Evidence (all followed from GDRC 2011)

The Indonesian Central financial institution and a German authorities’ employer for technical cooperation got here collectively to sponsor a self -assist organization ‘mission which become termed Program Hubungan Bank dan Ksm (PHBK). This unmarried version had three versions to it:

Model 1 required a collection of debtors to behave as economic intermediaries. The financial institution's duty become to offer organization loans after which lend to individuals. The position of the NGO becomes to offer widespread guide to the organization for as much as nine months, in addition to teach the organization in documentation and economic intermediation skills. The PHBK application can pay for the education and consulting sports of NGOs. The application additionally teaches however now no longer praise banking does.

Model 2- this version become defined to be a whole lot just like the primary version, with the exception that banks lend to NGOs which then on lend to SHGs. Thus, the NGOs now no longer simplest furnished education however has ‘been tasked with the position of performing as an economic intermediary.

Model 3 -the financial institution lends to a channeling organization (KPM). In this situation every character in the organization obtains an equitable element of every mortgage made with the duty of compensation mendacity with every member. If a member defaults in compensation, the opposite individuals are responsible for that unpaid part of the mortgage. (GDRC, 2011).

Since its inception, the PHBK mission has achieved impressively. As of September 1996 it become suggested that 6,800 self-assist organizations, 183 guide establishments

(NGOs) and 410 banks have been worried with a suggested compensation price of 96.4%.

2.6.4The incentives driven approach

The very essence of each the vertical linkage method and the self -assist institution financing version is ‘benched on what Seibel in 2007 defined because the incentives pushed method. This method to mainstreaming informal finance entails using incentives which can entice informal economic establishments to enrol in a specific community and enlist as members (Seibel, 2007) and the community itself may be registered in any criminal shape starting from being a company, an affiliation or a cooperative to being an apex group which at a better evolutionary stage. In addition, to inspire informal economic establishments to enrol in the community, the community offers training, consulting, accounting tools, criminal assistance, enjoy exchange, stakeholder representation, communicate with nearby and country wide authorities, audit and supervision services, liquidity exchange.... Links with business banks (Seibel, 2007) Incentives for mainstreaming as advised via way of means of Seibel are ‘illustrated below.

Table 2.1 Stepwise incentives for mainstreaming

MAINSTREAMING	INCENTIVE
1. Registration	Basic training (accounting)
2. Reporting	Financial management training
3. Legal status	Consultancy services in good practices
4. Prudential norms	Liquidity exchange and re-financial

Source: Seibel, 2007

Given the character and behavior of the folks who run IFIs, incentives can be a essential step for all integrative approaches. However, incentives do now no longer create a long-lasting dedication however best push for transient compliance (Harvard Business Review, 2018). The underlying connotation of this assertion is that the utility of incentives best affects unique behavior at a sure factor in time and so that they do now no longer bring about a long-lasting dedication to a sure plan (Harvard Business

Review, 2018). Incentives do now no longer ex-trade the underlying mind-set in behavior (Baer, 2014).

2.7 Research Gap

Integration of the informal financial industry with the formal financial industry is to a bigger quantity understudied within side the present day and age and empirical evidences and research touching on the duration from 2010 up to 2023 are limited. Though linkage proposals as the ones mentioned above are welcome, there may be no major examine into the real economic and non-economic charges of enforcing those proposals. In addition to this, maximum research performed at the informal economic quarter most effective awareness in this quit of the spectrum neglecting the reviews and guidelines of these running in the formal sector.

2.8 Chapter summary

This bankruptcy describes the origin, nature and scope of the casual finance area and examines its impact to finance development. As a part of this study, dialogues of viable integration fashions become ‘additionally initiated. The following chapters describe the method used to behavior the study.

CHAPTER III

METHODOLOGY

3.0 Introduction

This chapter aim to detail the researcher's investigation into identifying qualitative and quantitative factors associated with integrating informal and formal financial sectors to enhance economic performance. According to Yin (2013), the research methodology section consists of at least five sections covering the study design, sample design, sampling procedure, data collection and analysis, and chapter summary.

3.1 Research Framework

According to O'Leary (2004), research is a systematic inquiry that aims to provide information for solving management problems according to a systematic process of inquiry. The structure of this study is designed to analyse the impacts of integrating informal and formal financial sectors.

3.2 Research Design

Green (2003) defines a research plan as a structured framework designed to answer research questions. Meanwhile, Baker (2007) describes it as a comprehensive roadmap outlining methods and procedures for data collection and analysis essential for decision-makers, within a broader plan that takes into consideration**:**

- ✓ Data Type
- ✓ Design methodology (investigation, observation and experimentation)
- ✓ Sample methods and procedures

The Researcher used the descriptive study design. This study plan is a combination of field studies and tabletop studies. Dudovsky (2016) defined descriptive research as a component that uses secondary data primarily related to observational research to illuminate an issue or problem through a data collection process in which the researcher can describe the situation. Fully understand the problem and its background; the researcher thoroughly scoured the qualitative and statistical information available in articles published on the World Wide Web on issues related to the informal financial sector and its impact on the Zimbabwean economy. National and international publications in newspapers, official gazettes and economic journals were also used to achieve the main purpose of the study.

Field surveys were conducted through questionnaires. Researchers used tools such as interviews and questionnaires. The interview was structured to allow for flexible research and combined face-to-face and telephone interviews. Selected participants were physically distributed questionnaires.

3.3 Population

The target group for the study was non-formal financial institutions for example lenders, parallel currency exchanges and informal credit groups.

3.4 Sampling Procedures

In the study, the non-probability sampling method was mainly used to obtain qualitative and quantitative research data from the target population. Initially, the researcher used an unlikely method known as snowball sampling. In this method, study participants were asked to provide recruitment recommendations from acquaintances (Kartz, 2016). This method was considered appropriate because it gave the researcher access to a sadly hidden population, making it easier to conduct research without hindrance. In addition, comfortable sampling was performed in this study as the study population is inherently large and research institutions are widespread in the Zimbabwean economy.

3.5 Research Instruments

In conducting this study, the researcher used questionnaires, interviews, and their observations on subject samples. One-on-one interviews were used as a means to avoid shortcomings in the questionnaire.

Questionnaires have been described as the most effective tool for gathering quality information (Codo, 2014). Based on this; the researcher filled the target sample with a self-filling questionnaire. The questionnaire also helped the study by allowing respondents to answer as truthfully as possible at a convenient time and without burden.

3.5.1.1 Advantages of Questionnaires

- The questionnaire helped avoid bias because the researcher did not need to influence respondents responses.
- Although it took time to develop, apply, and analyse the questionnaire, information was gathered relatively quickly.
- Researcher to a large number of people easily distributed the questionnaire.

3.5.1.2 Disadvantages of Questionnaires

- As with many other evaluation methods, the survey is conducted after the event, so participants may forget important questions.
- Because the questionnaire is standardized, it is impossible to explain the part of the question that the participant may misinterpret.

