



The Analysis of Zimbabwe's Informal Sector's Economic Sustainability Subject to Lockdown Effects

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ABSTRACT

Zimbabwe's economic society had been dominated by the informal sector as the primary source and substitute for formal employment. It comprises vendors, cross border traders, cottage industries, artisanal miners, and many others conducting lawful but unregistered economic activities. Given it being seen as a new normal for Zimbabwe's economic structure, the 2020 national lockdown necessitated the analysis of Zimbabwe's informal sector's economic sustainability given the hardship experienced. Applying extensive literature review, content analysis, and critical assessment of theory and practice as the methodology, the informal sector is deemed highly unsustainable economically. This paper proposes a total restructuring of Zimbabwe's sector structure by creating a comprehensive development strategy that enables refocusing government expenditure and policy towards realignment of informal structure to formal. Furthermore, this paper advocates for a balanced development strategy that incorporates all sectors that accelerate growth and a stable formal sector through technological innovations and modernization. There is technology transfer to the informal sector. As opposed to arbitraging and vending activities, they are prone to stagnation and vulnerability.



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1. Introduction

The existence of a less structured, uncontrolled, and mostly lawful but uncaptured informal sector was observed in the 1970s after observing a massive increase in Urban labour force failed to appear in the formalized modern sector employment statistics (Todaro, (2009)). Likewise, Zimbabwe's economy has been experiencing a vast movement from rural to urban in recent years. In tandem with that, Zimbabwe's economy had been characterized by informal business society domination. Some businesses have managed to accelerate their growth and later have reached the extent to which they could be recognized as small to medium enterprises. The informality mainly exists to the majority of Zimbabwean small business participants, and to such extent, most of Zimbabwe's majority have been excluded in policy crafting and also in concerns of any implication that Zimbabwe's policies might have

on the majority of its citizens, that is, there is probably a bias of government actions towards the informal sector as opposed to the formal.

Due to the underperformance of Zimbabwe's economy, not many people have managed to secure formal employment. Against this background, a more significant percentage of Zimbabwe's labour force, which is the part that does not appear on formal statistics, opted to resort to informal means of earning a living, and the standard rate of unemployment is considered 11 percent (UNDP, (2020)). Through these alternative measures, many have managed to obtain subsistence means (Kusakabe, (2006)). Most of the economic activities carried out in this sector of the economy may not have been in the knowledge of the authorities but, it is of more great essence to consider its existence in Zimbabwe policy making since it has been bracketed in 2% intermediate money transfer tax policy implemented by Zimbabwe's minister of finance in 2018 to incorporate the tax-excluded households in the shadow economy (The Zimbabwe Mid-Term Fiscal Policy Review, (2019)). This measure managed to capture most of the informal society due to the liquidity crisis in Zimbabwe. Cash transactions were very few compared to electronic platforms through plastic and mobile money, within which the revenues increased (Chisango, (2016)). Since the enactment that the informal business society should be tax inclusive, there must be a need for detection regarding the welfare needs and possible effects of the policy changes or any economic changes.

In this regard, this paper analyses the possible effects on the informal business society regarding the recent lockdown due to the coronavirus. The lockdown enabled the analysis of the potential harm posed by freezing economic activities against the society that derive their daily livelihoods from free-flowing economic activity. As Todaro and Smith (2009) postulated, the informal sector still plays an essential role despite its benign neglect and even outright hostility. Its essence creates a strong linkage with the formal sector. In this instance, this paper analytically reveals whether resilience or fragility in the shadow economy dominated countries like Zimbabwe since the motivation behind informally employed households is only seen as often the need to obtain income enough for survival, relying on own resources to create employment. The main question is when the door is shut, can there be alternatives. In this context, the national lockdown has attributed to the cause for concern, as it has suppressed most income-generating centers for the majority of the Zimbabwean informal sector through closures of the vendor marts, borders, and small businesses due to the fear of further spreading of the pandemic covid-19, (MPO, (2020)). Given the appropriateness of the lockdown installation, it has permeated the scrutiny of the harm exerted by policy bias or structural bias towards the informal sector dominance.

