



Government failure and informality:

An investigation of the role played by informal trading in the developmental processes of people's livelihoods mechanisms in urban cities. A case study of Harare, Zimbabwe

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Abstract

Informal sector/economy takes over where the formal sector is incapacitated. This is the micro-business segment of the economy that inculcates part of increased unemployment, tempering devastating social effects of economic turmoil. Therefore, the assertion that the informal sector is a bad replica of the formal becomes compromised. Almost two billion of the world's employed population make their living in the informal economy, therefore there is an urgent need to tackle informality. Although not everyone in the informal economy is poor and there is also poverty in the formal economy, ample empirical research has shown that workers in the informal economy face a higher risk of poverty than those in the formal economy, while informal economic units face lower productivity and income indeed most people enter the informal economy not by choice but as a consequence of a lack of opportunities in the formal economy and in the absence of any other means of earning a living. It is clear and ample that, informality it is a reality which exist but little has been done in terms of appreciating its role it plays in minimizing social exclusion, destitution and reducing employment, though it involves rudimentary processes and activities. Therefore, this research articulates more on the pivotal role played by

informal trading in the process of meeting the needs of the people. It is a mainstay process which deserves adequate recognition till distributive-inclusive development reaches its full potential in developing countries.

Keywords: Informal sector, Livelihoods, Government failure, Development

Introduction

A number of empirical studies in Africa and Latin America have clearly elaborated that many of their economies are largely informal mainly due to government failure and lack of economic development (Loayza, 2016). Informality in a sense is an integral part of the development process in developing countries which needs to be understood, how it came into being (as cause and a consequence), its form and content. It is a complex and multifaceted phenomenon which has no unanimous definition among scholars, but it is generally agreed that it focuses on of firms, workers, and activities that operate outside the legal and regulatory frameworks or outside the modern economy (Loayza, 2016). As a broad concept, it mainly manifests in three forms namely, informality in trading, transport and housing. According to the residue theory, the informal

economy is a residue from an earlier mode of production and consumption and will vanish as a result of economic advancement. This theory concurs with the theory of binary oppositions by Derrida (1967) which posits that, the co-existence of two elements are in hierarchical relationship with each other, one is viewed as superordinate, while the other is subordinate. In this study, the research sought to deconstruct this notion especially in the failing Zimbabwean economy, where theoretically, Informality is subordinate and considered a nuisance phenomenon which is associated with underdevelopment while the formal economy is superordinate, sustainable and connected with progress (Williams and Round, 2008). The point to note, is that the researcher proposes to only focus on one facet which is informal trading, exploring its pivotal role it undertakes in the development discourse despite the denigration it receives from some quarters of the society mainly from policy makers, who mainly use terms such as illegality, tax evasion and rudimentary activities referring to activities such as informal trading.

Background of the study

The informal economy or sector is a difficult concept to define. Informal employment is generally perceived as unstable and insecure, temporary, without a legal contract and no social security benefits (Park and Cai, 2011). Various interpretations have been utilized by scholars to refer to the informal economy, which has been regarded as the irregular economy (Ferman and Ferman, 1973), the subterranean economy (Gutmann, 1977), the underground economy (Simon, 1987) and the black economy (Dilnot and Morris, 1981). In this paper, the researcher found it viable to appreciate the views offered by Hart (1973) who was the first one to coin the term informal economy in third world countries. Of significance also, are the ideas proffered by De Soto who argued that the informal economy is comprised of different economic activities that include micro entrepreneurs who prefer to operate informally. He went on to observe that

the informal economy expands because traders try to avoid huge costs of formality in terms of strict rules and regulations, taxes, time and effort in complying with formal authority procedures (De Soto, 1989). In less developed countries, the word informal economy has generally been associated with unregistered and unregulated small-scale activities or enterprises that generate income and employment for the urban poor (Bernabè, 2002). Therefore, this paper gives an insight and explanation on why informal trading is a mainstay for those with limited opportunities in the formal sector due to bad governance.

