



# **A critical review of the taxation of the informal sector in Zimbabwe**

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## **Declaration**

I declare that this thesis titled “**A critical review of the taxation of the informal sector in Zimbabwe**” is my own work and that all the sources used and quoted have been acknowledged accordingly. To the best of my knowledge, neither this thesis nor any part of it has been submitted or is to be submitted at North West University for another qualification or at any other university. I further declare that I submitted this thesis for originality checks and it is within the acceptable originality range.

Signed:

Date:

**Dedication**

This research is dedicated to my late parents, Stephen and Doris. I did this in your honour. You believed in me as a girl child despite society's disapproval.

## **Acknowledgements**

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## **Abstract**

Taxation is considered a source of stable, predictable and sustainable government revenue, yet taxation of the informal sector continues to be an intractable challenge for developing nations such as Zimbabwe. Tax compliance is arguably very low in this sector and tax revenues correspondingly minimal, notwithstanding the continued burgeoning of the sector which, heightens tax evasion and avoidance leading to an even greater decline in overall tax collections. This robs the government of finance and impedes economic development. Taxation of this sector remains an absent or nascent block in contemporary tax discourse as the discussions often concentrate on enhancing formal sector tax compliance on tax heads such as VAT, corporate tax and PAYE among others. Zimbabwe has a large and growing informal sector and introduced presumptive tax in 2005 and further enforced it in 2011, after the economy dollarized in an effort to broaden the tax base and increase government revenue. The sector is contributing very little to the revenue basket and the country continues to face budget deficit challenges. It is against this background that this study sought to review informal sector taxation in Zimbabwe. This study makes a contribution to the tax body of knowledge as informal sector taxation continues to be a topical and extant issue. In addition, the study tackles the methodological gap by employing the sequential exploratory mixed method research approach in an area that is predominated by the use of singular methods, which is either qualitative or quantitative research in isolation. Data was gathered through the use of in-depth interviews, document analysis and questionnaires. Thematic analysis was employed with the aid of NVIVO and SPSS. The study found that most challenges of informal sector tax compliance emanate from the institutional environment, the nature of the sector as well as the design of informal sector tax systems (presumptions especially the “one size fits all fixed rates”). The constraints are namely bureaucratic and stringent regulatory systems of operating formally, high tax rates, low incomes and corruption which is fuelled by political interference. The low compliance was further compounded by the weak capacity of ZIMRA. In light of the above findings, the study recommends that the key to unlocking the potential contribution of the sector lies with the government, as several policy implications are drawn. Policy makers will need to improve and simplify the registration requirements and processes, the labour laws, tax policy and administration if they are to bring the informal sector into the tax net and harness its revenue potential. Simplified tax legislation, a well-researched tax system supported by a capacitated tax administration that upholds relational reciprocity and a government that fulfils the implied social contract will complement these ameliorations. Training, stakeholder engagement, tax education and development programmes will go a step further to improve the informal sector tax compliance capacities and capabilities.

**Keywords:** informal sector, taxation, presumptive tax, tax administration, ZIMRA, tax morale

### **Publications or conference papers from this research**

1. Mpofu, F.Y. & Coetzee, K. (2019). Drivers of Informality and Taxation: A theoretical Evaluative Review of the Emergence and growth of the Informal Sector in Developing Countries. *Conference Proceedings of Accounting and Business in 4IR Era*. ISBN 978-0-639811-0-5
2. Mpofu, F. Y. & Coetzee, K. (2019). Taxing the informal sector in Zimbabwe: An Avenue for an expanded tax base, crippling of the informal sector activities or both?. International Conference on Business and Management Dynamics (ICBMD-2019), Swakopmund, Namibia

## **Definition of Terms**

**Informal Sector:** The informal sector (IS hereafter) concerns legal economic activities that are not captured in official national accounts and statistics. According to the Income Tax Act, Zimbabwe (Chapter 23:06), 26<sup>th</sup> Schedule is defined as “an individual who carries on a trade for his own account from which he derives a gross income of less than six thousand United States Dollars or such other amount as the Minister may prescribe...”. These enterprises and individuals are subject to presumptive tax and those that meet the VAT threshold or are voluntarily registered for VAT, pay VAT accordingly. They normally include hairdressers, small scale miners and traders, cottage industries and bottle stores among others.

**Taxation:** A compulsory payment or contribution, levied by government on its citizens to finance government expenditure. It can be levied on employment income and business profits (income tax, which can be in the form of presumptive tax, PAYE, Intermediate Monetary Transaction Tax and corporate tax), value-added to the cost of goods, services and other transactions (VAT) and on imported goods (Customs Duty).

**Tax policy:** Tax policy is concerned with the decisions to do with how much revenue the government should collect, from who and at what rate. These decisions are informed by legislation, legal precedence and advice from experts such as tax experts, revenue authority officials, legislators and other key stakeholders (Kristoffersen, 2011).

**Presumptive Tax:** Involves the use of indirect ways to ascertain tax liability which is different from the usual rules based on the taxpayers' books of accounts. The word “presumptive” is used to indicate that there is a legal presumption of the tax liability (Machemedze et al. 2018; Thuronyi). This is administered in terms of Section 36C of the Income Tax Act, Zimbabwe (Chapter 23:06).

**Tax Compliance:** Tax compliance is the level to which taxpayers honour their tax obligations. It can be explained as the adherence to tax laws by reporting incomes truthfully, correctly computing tax liability, timely lodging returns and settling tax obligations (Alebede & Zainal Affrin, 2011).

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## Abbreviations and Acronyms

|         |                                                    |
|---------|----------------------------------------------------|
| AFRODAD | African Forum and Network for Debt and Development |
| ATAF    | African Tax Forum                                  |
| ATJN    | Africa Tax Justice Network                         |
| AU      | Africa Union                                       |
| BAZ     | Bankers Association of Zimbabwe                    |
| BMS     | Block Management System                            |
| CSLAC   | Civil Society Legislative Advocacy Centre          |
| ESAP    | Economic Structural Adjustment Programmes          |
| GDP     | Gross Domestic Product                             |
| ICTAZ   | Institute of Certified Tax Accountants, Zimbabwe   |
| IEA     | Institute of Economic Affairs                      |
| ILO     | International Labour Organisation                  |
| IMF     | International Monetary Fund                        |
| IS      | Informal Sector                                    |
| KRA     | Kenya Revenue Authority                            |
| KShs.   | Kenyan Shillings                                   |
| MMR     | Mixed Method Research                              |
| MSME    | Ministry of Small and Medium Enterprises           |
| NSSA    | National Social Security Assistance                |
| OECD    | Organisation for Economic Cooperation              |
| PAYE    | Pay As You Earn                                    |
| SME     | Small and Medium Enterprises                       |
| SPSS    | Statistical Package for Social Sciences            |
| SSA     | Sub Saharan Africa                                 |
| TE      | Tax Expert                                         |
| TOT     | Turnover Tax                                       |
| TRA     | Tanzania Revenue Authority                         |
| TShs    | Tanzania Shillings                                 |

|         |                                                         |
|---------|---------------------------------------------------------|
| UNDP    | United Nations Development Programme                    |
| UNESCA  | United Nations Economic Commission for Africa           |
| USD     | United States Dollar                                    |
| VAT     | Value Added Tax                                         |
| WHT     | Withholding Tax                                         |
| WIEGO   | Women in Informal Employment Globalising and Organising |
| ZEPARU  | Zimbabwe Economic Policy Analysis and Research Unit     |
| ZIMCODD | Zimbabwe Coalition of Debt and Development              |
| ZIMRA   | Zimbabwe Revenue Authority                              |
| ZIMRAO  | Zimbabwe Revenue Authority Officer                      |
| ZIMSTAT | Zimbabwe Statistics                                     |

## CHAPTER 1: INTRODUCTION

*“Taxes are the lifeblood of government and no taxpayer should be permitted to escape the payment of his share of the burden contributing thereto”- Arthur Vanderbilt*

### 1.1 Background of the Study

Numerous researchers on economic growth and development in developing countries have pointed to the problems of revenue leakages and shortages as posing a major challenge for these countries in achieving the major four macroeconomic objectives of government which are full employment, economic growth, price stability and a positive balance of payments (Akinboade, 2015; Joshi & Ayee, 2008; Mpapale, 2014:6; Prichard, 2009). According to Maina (2016, 2017) and Bird (2012), developing countries have consistently recorded revenue deficits in their national budgets both in the current and capital accounts. The dilemmas of state taxation and revenue mobilization have worsened these problems pointing to the need to generate more revenue as well as to broaden the tax base as its narrowness and dependence on a few taxpayers has seen revenues dwindling and taxpayers overburdened (Everest-Phillips & Sandall, 2009:2; Fjeldstad & Heggstad, 2011; Ligomeka, 2019:6). These dilemmas have also pointed to challenges of defective, inefficient and porous administration regimes often exploited through tax evasion and tax avoidance as well as through other leakages (Heggstad et al., 2011:4; Ndikumana & Boyce, 2012). Akinboade (2015) and El Badaoui and Magnani (2020) posit that, the existence of a large informal sector (thereafter referred to as IS) in Africa impedes the propensity of African governments to mobilise adequate revenues through tax collections. Waris and Kohonen (2009) express that the tax responsibility is unequally spread, with a large portion of the economy going untaxed. Literature on the feasibility of taxing the IS and its compliance levels remains paltry (Maina, 2016:7; Sebele-Mpofu & Msipa, 2020:193). Thus, as a vital tool for governance, regulation and revenue mobilisation (Joshi & Ayee, 2008:186), taxation as well as tax compliance in the IS continue to be a focal point for both researchers and policy makers.

The IS's contribution to total tax revenues in Africa and in Kenya in particular is pegged at a measly 3% of total taxes (Benjamin & Mbaye, 2012; Maina, 2016:7). In the words of Martinez-Vazquez and Richter (2009) “structural problems, such as a narrow tax base, tax evasion, distrust of the taxpayer vis-a-vis public institutions and administrative weaknesses, have taken



a toll on tax collection”. These challenges have pointed to the urgent need to look for more sources of tax revenue and to explore how tax revenues can be sustainably and effectively tapped from these sources. Hence, taxation of the informal sector has become a topical issue in low income and developing countries (Ayee, 2007; Joshi & Ayee, 2008:186; Joshi et al., 2013; Ligomeka, 2019:6; Meagher, 2016:1; Makochekanwa, 2020:3; Munjeyi et al., 2017). Discussions have centred on whether the poor tax revenue contribution from the IS could be linked to the incompatibility of tax policy with the sector’s characteristics or possibly a problem of administration, hence pointing to administrative and compliance hurdles (Mpapale, 2014:6; Sebele-Mpofu & Msipa, 2020:194). This signals intriguing policy and administrative gaps that require exploration through research. In the Zimbabwean context, the call to generate revenue locally by taxing the informal sector has generated significant focus, with the continued ballooning of the informal sector in recent years (Dube, 2014; Dube & Casale, 2016:602; Kundt, 2017a:2; Ligomeka, 2019:6; Masarirambi, 2013). Fundamental questions still remain, such as to what degree should tax be levied on the IS and what measures governments can employ to do so in a balanced, productive and efficient manner (Bongwa, 2009; Africa Tax Spot light, 2012).

Munjeyi et al. (2017) and Masarirambi (2013) assert that public revenue mobilisation remains weak in numerous Sub Saharan African countries. Fjeldstad and Heggstad (2011) advance the view that developing country tax bases are “non-comprehensive” as a result of a large non-taxpaying IS, whose ability to evade tax is compounded by the frail capacities of most developing countries’ revenue authorities. This adds to the other challenges these countries face in adequately and effectively administering tax policy aimed at taxing this contentious sector (El Badaoui & Magnani, 2020). Effective taxation frameworks are viewed to be pivotal for economic development that is sustainable as well as in aiding to build an expanded domestic revenue base in developing countries. This is key in (1) minimising the overreliance on aid and donor funding (Pfister, 2009; Sebele-Mpofu, 2020a); (2) enshrining accountability by government to their taxpaying citizens, thus creating legitimacy of these governments and (3) allowing the distribution of wealth amongst the citizens of the country through the use of tax revenue (Fjeldstad & Heggstad, 2011, 2012). Failure to tax the informal sector does not only rob the economy of potential revenue but threatens the survival of the formal sector, which plays a crucial role in generating government revenue inflows. Non or under-taxation of the informal sector results in imbalances in the tax system especially in developing countries where more than 60% of the population is either employed informally or self-employed

(Masarirambi, 2013; Sikwila et al., 2016:79). In Zimbabwe, the informal sector employs 80% of the population (ZIMSTAT, 2014). Dube and Casale (2019:49) and Ligomeka (2019) allude to the fact that nearly 75% of formal companies collapsed between 2008 and 2016 robbing the government of value added tax revenue (VAT), corporate tax and pay-as-you-earn (PAYE) that was generated by the collapsed companies. According to Medina and Schneider (2018), the country has the second largest IS in the world. The country has a large informal sector, very high self-employment rates and low levels of tax collection (ZIMRA, 2015, 2017). Joshi et al. (2014:1325) observe that the IS has a potential to generate lucrative tax revenues hence the need for developing country governments to map avenues to tap the envisaged revenues.

Taxing the informal sector raises efficiency, equity and administrative capability issues (Tanzi & Zee, 2000; Maina, 2016:16, 2017:7), thus challenging the application of the canons of taxation. According to Keen (2008) and Ordonez (2014), informality narrows the tax base and results in serious distortion of economic activity. De Paula and Scheinkman (2011), view the subject of informality from the tax compliance perspective by avowing that informality is tax evasion. The argument raises a controversial debate on the taxation of the informal sector as Hillman (2009) explored the efficiency aspect, arguing that in as much as this can be seen to be tax evasion, remaining informal creates inefficiencies too as these enterprises have to strive to remain in the shadows and invisible from tax authorities. Most of them cannot afford to be successful and cannot apply for government contracts in fear of being noticed by regulators (Joshi et al., 2014; Loeprick, 2009). In short, informality becomes a constraint to enterprise growth, profitability and firm performance as measured by turnover, market share, etc. Baer (2003) and Sikwila et al. (2016:80,82), approach the subject from the informal sector perspective alluding to high tax rates, cumbersome registration processes, political interference, the lack of confidence in governments, high compliance costs as well as a weak legal and regulatory framework, as motivators for informality. Levy (2010) claims that high levels of informality represent an escape by small firms from the stifling barriers of formalisation and taxing them will be tantamount to burying them alive. This is often referred to as the exit view of informality (Maloney, 2004). Hillman (2009) has questioned the escape argument contending that informality may still suffocate entrepreneurship as firms sometimes deliberately remain small to evade tax. In the words of Everest-Phillips (2010), informality aids tax evasion, but certain burdens ultimately become costs. For example, the inability to obtain financing, failure to publicise businesses, failure to sell to governments and to access certain markets, the fear to grow and be visible to tax officials, reduced productivity (Loeprick, 2009:1,

2), together with extortion by corrupt tax officials and revenue officials (Maina, 2017). Therefore, African governments grapple with the responsibility to formulate a balanced IS tax policy that takes into cognisance, and strikes a balance between, the seemingly conflicting dimensions of fairness, administrative practicability, equity, efficiency and economy (Loeprick, 2009:1).

Two conflicting views can be drawn from the arguments above, the first one being that the informal sector presents an opportunity to expand the tax base and its taxation presents a chance to facilitate economic growth. The second view argues that taxation of the informal sector is regressive to economic growth as operators are in most cases poor and low-income earners as alluded to by Pimhidzai and Fox (2011:2). Proponents of the first view suggest that taxation of this sector will aid in the transition of the IS firms to the formal sector, while creating visibility for these businesses, contrary to beliefs that taxation will stifle economic growth (Joshi et al., 2013; Loeprick, 2009; Rogan, 2019). It will allow the supposed poor to realize their full potential. Joshi et al. (2014:1325) mention revenue, growth and governance gains as some of the likely benefits. In the view of critics, the envisaged revenue yields are expected to be low, administrative and compliance burdens probably heavy, tax incidence is likely to be regressive, and the broader growth and governance gains remain insufficiently demonstrated or supported empirically and weakly documented (Kundt, 2017a; Rogan, 2019). Researchers call for strong evidence and a comprehensive analysis of these arguments (Keen 2012:23). The researchers against taxing the sector have further questioned the wisdom of committing scarce resources to taxing this sector in view of its limited revenue potential (Dube, 2014; Meagher, 2016), high cost of collection and potentially perverse impacts on small firms (Joshi et al., 2013, 2014:1329). Researchers also point to two key hindrances to effective IS taxation, that is there is relatively minimal interest displayed by policy makers towards taxing the sector. Secondly, formidable operational challenges towards taxing this sector demoralise tax administrators (Joshi et al., 2013). Taxing the informal sector in most developing countries has enlisted greater attention reflecting increased realisation of the likely benefits to the economy.

It will be inadequate to argue the pros and cons as well as strategies for taxation of the informal sector without fully understanding the drivers of informality. Researchers to argue in favour of or against taxing the sector have often put the theories explaining the drivers of informality forward. The link between drivers of informality and taxation has been observed, especially in relation to the canons of taxation. Wedderburn et al. (2012) emphasise that a comprehensive

appreciation of the drivers of informality is fundamental in constructing a legitimate, logical and operational informal sector tax system. Drivers are said to answer the question, should informal taxation be a policy priority? The answer in turn informs policy strategies towards taxing the sector and these strategies should not conflict with the canons of taxation. Canons of taxation are cardinal principles of a good tax system. These include economy, certainty, equity, convenience and efficiency (Smith, 1776). Giving more weight to the need to investigate the drivers of informality as a foundation for formulating an effective IS tax policy; Maina (2017:7) affirms that the drivers of informality influence the success of taxation measures targeted at bringing this problematic sector into the tax net.