This paper shows disparity from previous works, as no precedence was ever set before. This is supported because lockdown had never existed in Zimbabwe before since the informal sector's massive expansion. Through the use of extensive literature review and content analysis on the informal sector as the methodology used, this paper will analytically draw the importance of policy inclusion, sustainability in economic growth, and reliance on the informal sector as the dominant sector of the economy versus the formal in the event of temporary shocks as posited by the lockdown.

The paper is divided into five sections, in which section one reveals the introductory part, and section two dwells much on the literature review giving the overview of Zimbabwe's informal sector and theory and empirics. Section two, moving on to three, explaining the research methodology and, apart from that, section four gives discussion of the facts, and section five giving a conclusion and recommendations.

2. Literature Review

2.1. Overview of Zimbabwe`s informal sector and its provisions

This part of the paper aims to give a concise overview of Zimbabwe`s informal sector and the economic variables that affect it. It further enhances elaboration on theoretical and empirical works in line with the informal sector of Zimbabwe and the world.

Incalculable informal contributions had been chosen to be part of the anonymous national statistics (Schneider, (2011)). Despite that, it is easily deductible that Zimbabwe's informal sector has been expanding rapidly as highly as opposed to the formal sector (Shinder, (1998)). It has been for the tremendous advantage and the national economy to society as it has normalized national employment statistics. The sector`s participants might seek to avert from meeting up with national regulations, but it is more intuitive to think that the formal is the minority and the informal majority, this being that formal statistics represent less of Zimbabwe`s labour force. Any disruption yields ripple effects to the economy, as it heavily contributes to the demand of most of the Zimbabwean formal sector. Generalizing the effects, manufacturing sector, transport sector, government revenue, retail, financial sector, mining sector (artisanal miners), and many other sectors borne heavy blows due to the freezing of most productive and economic accelerating activities with regards to the first in history national Lockdown which started 21 March 2020 (MPO (2020)).

According to Medina and Schneider (2018), the economy of countries like Zimbabwe had mainly been dominated by the informal sector. Given that, from the year 1991 up to 2015, the informal sector's size had been above 50% of the economy and it gradually increased over the years since 1991, which can be reflected in table 1.

Table 1
Size and development of the shadow economy of Zimbabwe

| YEAR | Size % |
|------|--------|
| 1991 | 57.35 |
| 1995 | 57.27 |
| 2000 | 59.40 |
| 2005 | 63.16 |
| 2010 | 65.62 |
| 2015 | 60.64 |

Source: IMF Paper 2018 *Shadow economies around the world. What have we learned over 20 years?*

Supported by the I-PRSP (2016), the employment statistics on informal employment has been the core source of subsistence means. Though it can be positively associated with poverty vulnerability, informal employment has increased from 2011, where it was 84.2 percent to 94.5 percent in 2014, and out of 1.5 million paid employees, 1.4 million were in informal employment. Informal sector rendering the remedy for higher unemployment numbers of Zimbabwe`s working-age had been a success but, the exposition of the informally employed citizens to poverty, inequalities, policy exclusion, and other factors should be of more significant concern. Zimbabwe poverty report (2017) posited that most households headed by the self-employed are highly affected by poverty compared to those formally employed. This is reflected by 78.2 percent of those who are poor and 32.9 of those who are extremely poor in the rural informal sector. In the urban areas informal sector, 63.6 percent are low and 23.6% for those who are extremely poor.