The rise and progression of the growth of the underground economy have led to many concerns in recent times, mainly in developing countries and economies in transition where there are inadequate legal and political institutions to support sustainable market activities (De Soto, 1989). Some researchers have argued that the underground activities are increasing at a rapid rate (Feige, 2007). The major drivers of underground economy have been due to the existence of an unhealthy relation between the citizens and the government. In most cases, the taxpayers are disgruntled with public services they obtain for their contributions, they seek to redress the balance by resorting to the underground economy and a vicious equilibrium comes up as a result of this unhealthy state (Spiro, 2005). The majority of people prefer to operate or work underground to boycott taxation and social security problems which results in the erosion of tax and social security bases and consequently increases the budget deficit and the growth of the underground economy. In addition, hidden markets are usually cheaper than official ones because of their low costs of productions and services.

Echoing the same sentiment, accelerated growth of the underground activities has drawn varied attention in the recent past years since many researchers have come to believe that the growth of the informal sector of the economy is much faster than the official economy and the possibility is high that, it might become the most significant sector of the advanced socio-economies. Worth noting, is the fact

that these observations have been noted in the countries with more immigrants (Paquet et al., 1996). Although there is a universal understanding about the existence and significance of the hidden or informal economy, the role of this sector in-market operations and its share in distribution of resources is not fully comprehended. Consequently, there are debates concerning the nature and type of informal activities which help to recognize them and categorize them under the name of the underground economy. According to Tanzi (1983), these activities varies from relatively legal to totally criminal, that somehow escape official attention and may distort official statistics and lead to erroneous policies.

The underground economy also referred to as the unrecorded economy, is comprised of three major types of activities which are namely, non-market economic activities such as home productions which are consumed by family members, illegal market activities which involve prohibited production and distribution of proscribed substances, and legal market activities which are underground because people evade tax. Among these activities, the latter group is more significant to economists (Jie et al., 2011).

Theoretical framework

In the discipline of sociology, a multiplicity of scholars has proffered their ideas concerning the theorizing and propagating of the social capital theory. The first school of thought is associated with the work of Bourdieu (1986) who defines social capital as the aggregate of the actual or potential resources which are linked to possession of a durable network of more or less institutionalized relationships of mutual acquaintances and recognition. Bourdieu emphasizes the importance of social networks in conceptualizing social capital. The second school traces its origin to the work of Coleman. Coleman (1988) defines social capital as resources embedded in social relations that permit individuals and communities to achieve their desired goals. He argues that distinct from other forms of capital, so-

cial capital emanates from structure of relations between actors and among actor (Coleman 1988). The third tradition is associated with the work of Putnam, who defines social capital as the features of social organization such as trust, norms, and networks that improve the efficiency of society by facilitating coordinated actions (Putnam, 1993). In relation to this inquiry process, the study used the social capital theory in articulating the functionality of informal trading in meeting the needs of people, relations of entrepreneurs in their business, the importance of networks and trust in informal enterprises.

Methodology

The study was focused on investigating the role played by informal trading in the developmental processes of people's livelihoods mechanisms in urban cities, using the Central Business District of Harare as a case study. The researcher adopted a qualitative research approach for both data collection and analysis as the nature of the subject/ topic under study required exploration. Face to face interviews, focus group discussions, document analysis and thematic analysis was utilized, Creswell (2008). The population was comprised of all age groups (adults and youths), with varied different backgrounds, educational status and socio-economic status. In line with qualitative approach, this study used a sample of 30 respondents who were selected out of the entire population of women and men engaging in the informal sector in the Central business district of Harare, Creswell (2008). A non-probability sampling techniques such purposive and convenient sampling were applied. Issues of ethics, such as respect of humanity and confidentiality were taken into consideration as Strydom (2005) noted that any academic research investigation should be carried out with an ethical approach.

Findings

This section of the paper focuses on the presentation of findings which were found in the field of

study, which is the Central Business District of Harare. The data was collected through the usage of qualitative research methods, using data collection methods such as Focus Group Discussions, Interviews and direct observation. The study was done in the natural environment as the researcher immersed himself with the research participants.

Food street vending: survival strategy

Evidence presented that food street vending was used as a survival means for earning a living by many who have failed to secure formal employment. Street vendors traded various wares which ranges from consumable to non-consumable goods. In other words, street vending was viewed by many as a mainstay as they regard it as a profession. One of the respondent name X argued that,

“the way the economy has been shrinking over the past years, it has been so unprecedented that securing formal employment has been a nightmare, hence some of us we have resorted to street vending”.