The question of taxing the informal economy in developing and transition countries has received intensifying attention in recent years. This reflects an escalating recognition of the conceivable benefits of informal sector taxation in terms of revenue, growth and governance. However, while the topic has received increased consideration, this has not been without controversy or challenges. Controversy has surrounded the question of whether taxing the informal sector should, in fact, be a major concern for developing country governments. Despite the taxation of the informal sector being an important and topical matter, several researchers have studied the theme without reaching a consensus (Joshi et al., 2014:1325; Pimhidzai & Fox, 2011). This observation has led the researcher to conclude that the taxation of the informal sector research domain is still immature, as it does not meet the criteria for mature research as pointed out by Pandya and Rao (1998) and Mashiri and Sebele (2014). The researchers point to the following criteria: (1) a substantial number of empirical studies have been conducted (2) these studies have generated reasonably consistent and interpretable findings (3) the research has led to a consensus concerning the nature of key relationships.

The taxation of the informal sector domain has not yet met the last two criteria. Despite that a number of studies have been conducted (Joshi et al., 2013, 2014:1325; Joshi & Ayee, 2008; Munjeyi, 2017:73; Ligomeka, 2019; Loeprick, 2009; Prichard, 2009), the research that attempts to study the relationship between the growth of the informal sector has been inconclusive. Research on taxation of the informal sector and economic growth, together with the benefits versus the costs of taxing the sector has neither reached a consensus nor definitive, acceptable and conclusive findings. There is still a disagreement on whether taxing the informal sector is a hindrance (Keen, 2012:30-32) or an answer (Maina, 2016, 2017:20; Schneider & Torgler, 2009; Ligomeka, 2019:6) (or both) (Akinboade, 2015; Pimhidzai & Fox, 2011:2) to

economic growth and revenue mobilization challenges in developing countries. Questions still persist on whether or not to tax the informal sector. Challenging questions remain about how to achieve meaningful improvements in informal sector taxation in practice, as progress in implementation has been slow (Maina, 2016, 2017). Governments, policy makers and administrators have shown comparatively little interest in this area. A review of literature suggests that limited progress has been made in strengthening taxation of the informal sector in practice (Kundt, 2017a; Resnick, 2019; Rogan, 2019).

In light of the continued budget deficits, declining revenues and the shrinking of the formal sector, Zimbabwe introduced presumptive tax in 2005 in terms of the Income Tax Act (Chapter 23: 06) and further enforced it in 2011 (Government of Zimbabwe, 2005; Dube, 2014; Munjeyi et al., 2017). Presumptive tax implementation had two major objectives, that is, to expand the tax base and to adhere to the principle of equity by ensuring that both the formal and informal sector contribute to the tax base in relation to their earning capacities (Ligomeka, 2019:7; Masarirambi, 2013; Munjeyi, 2017:72; Sikwila et al., 2016:80). Three issues were pertinent in the argument for introducing presumptive tax. Firstly, the informal sector does not contribute to the tax basket. Secondly, the sector in some instances generates incomes that are much higher than those of formal businesses. Lastly, taxing the IS was seen as a step towards upholding the equity canon of taxation and expanding the fiscal space (Ligomeka, 2019:7). Zimbabwe is currently collecting revenue from the informal sector (as will be discussed). It is therefore appropriate to critically review taxation of the informal sector and evaluate the effectiveness of the IS tax administration in achieving the objectives of revenue generation, broadening the tax base, improving economic growth and fostering tax compliance among formal firms as well as equity considerations. Taxing the informal sector is argued to improve the tax morale of formal firms who feel unfairly treated as they bear the tax burden alone to finance public goods that the IS benefits from too (Joshi et al., 2014; Rogan, 2019). The present study also undertook a critical appraisal in order to give an insight into the challenges and benefits of informal sector taxation and investigate possibilities of improving revenue collection from the sector, tax compliance and at the same time stimulating growth of the firms and ultimately economic growth. Zimbabwe provides a platform to explore the conflicting views on taxation of the informal sector concerning whether it stifles or stimulates growth, to explore the benefits of taxing the sector versus the costs of taxing it and to understand whether tax policy and tax administration may influence tax compliance incentives and behaviour.

### **1.1.1 Informal sector taxation in Zimbabwe in brief**

As outlined earlier, the logic of using Zimbabwe as a case study is that, the country is currently taxing the informal sector. Dlamini and Schutte (2020:307) submit that SMEs are the “cynosure of economic development in the country as they contribute over 70% of economic activities, employing over 60% of the population and contributing over 50% the country’s GDP”. Major players in the sector include flea market operators, furniture manufacturers, suppliers and producers of agricultural products, food vendors, public transport operators, driving schools, hair salons and small scale miners (ZIMRA, 2017). The Sunday News (2020a) highlights that the issue of taxing the informal sector in Zimbabwe has been a controversial and thorny one for some time. The paper expresses that “For years, debate has mounted on how best the informal sector can be taxed. Actors in the market were sceptical, arguing it was unnecessary for the government to tax the informal sector. In other quarters, businesses in the sector said they were already reeling in over-taxation”. Bird & Wallace (2003:6) and Mpapale (2014:12-15) have discussed the most plausible ways of taxing the sector as firstly, through the application of the existing income tax regime; secondly, through indirect tax such as VAT; thirdly, through special taxes aimed at the sector such as presumptive taxes and lastly through tax incentives and tax holidays. Such is the case in Zimbabwe where these methods are used to tax the informal sector together with using withholding tax. The presumptive tax approach has been used in Zimbabwe since 2005 to tax taxicabs and omnibus operators, hairdressing salons, informal traders, small-scale miners, cross-border traders, restaurants, bottle stores and cottage industry operators, without much emphasis by the government (Dube, 2014; Ligomeka, 2019:6; Newman, 2019:2). The government increased its efforts to tax the sector in 2009, after the adoption of the multi-currency regime and further enforced it in 2011.

Despite the administration of presumptive tax as an addition to taxes paid by the informal sector, and the considerable growth in the informal sector, the Zimbabwean government is still suffering from dwindling revenue generation (Dalu et al., 2013; Dube, 2014; Ligomeka, 2019:6; Munjeyi, 2017; Sikwila et al., 2013:79;). The problem is not only peculiar to Zimbabwe but in most developing countries as well, such as Ghana, Tanzania and Zambia, as shown by Dube and Casale (2016). Kundt (2017a:9) affirms that, despite the variation of presumptive tax frameworks in these countries in terms of structures, breadth and administration, one commonality is evident, their minimal “effectiveness and efficiency”.

Zimbabwe’s economy is characterised by yearly budget deficits, for example, 6.96 % in 2015 (ZIMRA, 2015) and insufficient funds for economic growth and development. Revenues

collected through presumptive tax amounted to USD 1.39 million in 2009 and USD 13.3 million in 2011 reflecting 0.14% and 0.45% of total revenues (Dube & Casale, 2019:59). The revenue contribution from the sector over the period 2011 to 2017 was estimated at between 1-6% of total national tax revenues. The contribution of the informal sector tax revenues to total tax revenues as outlined in the ZIMRA Reports (2015-2018) and by Sebele-Mpofu and Msipa (2020:194) is minimal at as low as 1% in 2015, 1.7% in 2016, 2% in 2017 and 1.37% in 2018. These figures show a growth of 0.7% in 2016, 0.3% in 2017 and a decline of -0.63% in 2018. The sector's contribution to tax revenues remains minute (Ligomeka, 2019:6). Questions still persist on how to broaden the tax base to enhance revenue mobilisation from this sector in a manner that is equitable, efficient and cost effective (Bongwa, 2009; Ligomeka, 2019; Maina, 2017:6; Munjeyi, 2017:73; Sebele-Mpofu & Msipa, 2020). Thus, there is need to review progress on IS taxation in Zimbabwe and increase IS tax administration efforts. A snapshot of the Zimbabwe presumptive taxation system is shown in tabular form in Tables 1.1 and 1.2.

**Table 1. 1: Informal sector categories and Presumptive taxes (excluding transport operators)**

| Category                                  | Presumptive tax rates                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |
|-------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Hairdressing Salon Operators              | Every operator of a hairdressing salon is required to pay Presumptive Tax amounting to <b>US\$10.00 per chair per month</b> . The full amount should be paid by the 20 <sup>th</sup> day after the end of the quarter. Amounts not paid by the due date are subject to interest charges.                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |
| Informal Traders                          | All persons in receipt of rental income from an informal trader in respect of residential accommodation, premises or a place on which trade is carried on are required to recover an additional amount by way of Presumptive Tax equal to <b>10% of the rental</b> and remit it to ZIMRA. This includes local authorities. The amount should be remitted within 30 days from the date the amount is recovered. Failure to recover or remit the Presumptive Tax renders the lessor personally liable for the payment of the Presumptive Tax and a penalty of 100% of the amount due. Failure or refusal on the part of the informal trader to pay the Presumptive Tax constitutes a breach of the lease and allows the lessor to terminate the lease without notice. |
| Cross-Border Traders                      | Cross border traders who import commercial goods into Zimbabwe are required to pay a Presumptive Tax equal to; <b>10% of the value for duty purposes (VDP)</b> of the commercial goods. An exception is where the trader is registered for Income Tax purposes and is up to date with the submission of tax returns and payment of all taxes due.                                                                                                                                                                                                                                                                                                                                                                                                                   |
| Operators of Restaurants or bottle-stores | Every operator of a restaurant or bottle store is required to pay Presumptive Tax amounting to <b>US\$70 per month</b> . The full amount should to be paid by the 10 <sup>th</sup> day after the end of the quarter. Interest is chargeable on all amounts not paid by the due date.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |
| Cottage Industry Operators                | Every person who owns, is in charge of a cottage industry regardless of it being licensed, or not is required to pay Presumptive Tax amounting to <b>US\$70 per month</b> . Cottage industry operators include those in the furniture making or upholstery trade, metal fabrication and any other cottage industry that the Minister may, by notice in a statutory instrument, prescribe. The full amount should have to be paid by the 10 <sup>th</sup> day after the end of the quarter. Interest is chargeable where the amounts due are not paid by the due date.                                                                                                                                                                                               |

Source: ZIMRA (2017)



**Table 1. 2: Transport operators presumptive tax rate**

| <b>Operators of:</b> | <b>Description</b>                                                                                            | <b>Presumptive Tax (US\$/<br/>quarter for each vehicle)</b> | <b>Presumptive<br/>(US\$/month with effect<br/>from 1/1/2017)</b> |
|----------------------|---------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------|-------------------------------------------------------------------|
| Omnibuses            | 8 to 14 passengers                                                                                            | 150                                                         | 40                                                                |
|                      | 15 to 24 passengers                                                                                           | 175                                                         | 45                                                                |
|                      | 25 to 36 passengers                                                                                           | 300                                                         | 70                                                                |
|                      | 37 passengers and above                                                                                       | 450                                                         | 100                                                               |
| Taxi-Cabs            | All                                                                                                           | 100                                                         | 25                                                                |
| Driving              | Class 4 vehicles                                                                                              | 500                                                         | 100                                                               |
| Schools              | Class 1 and 2 vehicles                                                                                        | 600                                                         | 130                                                               |
| Goods<br>Vehicles    | More than 10 tonnes but less<br>than 20 tonnes                                                                | 1000                                                        | 200                                                               |
|                      | More than 20 tonnes                                                                                           | 2500                                                        | 500                                                               |
|                      | 10 tonnes or less but with<br>combination of truck and<br>trailers of more than 15 but less<br>than 20 tonnes | 2500                                                        | 500                                                               |

Source: ZIMRA (2017)

NB\*.The quarterly and monthly tax rates were both applicable; the most important distinction to note was that the monthly taxes were cumulatively lower than the quarterly tax rates. The objective was to encourage monthly payment of taxes.

According to Sebele-Mpofu and Msipa (2020), Zimbabwe missed its annual revenue target by 6% and 7% in 2014 and 2015 respectively. Between 2013 and 2016 budget deficits averaged around \$ 1.2 billion and the deficit was said to be 1.7% of the GDP in 2015. In 2015, ZIMRA missed its revenue target by 6.96% after collecting \$3.5 billion against a target of \$3.763 billion (ZIMRA Revenue Performance Report, 2015). These challenges have become more pronounced and require immediate attention to fully exploit alternative revenue sources. One of the major challenges confronting Zimbabwe and other developing nations in their quest for socio-economic development is how to manage the phenomenon of the rapidly expanding informal sector and maximisation of tax revenues from the sector (Rogan, 2019; Sebele-Mpofu, 2020a). How to tax the informal sector remains a pressing question. These fiscally constrained governments are looking for new ways to augment state revenues. The informal sector becomes a focus of attention as it forms a significant and growing proportion of the developing economies yet it pays so little in the form of taxes (Ligomeka, 2019; Maina, 2017). According

to Soest (2007) and Kundt (2017a:5), the incapability to collect maximum potential tax revenue remains a fundamental deficit for African states. Fifty percent or more of the potential tax revenue goes untapped in developing countries. Low rates of tax compliance and inconsequential tax collections from the IS are the major impediments to economic development in developing countries and Zimbabwe in particular (Newman, 2019; Sikwila et al., 2016). In addition, taxation of the IS remains as an unaccounted for slice in the contemporary tax discourse as discussions often focus on the enhancement of formal tax compliance on VAT, Corporate Tax and PAYE. Soest (2007) emphasises the need for policy debates in African countries to focus on how the IS can be taxed. The present study investigated the tax potential and motivation for taxing the sector, the impact of IS taxation on revenue generation and on the IS itself and tax compliance, together with the challenges towards effective taxation of the sector with the view to explicating key variables, that are critical for the design of a feasible and effective IS tax policy. How practicable and accomplishable is it to tax the IS in Zimbabwe? What progress has the government made so far in taxing the sector? What were the factors that explain this progress (challenges and benefits)? These were some of the pertinent questions for this study.

## **1.2 Problem Statement**

The dwindling revenue from the formal sector, the revenue gap and budget deficits in Sub Saharan Africa countries and other developing countries reflect on the imminent economic challenges that these countries face. Zimbabwe in particular faces dwindling revenues, an ever-growing informal sector, a slowly disappearing formal sector and continued budget deficits (Ligomeka, 2019). The country is argued to be losing substantial revenues in untapped tax bases. This has been argued to be linked to dysfunctional regulation, frail enforcement capacity and rampant corruption (ZIMCODD, 2014:35). Informal sector taxation in Zimbabwe remains a key challenge to government (Machemedze et al., 2018:15). Tax revenue inflows from this sector can be said to be worryingly insufficient (4 to 7% of total tax revenue) relative to the sheer magnitude of the sector which is estimated at more than 50% of GDP and 80% of the labour force (Dube & Casale, 2019; Newman, 2019; ZIMRA, 2014;). According to Sikwila et al. (2016:80) and Ligomeka (2019) in Zimbabwe, tax revenues from the IS; viewed as a portion of the total national tax revenues remain very minimal and are far below their anticipated potential (IS in Zimbabwe was forecasted to be contributing 60.6% to GDP by Medina and Schneider, 2018). Considering the size of the IS in Zimbabwe, this is proportionately paltry. It is argued that this is mainly because the informal sector is not tax compliant. Either the

observation points to the fact that, either the bulk of players in this sector deliberately evade tax or they are not within the reach of the tax net. The sluggish performance of informal sector taxes brings out two major questions. Firstly, whether the underperformance of informal taxes is a self-fulfilling expectation considering it is arguably a costly exercise due to its diverse and lucid nature. Secondly, whether there is scope for more IS taxation in Zimbabwe considering the supposed benefits of additional revenues and equity? Advancing this debate in Zimbabwe requires empirical investigation. The Zimbabwean government's efforts at taxing the IS and even public debates on the informal sector's potential have been poorly informed (Machemedze et al., 2018:18). The dearth in literature, data and evidence on the size, structure, causes, growth, consequences and tax potential of the IS impairs effective tax policy. Oguttu (2016:24) underscores the need for governments to continuously revisit, evaluate and re-construct their legislative and administrative policies to keep abreast with the dynamic and ever changing business environment as well as to address any loopholes or impediments to effective tax administration and compliance respectively. This study attempted to fill this gap by making a profound evaluative review of informal sector taxation in Zimbabwe by establishing what the current taxation framework towards the sector entailed, in order to inform how it should be enhanced.

### **1.3 Purpose of the Study**

The overall aim of this research was to comprehensively review informal sector taxation in Zimbabwe from the perspective of its feasibility, effectiveness and progress in mobilising revenue from the sector as well as bringing informal sector players into the tax net. The research seeks to critically review the taxation of the informal sector in Zimbabwe in the context of its content, implementation and impact. The content review focused on the current contents and structure of the taxation legislation and framework towards taxing the sector, the underlying logic or motives behind the policy in order to gain an appreciation of the contextual setting, content and implementation of the framework (to answer the questions, what are the objectives? How is the framework structured?). Implementation assessment was about to how IS taxation is administered as this is critical in evaluating the framework's effectiveness as well as to identify the challenges, compliance facilitators as well as the benefits of informal sector taxation in Zimbabwe. Policy impact appraisal was interrogated in terms of whether the policy achieved its major objectives and envisaged impact. This was particularly in relation to the progress made in bringing the IS into the tax base and the impact of these efforts on revenue mobilisation and informal sector tax compliance and at the same time exploring opportunities

open to increasing revenue yield from this sector. The study sought to review literature and explore the debate on the taxation of the informal sector using the Zimbabwean case to draw lessons on the administration of taxation to the informal sector.

## **1.4 Research Objectives**

### **1.4.1 Main Objective**

The main objective of the study is to critically review taxation of the informal sector in Zimbabwe.

