

**FORMALISATION OF THE INFORMAL SECTOR AS A REVENUE GENERATION  
STRATEGY: THE CASE OF FURNITURE MANUFACTURERS IN GLEN VIEW,  
2009-2016**

**BY**

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## ABSTRACT

The thrust of this study was to explore formalisation of the informal sector as a strategy for creation of fiscal space in Zimbabwe, with particular reference to furniture manufacturers in Glen View, Harare. The research was motivated by the fact that the informal sector has become an important segment of many economies and is estimated to represent more than 95% of all global entities. In Zimbabwe, there are about 1.2 million SMEs, employing around 4.5 million people in small-scale manufacturing, trade and services, and contributing about 40% to GDP. However, the SMEs are contributing less in terms of tax revenue and lack of formalisation could have been one of the causes. Therefore, this study sought to assess formalisation of the informal sector as a strategy for revenue generation in Zimbabwe, with reference to furniture manufacturers in Glen View. There were five specific objectives, the first one being to establish the amount of revenue contributed by the informal furniture makers in Glen View between the years 2009 and 2016. The second objective was to assess the possible types of formal businesses that furniture makers in Glen View can establish. The third objective was to examine the potential impact of formalisation of informal businesses on revenue collection. The fourth objective was to interrogate the barriers to the formalisation of informal furniture manufacturers in Glen View. The last objective was to propose options for spearheading the formalisation of informal furniture manufacturers in Glen View. This study was a survey of furniture manufacturers in Glen View. The researcher collected data from a sample of furniture manufacturers in Glen View, Ministry of SME officials, ZIMRA tax officers, and SMEDCO officials. The researcher used questionnaires and interviews as research instruments. The study found out that the furniture manufacturers in Glen View were not paying taxes and Council rates. The Glen View Furniture Complex was being used for individual benefit by ‘space barons’ and the government was not benefiting anything. The research showed that the furniture manufacturers could formalise through the establishment of sole proprietorships, partnerships, and cooperatives. It was pointed out that formalisation of SMEs benefits the national economy, improves revenue collection, and is beneficial to the SMEs. Nevertheless, there were barriers to formalisation of SMEs, which include high costs of tax compliance and too much paperwork to formalise. A number of options were proposed to spearhead formalisation and they included reducing administrative barriers through online registration, encouraging voluntary tax compliance, provision of incentives and facilities to the SMEs, and the need for the SMEs to adopt acceptable accounting practices. The study came up with some recommendations, which could spearhead the formalisation of SMEs and widen the tax revenue base. The first recommendation was that there was a need for the eradication of corruption, ‘space barons’, respecting of the law. The second recommendation was that there was a need to promote voluntary tax compliance and to coordinate tax collection. The third recommendation was that there was a need to simplify the registration procedures and to provide information on the path to be followed during formalisation. Finally, it was recommended that it was essential to provide incentives to the SMEs, which included construction of workshops for registered SMEs, assisting in marketing, and preferential treatment to the registered firms.

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## **DEDICATION**

This study is dedicated to my husband, Lameck, and Children, Trevor and Nyasha, who provided me with emotional and financial support during my studies.

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## **LIST OF ABBREVIATIONS**

EU:	European Union
FCCI:	Fulton-Carroll Center for Industry
GDP:	Gross Domestic Product
IASB:	International Accounting Standards Board
ICAZ:	Institute of Chartered Accountancy Zimbabwe
ICTs:	Information and Communication Technologies
IFRS:	International Financial Reporting Standard
PT:	Presumptive Tax
SABTIA:	South African Business and Technology Incubator Association
SMEDCO:	Small and Medium Enterprise Development Corporation
SMEs:	Small and Medium Enterprises
SPSS:	Statistical Package for Social Sciences
UNIDO:	United Nations Industrial Development Organisation
USAID:	United States Agency for International Development
ZIMRA:	Zimbabwe Revenue Authority

## CHAPTER ONE

### INTRODUCTION TO THE STUDY

#### 1.1 Introduction

The thrust for this study was to explore formalisation of the informal sector as a strategy for creation of fiscal space in Zimbabwe, with particular reference to furniture manufacturers in Glen View, Harare. SMEs are an important segment of the Zimbabwean economy and they employ the majority of people. This chapter highlights the following features of the research, that is, the background to the research problem, the problem statement, objectives of the study, and the research questions. There is also focus on the significance of the study, ethical considerations, assumptions, limitations of the study, delimitation of the study, and organisation of the thesis.

#### 1.2 Background to the Study

The informal sector has become an important segment of many economies. Small and Medium Enterprises (SMEs), most of which are informal, are estimated to represent more than 95% of all global entities (European Commission, 2008:1). According to the International Financial Accounting Committee (2010:8), the SMEs are more than 90% of the companies in Europe, and represent about 67% of private sector employment. According to Cai and Wong (2010:15), economic development in Taiwan over the past five decades is largely due to a vibrant SME sector. Most of the exports from Taiwan are made by the SMEs, which also employ majority of employees.

In Africa, the SME sector, which is informal, is one of the fastest growing and important sectors of the nations (Murphy, 2008:32). In similar vein, Oxfam (2008:23) states that about 72% of the working population in African countries is employed in the informal sector. However, the tax contributions from the SMEs do not reflect the dominance of SMEs in employment creation. In Kenya, for instance, the informal sector grew by 32.7% during the years 2006 to 2009 and employs over 6.5 million workers (Larossi, 2009:98). However, the SME sector presents unique challenges to tax administration and there is need to ensure that they contribute effectively towards the national fiscus. Table 1.1 indicates tax revenue to Gross Domestic Product (GDP) ratio in selected African, Asian, and European countries.

**Table 1.1: Tax to GDP Ratio in Selected African, Asian, and European Countries**

<b>Country</b>	<b>Tax to GDP Ratio (%)</b>
<b>African Countries</b>	
Angola	05.7
Burkina Faso	11.5
Burundi	17.4
Chad	04.2
Ethiopia	11.6
Zambia	16.1
<b>Average for the Six African Countries</b>	<b>11.1</b>
<b>Asian Countries</b>	
Afghanistan	06.4
Burma	04.9
China	17.0
India	17.7
Japan	28.3
Pakistan	10.2
<b>Average for the Six Asian Countries</b>	<b>14.08</b>
<b>European Countries</b>	
Austria	43.4
Belgium	46.8
Czech Republic	36.3
Denmark	49.0
Germany	40.6
Sweden	45.8
<b>Average for the Six European Countries</b>	<b>43.7</b>

**Source: International Accounting Standards Board (2012: 5)**

According to Table 1.1, it can be noted that developed countries do not face major challenges in tax collection as tax revenue contributes at least 36% to GDP (International Accounting Standards Board, 2012:5). The situation is in contrast to that of developing countries, where there is evidence of revenue collection challenges and tax contribution to GDP is as low as 4% in some countries (ibid: 5). The failure by developing countries to collect adequate tax revenue compromises the delivery of public goods. In most countries, the national budgets are complemented by development assistance from the developed countries, who are sometimes

accused of interfering in the internal affairs of the aid receiving countries. Low tax collections in developing countries could be as a result of narrow tax base and low compliance by the SMEs (informal sector). Low tax contributions by SMEs could also be as a result of absence of formalisation of these firms. According to Rukuni (2010:25), SMEs constitute the majority of companies in Zimbabwe and they ought to make positive contributions to the national purse. It was believed that there are about 1.2 million SMEs in Zimbabwe, employing around 4.5 million people in small-scale manufacturing, trade and services, and contributing about 40% to GDP (Zhou, 2010:223). Table 1.2 shows the profile of SMEs in Zimbabwe.

**Table 1.2: Profile of SMEs in Zimbabwe**

<b>Number of SMEs</b>	1.2 million
<b>Sectors dominated by SMEs</b>	Small scale manufacturing, retail and trade, transport, motor vehicle repairs
<b>Contribution to GDP</b>	40%
<b>Average Annual Turnover</b>	4 Billion
<b>Number of People Employed</b>	4.5 Million

**Source:** Zhou (2010: 223)

From Table 1.2, there is evidence that SMEs are important to the Zimbabwean economy. However, there seem to be tax collection challenges because more than 80% of SMEs operate on an informal basis (Rukuni, 2010:31). Tax revenue has a direct impact on a government's ability to fulfil its mandate of providing public goods and services. Fuest and Riedel (2009:155) argue that the provision of public infrastructure and government services is a key factor for economic development. In many developing countries, lack of public service provision slows down economic growth and undermines efforts to improve the living standards of the population. There are a number of reasons for the failure of many governments in developing countries to provide sufficient public services. A lack of tax revenue is one of them (Grava, 2009:87). Developing countries seem to be 'trapped' in a poverty cycle as lack of adequate tax revenue leads to incapacity to improve living standards of citizens. At the same time, low standards of living compromise tax collection efforts. Therefore, there could be a vicious cycle and it may be difficult for developing countries to break the chain.

In line with the preceding arguments, Zimbabwe Revenue Authority (ZIMRA) is failing to meet revenue targets due to a narrow tax base. Table 1.3 shows Zimbabwe's tax revenue performance for the years 2009 to 2015.

**Table 1.3: Tax Revenue Performance for Zimbabwe: 2009-2015**

Year	Overall Tax Revenue Target			SME Tax Revenue Target		
	Target US\$ Billion	Actual US\$ Billion	Variance %	Target US\$ Billion	Actual US\$ Billion	Variance %
2009	0.80	0.50	-38	0.29	0.17	-21.30
2010	1.10	1.00	-9	0.16	0.14	-9.59
2011	1.50	1.24	-17	0.18	0.11	-38.54
2012	2.00	1.77	-11	0.11	0.09	-20.60
2013	3.35	3.23	-0.4	0.15	0.15	-22.21
2014	3.82	3,60	-6	0.22	0.14	-35.06
2015	3.76	3.50	-7	0.17	0.12	-25.01

**Source: ZIMRA Revenue Performance Reports (2009-2015)**

Table 1.3 shows that there is low tax contribution by SMEs. This is a major cause for concern, and while presenting the 2014 national budget, on 19 December 2013, the Minister of Finance highlighted the importance of bringing SMEs into the mainstream economy. Nevertheless, the Institute of Chartered Accountancy Zimbabwe (ICAZ, 2012:6) pointed out that SMEs in Zimbabwe could be resisting registering their businesses with ZIMRA leading to low tax revenue. The introduction of presumptive tax (PT) seemed to have failed to ensure high tax compliance by SMEs. Table 1.4 shows the contributions of PT to total revenue from 2009 to 2015.

**Table 1.4: Tax Contributions (2009 to 2015)**

<b>Year</b>	<b>Total Tax Collections</b> US\$ Billion	<b>Presumptive Tax</b> US\$ Billion	<b>% of P/T to Total Collections</b>
2009	0.50	0.17	34.00
2010	1.00	0.14	14.00
2011	1.24	0.11	8.90
2012	1.77	0.09	5.00
2013	3.23	0.15	4.64
2014	3,60	0.14	3.89
2015	3.50	0.12	3.43

**Source: ZIMRA Revenue Performance Reports (2009-2015)**

From Table 1.4, it is clear that the SME sector, which constitutes more than 80% of local industry (Rukuni, 2010:31), contributes less than 5% of total revenue collections during the years 2013 to 2015. Therefore, it is important that SMEs contribute towards the national fiscus. This study assessed formalisation as a strategy for widening the tax base and ensuring that SMEs become tax compliant.

### **1.3 Statement of the Problem**

SMEs constitute more than 80% of local industry in Zimbabwe and majority of people are employed in the informal sector (Rukuni, 2010:31). Nevertheless, the SME sector contributed less than 5% of total tax revenue between the years, 2013 and 2015, a decline from the previous years. In addition, the total national tax contributions failed to meet targets set by ZIMRA during the years 2009 to 2015 (Table 1.3). Accordingly, this study focused on formalisation of SMEs as a strategy for revenue generation in Zimbabwe, with a particular focus on furniture manufacturers in Glen View. Formalisation entails entry of a business into the tax system and could mean widening of the fiscal space. The study also focused on how to attract and encourage SMEs in Glen View to register with ZIMRA for tax purposes.

