



# Building Incentives: A Pathway to Formalisation in Zimbabwe

A 30Process Consulting Whitepaper

*Researched and prepared by the 30Process Research & Policy Team*

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# Executive Summary

Zimbabwe's economy has undergone a profound transformation over the past two decades, with informal economic activity now estimated to contribute 70–80% of both GDP and employment. This shift has created both resilience and risk. While informality has absorbed labour during periods of economic contraction, it has also weakened the fiscal base, undermined investment confidence, and limited access to social protections for millions of citizens.

The drivers of informalisation are multi-faceted. Repeated currency and inflation shocks, fragile macroeconomic management, constrained public investment and persistent regulatory uncertainty have pushed firms and households toward the viable model of informal operations. This simultaneously coincides with structural issues - including limited access to credit and high compliance costs which make formalisation unattractive.

The informal sector has been a source of entrepreneurial dynamism, employment creation, and resilience in the face of economic volatility and climate shocks. The rise of digital finance, particularly mobile money platforms, demonstrates how informal actors can be integrated into modern economic infrastructure when incentives and tools align.

This whitepaper examines the risks, resilience factors, and policy options linked to Zimbabwe's informalisation. Drawing on lessons from other African economies ranging from Kenya, Nigeria and South Africa to international comparators including India, Indonesia, and Peru, the analysis highlights pathways to balance regulation with support, unlocking the potential of the informal sector while gradually expanding the fiscal and social contract.

Key findings include:

- Zimbabwe faces one of the highest levels of informalisation in Africa, with significant implications for tax collection, financial stability, and social protection coverage.
- Informality is not monolithic; it ranges from smallholder agriculture and urban street vending to cross-border traders and artisanal mining, each requiring tailored policy approaches.
- Comparative evidence shows that low-friction digital taxation, simplified SME registration, micro-pensions, funding mechanisms and procurement incentives can shift firms into formality without suppressing entrepreneurship.

- The recently introduced ZiG currency (2024) and digitisation efforts offer a potential platform to link informal actors to the formal system, but credibility and sequencing of reforms are critical.

The whitepaper concludes with a set of policy recommendations for Zimbabwe, focusing on pragmatic, phased interventions:

1. Build digital public infrastructure (e-ID, QR payments, e-invoicing) as the foundation for formalisation.
2. Introduce simplified micro-tax regimes with incentives (credit access, procurement eligibility) for compliance.
3. Expand social protection coverage to informal workers through contributory micro-pensions and health schemes.
4. Create public–private compacts to gradually integrate informal SMEs into formal supply chains.
5. Adopt an enforcement sequencing approach, starting with incentives and data visibility before punitive measures.
6. Expand support through financing, training and development, access to new markets which encourages formalisation to gain access to these incentives.

Zimbabwe's informal economy represents both a challenge and an opportunity. With smart policy design, informed by comparative evidence, the country can shift from a model of survivalist informality to one of inclusive and sustainable growth.

## 2. Introduction & Context

Over the past 20 years, Zimbabwe has experienced a seismic shift in its economy. Once anchored by a relatively diversified formal base in agriculture, mining, and manufacturing, the country's economy has steadily transitioned into informality, which for the purposes of this paper is defined as the spectrum of economic activities, enterprises, and employment relationships that operate outside the scope of formal regulation, taxation, and social protection systems - yet remain integral to the production, distribution, and exchange of goods and services in Zimbabwe's economy..

Current estimates suggest that between 70–80% of both GDP and employment are driven by informal activity, placing Zimbabwe among the most informalised economies in the world.

The roots of this transformation lie in a combination of macroeconomic instability and structural pressures. The collapse of the Zimbabwe dollar in the late 2000s and subsequent dollarisation provided temporary stability, but recurring episodes of hyperinflation, liquidity crises, and exchange rate volatility eroded business confidence. Consequently, there has been a contraction of both the number of firms and the level of activity of the formal sector. These shocks, coupled with weak regulatory enforcement, rising compliance costs, limited access to finance and dwindling opportunities for formal employment, created incentives for firms and workers to retreat into informal activity.

Informalisation has also been shaped by social and demographic pressures. With a large youth population facing limited formal job opportunities, many have turned to street vending, artisanal mining, cross-border trade, and other informal occupations. Women, who often face barriers to formal employment, are disproportionately represented in petty trade and low-margin service activities. Rural households, under pressure from recurrent droughts and agricultural policy distortions, have increasingly relied on informal markets to secure livelihoods.

While informality has often been viewed through the lens of risk - undermining tax collection, weakening labour protections, and distorting investment flows - it also reflects a form of resilience and adaptation. Informal actors have demonstrated entrepreneurial flexibility, mobilised remittance networks, and leveraged digital tools such as mobile money to sustain activity in periods of economic disruption.

This dual character of the informal economy - both a buffer and a bottleneck - is at the heart of Zimbabwe's development dilemma. On one hand, informality cushions

households against economic shocks and sustains livelihoods. On the other, it erodes the fiscal base, limits productivity growth, and entrenches vulnerability. For Zimbabwe to achieve its Vision 2030 goals of becoming an upper middle-income economy, the challenge is not to eliminate informality outright, but to harness its resilience while creating pathways to gradual, inclusive formalisation.

This whitepaper situates Zimbabwe's informalisation in a regional and global context, examining the drivers of informality, its risks and resilience factors, and policy models from comparable economies. By doing so, it seeks to provide evidence-based options for policymakers, investors, and development partners to transform Zimbabwe's informal economy into a catalyst for sustainable growth.

## 3. The Scale & Structure of Informalisation

### 3.1 Magnitude of Informality

Zimbabwe's informal economy ranks among the largest globally, constituting a critical portion of national output and labour. Multiple sources converge on the estimate that 70-80% of GDP is derived from informal or non-observed activity<sup>1 2</sup>- even as many of these outputs are not captured in formal national accounts. This figure is supported by the 2022 World Bank country economic memorandum, which places Zimbabwe above the average level of comparative lower middle-income countries, upper middle-income countries as well as sub-Saharan Africa.

