

**AN ANALYSIS OF THE FISCAL POTENTIAL OF THE  
INFORMAL SECTOR ON ZIMBABWE'S REVENUE  
BASE: THE CASE OF GLENVIEW HOME INDUSTRIES.**

**BY**

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## **Dedication**

To my loving parents.

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## **Abstract**

The need to attract resources to boost Zimbabwe's revenue base from the informal sector has attracted debates within the academia, development advocates, revenue administrators, donor agencies, among others. There is general consensus on the potential of the informal sector towards development, employment creation, poverty reduction and tax revenue contribution to both government and subsequently sub-government units. In this regard developing countries which are struggling to broaden their revenuebases have been left with limited options. It has been quite difficult to mobilise idle resources particularly revenue from the untapped and under-tapped informal sector. Places such as Glenview furniture industries have attracted attention from various quarters where there is general appreciation on their potential to the national purse. Hence, this study sought to get into detail of how Zimbabwe can derive benefits from its informal sector which has been flourishing and growing every day despite the fact that it is not bringing benefits directly to the central government. The research reviewed literature on the informal sector, highlighting experiences from other countries and outlining a theoretical framework guiding the research. The study used key informant interviews and documentary review to gain insights about the informal sector. Also, questionnaires were administered to operators at Glenview home industries. The researcher also made some observations on how these operators work and transact. The study found out that there are shortfalls in the legislative framework governing the harnessing of tax resources from the informal sector as well as the poor capacity of responsible institutions. The study concluded that the informal sector can make meaningful contributions to the national fiscus, especially when capital is invested and more markets availed to the informal traders. The study therefore recommended that Zimbabwe should take a leaf from other country experiences such as China, Ukraine and Brazil which have premised their development on the informal sector which now constitutes their small to medium enterprises. Also, it is recommended that the government put in place strong and certain legislation both at national level and at local authority level. On a micro level the study recommends the injection of capital and ready markets to operators at Glenview Home Industries.

### **List of abbreviations**

ADB	Africa Development Bank
AFRODAD	African Forum and Network on Debt and Development
AICPA	American Institute of Certified Public Accountants
ARAs	Autonomous Revenue Authorities
BMS	Block Management System
COMESA	Common Market for Eastern and Southern Africa
ECDGTCU	European Commission Directorate-General Taxation and Customs Union
ESAP	Economic Structural Adjustment Programme
GDP	Gross Domestic Product
GHI	Glenview Home Industries
GNP	Gross National Product
HCTC	House of Commons Treasury Committee
IMF	International Monetary Fund
MoFED	Ministry of Finance and Economic Development
MoSMECD	Ministry of Small and Medium Enterprises and Cooperative Development
NGOs	Non-Governmental Organisations
OECD	Organisation for Economic Co-operation and Development
PAYE	Pay As You Earn
SAPs	Structural Adjustment Programmes
SEDCO	Small Enterprises Development Corporation
SMEs	Small and Medium Enterprises
SPSS	Statistical Package for Social Sciences

TRA	Tanzanian Revenue Authority
UAH	Ukraine Hryvnia (currency symbol)
US\$	United States (of America) Dollars
USAID	United States Agency for International Development
VAT	Value Added Tax
ZIMRA	Zimbabwe Revenue Authority

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# **CHAPTER ONE**

## **INTRODUCTION**

This study presents an analysis on the fiscal potential of the informal sector in contributing to Zimbabwe's revenue base, using Harare's Glenview Home Industries as its case study. This chapter focuses on the background of the problem, the statement of the problem, research objectives, importance of the study and the major research questions. Also, the research hypotheses, limitations and delimitations are also presented on this chapter.

### **1.0 Background to the Study**

Governments in many developing countries have been struggling with coming up with a strong revenue supply. This comes against the struggle to have balanced budgets throughout the world. It has become a fact of late that depending on external funding to balance budgets is not sustainable. Therefore, the need to mobilise idle resources in the form of revenue resources have been endorsed throughout the world. Implied here is the need to embrace innovation and creativity to strengthen existing revenue heads as well as tapping those that have not been tapped before or were simply poorly harnessed. In this regard, there has been a call to trap the informal sector into the tax net.

Against this background, Zimbabwe has made great progress in fiscal reforms and most notably, the establishment of an autonomous revenue authority namely, Zimbabwe Revenue Authority (ZIMRA) in 2001. The introduction of presumptive tax by the Treasury to cater for small businesses and cottage industries is one of the fiscal developments in Zimbabwe. Presumptive tax which covers the informal sector is covered in the Finance Act Chapter 23: 04, Section 22C in particular. Of importance, is to note that taxation around the world is guided by well known principles such as equity, convenience, ability to pay, enforceability, certainty among others (Zhou, 2012: 153).

On broader level, the adoption of reforms in Africa to maintain lean governments has seen more and more people being retrenched from the public sector. This has been also been accompanied by challenges in the economic arms of governments to create

adequate employment. More so the dynamic operating environment in most countries including Zimbabwe marred by liquidity constraints, lack of fresh capital, inflation, basic market commodity crashes and global economic meltdown has resulted in industries closing or operating below capacity. In Zimbabwe the period 2000 to 2010 has seen the country facing strong socio-economic meltdown with inflation reaching record levels and sanctions wrecking havoc to the ordinary citizen. This has resulted in large numbers of citizens surviving in the informal sector.

From the year 2000, Zimbabwe's economic growth trajectory became relatively negative reaching a yearly average of minus 6% in 2008 (Makochekamwa, 2013). Unemployment levels reached of more than 85% and this means that about 15 percent of Zimbabweans are in formal employment (IMF, 2012). There is debate on who exactly are unemployed and if those who are into farming, small scale trading or small scale mining can be classified as unemployed. The matter is about policy, that is, is the government able to register all undertakings of its citizens and classify them? It can, however, be noted that more than 50 percent of Zimbabweans are in the informal sector (The Tax Justice Network-Africa, 2012, [www.ziminvest.com](http://www.ziminvest.com), [www.irinnews.org](http://www.irinnews.org)).

### **1.1 The Case Study: Glenview Home Industries**

Glenview home industries are located in one of Harare's south-western high density suburbs. It consists of small scale manufacturing industries in the areas of furniture manufacturing, tailoring, as well as retailing of the produced goods. The industries employ both women and men of different age groups and they will be working as individuals to groups usually not exceeding ten people. However, business at this place varies throughout the year and usually reaches its peak during the tobacco selling season. Apart from selling their products directly to consumers, Glenview home industries is now a consistent supplier of big retail outlets both in Harare and throughout Zimbabwe. The worrying questions to the treasury and its agent the Zimbabwe Revenue Authority and subsequently the City of Harare is how to properly tax these people. Though the City of Harare is mandated to collect the revenue and keep ten percent, under the Presumptive Tax Act it is still facing challenges in its endeavours.

**Figure 1.1 Harare's map showing the location of Glenview Home Industries**



Source: <http://maps.google.co.zw/map> (17 January 2014)

## **1.2 Statement of the Problem**

The Treasury and its agencies namely ZIMRA (under the Revenue Authority Act, Chapter 23:11) and the City of Harare (under the Presumptive Tax) are failing to tax the small to medium enterprises formally referred to as the informal sector. This has resulted in government losing huge sums of revenue to boost its coffers as well as to pay its large debt of over US10 billion dollars (Government of Zimbabwe Budget Statement, 2012). This is notwithstanding the fact that, including the informal sector into the fiscal cargo boost revenue, there comes along other advantages such as improving equity (horizontal and vertical equity) as well as economic efficiency (Alm et al, 2003:2). Therefore, in essence the exclusion of potential tax contributors provides an unfair macro taxation system. This is because according to Section 298 Subsection (1b) (i) of the Constitution of Zimbabwe, “the burden of taxation must be shared equally”. Of importance to note is that in Zimbabwe generally it is believed that “57% of the national economy is in the informal sector” in terms of gross economic contribution ([www.zim-invest.com](http://www.zim-invest.com)). This view is also supported by IRIN

Africa (2003) which reported that half of Zimbabwe's economy is in the informal sector though they acknowledged that it is a challenge to accurately measure it ([www.irinnews.org](http://www.irinnews.org)). The Tax Justice Network-Africa (2012:2) argues that Zimbabwe's informal sector is one of the largest in Africa amounting to 59.4% of the economy followed by Tanzania and Nigeria. Therefore, the informal sector if put under tax net can boost national revenue.

The Tax Justice Network (2012:2) notes that there is a general consensus that governments in Africa and their tax authorities are failing to put the informal sector into the tax bracket. The informal sector in Zimbabwe has grown so great that it employs more people than the formal sector. It is believed to be contributing about 19.5 percent to Gross Domestic Product (GDP) and an estimated total added value of US\$1.73 billion ([www.znccharare.co.zw](http://www.znccharare.co.zw)). The only problem is that it is highly disorganised and ranging from vending to cottage industries as well as organised complexes such as those in Glenview, Harare. This mushrooming of the informal sector means that more people are in the informal sector and if harnessed strategically could be a potential cash cow to the national purse. Legally speaking, local authorities are mandated to collect tax under the Presumptive Tax and retain 10 percent; however, they are failing to adequately harness resources from the informal sector. More so, the Finance Act Chapter 22:04 (2010) is not comprehensive enough to cover adequately the collection of tax in the informal sector. There is only one section – Section 22C –which is not detailed enough to address the taxing of these small and medium enterprises. Politics has also its play in the collection of revenue. This has seen politicians protecting this informal sector which is regarded as a vote bank and hence governments are very reluctant to enforce taxation laws. In absolute terms, there is no coherent legislative framework governing the taxation of the informal sector. In addition, both ZIMRA and the City of Harare are failing as institutions responsible to whip the informal sector into the tax net.

### **1.3 Justification of the Study**

The assessment seeks to provide an empirical analysis on a micro level that could provide the Treasury and ZIMRA with a picture of insights that, if adopted, could be a breakthrough to effectively whip the informal sector into the tax net. The assessment can enhance existing studies by filling in gaps and updating available information on

revenue collection in the informal sector in Zimbabwe. This research might help the government and policy makers in upgrading the structures, processes and systems to increase the contribution of the informal sector to the national purse. The study will also assist the government with a case study that could provide insights useful for future fiscal policy formulation. More so, the research will make recommendations that, if applied, might boost revenue resources and provide a case study that could be used to trap this “hard to tax sector”.

#### **1.4 Objectives of the study**

The study seeks:

- to examine the financial performance of the informal sector
- to analyse the legal and institutional frameworks guiding the collection of taxes in the informal sector
- to analyse the challenges involved in bringing the informal sector into the tax net
- to examine the strategies pursued by other countries in bringing the informal sector into the tax net
- to proffer some recommendations on the harnessing of tax revenue from the informal sector

#### **1.5 Research questions**

- How is the informal sector performing financially?
- What are the legal and institutional frameworks guiding the collection of tax in the informal sector?
- What are the challenges involved in bringing the informal sector into the tax net?
- What lessons can be drawn from other countries that have tried to capture taxes from the informal sector?
- What are the strategies that should be put in place to fully net taxes from the informal sector?