The unprecedented national lockdown has given the viability of identifying the weaknesses which informal business societies are prone to. The informal sector's growth served as one of the most employment generating part of Zimbabwe's economy. What seemed to have been neglected by this sector due to the employment and poverty statistics is its ability to grant economic sustainability. Due to Zimbabwe's national lockdown, nonessential service providers had to be restrained by a presidential executive order to stay indoors unless they are out for essentials. This resulted in a total freeze of economic activities, cutting down the avenues within which most informal society depends on feeding their families. With this regards, it was going to be relieving if there were any policies in place to cater for the informal poverty-stricken society, but that higher spending priorities suppress the government, over-reliance on donor funding for social assistance programs, and weak capacity to reach out to the extreme poor especially in urban areas, more than half of the poorest risk being left without any social assistance (MPO,(2020)). As it is applaudable for the sector to bring many fruits in the economy, such as the intermediate money transfer tax contributions, consumptions, and many other economic elements, it should be encourageable to review the problems that affect such societies. Although most policies have been implemented towards fostering job creation, there is much opaqueness in their achievements or failures, but rather them being exposed by the informal sector's continuous dominance. It remains a challenge that a blind eye is given to this sector in terms of policymaking, its impact on the formal sector, and the problems that prevail. It is highly acknowledgeable that the government of Zimbabwe put several extensive social protection in place.

Despite these efforts, economic instability and persistent deficits remain major deterrent towards tackling the poverty issues in Zimbabwe (Economic Commission for Africa (ECA), (2017)). The inflationary environment prevailing since the period 2017 to 2020 is also considered the inevitable detriment, as it imposes substantially reducing effects on the living standards, worse if it's hand to mouth. Worse, in 2020, inflation surged to 761%, with food prices increasing by 865% (MPO, (2020)). Despite price rises, the existence of the pandemic as an external shock improved some economic variables, such as Balance of payments from deficit to a surplus of 6.4% of a Gross domestic product due to a decline in imports as well as managing to maintain the fiscal deficit at 1.2% (MPO, (2020)). Given the improvements, private consumption declined, accompanied by rising inflation rates deepening and toughening the rebounding condition into a heavy recession from -6.5% of 2019 to -8% in 2020 (World Bank, (2020)). To this experience, Zimbabwe's economic rise is expected to be very slow. These effects inflicted traditional Zimbabwe's economic society and worsening the welfare of those in the informal sector. As supported by Matsungu and Chopera (2020), food prices rose, leaving most economic society members exposed to the high cost of living and even leading some to repatriate to rural areas due to failure to afford urban costs.

2.2. Theory of the informal sector and policy effect

Most theories of the informal are highly attributed to tax evasion and regulations aversion. Loayza (1997) came up with a model for the informal sector, postulating the informal sector's existence due to robust regulations and high tax rates implemented with governments with difficulties in terms of enforcement and administration of taxes. This can be supported by the presumptive tax system's performance in Zimbabwe, which was introduced in 2005 which was highly aimed at incorporating the hard to tax sector (Engelschalk and Loerprick, (2016)). The system supposedly fair tax regime affected small business entities, further making informality less costly than formal (Newsday, (2015)). This tax system bases its tax liability assessment on several employees, asset base and structure, and potential Income (ZIMRA, (2017)). Analogous to this reasoning behind the informal

sector's growth, it is possible to deduce that there is a loss of potential revenue due to the informalisation of the economy as most firms choose to be informal instead of formal. This loss limits government expenditure from providing welfare assistance to its members of the economic society in times of need, such as a lockdown. Though the informal sector can be termed as an alternative solution to increasing Zimbabwe's unemployment rates, it is highly detrimental to a sustainable economic economy (Loayza, 1997).

Todaro (2009) posited the dualistic analysis of the urban economy, which was partitioned into the informal and formal sector, based on the analysis being derived from Harris Todaro's theory of rural-urban migration. This was observed due to the influx of the urban labour force's additions, which was never accounted for in the formal statics. The formation of this sector was attributed to the need for employment creation. This scenario is similar to the Zimbabwean phenomenon, where there are limited employment opportunities in the formal sector. Self-employment such as vending, barbers, backyard industries, and many others had been the alternative to such developments. In tandem with Todaro's observations, the firms inclined to this sector are highly associated with small scales of production and in-depth use of labour technology. Worker productivity and income are assumed to be very low, which contributes to the compromise of worker's protection and other advantages such as limited access to financial capital instead of those in the formal sector.