In employment terms, informality accounts for approximately 80% of all jobs<sup>3</sup> in the country (2019 Labour Force Survey, adjusted for smallholder agriculture)<sup>4</sup>. Because formal employment opportunities are scarce, most working Zimbabweans-whether in rural or urban settings-participate in informal economic activity by default.

### 3.2 Employment and Demographic Patterns

#### Rural vs Urban & Sectoral Spread

Informality is pervasive across both rural and urban domains:

- In rural areas, agriculture and related value chains dominate, and informal activities such as subsistence farming, small-scale processing, or local trading prevail almost universally.
- In urban settings, informal employment spans wholesale and retail trade, petty services, transport, small-scale manufacturing, and crafts<sup>5</sup>. The retail/trade sector is the largest employer of informal workers, followed by small-scale manufacturing and transport services.

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<sup>1</sup> World Bank (2022). World Bank (2022). Zimbabwe Country Economic Memorandum: Boosting Productivity and Quality Jobs. Washington, D.C.

<sup>2</sup> Medina, L., & Schneider, F. (2021). Shadow Economies Around the World: What Did We Learn Over the Last 20 Years? IMF Working Paper 21/33.

<sup>3</sup> ZIMSTAT (2023). *Quarterly Labour Force Survey: Q2 2023 Report*. Harare.

<sup>4</sup> International Labour Organization (2022). *Women and Men in the Informal Economy: A Statistical Picture (4th Ed.)* Geneva.

<sup>5</sup> African Development Bank (2021). *African Economic Outlook: Entrepreneurship and Industrialization in Informal Economies*.

Demographically, informality is widespread across genders and age groups:

- **Women:** Slightly higher rates of informality (~81%) compared to men (~78%)<sup>6</sup>, reflecting women's overrepresentation in low-capital, micro-retail and service roles.
- **Youth (15–24 years):** Most young entrants into the workforce begin in informal roles - either as micro-traders, apprentices, or in gig-type tasks - partly because formal employment is very limited<sup>7</sup>.
- **Household dynamics:** In poorer households, over 95% of working adults are informally employed; in wealthier households the share falls, suggesting informality remains a function of resource constraints.

### 3.3 Enterprise Size, Firm Structure & Dynamics

The informal economy is dominated by micro- and own-account enterprises. In the 2023 Economic Census, Zimbabwe recorded ~204,800 business establishments; approximately 76% of these were informal<sup>8</sup> (i.e. unregistered with the Companies Registry, ZIMRA, or NSSA). Among all firms, 88% are micro-enterprises, leaving only a slim proportion for small and medium-sized firms. Only about 5% of enterprises employ more than 100 workers, and those larger firms are almost entirely within the formal sector.

Enterprise survival is challenging. Informal firms often operate on razor-thin margins, with little access to capital investments. Many are short-lived or highly susceptible to economic shocks, leading to high turnover in the informal segment. Entry into informality is low-cost (few formal requirements), but actual growth out of informality is rare.

### 3.4 Definitions & Measurement Challenges

To provide clarity in foregoing sections, the following definitions are used:

- **Informal employment** generally refers to work without formal contracts, social protection, or regulatory oversight-regardless of whether the enterprise is registered.
- **Informal sector** refers more narrowly to small, unregistered enterprises in non-formalised business units.

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<sup>6</sup> UNDP (2020). *Gender and Informal Employment in Southern Africa*.

<sup>7</sup> ZIMSTAT (2022). *Youth Labour Force and Employment Trends in Zimbabwe*.

<sup>8</sup> Ministry of Industry & Commerce / ZIMSTAT (2023). *Economic Census of Zimbabwe: Preliminary Results*.

- **Non-observed economy / shadow economy:** a broader term that includes unrecorded production (e.g. underreporting in formal firms or hidden transactions)<sup>9</sup>.

Definitions of informality vary, reflecting differences in emphasis on employment status, enterprise registration, or compliance with regulations and therefore estimates can diverge. For example, some studies include agriculture whilst others do not. Further, some only factor unregistered enterprises; whilst others include irregular formal firms (paying part of their taxes). Wherever possible, this paper leans on official surveys (ZIMSTAT labour surveys, Economic Census) and triangulates with external sources like the World Bank and IMF.

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<sup>9</sup> ILOSTAT (2023). *Methodological Notes on Informal Sector and Informal Employment Statistics*.

## 4. Drivers of Informalisation (2019–2025)

In the recent past, Zimbabwe's informalisation has been driven by a complex interplay of macroeconomic instability, regulatory barriers, digital adaptation, and social pressures. The period between 2019 and 2025 saw major structural shocks - from hyperinflationary episodes to multiple currency regimes with the latest being the introduction of the ZiG local currency to the multicurrency ecosystem - all of which shaped household and business behaviour. This section outlines the key forces sustaining and deepening informality in the economy.

### 4.1 Macroeconomic Volatility and Currency Instability

Persistent macroeconomic instability remains the single most powerful driver of informality in Zimbabwe. Between 2019 and 2023, annual inflation peaked above 500% (June 2020), before moderating but remaining volatile<sup>10 11</sup>. Frequent currency reforms - from RTGS to bond notes, to the reintroduction of the Zimbabwe dollar, and most recently the Zimbabwe Gold (ZiG) in April 2024 - have eroded public trust in formal monetary institutions.

Businesses and households responded by hedging in hard currency, transacting in USD or South African rand to preserve value. Further, households, in particular, have shifted away from holding deposits in financial institutions. Informal actors - traders, small retailers, transport operators - were able to pivot more flexibly into dollarised transactions, while formal firms faced reporting and compliance constraints in multiple currencies.

The consequence was a widening "trust gap": formal monetary systems lost credibility, pushing more activity into cash-based, unrecorded channels. Informalisation thus became not merely an outcome of poverty, but a rational response to uncertainty.

### 4.2 Regulatory and Tax Pressures

High compliance costs, complex registration procedures, and inconsistent enforcement have created significant disincentives to formality. Registering a

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<sup>10</sup> Reserve Bank of Zimbabwe (2023). *Monetary Policy Statement: Economic Developments and Outlook*.

<sup>11</sup> IMF (2022). *Zimbabwe: Staff Report for the Article IV Consultation*. Washington, D.C.

business in Zimbabwe involves multiple agencies - the Companies Registry, ZIMRA, NSSA, and local authorities - each with fees and documentation requirements.

