

# Pathways to Formalization: Exploring Support Systems for Informal Micro-Entrepreneurs in the Metal Manufacturing Sector in Zimbabwe

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**How to cite this paper:** Sanangura, O., & Mutono-Mwanza, B. G. (2025). Pathways to Formalization: Exploring Support Systems for Informal Micro-Entrepreneurs in the Metal Manufacturing Sector in Zimbabwe. *Open Journal of Business and Management*, 13, 1661-1679.

<https://doi.org/10.4236/ojbm.2025.133086>

**Received:** February 11, 2025

**Accepted:** May 11, 2025

**Published:** May 14, 2025

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## Abstract

Globally, Micro, Small, and Medium-sized Enterprises (MSMEs) add significant value to economies and the same can be said for Zimbabwe. Sadly, the majority of the players in the MSMEs are completely informal a situation that has led the Government and other Stakeholders to initiate a series of systems to persuade the informal players to consider formalising their businesses. The study thus sought to: 1) find out the systems in place, 2) assess the effectiveness of these systems in achieving their intended goals, 3) determine the views of the metal fabricators based on their interaction with all stakeholders. The study used a qualitative approach. This was done through the use of one-on-one interviews. The study utilised 27 participants, for primary data collection with entrepreneurs in the informal metal fabrication sector. The study also considered selected interviewees from the Ministry, Banks, NEC and ZIMRA. Each interview lasted for at least 45 minutes. Findings revealed that the government through the Ministry of SMEs had a robust strong network system to have entrepreneurs gain access to information and resources from banks and non-governmental organisations. Findings further revealed the existence of a strong system that involves other government-related departments, local authorities, and quasi-government entities who through collaboration with formal entrepreneurs could extend lucrative contracts and partnerships to encourage formalisation. Findings further revealed a strong supportive ecosystem that involves access to capital, markets, free advice, information, and infrastructure for SMEs as part of the system in place to encourage formalisation. The study concludes that full implementation and adoption of the above systems can be the best remedy to influence entrepreneurs in making decisions to formalise while failure may lead to continued non-formalisation of the business.

## Keywords

Micro-Small and Medium Enterprises, Systems, Formal, Informal, Metal

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## 1. Introduction

The state of the metal fabrication industry in Zimbabwe is characterized and dominated by entrepreneurs who out of necessity entered the sector to survive. A study by Sanangura (2024) pointed out that employees who were retrenched by big firms always enter the informal sector and pursue the same business they have a gamut of knowledge. The sector generates significant employment opportunities through employees who are not fully protected and suffer job insecurity (Hlongwane et al., 2024; Tarupiwa, 2020; Ncube, 2017). High labour mobility was also identified as one of the main features of the sector with employees who get paid through envelopes and not in any formal channels (Magidi & Jimu, 2023; Tarupiwa, 2020). The sector is also associated with individuals who avoid payment of income, value-added, or other taxes (World Bank, 2020; ZEPARU, 2020). The participants in the metal fabrication industry are also known for avoiding payment of social security contributions (CZI, 2020). Moreso participants try to avoid meeting certain legal labour market standards, such as minimum wages, maximum working hours, and safety standards (Ncube & Oni, 2020).

All the players in the informal metal fabrication sector stand accused of avoiding complying with certain administrative procedures (Mujeyi et al., 2015). They appear to be enjoying the benefits that come with noncompliance such that the talk of formalisation may be met with resentment. The revenue authorities have been investigating methods to raise the informal sector's tax revenue share and collaborate with the development community to help individuals in the informal sector lessen and improve poverty considering a shrinking formal sector tax base (Mukorera, 2018). The absence of a tax regulatory framework, which permits business owners to keep all earnings for themselves, has, however, most significantly helped individuals engaged in the informal metal fabrication sector, and participants have profited from the high rate of return in the industry equally making formalization a burden to them (World Bank, 2020; Makate et al., 2019).

Against this background, calls have been made to ensure that the government and other stakeholders put in place systems to support and entice entrepreneurs in the metal fabrication industry to consider formalization of their businesses. The study thus sought to: 1) find out the systems in place, 2) assess the effectiveness of these systems in achieving their intended goals, 3) determine the views of the metal fabricators based on their interaction with all stakeholders.