### **1.4 Objectives of the Study**

This study sought to assess formalisation of the informal sector as a strategy for revenue generation in Zimbabwe, with reference to furniture manufacturers in Glen View. The specific objectives were to:

- establish the amount of revenue contributed by the informal furniture makers in Glen View between the years 2009 and 2016;

- assess the possible types of formal businesses that furniture makers in Glen View can establish;
- examine the potential impact of formalisation of informal businesses on revenue collection;
- interrogate the barriers to the formalisation of informal furniture manufacturers in Glen View; and
- propose options for spearheading the formalisation of informal furniture manufacturers in Glen View.

### **1.5 Research Questions**

The major research question that this study sought to answer was, ‘what is the influence of formalisation of the SMEs on revenue collection?’ The specific research questions posed were:

- How much was contributed by the informal furniture makers in Glen View between the years 2009 and 2016 to the national purse?
- What are the possible types of formal businesses that furniture makers in Glen View can establish?
- What is the potential impact of formalisation of informal businesses on revenue collection?
- What are the barriers to the formalisation of informal furniture manufacturers in Glen View?
- What strategies can be adopted to spearhead the formalisation of informal furniture manufacturers in Glen View?

### **1.6 Justification of the Study**

The study was significant in that it sought to initiate debate amongst stakeholders in the SME sector on the issue of formalisation, widening of tax base and tax compliance. High levels of tax compliance would imply the creation of fiscal space, and the government would be in a position to provide the basic services to the citizens. The failure by ZIMRA to collect tax revenue from the SMEs impedes development and there would be reliance on donor funds. The research was also significant to the SMEs because it sought to identify the challenges that hinder them from formalising. The study proposed options for facilitating the formalisation of the SMEs. The study also sought to contribute to the debate on the formalisation of the

informal sector in Zimbabwe. As such, the findings of this study can be used by future researchers.

### **1.7 Ethical Considerations**

Research ethics are the principles that guide the conduct of researchers during data collection and presentation (Saunders, Lewis, and Thornhill, 2012:115). Some of the ethical considerations include the need to inform the participants about the research (informed consent), protection of the participants from harm, and confidentiality. There was observance of the principle of informed consent when the researcher notified and sought authority to conduct the study from the Ministry of SMEs, the Small to Medium Enterprise Development Corporation (SMEDCO), and the furniture manufacturers in Glen View. In addition, taking part in this research was voluntary and the respondents were not forced to participate in the research and were free to withdraw any time from the research should they feel uncomfortable. More so, the names of the respondents were not used in discussing the research findings.

### **1.8 Assumptions of the Study**

The study was guided by the following assumptions:

- The study assumed that there were going to be no changes in the operating conditions of the informal furniture manufacturers in Glen View during the time of the study;
- There was going to be no changes in tax regulations pertaining to SMEs during the time of the study; and
- There was going to be cooperation from the participants

### **1.9 Limitations of the Study**

The researcher faced a number of limitations. The first limitation was that some of the participants, especially government officials, were not readily available due to their work commitments. To overcome the limitation, the researcher made appointments in advance so that research instruments were administered when the participants had confirmed their availability.

Another limitation was that the participants, especially Ministry of Small and Medium Enterprises and Cooperative Development officials and staff in the Small and Medium Enterprise Development Corporation (SMEDCO), were reluctant to divulge confidential information. To overcome this limitation the researcher explained the purpose of the study to



the respondents and gave them assurance that all the information obtained was strictly confidential and was to be used for academic purposes only.

The last limitation was that of coverage. The study focused on the formalisation of the informal sector with reference to furniture makers in Glen View and the findings may not be generally applicable to all the SMEs in Zimbabwe. To overcome the limitation, the interviews conducted with SMEDCO, ZIMRA, and Ministry officials, though they were primarily focused on Glen View furniture makers, also solicited data about the whole SME sector.

### **1.10 Delimitation of the Study**

The researcher focused on examining formalisation of the informal sector as a strategy for widening of the tax base and tax compliance by SME furniture manufactures in Glen View. Focus was also on the challenges faced by SMEs in the process of formalisation and the possible options for facilitating formalisation. Information was collected from furniture manufacturers in Glen View, the Ministry of SMEs, Small and Medium Enterprise Development Corporation (SMEDCO) officials in Harare, and from ZIMRA (tax officers) for Harare Region. The study period was 2009 to 2016.

### **1.11 Organisation of the Study**

This dissertation has five chapters. This introductory chapter presented the background to the study, statement of the problem, research objective and research questions. Focus was also on the justification of the research, ethical considerations, assumptions, research limitations and delimitation of the study. The next chapter, Chapter Two, presents a three-fold review of literature, that is, conceptual, theoretical and empirical review. Chapter Three focuses on research methodology. Chapter Four focused on data presentation, analysis, and discussion. Chapter Five presented summary of the study, conclusions, and recommendations.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.1 Introduction**

This chapter presents a three-fold review of literature. Focus is on conceptual, theoretical and empirical literature reviews. Conceptual framework focuses on reviewing literature related to SMEs and their contributions to economies, that is, their contributions to GDP, tax contributions by the SMEs, and their contribution to employment creation. There is also a discussion on the types of formal businesses that the SME entrepreneurs can establish, the impact of formalisation on revenue collection, the barriers to the formalisation of informal businesses, and the options for spearheading the formalisation of businesses.

Theoretical literature review presents the model for spearheading the formalisation of informal businesses, which are the incubator model, the industrial district model, and the cluster model. Focus is also on two contrasting approaches for enhancing revenue contribution by the SMEs. The first approach is known as the deterrence model (economic based approach), that emphasise the handing out of harsh punishment and penalties to the tax evaders. The second approach is known as the psychology model, that aims to use persuasion.

The chapter shall wind up by presenting empirical literature review, which focus on country case studies on the formalisation of businesses. There is a discussion on business formalisation in the United States, the formalisation of furniture and footwear companies in Italy, formalisation in Ethiopia, and business incubation and clusters in South Africa.

#### **2.2 Conceptual Framework**

In this section, there was a review of literature related to SMEs and their contributions to economies. There is also a discussion on the possible types of formal businesses that the SME entrepreneurs can establish; the impact of formalisation on revenue collection, the barriers to the formalisation of the informal businesses, and the options for spearheading the formalisation of businesses.

##### **2.2.1 The Role of SMEs in Economies**

According to the Ministry of Small and Medium Enterprises (2002:2) quoted by Mzumara (2011:2), SMEs are businesses that employ less than 100 people. Newberry (2006:72) states

that small businesses are the engines for economic growth in a country. The presence of SMEs also correlates with several economic factors, including employment creation and the growth of a nation's GDP. In similar vein, Grava (2009:5) points out that the small businesses (SMEs) do not have specialised machinery and largely use manual methods, hence they create opportunities for unskilled employees. They are also an imperative element of the production network for vast organisations. The SMEs are additionally more suitable for innovation and sustainable development because of their natural adaptability and risk taking capacity.

#### **2.2.1.1 SMEs' Contributions to GDP**

According to De Kok *et al.*, (2011:3), in European countries, SMEs contribute about 70% to the GDP. In Africa, SMEs constitute the majority of companies and most of the growth in exports seems to be taking place in small firms (Rukuni, 2010:4). According to Thubault (2010:4), the size of the informal sector in countries like Zimbabwe, Tanzania and Nigeria is more than 55% while Mozambique, Ivory Coast, and Madagascar have informal sectors that count for about 40% of the GDPs. At the lower end was Botswana with 33.4%, Cameroon 32.8% and South Africa with 28.4% (ibid: 4).

#### **2.2.1.2 Tax Contributions by SMEs**

SMEs in Zimbabwe are required to contribute to the national purse through payment of taxes. According to ZIMRA (2013:4), the operations of SMEs may give rise to obligations. Nevertheless, the major type of tax for SMEs is Presumptive Tax (P/T). P/T is a form of tax that is levied on the small businesses, which include hair saloons, furniture makers, and small transport operators. These operators are required to pay P/T each quarter on the 10th day of the following months: January, April, July and October (ibid: 5). The other forms of taxes include value added tax (VAT) and withholding tax.

Small firms in other countries also have an obligation to pay tax. In Latin America and the Caribbean, the SMEs contribute to the national fiscus through simplified tax regimes (International Tax Dialogue, 2007:32). According to Baurer (2005:87), in Argentina, the simplified tax regimes are paid by the SMEs with annual income not exceeding Arg\$72 000 (US\$24,000), or whose premises are less than 85 square metres in size, and consume less than 10,000 kw of electricity.

### ***2.2.1.3 SMEs Contribution to Employment Creation***

The small businesses employ the majority of the working population. De Kok *et al.*, (2011:3) argue that, at a global scale, about 67% of employment is created by the SMEs. During the decade 2000 to 2010, more than 85% of new jobs were created by the small firms (Ibid: 5). In the European Union (EU), the SMEs have a positive effect on economic growth. Therefore, the SMEs create more jobs than large enterprises.

### **2.2.2 Types of Formal Businesses that SME Entrepreneurs Can Establish**

Four types of formal businesses can be established by the entrepreneurs in the informal sector. These are sole proprietorship, partnership, private limited companies and cooperatives (Robbins and Coulter, 1999:4). According to Schuler (2011:13), all businesses must adopt some legal configuration that defines the rights and liabilities of participants in the business's ownership, control, personal liability, life span, and financial structure.

Sole traders are the vast majority of small businesses and they are usually owner-managed. The sole proprietors own all the assets, enjoy all the profits, and have unlimited liability. In terms of the law and other contractual obligations, the sole proprietor is one in the same with the business (Robbins and Coulter, 1999:4).

The other type of business that entrepreneurs can establish is a partnership. In a Partnership, two or more people (2 to 20 partners) come together to form a business. Just like the proprietorships, there is no distinction between a business and its owners in terms of liability. There is a requirement that the partners have a legal agreement (partnership agreement) that governs the way the business should be managed.

Furthermore, Randal (2003:6) states that entrepreneurs can form private limited companies. A private limited company is considered by law to be a unique entity, separate and apart from those who own it, (owners/shareholders have limited liability). The owners of a corporation are its shareholders and they should not exceed 50. The shareholders elect a board of directors to oversee the major policies and decisions (ibid: 6).

Finally, entrepreneurs can establish cooperatives. According to Schuler (2011:13), a cooperative is formed by a group of people with a common interest and is aimed to benefit its members. The management of a cooperative is in the hands of the members.

### **2.2.3 Impact of Formalisation on Revenue Collection**

Formalisation entails a legal status of a business in terms of registration/licence, labour regulation, and tax regulation (Kenyon, 2007:3). Along similar lines, Coad (2009:71) said that formalisation means the process through which an enterprise becomes compliant with the laws and regulations in the aforementioned areas. Formalisation also refers to the process whereby previously non-compliant enterprises become integrated into these formal or state-sanctioned institutions, such as property registries and tax-rolls (Williams, 2007:21).

The process of formalisation helps to increase the tax revenue base (Djankov *et al.*, 2006:1). Formal registration is often the means of entry into the tax system. Therefore, the inability of revenue authorities to collect tax revenue from the informal sector (shadow economy), compromises the national purse (Alp and Ustuntag, 2009:61).