Moreover, businesses face an array of taxes (corporate income tax, VAT, presumptive taxes, and local levies) that often overlap. For micro and small enterprises with thin margins, formalisation can reduce profitability without offering clear benefits such as access to credit or state services. Access to finance, even for registered firms, remains constrained: formal banking channels are characterised by high transaction costs, liquidity shortages, and expensive credit, with interest rates often exceeding 100% per annum in nominal terms during 2022–2023<sup>12</sup>. Compared with regional peers, Zimbabwe’s financial system remains high-cost and low-trust, discouraging firms from formal integration.

Empirical evidence from the *African Development Bank (2021)* and *World Bank Enterprise Surveys (2022)* shows that over 60% of unregistered MSMEs cite “tax burden” and “bureaucracy” as their main reasons for remaining informal. However, the perception of Zimbabwe as “overtaxed” requires context. While formal firms and salaried households face high effective tax burdens, overall tax revenue remains low relative to GDP (13–14%), suggesting that the formal tax base is narrow and heavily concentrated<sup>13</sup>. In effect, a small group of compliant entities bears a disproportionate share of the national tax effort, while the large informal economy operates largely outside fiscal reach.

Zimbabwe’s statutory corporate tax rate of 24.7% and VAT at 14.5% are broadly in line with regional averages, yet the number of separate tax payments required annually, approximately 33 and the total compliance time which is estimated at over 242 hours per year are among the highest in Sub-Saharan Africa<sup>14</sup>. These structural inefficiencies create both over-taxation within the formal sector and under-taxation of the broader economy, eroding competitiveness and widening the divide between formal and informal activity.

Regulatory uncertainty - frequent policy reversals, ad hoc import/export restrictions, and shifting monetary rules - compounds the problem. For many entrepreneurs, informality offers stability, flexibility, and autonomy in an otherwise unpredictable policy environment.

## 4.3 Digitalisation and Informal Adaptation

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<sup>12</sup> IMF (2023). *Zimbabwe: Staff Report for the Article IV Consultation*.

<sup>13</sup> ZIMRA (2023). *Annual Revenue Performance Report*.

<sup>14</sup> World Bank (2020). *Doing Business 2020: Paying Taxes Indicator – Sub-Saharan Africa Regional Data*.

Paradoxically, digitalisation has both expanded and legitimised informal activity. Platforms such as EcoCash, OneMoney, and informal WhatsApp-based marketplaces have enabled small traders to transact, save, and access micro-credit without formal bank accounts<sup>15</sup>.

Between 2019 and 2023, mobile money penetration exceeded 60% of adults, and the number of registered agents surpassed 120,000<sup>16</sup>. Digital tools have created a hybrid space where informal actors operate with increasing sophistication - using digital payments and delivery networks, but outside formal regulatory oversight.

While digital finance can be a gateway to formality, the absence of interoperable digital IDs and weak integration with tax systems means that most digital activity remains outside fiscal nets. As of 2024, fewer than 15% of mobile money users were linked to tax-identifiable business entities<sup>17</sup>.

Nevertheless, this expansion of digital rails presents an opportunity: if linked with simplified registration and tax regimes, it could form the infrastructure backbone for gradual formalisation.

## 4.4 Cross-Border Trade and Remittances

Cross-border trade is a defining feature of Zimbabwe's informal economy. Thousands of small traders, particularly women, move goods between Zimbabwe, South Africa, Botswana, and Mozambique - selling clothing, foodstuffs, and household goods on a small scale.

According to *UNCTAD (2021)*, informal cross-border trade accounts for 35–40% of total non-mineral trade in Zimbabwe, providing livelihoods to over 200,000 people<sup>18</sup>. These traders often operate below customs thresholds to avoid tariffs, further contributing to unrecorded trade flows.

Remittances from the diaspora have also reinforced informality. Between 2020 and 2023, remittance inflows rose to US\$1.8 billion annually - equivalent to over 13% of GDP - but much of this entered through informal or semi-formal channels<sup>19</sup>. These flows fuel consumption and microenterprise activity but remain largely untracked by the financial system.

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<sup>15</sup> GSMA (2022). *State of Mobile Money in Sub-Saharan Africa*.

<sup>16</sup> POTRAZ (2023). *ICT Sector Performance Report Q4 2023*.

<sup>17</sup> ZIMRA (2024). *Digital Transactions and Tax Compliance Bulletin*.

<sup>18</sup> UNCTAD (2021). *Harnessing Informal Cross-Border Trade for Regional Integration*.

<sup>19</sup> World Bank (2023). *Migration and Remittances Data*.

## 4.5 Labour Market and Demographic Pressures

Zimbabwe's labour market dynamics also sustain informality. Each year, an estimated 350,000–400,000 new entrants join the labour force, but the formal economy generates fewer than 50,000 jobs annually<sup>20</sup>.

With limited formal absorption capacity, the youth and women turn to self-employment, vending, or small-scale agriculture. The COVID-19 pandemic intensified this shift: the 2021 *ZIMSTAT Labour Force Survey* found that informal employment rose by nearly 8 percentage points during lockdown periods, as formal enterprises downsized<sup>21</sup>.

The demographic structure - a youthful population with a median age of approximately 19 years, ensures continued pressure on the informal economy as the default labour outlet.

## 4.6 Structural and Infrastructure Constraints

Finally, chronic power shortages, limited access to finance, and poor infrastructure have constrained formal productivity, inadvertently making informal activity relatively more viable.

- Power outages have led small manufacturers to relocate production to home workshops operating informally.
- Credit access remains limited: only 14% of MSMEs have ever obtained bank financing, according to *FSD Africa (2023)*<sup>22</sup>.
- Weak transport and logistics systems raise costs for formal businesses but are circumvented by informal networks using flexible, small-batch distribution.

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<sup>20</sup> ZIMSTAT (2022). *Quarterly Labour Force Survey Report*.

<sup>21</sup> ZIMSTAT (2021). *Labour Force Survey: COVID-19 Impact Module*.