## 2. Literature Review

### 2.1. Global Metal Fabrication Position

A reflection on the historical developments of the global metal fabrication plays a crucial in understanding contemporary trends in the sector. The global metal fab-

rication industry has a fascinating history (Ouyang & Kuang, 2022). The metal manufacturing sector is believed to have started in Northern Iraq and the Middle East circa 8700 BCE (Miller & van der Merwe, 1994). The expansion and development of the metal fabrication industry can be attributed to the Industrial Revolution and the subsequent increase in demand for metal products for both domestic and commercial use (Ouyang & Kuang, 2022; Ocheri, Ajani, & Agbo, 2017). After Britain experienced the First Industrial Revolution in the 1760s, other European countries, including the United States, followed suit. It then spread throughout the rest of the world during the next few centuries. Due to the strong demand for metal products, the Second World War had a significant impact on the growth of the metal fabrication industry globally, especially in first and second-world nations (Ocheri et al., 2017). Both worldwide and in Africa, the metal fabrication subsector of the manufacturing sector has been acknowledged since the beginning of colonialism as being crucial to achieving quick industrial development and technological advancement (Sobanke, Ilori, & Adegbite, 2012).

## 2.2. Regional Metal Fabrication Sector Position

The prospective growth of the metal manufacturing sector in Africa is being driven by several factors (Ocheri et al., 2017; Mlambo, 2017; Mlambo, Pangeti, & Phimister, 2000). As per *Macro Poverty Outlook (2020)*, the rapid urbanization of Africa is increasing the demand for prefabricated goods and construction materials like metals for infrastructure projects including buildings, bridges, and roads. The growing manufacturing sector in Africa, which is a result of the growing need for produced machinery and metal components, is also driving the growth of the metal fabrication industry, according to the *African Development Bank (ADB) (2020)*. Iron ore, copper, and aluminum are just a few of the abundant material resources on the continent that can be processed and manufactured locally. Some African countries are implementing industrial policies and providing incentives to promote investment in the metal fabrication sector. One approach to achieve this is by establishing special economic zones with manufacturing-specific infrastructure and tax incentives (Makate et al., 2019). The productivity and efficiency of metal fabrication are rising due to technological advancements in digital and automated domains. Additionally, because a more trained workforce is being developed, the business is benefiting from investments in skill development (*World Bank, 2020*).

## 2.3. Metal Fabrication Industry in Zimbabwe

The history of Zimbabwe's fabrication industry is dynamic and multifaceted, impacted by colonial legacies, political shifts, and economic ups and downs. Important to this study is the growth of unofficial metal production businesses that provide Zimbabwe with building supplies as well as agriculture tools, implements, and equipment (*World Bank, 2020; Makate et al., 2019; Mujeyi et al., 2015; Dhemba, 1999*). The unorganized sector had always been present in Zimbabwe

before its independence in 1980 (Makate et al., 2019). Although Zimbabwe's informal sector has always expanded and flourished, it became particularly noticeable when the country gained independence in 1980. Before independence, strict laws and regulations including the Town and Country Planning Act of 1946, the Vagrancy Act of 1960, the Urban and Council Act of 1973, and the Vendors and Hawkers by-laws of 1973 limited the expansion of the unorganized sector (Makate et al., 2019; Dhemba, 1999). The seemingly endless economic crisis may have contributed to the collapse of the formal industrial sector (Makate et al., 2019). The extended period of economic hardship has surely contributed to the decline of the formal industrial sector. As the official industry collapsed and the demand for metal goods increased due to urbanization, the informal sector expanded (World Bank, 2020). The persistent economic challenges in Zimbabwe continue to fuel the growth of the informal sector (ADB, 2020; World Bank, 2020).

#### **2.4. The Call to Formalise the Informal Sector**

Several governments across the world have realized the potential of the informal sector in contributing significantly to their economic development. A survey conducted by La Porta and Schleifer (2014) found that convincing informal enterprises to join the official sector is particularly difficult. The informal sector on the continent drives growth, making up 80% of the working force and approximately 55% of Africa's GDP, the pressure to formalize them unexpectedly intensified. The study accelerated due to the World Bank's (2020) findings regarding the value of the informal sector as a social safety net for the poor and a starting point for aspiring business owners, and therefore a stepping stone to formality. After carefully reviewing the formalization literature, Ulyssea (2020) concluded that, although reducing the costs of formality may have positive overall effects like higher output and total factor productivity, it is not a viable strategy to eradicate informality.