Formalisation also helps to ensure that there is equity and other tax compliant businesses do not feel short-changed. This is because of the fact that the informal trading businesses, who increasingly operate through small-scale outlets, may pose undue competition to registered businesses (Schoonjans *et al.*, 2011:77). If not formalised, the identity of individual operators is difficult to confirm. In this way, it is easy for the individual businesses to avoid paying even Value Added Tax (Waweru, 2007: 25). The continued operation of the informal businesses also negatively affects social benefits (World Bank, 2006:21). It entails a loss in budget revenues by reducing taxes and social security contributions paid and therefore the availability of funds to improve infrastructure and other public goods and services. It invariably leads to a high tax burden on registered labour.

### **2.2.4 Barriers to the Formalisation of Informal Businesses**

The costs associated with business regulations is the main obstacle for formalisation of businesses (Rosa *et al.*, 2009:35). Business registration and licensing fees are often set at a level that acts as a disincentive to businesses to formalise. According to United States Agency for International Development (USAID, 2005:82), in Niger, fees to start a business total more than \$1 000. Indeed, eight of the ten most expensive countries for start-ups are in Africa.

There are administrative barriers that dissuade informal enterprises from wanting to interact with government officials. They include excessive paperwork, the bureaucracy involved in registering a business is a key barrier to formalisation (Kenyon, 2007:41). Related to this argument, USAID (2005:82) states that one of the barriers to the formalisation of the informal

businesses is the tax administrators. Taxes are one of the most obvious costs of formalisation which some firms cannot or do not want to comply with.

Tax administration employees are amongst the most frequently contacted government officials and frequently speak to general society what is correct or off-base about their tax laws. The responsiveness, respectability, and nature of tax administration staff should in this manner meet a very high standard because the revenue collected from taxes are the major source of government expenditure (Wenzel, 2006:89). Therefore, an effective and efficient tax administration system is essential to any country's well being as it determines the amount of revenue that is collected by the government. The accurate amount of tax revenue needs to be collected in a timely manner. Moreover, enforcement powers of the tax administration must be applied judiciously and in an even-handed fashion (Atawodi and Ojeka, 2012:16).

Witt and Woodbury (2005:56) also argued that SMEs in developing countries often face difficulties when dealing with the government in general and the tax administrators in particular. Most of the challenges that the businesses face when dealing with tax authorities are usually due to the improper taxation policies and uncertainty pertaining to the future policy changes (Oxfam, 2008:8). It would be rare not to hear complaints about the complexity and/or ambiguity of the tax laws, high tax rates, and the lack of an integrated fiscal strategy that takes social taxes, and local taxes and fees into account when determining the overall tax burden placed on the business community (Mortaza and Begum, 2006:45).

Furthermore, when executing their duties, the tax collection officials usually create problems for the business community. There is the imposition of burdensome reporting and record keeping requirements, and the conduct of excessive inspections and audits (Oxfam, 2008:9). This type of environment harms individual businesses and the overall economy. As a result, many in the business community react by taking steps, like tax avoidance, which adversely affect the tax base (Witte and Woodbury, 2005:57).

Moreover, some entrepreneurs may not want to formalise their businesses because of the high costs of tax compliance. There is considerable evidence that the costs of compliance, relative to firm size, are greater for smaller firms (Waweru, 2007:27). In addition, the European Commission (2004:33) reported that the costs of compliance Value Added Tax and corporate tax were around 0.02% of turnover for larger enterprises while it was about 2.6% for small businesses. In similar vein, Pope and Abdul-Jabbar (2008:76) opine that the size and nature of

SMEs make the issue of tax compliance one of the challenging issues. Most of the SMEs have limited resources and inadequate expertise to comply with diverse and complicated tax regulations. More so, the high costs of tax compliance can result in tax avoidance, tax fraud, and inhibit investment by way of diminishing competitiveness of the countries in terms of taxation attractiveness.

In addition, when analysing a sample of 151 Flemish SMEs, Schoonjans *et al.*, (2011:1), found out that the tax compliance costs, exceeding over seven percent of gross added value for SMEs, were relatively high. Therefore, the small enterprises may formalise but then find the tax obligations burdensome while at the same time the tax authorities may find it unrewarding to pursue the SMEs to pay their taxes.

### **2.2.5 Options for Spearheading Formalisation of Businesses**

The small businesses constitute untapped revenue potential but there is an uneven playing field in many countries (International Tax Dialogue, 2007:11). Therefore, it is essential to ensure formalisation of all businesses and widen the tax revenue base. There are a number of ways of trying to reduce informality. One of the ways is increasing services to the small business, including providing micro-finance, better infrastructure, procurement opportunities, and other forms of support to the informal businesses.

There could also be initiatives aimed at reducing regulatory and administrative barriers to formalisation. These are the 'pull' effects and reducing the costs of formality includes initiatives such as business registration reform and simplified tax administration (USAID, 2005:89).

Moreover, improving services to informal enterprises may help them grow. Growth of the informal businesses could help to facilitate formalisation and tax compliance. If a firm grows in size and becomes visible in market, it would be difficult for that firm to avoid payment of tax (Autio, 2008:43). Moreover, Tubualt (2010:10) argues that both direct and indirect taxes would improve when there is growth because of increases in turnover. In addition, creating awareness on the advantages of formalising businesses is paramount (Cai and Wong, 2010:38). Sometimes, lack of adequate knowledge and ignorance prevent entrepreneurs from expanding their businesses. Yaobin (2007:21) also argue that special tax regimes for SMEs may be the appropriate policy actions for reducing the costs of tax compliance. Pro-business and pro-SME tax regimes should be simple, consistent, predictable and should lower the

compliance and administrative costs and this could improve the level of voluntary tax compliance (Coad, 2009:89).

Another mechanism for ensuring formalisation and tax compliance is encouraging SMEs to adopt the International Financial Reporting Standard (IFRS) for SMEs. The IFRS for SMEs is a simplified accounting standard that small businesses can use (International Accounting Standards Board, (2012:3), in addition, Adekoya (2011:56) also pointed out that an IFRS for SMEs has clear benefits for the small businesses and tax authorities as it simplifies reporting requirements. The need for proper accounting methods is paramount in small businesses because one of the reasons why SMEs fail is lack of records. It is difficult for an entrepreneur who does not keep records to establish the amount of profit made and how much the proprietor should enjoy as drawing. In most cases, business would collapse because of the absence of accounting records (Ibid: 56).

Wenzel (2006:56) also pointed out there is need for tax administrators to simplify formalities and reduce costs for tax compliance on SMEs, need to improve legislation, as it is necessary to provide SMEs with simple and easily applicable laws. Clearly, this requirement demands that the tax law policies should prioritise simplicity over any other criterion (Williams, 2007:32). In addition, there is need for an improvement in the relationship between SMEs and public agencies, particularly tax-related bodies, through the intensive use of new technologies like fiscal tax registers (Witte and Woodbury, 2005:51).

### **2.3 Theoretical Literature Review**

This section is divided in two sub-sections. In the first sub-section, there is a discussion on three models for facilitating the formalisation of informal businesses. In the second sub-section, there is a review of two contrasting models for ensuring tax compliance.

#### **2.3.1 Models on the Formalisation of Informal Businesses**

This study focused on three models for facilitating the formalisation of informal businesses. These are the incubator, industrial district and cluster models.

##### ***2.3.1.1 The incubator model***

According to Frese and De Kruijff (2000:21), the business incubator model aim to nurture small businesses, transform them into large companies and then 'weans' them. Business incubators provide services, access to equipment, and flexible leases to many SMEs under one roof. The



major task of a business incubator is to create a dynamic of development in the supported SMEs by providing management and consulting services as well as relevant material and financial resources. Its wider task is to support macro-economic-related (employment) or micro-economic-related (implementation of technologies) objectives.

#### ***2.3.1.2 The industrial district model***

Kenyon (2007:21) states that the industrial district model is characterised by the presence of related businesses in one location. There is specialisation, deepening division of labour between firms, differentiation of enterprises by processes or products (European Commission, 2002:18). In the industrial district model, there are efforts to provide support services to small firms that are located in a certain geographical location. The services can include provision of infrastructure like roads and electricity.

#### ***2.3.1.3 The cluster model***

The cluster model pertains to a geographic concentration of a number of related businesses. Clusters help small companies in accessing suppliers, customers, labour, and technology (USAID 2005:89). In a cluster model, small companies, that are operating together, can share premises, lend one or hire machinery and can share customers. McCormick (1999:1531) differentiates between groundwork clusters, industrialising clusters and complex industrial clusters.

### **2.3.2 Models for Enhancing Revenue Contribution by the SMEs**

The study evaluates the applicability of tax compliance theories in relation to SME furniture manufacturers in Glen View. Tax compliance theories can be broadly classified into two, which are economic based theories and psychology based theories (Feld and Frey, 2007:32).

#### ***2.3.2.1 Economic Based Theories***

The economic based theories are also referred to as the deterrence theories and they are focused punishing tax offenders. There is a belief that the taxpayers aim to maximise their profits and by so doing try to evade tax payment. According to Trivedi and Shehata (2005:76), businesses try to find ways of evading or reducing their tax obligations. Therefore, according to the economic based theories, there is a need for constant audits and levying of penalties for non-compliance in terms of tax payment. Along similar arguments, Coad (2009:21), states that people are rational actors who always aim to maximise their business profits and the tax authorities need to impose stiff penalties to deter non-compliance.

Murphy (2008:80) believed that the deterrent model aim to detect non-compliers and to punish the offenders. There is a belief that businesses deliberately avoid tax payment. In addition, Fuest and Riedel (2009:145) posited that the deterrence model assumes that by giving stiff punishment and penalties to tax offenders, this will dissuade them from evading tax in the future. Proof to recommend that the deterrence model can work additionally originates from a taxation study conducted in Australia, in which Williams (2007:114) dissected tax returns from 528 companies who had beforehand been indicted for neglecting to pay taxes in time by the Australian Taxation Office. The outcomes demonstrated that indictments were effective in getting tax compliance.

However, as Ahmed and Braithwaite (2005:43) argued, the deterrence model does not satisfactorily explain the reasons for voluntary tax payments. In addition, Witte and Woodbury (2005:82) argue that force and penalties can lead to the collapse of businesses that will be struggling and would not have properly communicated their position to the tax authorities. According to Murphy (2008:80), some tax administrators were accused on unreasonableness, which may involve disrespect for citizens, or arbitrary refusal to consider their concerns in the enforcement process.

### ***2.3.2.2 Psychology Theories***

Psychology theories, in contrast to the deterrence models, argue that persuasion influence the taxpayers to comply (Feld and Frey, 2007:32). Moreover, scholars such as Coad (2009:21) focussed their attention on researching compliance rather than deterrence and began to realise the importance of persuasion and cooperation as a regulatory tool for gaining compliance. Because of this work, some regulatory agencies adopted accommodative models of regulation (Murphy, 2008:80). Revenue collectors that adopted the accommodative model are oriented towards ensuring tax compliance through cooperation instead of using ‘sanctions’ or penalties.

## **2.4 Empirical Literature Review**

### **2.4.1 Business Formalisation in the United States**

According to USAID (2005:87), there was use of the incubator model to nature small firms in New York. A large complex that was left by a liquidated company was divided into small units to accommodate small businesses. The small businesses included food processing factories, shop and restaurants. After a period of five years, the incubated businesses had grown and were employing more than 20,000 employees (ibid: 87).

In addition, the incubator model was also used to support small businesses in Chicago. In 1979, June Lavelle, in her capacity as Executive Director of the Industrial Council of Northwest Chicago, adopted the incubator concept for the neighbourhood revitalisation programs (USAID 2005:90). In a vacant large complex in northwest Chicago, the Fulton-Carroll Center for Industry (FCCI) became the headquarters for the revitalisation of an abandoned industrial neighbourhood (Ibid: 91).

#### **2.4.2 Formalisation of Businesses in Italy: Furniture and Footwear Industries**

The formalisation of small businesses in Italy was in the form of the industrial district model. There was the clustering of textile firms in Carpi and Prato, the furniture industry in Brianza and Cascina, and the footwear industry in Vigevano (Brusco, 1982:13). National and local authorities built a network of support centers specialised in research, technological transfer, management, and international marketing (Paniccia, 1998:21).