<sup>22</sup> FSD Africa (2023). *Zimbabwe MSME Finance Landscape Study*.

## 5. Fiscal and Financial Impacts

The growth of Zimbabwe's informal economy has reshaped the country's fiscal landscape and financial system in profound ways. While the informal sector sustains livelihoods for the majority, it simultaneously constrains the state's capacity to mobilize domestic revenue, undermines the effectiveness of monetary policy, and fragments the financial system. This section examines how informalisation has affected tax revenue performance, financial inclusion, and investment flows between 2019 and 2025.

### 5.1 Erosion of the Fiscal Base

Zimbabwe's fiscal space has been severely limited by the dominance of informal activity. Despite modest improvements in tax administration, the country's tax-to-GDP ratio has averaged just 13–14% between 2019 and 2024 - well below the sub-Saharan African average of 18–20%<sup>23 24</sup>.

The structural imbalance is stark: the formal sector, representing less than one-third of GDP, contributes almost 90% of tax revenues, while the vast informal economy contributes very little in direct taxes. The principal leakage arises from:

- **Low VAT productivity** - frequent exemptions, informal trade, and underreporting by small enterprises reduce effective VAT yield to below 25% of potential<sup>25</sup>.
- **Weak presumptive tax collection** - intended to capture informal operators, but compliance and enforcement remain minimal, contributing less than 1% of total revenues<sup>26</sup>.
- **Limited local authority revenues** - municipalities depend heavily on fees and levies, but informal enterprises often operate outside their jurisdictional records, limiting property and license-based collections.

According to ZIMRA estimates (2023), the tax gap - the difference between potential and actual revenue collection - is approximately 7–9% of GDP, largely attributable to informal sector underreporting and cash transactions<sup>27</sup>.

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<sup>23</sup> ZIMRA (2023). *Annual Revenue Performance Report*.

<sup>24</sup> IMF (2023). *Zimbabwe: Fiscal Monitor and Article IV Consultation*.

<sup>25</sup> African Tax Administration Forum (ATAF) (2022). *VAT Efficiency in Southern Africa*.

<sup>26</sup> Ministry of Finance and Economic Development (2022). *Mid-Year Fiscal Policy Review Statement*.

<sup>27</sup> World Bank (2022). *Public Finance Review: Domestic Resource Mobilisation in Zimbabwe*.

## 5.2 Fragmentation of Financial Flows

Informality has created a dual financial system: a narrow, highly regulated formal banking sector coexisting with a vast, cash-dominated informal economy.

Although Zimbabwe's financial inclusion rate rose from 55% in 2014 to over 83% by 2023 - driven mainly by mobile money - only a small fraction of these users engages with the formal banking system<sup>28 29</sup>. Mobile money and cash ecosystems have become the de facto liquidity backbone for informal trade, facilitating millions of low-value transactions daily.

Yet, the fiscal visibility of these flows remains minimal. ZIMRA's 2024 *Digital Transactions Bulletin* found that only 12% of digital merchants were registered for tax, and that informal platforms accounted for nearly half of total domestic retail transactions<sup>30</sup>. This widespread informality in payments undermines efforts to broaden the tax base, even as digital finance itself expands.

Moreover, currency instability and inflation have incentivized USD hoarding and off-grid finance, with informal savings clubs (mukando) and moneylenders functioning as micro-lenders and deposit substitutes. The Reserve Bank estimates that over US\$1.5 billion in cash circulates outside the formal banking system at any given time<sup>31</sup>.

## 5.3 Credit Constraints and Informal Lending

Informality also perpetuates credit exclusion. Only 13–15% of MSMEs have access to formal loans or credit lines, and most are financed through personal savings, family support, or informal lenders<sup>32</sup>.

Microfinance institutions (MFIs) have tried to bridge this gap, but their scale remains limited: total MFI loan portfolios stood at US\$355 million in 2023, reaching fewer than 250,000 active borrowers<sup>33</sup>. Further, even in this scenario MFIs provide financing to entities with some degree of formalisation effectively excluding the significant majority of SMMEs.

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<sup>28</sup> Reserve Bank of Zimbabwe (2023). *Monetary Policy Statement: Financial Inclusion Update*.

<sup>29</sup> FinMark Trust (2022). *Finscope MSME Survey Zimbabwe*.

<sup>30</sup> ZIMRA (2024). *Digital Transactions and Tax Compliance Bulletin*.

<sup>31</sup> Reserve Bank of Zimbabwe (2024). *Annual Currency and Banking Sector Report*.

<sup>32</sup> FSD Africa (2023). *Zimbabwe MSME Finance Landscape Study*.

<sup>33</sup> Zimbabwe Association of Microfinance Institutions (ZAMFI) (2023). *Microfinance Sector Report*.

Informal moneylenders, by contrast, operate outside regulatory oversight but remain deeply embedded in communities - offering fast, collateral-free credit at steep interest rates. While these networks improve liquidity, they reinforce the cycle of informality, as transactions are undocumented and rarely contribute to financial records or credit histories.

## 5.4 Impact on Investment and Private Sector Development

A highly informalised economy deters long-term investment. Formal firms face competition from informal traders with the playing field skewed against the latter who must contend with operational fixed costs and regulatory compliance.

Weak contract enforcement and unreliable data complicate market analysis. Foreign investors, particularly in manufacturing and retail, report informality as a leading non-tariff barrier to market entry<sup>34</sup>. The absence of verifiable business registries, reliable labour data, and credit information elevates due diligence costs and depresses investor confidence.

Moreover, informality weakens productivity growth. Informal firms typically operate with obsolete technology, limited capital intensity, and minimal compliance with quality or safety standards - keeping overall economic efficiency low. According to the *African Development Bank (2023)*, Zimbabwe's labour productivity is roughly 40% lower than that of comparator economies with similar income levels<sup>35</sup>.

## 5.5 Fiscal Implications of the Informal-Formal Divide

The growing divergence between formal and informal sectors has also complicated macroeconomic management:

- **Tax buoyancy** - the responsiveness of tax revenue to GDP growth - has declined steadily since 2015, suggesting that much of Zimbabwe's nominal growth occurs in untaxed segments<sup>36</sup>.
- **Monetary transmission** is weakened because informal transactions operate largely outside the banking system. Policy rate changes affect formal credit markets but have little impact on cash or mobile money circulation.