There are several methods that stakeholders can assist entrepreneurs in the unorganized sector in legalizing their enterprises. Charlot, Malherbet, & Terra (2015) published a multi-sector theoretical model to discover that reducing taxes and regulations lowers informality in a developing economy. In Brazil, tax cuts following cost cuts pushed informal businesses toward formalization, claim Rocha et al. (2018). De Mel et al. (2013) observed similar outcomes in their experimental investigation in Sri Lanka, which demonstrated that offering financial incentives for registration had a significant positive impact. In an experiment, De Giorgi et al. (2018) found that after a tax inspector visited Bangladeshi businesses, there was a little increase in registration. De Giorgi et al. (2018) found that randomly assigning municipal inspectors to firms increased registration rates in Brazil. According to this research, a key element in encouraging entrepreneurship was giving entrepreneurs particular incentives and allowances.

#### **2.5. Theoretical Orientation**

De Soto (1989) developed and popularized the "handcuffs view" of informality.

Theory argues that despite the potential for great productivity, informal enterprises are hampered by costly government regulations, bureaucracy, corruption, and the inability to establish property rights and receive finance. Therefore, if money was made available and barriers to official status were removed, informal firms would be able to legally register and benefit from formalization (Martinez, Smith, & Malone, 2021, Tarupiwa, 2020). This calls for the development of proper systems to ensure that micro-entrepreneurs realise the benefits of formalisation. A proper system in place can work as an added advantage. One of the most important advantages that the government, as an essential partner, and its agencies can offer is tax reduction. More empirical studies have examined the relationship between tax burden and the growth of the unorganized sector. Research employing data from 14 Latin American countries has found a favorable correlation between tax burden and a larger informal sector (Zylfijaj et al., 2020).

While the majority of firms register when they are only notified about the new registration procedure, Benhassine et al. (2017) found that when extra efforts are made, formalization increases by 16.3%. These initiatives include assistance with business services, tax participation support, training, bank account establishment, and registration. This is a positive indication when assistance is given. Entrepreneurs choose to formalize when they think the benefits would outweigh any possible disadvantages, according to Benhassine et al. (2017). Thus authorities can readily compel entrepreneurs to engage if they adhere to the formalization standards in place. Theoretically, authorities can enforce formal restrictions and punish businesses for noncompliance at any time, but for social, political, and economic reasons, they often choose not to do so (Abebe et al., 2022). This is an intriguing observation. This results in the weak and uneven enforcement of formal market restrictions (Abid, Bothello, Ul-Haq, & Ahmadsimab, 2023; Ram et al., 2017). They describe how regulators often refrain from imposing strong regulations or severely punishing disobedience since doing so fosters collaborative relationships with companies that are pertinent to policy and promotes entrepreneurship.

Williams (2015) discovered that the informality of an entrepreneur's business activity is influenced by their socioeconomic background. Manstead (2018) reiterated that whereas impoverished entrepreneurs usually do not register their enterprises and primarily work off-book as a survival strategy, wealthy entrepreneurs usually register their businesses but participate in certain off-book activities to avoid paying taxes. The most effective strategy for governments to encourage formalization is to combine the enforcement of existing laws with further incentives for companies to formalize, claims (Kasinja & Tilley, 2018). To encourage micro-entrepreneurs to formalize, it was the responsibility of all those involved in their support (Mukorera, 2018). However, companies in Malawi who received assistance with business registration, a business bank account, and usage guidelines experienced a 15% rise in sales and a 20% increase in earnings.

Organisations appear to function in a rather informal way, and formalisation

seems to offer few immediate advantages, claim (de Mel et al., 2013). Governments may therefore want to take into account some broader social benefits when deciding whether to support programs that encourage companies to join the formal sector (Williams, 2015). This consolidates the call for a development of a proper system to support them in their formalising journey. For example, individuals have the option to follow an increasing number of laws and regulations. A strategic evaluation of the possible advantages of compliance, such as access to official financing channels (Zayadin et al., 2023). Sutter et al. (2017) point out that the development of a system serves as the foundation for the formalisation process. If informal business owners discover that business registration laws are being enforced more frequently than in the past (Nguyen et al., 2013) or that becoming legally recognised could allow them to apply for funding from other sources, such as bank loans and government financing programs (Williams, 2015), they may feel the need to formalise.

### 3. Methodology

The study employed a multiple case study methodology inside the Metal Fabrication Industry in Harare Mbare Magaba and Willovale Industrial to acquire comprehensive, contextual, and intricate insights into actual circumstances surrounding informality and the systems to entice fabricators to formalise their businesses. Multiple case studies were chosen because they enabled the paper to draw comparisons between individual cases, depict a range of attributes and extremes to add nuance, and comprehend a wide range of phenomena while preserving the distinctiveness of the individual case studies (Zhu & Lin, 2019).