3.5.2 Interviews

According to Kumar (2014), an interview involves an oral exchange between two individuals aimed at collecting relevant research information. The researcher employed face-to-face interviews as an additional method to gather data, enabling the observation of respondents non-verbal cues during question responses. This approach was used to complement the questionnaire and establish a reliable basis for interpreting the results. The insights gleaned from these discussions played a crucial role in analysing and interpreting the research questions raised.

3.5.3 Observation

The Researcher observed current indications of certain aspects of the study to improve the quality of data collection.

3.6 The GDP discrepancy model

Based on principles based on theoretical implications outlined by Schneider (2016), the researcher constructed a model of GDP discrepancy as an indicator of the magnitude of the informal industry. In practice, the model assumes that the spending side of GDP should equal the income statistic. However, since the resulting discrepancy is the result of the informal sector, the equation is expressed as

$$\mathbf{IF_C = \alpha_C - \beta x_C + e_C}$$

3.7 Data analysis procedures

In this equation, IF_C represents the projected magnitude of the country's informal financial field (c) and alpha (α) represents the spending portion of GDP. "X" stands for income statistics. 'E' represents the sampling error and miscalculation when calculating gross national income and gross national expenditure, and beta represents the deviation between nominal income statistics and real income statistics. The Researcher used this indirect approach as an indicator of contribution due to its ease of application and understanding in the informal sector. The direct approach can be problematic given the nature of the goals, the aggregation and time taken to complete the study, so the researcher chose this model.

3.8 Data collection procedures

Initially, a pilot survey was undertaken to confirm the questionnaire's feasibility. Based on the results of the pilot study, the questionnaire was modified to address the deficiencies found in the pilot study. Simultaneously with this revision process, the actual questionnaire was sent to the target sample. The interview process required researchers to first contact selected respondents and request permission to participate in the study. An appointment was made and the interview went smoothly. Through the utilization of questionnaires and interviews, the researcher acquired pertinent information necessary to accomplish the research goal.

Data obtained through questionnaires and interviews were analysed manually and electronically. All quantitative data were presented in the form of, graphs and tables. Following the aggregation of data, frequencies were depicted through a range of graphical and tabular formats and encoded using SPSS and various Microsoft Office packages. We also analysed the patterns and trends were utilized as the underpinning for addressing the research questions emphasized in the first chapter. In addition to information derived from graphical and tabular views, explanatory notes are also included.

3.9 Reliability and validity

Preliminary studies were undertaken to assess the reliability and validity of the questionnaires and interviews as data collection tools. The purpose was to keep the questions short enough that respondents could answer them without too much difficulty. Consistency checks and data checks were performed on all secondary data to maintain validity. l reviewed the authority of the documents used for secondary data collection to avoid gathering information from plagiarized sources...

3.10 Ethical considerations

The study's intentions and objectives were effectively communicated to the participants and they recognized the potential risks, disadvantages and alternatives to participating in the study, as well as potential benefits to participants and/or society. The study refrained from including any confidential or personally identifiable information, such as names or contact details. Additionally, participation in the research was voluntary, and individuals were not coerced into taking part.

3.11 Chapter summary

This chapter describes the design of descriptive research studies used by the Researcher, target populations, and samples. Data collection methods include secondary data and primary data collected through interviews and questionnaires. This chapter also suggests employing a model to gauge the extent of the informal financial sector to ascertain its relevance to the study. Issues of ethics, reliability and relevance were also discussed. Ultimately, the summarized methodology was used to analyse the collected data and presented in the next chapter.

CHAPTER IV

DATA ANALYSIS, PRESENTATION AND INTERPRETATION

4.0 Introduction

In this chapter, we will analyse, present, and interpret data in accordance with the theory behind our study. We will analyse data based on the results obtained from interviews and surveys, and these results will be related to the literature review results and to the purpose of our study. We will analyse data using tables, diagrams, and analytical texts. The researcher used qualitative as well as quantitative methods for analysis and interpretation of the collected data. In addition to the primary data provided in this chapter, a small part of the chapter required secondary data from relevant websites on the internet.

4.1 Demographics and Response Rate

This portion of the chapter delves into the demographic features and the degree to which of respondents accurately represent the population, as well as their rates of response

4.1.1 Response Rate

Table 4.1 Response on Questionnaires and Interviews

Questionnaires and interviews carried out	50
Response Received	40
% Rate of Response	80%

Source: Primary Data (Compiled using Microsoft Word)

The researcher considered a response rate 80% adequate, as studies have shown no universally defined minimum standard (Saldivar, 2012). The table depicts that interviews bolstered 80% of questionnaire responses, indicating a favourable outcome for analysis.

This underscores the respondents keenness in contributing to the researcher's close interaction and follow-up through manual delivery and collection of questionnaires

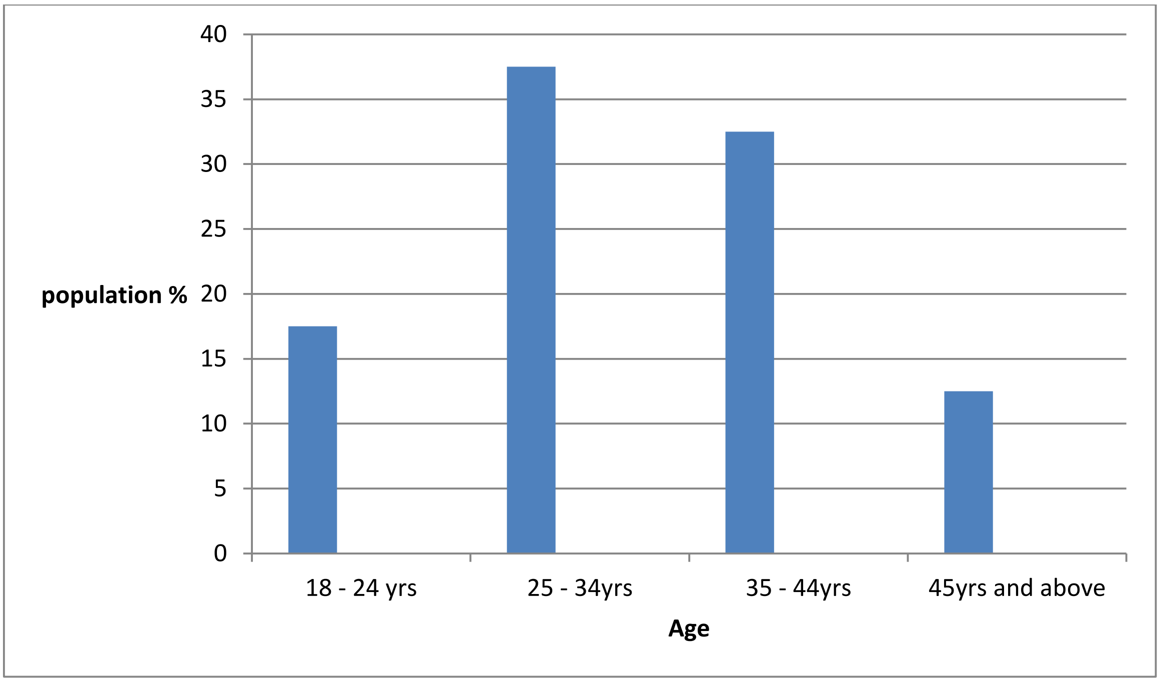


Figure4. 1Respondents Age

Primary Source Data: (2024)

Figure 4.1 displays the age distribution of respondents involved in research. Out of the participants, 7 (17.5%) were under 25, 15 (37.5%) fell within the 25-35 age bracket, 13 (32.5%) were aged 35-45, and 5 (12.5%) were 45 or older. The most common age group observed was between 25 and 35. By combining these figures with those under 25, it identifies the youth demographic as defined by the Zimbabwean Constitution and the African Youth Charter (UNESCO, 2018), indicating a notable representation of active youth in the informal financial sector.