#### **2.4.3 Formalisation in Ethiopia: Shoe Production**

The production of leather shoes in Ethiopia dates from the late 1930s when Armenian merchants founded two shoe factories in Addis Ababa and there was use of the incubator model (Kenyon, 2007:46). Large shoe manufacturers opened factories in Addis Ababa and trained their workers so that they can be able to start their own businesses. Today, the neighbourhood of Merkato, a huge marketplace in the city, swarms with shoemakers, wholesale shops dealing in leather, soles, and shoe accessories, and shoe retail stores (Ibid: 46).

#### **2.4.2 Business Incubation and Clusters in South Africa**

According to (Giddings, 2009:21), South Africa has more than 21 incubators supporting entrepreneurs in various sectors of the economy. Most of the small firms in South Africa are supported by the national government and to a lesser extent by provincial and local governments. There was also the establishment of the South African Business and Technology Incubator Association (SABTIA) to represent all the incubators in South Africa (ibid: 21).

Moreover, there are best examples of functioning industrial clusters in South Africa. The South African Petro Chemical cluster around Sasol near Witbank, is an example of the most successful cluster. In this cluster, various supporting industries and downstream linkages were created (Nortjé, 1998:31). There are also motor industry clusters in East London and in Cape

Town, which produces 40% of the country's output of vehicles, components, like motor spares and platinum exhausts, services and 10% of the chemical, pharmaceutical and petroleum industries (ibid: 31).

## **2.5 Lessons from Literature Review**

Literature review showed that SMEs are essential in economies as they make significant contributions to GDP, national purse (if revenue authorities are able to collect it), and employment creation. In order for the SMEs to make these meaningful contributions, there is need for the entrepreneurs to establish formal businesses, which could be in the form of sole proprietorships, partnerships, companies or cooperatives. Formalisation of SMEs could enhance national revenue collection because it entails entry by the firms into the tax system.

Despite the advantages associated with formalisation, there are a number of barriers that hinder the process. These include the costs associated with business regulations (excessive paperwork and bureaucracy). Too little regulation can be as harmful to formalisation as too much, because regulation is vital in providing a supportive framework for enterprise development. Several options can be adopted to ensure formalisation and they include providing support to the SMEs, as indicated in the business incubator, industrial district and cluster models for facilitating the formalisation of businesses. Another mechanism for ensuring formalisation and tax compliance is encouraging SMEs to adopt the International Financial Reporting Standard (IFRS) for SMEs. Literature also showed that there is also a need for the tax administrators to simplify formalities and reduce costs for tax compliance on SMEs, need to improve legislation, as it is necessary to provide SMEs with simple and easily applicable laws.

Theoretical literature review presented three models for facilitating the formalisation of businesses (business incubator, industrial district and cluster models) and two models for ensuring tax compliance (the economic based and psychology based theories). Case studies on the successes in the formalisation of businesses using the business incubator, industrial district and cluster models were drawn from the United States, Italy, Ethiopia, and South Africa. The next chapter presents research methodology.

## CHAPTER THREE

### RESEARCH METHODOLOGY

#### 3.1 Introduction

This chapter looks at the methods used in collecting and analysing data. It describes the researcher's adopted design, the population and sample used, instruments employed, and data collection procedures, validity and reliability, and the data presentation and analysis procedures.

#### 3.2 Philosophical Framework

Kothari (2004:21) defined paradigm as a theory, hypothesis or a philosophical framework on which studies are built, that fundamentally influences how a researcher sees the world, determines ones' perspective, and shapes understanding of how things are connected.

There are several research philosophies; however, the most commonly used are positivism (quantitative, scientific approach) and phenomenology (interpretive or qualitative approach). This study used the triangular approach, which was a combination of both the quantitative and qualitative methods. This method was supported by Kato (2002:56), who states that examining a problem from different approaches is advisable.

#### 3.3 Research Design

According to Marczyk *et al.*, (2005:32), a research design guides and specifies the type of data that an investigator gathers. This study was a survey of furniture manufacturers in Glen View. According to Singh (2007:3), surveys are means of collecting data from a sizable number in a population. The researcher collected data from a sample of furniture manufacturers in Glen View, Ministry of Small and Medium Enterprises (SMEs) officials, Zimbabwe Revenue Authority (ZIMRA) tax officers, and Small to Medium Enterprises Development Corporation (SMEDCO) officials.

#### 3.4 Target Population

According to Henning (2004:88), a population is a collection of units or people that a researcher is interested in studying. The population for this study was made up of 6,000 furniture manufacturers in Glen View, 20 SMEDCO officers in Harare, 46 ZIMRA Tax Officers (Harare Office), and 15 Officials in the Ministry of SMEs head office in Harare.

### 3.5 Sampling Procedure

It is not possible for a researcher to collect data from all the members of the population. Time and capacity constraints force the investigator to focus on a cross-section of the population (Saunders *et al.*, 2012:89). A representative cross-section of the population is known as the sample. There are two major types of sampling techniques, which are probability and non-probability. In probability sampling, all the members of the population have an equal chance of being selected to be part of the sample. According to Kothari (2004:76), probability sampling methods aim to attain statistical representation and every element of the population has a ‘non-zero’ chance of being selected. Examples of non-probability sampling methods include simple random sampling, stratified random sampling, and systematic sampling. Non-probability sampling methods are purposive sampling, convenience sampling, and snowball sampling (Kothari, 2004:76).

This study used simple random sampling technique when selecting participants from SMEs. Fish bowl method was used to select 60 (1% of furniture manufactures in Glen View). In addition, Ministry, ZIMRA, and SMEDCO officials were selected using simple random sampling. Fish bowl method was used to select a minimum of 10% of the officers. Table 3.1 shows the population and sample size summaries.

**Table 3.1: Population and Sample Summary**

<b>Category of Participant</b>	<b>Population</b>	<b>Sample Target</b>	<b>Research Instrument</b>
Furniture Manufacturers	6,000	60	Questionnaire
Ministry of SMEs Officials	15	2	Interview
ZIMRA Tax Officers	46	5	Interview
SMEDCO Officials	20	2	Interview
<b>Total</b>	<b>6,081</b>	<b>69</b>	Interview

### 3.5 Research Instruments

The researcher made use of questionnaires, interviews, and observation as research instruments. Questionnaires were administered to furniture manufacturers. The questionnaire (Appendix One), was constructed in line with research objectives, with each objective being a

theme. Closed questions, with a 5-point Likert scale were largely used. There were also a few open-ended questions. The use of questionnaires allowed the researcher to collect data from many participants within a short space of time.

Interviews were also used to collect data from the Ministry, ZIMRA, and SMEDCO officials. The interview guide (Appendix Two) was constructed in line with research objectives, with each objective being a theme. The use of interviews allowed the officials to provide detailed responses.

The researcher used interviewer-administered questionnaires to the furniture manufacturers, and this implied that she had to visit their workshops and showrooms. During the process of administering the questionnaires, observations were made. There were observations of the environment under which the furniture manufacturers were operating, types of furniture being manufactured, and market potential.

### **3.6 Data Collection Procedure**

The first step in data collection was to seek authority to conduct research from the Ministry of Small and Medium Enterprises and Cooperative Development, ZIMRA and SMEDCO (Appendix Three). After authority was granted, there was selection of research participants and making of appointments. Interviews were then conducted with SMEDCO, Ministry and ZIMRA officials. The last step in data collection was to administer the questionnaires to furniture manufacturers and making observations.

### **3.7 Validity and Reliability**

Validity is about the truthfulness of the research findings (Simon, 2011:34). The study enhanced validity through ensuring that the sample was representative and was adequate in size. There was allocation of adequate time during data collection and use of knowledgeable participants. Validity was also enhanced through making sure that the questionnaires and interview guides contained adequate questions to attain all the objectives. The questionnaire was in parts, with each section covering a research objective.

Reliability pertains to the extent to which the findings of the study can be obtained on repeated trials (Kothari, 2004:89). Reliability was enhanced through asking statistical data, for example, the amount of tax revenue contributed by the SMEs since 2009. The use of multiple

stakeholders, SMEDCO officials, Ministry of SME officials, ZIMRA officials, and furniture manufacturers also helped to enhance reliability.

### **3.8 Data Analysis and Presentation Procedures**

The researcher collected both quantitative and qualitative data. There was use of the Statistical Package for Social Sciences (SPSS), version 20 to analyse quantitative data. SPSS is a software package used in data analysis and is a menu-driven system that allows for in-depth data access and preparation, analytical reporting and modelling. Qualitative data was analysed using thematic analysis, which is a process of grouping related findings together. Analysed data was presented thematically, in line with the research objectives. Tabular and graphical illustrations were made.

### **3.9 Chapter Summary**

This chapter looked at research methodology and provided details on research design, subjects, research instruments, and data collection procedures. Focus was also on data analysis and presentation procedures. The next chapter looks at data presentation and analysis and findings are illustrated through use of tables and figures.



## **CHAPTER FOUR**

### **DATA PRESENTATION, ANALYSIS AND DISCUSSION**

#### **4.1 Introduction**

This chapter presents, analyses, and discusses the findings of the study. The findings are presented thematically in line with the research objectives. The overall objective of the research was to assess formalisation of the informal sector as a strategy for revenue generation in Zimbabwe, with reference to furniture manufacturers in Glen View. There were five specific objectives in the research. The first objective was to establish the amount of revenue contributed by the informal furniture makers in Glen View between the years 2009 and 2016. The second objective was to assess the possible types of formal businesses that furniture makers in Glen View can establish. The third objective was to examine the potential impact of formalisation of informal businesses on revenue collection. The fourth objective was to interrogate the barriers to the formalisation of informal furniture manufacturers in Glen View. The fifth objective was to propose options for spearheading the formalisation of informal furniture manufacturers in Glen View. Before focusing on the research findings, the response rate is presented.

#### **4.2 Response Rate**

There was a remarkable response from the participants. The study targeted to administer 60 questionnaires to the furniture manufacturers in Glen View. There was response from 50 participants, indicating a response rate of 83%. In addition, the researcher targeted to interview nine participants (two from SMEDCO, two from the Ministry of SMEs, and five from ZIMRA). The researcher managed to interview all the targeted officials in SMEDCO and the Ministry, while three officials were interviewed in ZIMRA. Accordingly, the response rate for interviews was 78%. The overall response rate was 83%, which was high and acceptable.

#### **4.3 Amount of Tax Revenue Paid by the Informal Furniture Makers in Glen View**

The first objective was to establish the amount of tax revenue that was paid by the furniture manufacturers in Glen View between the years 2009 and 2016. The furniture manufacturers were asked to indicate the amount they paid over the mentioned period. The data collected through the questionnaires, which were administered to the furniture manufactures in Glen View, showed that none of the furniture manufacturers who took part in the survey paid taxes.

Interviews with the officials from SMEDCO, Ministry, and ZIMRA also shared the same sentiments and said no tax revenue is coming from the Glen View furniture manufacturers. One official from the Ministry said:

“Glen View furniture manufacturing complex is a problematic area, where none of the government departments and the City of Harare, who are the owners of the place, are collecting revenue. There is a problem of ‘space barons’, who hide behind political party affiliation and are collecting money from the manufacturers. The Ministry used to have an officer stationed at the complex but we no longer have anyone there. The government is not benefiting anything from the furniture complex”

The researcher, during the administration of the questionnaires to the furniture manufacturers, also observed that all the respondents did not own the spaces they were operating in. In addition, there are no proper facilities at the furniture complex, most of the complex is just an open space that is fenced and there are sheds. One shed, about 25 square metres can accommodate five or six carpenters, who are renting the sheds from the ‘space barons’. The owner of the sheds, do not even engage in furniture manufacturing. Interviews with Ministry officials revealed that the ‘genuine carpenters’ are intimidated by the ‘space-barons’ and they pay money to them instead of paying to the City of Harare and ZIMRA. One official in the Ministry of SMEs said that the Glen View Furniture Complex is being used for political mileage and the government is not benefiting anything. Nevertheless, some of the furniture makers in Glen View were supplying big shops in town that in turn put high mark-ups and the government is getting tax revenue through big shops, which is at secondary level.

