

The informal sector: a Zimbabwe case study

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THE INFORMAL SECTOR: A ZIMBABWE CASE STUDY
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I. Introduction:

A. Informal sector, in my view, represents a phenomenon reflecting the blocked and distorted development that takes place in third world countries = "blocked transition"

1. Most theorists agree that industrialization should contribute to increased specialization and exchange, leading to increased productivity and rising living standards in all sectors in a balanced, integrated national economy:

Agriculture:

Food for urban pop.
Raw materials
Exports (capital)
Markets/mfd goods.
Release labor/ind

Industry:

Process raw mats.=
=mkt/ag, incr.val = dow use
+ expts
Mfr. tools, eqpt=
incr. ag. productivity
Provide jobs/ag wkrs

2. Instead, in third world, 2 models of ind (impt subst, expt oriented) aggravate dualism, leading to grtr unee, distorted income distrib.

Africa:

a. Colonial past geared ecs. to export of raw materials, impt of mfrs = dual ec: ⁱ⁾ expt enclave = 'mod.' sector (minerals, ag. expts prod by peas or comm'l farms); ⁱⁱ⁾ insts undermine trad. ec., coerce rest of pop. into lowcost labor reserves (low wgs/mines, com'l farms; low shrs/peas. expt crops);



~~Impt subst. Ind → reinforces, aggravates dualism~~
b. ~~Ind'liz. typically = impt mach, eqpt to mfr. farmer impts for high inc group, 'mod' prod sect =~~

i. mfrs. lux, semi-lux/high inc grp; mach., eqpt for mines, com'l farms = incr. productivity, reduced ee;

ii. located in urban centers = further uneven devel, squeezes out smll rural bus.

iii. impt. dep., aggravates bal. of pay. difficulties, requires further exp. of crude expts. = use of best land, decline of food cultivation

iv. oligopolistic: few firms mfr. most

of output, can set prices behind protective tariffs; max. profits thru high prices, low wages, rather than expanded output.

✓. cap-int. so ees few wkrs.

c. Result: aggravates dualism, unemployment, further distorts ~~/~~ income distribution; in this context, need turn to informal labor market for employment:

i. to earn a little cash;

ii. to produce lowcost items for low income urban, rural populations (lower quality);

[d. Expt inds = similar results:

i. diff. primarily in that now use low cost uneed labor, pushed off land, for cheap mfrs to compete in world mkt; elim. of tariff barriers squeeze out smlr dom. inds = another form of export dependence (Won't discuss here, though raises issues of alternative strategy, will discuss later if desired)]

Here
ii. Focus on Zimbabwe case = import substitution

B. Zimbabwe case: At independence = most ind'l
subSaharan Af. st outside SA: 25% of GDP prod. by mfr as
result of special circs:

1. Col. rule created dual ec:

a. 6000 com'l farms, eeing 250,000 workers
(\$20/mo) owned half nat'l land; 800,000 peas. fams
owned other half (least well-watered, most rocky,
sandy, overcrowded); controlled state, used taxes,
discrim. mktg., no credit to peas. → created
conds. where had to work on mines, com'l ag.

b. Settler state encouraged ind'l inv (70% for.
owned), using tariffs, ^{exchange controls =} protection, tax incentives,
and extensive state intervention through
parastatals (as in SA):

1953-63
i. Fed. of Rh & Nyas: Taxed/Zamb; low cost
lab/Malawi, Moz. = rapid ind/Bulawayo, Salis
(now Harare).

c. UDI (66-80): response to UN sanctions = cut
off outflow of profits = reinv'd: ind. grew from 16

map of Zimbabwe

to 25% of GDP = ~~typical characteristics of D&I:~~

i. ^(State, mainly top'd com'l farmers) UDI = white ruled state (3% of pop) with apartheid system like SA: blacks in TTLs (now "communal areas"); or townships if worked for whites, wives, fams. often in TTLs = subst ag.

ii. ^{ind =} conc'd in Bwyo, Harare; prod. eqpt, mach/com'l farms; impt dep, esp. from SA.; cap-int, eed only 4% of adult lab. force.

iii. Incr'd ag. prod./com'l farms + little new mfrg ee, combined w. impact of int'l recession and liberation war = growing unees: 20-30% (note parallels to SA today);

iv. = growing "informal sector" as people fled rural unrest, unemployed sought some form of income + low cost consumer items for poor in "townships", rural areas.