The majority of the traders sell fresh farm produces such as vegetables, fruits, pre-cooked food and electronic gadgets. In support, Rupani (2014) points out that, the inability of industrial development in many countries of the South to create sufficient employment and income opportunities in the urban areas in contrast to a background of increasing number of job seekers compelled surplus labour to generate its own means of employment and survival in the informal sector. The advanced argument by Rupani suits well in explaining the proliferation of street food trading in the Central Business District of Harare in offering employment and as a survival strategy. In line with the argument proffered by social capital theory which argues that people formulate social networks which have impact on their livelihood opportunities and outcomes as they connect individuals with other people not only in their neighborhood but also outside their environs through the contacts of friends and acquaintances (Granovetter, 1973). Social networks are important sources of social support for entrepreneurs (Greve

and Salaff, 2003). In addition, they enlarge entrepreneur's asset base because the entrepreneur can use their relations to connect with other people to share social resources and identify opportunities, build livelihoods, and develop entrepreneurial skills (Gilchrist, 2011). Social networks encourage entrepreneurs to take risks and enhance business success under conditions of uncertainty. They also provide benefits such as joint problem solving, information exchange, resource sharing, (Uzzi, 1996). Thus, in times of economic hardships, people turns to informality through social networks and relations in society.

Night traders and working hours

Informal trading was taking a new face in the Central Business District of Harare, this was revealed by the research findings. The presence of stationary hawkers, stationary fruit vendors, vegetable traders, fix spot traders, extended 'car shop' traders and mobile vendors during the night was witnessed during the time of data collection. Mbiriri (2010) in support of the research findings argued that in Zimbabwe the activities of the informal economy have become strategic because they enabled the country to survive the worst economic crisis in history through providing livelihoods to the majority of the population. In support, social capital theorist argued that the existence of norms and networks in society that enable people to act collectively, while Lin (1999) defines (social capital) as resources embedded in social structures which are accessed and/or mobilized in purposive actions. Social capital describes the connections between people that allow other resources to flow among people.

In support of these contemporary phenomena of evening trading in Zimbabwe which Chirisa (2007) has termed nocturnisation. Various arguments can be raised concerning evening markets which include the view by Jimu, (2006) who argued that street vendors are part of the informal sector, in which workers are portrayed as mostly unregistered, unregulated and as unable to access organized markets or institutional support. There was

notable convergence between research findings and existing literature concerning the nexus between tax evasion, illegality and evening trading as many respondents concurred that it was a method of adaptation to the changing circumstances associated with licensing, evictions and legitimacy of working areas. According to Sakuhuni (2011) one of the major reasons for informal participants for not registering themselves was to avoid tax and other government requirements. In line with this, Argote (2005) observed that, exorbitant tax rates and disorganized taxation systems compromises profit margins, which promotes tax evasion and force people into the informal sector. In addition, street hawkers are increasing their working hours in a bid to catch customers who spend their time working in formal organizations or in the government who only become free and available during the evening. More so, for some, it was a matter of exploiting the market gap as they view evening markets as conducive hours for doing business.

Social networks in informal trading

Informal trading goes hand in hand with social capital which was an essential feature which the researcher observed. It was significant for the success of small business enterprises to flourish. It was revealed in the study that informal traders help each other in selling their wares and as well as supporting each other financially. Traders relied on trusted relations with their customers, suppliers and family. The collective version of social capital was membership to a specific social group including political parties (mainly the ruling political party). According to social capital theorist, categories of the theory include bonding, bridging and linkages. Bonding capital are links to people based on a common identity for example, family, close friends and people of same culture. Granovetter (1974) also made a distinction between strong and weak ties. Bridging capital are links that stretch beyond a shared sense of common identity for example, distant friends. Linking capital are links to people or groups further up or lower down the social ladder.

Social network ties have often been studied in relation to finding full time employment (Granovetter, 1974). Using networks as a resource (or social capital) goes beyond one-time requests and covers routine daily events (Busse, 2001). In this study, the daily routine events were noted in the process of selling vegetables, electrical gadgets, fruits and clothes in order to boost incomes through self-employment. In the process of responding to the problems of unemployment, this has unified informal traders to fight the problem of unemployment and other related problems together through the process of buying and selling goods in the streets. In support, social capital entrepreneurship theory, argues that access to larger social ties help in business start-ups. Classen (2006) stated that, entrepreneurs are surrounded by a larger social network structure that constitutes a significant proportion of their opportunity structure.