The preceding findings were also collaborated by the officials from SMEDCO, who said that, while the mandate of SMEDCO is to provide loans to SMEs and train them in various areas and not revenue collection, they are no longer supporting the furniture manufacturers at Glen View Complex. SMEDCO used to sponsor the Glen View furniture manufacturers and they are no longer sponsoring them, due to poor performance because of their attitude, they last assisted them in 2011. They stopped because of challenges they were facing which include attitude of the persons, for instance they were not repaying the loans advanced to them because they thought that it was government money.

The Glen view furniture makers were not contributing anything to the national fiscus, even rates to the City of Harare. However, ZIMRA officials said some SMEs in other areas and sectors were contributing towards the national purse. Moreover, according to the *Business Herald of 4 April 2017*, SMEs are paying 20% of the taxes. The contribution of the SMEs to tax revenue is low given that they constitute about 70% of the registered taxpayers. According to the *Herald (4 April 2017)*, ZIMRA is making efforts to encourage SMEs to pay taxes, and they are doing this through seminars, workshops, press, radio, and television advertisements. ZIMRA needs to continue with the awareness campaigns because the SMEs, which are the majority of business entities in Zimbabwe, should pay taxes. According to ZIMRA (2013:4), the operations of SMEs may give rise to obligations, the major form of obligation being presumptive tax. In addition, to tax payments to ZIMRA, SMEs ought to pay rates to the local authorities within which they operate so that services like water and sanitation, refuse collection, and roads can be provided to them.

#### 4.4 Possible Types of Formal Businesses that Furniture Makers Can Establish

The second objective of the study was to establish the possible types of formal businesses that the furniture manufacturers in Glen View can establish. Table 4.1 shows the responses from the furniture manufacturers.

**Table 4:1: Types of Businesses that can be Established by Furniture Makers**

Possible Type of Business	Responses (Percentage)				
	Strongly disagree	Disagree	Unsure	Agree	Strongly agree
Sole Proprietorship	0.0	0.0	16.0	64.0	20.0
Partnership	0.0	0.0	16.0	66.0	18.0
Private Limited Company	0.0	24.0	60.0	16.0	0.0
Cooperatives	0.0	0.0	28.0	58.0	14.0

**Source:** Field Data (2017)

Table 4.1 shows that 20% of the furniture manufacturers strongly agreed that they could establish sole proprietorships, 64% agreed, while 16% were unsure. In addition, 18% of the respondents said they could establish partnerships, 66% agreed, while 16% were unsure. While most of the respondents were in agreement on the possibility of establishing sole proprietorships and partnerships, there were opposite responses when it comes to the possibility of private limited companies. Only 16% percent of the furniture manufacturers

agreed that private limited companies were feasible forms of businesses to establish, 60% were not sure while 24% disagreed. One of the reasons for less preference of private limited companies as forms of formal businesses was the legal requirements for their establishment. In addition, it was pointed out that the furniture manufacturers could establish cooperatives, a view that 14% of the participants strongly agreed with, 58% agreed, while 28% were not sure.

This study shows that participants were in agreement that the furniture manufacturers in Glen View needed to formalise. The findings are in line with literature and Schuler (2011:13) states that all businesses must adopt some legal configuration that defines the rights and liabilities of participants in the business's ownership, control, personal liability, life span, and financial structure. The sole proprietorships are the vast majority of small businesses and it is one in the same with the business (Robbins and Coulter, 1999:4). The other type of business that entrepreneurs can establish is a partnership. In a Partnership, two to 20 people come together to form a business and there is an agreement, which governs the way the entity should be managed. Furthermore, Randal (2003:6) states that entrepreneurs can form private limited companies. A private limited company is considered by law to be a unique entity, separate and apart from those who own it, (owners/shareholders have limited liability). The owners of a corporation are its shareholders and they should not exceed 50. The shareholders elect a board of directors to oversee the major policies and decisions (ibid: 6). Finally, SME entrepreneurs can establish cooperatives, which Schuler (2011:13) states that people can voluntarily form a business association.

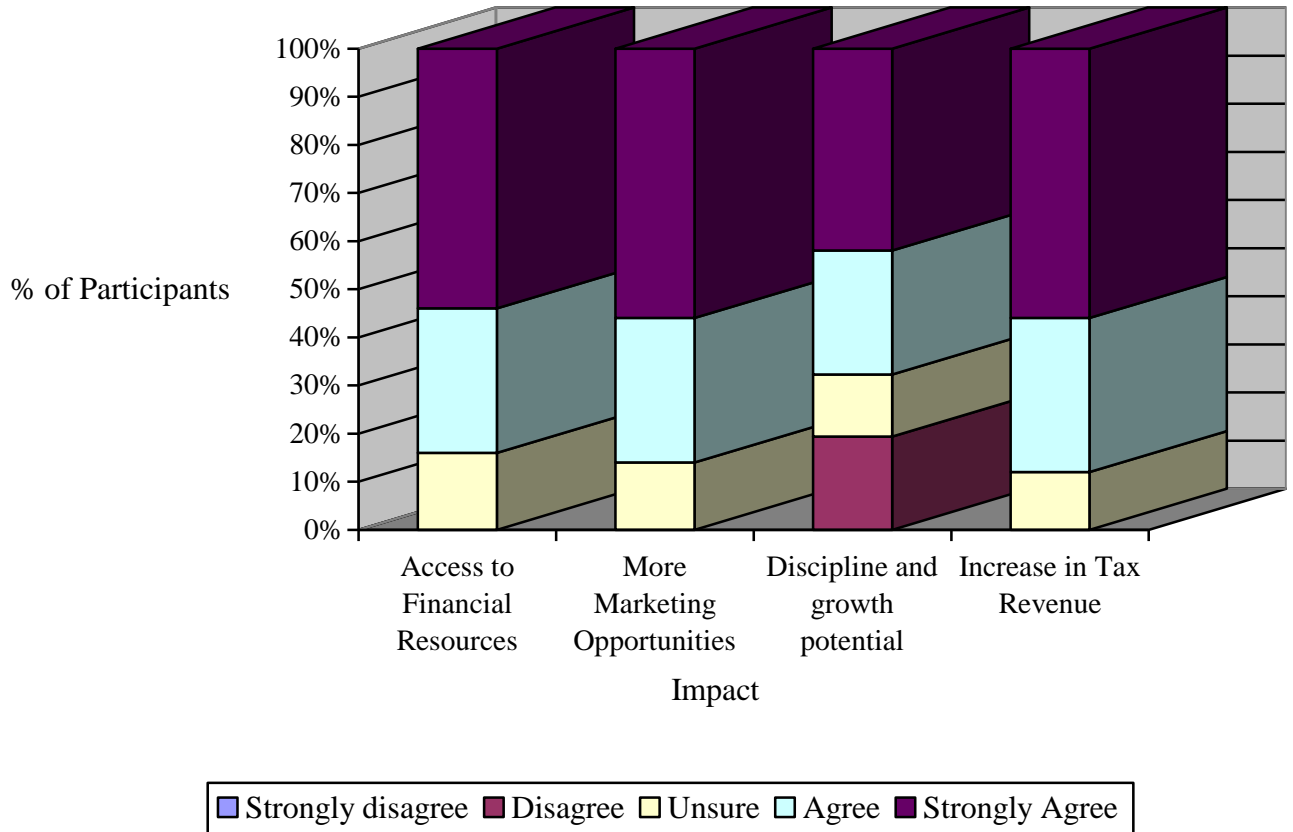
#### **4.5 Potential Impact of Formalisation on Revenue Collection**

The third objective of the study was to assess the potential impact of formalisation on national revenue collection. Interviews with SMEDCO officials revealed that formalisation benefits the national economy and improves revenue collection. One official from SMEDCO said:

“There is creation of employment because at every unit of production in furniture manufacturing, everything is done manually. They are labour intensive as compared to commercial manufacturers who have machinery, therefore the number of employees in SMEs is more than those in commercial manufacturers. If formalised, the SME furniture manufacturers can be able to supply the government and parastatals with furniture since they demand/require registration documents.”

The furniture manufacturers were also asked about the potential impact of formalisation of their businesses. The findings are in Figure 4.1.

**Figure 4.1: Potential Impact of Formalisation of Informal Businesses**



**Source: Field Data (2017)**

Figure 4.1 shows that 54% of the furniture manufacturers strongly agreed that formalisation enhances access to financial resources, 30% agreed while 16% were not sure. In addition, formalisation opens up marketing opportunities, a view that was strongly supported by 56% of the respondents, while 30% and 14% agreed and were not sure, respectively.

It was also pointed out that formalisation helps to widen the revenue base and 56% of the participants strongly agreed with the assertion, 32% agreed while 12% were not sure. This findings is supported by literature. According to Djankov *et al.*, (2006:1), the process of formalisation helps to increase the tax revenue base as registering of a business signifies entry into the formal tax payment system. According to Schoonjans *et al.*, (2011:71), one of the major challenges in developing countries is the failure to collect tax revenue from the SMEs.

Moreover, formalisation and ensuring that all businesses pay taxes ensure equity, a tenet that is in line with Section 298 of the Constitution of Zimbabwe that the burden of taxation must be shared fairly. Accordingly, one ZIMRA official said:

“Formalisation also helps to ensure that there is equity and other tax compliant businesses do not feel short-changed. This is because of the fact that the informal trading businesses, who increasingly operate through small-scale outlets, may pose undue competition to registered businesses. If not formalised, the identity of individual operators is difficult to confirm and in this way, it is easy for the individual businesses to avoid paying taxes.”

Moreover, reports from the World Bank (2006:21) showed that the continued operation of the informal businesses, which do not pay taxes, negatively affects social benefits. It entails a loss in budget revenues by reducing taxes and social security contributions paid and therefore the availability of funds to improve infrastructure and other public goods and services. It invariably leads to a high tax burden on registered labour.

The research also revealed that formalisation benefits the SMEs. Interviews with SMEDCO, Ministry, and ZIMRA officials showed that registered SMEs can supply government entities because they would obtain the tax compliance certificates that are required when one wants to supply government departments and other big companies. The SMEs can only get government's and other big companies' tenders when they are formalised. There will be no need for the SMEs to pay presumptive tax, which is based on estimates, rather the SMEs will pay according to what they have actually earned. Access to credit lines is also enhanced because financial institutions prefer to deal with registered SMEs. The registered SMEs would also be in position to acquire business premises as Councils would recognise them as legitimate businesses. The SME entrepreneurs would be in a position to operate without fear of being harassed by the police and ZIMRA officers. In the long-term, the cost of formalising is cheaper than remaining informal.