## **1.6 Hypothesis**

1. A weak legislative framework is hindering the contribution of the informal sector to the national fiscus.

## **1.7 Delimitations**

The researcher will mainly focus on the informal sector at Area 8 of the Glenview Home Industries. The research will only consider those who have businesses that can be physically identified and are situated at the area of study and not agents or established retail outlets with links as their businesses are formal. The research will also consider transactions, structures, processes and systems directly linked to the informal businesses at Glenview and not those of businesses which are VAT registered. The study will generally interrogate revenue collection in the informal sector and its contribution to the country during the period 2005 to 2013.

## **1.8 Limitations**

Since the undertakings at these home industries are highly disorganised it may be difficult to identify formal data about the transactions hence the responses may not be reliable. Therefore, the research will emphasize primary data collection techniques. More so, it may be difficult to have authentic information about transactions that take place since most transactions involve cash and at times with no receipts and records. Hence, the researcher will use observations to gather data wherever possible. Also, respondents might not be willing to disclose information for fear of the unknown and as a counter to this the researcher will prove with supporting letters from the University of Zimbabwe to clearly show that this is only for academic purposes.

## **1.9 Organisation of the Study**

Chapter one: Introduction

This chapter consists of background of the problem, the state of the problem, the reasons for the research and the hypothesis that the study seeks to prove against the objectives set. Also, included are the limitations that the researcher encountered as well as the delimitations.

Chapter two: Literature review and conceptual framework



This chapter reviews published literature by relevant authorities who shed insights on the informal sector. A conceptual framework will also be set to help understand the informal sector. All this will be done in accordance to the set objectives.

#### Chapter three: Research methodology

This chapter gives an outline of the research methodology used, highlighting the sampling procedures and data gathering techniques employed. Techniques used in data presentation and data analysis are also discussed.

#### Chapter four: Research findings and data analysis

This chapter will present the study findings and analysis.

#### Chapter five: Conclusion and recommendations

This chapter will wrap up the study by giving suitable conclusions in relation to the research findings as well as proffering recommendations. More so, implications for further studies will be alluded to also.

## **CHAPTER TWO**

### **LITERATURE REVIEW AND THEORETICAL FRAMEWORK**

#### **2.0 Introduction**

This chapter discusses the concept of informal sector, making some inferences from scholarly definitions given on the concept. The development of the informal sector will also be highlighted. More so, a conceptual framework guiding the research is given. In addition to that, relevant literature is also reviewed against the set objectives to gain more insights about the informal sector as well as looking at experiences from other countries.

#### **2.1 The Informal Sector**

Various definitions have been put forward by so many scholars, policy scientists, fiscal administrators, development partners, economists, among others, each of which having unique characteristics of the subject matter. The informal sector has been crudely and academically defined in so many ways. Interrogation of tax and fiscal literature does not provide an absolute definition of the informal sector but attempts vary from country to country. One crude definition is highlighted in Chidoko and Makuyana (2012:41), who state that the informal sector involves jobs that are usually not referred to as general income contributors and those not paying taxes.

Chidoko and Makuyana (2012:41) characterise informal activities by their lack of skills, capital, latest technology and access to well organised markets as well as they are sometimes known for using family labour or hired. Makochehanwa (2013:31) refers to the informal sector as the “second economy.” Other literature describes the informal sector as shadowy, illegal, hidden, unofficial, unrecorded, clandestine or invisible (Losby et al, 2002:2). It is, however, important to note though there is general consensus on the ability of the informal sector to boost revenue. This research will define the informal sector as all those activities by small entrepreneurs who are unregistered to tax authorities, unofficial, using family or hired labour but earning taxable income. By taxable income, the study considers the informal sector operators earning above the tax threshold for individuals set at US\$250 in January 2012 ([www.zimra.co.zw](http://www.zimra.co.zw)).

## **2.2 Models of the Informal sector**

### **2.2.1 Dualist school**

This model views the informal sector as that part of the economy comprising marginal activities-generally different as well as not related to the formal sector but making available income for the poor and a safety net in times of crisis (Chen 2012:4). These dualists argue “that informal operators are excluded from modern economic opportunities due to imbalances between the growth rates of the population and of modern industrial employment, and a mismatch between people’s skills and the structure of modern economic opportunities” (Ibid:5). Accordingly, this school of thought sees informal undertakings and establishments as having limited connections to the formal economy. It argues that it is an independent entity of the economy.

### **2.2.2 Structuralist school**

This is associated with the works of Moser (1978) and Castells and Portes (1989). They view the informal sector as subordinated economic units (small and medium enterprises) and employees that desire to limit input and labour costs but boosting the competitive power of huge capitalist corporations (Chen 2012:4). According to Chen (2012:5) the structuralists see the nature and scope of capitalist growth as causing informality, particularly, the attempts by formal firms to get rid of labour costs and respond to competition and the reaction of formal sector to the pressure of labour unions, state regulation of the economy, international competition and to the process of industrialisation. For example, the structuralist model can be used to explain economic transitions and structural adjustment in Eastern and Central Europe and Africa respectively.

### **2.2.3 Legalist school**

The legalists argue that an unfriendly legal system causes the small and medium enterprises to function informally with their own informal extra-legal norms (Chen 2012:4). To this school of thought the emergence of the informal sector is necessitated by a hostile regulatory framework laced with bureaucratic inefficiencies. Both the legalists and the voluntarists explanation can help understand what causes “ghosts” or “icebergs” (IMF 2012:16) in the informal sector. However, according to Chen

(2012:5-6) “the legalists focus on informal enterprises and the formal regulatory environment to the relative neglect of informal wage workers and the formal economy per se”. Subsequently, according to this model governments should encourage the establishment of simple systems and procedures that attract these informal operators to register.

#### 2.2.4 Voluntarist School

Lastly, the voluntarist school is hinged on informal entrepreneurs who intentionally want to avoid government regulations and taxation but, unlike the legalists, does not hold responsible the burdensome registration procedures. In their arguments, the voluntarists argue that after weighing the pros and cons of being informal against formality small and medium enterprises decide to work informally. The voluntarist school is not concerned about connections between the informal sector and the formal sector but believe the informal operators give unjust competition to formal firms since they avoid taxation, regulations and other production related costs. Therefore, in their view the informal sector should also be harnessed to boost the tax base (Chen 2012:4-6)

#### 2.2.5 The IMF’s Conception of the Informal Sector

The International Monetary Fund (IMF) (2012) states that in analysing the potential sector it is important to understand the whole concept of ‘informality’ in the informal sector. Thus, its studies prefer the term “hard to tax” rather than “informality”. Thus, in summary the IMF (2012:16) states that:

“The term “hard-to-tax” is much closer to the mark, though perhaps carrying an excessive air of inevitability and, in so far as it has come to be taken as largely synonymous with dealing with small businesses, abstracting even from the differences between types of small enterprise—micro versus sole professionals, for instance—and consequently the key question of whether there should be any serious attempt to tax them at all.”

The whole issue seems to be of non-compliance vis-a-vis tax design and implementation. The other misconception is what form does non-compliance takes. That is to say, is non-compliance in the form of “ghosts” or “icebergs”? (IMF 2012:16). The former refers to businesses which are not registered for taxation but

should be and thereby, existing anonymous to the authorities. On the other hand the latter means those taxpayers which are under-paying even though they are registered. Accordingly, in both respective instances, it is important for tax administrators to first identify and register these tax-payers. This happened in Tanzania (Case Study 2) when the Tanzanian Revenue Authority undertook Block Management System (BMS). For icebergs it is fundamental to increase enforcement and audits.

## **2.3 Development of the Informal Sector**

### **2.3.1 The ESAP Dilemma**

The emergence and growth of the informal sector in Africa can be linked to the Economic Structural Adjustment Programmes (ESAP) administered by governments as preconditions for funding from the Bretton Woods institutions namely, the IMF and World Bank in early 1990s. These Structural Adjustment Programmes (SAPs) were accompanied by stringent institutional and structural reforms. For the purpose of this study, only civil service reforms in general and retrenchments in particular, will be considered. The reforms resulted in the retrenchment of thousands from the civil service and state owned enterprises. Those retrenched were given packages but it was not clear whether the governments intentionally wanted to create an informal sector or those who were retrenched entered the informal sector as an alternative. Whatever the case was, the informal sector mushroomed from that time onwards.

### **2.3.2 Zimbabwe's Economic Meltdown**

This was one of the greatest economic tragedies to hit Zimbabwe after independence and even into its colonial history. The period was marred by challenging macro-economic problems affecting every corner from the government to industry and even ordinary citizens. Hyperinflation reached record levels of 231 million percent (Central Statistical Office, 2009). Industry was hard-hit also with no access to credit lines, flooding of cheap inputs, dilapidating machinery, among other problems. Therefore, with such problems haunting them, most industries closed and others laid off part of their work-force. Unemployment increased rapidly as a result. Therefore, the only survival strategy was the informal sector. Therefore, the informal sector grew very much in a country where unemployment is believed to be above 90 percent ([www.thezimbabwean.co](http://www.thezimbabwean.co)).

## **2.4 Financial Contribution of the informal sector**

According to [www.oecd.org](http://www.oecd.org) in absolute terms there are a limited number of taxpayers contributing most of the taxes. For example, it can be noted that in countries such as “Ghana 20 percent of tax payers contribute 80 percent of direct tax revenue and the remaining 80 percent contribute only 20 percent” (Ibid). This is the case with many more situations in Sub-Saharan states where the informal sector is huge. Thus, in essence, the tax base usually accessible is merely a fraction of aggregate economic activity as compared to high income countries (Ibid).

According to the OECD (2010:2) considering that about one half of African GDP is accounted for by the informal and subsistence sectors, a tax level of 20 percent of GDP means about 40 percent of formal sector GDP. In Ukraine for example, taxes collected from small businesses amounted to UAH 251 million which was about 0.5 percent of total budget receipts in 2000 and UAH 524 million in 2001 constituting 0.8 percent of budget receipts (Bird and Wallace 2003:17). In addition, presumptive tax has provided additional revenue to local authorities in Ukraine, Brazil and South Africa.

## **2.5 Legislative and Constitutional Frameworks for Taxation**

There is need to provide clear constitutional and legislative provisions guiding taxation in the informal sector. According to Zhou (2012:155), the essential legal framework of fiscal management is the national constitution. Generally, the national constitution has certain provisions that relate to the administration of the national fiscus (Ibid). In Zimbabwe, for instance Section 298 (2) of the Constitution stipulates that, “no taxes may be levied except under the specific authority of this Constitution or an Act of Parliament”. In Mozambique Article 100 of the Constitution states that “Taxes shall be established and modified by law, and shall be set according to criteria of social justice”. In India the Constitution does not include agricultural income in the central income tax and hence it is problematic to trace taxable income because it is often attached to income gained from the agricultural sector (Bird and Wallace 2003:7).

In addition, constitutional provisions must be aided by complimentary legislative instruments (Zhou, 2012:155). In essence, the taxation of the informal sector must be

clearly based on an Act of Parliament. For instance, through the introduction of the Presumptive Tax Act which specify how to tax the informal sector as well as categorising the informal sector in its variety and in detail? For example, several Latin American countries such as Costa Rica, Dominican Republic, Guatemala, Mexico, Nicaragua, and Paraguay have legal instruments guiding the collection of taxes in the informal sector (OECD 2010:3). On the other hand Argentina, Bolivia, Brazil and Peru created a unique tax collected from the small operators that complemented other major tax heads like income tax, value added tax (VAT) and other social security taxes (Ibid). Zambia introduced presumptive tax for buses, mini-buses and tax operators in 2012 (Zambia Revenue Authority 2012).