The consideration of respondent age was essential for comprehending different perspectives within the study, and age-related data aids in comparing findings across

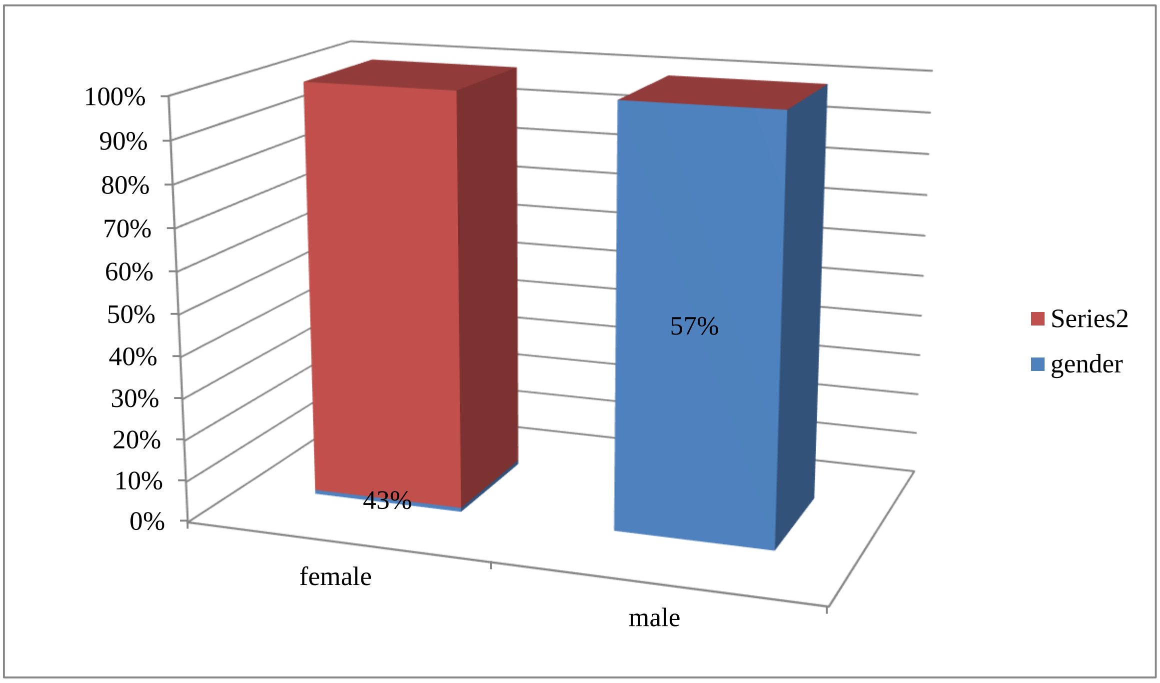


Figure4. 2 Gender of respondents

various studies (Hughes et al, 2016).

Primary Source Data: (2024)

As a result of the survey, 43% were female and 57% were male. Some studies have found that for the majority of female respondents, women's roles in business occupations have increased over the years, but to a lesser extent in finance occupations (Hatfield et al, 2015). Data presented in the figure. 4.2, formal or informal, confirms Hatfield's claim that women are far less involved in the financial sector.

Gender studies like Hatfield are often stereotyped. One common stereotype about women's participation in finance-related occupations is that women are more risk averse than men (Beckmann et al, 2008). The consequences of engaging in informal financial activities are unknown, and as Beckmann suggested, women tend to avoid such uncertainties.

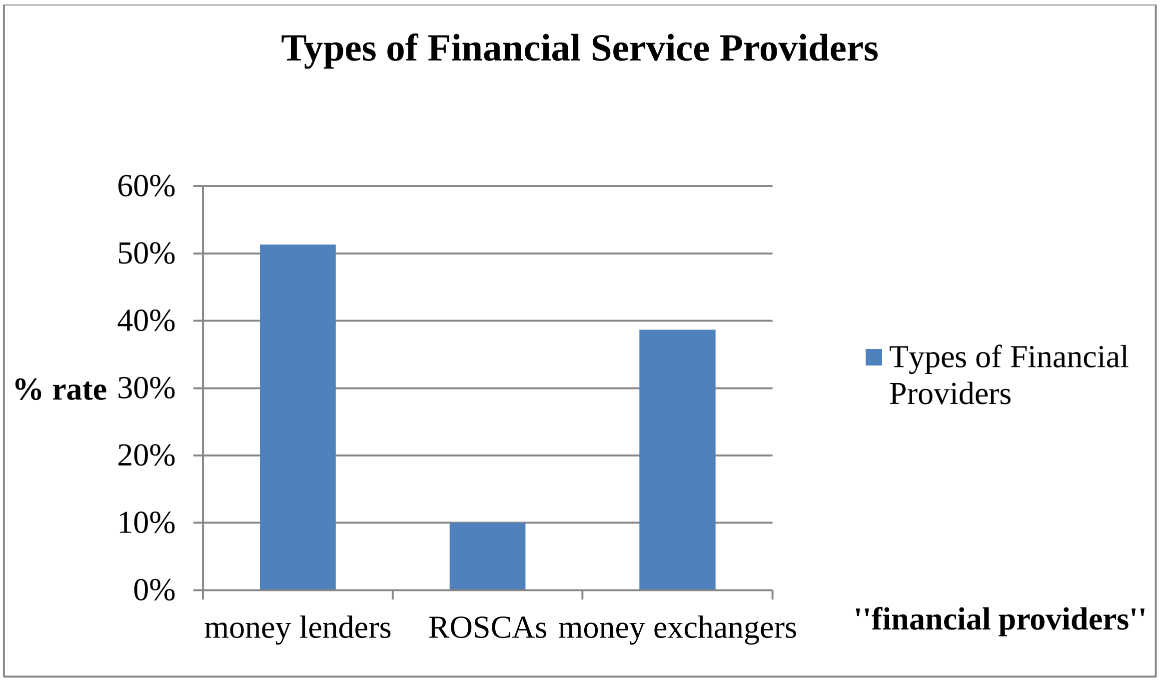


Figure4. 3Type of financial service providers

Primary Source Data (2024)

Depending on the nature and scope of the study, the researcher had to examine three main types of informal financial service providers in Zimbabwe: informal lenders, moneychangers, and ROSCAs (represented by a round table in the questionnaire).