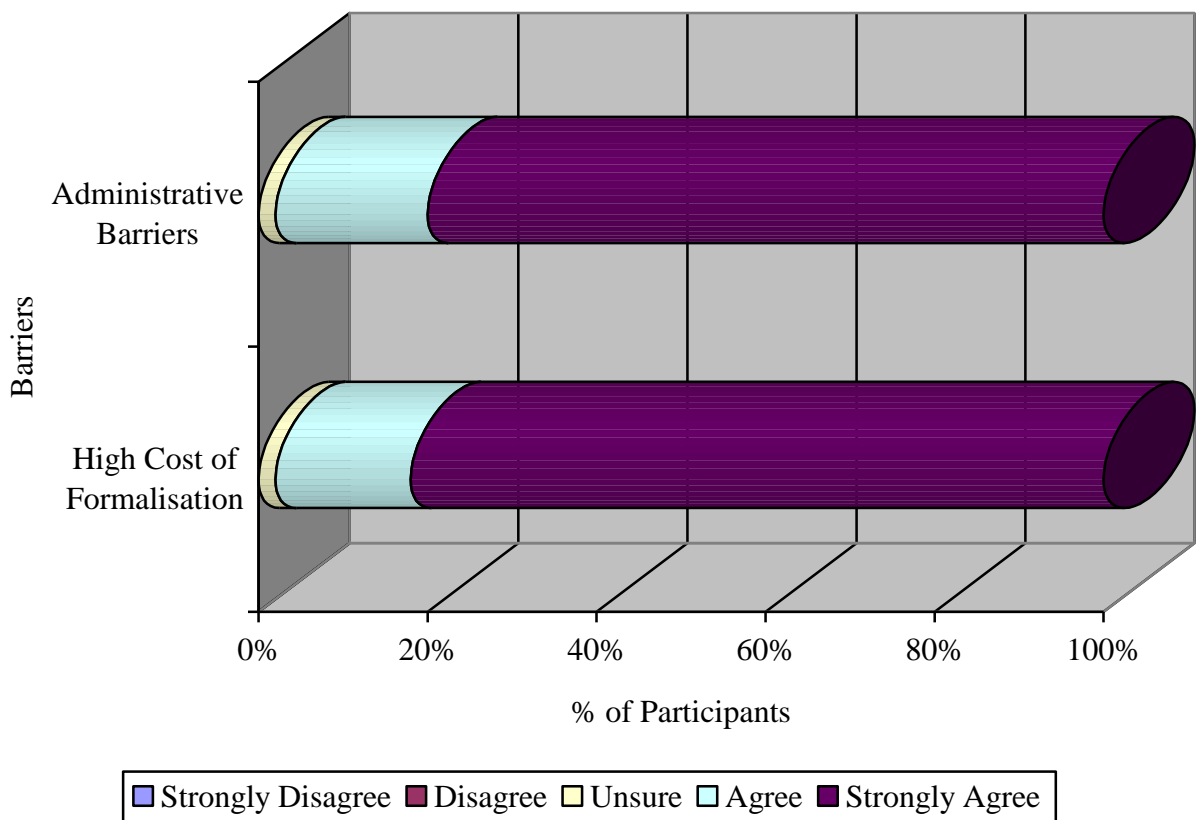
#### **4.6 The Barriers to the Formalisation of Furniture Manufacturers in Glen View**

The fourth objective of the research was to examine the barriers to the formalisation of the furniture manufacturers in Glen View. The study found out that the hindrances were two-fold. Firstly, interviews with the Ministry of SMEs officials showed that the small business operators did not want to formalise, largely because they fear paying taxes. It was also stated

that most SME entrepreneurs lack adequate information about the procedures to follow in order to formalise.

Moreover, sometimes, lack of adequate knowledge and ignorance prevent entrepreneurs from expanding their businesses. Secondly, while the SMEs were alleged of not willing to formalise their operations, much of blame was given to the government institutions. The participants indicated that there are no clear procedures for formalisation and the tax burden was high for registered businesses, with entities like ZIMRA, Councils, National Social Security Association being revenue collectors. Figure 4.2 shows the responses from the furniture manufacturers pertaining to the barriers to formalisation.

**Figure 4.2: Barriers to the Formalisation of Furniture Manufacturers in Glen View**



**Source: Field Data (2017)**

According to the findings in Figure 4.2, 82% of the carpenters strongly agreed that the costs associated with formalisation were a hindrance to formalisation, 16% agreed while 2% were not sure. The process of formalisation is cumbersome. This revelation was in line with

literature and Rosa *et al.*, (2009:35) argue that the costs associated with business regulations is the main obstacle for formalisation of businesses. In similar vein, the USAID (2005:82) stated that business registration and licensing fees are often set at a level that acts as a disincentive to businesses to formalise.

Figure 4.2 also shows that 80% of the furniture manufacturers who took part in the research strongly agreed that administrative barriers were preventing them from formalising, 18% agreed while 2% were not sure. There is also the absence of a legal framework for formalisation, that is, no clear knowledge or path to formalise and one may not do it because of lack of a guiding policy. These findings support the view by Kenyon (2007:4) that there are administrative barriers that dissuade informal enterprises from wanting to interact with government officials. The barriers include excessive paperwork, the bureaucracy involved in registering a business is a key barrier to formalisation. There is lack of information about formalisation on the part of small businesses.

The findings from interviews with officials from SMEDCO were also in agreement with the preceding argument that the costs of doing business in Zimbabwe were high. One SMEDCO official said, “the manner in which ZIMRA collects taxes and impose penalties on offenders scares away SMEs from formalising their businesses.” Moreover, an official from the Ministry of SMEs argued that, “there is too much paperwork and bureaucracy when one wants to formalise. Too many questions are asked and this may frustrate people.”

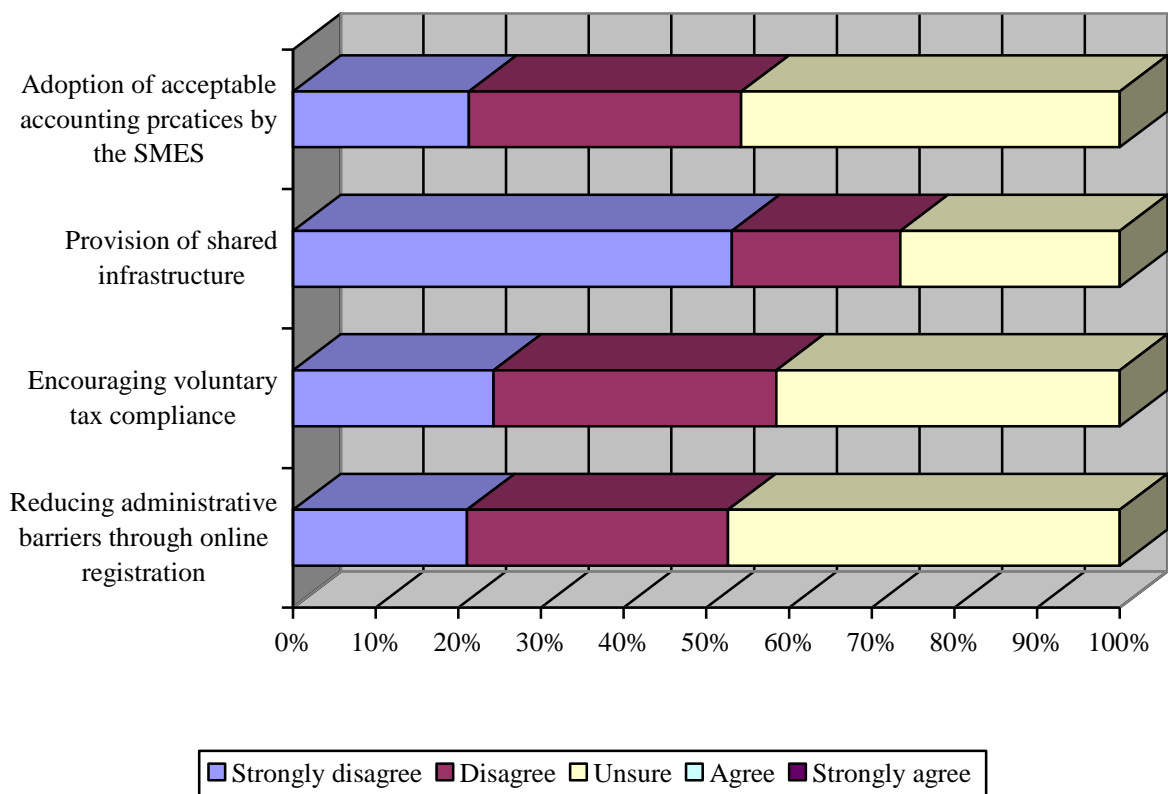
The preceding findings of the study are supported by literature. For instance, Witt and Woodbury (2005:56) argued that SMEs in developing countries often face difficulties when dealing with the government in general and the tax administrators in particular. In similar vein, Oxfam (2008:8) stated that many of the difficulties with the tax authorities are the consequence of poorly conceived tax policies and a lack of certainty regarding future policy changes. It would be rare not to hear complaints about the complexity and/or ambiguity of the tax laws, high tax rates, and the lack of an integrated fiscal strategy that takes social taxes, and local taxes and fees into account when determining the overall tax burden placed on the business community.



#### 4.7 Options for Spearheading Formalisation of Furniture Makers in Glen View

The fifth objective of the research was to propose the options for spearheading formalisation. The furniture manufacturers were asked to give their views pertaining to the possible measures to adopt in order for them to formalise. The findings in this regard are summarised in Figure 4.3.

**Figure 4:3: Options for Spearheading Formalisation of Furniture Manufacturers**



**Source: Field Data (2017)**

According to Figure 4.3, 86% of the respondents strongly agreed that reduction of administrative barriers through online registration could facilitate formalisation, 12% agreed while 2% were unsure. This view was also collaborated by findings from interviews. An official in the Ministry of SMEs said:

“There is a need to decentralise and shorten formalisation processes to provinces as the current process is too long. There is also a need for a clear formalisation policy and observing rules and regulations is crucial. What is happening in Glen View, where the ‘space barons’ and political activists is not good for the development of the country and if not curtailed and the practice becomes widespread, the nation can become ungovernable. Therefore, a clear path to

formalisation should be in place and it is paramount to make law obedience a national revenue generation strategy.”

The preceding argument on the need to reduce administrative barriers is supported by literature. According to USAID (2005:89), there could also be initiatives aimed at reducing regulatory and administrative barriers to formalisation. These are the ‘pull’ effects and reducing the costs of formality includes initiatives such as business registration reform and simplified tax administration.

Figure 4.3 also shows that 86% of the furniture manufacturers strongly agreed that encouraging voluntary tax compliance was an option for facilitating formalisation while 14% agreed. This finding was supported by SMEDCO and Ministry of SMEs officials. One interviewee said; “there is a need to relax the tax regulations and it is better for the SMEs to pay what they can afford because half a loaf is better than nothing”.

The need to relax tax regulations is also supported by literature. For example, Coad (2009:21) focussed his argument on favourable tax laws and voluntary compliance rather than deterrence and realised the importance of persuasion and cooperation as a regulatory tool for gaining compliance. Revenue authorities need to collect tax through persuading SMEs to pay instead of using force. Wenzel (2006:56) also pointed out there is need for tax administrators to simplify formalities and reduce costs for tax compliance on SMEs, need to improve legislation, as it is necessary to provide SMEs with simplified tax regulations.

Moreover, the need to reduce the tax compliance costs for the SMEs has attracted the attention of international financial institutions. Accordingly, the International Monetary Fund (IMF), cited in the *Herald of 17 April 2017* stated that there is need to reduce the costs of tax compliance and to give adequate knowledge about taxes to the SMEs.

The study also revealed that providing SMEs with infrastructure could facilitate formalisation. According to Figure 4.3, 88% of the furniture manufacturers strongly agreed that provision of shared infrastructure could spearhead formalisation while 12% agreed. The process of providing services and infrastructure to the SMEs is incubation and the Ministry of SMEs, through partnerships with the private sector, is making efforts to provide shelter to registered SMEs.

The incubator model has been successful in the United States and it focused on providing business premises to the small companies (USAID 2005:90). Improving services to informal enterprises may help them grow. Growth of the informal businesses could help to facilitate formalisation and tax compliance. If a firm grows in size and becomes visible in market, it would be difficult for that firm to avoid payment of tax (Autio, 2008:43). Moreover, Tubualt (2010:10) argues that both direct and indirect taxes would improve when there is growth because of increases in turnover. In addition, creating awareness on the advantages of formalising businesses is paramount (Cai and Wong, 2010:38).