### **1.4.2 Secondary Objectives**

1. To determine the drivers of informality by exploring the theoretical framework on informal sector growth in order to establish the relationship between the drivers of informality and factors affecting informal sector tax compliance.
2. To contextualise the informal sector taxation puzzle by investigating why developing countries and Zimbabwe in particular should tax or not tax the informal sector (motives for taxing the informal sector). (Addressed in Chapters 3, 4, 6 and 7).
3. To explore policy options on how to effectively tax the informal sector by briefly reviewing efforts by other developing countries in Africa such as Kenya, Ghana, Uganda, Zambia and Nigeria in trying to address the dilemma of informal sector taxation. (Dealt with in Chapters 3, 6 and 7).
4. To evaluate the practicability, benefits and challenges of informal sector taxation in relation to the informal sector and government. (Considered in Chapters 3, 6 and 7).
5. To recommend other possible ways to strengthen informal sector taxation and identify key areas for future research. (Addressed in Chapter 8).

## **1.5 Research Questions**

### **1.5.1 Main Research Question**

The main research question is, how feasible and effective has the taxation of the informal sector been in Zimbabwe?

### **1.5.2 Secondary Research Questions**

1. What are the key drivers of informal sector growth in developing countries and Zimbabwe in particular?
2. What are the motives for taxing the IS? Should informal sector taxation be a policy priority for developing countries?

3. Which are the policy options used by other African countries to tax the informal sector?
4. What are the challenges and potential benefits of informal sector taxation in Zimbabwe?
5. What are the other possible ways to foster voluntary tax compliance and strengthen informal sector taxation in Zimbabwe?

## **1.6 Contribution of the Study**

This study sought to comprehensively review IS taxation in Zimbabwe by conducting an in-depth assessment of the existing IS tax administration legislation and framework adopted to tax the sector. Normally evaluative or critical reviews of administrative policies in a research such as this one are undertaken in order to address five pivotal reasons. Firstly, to establish if the current policy is effective or should be ameliorated or whether it should be fused together with another policy to create a new one. Secondly to determine whether the main aims and key objectives of the policy are being achieved (effectiveness in terms of acceptance, compliance, impact and value of the policy). Thirdly, to demonstrate evidence of whether certain changes are necessary to improve the effectiveness as well as clarity of the policy and its implementation procedures (inform future policy in terms of what changes do we need, how can these be implemented and what is the envisaged impact) (Lenjosek, 2004:19-24). Fourthly, to ensure that there is continuous monitoring and review of the policy, identifying loopholes and strengths in order to contribute to policy changes, improvements and exploitation of strengths and opportunities identified. Lastly, to contribute to knowledge development in the subject area and to equip the various stakeholders on the understanding of the policy (Bahl & Bird, 2008; Hoynes & Rothstein, 2016). This is why the present research was important in critically reviewing IS taxation in Zimbabwe and to show how the study was expected to make contributions to the various stakeholders and areas as highlighted below.

### **1.6.1 Academic Contribution to Knowledge**

The contribution of this study stems from its relevance in aiming to address the critical issue of revenue mobilization from the informal sector that is of topical concern to developing countries, Sub-Saharan African countries and Zimbabwe in particular. The study will add a voice to the ongoing debate and existing body of knowledge on the subject. Although elsewhere in the world there have been great strides in research on informal sector tax administration, in Zimbabwe there seems to be a dearth in literature in the area of informal sector taxation. Zimbabwe also provides an interesting case to evaluate the conflicting arguments on the subject as outlined by different researchers in support of and against informal sector taxation since the

country is currently collecting revenue from the sector. This study could also serve as a point of reference for future researchers and academics as it cannot be conclusive on the subject of informal sector taxation, which can be explored from various angles. Individual economies have their own different environments, cultures, regulations, legal and institutional frameworks that are unique to each economy, making them distinct from one another and as such, a study of Zimbabwe and its environment in relation to informal sector taxation can thus be used to push theoretical boundaries and contextualize the study in line with prevailing conditions.

Taxation and tax compliance continue to be topical issues amongst researchers, academics and policy makers. The complex and ever evolving tax legislation presents formidable challenges to tax compliance, yet it is indisputable that tax compliance poses both significant financial risk (penalties and increased tax burden because of amended assessments) and business risk (reputational damages) to both businesses and individuals. This study sheds more light on what incentives can be used to improve compliance among currently informal firms and on how political barriers to informal sector taxation can be overcome. Other developing countries can apply the findings and recommendations. Despite the fact that tax jurisdictions are heterogeneous, the recommendations of the study could be contextualised to individual nations in view of their tax legislation. In addition, the informal sector is a permanent feature of most developing countries. Results of the study can be generalised but limited to the extent to which the economic environments and tax policies are similar. Understanding the determinants of informality in terms of the benefits, possibilities and challenges of informal sector taxation could help in designing a conceptual framework that takes into account a holistic approach on the subject of broadening the tax base and increasing revenue in a way that is inclusive, equitable, efficient and cost effective.

The puzzle to be solved still remains. What policy reforms could foster compliance in the informal sector and how can developing economies could promote collective action, build trust and encourage compliance without using the carrot and stick avenue and without regressive outcomes? This is an exciting literary gap.

There is a need to translate the ongoing interest in taxing the informal sector into better outcomes and to foster voluntary tax compliance; otherwise effective IS taxation will just remain an “elusive dream” (Munjeyi et al., 2017). Efforts towards encouraging tax compliance and formalisation have leaned towards reducing the costs of compliance as the ideal avenue, but this perspective remains largely unexplored, together with how to provide positive

incentives to formalisation and how to enable these firms to grow in order to reap the benefits of improved revenue mobilization and growth. This exploration of these research voids is necessary as evidence has shown that lowering costs is a step in the right direction but is not in itself enough to transform outcomes as sometimes the standard of tax administration matters most (Joshi et al., 2014; Loeprick, 2009:2).

Lastly, the problems of taxation of the informal sector as well as the costs and benefits vary on a nation to nation basis as macroeconomic conditions, legal and regulatory frameworks differ. Administrative feasibility of the IS taxation policy will be a product of a continuum of factors such as tax rates, governance quality, economic environment, institutional quality, norms and tax morale among others. According to Brink & Porcano (2016) and Schomerus and Titeca (2012), actual outcomes are likely to be shaped by power relations and political networks linking the state and its citizens as well as individual firms. Thus it is imperative that national strategies to tax the IS and curb tax evasion be contextualised and customised to the prevailing socio-economic and legal environment prevailing in a country.

### **1.6.2 Contribution to Policy makers**

Governments of different economic, social and political composition the world over are faced with the dilemma of revenue mobilization, while most developing countries have narrow tax bases as well as feeble and permeable tax administration systems (Prichard, 2009; Rogan, 2019). The present research aimed at providing empirical insights and facilitating the development of possible solutions to the dilemmas by specifically focusing on the taxation of the informal sector. Kundt (2017a:4-5) points out that domestic revenue mobilisation is key to sustainable development finance and that only self-sufficiency can boost development. Therefore, informal sector revenues and operations are important insofar as they affect both the volume and nature of government finances. These arguments point to the thought that sustainable development requires states to aim for fiscal independence that requires renewed focus on identifying the most promising sources of new revenues. The informal sector potential tax revenues; if tracked, mitigated and tapped into the mainstream could provide a reliable source of funds (Joshi et al., 2014), hence this research will assist in understanding the challenges and benefits of informal sector taxation as well as possible policy options to overcome these challenges and tap into these benefits, respectively.

An analysis of the subject on informal sector taxation will help academics, policy makers and governments better comprehend it and appreciate the need to broaden the tax base and

accommodate the informal sector within the current tax net of developing countries. To consider policies to tax the informal sector, it is necessary to show the potential of the sector and long-term benefits of such taxation. Policy makers and taxpayers cannot be motivated by a simple moral position that informality is tax evasion without exploring the implications fully. Thus, tax researchers have to play an active role in advancing recommendations to better tax policy (Bird, 2012). It is critical to note that the issue of IS taxation is highly political and often challenging for revenue administrators to influence in practice (Joshi et al., 2014; Meagher, 2016). Notwithstanding this fact, applied research (facts-based) can be a worthwhile tool to influence and persuade policy makers of the need for and the avenues of, tax reforms in relation to IS taxation (Heggstad et al., 2011:1).

Researchers such as Ayee (2007) and Joshi et al. (2014) have lamented the lack of or minimal attention that policy makers have shown towards taxation of the IS. It is understood that the ability to raise finance depends on the taxable economic activity or accounted inflows occurring. Therefore, engaging the informal sector will be an important aspect of economic growth on the part of policy makers. In short, what is required is an in-depth investigation into informal sector taxation and development finance and one to which academics, policy makers and campaigners all contribute to. This study laid that foundation by engaging some of these stakeholders as study participants.

### **1.6.3 Contribution to the informal sector**

Most studies have concentrated on improving revenue collection in Zimbabwe (Ligomeka, 2019; Masarirambi, 2013) and a few have concentrated on seeking to understand the dilemma of informal sector taxation in Zimbabwe (Munjeyi, 2017; Sebele-Mpofu and Msipa, 2020), the impact of such taxation on revenue generation and the growth and/or survival of the small informal firms. Furthermore, despite the limited researches done on the phenomenon of the informal sector taxation, very little has been done to fully understand the key factors that actually drive informality or influence compliance of the informal sector in Zimbabwe. This study aimed to stimulate debate among researchers on taxation of the informal sector and to show the potential benefits that could accrue to the informal sector from formalisation and visibility in their operations as well as the costs that come with remaining in the shadows. Waris et al. (2009) observe that most scholars and researchers have been interrogating the issue of informal sector tax evasion from the viewpoint of the tax collector and giving minimal attention to the taxpayer's perspective (the informal sector). In Waris et al. (2009)'s view, "There remains a need to justify taxation and legitimise its collection in some developing countries".

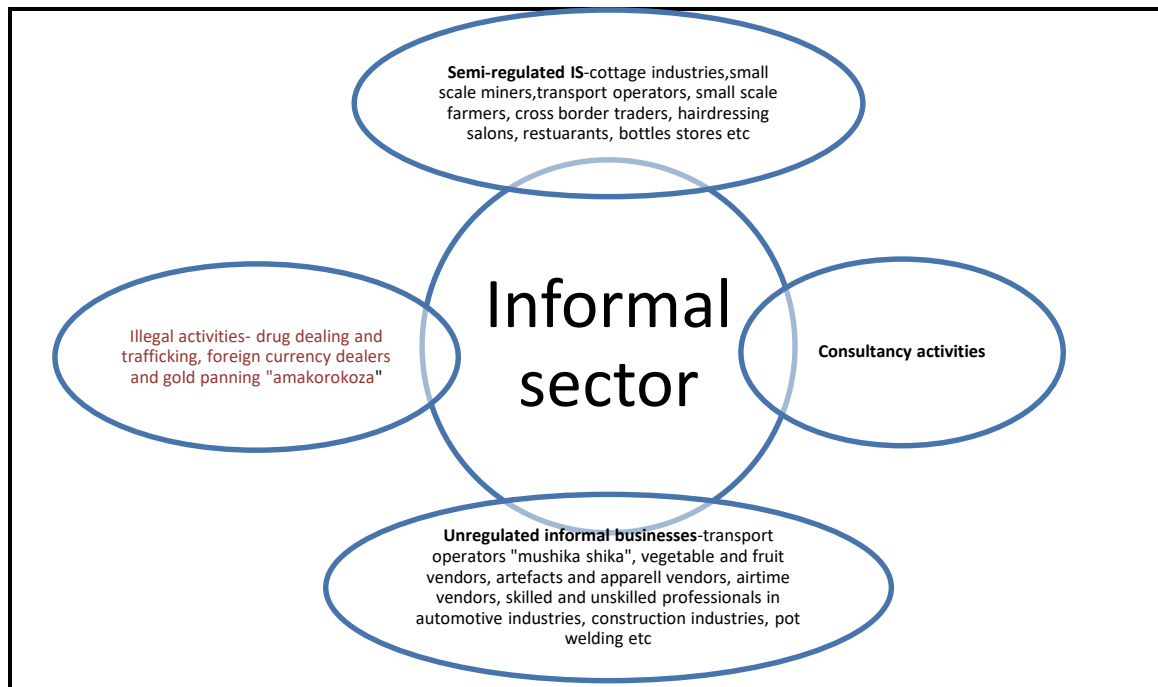


This research study emanates against this background. Attention is needed to encourage appropriate strategies for the economy through total inclusion of key stakeholders, such as the IS taxpayer, to continue benefiting from the informal sector both for livelihood and government revenue. Bird (2010:3) affirms “taxes imposed without adequately representing the interests of the people being taxed are unlikely to be collected easily”. The research is also important for social value addition in formulating tax policy and addressing the gaps in the quality and quantity of research on informal sector taxation.

### **1.7 Scope of the Study**

The study focused on critically reviewing IS taxation in Zimbabwe focusing on the period from 2009 to 2018, which covers the dollarization period. This period allowed for trend analysis and comparison of revenue figures as it falls under the period where the US dollar was the presentation and major functional currency. This study also makes important boundaries in defining the IS. Venkatesh (2006) defines informal as underground or off the books economic activity characterised by illicit practices or illegal exchanges such as drug trafficking. This study excluded the informal sector defined by Venkatesh (2006) as this portion of the informal sector is detrimental to economic growth and destructive to society and, as such, governments would want to uncover these activities and put an end to them, not to tax them (these are shown in red in Figure 1.1). Schneider et al. (2010) provide a working definition for this study which is “the shadow economy includes all market based legal production of goods and services that are deliberately concealed (unreported and unrecorded) from public authorities to avoid payment of income, value-added or other taxes, to avoid payment of social security contributions and; having to meet certain labour market standards”. The focus of the present study was those activities that had been earmarked for taxation by ZIMRA. Machemedze et al. (2018:14) refer to this type of informal economy as the “semi- regulated”, but reference was also made to those activities that government should consider targeting for taxation (the totally unregulated). Figure 1.1 depicts the theoretical boundaries.

**Figure 1. 1: The IS in Zimbabwe**



Adapted from Machedze et al. (2018:14)

The focus for this study on the taxes that the IS was obligated to pay, excluded the recently introduced 2% Intermediated Money Transfer Tax (IMTT), a transactional tax that was introduced in terms of Statutory Instrument 205 of 2018 and by amendments of the Zimbabwe Finance Act (Chapter 23:04, section 22G).

### **1.8 Preliminary Literature: Informal Sector Taxation**

The term informal sector is much contested and debated (Joshi et al., 2013). The original definition proposed by Keith Hart (1973) as cited in Joshi et al. (2013, 2014), referred to employment outside the labour markets. The idea was to differentiate businesses by their degree of rationalization. On the other hand according to the International Labour Organisation (ILO, 1970), the term was used to describe small and micro enterprises that are outside government regulation and taxation, but de Soto (1989) used it to identify the sector as one that is dynamic and with high growth potential that is curtailed by regulation. The definition that has gained ground is one that considers the legal status of the business (regulated or outside regulation). Cross (1998) asserts that the informal sector describes economic activity that takes place outside the formal norms of economic transactions established by the state and formal business practices but which is not clearly illegal in itself. The term is sometimes used to refer

to illegal activities. For the present study, borrowing from Joshi et al. (2014:1328), the informal sector will be defined as the medium, small and micro enterprises that are expected to pay tax in terms of the Zimbabwe Income Tax Act (Chapter 23:06). These enterprises have found it easy to escape the attention of tax administration or conceal a substantial part of their tax liability because of their locations, size or nature of their businesses. Generally, the term applies to small, medium or micro-businesses that are the result of individual or family self-employment. For this study, street vendors and street traders were excluded. Adaptations from Zinnes (2009:8) were used to clearly differentiate the informal sector from the formal sector as shown in Table 1.3. This is in line with the criteria for taxpayers included under presumptive tax in Zimbabwe shown in Tables 1.1 and 1.2

**Table 1. 3: A typology of enterprise informality**

| Features              | Informal economy                                                    |                                                                         |                                                        | Formal economy                                                  |
|-----------------------|---------------------------------------------------------------------|-------------------------------------------------------------------------|--------------------------------------------------------|-----------------------------------------------------------------|
|                       | <b>A<br/>Subsistence enterprises</b>                                | <b>B<br/>Microenterprises<br/>and small<br/>businesses</b>              | <b>C<br/>Small and<br/>medium<br/>businesses</b>       | <b>D<br/>Medium and<br/>large businesses</b>                    |
| Degree of informality | Totally informal for the most part                                  | High figure of sales undeclared.<br>- workers not registered            | Some of the sales undeclared<br>- workers unregistered | Labour firms registered and regulated                           |
| Type of activity      | cottage/microenterprises                                            | Small manufacturers, service providers, distributors, contractors       | Small and medium manufacturers, service providers      | Range of manufacturing and services                             |
| Technology            | Labour intensive                                                    | Mostly labour intensive                                                 | Mixed labour and capital intensive                     | Knowledge and capital intensive                                 |
| Owner profile         | Poor, low education , low level of skills                           | Poor and non -poor, well educated & high level of skills                | Non poor, likely educated & highly skilled             | Non poor, highly educated, sophisticated level of skills        |
| Markets               | Low barriers to entry, highly competitive, high product homogeneity | Low barriers to entry, highly competitive, some product differentiation | Some barriers to entry and established markets         | Significant barriers to entry, established market/product niche |

| Features                    | Informal economy                                                                |                                                                                                                    |                                                                                     | Formal economy                                                             |
|-----------------------------|---------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------|----------------------------------------------------------------------------|
| Finance needs               | Working capital                                                                 | Working capital, some investment capital, supplier credit                                                          | Investment capital and working capital, letters of credit, supplier credit          | Investment capital and working capital, letters of credit, supplier credit |
| Other needs                 | Personal insurance, social protection, security                                 | Personal and perhaps business insurance and business support services, security                                    | Personal and business insurance, business development services                      | Personal and business insurance, business development services             |
| Tax implications            | Earnings can be below minimum tax threshold no recordkeeping, cash transactions | Liable for tax, difficult to identify and tax due to poor or no record keeping, cash transactions                  | Liable for tax, under report earnings, use loopholes, escape formal tax assessments | Taxed under formal tax assessment                                          |
| Tax design desired features | No tax liabilities                                                              | Low rates to encourage registration, minimal compliance costs, low administration costs ( <i>presumptive tax</i> ) | High rates to encourage graduation into formal regime                               |                                                                            |

Source: Zinnes (2009:8); Joshi et al. (2014:1328)

As has been detailed in the preceding section, it is indisputable that the question on whether informal sector taxation should be a policy priority still requires answers (Joshi et al., 2014:1325; Ligomeka, 2019; Sanderson, 2017). Judgements about the potential benefits of such taxation against associated costs have been conflicting. Proponents for taxation of the sector (Bhattacharya and Akbar, 2014; Dube, 2014; Schneider et al, 2010; Pfister, 2009; Perry et al, 2007; Loeprick, 2009; Ordonez, 2014), have pointed to potential benefits in terms of increased revenue, economic growth, growth of the sector and governance. Despite these argument, Kundt (2017a:2) argues that there is no fundamental empirical evidence to back these expostulations, referring to an important research void to be explored. Some researchers have alluded to the fact that in most developing countries the informal sector forms a large and

growing share of the GDP (Ligomeka, 2019:6; Maina, 2017:2; Sanderson, 2017), contributing about 55% of sub-Saharan Africa's GDP (Schneider et al, 2010) and over 60% currently (Bhorat et al., 2017; Medina & Schneider, 2018). According to these researchers, the sector therefore represents a significant source of revenue for fiscal financing. According to Torgler (2005) and Torgler & Schneider (2009), in addition to the above benefits, taxation of the informal sector can boost tax morale and compliance among firms in the formal sector as the playing field would appear level and equitable. They contend that the informal sector would equally be paying for the infrastructure and government protection, which enables it to make a profit and to function as larger firms are paying for these through taxes. Kundt (2017a:6) suggests that before countries can consider the peer effect of informal sector compliance, there is a need to closely explore tax morale in relation to operating in the IS (driver). The pertinent question is, does low tax morale drive informality or does informality reduce tax morale. A circular relationship might be in existence. This is another research gap area.