The research paper utilised a combination of an interview guide and focus group discussions to gather data from 27 participants comprising welders, casting and cutting, forging, and metal stamping. The paper utilised 8 fabricators operating around the Mbare Magaba area, 7 fabricators from the Willovale area, and 5 represented the Ministry of Women Affairs, Community, Small and Medium Enterprise Development. The other 7 participants were drawn from the National Employment Council (NEC) for the Iron and Steel Industry, representatives from banks, the National Social Security Authority (NSSA), and the Zimbabwe Revenue Authority (ZIMRA).

An interview guide which served, as a crucial instrument for conducting qualitative interviews was used. The interview guide was chosen as it acts as a bridge between the research questions and the insights being sought from interviewees. It ensured that interviews were properly structured, consistent, and aligned with the main research objective. The paper also adopted the use of focus group questions given that they are narrowly focused on a single topic or issue and, with few exceptions, fall into the shallow end of the inquiry spectrum (Barbour, 2018). Focus group discussions were also conducted as they specifically made use of group dynamics to support the gathering of data. They were especially helpful for triangulating data or as an addition to one-on-one interviews.

Participants were chosen through purposive sampling, as the researcher intentionally, selected participants based on specific criteria relevant to the research question for instance all stakeholders to SMEs since the research sought to have in-depth information from individuals with unique experiences or expertise in the metal fabrication sector. This method was adopted because it allowed relevant participants and ensured the representation of all groups. Convenience sampling was also employed especially on stakeholders based on availability and accessibility. These were representatives of NEC, Banks, and the Ministry. Thematic data analysis was employed based on the main themes of the study.

## 4. Analysis and Discussions

The main gist of the study was to: 1) find out the support systems in place, 2) assess the effectiveness of these systems in achieving their intended goals, and 3) determine the views of the metal fabricators based on their interaction with all stakeholders. The findings revealed that the government of Zimbabwe through the responsible ministry was at the forefront to promote the formalisation drive. The findings revealed that the government was doing this through engaging other notable stakeholders such as the NEC representatives who regulate the industry and have easy access to all fabricators, as well as members from main stakeholders like banks who offered financial assistance which most entrepreneurs consider crucial for business survival. Zimra and NSSA participants also weighed in on building support for formalisation. While the full effectiveness of the different support systems in place in some instances is yet to be realized, strides have so been gained.

### 4.1. Support Systems in Place

#### 4.1.1. Financial Support Systems and Incentives

The Zimbabwean government has been on an overdrive to try and ensure a financial support system is in place to support all formally registered micro-entrepreneurs. This has been through offering financial support, such as grants, low-interest loans, or tax incentives, to encourage informal businesses to register and comply with regulations. The results showed that the informal metal fabrication businesses have little access to traditional banking services like loans and savings accounts. It was pointed out that allowing all informal fabricators to get access to loans and other financial services was a good support system that has led to a number considering the decision to formalise. Respondents from the banks confirmed that working with the Ministry they have reached out to potential customers by extending low-interest loans and financial advisory systems and services. The same was confirmed by entrepreneurs who pointed out that stakeholders were strongly promising the opportunity to gain access to loans and other financial benefits.

This is consistent with research by [Martinez, Smith, & Malone \(2021\)](#) that found micro-entrepreneurs growing and developing businesses are hampered by

their low capacity to obtain credit or access financial services. These challenges can be addressed and informal enterprises can successfully invest in their operations and growth by expanding their access to credit and financial services. This is what motivates business owners to consider formalizing their enterprise; therefore, an efficient support structure is necessary to force them to do so. This can be accomplished by developing specialized loan programs, partnering with financial institutions to create customized financial products for informal entrepreneurs, or implementing microfinance initiatives, according to a study conducted in Peru by [Martinez, Smith, and Malone \(2021\)](#).

Therefore, to encourage informal enterprises to formalize, the Zimbabwean government should collaborate with banks to improve their access to credit and financial services. This may also entail the launch of microfinance programs tailored to help unofficial enterprises transition to formality, including financial services and small loans. An effective tactic may be to design customized loan packages with adjustable payback schedules that are suited to the requirements of metal fabricators. Notably, it can be perfect to collaborate with financial institutions to create financial products that address the particular needs of metal fabricators.