Another option for spearheading the formalisation of SMEs is to ensure that they adopt acceptable accounting practices. According to Figure 4.3, 82% of the furniture manufacturers strongly agreed that adoption of proper accounting practices by the SMEs helps them to formalise, 14% agreed while 4% were not sure. Interviews with officials from SMEDCO, Ministry of SMEs, and ZIMRA also showed that proper books of accounts help a business to grow. One interviewee said; “one can focus on growing because he/she can separate business costs and revenue. Proper accounting records improve the way one manages his/her businesses.” There was the development of simplified accounting standards for small businesses, for instance the International Financial Reporting Standard (IFRS) for SMEs. According to International Accounting Standards Board (IASB, 2010:3), IFRS for SMEs is a self-contained standard designed to meet the needs and capabilities of SMEs. Adekoya (2011:56) also pointed out that an IFRS for SMEs has clear benefits for investors and tax authorities.

#### **4.8 Lessons from the Study**

This study presented the findings of the study, which were in line with the research objectives. The study found out that none of the furniture manufacturers at Glen View Complex paid taxes and Council rates. The furniture complex was being used for political mileage, revenue was being collected by ‘space barons’ and the government was not benefiting anything. The research showed that the furniture manufacturers could formalise through the establishment of sole proprietorships, partnerships, and cooperatives. However, few respondents were in support of the view that the furniture manufacturers could form private limited companies and one of the reasons for less preference of private limited companies as forms of formal businesses was the legal requirements for their establishment.

The research established that formalisation benefits the national economy, improves revenue collection, and is beneficial to the SMEs. However, there were barriers to formalisation of SMEs, the major ones being the high costs of tax compliance and the administrative barriers that dissuade informal enterprises from wanting to interact with government officials. A number of options were proposed to spearhead formalisation and they included reducing administrative barriers through online registration, encouraging voluntary tax compliance, provision of incentives and facilities to the SMEs, and the need for the SMEs to adopt acceptable accounting practices. The next chapter winds up the study and present summary, conclusions, and recommendations.

## CHAPTER FIVE

### SUMMARY, CONCLUSIONS, AND RECOMMENDATIONS

#### 5.1 Introduction

This chapter winds up the study. It presents the overall summary of the study, which highlights the problem that warranted the investigation, the research objectives, the significance of the study, the literature reviewed, the research methodology, and the major findings. The conclusions, which are presented in line with the research objectives, are also part of the chapter. The recommendations and suggestions for further study wind up the chapter.

#### 5.2 Summary of the Study

The thrust of this study was to explore formalisation of the informal sector as a strategy for creation of fiscal space in Zimbabwe, with particular reference to furniture manufacturers in Glen View, Harare. The research was motivated by the fact that the informal sector has become an important segment of many economies and are estimated to represent more than 95% of all global entities. In Zimbabwe, there are about 1.2 million SMEs, employing around 4.5 million people in small-scale manufacturing, trade and services, and contributing about 40% to GDP. However, the SMEs are contributing less in terms of tax revenue and lack of formalisation could have been one of the causes. Therefore, this study sought to assess formalisation of the informal sector as a strategy for revenue generation in Zimbabwe, with reference to furniture manufacturers in Glen View.

There were five specific objectives, the first one being to establish the amount of revenue contributed by the informal furniture makers in Glen View between the years 2009 and 2016. The second objective was to assess the possible types of formal businesses that furniture makers in Glen View can establish. The third objective was to examine the potential impact of formalisation of informal businesses on revenue collection. The fourth objective was to interrogate the barriers to the formalisation of informal furniture manufacturers in Glen View. The last objective was to propose options for spearheading the formalisation of informal furniture manufacturers in Glen View.

The study was significant in that it sought to add to the debate amongst stakeholders in the SME sector on the issue of formalisation, widening of tax base and tax compliance. The study

also sought to contribute to the debate on the formalisation of the informal sector in Zimbabwe. As such, the findings of this study can be used by future researchers.

The study presented a three-fold review of literature, that is, conceptual, theoretical, and empirical. Literature review showed that SMEs are essential in economies as they make significant contributions to GDP, national purse (if revenue authorities are able to collect it), and employment creation. In order for the SMEs to make these meaningful contributions, there is need for the entrepreneurs to establish formal businesses, which could be in the form of sole proprietorships, partnerships, companies or cooperatives. Formalisation of SMEs could enhance national revenue collection because it entails entry by the firms into the tax system. It was also established that there were a number of barriers that hinder the process of formalisation, which include the high costs of business regulations, and high costs of tax compliance. Several options can be adopted to ensure formalisation and they include providing support to the SMEs, as indicated in the business incubator, industrial district and cluster models for facilitating the formalisation of businesses. Another mechanism for ensuring formalisation and tax compliance is encouraging SMEs to adopt the International Financial Reporting Standard (IFRS) for SMEs. Literature also showed that there is also a need for the tax administrators to simplify formalities and reduce costs for tax compliance on SMEs, need to improve legislation, as it is necessary to provide SMEs with simple and easily applicable laws. Theoretical literature review presented three models for facilitating the formalisation of businesses (business incubator, industrial district and cluster models) and two models for ensuring tax compliance (the economic based and psychology based theories). Case studies on the successes in the formalisation of businesses using the business incubator, industrial district and cluster models were drawn from the United States, Italy, Ethiopia, and South Africa.

This study was a survey of furniture manufacturers in Glen View. The researcher collected data from 50 furniture manufacturers in Glen View, two Ministry of SME officials, from three ZIMRA tax officers, and two SMEDCO officials. The researcher used questionnaires and interviews as research instruments. The questionnaires were administered to furniture manufacturers while Ministry, SMEDCO, and ZIMRA officials were interviewed. Quantitative data was analysed using the Statistical Package for Social Sciences (SPSS) version 19. Qualitative data was analysed using thematic analysis, which is a process of grouping related findings together. Analysed data was presented thematically, in line with the research objectives. Tabular and graphical illustrations were made.

The study found out that furniture manufacturers in Glen View were not paying taxes and Council rates. The Glen View Furniture Complex was being used for individual benefit by ‘space barons’ and the government was not benefiting anything. The research showed that the furniture manufacturers could formalise through the establishment of sole proprietorships, partnerships, and cooperatives. It was pointed out that formalisation of SMEs benefits the national economy, improves revenue collection, and is beneficial to the SMEs. Nevertheless, there were barriers to formalisation of SMEs, which include high costs of tax compliance and too much paperwork to formalise. A number of options were proposed to spearhead formalisation and they included reducing administrative barriers through online registration, encouraging voluntary tax compliance, provision of incentives and facilities to the SMEs, and the need for the SMEs to adopt acceptable accounting practices.

### **5.3 Conclusions**

The study concludes for each research objective. The conclusions are as follows:

#### **5.3.1 The Amount of Tax Revenue Paid by Furniture Makers in Glen View**

The study showed that none of the furniture manufacturers who took part in the survey paid taxes. The interviews with the officials from SMEDCO, Ministry, and ZIMRA also shared the same sentiments and said no tax revenue was coming from the Glen View furniture manufacturers. All the carpenters who took part in the study did not own the spaces they were operating in. There were no proper facilities at the furniture complex, most of the complex is just an open space that is fenced and there are sheds. One shed, about 25 square metres can accommodate five or six carpenters, who are renting the sheds from the ‘space barons’. The owner of the sheds, do not even engage in furniture manufacturing. Interviews with Ministry officials revealed that the ‘genuine carpenters’ are intimidated by the ‘space-barons’ and they pay money to them instead of paying to the City of Harare and ZIMRA.

#### **5.3.2 Possible Types of Formal Businesses that Furniture Makers Can Establish**

It was pointed out that the furniture manufacturers could establish sole proprietorships, partnerships, and cooperatives. However, few participants were in agreement that private limited companies were feasible forms of businesses to establish because of the legal requirements for their formation.

### **5.3.3 Potential Impact of Formalisation on Revenue Collection**

The research showed that formalisation benefits the national economy and improves revenue collection and ensures that the burden of taxation is equitably shared. The SMEs, themselves, also benefit from formalisation through access to financial resources, opening up marketing opportunities, less harassment by tax officials.

### **5.3.4 Barriers to the Formalisation of Furniture Manufacturers in Glen View**

The high costs of tax compliance and the administrative barriers were the major costs of tax compliance. In addition, lack of information on the procedure to follow in order to formalise were also a hindrance to formalisation. Moreover, there were no incentives that would attract the SMEs to the formal business world.

### **5.3.5 Options for Spearheading Formalisation of Furniture Makers in Glen View**

A number of options were proposed to facilitate formalisation of furniture manufacturers in Glen View. These include reducing administrative barriers through online registration, encouraging voluntary tax compliance, provision of shared infrastructure, and the adoption of acceptable accounting practices by the SMEs. The SMEs also need to be educated about the importance of formalising and paying taxes.

## **5.4 Recommendations**

The study came up with some recommendations, which could spearhead the formalisation of SMEs and widen the tax revenue base. These are discussed in the subsequent sub-sections.

### **5.4.1 Political Will to Ensure Eradication of Corruption**

The study showed that revenue in Glen Furniture Complex was being collected by individuals and not going to government. Therefore, there is a need for the eradication of corruption, ‘space barons’, respecting of the law. It is essential that the real carpenters are identified and given the sheds at Glen View Complex, instead of them being at the mercy of ‘space barons’.

### **5.4.2 Reviewing the Tax Policies**

The study showed that the costs of tax compliance were high. Therefore, there is a need for the review of the tax policy regarding the SMEs. There is a need to promote voluntary tax compliance because the deterrence model is not working. There is also a need to coordinate tax collection as there is a plethora of un-coordinated tax regime in Zimbabwe.



### **5.4.3 Reducing the Administrative Procedures for Company Registration**

The research showed that there are administrative barriers to formalisation and there is a need to simplify the registration procedures (ease of doing business). If possible, some of the administrative procedures for registering the companies can be made online. It is also essential to provide information on the path to be followed during formalisation.

### **5.4.4 Providing Incentives to the Formalised SMEs**

The research showed that there are no incentives for SMEs that attract them to the formal business world. Why should they formalise and pay if there are no benefits? Accordingly, it is essential to provide incentives, which include construction of workshops for registered SMEs, assisting in marketing, including exports, and preferential treatment at border posts, if they are importing raw materials.

## **5.5 Suggestions for Further Study**

The researcher recommended further research to be conducted on formalisation and revenue contribution by SMEs in Zimbabwe. This was because of the fact that this study focused on furniture manufacturers in Glen View. A more encompassing study by a research institute would be desirable. In addition, the study showed that there is a need to review the taxation policy and there is a need for research on the appropriate approaches for collecting revenue from the SMEs. Studies may also be necessary pertaining to the administrative procedures for the registration of the SMEs, which were found to be part of the hindrances to the formalisation of the SMEs.

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## APPENDIX ONE

### QUESTIONNAIRE TO FURNITURE MANUFACTURERS

My name is Faith Nyamhondoro, a student studying towards the attainment of Master of Public Administration (MPA) at the University of Zimbabwe. As a partial fulfilment of the requirements of the MPA programme, I am conducting a study on ‘formalisation of the informal sector as a revenue generation strategy: the case of furniture manufacturers in Glen View, 2009-2016’. The Study seeks to achieve five objectives, which are to:

- establish the amount of revenue contributed by the informal furniture makers in Glen View between the years 2009 and 2016;
- assess the possible types of formal businesses that furniture makers in Glen View can establish;
- examine the potential impact of formalisation of informal businesses on revenue collection;
- interrogate the barriers to the formalisation of informal furniture manufacturers in Glen View; and
- propose options for spearheading the formalisation of informal furniture manufacturers in Glen View.