As Chidoko and Mukuyana (2012:43) noted, the success in taxing the informal sector is hinged on the by-laws and legislation passed. This could be in the form of zoning and legislation. More so, some of the by-laws and regulations passed can be said to be retrogressive to the proper taxing of the informal sector. The establishment of a constitutional and legislative framework makes it feasible for tax authorities to enforce compliance. This will reduce tax compliance and tax evasion or at least enable a legitimate way for tax administrators to enforce compliance and or avoid evasion.

## **2.6 Institutional Framework for Taxation**

Generally, the Ministry of Finance or Treasury is mandated to guide and direct all issues of revenue mobilisation and expenditure. Zhou (2012:156) stipulates that the Treasury “deals with the formulation and administration of fiscal policy which it executes through specialized departments”. In many countries both developed and developing, revenue collection is the responsibility of autonomous revenue authorities (ARAs). For example, the South African Revenue Services, Zambia Revenue Authority and the Uganda Revenue Authority are some of the ARAs in Africa. In Zimbabwe, since the 2011 national budget, local authorities are now mandated to collect presumptive tax for the central government and retain 10 percent (Government of Zimbabwe - Budget Statement, 2011, AFRODAD, 2011). This means that both ZIMRA and local authorities are responsible for taxing the informal sector.

## **2.7 Taxing the Informal Sector: The Constraints**

According to Alm et al (2004:2), it is a widely held fact that most people are not willing to pay taxes and for that reason it is very complicated for revenue authorities to impose and collect taxes everywhere and every time. Therefore, there has been an additional burden for tax authorities everywhere in the world to bring into the tax net some activities, groups, sectors and persons especially with respect to the widely recognised “hard to tax” sector. In addition to that, historical review denotes that the problem of taxing has been in existence since time immemorial. In the biblical times, for instance, Jesus Christ was once asked if it was lawful to pay taxes: “...Is it lawful to pay taxes to Caesar, or not? ‘Shall we pay, or shall we not pay?’... And Jesus answered and said to them, ‘render to Caesar the things that are Caesar’s and to God the things that are God’s’” (Mark 12 verses 14 to 17, Matthew 22 verses 17 to 21, New King James Version). Apart from that, the paying of tribute in African states was a litmus test for rulers to weigh the prowess of their authority.

According to the Africa Development Bank (ADB) (2005:29), “in spite of the implementation of the strategies aimed at simplifying the administrative procedures, widening the tax base of the tax system and promoting equity and efficiency in tax administration, very little progress has been made on the old problem of the tax exempt status of the informal sector”. The ADB points to the challenge mainly being premised on two issues: the first one being administrative and the other being political. The OECD (2010) argues that “taxing the informal sector is difficult for economic, administrative and political reasons and there are several important challenges to be met”. Interestingly, the ADB (2005:30) states that despite the up-and-coming agreement on the necessity of taxing the informal sector, “little is known on how to go about it”.

### **2.7.1 Administrative Constraints**

The ADB (2005:30) citing Stella (1993) and Kissar and Baker (1994) argues that “tax bureaucracies of governments in Africa do not have the resources or the personnel capacity to implement, monitor and enforce tax laws”. According to the OECD (2010:1) “the dominant approach to improving tax collection has been to focus on enhancing administrative capacity... Administrative constraints are often identified as



the main constraint to the ability of states to collect revenues in general”. The major administrative constraint is how exactly this second economy can be taxed considering its characteristics. According to the ADB (2005:30) uncertainty, transience and cash transactions are dominant characteristics of the informal sector. There is also lack of interest to proper accounting as a result of low levels of literacy. In other instances extensive mobility of informal traders make it logistically impossible to monitor compliance or even enforce it. Therefore, the ADB argues that, “taxation based on formal systems of income calculation, accounts, and payment options is not suited to the informal sector” (Ibid).

The OECD (2010) argues that inasmuch as identifying administrative constraints are at the nerve centre when crafting short-term fiscal policies, the longer-run goal of improving tax capacity also have to be a component of the course of action. There are many loopholes to this understanding. To begin with, the notion of capacity is somehow static. It can be noted that there is no endeavour to elucidate the reason and how these administrative capacities alter ([www.train4dev.net](http://www.train4dev.net)). In addition, there is no feasible explanation as to “why tax capacities differ across countries in countries at similar levels of per capita income”. Lastly, there is often slight analysis as to exactly why sound and vibrantly tax policies are generally not enforced (OECD 2010).

However, taxing the informal sector should not be understood in accordance with the administrative perspective only. The OECD (2010) stipulates that, “it is well known that many people often evade taxes because they do not trust that the government will use the revenues effectively, or even worse, might appropriate them through corrupt means”. That is to say, fiscal issues cannot be divorced from the general expenditure policy debates. The other notable shortcoming of the administrative approach is its failure to align tax collection policies to production strategies. For instance, when increasing tax from the informal sector, tax collection should be associated with the provision of incentives to lure the informal firms to register as taxpayers (Ibid).

### 2.7.2 Political Constraints

The ubiquity of politics also manifests in revenue collection throughout the world whilst developing countries are hardly affected. According to the OECD (2010:4), “taxation is not simply a technical or economic issue, it is inherently political”. The

House of Commons Treasury Committee (HCTC) (2011:5) observes that “tax reform needs political backing”. However, the HCTC (2011:6) citing the OECD (2010) acknowledges that it is a challenge politically for tax administrators to alter their tax bases warning that such endeavours generally are politically difficult even if they are economically sound.

Literature by the IMF (2012); ADB (2005); OECD (2010); Tendler (2002); among others, grossly highlight politics as negatively affecting the taxing of the informal economy. The IMF (2012:12) argues that political interference can be seen as a “fundamental obstacle to effective and fair taxation in many low income countries.” Tendler (2002) categorically referred to the illicit relationship between the politicians and the informal traders as mostly associated with “devil’s deals”. Thioub, Diop and Boone (1998:74) observe that “the government’s attempts to ‘capture the informal sector’ proved to be the catalyst for the political mobilization of informal sector business”.

According to the ADB (2005:30), “a number of analysts have observed that generally taxing the informal sector is politically inexpedient and problematic because the informal sector forms a substantial vote bank for politicians”. Therefore, usually government officials and politicians both at central or local government level are reluctant to enforce tax compliance to the informal sector so as to maintain their support base (Ibid, OECD, 2010, Tendler, 2002). This is exacerbated in countries where a substantial chunk of the national economy is in the informal sector (ADB, 2005). For example, in Nigeria more than 50 percent of the economy is informal (The Tax Justice Network-Africa 2012:2)

## **2.8 Experiences from Other Countries**

### **2.8.1 Case Study 1: Garment Industries in the North Eastern State of Pernambuco in Brazil**

Brazil just like most developing nations does have a notable informal sector. Consequently, this has resulted in more people in many of its states being dependent on this informal sector for employment. In Pernambuco, for instance, these small operators are engaged in the garment industry where they produce blankets, linen, and other clothing materials. Thus, the Brazilian Government decided to extend the tax net

to this potentially viable sector. According to the OECD (2010:6), “the major challenge hinged on creating the growth pole around a contingent of small but vibrant informal sector firms in the garment industry. These enterprises were notorious for not paying taxes and not observing other government regulations.” This was necessitated by an illicit compromise deal between politicians and the informal enterprises. The politicians sought votes from the widely acknowledged vote bank in the informal sector and in return they promised not to enforce taxation and other government regulations such as standards in health and safety ([www.train4dev.net](http://www.train4dev.net)). Tendler (2002) referred to the deal as “the devil’s deal”.

However, international agencies, development banks, non-governmental organisations and donors saw the potential of the informal sector to poverty reduction and employment creation as well as to government revenue through taxation. Therefore, these informal firms were convinced to formalise their undertaking in exchange to credit lines, tax exemptions, and credit amnesties when their businesses faced challenges and other support (OECD, 2010: 7). Thus, it was more viable for them to be formal than informal. The government also provided financial support and necessitated their participation at national and international exhibitions and trade fairs (Ibid). This boosted their sales and significantly increased revenue to the state.

#### 2.8.2 Case Study 2: Tanzania

Tanzania’s informal sector constitutes about 58.3% of the national economy and generally consists of farmers, craftsmen, small scale manufacturing and traders, food vendors, among others, most of which are unregistered and do not pay taxes (The Tax Justice Network- Africa, 2012). As a reform strategy the Government of Tanzania together with the Tanzanian Revenue Authority (TRA) decided to put tax officers responsible for identifying as well as registering small businesses found at grassroots level. This could be in the streets or blocks (as they are often known). The project was termed the Block Management System (BMS) (Ibid). Other initiatives that can be noted is registration as well as formalization of assets belonging to the informal sector by an agent popularly known as MKURABITA (Ibid). The idea behind was the same as the Brazilian case of trying to formalize the informal sector systematically and institutionally.

Other efforts undertaken include tax amnesties, provision of trading sites and general infrastructure, training, provision of loans, monitoring and consistent enforcement of tax laws and regulations (Ibid). Subsequently these incentives and sticks (mandatory enforcement for compliance) made the business operators to be caught in one way or the other into the tax net. However, these efforts relatively changed the game though challenges are being faced. First, politics is a major hindrance to the absolute pursuit of effectively taxing the informal sector. This is because so much of the so-called “devil’s deals” are often experienced especially considering the period prior to elections.

### 2.8.3 Case Study 3: Ukraine

Ukraine introduced a simplified tax system for small businesses in 1998 although it came into effect in 2000 (Bird and Wallace 2003:16). The system was responsible for taxing, registering and reporting of small business operators known as “patent”. Under this approach enterprises and individuals are affected differently depending on the number of employees and the turnover threshold. Resultantly, general individuals involved in entrepreneurial activities earning a yearly gross income which are 7 000 times below the minimal legalised wage are affected. Local authorities are responsible for the issuing of those patents. Business operators falling under this tax regime should not exceed five workers. The fixed tax rate for patents operating small businesses throughout Ukraine is 100 UAH (Ukrainian currency) per month. However, local authorities are mandated to collect those taxes and usually charge between 20 UAH per month and 100 UAH per month. These rates apply to entrepreneurs with five workers and below and those exceeding face a 50 percent increase per added individual (Ibid:17).

### 2.8.4 Policy Lessons Drawn

The Brazilian experience shows that taxing the informal sector requires a complete shift in approach, which is, how the state looks at these informal firms and small and medium enterprises must change. It is important to admit to their potential. In addition, the prospect of extending the tax net into the informal sector (through making it formal) requires a holistic approach where these small businesses see the advantages availed if they are formally registered with tax administrators. The Brazilian case was successful because of the multi-thronged approach taken by the

government in partnership with development partners. More so, the incentives that were associated with the registration for taxes by the informal sector also contributed to the success of the Pernambucan Case in Brazil.