<sup>34</sup> World Bank Enterprise Surveys (2022). *Zimbabwe Country Profile*.

<sup>35</sup> African Development Bank (2023). *African Economic Outlook: Structural Transformation in Southern Africa*.

<sup>36</sup> IMF (2023). *Regional Economic Outlook: Sub-Saharan Africa – Fiscal Trends and Resilience*.

- **Social spending constraints** - with limited domestic revenues, the state relies on quasi-fiscal measures or external financing, crowding out public investment and social protection expansion.

In essence, the fiscal cost of informality is not only lost revenue, but also the loss of policy traction - making both fiscal and monetary tools less effective.

## 6. Social Protection and Labour

The rise of informality in Zimbabwe has fundamentally reshaped the country's social contract. A majority of working citizens now operate outside formal employment systems - beyond the reach of pensions, health insurance, or labour regulation. While informality has offered a buffer against unemployment, it has simultaneously deepened vulnerability, particularly for women, youth, and low-income households. This section examines the implications of informalisation for social protection coverage, labour market quality, and household resilience.

### 6.1 Coverage Gaps in Social Protection

Formal social protection in Zimbabwe is anchored in contributory schemes administered by the National Social Security Authority (NSSA), complemented by limited non-contributory welfare programs managed by the Ministry of Public Service, Labour and Social Welfare.

Yet, coverage remains narrow. As of 2023, fewer than 20% of employed persons were contributing to NSSA's pension or workers' compensation funds<sup>37</sup>. The remaining 80% - largely informal workers - operate without access to old-age pensions, unemployment insurance, or occupational safety nets.

NSSA's own reports highlight the structural imbalance: contributions are concentrated in the formal sector (civil service, parastatals, and large private firms), while informal workers neither contribute nor benefit. The result is a dual system where the majority of Zimbabwean workers self-insure through informal mechanisms such as savings groups, remittances, or community burial societies.

Several pilot programs - notably the *NSSA Micro-Pension Initiative* and *ZimSwitch Mobile Savings Pilot* (2022–2023) - attempted to extend social protection via mobile platforms, but uptake has been limited due to irregular incomes, low trust in formal institutions, and the absence of flexible contribution options<sup>38</sup>. The historical wiping out of pensions during the hyperinflation periods and current minimal payouts to pension recipients do not incentivise firms and workers to contribute towards formal pension schemes.

### 6.2 Health Insurance and Welfare Programs

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<sup>37</sup> NSSA (2023). *Annual Report and Actuarial Review*.

<sup>38</sup> NSSA & UNCDF (2023). *Micro-Pension Pilot Evaluation Report*.

Access to health insurance mirrors the same divide. Less than 10% of the population holds medical insurance coverage, with most members concentrated in formal employment or diaspora-linked households<sup>39</sup>. Informal workers rely heavily on out-of-pocket payments or public facilities often constrained by drug shortages and underfunding.

The COVID-19 pandemic underscored this fragility. When lockdowns curtailed informal trading, over 70% of informal households reported income loss, yet less than 5% received any form of state support<sup>40</sup>. Emergency cash transfers, rolled out in 2020–2021 with donor support, covered fewer than 400,000 beneficiaries - a fraction of the estimated 5 million informal workers nationwide<sup>41</sup>.

This limited reach highlights the structural challenge: traditional welfare systems are not designed for irregular, unregistered workers, and lack mechanisms for scalable, digital delivery.

## 6.3 Labour Market Quality and Precarity

Informality not only affects access to protection but also the quality of employment. The 2023 ZIMSTAT *Quarterly Labour Force Survey* illustrates that 67% of informal workers earn below the food poverty line, with limited job security and no legal recourse for unfair practices<sup>42</sup>.

- **Working hours and conditions:** Informal employment is characterised by long, unpredictable hours, lack of occupational safety standards, and exposure to environmental hazards - particularly in informal mining and urban vending.
- **Wages:** Real earnings in the informal sector have stagnated amid inflation and currency volatility. For instance, informal vendors reported median monthly earnings of US\$75–100, compared to US\$400+ for equivalent roles in the formal sector<sup>43</sup>.
- **Gender dynamics:** Women dominate the lowest-income segments of the informal economy, often in vending, cross-border trade, or home-based production. They face overlapping vulnerabilities - unpaid care work, gender-based harassment, and lack of maternity protection.
- **Youth employment:** With over 60% of the population under 25, informality has become the default labour entry point. Many youths engage in gig-like informal services (motorbike deliveries, phone repairs, content creation),

<sup>39</sup> Association of Health Funders of Zimbabwe (2022). *Health Insurance Coverage Report*.

<sup>40</sup> ZIMSTAT (2021). *COVID-19 Rapid PICES Survey*.

<sup>41</sup> UNDP Zimbabwe (2022). *Social Protection Diagnostic Review*.

<sup>42</sup> ZIMSTAT (2023). *Quarterly Labour Force Survey: Q2 2023*.

<sup>43</sup> FinMark Trust (2022). *Informal Economy Earnings Study: Zimbabwe*.

reflecting new forms of underemployment rather than genuine entrepreneurship<sup>44</sup>.

## 6.4 Household Resilience and Informal Safety Nets

Despite institutional gaps, informal communities have developed adaptive resilience systems that partially offset the absence of formal protection. Savings clubs (mukando), funeral societies, and church-based mutual aid groups play a central role in cushioning shocks.

Remittances are another crucial stabiliser: between 2020 and 2024, diaspora remittances exceeded US\$1.8 billion annually, much of which supported informal-sector households<sup>45</sup>. These private transfers have effectively become a parallel social protection system, financing school fees, health care, and small business capital.

However, these mechanisms are uneven and unsustainable in the face of systemic shocks like drought or hyperinflation. They also exclude the poorest households without remittance links or social capital.

The challenge, therefore, lies in integrating informal protection mechanisms into formal frameworks - building hybrid systems that maintain flexibility while expanding coverage and security.

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<sup>44</sup> ILO (2023). *Youth Employment Trends in Sub-Saharan Africa*.