Figure 4.3 illustrates that money lenders accounted for 51.3 % of the responses, simultaneously followed by a 38.7% representation from moneychangers. The ROSCAs made up the remaining 10%.

Informal finance is believed to be based on the moral characteristics of informal lenders (Aliber, 2015). This means that informal lenders are the most popular informal financial intermediaries, as shown in Figure 4.3. Their popularity is due to the types of customers they fund. A survey of the types of customers served by informal lenders found that unincorporated businesses and the poor people typically need small amounts of short-term funds to cover immediate costs and to change services turned out to be dissatisfied. ROSCA's popularity is ‘underestimated because research shows that it can take a while for clients to receive funds as ROSCA operates in a cyclical fashion based on the number of people in the group.

4.2 Origins, nature and extent of informal finance

The questionnaire distributed contained several elements borrowed from three schools of thought related to the origins of informal finance, as discussed in Chapter 2. These schools of thought are the financial repression theory, the Structural school of thought and Imperfect Information.

4.2.1 Solution to informal institutional weaknesses

The structuralism school pays a lot of attention to the weaknesses of formal financial institutions. The failure of formal financial institutions to serve the market as a whole drives people to look for alternatives (Sile, 2015).

Table 4.2 Solution to Formal Institutions weakness

	frequency	Percent	Valid%	Cumulative%
Valid strongly agree	8	20	20	20
Agree	19	47.5	47.5	67.5
Uncertain	13	32.5	32.5	100
Total	40	100	100	

Primary Data Source (2024)

Table 4.2 shows the responses to whether informal financial institutions perceive their work as vulnerability. 67.5% of respondents agreed with the satire and 32.5% were not convinced of the concept of structural weakness. Those interviewed said that official financial institutions do not have branches outside of popular cities. As a result, the rural masses generally do not have the financial capacity, so they rely on informal financial institutions that can always meet their financial needs. This is consistent with what Mandiwa considers a major sign of structural weakness (Mandiwa, 2014). However, since the proportion of respondents who are not well aware of the structural weaknesses of formal financial institutions is high, it is difficult to establish the true strengths of these weaknesses with the advent of informal financial institutions. The Structuralism school also implicitly suggests that the magnitude of the informal financial industry will unintentionally shrink once structural weaknesses are addressed' (Aryeetey, 2008).

4.2.2 Informal Finance as a result of limited resources formal cash resources available to the public

Table 1.3 limited formal cash resources available to the Public

	frequency	percent	Valid%	Cumulative%
Valid Strongly Agree	29	72.5	72.5	72.5
Agree	11	21.5	21.5	100
Total	40	100	100	

Primary Data Source (2024)

Hundreds of percentiles of respondents believe that informal financial services are due to government restrictions on the amount the population can use. Some respondents said people are applying for the service because banks are not transferring enough funds to fully meet their current financial needs. The public has to line up to receive a small amount of money.

Consequently, the results described above with respect to this factor fully support the philosophy of financial oppression, which states that government restrictions and interference in the movement of financial resources from financial institutions to the public induce people to switch between alternatives. Suggest that (Johansson, 2012).

Financial oppression is multifaceted, but the most common thing in Zimbabwe is that banking institutions are holding more and more government bonds and government bonds. Zimbabwe's Financial Institutions report reports that the use of these securities is on the rise (The Standard, 2020), and as banks hand over financial resources to governments, it is difficult to transfer these resources to the public. This situation leads to the fact that banks set limits on the amount that one individual or legal entity can withdraw.

4.2.3 Informal finance as a result of unemployment

Table 4.4 Unemployment

	Frequency	***percent***	***Valid %***	***Cumulative%***

Valid strongly Agree	**17**	**42.5**	**42.5**	**42.5**
Agree	**10**	**25**	**25**	**67.5**
uncertain	**7**	**17.5**	**17.5**	**85**
disagree	**3**	**7.5**	**7.5**	**92.5**
strongly disagree	**3**	**7.5**	**7.5**	**100**
total	**40**	**100**	**100**	

Primary Source Data (2024)

According to the survey, 67.5% of respondents believe that formal unemployment plays an important role in the establishment of informal financial institutions. Habibullah (2015) argued that unemployment is one of the causes of activity in the informal sector. However, the greater part literal studies of informal finance do not mention unemployment. Therefore, the researchers used their observations of the Zimbabwean economy as the basis for their study.

Zimbabwe's economy has undergone many structural changes, resulting in reduced official employment. When looking for activities that help make a living, most people tend to engage in the informal sector, and from the results presented above, it can be argued that unemployment plays a role in the emergence of informal finance. On the other hand, 15% of the survey results said that unemployment cannot be classified as a universal cause of informal financial institutions, and 17.5% of the respondents did not know whether unemployment was the cause.

4.2.4 Informational advantage about clients that informal institutions have over the FFIs

Table 4.5 Informational advantage about clients that informal institutions have over the "FFI"

	frequency	percent	Valid%	Cumulative%

Valid strongly	**8**	**20**	**20**	**20**
Agree	**25**	**62.5**	**62.5**	**82.5**
Uncertain	**7**	**17.5**	**17.5**	**100**
Total	**40**	**100**	**100**	

Primary Source Data (2024)

Additionally, 82.5% of respondents agree that there are informational advantages over formal financial institutions, while 17.5% of respondents are unsure about this issue. Informal financial institutions typically provide financial services to close customers, so their ability to screen potential customers is very high. This allows IFIs to reduce the risks associated with moral hazard and adverse choice because it is not difficult for IFIs to obtain customer-specific information (An et al, 2011). However, this is also true for FFIs that lack the structure and tools. Such as credit bureaus that screen leads and these FFIs tend to charge high interest rates because they have to rely on good quality information to do their due diligence, so as to guard against moral hazard (Mahdi, 2018)4.3 Measuring the size of the informal financial sector

Estimating the size of the informal financial industry is not easy, but several methods have proven useful (Muchiri, 2014). This study focused on using a personally created user-generated model to calculate the scale (in monetary units) of informal finance known as the GDP mismatch model.

This model was developed based on the basic principle that over a given period, national expenditure should equal the national income of that country (Schneider, 2016). Within this model, the symbol "α" signifies national spending, while "x" denotes national income statistics. In an economy without an informal financial sector, in theory, the model would be:

$\alpha = x$

However, the presence of the informal financial sector changes this equation and makes the above statistics uneven. Information provided on the World Bank website and other national statistical sites suggests that the disparity is attributable to informal financing, as the ratio of expenditures is usually much higher than the ratio of incomes. Therefore, the result of the above equation is:

Informal Finance (IF) = α-x

Because discrepancies between the two are common, statisticians tend to overestimate starting income to close the gap. The model considers this fact by using the beta coefficient (β) to represent the variance between nominal and real income statistics. So the model becomes

$$IF=\alpha-\beta x$$

Ultimately, the model also considers the error term (e), which represents sampling error and miscalculation, when calculating gross national income and gross national expenditure. Combining all aspects discussed above, the final model of GDP discrepancy looks like this:

$$IF_C=\alpha_C-\beta x_C+e_C$$

Additionally, in the equation, the letter c was factored in to represent the country under analysis, which in this case is Zimbabwe.