Medina and Schneider (2018) considered specific theories towards going informal. In their consideration, individuals are assumed to be rational in choosing between being formal and informal. The trade-off between benefits is one of the assessments taken into consideration in line with such decisions. In such a context, the informal sector is expected to be negatively related to the probability of being detected and the potential fines to be paid when detected and positively related to the opportunity costs of remaining formal. The opportunity costs being resembled by the burden of taxation and high labour costs. Hence high tax burden and labour costs incentivize households to avert cost by participating in the informal sector. The probability of detection depends on the tax authorities' actions and facilitating activities accomplished by individuals to reduce detection of informal economic activities.

2.3. Empirical review on the informal sector

LEDRIZ and Stiftung (2015) asserted that the informal economy's continuous expansion since 1980 must be addressed, given that most working population is falling in the informal economy. The informal sector's working population's working conditions are un conducive, leading them to be found ranked lowest on the social-economic ladder. The sector employment characteristics are decent work deficit, lack of protection, and representation, although they constitute 20% of Zimbabwe's GDP. The essence of unraveling these aspects was to develop the strategic framework that would emphasize the translation of the informal working population into formal. In tandem with it, LEDRIZ and Stiftung(2015) proposed an integrated strategy emphasizing growth strategies and quality employment generation; regulatory environment including enforcement of intellectual property rights and core rights; organization and representation of social dialogue; equality: gender, ethnicity, race, caste, disability, age; entrepreneurship, skills, finance, management, access to markets; extension of social protection, social security, social transfers; local (rural and urban) development strategies. This framework suggested a complete shift from overdependence of the informal sector economy as a source of employment, as it finds many aspects lacking in the informal sector. Though under this study, the emphasis was more on growth strategies and quality employment generation. The primary platform for applying this strategy's effective application should be supported by an economic development and

transformation strategy that encourages the gradual transfer of the economic structure from the informal sector's intense domination to the formal sector. This is highly imperative because Zimbabwe's social expenditure structure and the huge existence of capacity underutilization within the economy do not accommodate the informal sector's total shift to the formal. According to the Confederation of Zimbabwe's Industries (CZI) (2020), the manufacturing capacity utilization had been declining and operating below 50 percent. The vulnerability of a huge number of the informal sector households has been evident in the early stages of the 2020 national lockdown, which is poised by the countries governance challenge, fragile health system, and currency value deterioration against the general price rise UNDP (2020). The move to work in the informal sector is deemed survivalist meaning, all of the income is highly likely to be consumed instead of saving. As supported by LEDRIZ and Stiftung (2015), the most informal populace is found below the social ladder and highly desperate when external shocks hit except for business owners.

Handoyo and Setiawan (2018) focused on studying street vendors as a survival strategy of India's poor community. They found out city vendors to be treated unfairly by the city government. Therefore, being a vendor in a poor community can be referred to as the only option towards individual's attainment of subsistence means. Contrary to subsistence's available means, lack of attention to the welfare needs of the street vendors. The same situation applicable to Zimbabwe vendor's welfare needs, especially those who practice in the illegal places such as streets as protracted by the municipalities, is prone to penalties. The central fact behind their location is due to the limited capacity of the legalized market places. The government's inability to recognize their need for survival constructs the element of bias towards the informal sector. The element of bias triggers ripples effects through the expansion of the informal sector. This is indirect support for the expansion of small businesses in this sector, but, eventually, it is uncontrollable or even undermining some policy implementation due to the little control. Since the government owns the resources, in the event of an external shock which prevents the free flow of economic activity, the informal sector is always hit by desperation and poverty.