The Tanzanian experience shows that there is need for trust between the government and tax payers. This can help the two parties to work together in a way that the informal sector views tax-paying as beneficial and progressive since it will lead to more opportunities being availed by the government. This could be through government availing credits lines, marketing opportunities and get-ways to the international markets. Both case studies reveal the importance of political will to widen the tax base. Thus, the absence of trust, the presence of politics and limited incentives resulted in the failure to properly harness resources from the informal sector in Tanzania. Also, it was noted that the initiatives carried out such as registering and enforcing tax laws became costly and thus exceeding more of the taxes that were collected or were to be collected. However, with time the Tanzanian approach can yield benefits if it is pursued with more bottom-up tactics. Thus, if those taxed are engaged and given the platform to allude to their side and build trust in the tax system and government at large.

The Ukrainian case shows the importance of working together between the central government and local authorities. Also, it can be noted that it is paramount for authorities to first register all activities in the informal sector and legalise them.

## **2.9 The Importance of Tax Incentives in Taxing the Informal Sector**

The best way to strategically whip the informal sector into the tax net is to provide tax exemptions and tax holidays. According to Bird and Wallace (2003:7), “exemptions and tax holidays create incentives for enterprises or individuals to re-create themselves in the image of exempted sectors”. Chidoko and Mukuyana (2012:42) citing Maliyamkomo and Bagachwa (1990) state that, the informal sector can exhibit its potential for speedy growth if opportunities and incentives are available. These incentives can be in the form of macro-economic policies, loans and credit facilities, training and development, infrastructure development and access to international markets, exhibitions and trade fairs.

## **2.10 Theoretical Framework**

### **2.10.1 Principles of Taxation**

Tax systems do not exist in vacuum but should comply with universal principles of taxation. Against this background inclusion of the informal sector should be in accordance with these principles.

#### **2.10.1.1 Theory of Equity and the Ability to Pay Principle**

Basically equity is concerned with the fairness of burdens, that is, how the burden of paying taxes is shared amongst tax payers. According to Musgrave and Musgrave (1987: 227) “everyone agrees that the tax system should be equitable, thus, each tax payer should contribute his or her ‘fair share’ to the cost of government”. Implied here is that everybody is required to pay taxes or be taxed by the government. In this regard the doctrine of equity proposes that taxpayers should contribute in simultaneity with social or public services that they benefit (Ibid). Thus, the AICPA (2001:7) concludes that, “similarly situated taxpayers should be taxed similarly”. According to the European Commission Directorate-General Taxation and Customs Union (ECDGTCU), (2004:3) the burden of taxation should be shared in accordance with tax-payer’s respective ability to pay, sometimes referred to as “the ability to pay” principle. Therefore, taxation should be understood separately from expenditure debates. Thus, Musgrave and Musgrave (1987:228) argue that when disclosed revenue is required, the best way is for each tax payer to contribute as he or she is able, that is, the tax collector should consider the individual’s ability to pay.

However, it is imperative to note that the principles of equity and ability to pay are intertwined as well as contextually connected. As outlined by Musgrave and Musgrave (1987:232), “taxation as according to ability to pay calls for people with equal capacity to pay the same, on the other hand those with greater ability paying more”. This then is respectively referred to as horizontal and vertical equity. Vertical equity implies that the higher one earns the more one is taxed. On the other hand horizontal equity highlights that tax payers in the same economic circumstances should receive equivalent treatment (ECDGTCU, 2004). Horizontal equity basically falls in line with constitutional and legal provisions of equality under the law Musgrave and Musgrave (1987:232).

Against this background, it can be noted that exclusion of the informal sector violates both the principles of equity and ability to pay. Most individuals in the informal sector are able to pay since they earn above the tax threshold for individual tax payers which was set at \$250 in January, 2012 ([www.zimra.co.zw](http://www.zimra.co.zw)). Therefore, the inclusion of the informal sector should be a constitutional matter, that is, all individuals who can pay taxes in both the formal and informal sector should be regarded as equal and taxed.

#### 2.10.1.2 Principle of Enforceability

This is another universal principle of taxation which implies that the rules of a tax base must be easy to enforce as an enforceable system is unlikely to be equitable or neutral (ECDGTCU, 2004:5). Therefore, tax systems should be backed by coercive authority such as Acts of Parliament and general regulations. These legislative and regulatory frameworks give the revenue authorities the legitimacy to legally enforce compulsory paying of taxes by both individuals and businesses.

#### 2.10.1.3 Principle of Simplicity

Additionally, tax collection systems should fall in line with the principle of simplicity. According to the ECDGTCU (2004:5) the simpler the tax base the lower the administrative or compliance costs should be, for either administration or the tax payer. Hence, the doctrine of simplicity stipulates that the tax law generally must be simple for taxpayers understand the regulations and be able to comply with them properly and in a cost-efficient manner (AICPA, 2001:8). Therefore, the principle of simplicity assists in building and sustaining respect for the system, and this ultimate in advancing compliance.

#### 2.10.1.4 Principle of Certainty

Moreover, the rules concerning tax collection must also be certain and clear which acquaintances in to the prerequisite for transparency. Thus, AICPA (2001:7) observes that, certainty implies that “the tax rules should clearly specify when the tax is to be paid, how it is to be paid, and how the amount to be paid is to be determined”. The rules must also provide an appropriate level of protection against tax evasion and the unacceptable use of purely artificial tax avoidance schemes (European Commission Directorate-General Taxation and Customs Union, 2004:6). Certainty is also

important to help in business planning as well as to “provide a degree of revenue certainty for administrations” (Ibid).

Subsequently, certainty comes in two ways which include the clarity of the enabling laws and the belief that the laws are going to be interpreted and appropriated consistently (HCTC 2011). It can be noted that if taxpayers understand the rules, knowing very well that their counterparts are taxed like them, they will view the overall tax system as just. In this respect, the House of Commons Treasury Committee (HCTC) (2011:15) identified three obstacles to certainty in tax systems. These include “lack of legal clarity, complexity in the tax system and poorly targeted legislation” (Ibid).

#### 2.10.1.5 Principle of Convenience

Tax systems should be simple and convenient to both the agent and the tax payer. The tax system should be easy to fill in or to understand for the ordinary tax payer. Subsequently, tax collection must be done at least cost both to the tax payer and the agent.

### **2.11 Conclusion**

From the forgoing, it can be deduced that inclusion of the informal sector for taxation should be premised and aligned to generally accepted principles of taxation. The structure and development of the informal sector can be best explained by models such as the dualist, structuralist, legalist and the voluntarist schools. In addition, the development and growth of the informal sector in many developing nations cannot be divorced from the negative effects of SAPs. Finally, it can be noted that so many countries have developed different strategies to include the highly lucrative informal sector into the tax net.



## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.0 Introduction**

This chapter highlights various methods used in sampling, data gathering and subsequently the analysis of data. The study used a mixed method approach which included the use of both qualitative and quantitative techniques in data collection, presentation and analysis. Key informant interviews, observations and documentary review were used under qualitative research and survey questionnaires were used under quantitative methodology. Also, data analysis and presentation techniques were presented.

#### **3.1 Research Design**

Basically, the researcher used a mixed methodology approach involving both quantitative and qualitative techniques. Cresswell (2012:5) defines mixed as a technique which “focuses on collecting, analyzing, and mixing both quantitative and qualitative data in a single study or series of studies”. Its nerve argument is that the application of both quantitative and qualitative techniques in combination helps to understand research problems than one technique applied alone. Qualitatively, the research used data collection techniques such as observations, documentary research and key informant interviews. Also, qualitative data analysis techniques such as content analysis and thematic analysis were applied in the study. Quantitative techniques such as survey questionnaires and descriptive statistics were used for data gathering and analysis respectively.

#### **3.2 Population Size and Sample**

Chein (1981:419) defines a population as the “aggregate of all cases that conform to some designated set of specifications”. The study targeted a population of an estimated number of about 400 businesses which operate at the complex. The area was chosen after a judgemental sampling procedure on informal businesses in Harare to stand as case study. Therefore, samples were drawn to ensure fair representation of businesses operating at the GHI.

### 3.3 Sampling Procedure

A sample is any subject of cases, units or observations from a larger population of cases, units or observations. Sampling procedure is the process of selecting a particular sub-set from a larger population or universe (Dooley 2004:443). Accordingly, for this study the researcher employed purposive or judgmental non-probability sampling technique in the selection of units of analysis. The researcher also employed simple random probability sampling technique in the selection of responses for questionnaires.

#### 3.3.1 Purposive or Judgemental Sampling

Oliver (2006:245) defines purposive sampling as a form on non-probability sampling in which decisions concerning individuals to be included in the sample are taken by the researcher. Babbie (2010:193) defines purposive sampling as the selection of a sample basing on the knowledge of a population, its elements, and the purpose of the study. According to Teddlie (2007:77) purposive sampling techniques are primarily used in qualitative studies and may be defined as selecting units based on specific purposes associated with answering a research study's questions ([http://vuir.vu.edu.au/21468/1/Roshayu\\_Mohamad.pdf](http://vuir.vu.edu.au/21468/1/Roshayu_Mohamad.pdf)). Maxwell (1997:87) also defines purposive sampling as “particular settings, persons, or events which are deliberately selected for the important information they can provide that cannot be gotten as well from other choices”. Dooley (2004:136) argues that in purposive sampling researchers choose respondents because of certain characteristics.

This sampling technique was employed in the selection of units of analysis to be interviewed. This is due to the fact that the researcher was of the view that some units of analysis are more knowledgeable and possess required information in the subject being studied than others. Therefore, this technique was used to select key informants who could provide unique information which cannot be easily obtained from every other person. Hence, key informants that were interviewed and respondents who completed questionnaires included officials and tax experts from the Ministry of Small and Medium Enterprises and Cooperatives Development, City of Harare and academia picked from the University of Zimbabwe's Departments of Economics and Business Studies. Also key informants were chosen from the Ministry of Small and Medium Enterprises and Cooperatives Development.

### 3.3.2 Systematic Random Sampling

Lanewala (2012:360) conceptualised systematic sampling as involving the selection of members of the population based on established formula. According to Babie (2010:229) systematic sampling is a type of probability in which every  $K^{\text{th}}$  unit in a list is selected for inclusion in the sample. The elements included in the sample were picked at a constant interval. Thus the researcher selected a sample size of 20 respondents from a population size of 400 businesses. Hence, the researcher used the following formula: population size divided by sample size which is 400 divided by 20 which equals to 20. Therefore, every element which came every 20<sup>th</sup> time became the  $K^{\text{th}}$  unit. The first element was randomly picked to reduce bias. Systematic sampling technique was chosen because it was a quicker method of obtaining a sample than simple random sampling.

## 3.4 Data Collection Techniques

### 3.5 Qualitative Research

Qualitative research refers to social research based on field observations analysed without statistics (Dooley 2004:259). It entails direct observation and relatively unstructured interviewing in natural settings. The researcher attends to the social transactions that occur in the setting and may also collect pertinent documents and artifacts (Ibid: 260). According to Marshall (2006:97) “researchers typically rely on four methods for gathering information: (a) participating in the setting, (b) observing directly, (c) interviewing in depth, and (d) analyzing documents and material culture.” According to Nachmias and Nachmias (1992:172) qualitative research seeks to understand behaviour and institutions by getting to know the persons involved and their values, rituals, symbols, beliefs, and emotions.