<sup>45</sup> World Bank (2023). *Migration and Remittances Data*.

## 7. Resilience and Upside of Informality

While the informalisation of Zimbabwe's economy presents major fiscal and structural challenges, it has also revealed remarkable resilience, adaptability, and entrepreneurial dynamism. For millions of Zimbabweans, informality is not merely an act of survival - it is a form of innovation under constraint. This section explores the positive dimensions of the informal economy, focusing on its contributions to household resilience, entrepreneurship, and national economic continuity.

### 7.1 Informality as an Economic Shock Absorber

The informal sector has acted as Zimbabwe's primary social and economic shock absorber through successive crises - hyperinflation, the COVID-19 pandemic, droughts, and currency reforms.

During the pandemic lockdowns, informal activities contracted sharply, but quickly rebounded: by mid-2021, over 80% of displaced workers had resumed some form of informal activity<sup>46</sup>. This rapid rebound contrasts with the sluggish recovery of the formal sector, underscoring the flexibility and low entry barriers of informal work.

Informal traders, vendors, and transport operators adapted by shifting to smaller transaction volumes, flexible pricing, and digital coordination via WhatsApp and mobile payments. These survival strategies mitigated the social costs of lockdowns and cushioned household incomes in the absence of large-scale government relief.

### 7.2 Entrepreneurship, Innovation, and Informal Value Chains

The informal sector remains a reservoir of entrepreneurship and micro-innovation. Studies by FinMark Trust (2022) and the World Bank (2023) estimate that over 2.8 million informal enterprises operate across Zimbabwe - most run by self-employed individuals or family units<sup>47</sup>.

In urban centres such as Harare and Bulawayo, informal manufacturers produce furniture, clothing, and household goods for local and regional markets, often using locally sourced inputs and recycled materials. In peri-urban zones, small-scale food

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<sup>46</sup> ZIMSTAT (2021). *COVID-19 Rapid PICES Survey*.

<sup>47</sup> FinMark Trust (2022). *Finscope MSME Survey Zimbabwe*.

processors, metalworkers, and artisans maintain entire micro value chains outside the formal system.

Informal entrepreneurs demonstrate resourcefulness in:

- **Product adaptation:** shifting to local substitutes when imports become expensive.
- **Market access:** leveraging social media and mobile money to reach customers.
- **Capital formation:** reinvesting remittances and informal savings into micro-enterprises.

These patterns mirror broader trends in Sub-Saharan Africa, Latin America, and South Asia, where informal sectors have become incubators for grassroots innovation - especially in low-capital environments<sup>48 49</sup>.

## 7.3 Financial and Digital Resilience

Zimbabwe's informal actors have embraced digital technology to navigate instability. Mobile money platforms such as EcoCash and Innbucks now facilitate small-scale business payments, group savings, and informal credit arrangements. By 2023, mobile transactions accounted for over 60% of all retail payment volumes in Zimbabwe<sup>50</sup>.

Digitalisation has supported informal resilience in three ways:

1. **Liquidity and cash flow management:** reducing dependence on physical currency.
2. **Market access:** enabling traders to advertise and transact online, expanding micro-export capacity.
3. **Informal credit scoring:** fintech startups increasingly use mobile transaction data to profile informal borrowers.

Although much of this activity remains unregulated, it has effectively digitised survival, creating new financial habits that could be leveraged for future formalisation.

## 7.4 Remittances and Diaspora Networks

<sup>48</sup> World Bank (2023). *Informal Sector Dynamics in Sub-Saharan Africa*.

<sup>49</sup> ILO (2021). *Informality and Entrepreneurship in Emerging Markets*.

<sup>50</sup> POTRAZ (2023). *ICT Sector Performance Report Q4 2023*.

Remittances play a central role in sustaining informal resilience. Between 2020 and 2024, diaspora inflows averaged US\$1.8–2.0 billion annually, accounting for roughly 13–14% of GDP<sup>51</sup>. A significant portion of these transfers reach households engaged in informal trading or self-employment, serving as working capital for micro-enterprises and consumption smoothing during downturns.

Remittances also underpin informal investment networks - small groups pooling funds for housing, transport, or cross-border trade. In some urban centres, diaspora-linked capital has supported informal real estate development and the expansion of township retail clusters.

While these channels lie outside the formal financial system, they reflect a transnational layer of resilience, connecting Zimbabwe's domestic informal sector to global income flows.

## 7.5 Informality and Social Cohesion

Informal economic spaces also play a social function, fostering networks of trust, reciprocity, and shared coping mechanisms. Vending associations, cooperative groups, and savings circles (mukando) serve not only economic but also social roles - providing micro-insurance, dispute resolution, and community organisation.

This collective resilience has been particularly visible in markets such as Mbare, Sakubva, and Kudzanai, where informal traders have self-organised to maintain order, sanitation, and security in the absence of formal governance structures<sup>52</sup>.

Such community-level organisation underscores the latent institutional capacity embedded within informality - a resource that can be mobilised in future formalisation and urban renewal efforts.

## 7.6 Opportunities for Harnessing Informal Strengths

The adaptive strengths of informality provide a starting point for inclusive reform. Policymakers can build on these assets rather than dismantling them by:

- **Integrating digital** payments into tax and social protection systems.
- Formalising cooperatives and savings groups through simplified legal frameworks.
- **Creating microenterprise clusters** with shared services (utilities, storage, internet) to raise productivity.

<sup>51</sup> World Bank (2023). *Migration and Remittances Data*.

<sup>52</sup> UN-Habitat (2022). *Urban Informal Markets and Community Organisation in Southern Africa*.

- **Supporting informal entrepreneurs** with financial literacy, access to microcredit, and incubation linkages.

Countries such as Indonesia, India, and Ghana have successfully leveraged these strategies - recognising that informality, when organised and digitised, can be a bridge to formalisation rather than a barrier<sup>53 54</sup>.

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<sup>53</sup> World Bank (2021). *Harnessing Informal Entrepreneurship for Inclusive Growth: Lessons from Asia*.

<sup>54</sup> ILO (2020). *Formalising the Informal Economy: Comparative Global Experiences*.