#### **4.1.2. Education and Training Support Systems**

Findings also revealed that the government through the ministry and its stakeholders has been encouraging the education and training of informal fabricators on the benefits of formalisation and the challenges of occupying the informal space. The study concluded that ignorance was one of the issues causing informalization. As a result, the Ministry and NEC both identified the necessity of education and training. Examples of training sessions in the vicinity of Willovale and Mbare were brought up. The NEC pointed out that they assisted in facilitating pieces of training on business proposal writing to be able to gain access to financial services. They explained that banks required solid proposals and with such training, entrepreneurs would gain access to loans. Other forms of training centred on taxation as well as bidding tenders. The participants pointed out that some of the trainings focused on tax calculations, different types of taxes, and the processing of returns. The trainings were offered for free by the Ministry through the NEC. These would bring banking experts, tax experts, and compliance experts to facilitate the pieces of training.

[Shi & Weber \(2021\)](#) backed up this tactic by pointing out that the majority of entrepreneurs lack the formal education and skills necessary to do their jobs well. This can make them less productive and competitive, which is why they choose to remain informal. Therefore, training was provided as support to make sure they considered formalisation. Informal entrepreneurs can gain the fundamental information and abilities required for increased marketing, financial literacy, business management, and overall productivity through training and capacity-building initiatives ([Matsongoni & Mutambara, 2021](#)). This can involve marketing, financial literacy, company management, and other pertinent abilities to boost their

competitiveness and productivity. Because of the alleged advantages, they will be able to decide on formalization with these abilities. Offering training and capacity-building initiatives aids in enhancing the abilities and understanding of the advantages of formalizing.

#### 4.1.3. Collaboration and Partnership Support Systems

Entrepreneurial support networks can provide valuable resources, mentorship, and collaboration opportunities to help businesses thrive in the formal economy. Participants also identified collaboration and partnerships as other support systems mooted by the government to ensure informal fabricators rethink their formalisation status. The research revealed that the government was requesting that the Ministry of SMEs work with the Standards Association of Zimbabwe to make sure the products being produced by formally registered entrepreneurs meet the expected standards and quality. It was established that some big players export products such as deformed bars and agricultural equipment to neighboring countries and would require SMEs to assist in contributing to the supply. It was clear that several big players would come and take products that are certified by the formally registered fabricators. This was one of the systems pushing some SMEs to consider formalising their businesses so that they would be part of the value chain. Informal fabricators noted that they were aware of such collaborations but they came once in a blue moon.

Generally, all participants pointed out that collaborations were a step in promoting formalisation, indicating that collaboration with regulators informed tax decisions. Representatives from regulators pointed out that informality was dangerous especially when participants could not grant a chance to have audience with regulators. Through formalisation, informal players would have access to tax breaks and even window periods during the incubation stage of their business. This was also highlighted by [Laing, Evan, & Storey \(2022\)](#), who reaffirmed that government agencies, non-governmental organizations, and the private sector can pool their resources, collaborate, and leverage their expertise to more thoroughly and effectively address the various needs of metal fabricators.

Collaboration can help leverage expertise, share best practices, and ensure a comprehensive approach to addressing their needs hence a huge incentive to formalise. Coordinating efforts and resources for assisting formal entrepreneurs, will encourage collaborations between government agencies, non-governmental groups, and the business sector. Partnerships between governmental and non-governmental groups are equally important to offer micro-entrepreneurs in the industry all-encompassing support. Additionally, [Laing, Evan, & Storey \(2022\)](#) reaffirmed the need to work with private sector organizations to take advantage of their resources and experience to support informal entrepreneurs. Another study conducted in Nepal by [Karki, Xheneti, and Maden \(2021\)](#) found that establishing forums for stakeholders engaged in assisting the informal sector to exchange best practices and expertise.

#### 4.1.4. Infrastructure Development Support Systems

The results also showed that by guaranteeing essential services and infrastructure development, the government is providing micro-entrepreneurs in the metal fabrication sector with a significant boost. Since the majority are situated in slums and squatter settlements, informal sector businesses face several broader urban infrastructure services, including locational difficulties. The productivity and expansion of their enterprises may be hampered by the absence of dependable utilities, transportation, and communication networks in this area. Therefore, the government is ensuring that these exist through formalization. According to research by [Moyo \(2022\)](#), the government and stakeholders can lower operating costs, boost efficiency, and encourage small enterprises to formalize their operations by enhancing infrastructure.