My request to you is to help me with answers to questions that I have. The study is a purely academic exercise and information provided shall be treated with utmost confidentiality. Your participation in this research is voluntary and you are not being forced to participate in the research. You are also free to withdraw any time from the research should you feel uncomfortable. Your names or identification particulars are not required. Feel free to ask any questions that you may have by contacting me on 0772 900 233 or [fnyamhondoro@gmail.com](mailto:fnyamhondoro@gmail.com).

#### **Theme 1: The Amount of Tax Revenue Paid between the Years 2009 and 2016**

1.1 How much did you pay in terms of taxes from the year 2009 to 2016?

<b>Year</b>	<b>Total Taxes Paid</b>
2009	
2010	
2011	
2012	
2013	
2014	
2015	
2016	

1.2 What are do you think are the other benefits, of your furniture making businesses to the Zimbabwean economy, besides the revenue generation potential?

Benefit	Response					Any Comment
	1 Strongly Disagree	2 Disagree	3 Unsure	4 Agree	5 Strongly Agree	
Employment creation						
Provision of affordable furniture						

Other benefits (specify).....  
 .....  
 .....

**Theme 2: The Possible Types of Formal Businesses To Establish**

2.1 What are the possible types of formal businesses that you can establish?

Type	Response					Any Comment
	1 Strongly Disagree	2 Disagree	3 Unsure	4 Agree	5 Strongly Agree	
Sole proprietorship						
Partnership						
Private limited companies						
Cooperatives						

2.2 In your own opinion, what do you think are the advantages of establishing formal businesses versus remaining informal?

Type	Response					Any Comment
	1 Strongly Disagree	2 Disagree	3 Unsure	4 Agree	5 Strongly Agree	
Access to financial resources						
More marketing opportunities						
Discipline is ensured and there is growth potential						

Other advantages (specify).....  
 .....  
 .....

**Theme 3: The Potential Impact of Formalisation on Tax Collection**

3.1 What is your comment on the view that the process of formalisation helps to increase the tax revenue base?

1 Strongly Disagree	2 Disagree	3 Unsure	4 Agree	5 Strongly Agree

3.2 There are a number of furniture manufactures in Glen View who established formal businesses and managed to grow.

1 Strongly Disagree	2 Disagree	3 Unsure	4 Agree	5 Strongly Agree

Any comment on answer.....  
 .....  
 .....

**Theme 4: The Barriers to Formalisation**

4.1 The costs associated with business regulations is the main obstacle for formalisation of furniture manufacturers.

1 Strongly Disagree	2 Disagree	3 Unsure	4 Agree	5 Strongly Agree

Any comment on answer.....  
 .....  
 .....

4.2 The administrative barriers (excessive paperwork, the bureaucracy involved in registering a business) dissuade informal furniture makers in Glen View from wanting to interact with government officials.

1 Strongly Disagree	2 Disagree	3 Unsure	4 Agree	5 Strongly Agree

Any comment on answer.....  
 .....  
 .....



**Theme 5: Options for Spearheading Formalisation**

5.1 What are some of the options for spearheading the formalisation of informal furniture makers in Glen View?

Option	Response					Any Comment
	1 Strongly Disagree	2 Disagree	3 Unsure	4 Agree	5 Strongly Agree	
Reducing regulatory and administrative barriers to formalisation through adopting online registration						
Encouraging voluntary tax compliance						
Providing shared office services, access to equipment, flexible leases, and expandable space to help furniture manufactures grow and formalise						
Encouraging furniture manufactures to adopt acceptable accounting practices						

Other options (specify).....  
 .....  
 .....

5.2 Do you have any information to share pertaining to tax payments by the informal furniture makers in Glen View and the implication of formalisation on revenue collection?

.....  
 .....  
 .....  
 .....

Thank you for your time and effort

## APPENDIX TWO

### INTERVIEW GUIDE

#### **Target Respondents: Ministry of SME and SEDCO Officials, ZIMRA Tax Officers**

My name is Faith Nyamhondoro, a student studying towards the attainment of Master of Public Administration (MPA) at the University of Zimbabwe. As a partial fulfilment of the requirements of the MPA programme, I am conducting a study on *'formalisation of the informal sector as a revenue generation strategy: the case of furniture manufacturers in Glen View, 2009-2016'*. The Study seeks to achieve five objectives, which are to:

- establish the amount of revenue contributed by the informal furniture makers in Glen View between the years 2009 and 2016;
- assess the possible types of formal businesses that furniture makers in Glen View can establish;
- examine the potential impact of formalisation of informal businesses on revenue collection;
- interrogate the barriers to the formalisation of informal furniture manufacturers in Glen View; and
- propose options for spearheading the formalisation of informal furniture manufacturers in Glen View.

My request to you is to help me with answers to questions that I have. The study is a purely academic exercise and information provided shall be treated with utmost confidentiality. Your participation in this research is voluntary and you are not being forced to participate in the research. You are also free to withdraw any time from the research should you feel uncomfortable. Your names or identification particulars are not required. Feel free to ask any questions that you may have by contacting me on 0772 900 233 or [fnyamhondoro@gmail.com](mailto:fnyamhondoro@gmail.com).

#### **Theme 1: The Amount of Tax Revenue Paid by Furniture Makers in Glen View between the Years 2009 and 2016**

- 1.1 How much did the SME furniture in Glen View pay in terms of taxes from the year 2009 to 2016?
- 1.2 What are do you think are the other benefits, of SME furniture making businesses to the Zimbabwean economy, besides the revenue generation potential?

**Theme 2: The Possible Types of Formal Businesses that can be Established**

- 2.1 What are the possible types of formal business that SME furniture makers in Glen View can establish?
- 2.2 What are the advantages of establishing formal furniture manufacturing businesses versus remaining informal?

**Theme 3: The Potential Impact of Formalisation on Tax Collection**

- 3.1 What is your comment on the view that the process of formalisation helps to increase the tax revenue base?
- 3.2 How many furniture manufactures in Glen View have established formal businesses and what has been the impact on revenue collection

**Theme 4: The Barriers to Formalisation**

- 4.1 What is your comment on the view that the costs associated with business regulations is the main obstacle for formalisation of furniture manufacturers in Glen View?
- 4.2 What is your comment on the view that there are administrative barriers (excessive paperwork, the bureaucracy involved in registering a business) that dissuade informal furniture manufacturers in Glen View from formalising?

**Theme 5: Options for Spearheading Formalisation**

- 5.1 What is your comment on the view that there is a need to reduce regulatory and administrative barriers to formalisation through adopting online registration?
- 5.2 Does promoting voluntary tax compliance encourage formalisation of furniture manufacturers in Glen View?
- 5.3 Comment on the view that providing services to furniture manufacturers in Glen View (office services, access to equipment, flexible leases, and expandable space) can help the enterprises to grow and formalise.
- 5.4 What is the importance of encouraging furniture manufacturers in Glen View to adopt acceptable accounting practices in ensuring formalisation and tax compliance?
- 5.5 Do you have any information to share pertaining to tax payments by the furniture manufacturers in Glen View and the implication of formalisation on revenue collection?

Thank you for your time and effort

## APPENDIX THREE

### AUTHORISATION LETTERS TO CONDUCT RESEARCH

#### Ministry of SMEs Letters

##### a) Letter to Ministry

University of Zimbabwe

P.O. Box MP167

Mt Pleasant

Harare

15 February 2017

The Permanent Secretary

Ministry of Small and Medium Enterprises and Cooperative Development

Dear Sir/Madam

#### **SUBJECT: AUTHORITY TO CONDUCT RESEARCH**

I am a student studying towards the attainment of the Master of Public Administration (MPA) at the University of Zimbabwe. As a partial fulfilment of the requirements of the MPA programme, I am conducting a study on '*formalisation of the informal sector as a revenue generation strategy: the case of furniture manufacturers in Glen View, 2009-2016*'. The Study seeks to achieve five objectives, which are to:

- establish the amount of revenue contributed by the informal furniture makers in Glen View between the years 2009 and 2016;
- assess the possible types of formal businesses that furniture makers in Glen View can establish;
- examine the potential impact of formalisation of informal businesses on revenue collection;
- interrogate the barriers to the formalisation of informal furniture manufacturers in Glen View; and
- propose options for spearheading the formalisation of informal furniture manufacturers in Glen View.

My request to you is to give me authority to interview some officials in the Ministry who can provide me answers to questions that I have, which are in the attached interview guide. The study is an academic exercise and the data I am going to collect shall be treated as confidential. You are free to ask me any questions related to this research. Please find, attached, a letter from the University of Zimbabwe, confirming my enrollment. I have also attached the proposed research instruments.

Yours faithfully

Faith Nyamhondoro

0772 900 233, [fnyamhondoro@gmail.com](mailto:fnyamhondoro@gmail.com)

**b) Reply from Ministry**

## **ZIMRA Letters**

### **a) Letter to ZIMRA**

University of Zimbabwe  
P.O. Box MP167  
Mt Pleasant  
Harare

15 February 2017

The Human Resources Manager  
Zimbabwe Revenue Authority

Dear Sir/Madam

#### **SUBJECT: AUTHORITY TO CONDUCT RESEARCH**

I am a student studying towards the attainment of the Master of Public Administration (MPA) at the University of Zimbabwe. As a partial fulfilment of the requirements of the MPA programme, I am conducting a study on *'formalisation of the informal sector as a revenue generation strategy: the case of furniture manufacturers in Glen View, 2009-2016'*. The Study seeks to achieve five objectives, which are to:

- establish the amount of revenue contributed by the informal furniture makers in Glen View between the years 2009 and 2016;
- assess the possible types of formal businesses that furniture makers in Glen View can establish;
- examine the potential impact of formalisation of informal businesses on revenue collection;
- interrogate the barriers to the formalisation of informal furniture manufacturers in Glen View; and
- propose options for spearheading the formalisation of informal furniture manufacturers in Glen View.

My request to you is to give me authority to interview some Tax Officials in Harare Region who can provide me answers to questions that I have, which are in the attached interview guide. The study is an academic exercise and the data I am going to collect shall be treated as confidential. You are free to ask me any questions related to this research. Please find, attached, a letter from the University of Zimbabwe, confirming my enrollment. I have also attached the proposed research instruments.

Yours faithfully

Faith Nyamhondoro  
0772 900 233, [fnyamhondoro@gmail.com](mailto:fnyamhondoro@gmail.com)

**b) Reply from ZIMRA**

## **SEDCO Letters**

### **a) Letter to SEDCO**

University of Zimbabwe  
P.O. Box MP167  
Mt Pleasant  
Harare

15 February 2017

The Human Resources Manager  
Small Enterprise Development Corporation

Dear Sir/Madam

### **SUBJECT: AUTHORITY TO CONDUCT RESEARCH**

I am a student studying towards the attainment of the Master of Public Administration (MPA) at the University of Zimbabwe. As a partial fulfilment of the requirements of the MPA programme, I am conducting a study on '*formalisation of the informal sector as a revenue generation strategy: the case of furniture manufacturers in Glen View, 2009-2016*'. The Study seeks to achieve five objectives, which are to:

- establish the amount of revenue contributed by the informal furniture makers in Glen View between the years 2009 and 2016;
- assess the possible types of formal businesses that furniture makers in Glen View can establish;
- examine the potential impact of formalisation of informal businesses on revenue collection;
- interrogate the barriers to the formalisation of informal furniture manufacturers in Glen View; and
- propose options for spearheading the formalisation of informal furniture manufacturers in Glen View.

My request to you is to give me authority to interview some officials in your organisation who can provide me answers to questions that I have, which are in the attached interview guide. The study is an academic exercise and the data I am going to collect shall be treated as confidential. You are free to ask me any questions related to this research. Please find, attached, a letter from the University of Zimbabwe, confirming my enrollment. I have also attached the proposed research instruments.

Yours faithfully

Faith Nyamhondoro  
0772 900 233, [fnyamhondoro@gmail.com](mailto:fnyamhondoro@gmail.com)



**b) Reply from SEDCO**