The main purpose of this model was to measure the scale of the informal financial industry in monetary expressions. For this purpose, Researcher used the information provided in Appendix 4 from 2018 to 2023 and a beta coefficient of 1, which is justified because we used nominal figures from income statistics. In addition to this, the error term also assumed a value of zero because information related to sampling error and component miscalculation is not readily available**.**

To illustrate the computation of the informal financial sector's size, 2023, 'IFc' was determined by replacing all elements of the model with the respective figures outlined in Appendix 4, as demonstrated below

IFC=$B15.61 - (1) ($B21.65) +0

IFC =$6.04bn

Figure 4.4 below, illustrates the annual representation of the scale of the informal financial industry from 2018 up until 2023

The rise of the illegal financial sector has influence numerous breakdowns. Initially, factors such as financial constraints, structural weaknesses and imperfect information, as discussed in Chapter 2 of this study, has been a significant factor in the surge of this sector. Additionally, the barriers to entry into the informal financial sector are mostly low (Sibhat, 2012) and thus individuals can easily enter the sector.

On the other hand, the decline in the informal finance sector can be caused by the adopted government policies as well as financial reform. Currently, the Zimbabwean government has made it a rule that unofficial moneychangers will be jailed if seen operating on the streets of Zimbabwe. Such policy reforms reduce the magnitude of the informal financial sector.

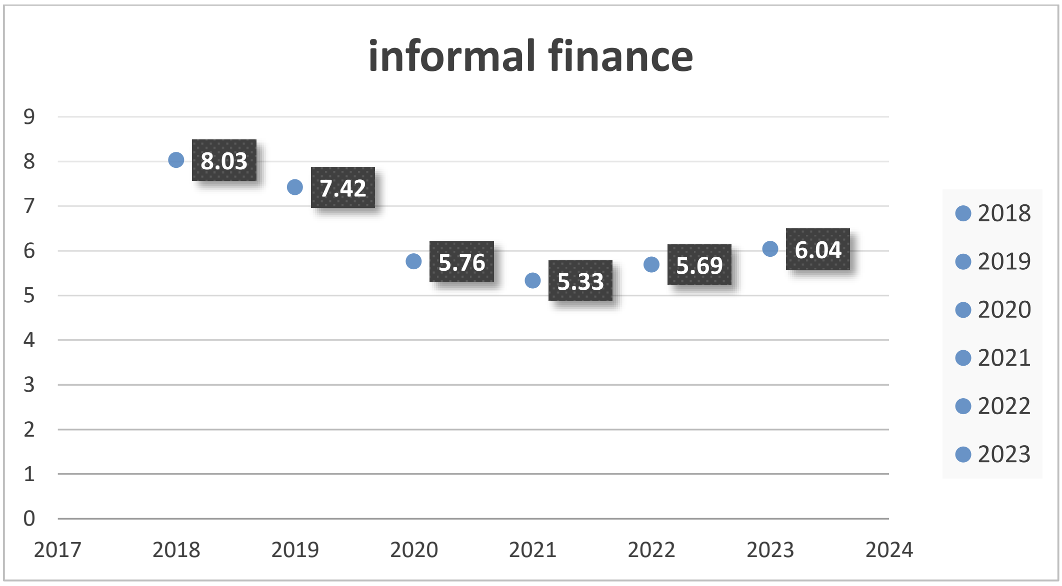


Figure4. 4The size of the informal sector in monetary

Source Primary Data

4.4. The magnitude of the informal sector in monetary expressions

In 2018, the informal financial sector initially represented approximately $8.03bn, indicating a notably high value for the sector during that year. Moving on to the year 2019 and 2020, the sector decreased by 7.6% and 22.37% respectively.2021 it decreased by 7.46%, which was relatively a low percentage decrease, and it stood at $5.33bn. In 2022 and 2023, it increased with relatively low percentages and in 2023. It was $6. 04bn.The rise of the informal financial industry is a factor in a variety of events. Initially, as discussed in Chapter 2 of this study, factors such as financial pressures, structural weaknesses, and incomplete information play a significant role in the growth of this sector. Additionally, to this, barriers to entry to the formal financial sector are generally low (Sibhat, 2012), allowing people to easily enter the sector.

Meanwhile, the contraction of the informal financial sector can be driven not only by financial reforms but also by government policies. The Zimbabwean government has now put in place rules that put an unofficial moneychanger in jail if they are seen working on the streets of Zimbabwe. Policy reforms like these are shrinking the informal financial sector.

4.4 Findings on Linkage Proposals

To underscore the significance of integrating the informal financial area into the formal financial industry, the study has taken into account an essential aspect. This aspect directly affects the availability of informal financial institutions. Willing to participate in any integration process. As discussed in Chapter 2, incentives are a very common and very important tool. The primary aim of the study was to assess the attractiveness of the incentives provided by Seidel in enticing IFIs to join the network or collaborate with another organization, whether that is an NGO or directly from a certain financial institution organization. The results are illustrated on the next page.

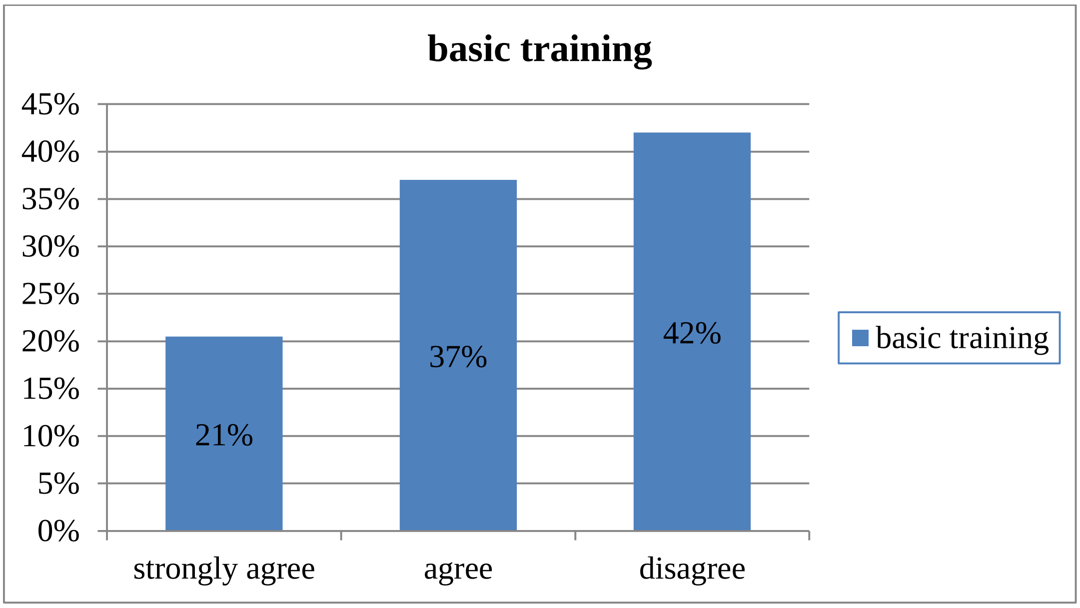


Figure4. 5 Basic training incentive

PRYMIRY SOURCE

4 5: Basic Training Incentive

In order to incite IFIs to register under a singular non-governmental organization or a network, Seibel suggested the basic training incentive, which mainly focuses on accounting.

