

Vendors Initiative for Social and Economic Transformation (VISET)

Policy Brief on Formalization and Leadership Development Agenda



What's the issue?

To ensure that the informal sector can grow from being places of survival to being part of the formal economy and contribute massively and significantly to Zimbabwe's economic revenue, it is therefore of paramount importance to formalize and create incentive structures that pave way and foster growth. These structures should be designed to encourage informal businesses to transition into the formal economy, thereby increasing their contribution to the country's revenue (Medina, 2018). The stayed continuance and unabated exponential growth of informal activities has an adverse effect on the national revenue and the socio-economic fabric of the nation.

Formalization is a multifaceted and ever-evolving process. It involves balancing the acquisition of necessary resources, managing profit accumulation (whether through reinvestment or reproductive purposes), and mitigating risks associated with institutional compliance and legitimacy over time. The ideal formalization that informal economy workers would like to see is one which includes amongst other things; supports business growth for traders, affordable operating and registration fees, improved conditions of service for traders, and social security. A fundamental danger to a sustainable transition to the formal sector is a lack of dialogue opportunities.

The main growth inhibitors in the informal sector that gives the need for formalization and the instituting of the leadership development agenda include internal and external factors. These include Market and financial factors; lack of clients, excessive competition, lack of profitable markets, access to finance, and access to business premises, amongst others. To add, macroeconomic factors consisting of high taxes, high interest rates, crime, finding the right employees, late payments by debtors while entrepreneurial and managerial skills encompass the lack of management skills in the informal sector, and poor access to market information. Another



category of challenges faced by informal traders in regulation matters that encapsulate lack of access to business networks, rigid business registration processes and various problems with authorities while technological constraints include gender discrimination, access to technology along with governance constraints like; political instability, rent-seeking behaviour and corruption.

While it may be tempting to attribute the rapid growth of the informal sector to the current political situation in the country, data indicates that the sector has been expanding consistently since the country gained independence in 1980, increasing from 10% to 20% in 1986, then to 50% in 2002, and now stands at over 60% (Gumbo, 2011) (Medina, 2018)

The government has been trying to formalize the informal sector by implementing various measures such as reconstruction exercises and entrepreneurship training programs for all. In 2010, funds were also made available for small businesses, but collateral was required, making it difficult for deserving applicants to benefit. However, recent evidence suggests that the government is still facing challenges in formalizing the informal sector (Chigwenya, 2013; Ngwenya et al, 2018)

VISET membership in research conducted in Chiwundura, Binga, Chipinge and Goromonzi, all spoke to the unsustainable operating environment, plagued by an increasing number of new entrants, little to no infrastructure, corruption, and stringent regulatory processes and charges that become hindrances to their desire to formalize. Women, by way of their being the majority, but wielding significantly lesser economic power, are heavily exposed to bribe seekers and sexual predators, and are welcoming of the need to formalize if it can grant them protection under law and social security. The Covid-19 pandemic left many women as sole breadwinners in many households, but with significantly diminished market share. Poor service delivery has seen women having to first cater to needs such as household water provision before embarking on the working day, leaving them vulnerable to sexual attacks in the early hours of the morning. Load-shedding also translates to longer hours, as women leave market places to begin chores such as cooking and ironing once power supplies are restored.

During our research and consultations, the issue of land rights also emerged as a sore point, as most women are viewed as minors when it comes to land rights in communal areas. In most Zimbabwean societies, women can only access land through male relatives (Gaidzanwa, 1998).

This is usually the case when the husband passes away, hence other research has stated that women land ownership in communal areas stands at 34.5 percent, as compared to 65.5 percent by males.

Why is it important?

Informal traders have discussed some of the coping mechanisms they use to keep their enterprises running. Strategies include "mikando", informal credit facilities, and some women submitting to forced relationships or friends with benefits with enforcement officers.

To strengthen the women's collective voices in the informal economy, it is important to strengthen feedback loops with private sector and government towards protecting and promoting the rights of women and girls in the farming, mining and marginalized communities in Zimbabwe.

The call for the formalization and leadership development agenda within the informal sector seeks to promote the liberties, safety and freedoms of men and women in business. This will yield an increase in knowledge on transformative leadership among women informal traders and lead to revolutionizing the entire sector. Informal traders using knowledge learnt on feminist leadership training to engage and influence formalization processes of the informal sector can be the required factor, given their dominance in numbers of the sector.