Enhancing infrastructure can lower expenses, increase output, and encourage more unofficial enterprises to become formal. The government boasts investing in the development of infrastructure, such as dependable transportation, communication, and utility access. According to research by [Abid, Bothello, Ul-Haq, & Ahmadsimab \(2023\)](#), entrepreneurs may feel pressured to formalize their firms if they invest in the development of dependable utilities like water, power, and sanitation services. Enhancing transportation systems to make it easier for informal enterprises to take products and services to market was identified as key as well as increasing informal entrepreneurs' connectivity by broadening their access to communication networks, such as the internet and mobile services.

#### 4.1.5. Government and Council Tenders

Findings reveal that one of the main systems in place to persuade informal fabricators to consider formalisation has been giving formally registered fabricators enough support and space to participate in government and council tenders. One of the participants pointed out that some government departments and local authorities at times would prefer to engage formally registered fabricators to assist with their services mainly in the agricultural sector. Other participants explained that some tenders were for small projects that may be expensive to engage big firms but cheaper to engage formally registered SMEs who would execute in their best interest. It was explained that many council projects require fabricators to produce their products at a reasonably fair price. However, participating in such projects requires all those companies that are fully compliant.

Market access was accomplished by guaranteeing that every registered business may take part in the bidding procedure. Participants gave instances of companies that were successful in obtaining contracts from local government agencies, quasi-government organizations, and even foreign markets. According to [Munjeji & Fourie \(2024\)](#), businesses in the informal sector have limited networking opportunities, a lack of market knowledge, and a limited capacity to reach larger markets because of the informality of their business operations. Accordingly, a study by [Abebe, Getachew, & Kimakwa \(2022\)](#) noted that informal entrepreneurs can increase their clientele, enhance their market visibility, and get past obstacles to

market entry by encouraging connections with formal businesses, offering market intelligence, and facilitating networking opportunities. This can assist unofficial business owners in growing their clientele and improving their visibility in the marketplace, which may lead them to decide to formalize their enterprise in order to acquire additional clients. By encouraging connections with formal firms, disseminating market data, and fostering networking opportunities, you may help informal businesses reach the market. According to [Biaett and Richards \(2020\)](#), it can be quite effective to encourage entrepreneurs to formalize by setting up trade shows or exhibits where they can display their goods and network with possible clients. Giving informal business owners industry data and research to assist them in spotting trends and opportunities.

SME participants said that the government was funding them to run nationwide public awareness campaigns urging business owners to register their enterprises. They cited two conferences, held in Harare and Bulawayo, respectively, with the goal of implementing the MSMEs Policy 2020-2024 through cooperative efforts to accelerate the achievement of Vision 2030. This was therefore seen as a tactic used to guarantee sustainability and visibility. The results are comparable to those of a study conducted in Nepal by [Karki, Xheneti, & Madden \(2021\)](#). Due to the social and economic advantages that come with legal visibility, some of the women in our sample expected that formalizing their firm would eventually result in increased sustainability. Many participants believed that registration would lower the costs and anxieties associated with being informal while also giving their company the freedom to operate without fear of government monitoring. These expenses included the seizure of products, penalties for unethical behaviour, and potentially the closure of their company. Positive business outcomes, such as obtaining loans, suppliers, and customers, as well as recognition and assistance from government agencies and other organizations, were the primary anticipated economic rewards.

#### **4.2. Effectiveness of the Support Systems in Place**

The paper unearthed that generally the support systems in place were more rhetorical as reality on the ground was otherwise. While all participants from metal fabrication pointed out they are aware of systems in place they generally agreed that their effectiveness was yet to be realised. Participants pointed out that there was still complex bureaucracy. The 15 fabricators interviewed explained that the process of registration and compliance with laws was time-consuming and complicated hence affecting the very noble the government was striving to do. Participants generally agreed that among the main obstacles encountered are bureaucratic hold-ups. Inefficiencies in government agencies could cause the process to drag on, leading to lengthy wait times for registrations and clearances. They explained that it takes time to get a name approved, get a bank account as well as the registration to get a memorandum and articles of association papers. If this process costs to pay agents/companies or individuals were high hence affecting the

acclaimed systems. This phenomenon was also encountered in other countries globally. The overall timeframe for launching a business may be hampered by these delays, frustrating entrepreneurs who are keen to get their foot in the formality door (Eduful & Hooper, 2024).

Participants also pointed out that from their engagements they were told registering their business reduced costs. Some pointed out that the call for a tax holiday was noble but in reality, registering meant following the law in terms of compliance. Cost Concerns become the main worry compromising any effort to register. Formalizing a business often comes with costs, including taxes and licensing fees, which informal entrepreneurs may find prohibitive. Magidi (2024) studied on reasons why informal entrepreneurs want to remain informal and revealed the same reasons. The study revealed that all systems proposed to be in place had no bearing to assist in cushioning formally registered firms from tax obligations. Sanangura (2024) also confirmed the same hence the effectiveness of these systems to formalise business was deemed ineffective.