2. ^{Post-indep (1980)} ~~New~~ Zimbabwe [^] faced issue of industrial strategy
= W, in Economics Dept., undertook study of informal sector in urban, rural areas, in relation to so-called "modern" industrial sector to suggest how restore balanced industrial and agricultural development, facilitating transition to balanced ind'l-ag growth = incr'd prod ee ops → higher ₅ living stnds

II. The study ~~(s results)~~.

A. method: Four faculty members worked together with *about 10* students to conduct interviews:

1. Almost 100 top-level officials of large manufacturing firms = cross-sector of major industrial branches to obtain more detail substantiating industry's role (won't discuss details here, but confirm generalizations above);

2. 80 small scale rural industrial enterprises in six rural areas to determine their basic characteristics and identify the factors hindering their contribution to the spread of employment opportunities and higher incomes among rural populations. Most of these, with the exception of Gwelo, were in communal areas (former TTLs); Gwelo, on the outskirts of a peasant cotton farming area, had somewhat higher incomes per capita than the others.

3. 135 small scale industrial operators in informal sectors in black townships near Harare (then Salisbury) and Bulawayo to determine why they set up their establishments in the cities, their role in the urban economies, and how they differed from their rural cousins.

Map

B. Results:

21 productive (did not include trading) grouped in 14 categories most in both areas
1. Array of informal industries similar though more sophisticated and specialized in the cities; in the rural areas, there are fewer, more widely separated in location, ~~and~~ more informal and part-time, (use simpler tools, materials) (since this was a pilot survey, can't give comparative numbers of each in each area, but indicate kind); all reflect sex division of labor = similar in urban, rural

a. Blacksmiths, tinsmiths, welders: Rural: blacksmiths, tinsmiths may be the same ^{people} (interviewed 5); make axes, spears, hoes, baths, dishes, knives; cities: welders (15) using electric soldering (produced more items like angle bars, window frames, etc); irons replace blacksmiths and ~~separate~~ tin smiths separately (13), operating on smaller scale, produce buckets, baths, kettles; (Men)

(several types in cities, repairs general specialization, more complex tool) b. Machine repairs: rural (4): repair scotch carts, small farm equipment, ~~an occasional car~~; urban: (5) ^{more complex set of repairs // more complex mach, eqpt. available} regularly repair car panels ("panel beaters"), tires, tubes. (men)

ii) Watch repairs: rural: none; found many in cities (9). (Men)

(ii) Radio, TV repairs: Few in rural areas (1) for radios only; more common in cities (7): most repair radios. (Men)

(iv) Cycle repairs: none reported in rural areas; found ~~several~~ in cities (7). (Men)

f. Carpentry: Rural (8)^{in all areas}: small ~~scale~~ ward robes, chairs, tables, benches, shelves, wooden plates, knobkerries; Cities (21): similar output, some located near bus stop, sold output to men returning to rural homes. (Mainly men, tho some women in Bulawayo; ~~would not~~^{refused to} be interviewed by male student)

g. Tailoring: Rural (5), making school uniforms, dresses, shirts, trousers, repairs; Urban (19): same items, except school uniforms; on Bulawayo city premises, licensing rules prohibit making clothes, so concentrate on repairs. (Men and women, sometimes ~~family~~^{business} groups)

h. Shoe repairs: Rural (6)^{1 (in each area)}; urban (21).

i. Upholstery and rug making: 14 in townships, none in rural areas (men).

j. Miscellaneous in urban areas: ⁱ⁾ ring and bangle making (3); ⁱⁱ⁾ belt makers and leather workers (3).

(Men)

ⁱⁱⁱ⁾ Wire mesh: urban (1): for security around homes.

l. Mats, basket making: Rural (4); urban ~~(5)~~ (3 in a township where Apostolic Faith prohibits wage employment so there are only informal ^{ec} activities).

(Women, ~~ment~~ in Apostolic Faith community - not sure why)

m. Knitting, crocheting: Rural (3), urban (4) = same items (women, tho families may help finance knitting machines) . (Women -> learned from missionary sewing ^{school} or relatives)

n. clay pots: ^{all areas} Rural and urban ^(few) (women who learned from their mothers).

o. Maize mills: rural (6) for grinding maize brought by peasants for own use; urban (1) ^{= near of communal area / lab res.} owned by male storekeeper who also owned one in another rural area.

p. Building, ⁱ⁾ housing construction: rural: made small huts and houses (\$40-\$450); urban: township housing usually made by large construction firms on contract to city; squatters' huts illegal. ^{few African construction groups}

ii) Brickmaking: rural (3) for local homes, sold some to commercial farms for workers' housing; in Harare, the 25 that had existed in 1950s had been replaced by large scale factories.

iii) Plumbing, well-making: rural (1 of each): plumbing for higher income groups; wells dug by hand (men)

r. Beer making: Rural (2): women make traditional beer; in cities, illegal, only licensed large firms sell beer, both "European" and traditional, so students didn't interview [note: townships' revenues = from 'legal' beer sales; even new gov't opposed unlic'd beer brewing]

s. Broom making: rural (1): man made brooms initially while herding cattle.