As can be derived from the chart above, 58% of the respondents agreed that if they were offered basic management training free, they might consider this as one of the reasons of operating under a singular organization or network. However, 42% disagreed with this, basing their argument on the fact that the educational system in Zimbabwe has already taught them the basics of accounting.

Though the statistical inference above makes it seem as if the basic training incentiveis worthwhile because of the fact that the respondents who agree with this account for more than half the sample this incentive may not achieve the desired outcome when it comes to linking informal finance to formal finance as its impact heavily depends upon the educational level of the individual running the institution.

In addition to this, a youthful population is purported to use technological devices much more than the older population (Olson *et al*, 2011) and due to the availability of various accounting courses and tutorials on the internet, the young adults have unprecedented access to such material hence the basic training proves to be an unreasonable incentive.

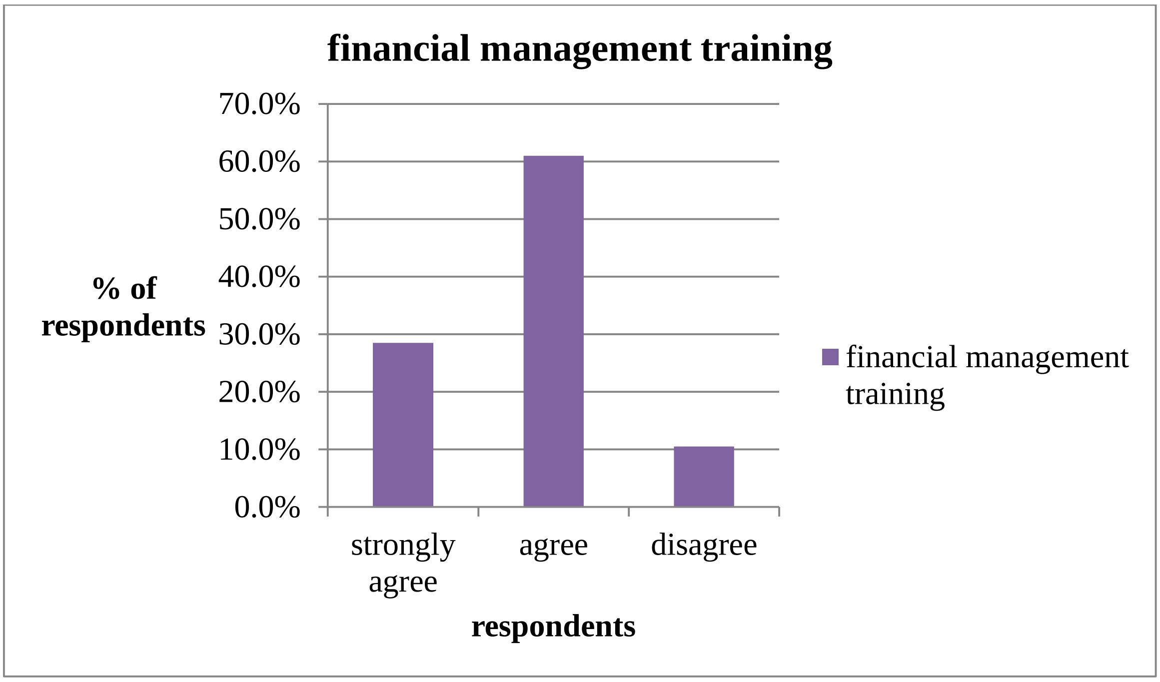


Figure4. 6Financial Management Training

SOURCE: Primary data

Figure 4.6illustrates the kind of responses given towards the financial management aspect. 89.5% of the respondents agreed that this is a reasonable incentive whilst 10.5% do not believe so. These results above are in support of Seibel's proposition. Financial institution operators understand that financial management is far much more complex than the basic accounting principles as stated above as it entails the administration of assets and liabilities and planning for future events (Josephson, 2018).

While it is argued that financial training can be accessed through technology and the internet, widespread opinions and perspectives on emphasize can make subject can make applying online information challenging. Therefore, informal financial institutions see financial management training as an incentive.

To a lesser extent, financial management training may not be a reasonable incentive as it also depends on the educational level of the individual running the institution.

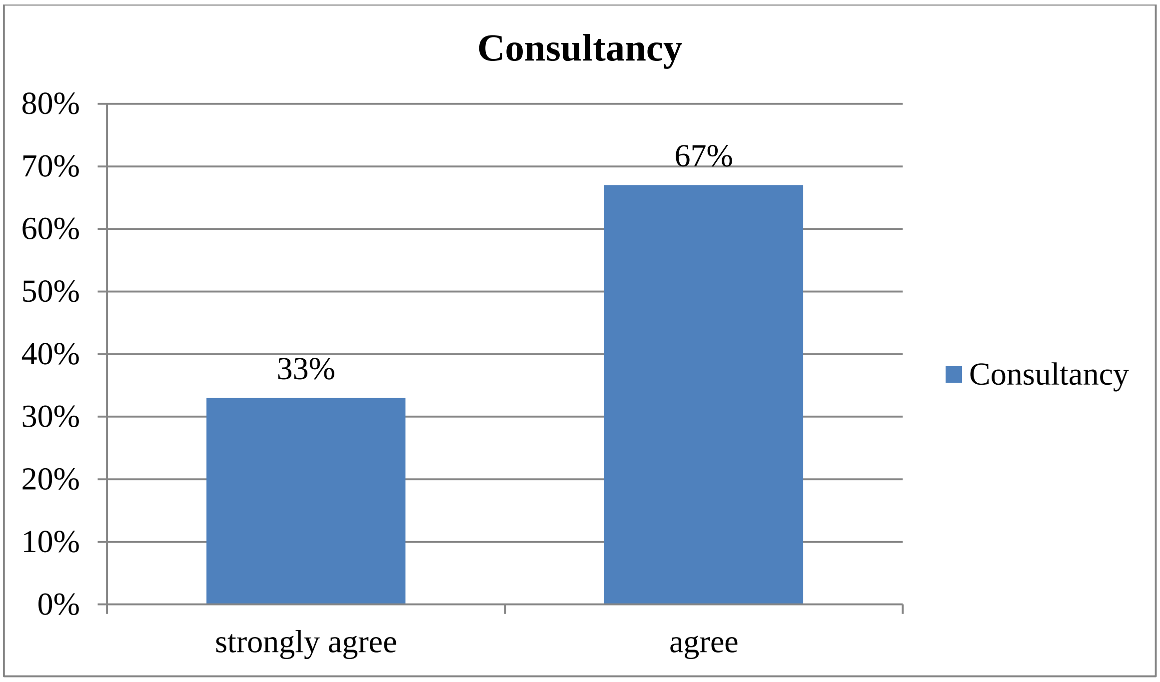


Figure4. 7 Consultancy

Primary source

100% of respondents believe best practice advisory services are essential to becoming conventional with formal financial institutions.