Formally registering businesses according to participants did not remove the fear of increased scrutiny. Participants pointed out that all the systems proposed by the government could not eliminate concerns about increased government scrutiny and regulation, which could disrupt their operations. For small business owners in particular, the mandatory rules about tax compliance, business registration, and labour legislation can be daunting. Furthermore, the possibility of contradictory standards can lead to additional misunderstandings because various local authorities may have different requirements, which would make the incorporation procedure more difficult. Participants pointed out that formally registering their business would attract not only ZIMRA but also NSSA through registering and paying for all employees, NEC on the sidelines for monthly contributions and Trade Unions also representing the employees. Magidi & Gwekwerere (2024) carried out a study that confirmed these concerns and pointed out that there was a need to perfect the support systems so that entrepreneurs would realise the benefits of formalising their businesses. Munjeyi & Fourie (2024) pointed out that this legal requirement stifled all efforts in place to compel informal entrepreneur to formalise their business. However, few participants pointed out that the systems in place were sufficient, but the challenge was a lack of Awareness. Some may not be aware of the benefits of formalization, such as legal protection, access to credit, and growth opportunities (Magidi & Jimu, 2023). These two pointed out that all negatives were covered by the positives hence they challenged informal players to register and see the benefits of legal immunity and tender participation.

Participants were clear that the support systems were completely inadequate. So perceived inadequate benefits compromise those systems already in place. The perceived advantages of formalization sometimes don't outweigh the immediate benefits of staying informal, especially if the informal market is functioning well for them. While formalizing a business brings benefits like access to financial services and government contracts, many informal entrepreneurs face hurdles such

as high registration costs, increased tax burdens, and compliance with labour regulations. This was also identified by James (2024) pointed out that entrepreneurs frequently need to network and work together with investors, professionals, and other entrepreneurs. By providing chances for business owners to interact and share ideas, governments may encourage networking and cooperation. Accelerators and incubators, for instance, are initiatives that offer resources, training, and mentorship to start-ups in their early stages. However, in the Zimbabwean case, this was deemed a mirage as such interaction was on paper and not in practice. Access to mentorship, strategic networks, and community support can play a pivotal role in helping entrepreneurs navigate the formalization process (Bukaliya, 2021). Contrary to this view it was clear that support systems in place were not effective to produce such results.

### 4.3. Participants' Views Concerning Formalisation Based on Experience

Findings largely pointed to the fact that the majority of the participants were of the view that there was no need to formalise their business and be burdened by taxes twice. They pointed out that the government was benefiting through a presumptive tax system in place mainly for SMEs and Informal sector players in the metal fabrication industry. This was supported by Moyo (2022) who pointed out that in Zimbabwe, presumptive tax is a simplified tax regime targeted mainly at small businesses and informal traders who may not keep detailed financial records. Tarupiwa (2020) went on to suggest that this system aims to widen the tax net by taxing economic activities that are typically hard to assess using traditional methods. However, the perspectives of informal participants on formalisation based on their interaction are diverse and can generally be categorized into three main views:

#### 4.3.1. Optimistic View Category

It was established that the majority of the participants were completely against formalisation citing several challenges chief among them being nothing tangible for those who formalised and a barrage of barriers to entry. Of interest was also the view of a handful of participants who were supported by NEC, ZIMRA and NSSA participants who were among the proponents of this view believe that informal firms can be highly productive, but they're constrained by government regulations, bureaucracy, and lack of access to credit. They argue that if these barriers were reduced, informal firms would voluntarily formalize, leveraging the benefits of being part of the formal economy, leading to growth and wider economic development. this is in line with the views of Adefolake & Omodero (2022) whose study in Nigerian SMEs supported the idea that formalisation would lead players to have more benefits. Another study by Orkaido et al. (2024) also pointed out that by being compliant with formalisation requirements players in Gedeo Zone realized the benefits. That's only a few were optimistic that formalisation was the way.