#### 3.5.1 Primary Data

##### 3.5.1.1 Key Informant Interviews

Interview is a purposeful discussion involving two or more people (Khan and Connell, 1957; 248). This enhances an immediate collection of data. This tool, also, has the advantage that it ensures that more questions can be asked and the tool has a high response rate. According to USAID (1996:1) key informant interviews are

“qualitative, in-depth interviews of people selected for their first-hand knowledge about a topic of interest”. Kumar (1989:1) defines key informant interviews as “involving interviewing a selected group of individuals who are likely to provide needed information, ideas, and insights on a particular subject.” Key informants are selected for their specialised knowledge and unique perspectives on a topic (USAID 1996:1). Key informants were conducted with officials from the Treasury, City of Harare, Ministry of Small and Medium Enterprises, and also with the academia (lecturers from the University of Zimbabwe, Department of Economics and Department of Business Studies).

Key informant interviews have some advantages. First, since information is obtained directly from knowledgeable people, therefore, key informant interviews often provide data and insight that cannot be obtained with other methods (Kumar 1989:3). More so, “key informant interviews provide flexibility to explore new ideas and issues that had not been anticipated in planning the study but that are relevant to its purpose” (Ibid). However, this research technique has its own shortfalls. According to USAID (1996:2) key informant interviews “are not appropriate if quantitative data are needed.” Also, key informant interviews “may be biased if informants are not carefully selected”. Thus, to counter these shortfalls this technique was complemented with other techniques such as survey questionnaire and documentary search.

#### 3.5.1.2 Non –Participant Observation

Marshall (1998:98) defines observations as entailing “the systemic noting and recording of events, behaviours and artifacts (objects) in the social setting chosen for study.” In this regard, this researcher observed the transactions, processes and systems as a way to get first hand information about the informal sector at Glenview Home Industries. According to Williams (2008:562) non-participant observation is a relatively unobtrusive qualitative research strategy for gathering primary data about some aspect of the social world without interacting directly with its participants. Generally, when carrying non-participant observation researchers are sometimes physically co present with research participants in a naturalistic setting, but other times may not be present in the setting (Ibid).

According to Nachmias and Nachmias (1992:199) “the main advantage of observation is its directness; it makes it possible to study behaviour as it occurs. The

researcher does not have to ask people about their own behaviour and the actions of others but can watch them do and say things. This in turn enables the collection of first hand data that are uncontaminated by factors standing between the investigator and the object of research.” Also, data gathered by “observation may describe the observed phenomena as they occur in their natural settings”. The main disadvantage is that it is difficult observe actions that happened before the study commenced. Also, it is impossible use observations to obtain information on opinions and attitudes.

### **3.5.2 Secondary Data**

#### **3.5.2.1 Documentary Research**

Documentary research, according to Desey (2003:34) is a type of collecting, recording, analyzing or interpreting of information from secondary sources such as texts, magazines, news, journals and government publications. Mogalakwe (2002:221) cites Bailey (1994) who defines documentary research as the analysis of documents that contain information about the phenomenon one wishes to study. Payne and Payne (2004) define documentary search as the techniques used to categorize, investigate, interpret and identify the limitations of physical sources, most commonly written documents whether in the private or public domain (Ibid). This technique was used to supplement data collected by other social survey instruments and interviews. Therefore, as part of the documentary research used, this study examined the Revenue Authority Act, Presumptive Tax Regulations, 2010 budget statement and other fiscal regulations. More so, as part of the research library materials, press reports, treasury handouts and reports were analysed. This technique was used to supplement data collected by other social survey instruments and interviews. However, documentary research may be biased due to personal judgments and prejudices (Relix 2002:56).

### **3.6 Quantitative Data**

Quantitative data is defined by Cresswell (2006:6) as including ‘close-ended information such as that found on attitude, behaviour, or performance instruments.’

#### **3.6.1 Survey Questionnaire**

Marshall (2006:125) notes that:

“Questionnaires typically entail several questions that have structured response categories; some open-ended questions may also be included. The questions are examined (sometimes quite vigorously) for bias, sequence, clarity, and face-validity. Questionnaires are usually tested on small groups to determine their usefulness and, perhaps, reliability. In sample surveys, data are collected in a standardized format, usually from a probability sample of the population. The survey is the preferred method if the researcher wishes to obtain a small amount of information from a large number of subjects.”

(Marshall 2006:126) highlights that surveys have definite advantages when the goals of research require obtaining quantitative data on a certain problem or population. They facilitate research in politically or ethically sensitive areas. They are used in programs for public welfare or economic development. Large surveys often focus on sensitive or controversial topics within the public domain. The strengths of surveys include their accuracy, generalizability, and convenience. Accuracy in measurement is enhanced by quantification, replicability, and control over observer effects. Results can be generalized to a larger population within known limits of error. Surveys are amenable to rapid statistical analysis and are comparatively easy to administer and manage (Ibid) <http://www.coursehero.com/file/6561327/Data-Collection-Methods/>. These questionnaires were administered to operators at small and medium enterprises at GHI

### **3.7 Data Presentation and Analysis**

Yin (1994:41) argues that “data analysis consists of examining, categorising, tabulating, or otherwise recombining the evidence to address the initial propositions of a study.” Data analysis can be defined as the process of evaluating gathered information using analytic and logical reasoning to examine each component of the data provided ([www.businessdictionary.com](http://www.businessdictionary.com)). However, data was analysed separately using qualitative and quantitative data analysis techniques. Qualitative data were analysed using thematic analysis. On the other hand quantitative data was analysed using descriptive statistics backed by statistical package for social sciences.

### 3.7.1 Content Analysis

Holsti (1968:601) defines content analysis as “any technique for making inferences by systematically and objectively identifying specified characteristics of messages.” This was used to present and analyse data gathered through documentary review. In a systematic content analysis, the addition or exclusion of content is usually done according to consistently applied criteria of selection; this requirement eliminates analyses in which only materials supporting the investigator’s hypotheses are examined” (Ibid: 598).

### 3.7.2 Thematic Analysis

Data collected through key informant interviews, observations and documentary research was analysed and presented through thematic analysis. According to Gibson (2006:1) “thematic analysis is an approach to dealing with data that involves the creation and application of ‘codes’ to data. The ‘data’ being analysed might take any number of forms – an interview transcript, field notes, policy documents, photographs, video footage.” Braun and Clarke (2006:79) define thematic analysis as an analytic technique in qualitative research “for identifying, analysing and reporting patterns (themes) within data. It minimally organises and describes your data set in (rich) detail... and interprets various aspects of the research topic.” Basically, ‘a theme captures something important about the data in relation to the research question and represents some level of patterned response or meaning within the data set’ (<http://core.kmi.open.ac.uk/download/pdf>).

### 3.7.3 Descriptive Statistics

Descriptive statistics were used to analyse quantitative data gathered through survey questionnaires. According to Babbie (2010:467) “descriptive statistics is a medium for describing large amounts of data in a way that is manageable and understandable to make the data useful in answering a research objective.” Target (2001:1) defines “statistics as referring to a collection of numbers or it can refer to the science of studying collections of numbers.” Thus, descriptive statistics deals with the presentation of numerical facts, or data, in either tables or graphs form, and with the methodology of analyzing the data (<http://www.acad.polyu.edu.hk>). This method was used to properly account for the analysis of quantitative data. It was used alongside

the computer based software package; Statistical Package for Social Sciences (SPSS). Descriptive statistics were used to draw inferences and generalizations through the calculation of measures of central tendency and dispersion, drawing of graphs, charts, tables and computing frequencies of the study.

### **3.8 Conclusion**

As can be noted above, it can be that every technique used in sampling, data collection and analysis has its shortfalls and merits. Therefore, as a counter to these weaknesses and as a way of harnessing the strengths of every respective technique used, both qualitative and quantitative methods were triangulated to complement each other. This was important for the researcher to gather and analyse data more accurately.



## CHAPTER FOUR

### PRESENTATION AND ANALYSIS OF FINDINGS

#### 4.0 Introduction

This chapter focuses on the presentation, analysis and interpretation of data gathered during the research. The purpose of the research was to establish the fiscal potential of the informal sector on Zimbabwe's revenue base. Data was gathered through key informant interviews, observations, survey questionnaires and documentary review. Data gathered from target population will be presented and analysed based on the objectives of the research.

#### 4.1 Demographic attributes of participants

The respondents to the research were classified into questionnaire respondents and key informants. A total sample of 20 questionnaires was issued to operators who are engaged in furniture manufacturing. The questionnaires included twelve administered to men and eight to females. This response rate could be presented as follows. 80 percent of the respondents were under the age of 35 years which means most of the informal operators can be classified as youths. Also, 85 percent of the operators have more than four years in the informal sector. All of the respondents received on the job training. On the other hand, a total of eight key informants were interviewed. The key informants included two officials from the Ministry of Small and Medium Enterprises and Cooperatives Development (MoSMECD), two officials from the City of Harare's Department of Housing and Community Services, two academics from the University of Zimbabwe and two were authorities at Glenview Home Industries. The respondents to the study are presented in a table below.

<b>Respondents</b>	<b>Number</b>
<b>MoSMECD</b>	2
<b>Academics</b>	2
<b>City of Harare</b>	2
<b>Glenview Home Industries</b>	2
<b>Informal operators</b>	20

## **4.2 Research findings**

### **4.2.1 Understanding on the Concept of the Informal Sector**

Key informant interviews conducted by the researcher provided interesting insights on their understanding of the informal sector. For example, one academic from the Department of Economics at the University of Zimbabwe, Doctor A. Makochekanwa cited Bagachwa and Naho (1995: 1388) who considers informal economy as “including all economic activities according to national income conventions but are presently not captured by official national accounts statistics and may be broadly conceived of as consisting of three categories: informal sector, parallel and black market activities.” An official from the City of Harare’s Department of Housing and Community Development referred to the informal sector as only small and medium enterprises arguing that there is nothing informal about their operations. Thus, the official’s conceptualization of the informal sector was peculiar to other definitions found in documentary review that synonymously refer to the informal sector as also small to medium enterprises. The business development officer in the Ministry of Small and Medium Enterprises and Cooperatives Development defined the informal sector as small businesses being run by individuals, partners or cooperatives and that usually do not pay taxes.

Findings also show that the emergence and growth of the informal sector attracted the introduction of presumptive tax in Zimbabwe. According to [www.zimra.co.zw](http://www.zimra.co.zw)

Presumptive Tax legislation was introduced to broaden the revenue base in view of the increase in informal business activities. Selected sectors of the economy were targeted to ensure the participation of informal businesses in tax payment in line with experiences of other developing countries.

According to [www.zimtreasury.co.gov](http://www.zimtreasury.co.gov) “Tax on the earnings of small traders who may not be required to register for Income Tax is based on estimated income and is referred to as Presumptive Tax.” Documentary review shows that the introduction of presumptive tax in Zimbabwe falls in line with development in other countries like Zambia, Guatemala, Nicaragua, Nigeria and Costa Rica” (OECD, 2010:3, Zambia Revenue Authority, 2012). Figure 4.1 below shows some of the products produced by informal operators particularly at Glenview Home Industries (GHI) in Harare.