## 8. Regional and Global Lessons

Across Africa, Asia, and Latin America, countries grappling with high informality have experimented with different models to balance regulation, revenue mobilisation, and inclusion. These experiences offer valuable insights for Zimbabwe, demonstrating that informality can be gradually formalised through digital infrastructure, micro-taxation, simplified compliance, and social protection integration rather than through coercive enforcement.

This section distils lessons from Kenya, Nigeria, Ghana, Rwanda, Botswana, South Africa, and selected emerging markets in Asia and Latin America.

### 8.1 Kenya - Digital Payments and Presumptive Taxation

Kenya offers one of Africa's most successful examples of leveraging digital finance to bring informal actors into semi-formal systems.

- **Reform Overview:** The introduction of M-Pesa (2007) catalysed a mobile payment revolution. By 2023, over 96% of adults had access to mobile money<sup>55</sup>. The Kenya Revenue Authority (KRA) integrated mobile money data into its simplified Turnover Tax and Presumptive Tax systems, targeting small businesses with annual turnover below KES 5 million (≈US\$38,000).
- **Administrative Design:** The turnover tax (3%) is automatically computed and paid via mobile apps, eliminating paperwork. Small traders register through the eCitizen portal using national digital IDs.
- **Outcomes:** Between 2019 and 2023, Kenya added over 1.5 million new tax identifiers (PINs) from MSMEs<sup>56</sup>. Informal firms gained visibility, while compliance costs dropped dramatically.
- **Incentives:** It must be noted that there is an active drive in Kenya to increase access to funding for MSMEs through large financial institutions. For example, in 2024 Equity Bank, which operates across multiple East African countries had allocated 41% of its loan book to MSMEs, with an aim to increase this to 60% by 2030. This further incentivises businesses to formalise when there is opportunity to gain funding.
- **Lessons for Zimbabwe:**
  - Digital platforms can simplify tax collection without expanding bureaucracy.

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<sup>55</sup> GSMA (2022). *State of Mobile Money in Sub-Saharan Africa*.

<sup>56</sup> Kenya Revenue Authority (2023). *Annual Performance Report*.

- Linking mobile payments and tax IDs increases compliance and data visibility.
- Transparent use of revenues (e.g. local reinvestment) sustains public trust.
- Improving access to credit.

## 8.2 Nigeria - Micro-Taxation and Market Levies

Nigeria's approach illustrates how tiered taxation and local authority engagement can expand fiscal inclusion.

- **Reform Overview:** The Presumptive Tax Regime (PTR) introduced under the Federal Inland Revenue Service (FIRS) simplified taxation for microenterprises with turnover below NGN 25 million (≈US\$30,000). Parallel to this, state-level market levies and TraderMoni digital registration systems were deployed to identify informal traders<sup>57</sup>.
- **Administrative Setup:** FIRS partnered with market associations and fintechs to map and register traders. Payments were accepted digitally through agent networks.
- **Outcomes:** Taxpayer registration increased by 40% (2018–2022), and over 2 million traders accessed micro-loans through the linked credit platform. However, weak coordination between federal and state systems limited scalability<sup>58</sup>.
- **Incentives:** Nigeria's *TraderMoni* and *MarketMoni* programmes, funded under the Government Enterprise and Empowerment Programme (GEEP), offered interest-free loans to registered micro-traders who complied with basic identification and levy registration requirements. Participation in these programmes was tied to taxpayer identification numbers and credit histories via Bank Verification Numbers (BVNs), creating a direct link between formal registration and access to finance.
- **Lessons for Zimbabwe:**
  - Local governments and trader associations are crucial intermediaries in micro-taxation.
  - Combining tax registration with access to credit or insurance improves compliance incentives.
  - Integration across government levels is essential to avoid duplication.

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<sup>57</sup> Federal Inland Revenue Service (FIRS) (2022). *Micro, Small and Medium Enterprises Tax Compliance Framework*.

<sup>58</sup> AfDB (2021). *Formalising Africa's Informal Markets: Nigeria Case Study*.

## 8.3 Ghana and Rwanda - Simplified Registration and Digital Infrastructure

Both Ghana and Rwanda demonstrate that digital public infrastructure can underpin broad-based formalisation.

- **Ghana:** Implemented a Tax Identification Number (TIN) system integrated with national IDs, allowing all citizens to register online. Introduction of the e-Tax Portal and E-Levy on digital payments improved visibility of small enterprises<sup>59</sup>. The Ghana Revenue Authority also piloted e-invoicing for SMEs in 2023.
  - **Incentives:** Ghana's *YouStart* programme (2022 onward) offered soft loans and business support to youth-led SMEs registered with the GRA. Access to grants and credit was conditional on formal registration and tax compliance, turning tax identity into an eligibility requirement for public finance schemes.
- **Rwanda:** Introduced the Electronic Billing Machine (EBM) and Irembo e-Government platform, enabling instant registration, invoicing, and mobile payments for small traders. Rwanda's Community-Based Health Insurance (Mutuelle de Santé) further formalised informal households by linking health coverage with digital IDs<sup>60</sup>.
- **Lessons for Zimbabwe:**
  - A unique national digital ID linked to tax and social systems is a prerequisite for scalable reform.
  - Digital infrastructure reduces face-to-face interactions and corruption risks.
  - Social protection linkages (e.g. health insurance) increase registration incentives.

## 8.4 Botswana and South Africa - Institutional Enforcement and Social Insurance

Southern Africa provides contrasting lessons on enforcement capacity and social dialogue.

- **Botswana:** Maintains relatively low informality (~35% of employment) through predictable regulation, low taxes, and efficient SME licensing. Targeted

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<sup>59</sup> Ghana Revenue Authority (2023). *Digital Taxation and e-Tax Portal Report*.

<sup>60</sup> Rwanda Revenue Authority (2022). *EBM Impact Assessment*.

support through LEA (Local Enterprise Authority) offers business development, access to industrial parks, and subsidised training<sup>61</sup>.