With respect to governance, payment of taxes by the informal sector may be a method of engaging firms with the state, thus promoting legitimacy, good governance and political accountability as stated by Joshi & Ayee (2008:187); Prichard (2009) and Joshi et al. (2014:1331), but Kundt (2017a:2) points out that empirical evidence is far from convincing. Opponents against the subject such as Keen (2012:19-21), Sanderson, (2017) and Pimhidzai and Fox, (2011:3) have observed that taxation of the sector is not an option as revenue yields are low, administrative costs high, tax incidence likely to be regressive and tax enforcement risks exposing vulnerable firms to harassment and corruption by tax officials. In concurrence Del Mel et al. (2013), McKenzie and Sakho (2010) and Bruhn and McKenzie (2014) point out that it is unlikely that taxing the informal sector would bring a significant increase in tax revenues at least in the short to medium term.

This long-standing controversy on the magnitude and practicability of these benefits and costs warrants additional research that evaluates these arguments on a practical case study such as Zimbabwe. This also points to a lacuna in literature that advances research in legal, regulatory and administrative reforms in the informal sector taxation as strategies aimed at unlocking ultimate potential contrary to the arguments that taxation of the sector is aimed at stifling or suffocating the very existence of this sector (Pimhidzai & Fox, 2011:2, 21). This can only be done if research shows the practical benefits of taxing the sector beyond the obvious one of revenue mobilisation. This study goes beyond purely evaluating the sector's revenue

contribution and assess other benefits such as governance and equity advantages. Taxation is a tool that goes beyond revenue mobilization to encompass representation, governance, redistribution and re-pricing (Pfister, 2009; Bird, 2012; Makochehanwa, 2020:20 Meagher, 2016:2), yet Kundt (2017a:2) and Sebele-Mpofu (2020) aver that the ability of IS taxation to enrich political engagement, dialogue and collective bargaining remains unconvincingly documented, if at all attainable.

There are calls by other researchers for research to move away from the question of whether to tax the informal sector to how to do it effectively and efficiently (El Badaoui & Magnani, 2020; Joshi et al, 2013). According to Loeprick (2009:1), a balanced IS tax system is a critical policy apparatus to help the sector exit from the “informality trap” of poor growth as well as exclusion from formal financing channels and markets. For there to be concrete strides in the attainment of this feat, there is need to review taxation of the informal sector to understand the practicability and effectiveness, challenges and possible motivators for informality. Furthermore, it is important to establish whether informality is indeed a question of tax evasion or an exit from the restrictive regulations imposed by governments to the formal sector. This is of paramount importance as the sector employs a large proportion of the population in Sub-Saharan Africa, 80% in Zimbabwe to be precise (Ligomeka, 2019; Newman, 2019:2). In a similar vein, Sanderson (2017) contends that the IS often supplies the formal sector with inputs for their trade and production activities, thus enhancing their productivity and resultantly indirectly increasing the formal sector’s contribution to tax heads such as corporate tax, PAYE and VAT. From this connection, the IS contributes to national tax revenues, thus an appreciation of such linkages is important when designing an IS tax policy.

Previous research on the informal sector (Torgler & Schneider, 2009) has alluded to the benefits of informal sector taxation as ensuring tax morale and building a culture of compliance between both the informal and formal sectors and in a broader spectrum within the economy. There is need for more detailed evidence to support these propositions. In the words of Hays-Mitchell (1993), the informal sector and formal economies are intricately linked, one cannot do without the other. Formal businesses often use inputs produced by the informal economy and are frequently involved in complex subcontracting arrangements with them, for example advancing credit in the form of materials. As suggested by Joshi et al. (2013), the argument that taxing the informal sector is essential for economic growth and that it encourages growth of small firms by creating more visibility for these firms leaves scope for more research into

whether indeed these benefits come to fruition. This is a cogent standpoint as researchers such as Pimhidzai and Fox (2011:2, 14, 21) contend otherwise, pointing out that tax is a cost that can negatively influence investment and resource allocation decisions and ultimately firm growth. There is need to investigate the magnitude of the benefits as well as which firms are likely to benefit more as the informal sector spans across almost all sectors of the economy and firms in this sector also differ in size and structure. These studies have left unanswered this question, do firms grow faster because they are formal or do firms with greater prospects formalize? (Joshi et al., 2014:1329-1330). Another interesting aspect would be to consider what specific policies could be used to encourage compliance and formalisation so as to promote longer term gains in growth. These arguments point to a dearth in research that considers incentives, capacity building and government involvement as prerequisites for successful taxation of the informal sector. The view that formal firms are able to access credit lines and their nature provides security towards accessing those credit lines underpins the arguments towards formalization and tax compliance (Loeprick, 2009:1; Ligomeka, 2019), but it remains unclear whether these benefits outweigh the costs of formalization and tax compliance.

Discussions have shown the potential of informal sector taxation to prompt state-society bargaining, dialogue and broader governance gains (Joshi & Ayee, 2008:187; Prichard, 2009), but evidence has remained relatively minimal. Meagher and Lindell (2013:67) have questioned the wisdom of the governance gains argument as the sector is usually poorly organised, generally lacking will power and may fear reprisal by the state. They have posed the question, “Does taxing the informal sector strengthen public accountability or just create new avenues for predation?” (Meagher & Lindell, 2013:67). Further research on a practical case study could shed more light or perhaps provide a panacea to the problem. Pimhidzai and Fox (2012) assert that the obstacle for Sub-Saharan Africa is the presence of a highly growing informal sector which, is a challenge for taxation, regulation, financing reforms, provision of social services and efforts to alleviate poverty. One interesting gap in research relates to how to develop more institutionalized links between the state and the informal sector. Joshi et al. (2013, 2014:1339) have suggested associational taxation as a route that can be taken to easily foster dialogue or the prospect of decentralising a greater part of the taxation of the informal sector to local government authorities. These suggestions pose significant risks but also hold greater prospects of encouraging commitment and engagement between taxpayers in the sector and government. These remain just possibilities whose feasibility and validity remain uncertain (Joshi et al.,

2014; Prichard, 2009; Rogan, 2019). A study that evaluates these possibilities would fill in the paucity in literature, policy and practice.

### **1.9 Theoretical Framework**

There is no consensus on the definition of the informal sector and researchers have proposed varying definitions. One commonly used definition is all activities that contribute to the officially calculated GDP but are currently unregistered (Schneider & Enste, 2000). It may be impossible to devise a universal definition of the informal sector therefore, for this study, adaptations from Zinnes (2009) and Djankov et al. (2002) were used. The researchers grouped businesses by type of activity, technology, owner profile, markets, finance needs, other needs, tax implications and tax design features to distinguish businesses in the formal sector from those in the informal sector. The criteria were further adapted to suit the Zimbabwean context.

In understanding the links between the formal and informal sectors, literature can be viewed in the context of the four schools of thought propounded by scholars in the area: the dualist view, the structuralist view, the legalist view and the illegalist school of thought (Chen, 2012; Matsongoni & Mutambara, 2018). These theories explored the causes of informality and they have been used to put forward arguments for and against taxation of the informal sector. According to the dualist view, the informal economy is marginal and subsistence oriented, provides a safety net for the poor and is not directly linked to the formal economy (ILO, 1972) as expounded further by Sethuruma (1976) and Tokman (1978). The school advocates for an empowerment approach arguing that these subsistence businesses are forced into informality due to a lack of capacity or access to services, therefore there is no reason to tax the already vulnerable.

The structuralist perspective advances that the informal sector should be recognised as subordinated economic units (micro-firms) and workers that serve to minimise input and labour expenses and thereby, heightening the competitiveness of large capitalist firms. The point of view champions the thought that the nature of capitalist development rather than lack of growth explains the persistence and ballooning of informal relationships (Caroline Moser, 1978; Alexandro Portes, 1989). The cost and benefit argument or proposition is underpins the legalist viewpoint, which considers informality to be a rational choice taken after evaluating the costs and benefits of operating informally. The school of thought proposes that the informal sector is comprised of plucky micro entrepreneurs who elect to operate informally to elude costs



(taxation, licence fees, statutory payments like pensions and social security contributions), and minimise the time and effort associated with running formal businesses (De Soto, 1989, 2000).

Neo classical and neo liberal economists popularise the illegalist view and the school of thought subscribes to the view that informal entrepreneurs choose to operate illegally or even criminally in order to avoid regulation, taxation, electricity and rental fees and other costs of operating formally. The school holds the notion that informality is tax evasion (Chen, 2012; Matsongoni & Mutambara, 2018). The theories were reviewed in detail in Chapter Two.

### **1.10 Research Methodology in brief**

Research methodology is the theory of how research should be undertaken, including the theoretical and philosophical assumptions upon which research is based and the implications of the method or methods adopted. Saunders et al. (2009) point out that one of the first considerations to be faced is the search for the pre-existing body of knowledge in a particular field of research and this is often termed literature review.

#### **1.10.1 Literature Review or Non-empirical research**

Literature review was intimately related to all chapters of the thesis. Specifically, the review of related literature provided the justification on why the study was worthwhile, what research questions to pose in the introduction, the appropriate methodology to employ and even what implications or problematic areas to elucidate on in the discussions or to investigate more (Chen, Wang & Lee, 2016:51). For this study literature review was used as a source of reference for research previously conducted on taxation of the informal sector issues, as well as a source of the body of theory that pertains to this area (Joshi et al., 2013, 2014; Maina, 2016, 2017; Meagher, 2016; Ligomeka, 2019; Sebele-Mpofu, 2020a; Sebele-Mpofu & Msipa, 2020). The literature review was utilised in this research to address the research problem as identified by Saunders et al. (2009) to demonstrate that the researcher's knowledge on the informal sector and its taxation is up to date by making a critical and evaluative account of the accredited published work of previous researchers in the area. This also enabled the researcher to summarise, synthesise and analyse the work of others to show how this current research relates to previous published work (Snyder, 2019). The review allowed the researcher to critically interpret and unpack the problematic issue of IS taxation, situating it historically and methodologically (where was prior research carried out, using which methods and why and what were the findings, how do the findings differ or converge and why, these are some of the questions to be addressed through a review). Chen et al. (2016:51) reiterate the need for

researchers to situate the review findings in their cultural, social and historical contexts and future developments. A review of literature also guided the researcher to justify arguments by bringing out similarities and differences, inconsistencies and consistencies and controversies in previous research (Fink, 2010; Snyder 2019). In short, the eight chapters that make up this research are linked together through literature review, they are “hermeneutically both conditions and consequences of the whole literature review process” (Chen et al., 2016:51). The relevance and quality of the reviewed literature was essentially in co-informing, co-refining, substantiating decisions and discussions throughout the research process as evidenced in all the chapters as well as in delineating the scope of the research in Chapter One.

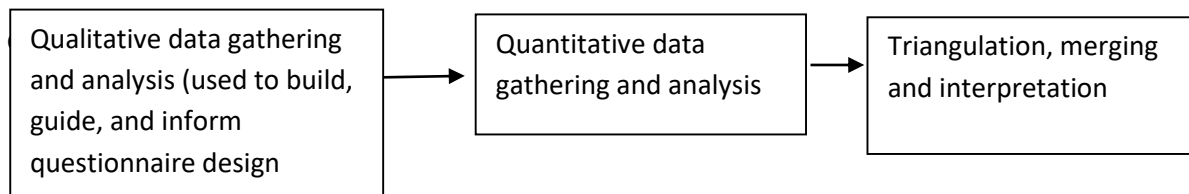
Through clear referencing, readers of the research were directed to the original work cited and by acknowledging the work of others, plagiarism charges were avoided. In view of the advices by Saunders et al. (2009) and Creswell and Plano Clark (2007), literature was employed to review the works of other researchers on the subject of informal sector taxation. The works of scholars such as Joshi et al. (2013; 2014); Joshi and Aye (2008); Williams and Horodnic (2016); Horodnic (2018); Benjamin and Maye (2012); Prichard (2009); Ligomeka (2019); Kundt (2017a) and many others were reviewed in order to derive theories and models to be tested and to choose the relevant methodology. These sources were further complemented by the use of legislative sources and government publications such as the Income Tax Act in Zimbabwe (Chapter 23: 06). Lastly, these works were explicated to derive the relationship between variables and to support the findings of the research.

### **1.10.2 Empirical research**

Whatever the purpose of the research, empirical evidence is required. Hussey and Hussey (1997:10) refer to empirical evidence as data based on observation or experience while, Saunders et al. (2009) describe it as *fieldwork*. This study adopted a sequential exploratory mixed method research design (MMR). MMR combines qualitative and quantitative approaches to complement and further explain one another as well as explicating areas of convergence and divergence in the outcomes of each method (Creswell, 2014). This MMR design is argued to be ideal for instrument design and taxonomy development (Use qualitative data to design quantitative instrument, in this case a questionnaire for testing and to develop taxonomy or theory for testing respectively). This is argued to give a deeper and complete understanding of the research problem. For MMR it is essential for the researcher to consider and clearly articulate the feasibility of employing a MMR, the intent (rationale for mixing), the

timing, emphasis and priority of quantitative and qualitative aspects of the research (Creswell, 2014; Creswell and Plano Clark, 2007) (Chapter Five articulates the methodology in detail). MMR is ideal in probing research problems such as this one for three important reasons as outlined by Creswell and Plano Clark (2007) and Teddlie and Tashakkori (2011) that is (1) to investigate under researched phenomenon, where there is minimal empirical knowledge about a research area. (2) To ensure transferability or generalisability of the results to a broader population than the initially sampled. Such is the case with this study as the dearth in literature and research on IS taxation has been alluded to in this Chapter. (3) To explore complex phenomena. Tax, by its form, is a complex and delicate subject area that stirs up controversies in any society and at any point in time (McKerchar & Evans, 2009), hence MMR was ideal for this study. This study used a range of empirical sources in establishing the way revenue is raised from (and how this process affects) the informal sector. Qualitative data (interviews, literature review and documents analysis) and its results were used to qualitatively explore the IS taxation phenomenon before it was then measured and tested quantitatively through the questionnaire data and analysis of results. Various ways can be used to ensure saturation and one of them is triangulation. Triangulation is argued to result in data saturation. Triangulation can come in different four forms: methodological, theoretical, data analysis and investigator triangulation (Denzin, 2010; Fusch & Ness, 2015). This study employed the first three forms of triangulation in order to achieve the “meaning saturation” by Hennink et al. (2017) (insights into IS as viewed differently by participants) as well as enrich the validity and reliability of findings (Denzin, 2012; Zohrabi, 2013). This study combined theoretical underpinnings in Chapters Two and Three, various data collection methods and data sources to obtain “rich and thick” data (Fusch & Ness, 2015:1408), which was critical for saturation point attainment, as explained in Chapter Five. Various analysis tools and methods were used (NVIVO in Chapter Six and SPSS in Chapter Seven ) in order to get detailed, nuanced and comprehensive data on IS taxation so as to gain a complete and deeper picture (Fusch & Ness, 2015:1408). This gave a “crystal refraction”, many viewpoints (Denzin, 2012), which are necessary to explore a complicated and under-explored phenomenon such as IS taxation. Emphasising the importance of triangulating, Zohrabi (2013:254), portends that through multi-methods and multiple data sources “the researchers can obtain information through different procedures to heighten dependability and trustworthiness of the data and interpretation”. The way the sequential MMR was implemented, is as schematically presented in Figure 1.2.