Figure 4.1: Some of the furniture products produced at Glenview



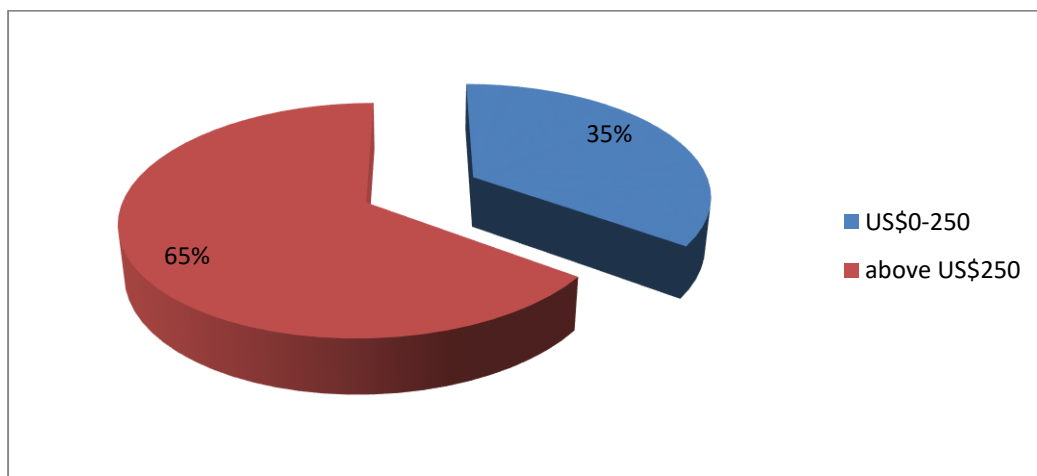
Source: Fieldwork.

#### 4.2.2 Financial Performance of the Informal Sector in Zimbabwe

In a survey conducted by the researcher at Glenview Home Industries, 65% respondents (shown in Figure 4.2) who responded to questionnaires said they earn more than US\$250 on average per month. Thus, the researcher found that most of the operators at GHI earn more than the tax threshold which was set at US\$250 in January 2012 ([www.zimra.co.zw](http://www.zimra.co.zw)). It can however be noted that most operators at Glenview pass “The ability to pay rule” which requires those earning taxable incomes to be subsequently taxed. Linked to this rule is the theory of equity which requires all citizens whether in the informal or formal sector to contribute equally in taxes to the national fiscus. In this regard, findings from GHI revealed that the government can

tax these operators basing on both the theory of vertical and horizontal equity. Therefore, different tax rates can be applied to different operators basing on their average incomes. Despite the fact that more than 65 percent of operators at GHI are earning taxable income no official figures could be obtained from the City of Harare on how much exactly they are collecting as presumptive tax specifically. Attempts by the researcher to gain of official figures of presumptive revenue collected by the state were fruitless as both the Treasury and ZIMRA did not accord the researcher permission to carry the research into their organisations. Hence, the study could not gain the official figures to compare the overall contribution of presumptive tax in Zimbabwe with other countries such as Ukraine. However, the 2014 National Budget and ZIMRA statements did not show any revenue brought from the informal sector through presumptive tax. Documentary review shows that in some countries such as Ukraine in 2001 presumptive revenue constituted 0.8 percent of budget receipts (Bird and Wallace 2003:17).

Figure 4.2: Average earnings per month



Source: Fieldwork

Apparently, documentary review provided estimates on performance of the informal sector to either GDP or GNP in Zimbabwe. According to the Zimbabwe Statistical Agency, the informal sector contributes around 19,5 percent of Zimbabwe's gross domestic product at a total value of \$1,73 billion, with 3,7 million people involved (The Zimbabwean, 4 February 2014). In 2000, Zimbabwe's informal sector was estimated to be worth US\$4,2 billion, representing 59,4 percent of GNP. And with formal employment having shrunk to a measly 10 percent it is no longer clear what

the exact size of the sector is today (Financial Gazette, 26 September 2013). In 2007, the amount of foreign exchange which was attributable to the informal sector was around two billion United States dollars (Southern Eye, 4 February 2014). One of the key informants (Doctor Makochekanwa) argued that the informal sector contributes between 19.5 percent and 20 percent to the national GDP. Thus, there is general agreement both in literature and by key informants on the great contribution of the informal sector to GDP.

#### **4.2.3 Legislative and Constitutional Framework for Taxation**

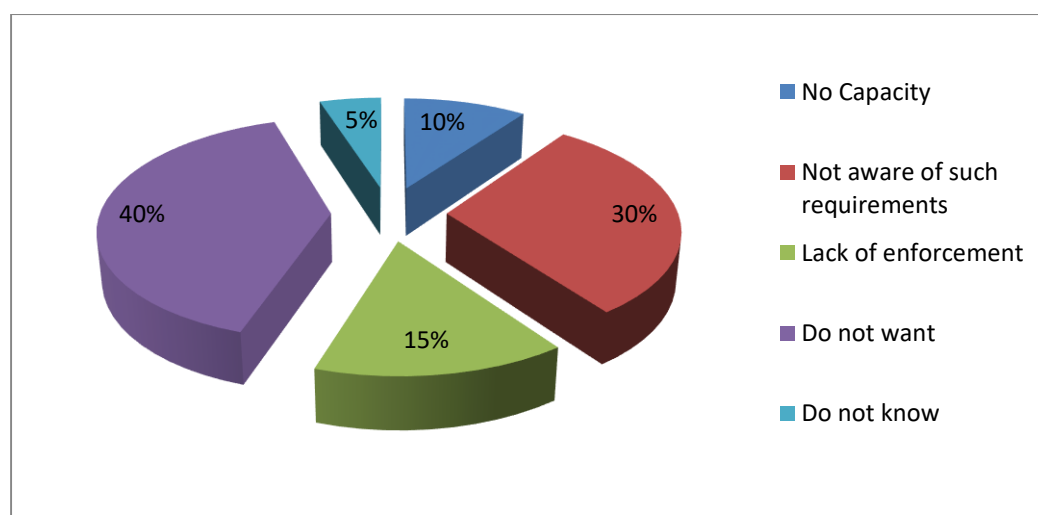
The researcher found out that unlike in Mexico or the Dominican Republic, Zimbabwe has no Act of Parliament guiding the collection of taxes in the informal sector. Since the introduction of presumptive tax by the Treasury it has not been supported by a coherent legislative framework. Present legislation is based on some regulations passed by the Treasury since the 2010 national budget. In a key informant interview with an official from the City of Harare's Department of Housing and Community Services, it was revealed that the local authority is responsible for the collection of presumptive tax whilst retaining 10 percent of the collected revenue as per presumptive tax regulations. However, the official could not clearly account for the enabling Act that gives the City of Harare the mandate to collect presumptive tax revenue. As could be noted in Figure 4.3 below, 30 percent of the surveyed operators at GHI said they are not aware of any legal requirement that binds them to pay taxes. Also, 40 percent of the surveyed operators out –rightly stated that they do not want to pay taxes for varied reasons. For example, some of the respondents stated that because neither the local authority nor the government were giving them any support, hence, they were not willing to pay taxes. In spite of the refusal to pay taxes literature review has clearly demonstrated that “it is a widely held fact that most people are not willing to pay taxes and for that reason it is very complicated for revenue authorities to impose and collect taxes everywhere and every time” (Alm et al, 2004:2). Thus, the presence of a clear, certain and simple legal framework would ensure all citizens are aware of the need to pay tax necessary and mandatory.

Section 298 (2) of the Constitution of Zimbabwe stipulates that, “no taxes may be levied except under the specific authority of this Constitution or an Act of Parliament”. This overall omnipotence of the constitution in fiscal matters also

manifests in other country constitutions in Africa. Documentary review has demonstrated the centrality of the constitution in the money matters of the country. For example, Zhou (2012:155) outlines that the national constitution is the essential framework for fiscal management. However, there is no specific mention of presumptive tax in the Zimbabwean Constitution or a standing Presumptive Tax Act as legitimised by that clause (Section 298 (2)) in the supreme law of the land.

Research findings also concurred with the hypotheses which attribute the weak legislative framework as hindering the contribution of the informal sector to the national fiscus. The absence of a coherent legal framework contravenes the dictates of the doctrine of enforceability. More so, the behaviour shown by informal operators at GHI can also be explained by the voluntarist school of thought which outlines that informal operators deliberately decide not to pay taxes or avoid government regulations mandating them to pay taxes. However, conversely AFRODAD (2011:9) argued that the issue of enforcement is often lacking even though the country has strong legislation on public finance management. This concurred with 15 percent of the operators (as shown in Figure 4.3 below) who responded to questionnaires citing that lack of enforcement was their major reason for not paying taxes.

Figure 4.3: Reasons why informal operators at GHI are not paying taxes



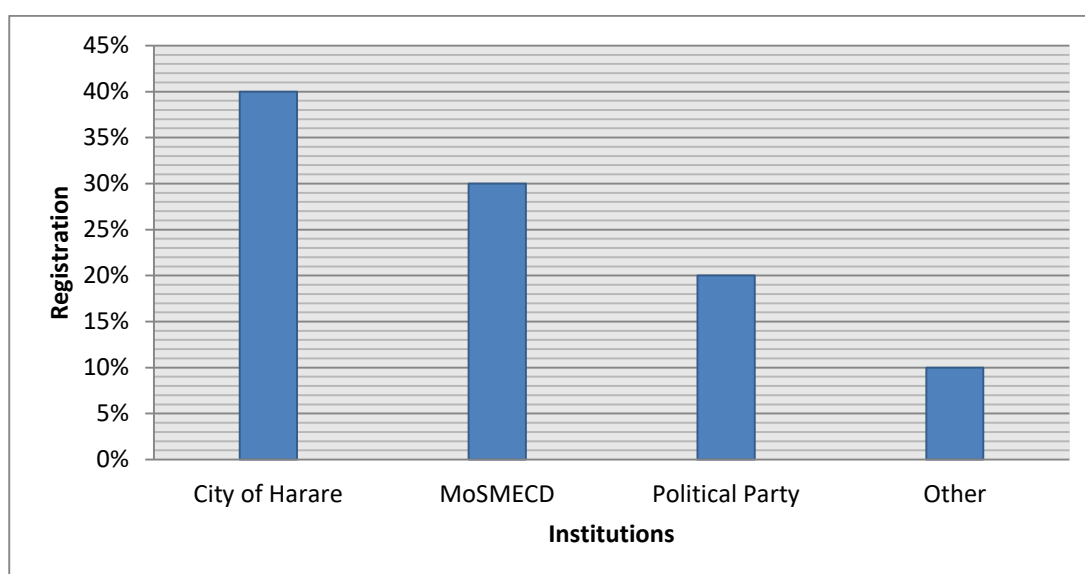
Source: Fieldwork

#### **4.2.4 Institutional Framework for Taxation**

The research found out that there is no general consensus on the institution responsible for the informal sector in Zimbabwe. For example, a survey conducted at Glenview Home Industries in Harare revealed that there are several institutions involved in the administration of the complex in Glenview. Respondents revealed that the City of Harare, Ministry of Small to Medium Enterprises and Cooperatives Development (MoSMECD) and also a political party superintends operations. As could be shown in Figure 4.4 below, 40 percent of respondents said they are registered with the City of Harare, 30 percent said they are registered with the Ministry of Small to Medium Enterprises and Cooperatives Development whilst 20 percent revealed that they are registered with the political party and 10 percent were not aware of any responsible institution. However, authorities at the complex revealed that the MoSMECD is responsible for the Complex whilst the City of Harare collects the rates. Hence, it was noted that both the MoSMECD and the City of Harare are *de jure* authorities, whilst a revealed political party constitute a *de facto* parallel authority at Glenview complex. This confusion is posing challenges in the contribution of the informal sector to either national development or to the national purse.