- **Incentives:** LEA's *Entrepreneurship Development Fund* and the *Citizen Entrepreneurial Development Agency (CEDA)* provide low-interest loans and grants exclusively to registered enterprises. Access to government procurement quotas is also reserved for formal businesses, creating a strong compliance motivation.
- **South Africa:** Confronts larger informal segments (~36% of GDP). The Turnover Tax System (2009) simplified compliance for microbusinesses, while the National Informal Business Upliftment Strategy (NIBUS) provided grants and training to registered traders<sup>62</sup>. Despite these programs, weak coordination has limited long-term formalisation.
  - **Incentives:** Formal registration enables firms to participate in the Enterprise and Supplier Development (ESD) programmes of large corporations, linking compliance directly to market access.
- **Lessons for Zimbabwe:**
  - Institutional coherence and trust in government are as critical as tax design.
  - Business development services can turn registration into a value proposition rather than a compliance burden.

## 8.5 India - Digital ID and Universal Registration

India's *Aadhaar* system - the world's largest digital ID infrastructure - transformed how informal workers engage with state systems.

- **Reform Overview:** Over 1.3 billion citizens registered for biometric IDs, used for welfare, banking, and tax purposes. Informal workers were integrated through *e-Shram*, a digital registry linking employment, insurance, and pension benefits<sup>63</sup>.
- **Outcomes:** Within two years, over 280 million informal workers registered, many accessing contributory pensions (PM-SYM) and accident insurance. Integration with UPI digital payments reduced transaction costs and improved welfare delivery.
- **Incentives:** Registration on *e-Shram* is a gateway to multiple benefits - pensions, accident insurance (₹2 lakh coverage), and priority access to government employment schemes. The direct benefit link between formal registration and social security entitlements is a core motivator for participation.

<sup>61</sup> Local Enterprise Authority Botswana (2021). *Annual SME Development Review*.

<sup>62</sup> South African Department of Small Business Development (2020). *NIBUS Progress Report*.

<sup>63</sup> Government of India (2023). *e-Shram Dashboard and Progress Report*.

- **Lessons for Zimbabwe:**
  - Digital IDs can serve as a gateway to both tax and social protection.
  - Centralised, interoperable platforms minimise exclusion and fraud.
  - Formalisation succeeds when linked to tangible benefits (insurance, credit, services).

## 8.6 Latin America - Cooperative Models and Social Compacts

Latin American experiences illustrate how collective organisation and incentive-based compacts can formalise informality gradually.

- **Peru:** Introduced the *Régimen Único Simplificado (RUS)*, a flat-rate tax for microenterprises with turnover below PEN 96,000 (≈US\$25,000), collected via banks or mobile agents. The scheme achieved 70% compliance among registered micro-firms<sup>64</sup>.
  - **Incentives:** Registered participants qualify for credit from public development banks (*COFIDE*) and simplified import/export permits, linking registration to market expansion opportunities.
- **Colombia:** Adopted a *Monotributo* regime combining a single tax payment with simplified social security contributions. Traders gained health insurance and pension credits for compliance<sup>65</sup>.
  - **Incentives:** Compliance grants access to pension and health coverage through the *Social Protection Floor*, turning tax payment into a qualification for insurance and credit lines with the Banco Agrario.
- **Lessons for Zimbabwe:**
  - Simplified composite taxes combining fiscal and social contributions can reduce administrative burdens.
  - Cooperative registration through associations or unions increases reach and compliance.
  - Transparency in benefit delivery sustains public trust.

## 8.7 Cross-Cutting Insights

From these diverse experiences, several cross-cutting lessons emerge for Zimbabwe. While international examples highlight digital and fiscal reforms, Zimbabwe's challenge is deeper: the legislative and institutional framework for MSME development remains misaligned to the lived realities of informality.

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<sup>64</sup> SUNAT Peru (2022). *Simplified Regime Evaluation Report*.

<sup>65</sup> Colombian Ministry of Finance (2021). *Monotributo Implementation Review*.

1. **Digital Foundations First:** Digital ID, mobile payments, and e-invoicing remain the enabling infrastructure for modernising informality. Without interoperable digital systems, visibility and data integration are impossible.
2. **Incentivise, Don't Penalise:** Compliance improves when tied to access to credit, procurement opportunities, or insurance - not when driven solely by enforcement. Taxation must follow empowerment, not precede it.
3. **Start Locally:** Decentralised registration through market associations, cooperatives, and local authorities builds trust-based entry points and reflects the lived geography of informality.
4. **Simplify and Communicate:** Overly complex tax codes, fragmented compliance portals, and multi-agency licensing deter registration. Streamlining institutions and providing one-stop digital access points are critical.
5. **Build Social Contracts:** Visible reinvestment of collected taxes - in market infrastructure, roads, lighting, sanitation, and waste management - reinforces legitimacy and encourages voluntary compliance among informal actors.
6. **Strengthen Legislative and Financial Support:** Zimbabwe's formal framework for MSME development, anchored in the Small and Medium Enterprises Act [Chapter 24:12], mandates the creation of the Small and Medium Enterprises Development Corporation (SMEDCO) as both a training and financing vehicle. However, in practice, SMEDCO has faced undercapitalisation and limited operational reach<sup>66</sup>. The Ministry of Women Affairs, Community, Small and Medium Enterprise Development remains the nominal custodian of the sector, but its fiscal allocations have been minimal compared to the sector's economic importance. For example, national budget allocations for MSME support have averaged less than 0.2% of total expenditure between 2020 and 2024<sup>67</sup>, far below comparable support extended to small-scale mining. This imbalance highlights a fundamental sequencing issue: before seeking to tax the informal economy, the state must invest in it-through credit facilities, incubation hubs, market infrastructure, and training. Sustainable formalisation requires public co-investment, not only regulation.
7. **Align Incentives Across Institutions:** Successful reforms in countries such as Kenya, Rwanda, and Colombia show that when financial institutions, local governments, and development agencies align their programmes-offering credit, procurement access, or social protection conditional on registration-formalisation accelerates. Embedding these incentives into national and local frameworks ensures that compliance yields tangible benefits rather than additional costs.

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<sup>66</sup> Small and Medium Enterprises Act [Chapter 24:12], Government of Zimbabwe (2011).

<sup>67</sup> Ministry of Finance and Economic Development (2024). *National Budget Statement: Estimates of Expenditure*.