**Figure 1. 2: Exploratory Sequential MMR design**



Source: Adapted from Creswell and Clark (2007)

#### **1.10.2.1 Target Population**

The target population for this study was made up of various stakeholders (Tax Experts, ZIMRA officers and officials from the Ministry of Small and Medium Enterprises) targeted for the diversity of their views and knowledge on IS taxation. The target population for questionnaire respondents was made up of tax experts and ZIMRA officers to explain their knowledge, experience and expertise with the Zimbabwe tax system. For this study, tax experts refer to tax practitioners, consultants or financial experts with high knowledge and training on tax legislation and tax accounting. These provide advice on tax matters as well as tax planning to minimise tax liability with the confines of the law. In the case of this study, they were members of the Institute of Certified Tax Accountants, Zimbabwe (ICTAZ). Some of these tax experts were formerly ZIMRA employees who either have since joined Accounting firms on tax advisory roles or opened their own consultancy firms offering tax services. They offered a more balanced assessment that combined their experiences from the regulator's view and that from the informal sector as tax advisors to the informal sectors. This was pertinent as the views of the IS (considered a vulnerable group) could not be sought. The Ministry of SMEs official were included to enhance IS views.

Interviews were scheduled with three respondent groups. The first group was made up of ZIMRA officials, to provide insights on the informal sector tax administration, capabilities by the Authority to levy taxes on the informal sector, benefits and challenges. As is the requirement in Zimbabwe, tax researchers need to seek permission before undertaking any research where they will need to collect information or get assistance from ZIMRA Officials, hence permission was sought and granted (See Appendix 6) based on the research proposal that was presented and accepted at a colloquium at the North West University in South Africa. The reason why permission was sought was to address ethical concerns that the ZIMRA employees are bound by an oath of confidentiality and secrecy. They cannot use the information that they acquire during the course of their employment for ZIMRA purposes only and can never share

it with third parties unless permission was granted. The researcher was advised that each time the researcher scheduled an interview or sought to distribute questionnaires to ZIMRA employees, she was expected to produce or make sure the questionnaire is accompanied by the approval letter, otherwise no information was going to be shared. The second group (authorities from the Ministry of Small and Medium enterprises) represented those with an insight into the operations of the informal sector and their challenges.

The third group was made up of tax experts to add a voice on the subject based on their experience with both the informal sector (taxpayer) and the Revenue Authority (tax administrators). The diversity of participants in positions and perspectives, aided in alleviating particular individual biases and thus increased the likelihood of obtaining a balanced view. Tax compliance can be viewed, understood, described and interpreted in different ways for example the taxpayer's view and policy maker's view. According to Yin (2011), the interpretivist paradigm through qualitative research studies people in the context of their past and present situations.

#### **1.10.2.2 Sampling decisions**

The predominantly used purposeful sampling strategies for qualitative research are theoretical, criterion, purposive, convenience and snowball sampling methods (Moser & Korstjens, 2018:10; Rosenthal, 2016:511). Selecting sample sizes a priori is inherently challenging in the case of an exploratory research (Sebele-Mpofu, 2020b:4), such as this one (study adopted a sequential mixed method exploratory research design), that sought to explore phenomena which has been under-researched and key themes are not easily identifiable in advance such as informal sector taxation in Zimbabwe. Sampling for the qualitative part of this study was done purposively as guided by researchers such as Vasileiou et al. (2018:2) who aver that participants are “selected by virtue of their capacity to provide richly textured information, relevant to the phenomenon under investigation”, in this case IS taxation. Malterud et al. (2016:1757), table that sampling for qualitative studies must consider the “information power” of participants in purposive sampling.

According to Blaikie (2018:636), despite the fact that it is possible to define the research problem, outline the purpose and objectives of the research, pose the research questions a priori to the research process, in some studies these resolutions may await refinement that comes as the research proceeds. Therefore determining sample sizes conclusively before the research

begins is ill-advisable (Sebele-Mpofu, 2020b:5). In consonance, Sim et al. (2018:630) submit that estimating sample sizes for qualitative research definitively in advance is in actual fact misguided. Sim et al. (2018:619), Boddy (2016:427) and Blaikie (2018:635) posit that qualitative researchers often find themselves in a quandary where they are required to estimate sample sizes a priori research reviewers, funders and ethical clearance committees. In order to address this pragmatic requirement, transitional forecasted upper ceilings can be given with an intelligible stipulation that these estimations are interim as the ultimate sample sizes can only be reached and finalised when the study is conducted. The best way to estimate a preliminary sample is to use evidence from previous researchers (Blaikie, 2018:636). Vasileiou et al. (2018:1) suggest that where researchers want to rely on previous methodological researches and “sample size community norms”, they must not adopt these blindly. They must appraise them for data adequacy, sampling sufficiency and the possibility of saturation accomplishment based on the characteristics that are “intrinsic to the study at hand” (Vasileiou et al., 2018:1,13).

Determining what constitutes a sufficient sample size for the study aims and objectives was an ongoing process by the researcher (finalised in Chapter Five). Sampling for qualitative studies “...is an iterative, context dependent process of on-going decisions made during the analytic process as the researcher begins to develop themes, relationships between themes and where conceptual boundaries of these lie” (Sim et al., 2018:630). This research began with a preliminary working sample of 10 participants for each group of stakeholders (ZIMRA officers, Tax experts, and officials from the Ministry of Small and Medium Enterprises). The working sample of 10 per group was chosen based on numerical models put forward by qualitative researchers (Boddy, 2016; Creswell, 2014:239; Guest et al, 2006, 2020) and other tax researchers (Dube, 2014; Mashiri, 2018:107). These researchers argued that for homogeneous groups, sample sizes of ranging from 1 to 10 per group are adequate to generate enough data to draw meaningful claims and conclusions. Boddy (2016:426), advances that “sample sizes as low as one can be justified and can be very informative”, but where the population is diverse, at least one representative of each segment of the population under consideration will suffice. The study’s participants were grouped in terms of homogeneity as shown above, but are diverse to allow the researcher to exploit their diversity of views and experiences. The study’s sample was purposively sampled basing also on conceptual models by Morse (2000:3-4) and Malterud et al. (2016:1754) who argue that sampling must be driven by the ‘information power’ of participants not how many participants (Who are these participants? What knowledge and competences do they possess that are specific and appropriate to the study? What kind of

experience do they have? How important is that level of experience to the subject matter?). These researchers were also quick to remind that these are preliminary samples as definitive samples are normally arrived at after considering saturation point during data analysis. For this research NVIVO was used for data analysis (thematic). The point of saturation were considered as the point where no new codes emerged (code saturation) and also where no additional insights cropped up from any further interviews analysis (meaning saturation) (Hennink et al., 2017:15) and as explained in Chapter Six. Sampling and justification as well as saturation were addressed in detail in Chapter Five, Section 5.6.1.1.

### **1.10.3 Paradigmatic assumptions and perspectives**

A research philosophy or paradigm is a basic set of beliefs about the way in which data about a problem should be gathered, analysed and used and it is in short a framework of beliefs and methods within which a research takes place (a world view as described by Creswell (2009:36-40)). Guba and Lincoln (2004:21) are of the opinion that a research paradigm is crucial to the construction of realities as relevant appropriate criteria needs to be followed as the foundation for any research. Ontological perceptions, epistemological stances and methods of data gathering and interpretation are closely linked (Easterby-Smith et al., 2015; Villiers & Fouche, 2015). This research adopted the interpretivist research paradigm. Though the pragmatism perspective could be considered more adept for this study, the researcher felt that the interpretivist perspective was more suitable, since the study was predominantly qualitative in nature. The other reason was the fact that the first stage qualitative approach was the core of the study

Ontological assumptions relate to the philosophy of reality, whether social entities are viewed as subjective or objective. It is the theory of being. It is a critical facet of research because it enables the researcher to uncover how perceptions of human nature impact on the approach adopted (choice of research design) by the researcher to reveal social truths (Easterby-Smith et al., 1991:27). Epistemological assumptions are about issues having to do with knowledge creation and dissemination in particular areas of enquiry. Knowledge can be viewed as time or content dependent. (Denzin and Lincoln, 2000: 134-164). The choice of epistemology shaped the research approach either as quantitative or qualitative and deductive or inductive. This study employed an interpretivist approach that assumes social reality is context bound and specifically constructed by human beings through their action and interactions. This ontological perspective is relevant for research aiming for interpretation and understanding a phenomenon or puzzle involving human perceptions such as taxation. The main premise of the

interpretivist is to investigate and understand motives, meanings, reasons and other subjective experiences of participants, which are time and context bound (Saunders et al, 2009).

Informal sector taxation research is susceptible to relativity problems, which are related to the fact that ideal solutions to this problem are dependent on which actors are included in the study. Reality is multiple as seen by participants. Depending on which stakeholders are included in the study; informal sector taxation, motives, benefits and challenges can be viewed differently and ideal solutions may differ. For example, from the policy maker's perspectives, revenue authority perspective and tax experts and the formal sector. Reality can be different even for the same group of participants. For example for the informal firms, IS taxation often leads to formalisation with divergent impacts. Formalisation might protect some firms from predatory behaviours of tax and government officials and open growth opportunities but for others such a move might not be beneficial but instead perpetuate the risks (Schomerus & Titeca, 2012; Titeca & Kimanuka, 2012:37). This reflects the varying dimensions and dynamics privileging inclusion and exclusion, influencing firms differently (Joshi et al., 2014). The interpretivist philosophy was ideal because it allowed the researcher to use multiple methods and multiple sources, to unravel reality from the perspective of those who have experience on the IS tax administration phenomenon in Zimbabwe, in order to draw meaningful conclusions and to make recommendations. The study adopts a Dominant QUAL-quant mixed method. Table 1.4 provides a summary of the interpretivist paradigm as it relates to this study.

**Table 1. 4: Interpretivist paradigm**

|                           | <b>INTERPRETIVIST PARADIGM</b>                                                                                                                                                               |
|---------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Ontology                  | Reality is subjective and multiple as seen by participants. Reality is also context bound (Curry et al., 2009; McKerchar, 2009).                                                             |
| Epistemology              | The constructivist researcher interacts with what is being researched, is part of the observed (Villiers & Fouche, 2015)                                                                     |
| Research strategy         | Dominant QUAL-quant mixed method research (Curry et al, 2013)                                                                                                                                |
| Researcher seeks to       | Understand the phenomena deeply, inside out, understand what is happening, develop ideas through both deductive and inductive approach. To confirm or disconfirm theories (McKerchar, 2009). |
| Preferred methods include | Used multiple methods to establish different views on phenomena (taxation of the informal sector) (Al-Saadi, 2014)<br>Questionnaires and semi-structured in-depth interviews be employed     |

**Adapted from Easterby-Smith et al. (1991:27)**



Methodological assumptions refer to issues of whether the research will be objective or subjective and what methods and instruments the researcher will use to gather and analyse data (Creswell, 2014). This research adopted a sequential mixed method exploratory research design while focusing on Zimbabwe. The approach fits well with the research paradigm chosen. The mixed method approach was utilised to combine both qualitative and quantitative approaches (qualitative for the “how” questions and quantitative for the “what” questions). In trying to understand the informal sector, archival research (ZIMRA reports) was combined with interviews to triangulate information with that from primary sources. According to Stake (2000:443) methodology triangulation reduces the likelihood of misinterpretation and accordingly enhances credibility and clarification of potential subjectivity within particular data sources. The cross fertilisation of the research methods was aimed at seeking a deeper understanding of the informal sector taxation problem and to provide real solutions. It also strengthens the overall research design by allowing findings of one method to inform the other. The use of multiple methods and sources was motivated by the following epistemological motivations.

**Table 1. 5: Participant and Epistemological motivation**

| <b>Interviewee group</b>   | <b>Epistemological motivation/focus</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                               |
|----------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Ministry of SMEs officials | Views on the drivers of the IS, magnitude and contribution of the IS. Involvement of the IS in formulating IS tax policy. Appropriateness of taxing the IS, perception of the potential of the IS as a source of tax revenue. Arguments on the feasibility and practicability of taxing the IS. Suggestions on strategies to improve IS tax contribution                                                                                                                                              |
| ZIMRA officers.            | Information and practical views on the capacity and capability of revenue authorities to collect tax revenue from the IS. Perceptions on feasibility and practicability of IS taxation, effectiveness of IS taxation framework and challenges to effective revenue collection from this sector. The costs versus benefits appraisal. How Zimbabwe’s informal sector tax system compares with other countries. Recommendations on how to improve IS tax administration and foster voluntary compliance |
| Tax experts                | Evaluation of Zimbabwe IS tax system against the canons of taxation. Comparability with other countries’ taxation of the IS. Evaluation of drivers of informality, factors affecting IS tax compliance, the benefits and challenges of the IS taxation. Experience with both ZIMRA and the IS when it comes to tax matters with the expert as the mediator. Suggestions on how to improve the IS tax system deriving from practical experience                                                        |

Adapted from Dube (2014) and Soest (2007:48)

#### **1.10.4 Data analysis**

Qualitative data (interview transcripts) was analysed using NVIVO 12 PRO (a computer assisted qualitative analysis software (CAQDAS)) through thematic analysis, with the objective of addressing both thematic and meaning saturation (Hennink et al., 2017), as earlier highlighted under sampling decisions. The qualitative results were used for further development and clarification of the questionnaires that was used for the qualitative aspect of the study (Creswell, 2014). The qualitative results were presented in Chapter 6 using outputs from NVIVO such as word text queries (for example Figure 6.7 and 6.9), word clouds and project maps (for example Figure 6.6 and 6.13). These were backed by verbatim quotations from participants and opinions from literature review in Chapter Two to Four. Quantitative data was analysed using SPSS viewer version 23 (Statistical Package for Social Sciences), categorised and coded. The output from SPSS was presented in the form of tables, pie charts and graphs in Chapter Seven. It was also substantiated by results from literature and findings from Chapter Six as guided by Creswell (2014) on sequential exploratory MMR. Quotations were used in three important ways: as evidence, elaborations and as provocations (Dai et al., 2016:18-23). According to Dai et al (2016:18) “To enhance the validity of the research, verbatim quotes can be drawn upon as evidence to justify the claims made by researchers”. Elaboration refers to the manner in which the interview extracts and the researcher’s interpretation intermingle in the creation of a persuasive reality of the study. On the other hand as provocation, quotations can be used verbatim in order to question the status quo, including the views or things that are taken for granted and in this way creating room for emancipation (Dai et al., 2016; Yin, 2011). At times, quotations were juxtaposed to provoke some deeper thinking as well as thinking outside the comfort zone or box.

#### **1.11 Assumptions of the study**

The study assumed the following:

- The study participants would objectively respond to research questions and share with the researcher true and unbiased information, despite the sensitivity and controversy surrounding taxation.
- Taxation is a complex, dynamic and ever evolving subject area due to policy and legislative reviews. To avoid disruption of the research activities, the research assumed that there were no significant tax legislation and policy changes in relation to the IS up to December 2018 (time scope of the research).

## 1.12 Limitations of the study

The preliminary limitations of the study are as outlined below in Table 1.6, as most of them were discussed throughout the research process.

**Table 1. 6: Preliminary Limitations overview**

| <b>Limitation</b>       | <b>Elaboration on limitation</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |
|-------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Scope                   | The focus of the research was on IS taxation in Zimbabwe and the lack of published data and scarcity of literature on IS taxation in Zimbabwe also posed a challenge, but this was mitigated by the use of literature on IS taxation in other developing countries such as Kenya, Nigeria, Tanzania and Zambia. Machemedze et al. (2018:24) also lamented the shortage of IS statistics in Zimbabwe.                                                                                                                                                                                                                                                                                                                     |
| Confidentiality         | ZIMRA officers are bound by the principle of confidentiality and this curtailed the degree of openness, co-operation and disclosure of information, though the impact of this limitation was minimised by the provision of proof to the participants that permission had been sought and granted by ZIMRA for the researcher to carry out this research. This endeavour still did not wholly eliminate the problem as the issue of confidentiality cropped up frequently in sensitive matters or on the request of certain databases. Mashiri (2018) and Newman (2019:13) cited the oath of secrecy challenges as impediments to tax research especially when seeking the views of ZIMRA officers.                       |
| Sensitivity of taxation | Taxation by its very nature is a sensitive topic, contested at all times and universally (Bird, 2012; Mckerchar, 2009; Dube & Casale, 2019:53), hence all the efforts discussed in Chapter Three on the methods employed by other developing countries in taxing the IS were based on secondary data as opposed to primary data. This was because of challenges in accessing these countries' statutes and the sensitivity of tax matters, as people are always wary and suspicious of tax researchers. Participants could also have introduced a bit of subjectivity through their experiences as taxpayers.                                                                                                            |
| Methodology             | The researcher would have preferred to obtain a data base of tax experts or consultants who regularly deal with ZIMRA on the IS taxation matters directly from ZIMRA as they would have intimate knowledge about the IS taxation and its compliance challenges. The information from the database could have been compared with that from the database obtained from the Institute of Chartered Tax Accountants, Zimbabwe (ICTAZ), but efforts to obtain this were futile due to ethical and confidentiality challenges as well as the sensitiveness of tax matters as pointed out by Dube and Casale (2019:53). This led to the use of the one list from ICTAZ, hence confirmatory and comparison advantages were lost. |
| Target population       | The researcher would have wanted to include the IS participants or their associations as part of the target population as their views on the tax policy, the practical challenges to tax compliance and benefits if any would have been pertinent to the design of an IS tax policy. Waris (2009) avers that most researchers studied the problem of IS tax evasion from the perspective of the tax authority only, giving minimal attention to taxpayer perceptions.                                                                                                                                                                                                                                                    |

| Limitation | Elaboration on limitation                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
|------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|            | Challenges of obtaining ethical clearance for the IS which was viewed as a “vulnerable” group made it a complicated task hence the exclusion of the IS participants. This challenge was pointed by Madushani (2016:30), who argued that challenges in obtaining ethical clearance for those considered “vulnerable” robs the research of essential contributions and also deprives the group of the benefits of research as researchers often exclude them. This hiccup was mitigated by incorporating tax experts (non-vulnerable) as part of the target population as they have intimate knowledge about the IS and their issues on tax compliance from the services they offer to this sector. The tax experts bring a more balanced view from dealing with both the tax authority and the IS. The Ministry of SMEs officials augmented these views on behalf of the IS.                                                                                                                                                                                                                               |
| Results    | The results were informed by purposive sampling for interviews with and questionnaires administered to participants representing ZIMRA officials (regulator) and other stakeholders such as tax experts(neutral ground between taxpayers and the revenue authority)and this excluded the TP (IS themselves). This is a limitation as the views and challenges of this affected group remain a critical area for further research in effectively designing presumptive tax policies or any other tax policy towards taxing the IS. The views of the Tax experts partly compensated for the shortcomings as they shared their views and experiences from dealing with the IS and representing them in tax disputes. For the majority of ZIMRA officers who were not comfortable with audio recording, the interviews were paraphrased and this is a limitation as note taking is prone to interviewer bias, but the interviewer tried to do it verbatim. Taxation is at all times and the world over a controversial concept (Bird, 2012), results are always affected by this sensitivity and controversy. |

Source: Author’s compilation

### 1.13 Chapter Overview and Thesis Summary

This thesis has eight chapters. The first chapter looked at the introduction of the study, research problem together with objectives. The second chapter explored theories on the informal sector drivers and how they affect IS taxation, which culminated in the development of the conceptual framework in Chapter Two to guide this study. Possible policy options towards feasibly and productively taxing the IS will be informed by these drivers. If restrictions to operating formally are the key driver, then policy makers must focus on relaxing the regulations. If taxation issues such as tax system complexity, high tax rates and/or multiplicity of taxes are the major determinants, then policy issues should accordingly focus on the tax structure (Bongwa, 2009, Rogan, 2019:9). Chapter Three focused on the general literature review on informal sector taxation that probed the challenges, strategies and efforts of taxing the informal sector in Sub Saharan Africa and globally. This chapter addressed the questions such as why

the need to tax this sector? How can the informal sector be taxed? Chapter Four provides the background and contextual literature on the operating environment in Zimbabwe with respect to informal sector taxation. Chapter Five presents the research methodology and its justification. Chapter Six presents the qualitative empirical findings and discussions. The findings from Chapter Six informed the design of quantitative data collection instruments used for gathering quantitative data whose analysis is presented in Chapter Seven and supported by the qualitative findings. Chapter Eight concludes and gives recommendations to the study.