Nelson and De Bruijn (2005) suggest that formality can help create jobs and reduce national unemployment rates. However, in Zimbabwe, the informal sector is the primary source of employment. The official unemployment rate in 2017 was estimated to be 5.16 percent, but it is believed to be between 60 percent and 95 percent due to most employment activity being in the unrecorded informal sector. Formalizing the informal sector can help keep track of accurate statistics and broaden the tax base. In some cases, formalization may even lead to lower tax rates. Formalizing the informal sector can lead to increased profits for firms, in addition to the direct benefits of increased income to the economy through taxation. Studies by Williams and Kedir (2017) and Boly (2018) have shown that firms that commence unregistered and then register tend to outperform those registered from the onset, and that formalization leads to an increase in firms' profits and value addition. If Zimbabwe improves the efficiency of its institutions, formalizing unregistered enterprises could assist the country in its recovery process.

The broader essence and need for formalization and the instituting a leadership development agenda is to create room for the establishment of better (decent) jobs, creation of broader tax base that may allow lower rates, possibly increasing investment and strengthens the social contract.

Businesses are believed to gain more legitimacy and protection when they undergo formalization. Such steps will help in dealing with issues like gender discrimination, late payments by debtors, high taxes, high interest rates, lack of clients, excessive competition, business registration problems, crime, lack of profitable markets, access to technology, lack of management skills, and lack of entrepreneurial skills, (Mukorera, 2018)

The literature also suggests that financial inclusion is a key reason for formalizing informal vendors as it plays a crucial role in their development (Ngwenya, 2018). In developing countries, most informal vendors lack access to banking services and other formal financial services such as social and business security insurance services (Kappel, 2006). This lack of access limits their potential for growth as they cannot engage in more risky strategies without protection. Formalization allows informal traders to take more risks under the cover of liability institutions that can protect them from loss when faced with business failure. Formalization also provides traders with better information, which promotes deal-making and increased investment (Ngwenya, 2018). Stronger networks are found in the formal sector, and there are higher chances of getting new jobs than in the informal sector. Skills and education are also emphasized more when formalized. Another important feature of formality is that the rule of law exists. Traders can freely conduct their business knowing they are protected by the law, and their interests will always be protected. The workers will be subject to worker regulations like entitlement to sick leave, maternity leave, social protection and incidences of child labor will be better regulated, amongst other benefits.

Acho-Chi's (2002) research in Cameroon highlights a vicious cycle of gender inequality. In extreme cases, women's long working hours lead to child abandonment and the involvement of younger girls in their business, depriving them of basic education. Home confinement restricts access to wider social networks, with activities concentrated heavily in gendered sectors such as food vending, saloon operating, tailoring, and clothing. These sectors are characterized by fierce competition for space and customers, as well as low productivity. Women rely on home-based locational networks for potential job opportunities and other information, as well as community or

kin-based support such as family and intermediaries to remain invisible from government regulations and contracts of formal sector enterprise.

What should policy makers do?

Policy approaches regarding women's agency in the developing world are often based on normative values, which may not be well-supported by evidence about the sociocultural expectations and complex, intersectional nature of gender constraints in these contexts. The need for enabling policies and by-law reforms that support the transformation of street sellers, including those with disabilities, was viewed as critical to the sector.

Specific and cross-cutting drivers of formalization. Informality has multiple causes and is diverse in nature, both within and across countries. Promoting formalization requires policies that address the specific needs and circumstances of the various groups of workers and economic units in the informal economy and also policies that tackle the structural causes of informality

Calls for policies that ensure the simplification of the registration processes to increase the possibility of having informal traders venture and move into the formal sectors are strongly encouraged. Gender norms and inequalities that limit women's activities to so-called safe and convenient locations have negative implications for their welfare (Dasgupta 2000). This is due to the double burdens of domestic and paid work, as well as the limited networks, markets, and entrepreneurial knowledge accessible to them. These factors further constrain their capacity for growth and formalization.

Gendered divisions and limitations on women's entrepreneurial activities are perpetuated by internalized norms associated with domestic labor and other reproductive activities. VISET recommends a contextual approach informed by social feminism, which is committed to understanding socialization processes, culturally imposed attitudes, and gender stereotypes. This approach can be more effective in not only better understanding formalization choices but also in designing policies that support women's enterprise.

Laws governing urban planning such as the Regional, Town and Country Planning Act [Chapter 29:12] must be aligned with the national constitution, specifically section 64. This will provide an

enabling framework of integrating the informal sector in city planning. This ‘rights-based approach’ to development, based on the right-to-the-city paradigm will guarantee the rights of all urban inhabitants to access the benefits of urban life, including informal traders. It is important to note that The Act is the parent legislation of all municipal by-laws and hence as long as it is in its current state, no progressive by-laws that speak to lived realities can be enacted.

Decongestion of the Central Business District (CBD) can be aided through the adoption of mobile vending in all areas even outside the designated informal economy workers' markets, unless designated as a 'no trading zone'.

VISET also recommends the amendment of the National Social Security Act (Chapter 17:04) to incorporate informal economy workers and provide for social safety nets that can cushion them in times of ill health, maternity leave, retirement and pandemics such as Covid-19.