t. Transport: rural (5): Use of lorry or scotchcarts to transport goods to and from village markets, etc.; cities - didn't interview, but could include 'private taxis', etc; public transpt + big transpt cos monopolize most transpt

Overall characteristics of these informal activities:

2. Reasons for working in informal sector: [inferred from questions + examination of the activities, when established, etc.]

a. Rural: most peasants make most of their consumer items for themselves, including their houses, food, much of their clothing; however, a few ^{acquired skills,} worked

part-time, while they or their families continued farming, to specialize in the above industries to earn a little extra cash.

b. Urban:

i. A considerable number of the small industries had started in the late 1970s, reflecting ~~two~~ several possible trends: a) the liberation war's disruption of the countryside, which accelerated rural-urban migration; ~~and~~ b) the recession of the late 1970s which led to growing unemployment; c) relaxation

of gov't prohibition as unemployment → serious problem, black rule → reality = less exclusion from towns

ii. Most of the informal sector workers ~~worked~~ *undertook these activities*

~~there~~ because they could not ~~find~~ employment in the formal sector. *Some = Malawians, Mozambicans, didn't want to return home*

(Zimbabweans?) Most had family members working

in the rural areas, at least seasonally, as an additional source of food, income. A few

owner-operators started their work because they thought they might earn more and would be more independent than in the formal sector.

Level of
3. Education - "human capital":

a. Rural: Some had some primary schooling. Most learned trade from their family members or relatives; a few learned in town and returned to their home

areas.

b. Urban: ^{Almost} All had some primary schooling, and those working in more sophisticated industries (watch making, radio repair, car repair, etc.) had up to Form II education. Some learned trade in primary or secondary school, some as apprentices, some ^{by} from friends and family members (most women, some men in less complex activities)

4. Amounts and sources of Money capital to operate these industries:

a. Rural:

i. Most rural entrepreneurs had less capital than the ⁱⁿ urban industries, even in same lines of business. eg. carpenters even made their own tools, bought fewer. Most worked at home and had to pay no rent. Most of the industries used local raw materials, some, like clay and reeds for mats, free. Lack of electricity in rural areas meant that none used electric powered tools.

Sewing machines were footpeddle operated. ^{Only a few items involved more capital!} Lorries might cost up to \$5000, and grain grinding mills (new) might cost \$7000; these were mostly owned by store keepers.

ii. ^{Sources: Amounts = small;}
They saved funds from sales of crops, employment in the urban areas, or a few owned stores. No rural entrepreneur borrowed from banks, or even tried; very few borrowed from relatives.

b. Urban:

i. The amounts of capital required varied, from a few dollars to ~~several hundred~~ ^{almost \$1000} in the more sophisticated industries. Many entrepreneurs had to rent premises, either a back yard, a verandah, or inside a shop, the rents rising from \$5 up to \$50 a month as ^{(business profits = higher, and} the premises improved. (In Bulawayo, the city council rented premises, accompanied by regulations as to what and how industries might operate.) The tools and equipment for more sophisticated industries, including electric power tools, might cost several hundred dollars, especially where entrepreneurs hired labor.

ii. Entrepreneurs saved funds, either from formal sector employment or from initial beginnings without much capital (starting under a tree, using a few hand tools); or borrowed from relatives

(several of the businesses were called 'family businesses' as opposed to those operated by a single individual). Some had tried to borrow from banks, but none had succeeded because they lacked security. Many never tried. A few said they did not want the burden of repaying.

5. Labor:

a. Rural: The owner-operator provided most labor, sometimes assisted by family members working for nothing. In one case, a man and wife operated a scotchcart together for transport purposes. Very few hired labor, usually for \$5 a week. ^[The rural com'l farm min. after indep = \$55/mo] In a few cases, workers received no regular wage, but obtained a share of ^{whatever} the profits: ~~the work brought~~

= about 1/2 rural min. wage

b. Urban: In less sophisticated industries, owner-operators did all the work. Sometimes family members helped in 'family businesses', ^{through the family} for nothing, or on shares. Some, especially the more sophisticated industries, employed several workers, typically paying them ^[The gov't min. wage = \$105/mo, abt 2/3 the pov. datum line.] between \$20 and \$50 a month. A few groups worked as cooperatives sharing the profits (this became more common after independence as both ZANU and ZAPU stressed cooperatives, and urged

abt 1/2 urban min. wage

ex-veterans to use their demobilization pay to set up small businesses).