## CHAPTER 2: THEORISING INFORMAL SECTOR TAXATION IN DEVELOPING COUNTRIES

*“Taxes matter. People talk about them, complain about them and try to dodge them when they can. Businesses also react to taxes, both in how they organise their activities and where they carry them out”- Bird and Zolt (2008:73).*

### 2.1 Introduction

The main objective of this chapter is to explore and theorise the drivers of informality as well as to show how they relate to taxation. The chapter endeavours to determine the drivers of informality by exploring the theoretical framework on informal sector growth and to establish the relationship between drivers of informality and factors affecting informal sector tax compliance (Secondary objective1, Section 1.4.2). The chapter led to the development of conceptual framework in this chapter, to guide the study. Therefore, it presents an evaluative review of contemporary debates on the value of theory in informal sector taxation research, which is the core of this chapter (Section 2.2). The rest of the chapter is arranged as follows: Section 2.3 highlights the various arguments and views that have been proffered by different scholars on explaining what the informal sector (hereafter IS) is and its genesis and Section 2.4 identifies and critically reviews key theoretical perspectives in informal sector development and expansion. Being, a well-studied subject several alternative theories or disciplinary perspectives are potentially available from the finance discipline, criminology, law and taxation as well as economics. Despite the fact that various competing theories have been propagated, until now however, few have sought to document these and even fewer to appraise critically the validity of these theorisations. The link between these theories explaining the drivers of informality and arguments in favour of or against informal sector taxation has remained largely unexplored. Thus, Wedderburn et al. (2012:4) emphasise that it is indisputable that understanding the size and drivers of the informal economy as well as adapting them to local conditions is fundamental in designing policies for this sector especially “to develop a rational, operational and enforceable tax system”. There is also a dearth in literature that explores the connection between these theorisations and the theories explaining informal sector taxation non-compliance (Deterrence and fiscal exchange). The focus of this chapter is however to fill this gap by reviewing the competing theorisations and evaluating critically their substance to developing countries especially sub-Saharan African countries and Zimbabwe in particular.

The aim is to identify theories that could broadly and reasonably explain the informal sector growth as well as adequately inform policy towards its taxation in developing countries. Demonstrating the link between the factors that decipher the continued growth of the IS and those explaining the continuous outcry on the sector's insignificant contribution to the fiscus is high priority in addressing theoretical and policy gaps. An insight into drivers of informality is paramount in aiding and substantiating the designing of key strategies in taxing this sector. Understanding and evaluations of the various theorisations culminates in the development of a conceptual framework to guide this study in Section 2.7. Concluding remarks are given in 2.8.

The penultimate section concluded the chapter by giving a brief overview in tabular form of the key concepts and views in each theory in the researcher's own understanding and the applicability of each theory to Zimbabwe as was explored further in Chapter Four.

## **2.2 Importance of a theoretical framework in Informal sector taxation Research**

The desire for a theoretical and conceptual framework that guides the research is indispensable as it heightens the quality of research, explains the path of research and firmly grounds it in theoretical constructs. This aids in making research findings more meaningful, acceptable to the theoretical constructs in the research area and ensures generalisability (Imenda, 2014; Grant & Osanloo, 2014; Akintoye, 2015). Theoretical frameworks stimulate research by providing direction and impetus to the research enquiry. Adom et al. (2018) contend that, the absence of a clear theoretical framework guiding a study on the other hand, blurs the appreciation of readers of the purpose of the study, contribution of the study and the scholars that the researcher is in dialogue with (areas of convergence and divergence).

The theoretical framework for this research was reviewed in order to aggrandise the empiricism and rigour of research. This was done by contextualising how theories such as the dualist view, structuralist view, neo-liberalist, illegalist and continuum (Joshi et al., 2014, 2014; Maloney, 2004), reflect on the informal sector taxation puzzle, giving a "blue print" (Grant & Osanloo, 2014:13), borrowed by the researcher to construct her own "house" of research. This is meant to ensure that research makes scholarly contributions within the confines of accepted theories in informal sector research. The theories explaining the emergence and burgeoning of the IS lay a foundation from which knowledge for this research is built, hence providing the structure and reinforcement for the research, problem statement, rationale, purpose and research questions for the study (Grant & Osanloo, 2014).

De Paula and Scheinkman (2011) bemoan the paucity in literature that provides a clear guide of informal sector taxation because this is presumably because the sector is heterogeneous. Therefore, the practical way to explore the phenomena is to look at the drivers of informality. The intellectual puzzle is to explore the theoretical framework that explains the growth of this sector in its heterogeneity. The present interest is in theory, specifically how the emergence and the alarming growth of the informal sector in developing country contexts may be appropriately conceptualised. Theory is, of course, the basis upon which knowledge of a universal character may be advanced (Saunders et al., 2009; Grant & Osanloo, 2014). Of equal importance is the fact that the conceptualisation allows the distillation of key casual variables as well as their relationships in terms of which a phenomenon of interest can be correctly and appropriately studied. This in turn aids a proper account of the drivers of informality as well as the benefits and challenges of informal sector taxation (Africa Tax Spotlight, 2012). This is fundamental in directing attention to the relevant variables as levers for appropriate policy intervention. It should be noted that the leap between theory and policy formulation is complex, and should be adequately informed. The Africa Tax Spotlight (2012) opined that there seems to be a consensus that developing country governments and their tax authorities would have to work around the clock to bring the IS into the tax net. Hence, for such efforts to be a success, an understanding of the key drivers of informality, structural enablers of tax evasion, constraints and challenges of informal sector taxation as well as the practical implications of any policy strategies is without doubt imperative.

Informal sector taxation research is a very challenging research domain that has attracted a lot of attention in recent years in a bid to bring this hard to tax sector into the tax net (Africa Tax Spotlight, 2012; Joshi et al., 2013; Loeprick, 2009:1; Maina, 2016; Ligomeka, 2019). Theory should be the cornerstone of research, which aims at apprising policy on how to tackle the informal sector taxation puzzle. The argument is premised on the view that theories don't only have the capability of expounding on how and why things occur in a certain manner (Adom et al., 2018), but might also be contributory in envisioning what is going to happen in the future given the present realities. Envisaging future eventualities can provide a platform for designing intervention tools and even predicting outcomes that such interventions might have in real life contexts. A fundamental measure of a good social research as argued, is its ability to theorise the research's main focus as well as providing clear and explicit paradigms, constructs, tenets of a theory and key concepts (Imenda, 2014; Ravitch & Carl, 2016; Grant & Osanloo, 2014), but very few studies in informal sector taxation research have used a theoretical framework to



guide their studies. The paucity of theoretically guided-research in IS taxation has led to a dearth in informed research which is built upon both theorisations and empirical research that critically evaluates those theorisations, often making the research studies weak and too descriptive, thus lacking theoretical rigour and applicability. Grant and Osanloo (2014) posit that a sound research is one in which a theoretical framework resonates with all aspects of the research process from the statement of the problem, review of related literature, methodology, presentation and findings as well as the conclusions.

The complexity of and contradictions in varying theoretical perspectives explaining informality infer that issues under IS taxation research can be viewed through varying disciplinary lenses with varying paradigms and concepts that might not be reconcilable, giving rise to differing outcomes based on the theoretical viewpoint chosen. For example this study confines itself to five theories in trying to explicate the informal sector taxation dilemma yet Matsongoni and Mutambara (2018) posit six theories which are the dualist, structuralist, legalist, rational choice legalist, the recession push theory and labour supply theory. This study recognises that the five schools in their broadness incorporate the other schools delineated by Matsongoni and Mutambara (2018). This presupposes the need for such research to specifically delineate the theoretical perspective guiding the research in order to properly explore the controversies in the subject area (Grant & Osanloo, 2014). Situating studies within explicit theoretical frameworks and boundaries is paramount in explaining the reasonableness of variations in key assumptions, key concepts, definitions of terms and varying interpretations amongst studies. This arguably brings comparability, clarity and at the same time limiting the challenges of context within empirical studies in the world (Adom et al., 2018). Other researchers have concurred that this opens room for adaptability of such studies to different contexts such that policy imputations can be derived accordingly. It goes without saying that a theoretical framework is essential for controversial areas like IS taxation as important differentials or discrepancies in the economies, regulatory frameworks, definitions of informal sector, contributions and size of the sector exist, yet similarities could also be drawn in operating environments for example developing country contexts. Comparability and adaptations of research in similar contexts might be feasible. Research outcomes emanating from the study must validate, expand, review, re-orientate and reorganise the existing IS theories that were borrowed for the study

Lastly, the critical theoretical review culminated in the development of a conceptual framework in Section 2.7 of this chapter, to guide the study and to fundamentally contribute towards

academic debates, knowledge development and to on-going literature on informal sector taxation. A good comprehension of both the theoretical and conceptual framework would ensure a good investigation. Concordant with the analogy of an electrical system, running through a house and connecting all rooms (Grant & Osanloo, 2014), the theoretical framework will link all aspects of this research from the problem statement, research objectives and contribution of the study, methodology, data analysis and conclusions throughout all the chapters of the study. Akintoye (2015) proposes that, a well-articulated and relevant theoretical framework is an essential tool in convincing scholars and readers that the current study is not founded on the researcher's personal instincts, but rather firmly grounded in an established theory selected from credible studies. For this research, these previous scholars include researchers such as Prichard (2009), Joshi et al. (2014) and Dube (2014). Accordingly Lysaght (2011:572) concurs by pointing out that "a researcher's choice of theoretical framework is not arbitrary but reflects important personal beliefs and understanding about the nature of knowledge..., and possible roles to be adopted and tools to be employed consequently by the researcher in his/her own work". Interestingly in their study of the "informal economy and the World Bank", Benjamin et al. (2014) expostulate four important aspects that theoretical research on policy prescriptions regarding informal sector should seek to address: **1.** Recognise the heterogeneity in the sector. **2.** Government- private sector partnerships on reforms targeting the sector. **3.** The role played by the sector in the economy. **4.** The fact that the complicated trading links developed by the informal firms which are not easy to extricate can discourage foreign direct investments, undermine trade policy, domestic revenue mobilisation and competitiveness of formal firms.

### **2.3 Informal sector**

Discussions of revenue mobilisation challenges in developing countries conventionally emphasise the unprecedented extent of informality, often around half or more of Gross Domestic Product (GDP) as the biggest obstacle to widening the tax base. Yet the prominence of effective tax systems as a tool for domestic revenue mobilisation in developing countries cannot be disregarded. Kundt (2017b:1) describes fair and transparent tax frameworks as essential for achievement of Sustainable Development Goals by developing countries. Despite its overwhelming presence in developing countries and its emergence in transition economies as well as developed countries, controversy and debates persist as to the precise definition of the term "informal" sector and the contribution of the sector in terms of development and revenue generation (Amin & Islam, 2015; Benjamin et al., 2012; Nakamba-Kabaso & Phiri,

2012). In order to properly theorise and adequately evaluate informal sector taxation, there is need to explore the ambiguity and contradictions in definitions as well as define the sector. Ziendy (2020) asserts that most of the African economic activity takes place through Small to Medium Enterprises. Most SMEs are found in the IS (Ligomeka, 2019).

The informal sector is a prominent feature of most developing countries. As a percentage of GDP, it is pegged at 40, 6% for low-income countries (LICs), Lower Middle Income Countries (LMICS) are at 38, 8%, Upper Middle Income Countries (UMICs) are at 35, 1%, other High Income Countries) HICs at 24, 2% and OECD countries at 19, 8% (Schneider & Buehn, 2018). According to La Porta and Shleifer (2014) in Brazil nearly two thirds of businesses, 40% of the GDP and 35% of the labour force are informal. This is because possibly Brazil, being an emerging economy has similar economic growth challenges as those of other developing nations. Similarly, the informal sector accounts for around 41, 9% of GDP and 50% of the labour in Columbia. The figures are much higher for African economies especially Sub Saharan countries. As a percentage of gross national income, the figures range from around 30% for South Africa, the continent's largest economy to almost 70% in Tanzania and Zimbabwe. The average contribution of the IS to GDP in Sub Saharan Africa is estimated at more than 50% (Sebele-Mpofu, 2020a; Rogan, 2019). For Ghana, it is argued to constitute up to 80% of the country's economy (Perry et al., 2007). Table 2.1 summarises the magnitude of the sector in different countries as estimated by different researchers.

**Table 2. 1: IS contribution to GDP in selected African countries**

| Country/region | GDP contribution | Tax to GDP ratio            |
|----------------|------------------|-----------------------------|
| Uganda         | 43%              | Below SSA average of 18-20% |
| Tanzania       | 39,5%            | Below SSA average of 18-20% |
| Nigeria        | 65%              | Average of 18-20%           |
| South Africa   | Below 25%        | 29.1%                       |
| SSA            | 50% average      | 18-20%                      |

Source: TRA (2011) and Medina and Schneider (2018)

Despite the magnitude of this sector, it proves difficult to define and, explain its motivations, measure its scope or even anatomise its performance as well as its impact. Bruhn and McKenzie (2014) point out that there is no precise and veritable terminology used to define this sector, as there is neither a unique definition nor a unique measure for this sector. The sector's definition has been debated and has various definitions, as noted by Ahwireng-Obeng (1996) who finds more than 50 definitions in over 75 different studies. Some definitions given in the past may

be too narrow to meet the modern-day informal sector because of constant changes in the form, shape and activities of the sector.

Conceptual and practical challenges that come with estimating and defining the sector have been attributed to its heterogeneity together with the absence of a single definition. Several terms have been used to refer to the sector: shadow economy (Schneider, 2002; Schneider & Enste, 2000), black economy, hidden sector, underground economy (Schneider & Bajada, 2005), parallel economy, second sector, non-observed, irregular, unofficial (Ronald Hope Sr, 2014), unrecorded, unmeasured, untaxed, unorganised, petty production and subterranean (Joshi et al., 2014).

Methodologies for estimating the sector are often open to debate (Nakamba-Kabaso & Phiri, 2012). Schneider, (2002) as well as Schneider and Enste (2000) suggest that a precise definition is nearly impossible to obtain because the informal sector adjusts to changes in tax sanctions from tax authorities and to general moral attitudes. Some varying working definitions are explored and all of them agree on a common feature that the informal sector occurs outside the legal framework. Meagher (2013:2) and LaPorta and Schleifer (2008) define the informal sector as economic activity conducted by registered or unregistered firms hidden from taxation. Castells and Portes (1989) assert that the informal economy is characterised by one central feature, it is unregulated by legal and economic institutions yet operating in an environment in which similar activities are regulated. Venkatesh (2006) defines informal as underground or off the books economic activity characterised by illicit practices or illegal exchanges such as drug trafficking. As earlier explained in Chapter One under the scope of the study, this study excluded the informal sector defined by Venkatesh (2006) as this one is detrimental to economic growth and destructive to society and as such governments would want to find the activities and put an end to them, not tax. Schneider et al (2010) provide a working definition arguing “the shadow economy includes all market based legal production of goods and services that are deliberately concealed (unreported and unrecorded) from public authorities to avoid payment of income, value added or other taxes, to avoid payment of social security contributions and; having to meet certain labour market standards”. Selmirod and Weber (2012) find an overlap between informality and tax evasion as the motivation for both is to reduce the burden of some aspect of government regulation.