The urban street economy

Urban public space in developing cities is a vital element of the physical capital in the livelihood strategies of many urban dwellers, mainly the poor (Brown, 2006). This is because households in developing cities obtain part or all of their income from informal economic activities such as, small scale trading and manufacture, which is based on access to urban space making it a significant physical survival asset (Bennett, 2003). This accounts for the proliferation of street vendors/hawkers who are operating in the pavements in the Central Business District of Harare selling all types of wares which varies from street food, clothes and electronic gadgets. Cohen, et al. (2000) observed that, urban informal workers were visible informal workers who were everywhere in urban public spaces, they work in the open air, along main transportation routes and streets. The available evidence from the findings converges with the ideas of Satterthwaite, (2003) who argued that, in South Africa across many cities there were notable diversity of informal economic activities occurring within movement routes in the Central Business District of Durban

with diversified forms of operations and employment relationships. In the Central Business District of Harare, the researcher observed that, street commerce was everywhere as it cut across all age groups, no specific age group is associated with informal trading due to lack of formal jobs which the government must provide. It is pathetic that the majority of Zimbabweans have resorted to street vending to eke out a living as the economy continues to crumble in deflation since December 2014, leading to company closures and job losses (Nyavaya 2015). The majority of informal vending activities are rampant in streets pavements, walkways, and other venues in public space. Other areas along major thoroughfares and streets; areas around market places, bus stops, work sites and preferred central locations which attract large concentrations of street vendors and other informal operators in the CBD of Harare. In many of these locations in the public spatial domain, high pedestrian traffic provides ready market for informal goods and services. Being the most visible of all informal activities, informal street vending and affiliate activities tend to affect the nature of the urban environment and landscape and hence, attract the most attention from local government and urban policy makers.

The efficacy and essence of the informal sector

The informal sector has notable positive effects on economy and society at large. It adds competitive power to economy, employment creation and other related economic effects such as cost reduction, provision of dynamism to economy and being the assurance of socioeconomic system and social balancing (Dell'Anno, 2007). Over the years, researchers have argued that informal activities react to the needs of economic environment for small services and manufacturing. This line of thinking denotes that, informal activities provides an entrepreneurial atmosphere and more competition which result in higher efficiency and decreased prices in the official sector. Thus, on the other hand, the underground

revenues create financial resources and make it viable to extent the market and create employment (Asea, 1996).

Another major positive effect of the underground economy is related to job creation. The underground economy has a pivotal influence on employment, especially during recession or in the early stages of transformation (transition from a developing country to a developed one). It is also well documented that, money earned from the underground activities is spent in the official sector. According to Schneider and Enste (2002) tax revenue loss from the informal sector return to the official economy through consumption and other demands. In addition, the revenues of the informal market can improve the living standards of low-income families which may result in decrease of corruption and the incentives to participate in the prohibited activities of the informal economy. In this regard, Schneider (2007) noted that, thus why a government may not be interested to limit the underground activities. He stated that the income earned in the underground economy increases the standard of living of at least 1/3 of the working population. Besides, the people working in the hidden markets have fewer time for other disturbing things such as demonstrations and strikes. Furthermore, between 40% and 50% of the informal activities have a complementary character, which denotes that additional value added is generated, which consequently increases the official (overall) GDP. Lastly, many immigrants in developing countries cannot easily find a job in the formal markets, but, the underground market can give them a chance to integrate with the society.

Conclusions

This section of the paper focused on drawing conclusions from the research findings concerning the significant positive role played by informal trading in the developmental processes of people's livelihoods mechanisms in urban cities in a staggering Zimbabwean economy. The main aim of this research was to examine livelihood strategies,

activities and categories of actors in the informal sector which act as a buffer to those who failed to participate in the formal sector. Apart from the overarching foregoing objective the paper sought to comprehend the form and content of informal trading mainly focusing on how it has changed over time. Informal trading was taking a new face in Central Business District of Harare, as the majority of traders resorted to selling of all types of wares in the streets and car boot selling has become prominent. Evening markets have become very popular in recent times as people are trying to make a living.

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