Legitimacy issues are a major concern for most IFIs. Studies have shown that IFIs, particularly moneychangers, are considered illegal in Zimbabwe and cannot operate freely in the economy. However, despite this fact, these operators always find a way to continue their activities in the face of potential legal consequences. Based on the number of responses, it can be said that consulting services are a very important incentive and the successful implementation of an integrated approach depends on it. In the field of finance, expert advice is essential because of all financial transactions and the risks associated with them. Advice on how to avoid and manage these risks will certainly go a long way in improving the business operations of informal financial institutions.

4.5. Chapter Summary

The objective of this chapter was to present the research findings, analyse and interpret the data presented to provide context and significance. The succeeding chapter provides detailed conclusions of the study as well as recommendations to some specific stakeholders.

CHAPTER V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.0 Introduction

This chapter summarizes the findings of the study and the relative results of the overall study process, and presents conclusions about these findings. The chapter also includes a section of guidance for stakeholders such as governments and official financial institutions. Ultimately, at the end of this chapter, recommendations are provided for further study.

5.1 Summary of study

Informal finance is not unique to Zimbabwe as it has always been. However, over the past few years, the informal financial sector has become popular among local residents. The Zimbabwean government has taken several steps to shut down the sector, but nothing has been successful.

The main objective of this study was to explore possible methods that governments can use to successfully integrate the informal financial sector with the formal financial sector and achieve synergies across the financial sector. To solve this problem, it was first necessary to consider the reasons for the existence of the informal financial sector and clarify the nature and scale of trade. For this, the researcher used questionnaires and interviews with data from the secondary study.

Cognisant of the lifestyles of the casual economic sector, this examine additionally strived to discover a manner of measuring the real length of the world and decide its contribution to the financial system on its own. The GDP discrepancy version becomes used as a proxy for the scale of the informal economic sector.

The basic findings of this study suggest that the informal financial sector plays a role in the existence of structuralism and incomplete information flows, although it is primarily a result of fiscally repressive policies. The sector also accounts for approximately 80% to 90% of the Zimbabwean economy and contributes significantly to the growth and survival of individuals and businesses often marginalized in the official financial system. Finally, given incentives, the study argues that it is also possible to consolidate the informal financial sector.

5.2 Summary of findings

To find out what drives informal finance and why it is so popular in Zimbabwe, this study used questionnaires sent to informal financial institutions. Questions were asked to identify the "push" behind every transaction in an informal financial institution. Repressive policies accompanied by structural defects in the formal part were determined as the main driving force. To some extent, unemployment plays an important role in the emergence of informal markets.

Measuring the informal financial sector is not easy, even though various methods have been suggested in other literature studies. The researcher built a model based on discrepancies in national income and expenditure statistics as a proxy for the size of the informal financial sector to determine the amount of economic resources owned. For this sector. The study found that the informal financial sector accounts for billions of local currency units.

In addition, the contribution of informal finance to economic development was also examined. This is critical to sustaining and growing small and medium-sized enterprises (SMEs) and informal businesses that provide a livelihood for the average Zimbabwean citizen. Likewise, poor people who often do not have access to formal financial services see informal finance as a viable alternative.

Moreover, the questionnaires and final sections of the interview used to assess whether some of the connections proposed in the literature are achievable focused on incentive-based approaches to confirm respondents willingness to participate in the connection process. The responses were different in nature and each respondent challenged based on their understanding of the topic. The incentives tested follow an order of importance starting with consultancy services, financial management training and ends with basic training which is the least desired.

5.3 Conclusions of findings

From the research findings, the following conclusions were made **:**

I. Informal financial institutions target weaknesses in the formal and regulatory systems, ultimately decoupling the entire financial sector.

II. Informal finance is primarily the result of financial oppression and structural weakness of the formal financial system.

III. The informal financial sector currently stands at $1.411 billion in local currency. These figures represent amounts not processed through Zimbabwean banking institutions.

IV. Linking informal financial institutions with formal institutions is possible through appropriate incentives.

5.4 Recommendations to the relevant stakeholders

The following recommendations are proposed based on the findings of the study:

1. Although the informal sector and small businesses are important to economic growth, they typically struggle to get loans from banking institutions to sustain their business activity. The main reason is that banks have strict policies restricting access to and use of official financial services, suggesting that formal financial institutions review and remove strict conditions that prevent business operators from requesting services from official financial institutions.
2. The proposed vertical connection may take some time to realize value due to the fact that all formal financial institutions will have to come together to determine whether these connections will impede their activities and the costs of each institution involved in their creation. Relationships with informal financial institutions. This study recommends that governments create, or rather, establish banking institutions that serve only these communication purposes. This saves time and resources and does not interfere with existing official financial institutions.

3. The study predicts that the primary concern that formal financial institutions may have in terms of direct vertical communication is the responsibility of informal financial institutions. Researchers make a proposal requiring the use of non-governmental organizations responsible for tracking the location and operations of informal financial institutions. Government should invite interested NGOs.
4. Surveys show that most informal financial intermediaries refinance their services with the help of friends and family, who are found to be the cheapest sources of funding. Accordingly, in order to implement the proposal in (ii) above, the Official Institution shall only charge preferential rates consistent with the interests of both parties in relation to the Informal Financial Institution.
5. Since the issue of incentives is of paramount importance for the success of all future linkage efforts, it is recommended that the government and related official financial institutions consider the incentives proposed in this study among viable incentives.
6. The foundation of any successful economy is the financial system. Therefore, informal institutions must be integrated into any financial development strategy established by the formal financial system in order to create synergies between the operations of the entire financial system.

5.5 Recommendations for further study

This study focused only on the perspective of operators in the informal financial sector and failed to focus on the other side of the spectrum, namely formal financial operators, due to time and financial constraints. Both perspectives are critical to the success of your communications efforts. With this in mind, this study recommends directing further studies to evaluate the views of formal financial institutions and governments on the proposed connections.

