

# Wages in Zimbabwean Formal and Informal Manufacturing

## Firm-Level Responses to Low Levels of Demand and Economic Uncertainty

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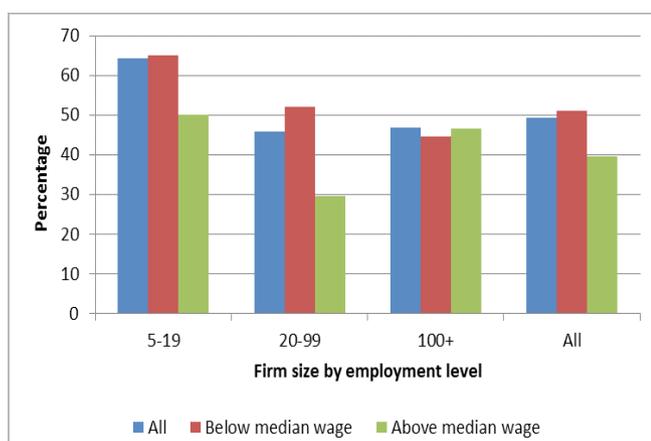


Low levels of demand and economic uncertainty lead to some Zimbabwean firms only paying wages sporadically!

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### Topic at a Glance

Zimbabwean manufacturing firms operate in an environment of economic volatility and policy uncertainty. The sector's role in creating employment opportunities has diminished substantially from independence in 1980 when it contributed almost a quarter of non-agriculture jobs. This research examines how workers in the Zimbabwean manufacturing sector are affected as a consequence of the challenges faced by the firms they work in. It draws on survey data collected in 2015 from over 1300 workers in almost 200 Zimbabwean formal sector manufacturing firms and 170 informal sector workers in 131 informal firms. In 2016 over 1,000 of the formal sector workers were resurveyed regardless of whether they were in the same job.



Caption: Proportion of workers with outstanding pay in 2016, by firm size and wage level in 2015

### New Insights

Widespread outstanding pay.

A common way that firms have responded to low levels of demand and economic uncertainty in Zimbabwe has been to only pay wages sporadically, for example when they receive outstanding payments from their customers. In the sample as a whole, approximately one-half of those interviewed in manufacturing jobs in 2016 had at least some outstanding wages owed to them. This is highest amongst smaller firms (those with 5 to 19 employees) where almost two-thirds of employees are owed wages.

Outstanding wages are more likely for those workers who earned below the median wage in 2015. Overall, and in the two smaller firm size groups (5-19 and 20-99 employees), higher paid workers at the start of the survey were at least 10 percentage points less likely to be owed wages in 2016.

There is little evidence that outstanding wages vary by geography or sector – it is only the wood and furniture sector where outstanding wages are less common. Gender is not significantly associated with outstanding wages, but those with a longer tenure at the firm are more likely to be fully paid, although this effect is small in magnitude.

The amount outstanding.

The median amount of outstanding pay in the sample is approximately 5 months of the level of 2015 wages. More than a quarter of workers with outstanding wages are owed at least one full year of wages. These owed proportions are similar for both higher and lower paid workers.

Are these owed wages compensated in other ways?

It may be that companies are compensating employees in other ways, such as providing housing, transport or in-kind payments, instead of paying cash wages. There is some evidence that this is happening although the magnitudes are small: only 3 percent-

age points more workers with outstanding pay started to receive allowances in 2016 compared to the no-outstanding pay group

### Why don't workers leave?

There are a number of related reasons why workers may not leave the company they currently work for even though they are not being paid their full salary. The first is that Zimbabwean labour regulation stipulates that workers who are fired or retrenched must be paid out in proportion to the length of time they have worked for the firm. Workers thus have an incentive not to leave the job voluntarily since they would lose this claim. The data shows this - in the sample, average tenure is approximately 12 years, but those with outstanding pay have approximately two years longer tenure than those without.

A second related reason is that workers may simply just be waiting for the firm to do better with the hope that they will be paid when this happens.

Third, it may be that workers who are prepared to accept not being paid fully have different risk or time-preference profiles. The survey collected information on risk and time preferences for workers. Those with outstanding pay were about 7 percentage points more likely to be prepared to delay payment of the incentive for completing the survey for a higher amount a week later and about 2 percentage points more likely to gamble for a higher amount than those with no outstanding pay.

The fourth potential reason for why underpaid workers do not leave is because their outside options are limited. One potential outside option is the informal sector. Through estimating an earnings equation for workers in the informal sector we can predict what formal sector workers would earn working in the informal sector. Those with outstanding pay earned approximately 50 percent more than they would have in the informal sector in 2015 but this premium fell to 35 percent in 2016.

A fifth reason is that they may be engaging in other outside activities which provide an additional revenue stream. About a quarter of the sample report having an external activity, although there is no difference in proportions between those with outstanding pay and those without.

## Policy recommendations

Outstanding pay is widespread in the manufacturing sector, and many employees are owed a substantial amount. This situation seems unlikely to change as firms continue to struggle with limited cash flow and low demand.

The hope of eventually seeing some of these outstanding amounts plus labour regulations that link retrenchment payouts

to tenure mean that many workers stay in these jobs despite being underpaid. Tolerance for delayed payments, and a slightly higher risk tolerance also seem to characterise these workers. Despite not being paid fully, these workers still earn more than they would, on average, in the informal sector and thus there is little incentive to move.

Should Zimbabwean manufacturing continue to struggle it is likely that the number of workers with outstanding wages, and the level of wages outstanding, will continue to rise. Firms are also unlikely to engage in widespread retrenchment given that they may have to pay retrenchment packages. With lower wages due to underpayment, some employees will find that working in the formal sector no longer pays a premium and thus switch into the informal sector. This in turn will place downward pressure on wages in this sector. However, at the same time older workers with longer tenure, and those who are prepared to wait for payment, are likely to remain in the formal sector. It thus seems likely that should these trends continue workers in the informal and formal sectors will start to look more and more different from each other. In time the informal sector will be dominated by younger workers whereas an aging group of workers will remain in the formal sector.

Ultimately policy needs to tackle the underlying causes responsible for the struggling manufacturing sector - a more vibrant and growing sector is likely to lead to fewer cases of outstanding pay.

## Limitations

### Text

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