#### 4.3.2. Rational Choice View Category

The second category of participants opted for the rational explanation based on their interaction and interface with the systems in place. The owners of informal businesses chose to keep their businesses unregistered for practical reasons, such as preferring wage employment and using these small businesses as unemployment insurance or simply avoiding the expenses of registration and any associated tax obligations or labour laws. It was clear that the advantages of formalization were insufficient to balance the expenses incurred by the company. Thus, informal participants often choose to remain informal as a rational decision because they perceive little benefit in formalising. These participants tend to be small and less productive, and they gain substantial cost advantages by avoiding taxes and regulations<sup>1</sup>. This view suggests that reducing tax evasion and enforcing regulations might decrease the number of informal firms. A study by [Mpofu \(2021\)](#) revealed that taxing the informal sector through presumptive taxes in Zimbabwe broadened the tax base hence the participants felt there was no need to further formalise their business and further burden themselves. An avenue for a broadened tax base, stifling of the informal sector activities or both. [Nguvava & Sangar \(2024\)](#) carried out a similar study in Tanzania and informal players made a deliberate choice to stay informal as they felt they were already compliant with presumptive tax. [Nyamukapa \(2023\)](#) emphasised the same in Zimbabwe on presumptive tax policies in Zimbabwe.

#### 4.3.3. Survival Strategy View Category

Findings pointed out that to survive the entrepreneurs had to eliminate certain costs. Participants pointed out that the tax responsibilities that come with formality may represent a key constraint to formalization. This view posits that informality is a survival strategy for low-skilled individuals in economies that don't generate enough formal employment opportunities. [Munjeji & Fourie \(2024\)](#) carried out a study that supported the above argument in Zimbabwe. Informal players pointed out that their interaction with the support systems in places yielded nothing with banks not extending loans, and infrastructure crumbling with no markets and training happening. [Kupangwa, Farrington, & Venter \(2024\)](#) carried out another study that reaffirmed the same sentiments, that SMEs most viable option was to remain informal and run away from the associated costs of formalising the business ([Orkaido et al., 2024](#)). Examining factors affecting presumptive tax voluntary compliance in Zambia and their findings again pointed to informal players who felt this tax alone was enough to consider them formalised.

Interestingly entrepreneurs pointed out that these were just promises that would not translate to solid results as those already formal had no access to the same loans. It was pointed out that applying for a loan from the bank without a payslip or collateral was hard hence they opted for microfinance houses with high interest but low huddles. A study by [Magidi \(2024\)](#) also reiterated that most formalised businesses were facing the same challenge, with very few benefiting from what they were initially promised hence compromising the support systems in place.

The study highlighted corruption among interested departments like the council for rates among others. [Munjeji & Fourie \(2024\)](#) also reaffirmed the same position hence it can be concluded that the majority of participants felt there was no need to formalise, despite appreciating the support system in place.

## 5. Conclusion

It can be concluded that the government and its stakeholders need to do more to ensure that informal fabricators appreciate the direct benefits that come as a result of formalisation. Formalisation may be defeated by failure to showcase the benefits as entrepreneurs weigh costs against perceived benefits. It is concluded that in Zimbabwe especially Harare there is no complete informality as entrepreneurs choose to comply with certain sections of the law. It was established that the majority are registered with ZIMRA because they find it easy to trade with other formal companies or partner big businesses who prefer to pay through a bank account. However, there is a possibility that informal fabricators can decide to go formal based on the participant's views and experiences especially if the incentives being given are attractive enough. It is also crucial to point out that informalisation is based purely on the entrepreneur's perceptions about formalisation, obviously informed by the perceived benefits. It can be concluded that implementing all systems and systems in place needs serious commitment from all the stakeholders.

Based on the issues identified and discussed above the researchers to make sure that the systems put in place become extremely effective through implementing fully the below listed recommendations. The government and all its stakeholders should walk the talk in terms of fulfilling all promises made and extending all the benefits promised so that the fabricators involved will also act as ambassadors in encouraging others to formalise. Periodic training programs and campaigns should be conducted so that all informal fabricators have all the relevant and necessary information to make formalisation decisions. The Zimbabwean government needs to guarantee loans for micro-entrepreneurs who opt to formalise their business so that they benefit directly. This will compel another informal player to consider formalisation. There is a need for the Government of Zimbabwe to introduce tax breaks for struggling formally registered small businesses to raise their competitiveness as they find the tax rates to be too high for their growth projections.

## Acknowledgements

Much appreciation goes to all participants who took the time to attend all interviews. The research board of Zambia played a pivotal role in issuing the certificate clearance that authorised the research to be undertaken. Our appreciation goes to the Ministry and NEC leadership which cleared the way for us to undertake the research.

## Conflicts of Interest

The authors declare no conflicts of interest regarding this publication.

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