

Zimbabwe's informal sector

Latham Shinder

The government of Zimbabwe and its citizens have serious concerns regarding the country's joblessness and negative economic growth. The government also is concerned about the mushrooming growth of underground businesses and the resulting loss in tax revenues. Are the solutions to the two problems necessarily in conflict? It is possible that the first goal—employment growth—is much more important than the second—suppressing the underground businesses (that is, the informal economy). Growth of the informal economy is an important part of the future of all developing nations for one primary reason: their present high unemployment rate will crush both local markets and foreign trade.

The informal economy defined

Informal economies have been defined as economic activity not included in a nation's data on gross domestic product, and not subject to formal contracts, licensing, and taxation. These businesses generally rely on indigenous resources, small-scale operations, and unregulated and competitive markets. In addition, skills may be obtained outside the formal educational system.¹ To simplify the concept, most often the informal economy refers to owner/operator businesses of the urban poor, unskilled or semiskilled workers, and the chronic unemployed. By definition, these workers and entrepreneurs are on the fringe of, if not out-

side, social and fiscal legality.²

Zimbabwe's reduced tax revenues and increasing budget deficits are accelerating the decay of its infrastructure—critical to maintaining and increasing foreign trade and a high standard of living. Reduced tax revenues are becoming commonplace within many African countries. Southern African nations experience weak economic growth performance and their external viability is undermined by high debts. As a result, these nations face rampant unemployment and deteriorating living standards.³ Only 18 percent of Zimbabwe's 85,237 kilometers of highway are paved. And the communications system, once considered the best in Africa, now suffers from poor maintenance and only supplies 247,000 telephones to a population of 10.9 million. International and fiscal entities are encouraging cash-poor African countries to develop a new tax base in the only economic sector with any dynamism—the informal economy.

Zimbabwe is not the only African nation to confront high rates of unemployment. For example, unemployment rates in Benin are equal to those of Zimbabwe, where a recession in the formal economy has caused the informal economy to flourish in recent years. Informal employment is estimated to account for 65 percent of Benin's overall employment.⁴ In addition, South Africa has a 40-percent unemployment rate. Although the wages of skilled and semiskilled black workers are only 70 percent of those of white workers, it is still double the wages of such workers in Taiwan, South Korea, and the Philippines, taking into account cost-of-living differences.⁵ The argument is made that in South Africa, like in Zimbabwe, rates of unemployment are extremely high, and the emphasis must be on first increasing employment and then increasing wages and productivity.

The informal economy is efficient at generating job opportunities at a very low cost for at least some segments of the population.⁶ In some African na-

tions, self-employment and micro-enterprise activity in the informal economy in the late 1980s absorbed some workers who had lost their jobs in the formal economy.

Jobs in Zimbabwe's formal economy (including civil service jobs, agriculture, manufacturing, and export operations) are showing negative growth, while some jobs in the informal economy (including small businesses, vendors, and illegal trade operations) are showing positive growth. Jobs in the informal economy are difficult for the government to regulate and monitor and, hence, may be more difficult for the government to encourage. Furthermore, these businesses generally do not pay taxes, giving the government more reason to discourage growth in the informal sector.

Although most owners and workers in the informal sector pay no taxes, they and their families spend income in the formal economy. Therefore, an increase in jobs in the informal economy may have a positive effect on jobs in the formal economy. Although large enterprises in the informal economy tend to use imported technology and a relatively small labor force, the smaller enterprises are more labor intensive and likely to use locally manufactured equipment.⁷ With the high unemployment in Zimbabwe, job creation, particularly that focusing on the smaller enterprises in the informal economy, may be an important priority.

Informal versus formal

Richard Hosier defines two philosophical concepts relative to the informal economy's role in society.⁸ According to Hosier, the two conflicting concepts are the "evolutionist" and the "involutionist" perspectives. Evolutionists basically believe that the informal economy has the ability to evolve or grow, and can be used to alleviate poverty. They also view the informal economy as a reality that will continue to exist and that governments should strive to support, rather than hinder, its growth.

Latham Shinder recently returned to the United States from conducting research at the University of Zimbabwe. The views expressed in this report are the author's and do not represent those of the Bureau of Labor Statistics.

Involutionists believe the informal economy to be a system of labor exploitation and will not lead to improved standards of living for the working poor. This concept holds that any promotion of the informal economy will further increase the wage inequality between the formal economy's wage earners, managers, and capitalists, and low-paid subsistence workers. Although evolutionists and involutionists seem to have opposite views, there are elements of truth in both perspectives. Even if the informal economy's long-term permanence and growth potential are proven unstable, or even undesirable, the short-term (3 to 10 years) effects will be positive.