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APPENDIX 1: Comparison of the informal finance and formal finance (GDRC, 2011)

INFORMAL FINANCIAL SECTOR	FORMAL FINANCIAL SECTOR
The informal banking sector provides savings and credit opportunities to small farmers in rural areas and to low-income households and small businesses in urban areas.	Official financial institutions ignore small farmers, low-income households and small businesses, preferring larger, wealthier, and literate clients who can meet stringent loan terms. .
Low transaction costs	High transaction costs
Access to credit is easy and non-bureaucratic, and literacy is not a prerequisite.	The loan application process is complex and requires reading and writing skills to create a file for the borrower.

	.
The process of informal planning is usually straightforward and understandable.	Complex administrative procedures are incomprehensible to the rural public.
Flexible operating times make it easy to access finance	Institutions do not operate beyond the designated working days and time therefore making it difficult to access finance easily.
Collateral requirements are based on local conditions and borrowers capacity regardless of borrowers' financial background.	The collateral requirement is for relatively wealthy citizens with deposits or savings in a commercial bank.
Financial requests are met by prompt approval and there is minimum delay in disbursement.	The processing of financial requests is complex and there are long delays to final approval or denial.

APPENDIX 2: QUESTIONNAIRE TO SOLICIT INFORMATION

To Whom It May Concern:

RE: QUESTIONNAIRE TO SOLICIT INFORMATION

I am a final year student studying towards a Bachelor of Science Honours Degree in Accountancy at the Bindura University of Science Education. I am carrying out a research entitled, ***'An analysis of the significance of informal financial integration with formal finance for economic development'***

I ask for help in answering this survey. The comments you provide will be used for academic purposes only and will be treated with the highest level of confidentiality and professionalism. There is no right or wrong anwer to the questions contained herein. Do not write your name. When information about this study and data collection becomes available, do not hesitate to contact the researcher and supervisor.
Thank you very much for your contribution

Student	**Supervisor**
.....……………	**……………….**

THE QUESTIONNAIRE

Kindly tick your responses in the appropriate box and/or fill in the gaps provided

Section A: Personal details

1. Business name……………………………………………………….……….
2. Age
   Under 25[ ]   25-35[ ]   35-45[ ]   Above 45[ ]
3. Gender
   Male [ ]   Female [ ]
4. Type of financial service provided
   Money lending [ ] Money exchange [ ] Round table [ ]

Section B: Origins, nature and extent of trade

5. The following are some of the recognised reasons for your operation as an informal financial institution. In your own view, please tell for each reason whether you believe it is true.

Where 1=strongly agree; 2=agree; 3= uncertain; 4= disagree; 5= strongly disagree

Reason	1	2	3	4	5
Solution to formal institutions' weaknesses					
Limited cash resources available to the public due to government restrictions					
Informal advantage about clients over formal institutions					
Unemployment					

6. Who are your customers? (please tick the appropriate box(es)

The poor [ ] informal businesses [ ] Large Formal corporations [ ] Government [ ] Small to Medium corporations [ ]

7. Do you keep any written records of each financial transaction carried out?

   YES [ ] NO [ ]

8. What is the geographical coverage of the financial services?

   ....
   ....
   ....
   ....

Section C: Vertical linkage

Where do you get the financial resources you use to carry on the trade?

Banks [ ] microfinance [ ] informal money lenders [ ] friends and family [ ]

Other (specify)……………………………………………….

11. There is what is known as an incentives- network driven approach in which informal finance institutions partner with non-governmental organisations whose main task in the relationship is to provide finance to the informal financial institution. For each mainstreaming recommendation and respective incentive listed below, please state whether the incentives are reasonable enough

Where 1=strongly agree; 2=agree; 3= uncertain; 4= disagree; 5= strongly disagree

Mainstreaming Approach	Proposed Incentive	1	2	3	4	5
Registration	Basic training (accounting)					
Reporting	Financial management training					

Legal status	Consultancy services in good practices					

12. In your opinion, do you believe that formal financial institutions should consider a direct on lending to your institution? Please state the reason why you do or not believe so

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THANK YOU FOR YOUR TIME

ENJOY YOUR DAY

APPENDIX 3: INTERVIEW TO SOLICIT INFORMATION

FAULTY OF COMMERCE

To Whom It May Concern:

RE: INTERVIEW TO SOLICIT INFORMATION

I am a final year student studying towards a Bachelor of Honours Degree in Accountancy at the BINDURA UNIVERSITY OF SCIENCE EDUCATION. I am carrying out a research entitled, ***An analysis of the significance of informal financial integration with formal finance for economic development'***

l ask for help in answering this survey. The comments you provide will be used for academic purposes only and will be treated with the highest level of confidentiality and professionalism. There is no right or wrong answer to the questions contained herein. Do not write your name. When information about this study and data collection becomes available, do not hesitate to contact the researcher and supervisor.
Thank you very much for your contribution

Student **Supervisor**

INTERVIEW GUIDE

Section A: Personal details

1. 1. Business name………………………………………………………….……….
2. Age
   a. Under 25[ ]   25-35[ ]   35-45[ ]   Above 45[ ]
3. Gender
   a. Male[ ]   Female [ ]
4. Type of financial service provided
   a. Money lending[ ] Money exchange[ ] Round table[ ]

Section B: Origins, nature and extent of trade

5. The following are some of the recognised reasons for your operation as an informal financial institution. In your own view, please tell for each reason whether you believe it is true.
   Where 1=strongly agree; 2=agree; 3= uncertain; 4= disagree; 5= strongly disagree

Reason	1	2	3	4	5
Solution to formal institutions' weaknesses					
Limited bank resources available to the public(government restriction					
Informational advantage about clients over formal institutions					
Unemployment					

6. Who are your customers? (please tick the appropriate box(es)
   The poor [ ] informal businesses [ ] Large Formal corporations [ ] Government [ ] Small to Medium corporations [ ]
7. Do you keep any written records of each financial transaction carried out?

YES [ ]   NO [ ]

8. What is the geographical coverage of the financial services?
   ....
   ....
   ....
   ....

Section C: Vertical linkage

9. Where do you get the financial resources you use to carry on the trade?

Banks [ ] microfinance [ ] informal money lenders [ ] friends and family [ ]

Other (specify)……………………………………………….

10. There is what is known as an incentives- network driven approach in which informal finance institutions partner with non-governmental organisations whose main task in the relationship is to provide finance to the informal financial institution. For each mainstreaming recommendation and respective incentive listed below, please state whether the incentives are reasonable enough and the reasons for your choice using a scale of 1-5.

Where 1=strongly agree; 2=agree; 3= uncertain; 4= disagree; 5= strongly disagree

Basic training.

……………………………………………………………………………………………
……………………………………………………………………………………………
……………………………………………………………………………………………
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Financial Management Training.

……………………………………………………………………………………………
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Consultancy services in good practices.

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Liquidity exchange and re-financing.

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11. What other incentives would you prefer?
………………………………………………………………………………………
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12. In your opinion, do you believe that formal financial institutions should consider a direct on lending to your institution? Please state the reason why you do or not believe so

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THANK YOU FOR YOUR TIME

ENJOY YOUR DAY.