### **2.3.1 The origins of the informal sector notion**

Hart (1973), a social anthropologist propounded this concept and brought it into academic literature. The author introduced the concept of the informal sector to refer to a part of the urban labour force, which works outside the formal labour market. The idea was to differentiate businesses on their “degree of rationalisation or embodiment of impersonal principles of social organisation” (Hart, 2005). The author considered the informal sector as almost synonymous with self-employment. Even though this concept was limited to self-employment, the concept made it possible to include activities that were previously ignored in theoretical models and national economic accounts (Gerxhani, 2004). In spite of the early work by Hart, the origins of the term are traced to the International Labour Office (ILO) in Kenya (Sabot, 1973), as the pioneering research. The ILO (1972) took a more enterprise based approach, describing the IS on the basis that, it is easy to enter and exit from, relying on indigenous resources owned by family and small scale in operation. They further alluded to the fact that the sector was labour intensive, using low technology and operating in unregulated and competitive markets. Though emphasis is on improving the contribution of the sector to economic growth including decent jobs, Kanbur and Keen (2014)’s emphasis is placed on mobilising revenue from the sector. Informality in the ILO (1972) report is mainly characterised by the avoidance of regulation and taxes, hence the arguments for taxing this sector as a means of broadening the tax base (Chen, 2012). Initiated by De Soto (1989), the conceptualization of the sector brought yet another meaning, by focusing on the regulatory framework. The scholar identified the informal sector as a source of dynamism and growth, held back only by inappropriate government regulation. The distinguishing factor between formal and informal sector according to this approach is the legal status. The application of policies and transaction costs are argued to account for the emergence of the informal sector. The question to be answered being “Is the business registered and does it follow appropriate legislation?” and, if the answer is yes, then it is formal and no, implies informal (Joshi et al., 2013, 2014). Gerxhani (2004) suggests that firms in the informal sector are in that sector on the basis that they contravene some of a variety of rules and regulations including labour laws, environmental laws, registration and taxation. The genesis or origins of the informal sector literature highlight several issues that are pertinent to our concern with taxation for example individual decisions about tax compliance affect the performance of the whole economy. The influence of taxation on informality in the form of tax burden and tax mix has been cited in many empirical studies (Schneider & Enste, 2013; Schneider & Enste, 2000; Torgler & Schneider, 2009).

### **2.3.2 Defining the informal sector**

The informal sector however defined, occupies an important position in African economies as practically every study of the subject agrees (Benjamin & Mbaye, 2014; Benjamin et al., 2012). Various scholars have come up with varying definitions. Consequently, the estimates of the informal sector's magnitude vary greatly depending on the definition applied (Verick, 2006). The largely used criteria are: the size of the business, registration with government and maintenance of honest and complete accounts. Economics scholars use the term informal sector to refer to output and labour that are not registered with government or unreported activities. Gerxhani (2004) used the term to refer to activities and employment not recorded on the official statistics, avoid government regulation and do not pay taxes (informal illicit activities and products are excluded). Another commonly used working definition is all activities that contribute to the officially calculated (or observed) gross national product but are currently unregistered (Schneider & Bajada, 2005; Schneider & Enste, 2000). Kanbur and Keen (2014) rightly argue that any researcher studying the informal sector should begin by defining informality. This study adapts the typology of enterprises informality from Djankov et al. (2002) as adaptation from Zinnes (2009) cited in Joshi et al. (2013). The typology prescribes three distinct informal groups which are liable to pay taxes; informal small and micro enterprises who are subject to inclusion in taxing targeting regimes, and small and medium firms who are large enough to be included in the standard tax net but are excluded. Unlike Joshi et al. (2013), who totally exclude what they term subsistence enterprises, this study considered them, because cottage and microenterprises such as hair salons are considered for tax purposes in Zimbabwe. The adaptations are diagrammatically shown in Chapter One, Table 1.3.

### **2.4 Perspectives on informal sector development and taxation theoretical framework**

Literature on informal sector development and driving forces underlying the size of the informal sector has conventionally focused on the outcomes of government actions, notably taxation and regulation as the key drivers of informality. According to Chen (2012), literature can be viewed in the context of five schools of thought ranging from the simplistic to more philosophically, complex explanations such as the dualist (survivalist), structuralist, legalist (neo-liberal view), illegalist and the continuum (Becker, 2004; Matsongoni & Mutambara, 2018). La Porta and Shleifer (2014) asserts that the conceptual terrain of the informal sector includes several academic disciplines and construct spans several levels of analysis from micro level, macro level, institutional setting to the meta- level as well as national and international issues of taxation and legal policy. The World Bank (2011) grouped these drivers into monetary

(avoiding payment of taxes and social contributions), regulatory (avoidance of government bureaucracy and regulatory burden in terms of high licence fees) and institutional reasons (corruption, low and weak legal and regulatory frameworks). A review of literature in developed and developing countries has actually pointed to areas of divergence and convergence amongst the various scholars, in their quest to unpack the IS concept and its drivers. Gerxhani (2004) observed that the studies converge on the characteristic of the informal sector- tax evasion, operating outside regulation and the illegal and criminal nature of activities yet they diverge on the drivers of informality. The researcher argues that developing countries often put the survivalist/ lack of choice arguments on the forefront, legitimising the sector's avoidance of regulations and tax payment whereas developed countries show that the IS offers possibility for growth and as such efforts should be made to tax it.

Over the years, the continuous debate on the large and ever growing heterogeneous sector has crystallised into rival theories regarding its nature, composition and arguments in favour or against its taxation such as the dualist, structuralist, legalist, illegalist and continuum (Becker, 2004). The theories submit antithetical postures on the drivers of informality taking into consideration the favourable and unfavourable ramifications on the growth of economies. According to Chen (2012), given the heterogeneity of the IS, there is merit and reasonableness to each perspective as each school of thought reflects one or another slice of the IS pie. Chen (2012) further opines that the IS is more heterogeneous and complex than the sum of these perspectives would suggest and therefore what is of great importance is for any researcher studying the subject to contextualise the chosen perspective appropriately to their operating environment. Country politics, regulations and tax policy vary from country to country. According to Adom and Williams (2014), the IS can be theorised either as a residual activity embarked upon due to shortage of formal work and social marginality (dualist/survivalist), incidental product of contemporary capitalism carried out due to economic necessity (structuralism) or substitute to formal work opted for due to over burdensome regulations (neo-liberalism/ the legalist view/institutional). The various perspectives have been diagrammatically presented as adapted from Saint-Supéry Ceano-Vivas et al. (2014) as shown in Table 2.2.

**Table 2. 2: Theoretical underpinnings/ theories on IS growth**

|                     | <b>Origin and drivers</b>                                                                                                                                                        | <b>Sectors affected</b>                                                                 | <b>Characteristics</b>                                                                                                                                                                                                                                                                                                                                                                   | <b>Public policies to be developed</b>                            | <b>References</b>                                                    |
|---------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------|----------------------------------------------------------------------|
| Dual approach       | Informal economy arises in the 1960s and 70s as a consequence of the industrial development process which caused the formal economy to be unable to absorb the surplus workforce | The most unfavourable economic sector of society                                        | <ul style="list-style-type: none"> <li>-it is not a choice</li> <li>-subsistence economy</li> <li>-non connections with formal sectors</li> <li>-direct relation with marginalization social exclusion and poverty</li> </ul>                                                                                                                                                            | Economic and social policies targeted at eliminating inequalities | Lewis (1954); Harris and Todaro (1970); Hart (1970/1973); ILO (1972) |
| Structural approach | The origin is also the unfavourable structural situation produced within the industrial development process in the 1960s and 70s                                                 | Small producers and micro enterprises that have been left out of the production process | <ul style="list-style-type: none"> <li>-it is not a choice</li> <li>-low productivity</li> <li>-bad salaries and bad working conditions in comparison with the formal sector</li> <li>-restrictions on the financing access</li> <li>-connections with the formal sector by providing low cost products</li> <li>Direct relation with unemployment as well as with inequality</li> </ul> | Economic policies and public resource allocation                  | ILO (1972); Tokman(1978); Moser (1978)                               |



|                                  | <b>Origin and drivers</b>                                                                                                                                                                                  | <b>Sectors affected</b>                                             | <b>Characteristics</b>                                                                                                                                                                                                                                                     | <b>Public policies to be developed</b>                                                                                                                                             | <b>References</b>                                                                                                           |
|----------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------|
| Institutional/le galist approach | This approach gained importance during the 1980s and 90s. the determinants of informality are the adequate institutional framework and its regulatory system which cause distortions in market functioning | Micro and small enterprises as well as self-employed and freelancer | -it is a choice<br>- low productivity<br>-restrictions on the financing access<br>-connections with formal sector by providing low cost products and absorbing its surplus output<br>-direct relation with the cost of compliance and with labour and fiscal regulations   | Fiscal policies to broaden the tax base by taxing the informal sector, enhance voluntary compliance and public expenditure policies that provide quality public goods and services | De Soto (1989/2000)<br>Portes (1998)<br>Schneider and Enste (2013) and Loayaza (2007);<br>Maloney (2004);<br>Packard (2007) |
| Continuum approach               | From the 1990s onwards studies began to consider that the determinant of informality is the capitalist economic system citing that informality is inherent to this economic system                         | All sectors                                                         | It combines elements of the other three theories on the grounds that informality affects the three sectors described which coexist, mix and interact one with another<br>-the informal activities are a functional mechanism for the capitalist functioning of the economy | Fiscal policies and public expenditure policies as well as social cohesion policies                                                                                                | Portes et al (1989);<br>Portes (1998);<br>Chen (2005);<br>Maloney (2004);<br>Perry et al (2007)                             |

Adapted from Saint-Supéry Ceano-Vivas et al. (2014)

### **2.4.1 The Dualist school**

This school was popularised by the International Labour Organisation (ILO) in the 1970s. This school subscribes to the notion that the informal economy or sector is marginal and subsistence oriented, providing a safety net for the poor and is not directly linked to the formal economy, expounded further by Sethurama (1976) and Tokman (1978). Informality arises out of poverty. Informal firms have low productivity, provide low quality products and consequently are not a danger to the formal firms. Expansion of the formal sector leads to the decline of the informal sector in relative and eventually in absolute terms (La Porta & Shliefer, 2014). The school holds the argument that the informal sector exists as an avenue for the lower class and the poor to be able to eke out a living and acts as a buffer for those workers laid off in times of economic recession. Harris and Todaro (1970) explain the informal sector growth and development from the rural-urban migration point of view. The argument is founded on the Lewis model that asserts that the informal sector comprised arrivals from the rural areas that failed to secure wage employment and resorted to either creating their own employment or working for small-scale enterprises (Lewis, 1954). In the large part, this explains the continued rural to urban migration and expanding urban informal sector (Todaro & Smith, 2009). A permanent informal sector is seen to have negative effects on the economy, as it is incapable of capital accumulation and growth. The school advocates for an empowerment approach arguing that the subsistence businesses are forced into informality due to need and lack of capacity or access to services so taxing the already vulnerable sector is unwarranted (ILO, 2007).

According to this school, “the persistence of the informal sector activities is largely due to the fact that not enough modern job opportunities have been created to absorb surplus labour, due to slow rate of economic growth and/or faster rate of population growth” (Meagher, 2013). This school of thought is said to be rooted on the Lewis model (Lewis 1954, 1959), which viewed the formal sector as extensive and growing while the informal sector was considered as small and gradually vanishing. The informal sector was viewed as a residue of the formal sector and disappearing. According to Packard (2007), the presence of the informal sector was a sign of “underdevelopment” and “backwardness” while the growing formal sector signalled “progress”, “development” and “advancement”. This was also described as the modernisation theory as described by Williams (2014) cited by Horodnic and Williams (2016). Therefore, there was no need for tax authorities to pay particular attention to this disappearing temporary phenomenon (Bromley, 2007). This is the greatest criticism of the dualist approach as the IS appears to be permanent and growing, hence, the need to tax it. This line of thinking resulted

in a temporal and normative hierarchical ranking of the informal and formal economy. The former being deemed as regressive to economic growth and a “transitory or provisional” sector and the latter seen as progressive and “persistent”. Viewing the informal sector from Lewis (1959)’s lenses as a pre modern traditional endeavour that persists at the periphery of the modern economies, implies that there is only one trajectory of economic development, one in which there is an inevitable, linear development path towards formalisation. Kingdon and Knight (2007) posit that the informal sector is a liability to the economy as it is characterised by underdevelopment, failure to generate capital accumulation or economic growth and contributes little to the GDP of the economy and that is a view shared by Millin and Coetzee (2007). The researchers give evidence of the dualist view in explaining the growth of the informal sector in South Africa yet, Cichello and Rogan (2016) refer to the dualist view of the IS as controversial especially in depicting the sector as defined by poverty and lack of development. They allude to failure to recognise the sector as a fountain of employment creation, income for livelihoods, poverty reduction and possibly revenue generation. They point out that the role of this sector is often under-recognised not only in SA but in other economies as well and Sub Saharan Africa (SSA) and this results in policy gaps as policy responses either overlook this sector or are hostile towards its existence.

Meagher (2013) points out that a practical economy violates three key theoretical assumptions for the Dualist model: **1.** that the informal sector exists as a modern and temporary phenomenon due to distortions in economic activity. **2** Informal activities consist of contraband trades outside the formal sector. **3** Informal trades occur through barter rather than money. Dual economy scholars have rightly categorised the informal sector as small scale and undercapitalised even though not all firms in this sector are small, yet they have failed to offer a viable justification for the persistence of the sector except as a distortion caused by inefficiencies in the institutional structure of the country. Joshi et al. (2014:1337) have brought in another dimension in offering a viable explanation for the continued growth of this sector and their tax noncompliance. The researchers have cited “political reasons” contrary to vulnerability arguments. State officials and politicians ignore the activities of the IS in order to weaken enforcement by tax authorities and other regulators because players in this sector form the largest bloc of voters (Joshi & Ayee, 2008). Horodnic and Williams (2016) describe this view as the political theory of the economy yet Tendler (2002) posit it as the “Devil’s deal”. The dualist view has been perpetuated in most African countries to the detriment of designing effective tax policies towards this sector.

In recent decades, however numerous studies have revealed that the informal sector is ubiquitous, extensive and even growing relative to the formal economy in some countries (De La Roca et al, 2006; De Mel et al., 2013; Perry et al., 2007; Schneider, 2002; Schneider & Bajada, 2005; Williams & Lansky, 2013). Indeed, it has been observed that 60% of the global workforce is informally employed, and 50 to 75% of the workforce in developing countries especially sub-Saharan African countries is employed informally or self-employed (Fox & Pimhidzai, 2011; Pimhidzai & Fox, 2011:2). Other researchers have argued that the informal sector behaves as an unregulated entrepreneurial sector rather than a disadvantaged sector (Benjamin & Mbaye, 2012; Joshi et al., 2014). The outcome of these studies has been the refutation of its depiction as a residue that is disappearing and the advent of new explanations regarding its role in the economy together with proposals to widen the tax base by bringing the informal sector into the tax basket.

Maloney (2004) advocates for taxation of this sector on the basis of the size of the sector in developing countries and also noting that there are some upper income skilled labour force participants who engage in lucrative self-employment activities by choice such as professionals and skilled workers who seek the independence and flexibility that comes with self-employment. The author acknowledges that the important point to note here is that in as much as there are vulnerable players in the sector there are also those who are there because of capabilities and preferences, hence the need to tax. An expanding non-taxpaying informal sector undermines domestic revenue mobilisation and equity (Joshi et al., 2013, 2014:1329). Overtaxing a shrinking formal sector distorts the natural competitive process by giving unfair advantage to the informal sector operators (Perry et al., 2007).

A new view postulates a long-term trend in which large enterprises, confronted with heightened global competition increasingly sub contract informally to reduce costs and gain flexibility (Benjamin & Mbaye, 2012). The two views are not entirely inconsistent. It is possible that there is one segment of the informal sector, which avoids a relationship with the state in order to escape taxation (Maloney, 2004). The enterprises would be larger and making profits that warrant taxation and as such, the state would like to bring them into the tax net. In the same economy, there could be a vast number of smaller, self-employment and unincorporated household enterprise firms, which fit the description by the ILO (1972). This suggests a coexistence signalling that informality is not a question of formal or informal but a continuum across multiple dimensions hence other schools of thought are available to try to theorise the informal sector taxation puzzle.

### **2.4.2 Structuralist theory**

Recognising that the informal sector is widespread, persistent and expanding, a school of structuralists has theorised such an endeavour to be the direct by-product of the advent of a deregulated open world economy (Amin & Islam, 2015; Castels & Portes, 1989; Godfrey, 2011). The perspective is described as structuralist because its concern is with the structure of the formal-informal relationships as part of a unified economic system. In this model, in marked contrast to the dualist, different modes and forms of production are seen not only to coexist but also to be inextricably connected and interdependent. The structuralist holds that the informal sector should be comprehended as subordinated economic units (micro-firms) and workers that assist to reduce input and labour costs, thereby enhancing the competitiveness of large capitalist firms. The opinions put forward the thought that the essence of capitalist development as opposed to the lack of growth, can give a better interpretation for the existence, continued and burgeoning growth of informal relationships (Moser, 1978; Portes, 1989). The informal sector is far from the residue described by the dual approach but is a result of the increasing functional integration of a single global economy, which has resulted in subcontracting and outsourcing becoming primary means of integrating informal firms into contemporary capitalism (Tokman, 2000). Seen through this conceptual lens, the informal sector is largely an unregulated, low paid and insecure kind of survival driven employment. The informal sector is thus, seen as necessity driven. Akin to dualistic theory, the same normatively hierarchical reading is retained depicting the IS as regressive and formal as progressive. The approach advocates for the protection and incorporation of workers and economic units in the informal economy into the mainstream economy. The policy solution is to formalise and tax. Gerxhani (2004), on a similar vein, argues that developing country governments have to accept that the IS will always exist and maybe formalising to tax will not be the best strategy. This suggests that maybe governments should find ways of collecting revenue from this sector without formalising.