In South Africa, the informal economy is estimated at 16 to 40 percent of gross domestic product.⁹ The majority of those surveyed in the township of Khayelitsha began their own business out of necessity, as they were unemployed or in need of additional income. In addition, almost half of businesses in the sample had created employment for at least one nonfamily member.¹⁰ In two cities (Nairobi and Meru, Kenya), approximately 50 percent of all firms interviewed had at least one full-time employee who was not a family member.¹¹ Of the 30,000 informal businesses assessed in Dakar, Senegal, each employed, on average, just under one additional worker.¹² In Benin, 37 percent of micro-enterprises employ an additional one to four workers.¹³ It is clear that informal businesses are capable of supporting and maintaining a work force in addition to the owners/operators and their families.

Many businesses in the United States are discovering the benefits of outsourcing some or all job functions; this concept is not alien to the informal sector in Zimbabwe. In third world countries, industrial "homework" is similar to outsourcing, in that parts of a product are manufactured or assembled at home. Most homework tasks involve simple, unskilled, labor-intensive tasks that require little capital and few tools. Work is unstable and offers no security. Yet, there are a

variety of reasons that homework and other employment continue in the informal economy despite these hardships, among which is the fact that often no jobs are available in the formal economy.

Zimbabwe has approximately 200,000 new entrants to the job market each year. Some of them are absorbed by small and medium-sized companies, but the rate of absorption is too low to change unemployment figures.

In many countries, most businesses in the informal economy are illegal under existing laws. Some experts contend that the businesses, along with illegal micro-enterprises, within developing countries may be the only possible source of income for most people in large cities.¹⁴

Meeting the challenge

High rates of unemployment in Zimbabwe are causing an economic and cultural crisis. Zimbabwe's infrastructure is deteriorating, while the country's human capital is underutilized. Many segments of the population are not satisfied with the current conditions. Given the situation of existing and impending crisis as a result of high unemployment, waiting for analysis of long-term ramifications would amount to negligence on the part of the government. Businesses in the informal economy in most cities are a by-product of inadequate education and training, high rates of unemployment in the formal economy, and the poor and working poor striving to improve their economic conditions. Optimizing the use of the informal sector can have positive short-term effects in alleviating unemployment.

Countries that have been successful at economic growth and reducing poverty have set two specific objectives. First, establish a growth policy that emphasizes employment, utilizing the available abundant resource—the labor pool of the poor. Second, invest in human capital by providing the poor with education and vocational training. In addi-

tion, decentralization in policymaking and implementation can dramatically promote employment objectives.

The challenge confronting all self-employed workers in Zimbabwe's informal economy is to make the transition from mere survival to an economically stronger position. Zimbabwe's labor force totals 3.1 million; approximately 74 percent of them are in the agriculture industry, with low pay.¹⁵ If an effective program is established under which full employment is a goal for Zimbabwe and other developing nations, the informal economy is an obvious opportunity. □

Footnotes

¹ Michael H. Morris and Leyland F. Pitt, "Informal Sector Activity as Entrepreneurship," *Journal of Small Business Management*, January 1995, p. 78.

² Carlos Maldonado, "Building Networks: An Experiment in Support to Small Urban Producers in Benin," *International Labor Review*, 1993, no. 2, pp. 245–75.

³ Manoih Esipisu, "Mauritius Lectures Africa on Economic Growth," *Reuthers World Service*, Oct. 23, 1994.

⁴ Maldonado, "Building Networks."

⁵ Hermann Giliomee, "The ANC stumbles," *New Republic*, Oct. 19, 1992; and I. Abedion and M. DeSmidt, "The Informal Economy in South Africa," *The South African Journal of Economics*, vol. 58, no. 4, 1990, pp. 404–24.

⁶ Meryem Koray, "Employment and Unemployment in Turkey," *International Journal of Manpower*, vol. 12, no. 5, 1993, pp. 15–21.

⁷ Malcom Harper, "Enterprise Development in Poorer Nations: The Role of Enterprise in Poor Countries," *Entrepreneurship Theory and Practice*, summer, 1991, pp. 7–11.

⁸ Richard H. Hosier, "The Informal Sector in Kenya: Spatial Variation and Development Alternatives," *The Journal of Developing Areas*, July 1987, pp. 383–402.

⁹ I. Abedion and M. DeSmidt, "The Informal Economy in South Africa."

¹⁰ Richard H. Hosier, "The Informal Sector in Kenya," pp. 383–402.

¹¹ *Ibid.*

¹² Harold Lubell and Charbel Zarour, "Resilience Amidst Crisis: The Informal Sector of Dakar," *International Labor Review*, vol. 132, no. 2, 1990, pp. 287–400.

¹³ Carlos Maldonado, "Building Networks."

¹⁴ Malcolm Harper, "Enterprise Development in Poorer Nations."

¹⁵ "Zimbabwe's Economy: Breaking Free?" *The Economist*, Aug. 25, 1990, pp. 36–37.