Documentary evidence by AFRODAD (2013:5) points to the fact due to size of the informal sector, revenue administrators seem to collect taxes based on the doctrine of convenience and not on the ability to pay principles. For example, ZIMRA seems to be contending with taxing a teacher income tax due to the convenience of the tax head (PAYE) whilst informal entrepreneurs who can pay more under the ability to pay rule are reluctant because there are no systems to bring them into the tax net. Accordingly, Ibid argues that “the capacities of revenue authorities to ensure compliance are weak institutionally resulting in none monitoring of transfer pricing and other forms of tax evasion and avoidance.”

Figure 4.4 Operators' responses on organizations they are registered with



#### 4.2.4.1 Zimbabwe Revenue Authority (ZIMRA)

The Revenue Authority Act Chapter 23:11 gives ZIMRA the mandate to collect taxes for the government. Utaumire et al (2013:114) highlight that “ZIMRA acts as an agent of the state in assessing, collecting and enforcing the payment of all taxes, advises the MoFED on matters relating to the raising and collection of revenue and perform any other function that maybe conferred or imposed on it in terms of this Act or any other enactment.” However, according to Utaumire et al (2013) ZIMRA has its own shortcomings which include lack of follow ups and inadequate awareness campaigns. The study revealed that effective implementation and administration of the tax head has the potential of increasing the revenue base. This means there is room for improvement on implementation and administration of presumptive tax. The researcher also found out that ZIMRA does not have any database for informal operators. AFRODAD's (2011:9) study found out that revenue collection by ZIMRA is poor. The study linked these shortcomings to weak policies and failure by the authority to monitor transactions in the informal sector.

#### 4.2.4.2 City of Harare

Key informant interviews with officials from the MoSMECD and the City of Harare revealed that local authorities are responsible for taxing the informal sector. An official from the City of Harare admitted that they are responsible for the collection of



presumptive taxes. Documentary review pointed out that the treasury mandated local authorities to collect presumptive tax from the informal sector and retain 10 percent of the proceeds. Also, authorities at GHI stated that the City of Harare is collecting rentals from operators at GHI, a position that concurred with that of an official from the City of Harare. However, officials from the City of Harare refused to disclose whether they were remitting the 10 percent of the proceeds to ZIMRA or to the Treasury.

#### 4.2.4.3 The Treasury

A key informant from GHI stated that the treasury is not availing adequate funds to cater for the informal sector. This is despite the findings in documentary review which pointed out that the Treasury is the fiscal arm of the government. According to [www.zimtreasury.co.gov](http://www.zimtreasury.co.gov) the Ministry of Finance and Economic Development is responsible for “collecting revenue due to Government, in particular through the Zimbabwe Revenue Authority (ZIMRA).” The MoFED allocated US\$100 million to the informal sector in the 2014 national budget (2014 Budget statement). However, a lecturer from the University of Zimbabwe’s Department of Business Studies was sceptical on how the treasury was going to administer the fund considering the characteristics of the informal sector in Zimbabwe.

### 4.2.5 Challenges faced in taxing the informal sector

#### 4.2.5.1 Emergence of Illegal agents

The researcher observed that there was an increase in the sprouting of illegal middlemen who are engaged in the selling of hardware at their determined commissions. These people prey on potential customers dropping from commuter omnibuses and present themselves as operators or merchants who lure customers on behalf of operators. They will then accompany the customer into the complex and charge these customers any price that they think regardless of what the legitimate owner of the product charges. These agents or merchants usually charge exorbitant prices whilst taking the difference and demanding a commission from owner for selling their product. Both the authorities selected for key informant interviews and operators who responded to questionnaires complained about this and even cited that attempts to bring the police to keep order did not bear fruit. Despite pocketing large

sums of money without investing anything they are not paying any rates or taxes, neither are they willing to do so.

#### 4.2.5.2 Lack of Proper Physical Structures

This was a major challenge that the researcher observed at GHI. Officials from the complex argued that the City of Harare despite raking in thousands of dollars every month have not taken any initiatives in developing the area. The researcher observed that many operators were facing challenges in keeping their products especially protecting their furniture from the rains. The researcher observed that they were no adequate structures for the overcrowded operators. One official revealed that the City of Harare has failed to provide more ground or places for business to expand and to reduce overcrowding. Some respondents even were clear that they do not see the reason to pay taxes because even if they are paying rates and rents to the relevant authorities.

#### 4.2.5.3 Politics

The researcher observed that there was greater involvement of political players in the operations of informal operators at Glenview. The researcher observed that GHI is a relatively polarized area. Apart from the researcher's observations, 20 percent of respondents (as shown in figure 4.4 above) who responded to questionnaires stated that they were registered by a political party to be able to operate at Glenview. In addition, 10 percent of some of the respondents who were surveyed highlighted politics as affecting their operations. Further probing by the researcher on how they believed politics affected their undertakings revealed that the respondents were forced at times to abandon their operations to attend political gatherings. This can also be supported by documentary review which shows that politics is one major factor hindering effective collection of taxes in the informal sector. The relationship between politicians and small to medium enterprises results in the former protecting the latter on matters of taxation. This was also supported by Tendler (2002) who referred to this illicit relationship as the "devil's deal". The ADB (2005:30) highlights that taxing the informal sector is highly politically sensitive and troublesome because this sector constitutes a sizeable vote bank for politicians. However, in a key informant interview with one of the academics, (Doctor Makoche Kanwa) it was argued that politics does not affect taxation in the informal sector. He argued

that provided there is relevant legislation and a proper institutional framework politics will not matter on the general taxation of the informal sector.

#### 4.2.5.4 Administrative Challenges

In a key informant interview with a lecturer (Doctor Makochekanwa) from the University of Zimbabwe's Department of Economics, it was argued that the cost of taxing the informal sector is more than the tax collected. He further argued that building the proper infrastructure will not withstand the taxes collected if put on a Cost –Benefit Analysis scale. ZIMRA, on the other hand, has been criticized for failing to collect other prominent taxes such as VAT, Property Tax and Income Tax. In a key informant interview with Makochekanwa, it was highlighted that it is difficult to impose taxation on informal operators. He argued that “some of them do not have a fixed place of business, and the cost of chasing them with a view to collect tax might be more than the benefits”. On the other hand, documentary review suggests that most of operators are engaged in cash transactions (ADB 2005). This view was also supported by Makochekanwa who argues that “given that they do not keep formal books of accounts, at least for showing revenue authorities, it is difficult to determine the exact amount to collect from them.”

The researcher observed that most of the transactions that take place in the informal sector involve the use of hard currency and in cash. Most of the operators possess receipt books that they use to present to authorities at the gate who at times require receipts for goods to be allowed past the main gate. However, the researcher also observed that proper follow up is very problematic because they are various exits at the institution. Most of the respondents who responded to questionnaires admitted that they do not usually keep records of their past transactions. However, officials at GHI who were picked for key informant interviews stated that all operators have receipts and can be traced.

#### **4.2.6 A Comparative analysis of experiences between Zimbabwe and other countries**

Officials who are responsible at GHI who were interviewed stated that there was need for the government to draw lessons from other success stories of countries such as China and South Korea. He pointed out that “the government of China looks for

markets for its SMEs”. He argued that the Chinese government encourages its SMEs to keep producing goods and the government looks for international markets through both bilateral and multilateral agreements. Documentary review showed that the Chinese have been accused of dumping sub-standard goods in poor countries of Africa and particularly Zimbabwe. On the case of South Korea the official cited the Korean government as giving tenders to its SMEs and this encouraged their development. An official from the MoSMECD stated that the Ministry has at various occasions send officials, SMEs operators to China and India to get practical appreciations of how SMEs can develop.

### **4.3 Conclusion**

Analysis of data has revealed that there are no linkages between the legal framework and the initiatives to harness the resources from the informal sector. Politics is also affecting the taxation of the informal sector. The findings showed that operators at GHI included women and men, different age groups, and absence of formal training to undertake businesses. Also, findings revealed involvement of the City of Harare, MoSMECD, political party and politicians. Findings also show some similarities with reviewed literature especially with relation to challenges being faced in collection of revenue in the informal sector. Unlike other initiatives from other countries, Zimbabwe still lags behind in providing a comprehensive legislative framework for informal sector taxation.

## **CHAPTER FIVE**

### **CONCLUSIONS AND RECOMMENDATIONS**

#### **5.0 Introduction**

In accordance with the outlined objectives, this chapter wraps up the major research findings based on the analysis of data found in chapter four and reviewed in literature. The chapter will also draw conclusions on the fiscal potential of the informal sector on the national revenue base. Recommendations which, if implemented, can boost revenue to the national purse and also develop the informal sector are also presented.

#### **5.1 Conclusions**

##### **5.1.1 A Prognosis of the Financial Performance of the Informal Sector**

The main objective of the study was to examine the financial performance of the informal sector. It was discovered that the informal sector is performing very well and can be taxed considering that most of the operators in that economy are earning taxable income. The study found that the informal sector is contributing hugely to GDP and if developed has capacity even to contribute directly to the national fiscus through direct taxes. The researcher also found that the City of Harare is collecting huge sums of money through rentals from operators at GHI but was not sure if they are remitting something to ZIMRA in accordance with Presumptive Tax regulations. The study also concluded the financial performance of the informal sector is being affected by both lack of capital and markets. It was discovered that businesses were being faced with a ‘stunted growth’ situation because of lack of loans and credit facilities both from the Government, non-governmental organizations and even the private sector. The US\$100 million allocated by MoFED in the 2013 Budget Statement was just a drop in the ocean considering the state of the informal sector. The government has also failed to attract the private banking sector to come on board to assist this lucrative informal sector. This could also be linked to government’s failure even to support the formal sector. In addition, the study concluded that the government is failing to provide a ready market for the informal sector through provision of tenders and the searching of new regional markets even if it’s part of enabling regional grouping such as the Common Market for Eastern and Southern

Africa (COMESA) block. All this could boost the financial performance of the informal sector.