Mbiriri, (2010) qualitatively analyzed Zimbabwe's economy's sustainability through the informal sector's use in the reconstruction process. The research concluded that Zimbabwe's informal economy is a tool for sustainable development in the reconstruction process. It also emphasized the government's invisible hand as far as the private sector is concerned and eventually proposed the informal sector as a successive tool towards economic growth. This assessment proved to be contradictory to most of the work put forth by the former researchers but, its consideration of making the informal sector a tool is vital for shifting the rate of structure dominance from informal to formal as most of the studies saw the informal sector as an alternative for the formal sector's failure on employment provision. It reduces poverty from extreme in some instances but, poverty remains an element of it. The informal sector can be regarded as a tool that can necessitate transformation gradually, not sustainability unless the sector is fluxed by competitive technological and manufacturing developments that appropriates future growth and benefits, of which most in the mining industry can be better but, others in arbitraging, retail, back yard industry, vendors and informal cross border trading support status quo. Eventually of all these kinds of activities downplay the need for sustainability.

Njaya (2015) studied the informal sector's capability in Harare Metropolitan to create sustainable employment. The research findings were that informal sector enterprises comprise independent and self-employed entrepreneurs with no employees and micro-enterprises that employed 1-5 workers. This paper's policy propositions were more of or similar to LEDRIZ and Stiftung integrated strategy since it vouches on creating conducive

microeconomic, social, legal, and political frameworks for the large-scale creation of sustainable and decent employment and well-established business enterprises, both foreign and domestic.

ZEPARU and BAZ (2014) suggested that the informal sector could become a strong resource base when combined. Integration of the informal sector with banks' assistance, complemented with combining their capital and sharing of skills, makes a meaningful investment. As a result of this, there can be advancements in skills through knowledge transfers from partners than operating as individuals. For economic and business development, the idea of combining capital can be lucrative and applicable only when the existence of individual rationality and scale of preferences is overlooked. Most of the sole traders would want to obtain control, limiting the practicability and prolongation of the idea. The result leaves the informal entities with limited access to funding, consequently limiting their growth.

Mukorera, (2018) analyzed the similarities and differences in small and medium enterprises (SMEs) operating in the formal and the informal sectors in Harare, Zimbabwe. The study concluded that SMEs' constraints in the formal sector were internal and those for the informal sector were external. Unveiling the constraints associated with firms in both sectors enables the provision of possible solutions towards promoting SMEs growth. The study further suggested that a joint policy is not a solution for firms in both sectors, but rather be treated according to their differences to promote growth. This kind of detection implicates the government's failure to recognize the informal sector's existence during times like the 2020 lockdown. In the implementation of the intermediate money transfer tax, the informal sector was the priority. This generally reflects Zimbabwe's policy crafting bias, as it fails to cater to the informal sector. The indirect derivation of such failures further necessitates difficulties in economic reconstruction. The informal sector can be excluded but, it is part of the economy's private consumption, and every effect upon it affects the formal sector indirectly.

Meager (2013) did a literature review on the linkages between formal and informal economies in the developing economies. The study reviewed over 200 aspects of outright literature on formal and informal linkages under four categories: linkage mapping, institutional design, governance effects, and the politics of the formal-informal linkages. The paper suggested that the linkages can improve but also worsens the distribution of costs and benefits and can not be necessarily conducive for empowerment. The paper further proposed that the integration of informal workers and enterprises into global value chains, and the rise of complex multi-stakeholder networks have created new possibilities for the inclusion of informal actors in broader economic growth structures and decision-making. The informal sector has been identified as a closer substitute to formal unemployment. They were rendering employment to the unemployed, but it is termed exploitative and having distributional effects.

3. The methodology of the research

This paper uses a qualitative approach by extensively analyzing the existing literature in conjunction with both secondary and primary sources to give insights towards the sustainability of the informal sector in case of external shocks. Most studies towards Zimbabwe's informal sector was applied complemented with the basic theory of going informal, enabling the insight injection towards extricating policy crafting to transform most underdeveloped economies dominated by informal sectors Zimbabwe.

4. Facts Analysis and Discussion Towards Zimbabwe`s Informal Sector

The basic theory of informal sector formation was primarily hinged on the need to evade and avert higher tax rates against robust government regulations. In Zimbabwe, the informal sector's development and growth led to the rise of what is known to be the presumptive tax (ZIMRA, 2017). This type of taxation proved to be partially ineffective as it caused many small firms in the formal sector to close down, which indirectly meant a transformation of formality.