6. Incomes of owner-operators (including 'wages' and profits): Very hard to estimate, since they kept no books, and seemed reluctant to give data.)

a. Rural: rural incomes fluctuated, sometimes seasonally, both with crop incomes and remittances from urban sectors; they were generally less than those earned for similar work in the cities, perhaps illustrated by fact that few urban entrepreneurs expressed a willingness to return to the rural areas because of lack of markets ^{inputs} and potential incomes (those who said they would return did so on assumption the government would assist them). The industry incomes were mostly supplemental to their other work.

b. Urban: Incomes in most cases reached the rural minimum wage, and in the more sophisticated industries ~~came close to and~~ may have exceeded the urban minimum wage. Many entrepreneurs reported their family members continued to work, seasonally

at least, in the rural areas, suggesting their incomes together with those of other family members made their continued survival in the city possible.

[But urban min wq = 2/3 of poverty datum line - i.e. min. of subs. for fam of 6; and most urban wkrs kept fm. memrs in comm. areas. usually some C.I.]

7. Markets: All ^{informants} ~~entrepreneurs~~ said competition from similar industries and the modern sector industries constituted a problem:

i. Rural: Lack of transport, funds, ^{and availability of inputs,} and knowledge hindered expansion to full-time production; almost all constituted part-time activities, supplemented by farm work, and in some cases other informal activities. As incomes rose (~~the minimum wage in the cities went up to \$105/mo; and in rural areas to \$55 after independence~~), several reported increased sales; but also rural buyers ^{tended to} shifted to products from formal sector: eg. metal pots, store-bought clothes, shoes, tools, etc., expressing a preference ^{what they termed 'beter} ~~for the~~ quality!

ii. Urban: Lack of information about markets and lack of transport hindered expansion; competition from similar small industries and ^{those in the} formal industry sector constituted hindrances; ~~in particular,~~ in Bulawayo, the city council prohibited tailors from producing clothes in competition with formal sector; clay pots and mats faced replacement by

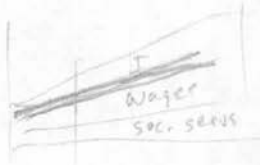
metal pots. On the other hand, as minimum wages rose, ^{clothing,} furniture and housing-related industries increased their sales (some to people returning to rural areas).

Over time → Plan: strategy to

A. ^{(both agriculture and /} Restructure formal industrial sectors → integrated, balanced =
 min. prod. cost + rising liv. standards

1. Improve agricultural productivity to support industry and raise rural incomes as market for industrial products; - i.e. change all institutions that impose ceiling on peasant agriculture i.e. land reforms, appropriate inputs; credit; markets (incl. stg, transport), extension ed (incl. for women)

2. Restructure industries to provide support for agriculture and employment for workers released from agriculture; - use local raw materials, appropriate technologies, location = poles of growth, etc. w/in nat'l plan



3. ^{Planned} Industry ^{plans} should provide appropriate inputs for informal sector as part of transition, while ^(deliberately) ending formal sector competition that undermines ^{desired} informal sector industries:

- a. Manufacture tools, equipment, materials at appropriate levels of technology to enable informal sector to manufacture low cost consumer necessities for low income population; extend electricity to rural centers ^(at low cost)
- eg. tin smiths - electric soldering irons, scissors, etc.
- tailors - sewing machs, spr. pts
- 17 -
- carpentry: hand + power tools
- and blacksmiths: simple "blast furnaces" - to m^{repr}ke axes, etc.

b. Provide electricity, water and other inputs at low cost (subsidized as ^{has} ~~is~~ ^{been} often true for the formal industrial sector)

c. Avoid creating new industries which compete with informal sector until can provide alternative employment and low cost consumer items → ie w/in plan strategy = step-by-step over time. = dynamic perspective

B. Arrange for institutional changes to enable informal sector to overcome obstacles to transition; ~~to balanced industry and agriculture, increasing productivity and rising living standards.~~

1. Re market:

a. Conduct extensive market surveys to increase knowledge of items required in rural as well as urban areas; and prices people can afford

(accompanied by measures to raise minimum real wages ^{as productivity increases} to enable people to buy them);

b. Provide transport for inputs and products; (encourage marketing cooperatives, if necessary with state assistance)

c. End restrictions that hinder sales (eg Bulawayo regulations that prohibit tailors from competing with formal sector clothes manufacturers);

d. Some form of extension education training / technical ed.

2. Re labor and management:

a. Provide training in relevant skills for production, marketing, etc.

b. Encourage cooperatives, providing assistance in book-keeping and participatory management methods;

3. Re finance:

a. Create government agency to provide low interest loans with government security;

b. Tie credit in with extension education, assistance re problems with all the above.

C. See this as process of unblocking transition / dynamic perspective
→ planned balanced industrial and agricultural growth with planned spread of increasingly productive employment and rising living standards in all sectors.

Over time = increased specialization and exchange, more education, investment in improved technologies \Rightarrow decline in investment, income + employment (as %) = high productivity, higher liv. stand