#### 5.1.2 Institutional Framework for Taxing the Informal Sector

The study found that they are adequate institutions responsible for the informal sector. However, it was noted that there is no strategic collaboration between these institutions and resulting in more confusion. For example, on a positive note the MoSMECD did well in constructing the furniture cluster and handed it to the City of Harare after Operation Murambatsvina in 2005. However, other institutions such as SEDCO have not been active although it is the parastatal formed specifically to deal with these operators. The involvement of political parties has negatively affected the participation of NGOs in the informal sector since both parties have long played the cat and mouse game around the informal sector. Politicians who refer to these informal operators as their vote banks suspect the involvement of these NGOs as a threat to their support base in their political arguments. Hence, they have used all institutions in their toolbox to protect their support base other than developing the informal sector or its contribution. Apart from that ZIMRA has no capacity as an institution responsible for collecting revenue to adequately enforce compliance in the informal sector to pay taxes. The City of Harare on the other hand is facing its own challenges and cannot be entrusted with the mammoth task of taxing the informal sector. The Treasury also has acknowledged the potential of the informal sector resulting in it allocating a vote in its 2014 budget statement. However, it is not very certain on which institutions will be responsible for administering the US\$100 million allocated.

#### 5.1.3 Legislative Frameworks for taxing the Informal Sector

The study found that collection of taxes in the informal sector was introduced under Presumptive Tax regulation in the 2008 national budget and was reinforced by the Finance Act Chapter 23:04 specifically spelt out in Section 22C. Unfortunately, the Public Finance Management Act does not address the issue of presumptive tax. However, these efforts in legislation have not been complemented by by-laws from local authorities to coherently develop strategies to tax the informal sector. Also, the researcher concluded that presumptive tax regulations are vague and do not stipulate how the informal sector should be taxed.

#### 5.1.4 Challenges

The study has shown that the treasury and subsequently revenue authorities have not developed strategies that would advance initiatives to broaden the tax base. Thus, in as much as extending the tax net is concerned there are no holistic approaches of formalizing the informal sector. Also, there are no tax incentives which are vital if the treasury is to attract the informal sector into this tax net. Moreover, the treasury is not working together with local authorities so as to smoothly register all informal economic activities for taxation.

It can also be concluded that there is deliberate reluctance and absence of political will from all stakeholders to adequately harness resources from the informal sector. This has been concluded as retrogressive to broadening the tax base. Therefore, the government has not provided adequate legislation which is certain so as to legitimize the collection of taxes in the informal sector. More so, politicians are protecting this informal sector for their political gains. This hinders attempts by tax authorities to put informal operators under the tax hammer like all other citizens. The study found out that there is no built trust between tax authorities and the tax-paying public.

#### 5.1.5 Comparisons with other countries

The Government is failing to draw lessons from success stories of China, Brazil and Ukraine which have managed to strategically tax the informal sector. Despite the famous declaration of the Zimbabwean Government's Look East policy, very little has been done to draw lessons from Asian success stories. Bi-lateral agreements between Zimbabwe and China have benefited the latter who have decided to use the former to dump sub-standard products from its informal sector (though it has graduated to attain the formal SMEs status). The Zimbabwean Government is not looking for markets for its informal sector both regionally and internationally. This could be in terms of bi-lateral trade agreements with individual nations or in terms of trade blocks such as COMESA among others. The Government has also failed to learn from experiences in other countries such as Tanzania which have emphasized the issue of registering all activities in its informal sector or SMEs. The case of Brazil could also give Zimbabwe the tips on the importance of incentives on attracting the informal sector into the tax net. The case study of Ukraine could have given

Zimbabwe the appreciation of a mindset change of acknowledging the informal sector as an important cash cow to the national purse.

## **5.2 Recommendations**

In the light of the conclusions highlighted above, the following recommendations can be made:

- It is recommended that the gross financial performance status of the informal sector can be developed. This should be through the provision of capital in term of grants, loans and lines of credit. This will allow these SMEs to develop and hence increase their taxation potential. In this regard, the Government should play a major role in the provision of this capital and should also attract the private sector and other NGOs for complimentary funding. Provision of a ready market can also help develop the informal sector. Government is the biggest buyer in any country and should set precedence in providing a ready market for the informal sector. This could be through the allocation of tenders to the informal sector to increase their viability through selling of their products to Government and its institutions. For example, Government avail tenders to GHI for the supply of furniture to its ministries.
- It is recommended that the Government should put in place the legislation both at national and local level. Firstly, there is need for the government to craft a presumptive tax act. Just like other tax heads such as Income Tax, Value Added Tax or Property Tax the introduction of Presumptive Tax Act will increase certainty and legitimacy in the taxing of the informal sector. In addition, local authorities in general, and the City of Harare in particular, should also enact relevant by-laws in line with the presumptive tax act. This would complement Presumptive Tax Legislation and or regulations. All local authorities are recommended to pass these by-laws.
- It is also recommended that ZIMRA and local authorities should work together to register all economic activities in the informal sector. This will help both parties to simultaneously work together in administering this informal sector in terms of its development and enforcement of compliance to



tax laws. At ministry level it is recommended that the Treasury should work hand in hand with sister ministries responsible for the informal sector.

- Also, it is recommended that politicians should put national interest first and acknowledge that finance is the lubricant of public administration. In this respect, they should allow informal businesses to be taxed and not protecting them for their political reasons.
- Lastly, it is recommended that the Government should draw lessons from nations that have succeeded in taxing the informal sector and develop them into fully fledged formal SMEs that contribute to national development, as is the case in China and Brazil. The Government should also make use of bi-lateral trade agreements to develop its informal sector.

### **5.3 Conclusion**

This research has shown that the GHI has a great fiscal potential and can positively contribute to national development through poverty reduction, employment creation and overallly, through direct tax revenue. Hence, a lot needs to be done to meet these goals starting from appreciating the potential of the informal sector and putting in place strategies to fully nurture its growth. If this is humbly initiated GHI could become one of Zimbabwe's furniture hubs.

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## Appendix 1

### 4.1.2 Key Informant Interview Schedule

Organization	Position	Date
MoSMECD	Business Development Officer	16 January 2014
MoFED	Official	4 February 2014
City of Harare –Department of Housing and Community Development	Senior District Officer	22 January 2014
	Revenue Officer	6 February 2014
Glenview Home Industries	Official 1 Official 2	4 February 2014
University of Zimbabwe- Department of Economics	Lecturer	23 January 2014
University of Zimbabwe – Department of Business Studies	Lecturer	3 February 2014

## Appendix 2

### Questionnaire Guide for Key Informants

Name of Respondent.....

Position of Respondent.....

Department.....

Date.....

My name is Chigova Lewis Edwin, a student at the University of Zimbabwe currently doing Master of Science Degree in Public Administration. I am conducting research on a dissertation project titled: **An Analysis of the Fiscal Potential of the Informal Sector on Zimbabwe's Revenue Base: The Case of Glenview Home Industries**. I kindly ask for your assistance in providing insights to my research inquiry. Responses given will be treated with confidentiality and all information provided will be used strictly for academic purposes.

1. How can you define the informal sector?

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

2. How do you view the informal sector in Zimbabwe?

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

3. In your own assessment, how much do you estimate to be the financial worth of the informal sector in Zimbabwe?

- a. In terms of contribution to GDP

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

- b. In terms of potential tax revenue

- .....  
.....  
.....
4. a. What are the legal frameworks guiding taxation of the informal sector in Zimbabwe?

- .....  
.....  
.....  
.....
- b. How effective are these frameworks in harnessing resources from the informal sector?

- .....  
.....  
.....  
.....
5. a. What are the institutional frameworks guiding the collection of taxes in the informal sector?

- .....  
.....  
.....  
.....
- b. How effective are these in the effective taxation of the informal sector?

- .....  
.....  
.....  
.....  
.....
6. What are some of the countries do you think have done progress in drawing the informal sector into the tax net and what are the lessons that Zimbabwe can draw?



7. Harare's Glenview Home Industries (generally known as Area 8) is known for its informal sector undertakings. What specific strategies can you specifically prescribe to be initiated as a pilot study or case study for lessons to be drawn in the national taxation of informal businesses?

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8. What are the notable challenges, in your opinion, associated with taxing the informal sector or attempting to tax them in Zimbabwe?

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9. What do you recommend as a comprehensive way of developing the informal sector's contribution to the national purse in Zimbabwe?

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10. Lastly, are there any insights that you would like to give regarding the informal sector in Zimbabwe in particular or in developing nations in general?

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### Appendix 3 Questionnaire for operators at Glenview home industries

Questionnaire Guide for.....

Position of Respondent.....

Date.....

My name is Chigova Lewis Edwin, a student at the University of Zimbabwe currently doing Master of Science Degree in Public Administration. I am conducting research on the Fiscal Potential of the Informal Sector on Zimbabwe's Revenue Base. I kindly ask for your assistance in providing insights to my research inquiry. Responses given will be treated with confidentiality and all information provided will be used strictly for academic purposes.

#### Section A: Demographic Profile

1. Gender
 

Male	<input type="text"/>
Female	<input type="text"/>
  
2. Age
 

Below 25	<input type="text"/>
25-35	<input type="text"/>
35 and above	<input type="text"/>
  
3. Duration in the informal sector:
 

1-2 Years	<input type="text"/>
2-4 Years	<input type="text"/>
4 and above	<input type="text"/>
  
4. Training Profile:
 

On the Job Training	<input type="text"/>
Vocational training	<input type="text"/>
Polytechnic training	<input type="text"/>
University	<input type="text"/>
Other (specify)	<input type="text"/>

.....

.....

.....

## Section B: Research Questions

1. How is your business performing?

Very good	1
Good	2
Fair	3
Poor	4
Don't know	5

2. Is your business consistent throughout the year?

Yes	1
No	2

3. If no, when is your business at its peak?

February –April	1
May –July	2
August –October	3
November-January	4
Other	5
Not Applicable	6

4. Do you have any employees or do you work with others?

Yes	1
No	2

5. If yes, how many people do you employ or work with?

0 -3	1
3-6	2
6 and above	3
Not Applicable	2

## Section C

6. Are your undertakings registered?

Yes	1
No	2

7. If yes, which institution are you registered with?

City of Harare	1
Ministry of Small and Medium Enterprises	2
ZIMRA	3
Independent	4
Political party	5
None	6
Don't know	7
Not Applicable	8

8. Do you pay any taxes?

Yes	1
-----	---

No	2
----	---

9. If yes, what tax or taxes do you pay?

Presumptive Tax	1
VAT	2
Income tax	3
Property tax	4
None	5
Don't know	6
Not Applicable	7

10. If no, why are you not paying taxes?

No capacity	1
Not aware of such requirements	2
Lack of enforcement	3
Do not want	4
Don't know	5

11. Do you receive any support from any recognised organisation?

Yes	1
No	2

12. If yes, which institution (s) mostly supports your activities?

Central government	1
Local authorities	2
Non-government organisations	3
Political party	4
All of the above	5
None	6
Don't know	7
Not Applicable	8

13. What kind of support do you get?

Loans	1
Training	2
Access to exhibitions	3
Market	4
Grants	5
None	6
Don't know	7

14. Which of the following challenges affects you the most?

Lack of support	1
Politics	2
Lack of technology	3

Lack of markets	4
Seasonal markets	5
Lack of training	6
None	7
Don't know	8

Briefly explain your answer

.....

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.....

15. How much do you earn on average per month?

US\$0-250	1
US\$250-500	2
US\$500-750	3
US\$750-1000	4
US\$1 000 and above	5

16. What do you recommend should be done by authorities to improve the informal sector undertakings?

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**The End**

**Thank you for completing this questionnaire and for your time!**