Apart from the tax theory, as a cause of the informality, employment is another essential element for the informal sector's growth and expansion. The type of informal sector employment can be regarded as having many detriments towards employee`s welfare. According to Adam Smith (1776), an individual exerts all the necessary resources that he/she can command to find the most advantageous employment. The decision is said to be based on self-advantage but, eventually, leads to the employment preference, which is advantageous to society. Given informal sector employment characteristics, there is no or little benefit to society because of worker exploitation, little or no contribution to a well-functioning financial and price system, down playing the role of government through its complexity inability to pay taxes. Applying intertemporal household consumption theory, most informal sector employees can be considered net borrowers are given lending platforms' availability. A lack of social assistance accompanies poverty and vulnerability due to a limited government revenue base in their absence. Basing on tax theory, the tax authority facing the economy dominated by the informal sector likely experiences low revenues against the potential revenue. These limits the government`s resilience towards curbing problems affecting the informal sector. This is highly evident in underdeveloped economies like Zimbabwe, supported by a lack of infrastructure developments and maintenance, restricting foreign direct investment. On the other hand, the informal sector's dominance indirectly reveals capacity underutilization, low level of investment, or how robust or harsh the level of regulations is within the economy, as reflected by the low level of formal employment. This positively reflects the economy's weakness, and the lockdown exerted enough force to expose the unsustainability and fragility of informal sector dominance as an economic society.

5. Conclusion and Policy implications

It is viable to consider the informal sector as being associated with a high proclivity towards economic uncertainties. As it continually exists as an economic domain in the provision of employment and means of subsistence to most members of Zimbabwe`s economic society, there can be in-depth exposition to poverty, vulnerability, and economic hardship. Most of these characteristics being revealed during the 2020 national lockdown undermine economic sustainability and future dependence on the informal sector as a primary provider of economic society`s subsistence means. The conclusion is also derived from the government`s inability to extend its social assistance towards vulnerable urban economic societies. When the government uses standard policy in solving ambiguous problems, it is that part of taking into account the differences between the formal and informal sectors. This government failure is highly attributed to the lack of transparency and, the frivolousness of the information regarding the informal sector, which includes aversion of regulation and evasion of taxes, which compromise the government capacity of intervention towards social welfare provision during times of economic hardship and friction in the informal sector. The government`s failure to control Zimbabwe`s informal sector has also led to the undermining of some policy changes, such as exchange rate policies where parallel market rates took control instead of official market exchange rates. This also had ripples on the general price

levels imposing hardship due to high living costs on Zimbabwe`s economic society, mainly the informally employed (assuming wage adjustment in the formal sector). Given this conclusion, Zimbabwe`s economic authority needs to consider restructuring by including the gradual shift from informal sector dominance to formal. This can be done through refocusing the government expenditure from status quo maintenance to developmental, such that more secure, decent-paying, and workers` rights upholding employment is created. This would lead the majority willingly to shift from informal to formal. Besides, there is a need to embrace the informal sector's regularization and formalization through a favorable and conducive registration framework.

Policies are supposed to be crafted in such a way that encourages the identification of economic society dynamics. Government subsidies are the best tool for covering the costs associated with competitive growth investments, such as technological innovations, to transfer technological initiatives to the informal sector, contrary to arbitraging and vending economic activities dominating the informal sector. Production and specialization in the primary product had been a significant disadvantage to most African economies such as Zimbabwe. Most of the policies targeted the resuscitation of agriculture sectors, which is commendable for self-sustenance and poverty eradication. For years, this had been the core, but it merely neglects other industries as no special attention can be paid to the modernization of other sectors. There is a need for balanced economic development strategies that would accelerate modernization with growth through all sectors' involvement. This would, in turn, subsequently enable revenue increase through tax payments. It also enables the government to be more active in welfare needs provision for both rural and urban economic societies, as opposed to when the tax base is limited due to evasions of taxes and aversions on regulations.

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