### **2.4.3 The legalist school**

Rather than portray the informal sector as a precarious, dependent or false self-employment and a last resort conducted out of economic necessity by marginalised populations, neo liberalists argue that the growth of the informal sector displays how large numbers are deciding to voluntarily exit the formal economy (De Soto, 1989). The cost and benefit approach is underpinned by the legalist view, it views informality as a choice. It argues that the informal sector is comprised of plucky micro entrepreneurs who decide to conduct their businesses informally to circumvent the costs and regulations taxation, time and effort connected with

operating formal businesses (De Soto, 1989). This view is often referred to as the neo-liberal perspective or theory, with others referring to it as the alternative approach or the alternate conceptions. The theory sees a lack of protection as one dimension of an unregulated, yet dynamic sector of small-scale entrepreneurs who enter the sector voluntarily and are able to remain largely outside the formal regulatory structure. This school has gained much support from scholars in both developing country and developed country contexts (Adom & Williams, 2014; Hobson, 2011; Maloney, 2004; Perry et al., 2007; Petersen, 2011; Williams & Horodnic, 2016). The perspective portrays informalisation as a populist reaction to high taxes, corrupt state system and too much interference in the free market resulting in firms and individuals voluntarily exiting and throwing off the shackles of over burdensome regulation. This is often referred to as the regulation or exit view (Arvin-Rad et al., 2010; World Bank, 2011). Informality is a choice and a rational economic strategy fuelled by over regulation, high costs associated with being formal as well as being catalysed by an inefficient and corrupt system of enforcing taxes (Becker, 2004; Ebeke & Ehrhart, 2012; Fjeldstad et al., 2006; Maloney, 2004).

As Nwabuzor (2005) asserts that informality is a reaction to burdensome regulations and it is an effort made by small firms to circumvent them. Becker (2004) explains that, “informal arrangements are a rational response to over regulation by government bureaucracies”. This is similar to the institutional theory alluded to by Williams (2019). This line of thought advocates for a laissez-faire approach towards the informal sector. Is this the appropriate approach? Viewing the same factors, Palil (2010) states that, this is an institutional approach to tax compliance. The author further argued that for tax authorities to foster compliance they must attend to these factors. Quality of tax authority and tax service, poor governance, stringent regulations, tax unfairness and level of tax rates are noted as some of the burdensome shackles that drive players into the IS and also explain why the sector evades tax (Palil, 2010; Mutsapha et al., 2015). In Zimbabwe, Mukorera (2019) postulates that the growth of the informal sector is closely attributed to institutional arguments and imperfections such as the poor quality of some institutions, unprecedented corruption levels, beureacracies linked to registration procedures as well as the costs of formalising.

Maloney (2004) provides evidence in Mexico to support that informality is a choice by showing in one of his researches that 68% of those in the informal sector, the self-employed left their jobs voluntarily and in Argentina 80% of those self-employed had no desire to change jobs (Fajnzylber et al., 2009). In Latin America all evidence seems to dispute the idea of the IS as a temporary phenomenon and indicates that the sector is dynamic and entry requires a high

degree of expertise. This concurs with Perry et al. (2007) who observed that there are some upper income, skilled workers who are operating in the informal sector because of the flexibility and independence as well as large incomes that come with self-employment. The policy choice is to tax these. Another informality view that is increasingly becoming popular posits informality not because of the behaviour of the state but as an essential part of lower income, less developed economies, where employment opportunities are few. People try to make a living from self-employment and low scale operations with little capital, skills or technology. Thus, this line of thought upholds the dualist view contradicting the exit view. Despite the two views conflicting, in terms of canons of taxation and the equity principle to be precise, every citizen of the state must contribute in accordance with their income earning capacities. Those who earn more should contribute more and those who earn less should pay less (Smith, 1776). Informality and low levels of income does not absolve IS of the responsibility to pay taxes.

#### **2.4.3.1 Policy responses**

Researchers have advocated for tapping the developmental potential of the sector and reducing the costs of formalising and taxing (Williams, 2007; Williams et al., 2012), whereas others have advocated for policy innovations and incentives to encourage informal sectors to register and licence their activities. This in turn would enable regulatory authorities to broaden their tax base. In the same view, the OECD (2008, 2019) proposes support in the form of investment and trade information, credit improvements and enforcement of product processes, quality standards and other development services as ways of enticing the informal sector to come into the regulation umbrella. De Soto (1989) and Gurtoo & Williams (2009), advocate for formalisation of property rights for the informal sector to use as collateral. Ayee (2007), among others, argues for an incentive mechanism through which the informal sector operators get some legitimacy and enjoy public services in exchange for paying taxes as fulfilment of the social contract between the state and its citizens (McKenzie & Sakho, 2010).

The rationalisations above corroborate the argumentation by Di John (2009) that for tax policy to bring any meaningful responses and contributions to sustainable growth, it should focus on revenue generation and its relationship with the construction of productive capacities, which in turn translates to an expanded tax base of the eventually formalised firms. This argument, albeit, does not surmise that formalisation will automatically lead to a widened tax base. Efforts have to be made in nurturing tax compliance.

#### **2.4.4 The Illegalist School**

Neoclassical and liberal economists popularise the illegalist view and the school of thought subscribes to the view that informal entrepreneurs choose to operate illegally or even criminally in order to avoid regulation, taxation, electricity and rental fees and other costs of operating formally. Pimhidzai and Fox (2011:3) point out that the prominent standpoint of informal sector growth in the economic literature hinges on the conception that informality is driven by tax evasion as people opt not to formalise in order to circumvent taxes. La Porta and Shleifer (2014) explore informality entirely on the relationship with tax authorities stating that informal firms may be registered but they are “hidden from taxation”. This view of escaping the state was generalised to define informality as those that circumvent, escape or are excluded from institutional rules, rights and regulations (Feige & Urban, 2008). The school holds the notion that informality is tax evasion (“fiscal essentialism” by Meagher, 2016:2), as this relates to purely expressing informality from its lack of inclusion in the tax bracket (Joshi & Ayee, 2008:183). This view shares the reasoning by Allingham and Sandmo (1972) on their rational economic actor/deterrence model of tax compliance. The model presupposes that the taxpayer as a rational actor who weighs the cost and benefits of tax evasion; if the pay-off from tax evasion is greater than the risk of being detected and penalised, then the taxpayer will take the beneficial option of tax evasion. The key point in literature is that firms avoid a relationship with the state either because they cannot manage or attain one legally or because costs are too high, implying a purely negative view of the state and its institutions.

This is contrary to the ILO (1972) view, which defines the informal sector on the basis that it is “not recognised, regulated or protected by existing legal or regulatory frameworks” Meagher (2016:2) advances that a large IS depicts citizens’ withdrawal from fiscal responsibility in protest of government’s failure to honour its side of the fiscal exchange contract. Centeno (2009) proposes an inclusive definition of informality as “transactions where the state neither provides protection nor gets ‘cut’, thus recognising that in the ideal world, enterprises need services from the state and should pay taxes to support the state to provide services. The argument here implies the need for government to change its behaviour to enable firms to change theirs and formalise for the purposes of taxation. Another argument could be that companies need to pay their taxes in order to enable governments to provide them with the “cuts”. This point underpins the argument that, government needs to collect revenue first in order to finance public expenditure and the provision of “cuts”. This argument alludes to the social actor model, which introduces the concept of tax morale which is built upon the



“psychological or implied” social contract, with rights and obligations of the state and its citizens (Schneider & Buehn, 2018). The two dimensions to this contract being the relational reciprocity and the delivery of quality public goods and services by government in order to trigger intrinsic motivation to pay tax and minimise tax evasion (Schneider & Buehn, 2018:4; Horodnic, 2018; Williams, 2019). Meagher (2016:1) explained this contemporary standpoint in tax literature as one of the fundamental “big ideas” in modern literature on IS development (New Fiscal Sociology as postulated by Meagher (2016:6)). The perspective seeks to move the debate from state failure to state building and presents an extensive analysis on the contribution of taxation in state building and development. The emergence of this novel viewpoint is a refutation of the traditional negative assessment of taxation as a constraint to growth and a catalyst to informality (Meagher, 2016:2). As alluded to by Maloney (2004), the state needs to provide benefits to the firm in the form of less bureaucracy and more transparency, then tax collection will be easier, tax evasion reduced and growth in informality curtailed. The balance will depend on the country context, but one thing for sure is that, it is essential to understand the components of the deterrence model and tax morale or the social actor model in evaluating IS taxation as well as tax compliance.

Gerxhani (2004) observes that, not all informal sector operators are unwilling to pay taxes especially when these are in exchange for some legitimacy, stability and protection for arbitrary harassment from state agents as per social contract. The tax burden is said to be not as onerous as it is purported to be as some operators are already paying through the bribes or foregone production going through the bureaucracy. Therefore, why not do business legitimately and pay taxes instead of bribes (Joshi et al., 2014). Margareta et al. (2012) allude to the fact that taxpayer perceptions and the lack of fulfilment of the “social contract” between the state and the taxpayers, might help explain the expansion of the informal sector and its failure to pay taxes.

Others argue that informality is not necessarily tax evasion. They look at failure to pay taxes or comply with regulations as unintentional but rather out of ignorance (maybe this signals a tax knowledge gap in the IS). Paying taxes is a citizen’s obligation in exchange for efficient public services (Bird & Wallace, 2003; Everest-Phillips, 2008; Udoh, 2015). Compliance is perception based, linked to the expectations and attitudes ordered differently by taxpayers depending on how they judge fairness, trust in political situations, governance and institutional quality and delivery of public services, together these influence tax morale. Re-affirming this position Everest-Phillips and Sandall (2009:1) avow that, “Revenue collection depends on

efficient tax administration; trust in government and political stability”. These arguments concur with the fact that the exit view and the illegalist view might as well explain the growth and expansion of the informal sector. Legalists differ from dualists in that dualists see informality in the deep structure of economic roots while legalists posit informality arising primarily from institutional preferences and arrangements. Legalists differ from structuralists, as the latter sees informality as an imposed constraint, while the former model participation in the informal economy as a free choice (Verick, 2006).

#### **2.4.5 The Continuum**

Given the mixed evidence and arguments explaining the various theories, it seems plausible that the informal sector in Africa, sub Saharan Africa and Zimbabwe in particular may contain a heterogeneous mix of dynamic and subsistence subsectors suggesting a continuum. Portes and Schauffler (1993) recognise that the informal sector is heterogeneous and two distinct class positions should be made: informal firms with access to some capital and resources and unprotected small-undercapitalised firms and individuals who involuntarily eke out a living. According to Pimhidzai and Fox (2011:4), the different theorisations to explain the growth and expansion of the informal sector are not totally contradictory. They argue that it is possible that there is one segment of firms that avoid a relationship with the state in order to escape taxation and regulation. These firms would be bigger and profitable enough to be taxed and as such, the state would seek to find and tax. At the same time, within that same economy, there could also be numerous smaller, unincorporated and self-employment household firms as explained by the dualist view. This co-existence suggests that informality is not a question of formal or informal but a continuum across multiple dimensions. Several studies have documented this coexistence (Benjamin & Mbaye, 2014; Gajigo & Hallward-Driemeier, 2012; Perry et al., 2007). For Latin America Perry et al. (2007) provide extensive evidence on the continuum perspective. They explain that noncompliance in relation to tax is attributed to, “a lack of trust in the effectiveness of the state and equity of its actions”, which has led to enterprises avoiding reporting profits, under reporting profits and avoidance of regulations designed to protect public welfare. The researchers also argue that present in the same economy, are small enterprises, some of them with little or no potential to grow, little profits to tax and no relationship with large firms.

In West Africa, Benjamin and Mbaye (2014) document the presence of large firms, which appear “formal” in all dimensions ranging from registration to bank loans yet they pay little or no taxes. Some of these firms belong to high-level officials and they are structured more like

small informal firms in order to evade tax. It is further argued that some are branches of more formal, tax compliant large firms and this is consistent with the structuralist view. In the same urban areas, Benjamin & Mbaye (2014) point out to the existence and growth of small, unincorporated, self-employed enterprises which fit the second type of informality (dualist view). Fox and Pimhidzai (2011) adduce that the informal economic activity accounts for a large portion of employment and income in sub Saharan Africa. Maloney (2004) assumes that even those small businesses also evade tax. This idea of tax evasion is gaining reasonable ground, possibly because of low business skills and failure to keep books of accounts, these enterprises cannot demonstrate their compliance to tax laws.

## 2.5 Drivers of informality overview

There is consensus amongst scholars that the IS occupies an important role in employment creation, economic growth and industrial expansion, yet there is neither agreement nor unanimity in literature on the factors that drive informality (Matsongoni & Mutambara, 2018). Benjamin et al. (2012) affirm this by stating that its magnitude as well as its major drivers are not certainly well comprehended. Literature on the existence and persistence of the IS offers varying explanations, theories and factors as discussed in the theoretical framework above. Buehn and Schneider (2012), while studying the drivers of the informal economy in 38 OECD countries submit the following drivers and their average percentage contributions as outlined in Table 2.3.

**Table 2. 3: Drivers of informality and estimated dominance in OECD countries**

| Driver              | Percentage dominance |
|---------------------|----------------------|
| Indirect taxes      | 29.4%                |
| Self employment     | 22.2%                |
| Unemployment        | 16.9%                |
| Personal income tax | 13.1%                |
| Tax morale          | 9.5%                 |
| Business freedom    | 8.1%                 |

Source: Buehn and Scheider (2012)

The above contributions vary from country to country due to variations in economic and regulatory environments. For example the indirect taxes have highest contributions in Mexico at 42% and lowest at 5.1% in the United States, this exhibits the nation by nation uniqueness the determinants of informality(Buehn & Schneider, 2012). Schneider and Buehn (2018) and

Medina and Schneider (2018) reiterate the above drivers and in this case including African countries such as Angola, Namibia and Zimbabwe among the economies studied. The researchers allude to institutional quality or corruption, high tax rates and penalties, poor delivery of public goods and services, unemployment, low tax morale and stringent regulations for operating formally as some of the drivers of IS growth. Four mutually inclusive reasons become prominent and each requires a different policy prescription. Firstly high tax rates and burdensome regulation, which require reduction of tax rates and relaxation of regulatory requirements. Williams (2016), provides evidence in the Baltic states of Estonia, Lithuania and Latvia that the lower the tax morale of the country and its citizens, the greater the propensity to operate in the informal economy. Secondly, predatory behaviours from government officials and tax authorities force firms to remain informal in order to hide from these (De Soto, 1989). This calls for the state to iron out corruption as well as to improve the enforcement of law and order. Thirdly, the formalisation costs (costs of entering the formal sector and costs to remain formal) such as quality control, social security benefits, minimum wages, taxes, government regulations and other fuel informality (Tokman, 1976).

Lastly, inadequate and weak institutional environments such as a weak legal environment explain the ever growing IS. In India evidence suggests that foreign firms underreport sales and income as a form of protection against corrupt tax officials, police and bureaucracy. It becomes fundamental to understand the motives for operating in the IS, whether they are necessity driven and/or opportunity driven. Despite the growing literature on the magnitude and characteristics of the IS, scholars and researchers have paid relatively little attention to policy responses towards tackling this phenomenon (Joshi et al., 2014; Meagher, 2016:3; Maloney 2004; Adom & Williams, 2014). On another intriguing note, Remeikiene, Gaspareniene and Schneider (2016), point to a growing digital IS which is driven by consumer satisfaction, developed from faster, easy and convenient purchasing trends as well as the lower prices of these goods. For the supplier of these goods there is very little investment capital required, lower operational costs and less chances of detection by tax authorities thus increasing the chances of evading taxes. Rationales underpinning operating in the informal sector cannot be divorced from policy prescriptions. For example how to tax IS digital revenues remain a grey area to be explored through both practical policy suggestions and research (Remeikiene, Gaspareniene & Schneider, 2015 ;Schneider & Buehn, 2018). Several researchers have sought to investigate the drivers of informality and arrived at often converging

and contradicting conclusions as outlined in the Table 2.4 that summarises some of the researches.

**Table 2. 4: Studies on drivers of informality and their key findings**

| Author(s)                                      | Setting                                                                                                                       | Key drivers/arguments                                                                                                                                                                                                                                     |
|------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Akintoye (2008)                                | Informal sector in Nigeria                                                                                                    | Unemployment                                                                                                                                                                                                                                              |
| Djankov et al (2002) and Friedman et al (2000) | Regulation of entry of startup firms in 85 countries and Macro data from 69 countries respectively.                           | Countries with higher degrees of regulatory entry have higher corruption and larger informal economies                                                                                                                                                    |
| Ogbuabor (2013), Ogbuar and Malabu (2013),     | Microeconomic determinants, size, development and causes of the informal sector in Nigeria                                    | Unemployment, tax burden, government regulation, inflation                                                                                                                                                                                                |
| Schneider (2007)                               | Estimating the informal economies of 145 developing, transition and highly developed OECD economies over the period 1999-2005 | Increased tax burden and social security contributions together with labour market regulations as well as corruption                                                                                                                                      |
| Oduh et al. (2008) and Salisu (2001)           | Informal sector in Nigeria between 1970-2010                                                                                  | Tax rates, inflation rates, interest rates, high income inequalities, deficiencies in tax administration and collection systems, complex regulatory systems and tax systems, high tax burden, high black market premiums and declining per capita incomes |
| Pedersen (1998)                                | SMEs in Developing countries                                                                                                  | Recession, economic meltdown, aftermath of the Economic Structural Adjustment Programs                                                                                                                                                                    |
| Matsongoni and Mutambara (2018)                | Informal SMEs in African economy.                                                                                             | Low economic growth, poverty, retrenchments, downsizing and low growth in the formal sector.                                                                                                                                                              |
| Torgler and Schneider (2009)                   | Tax morale and institutional quality in shadow economies                                                                      | High tax rates, poor quality governance and corruption.                                                                                                                                                                                                   |
| Ngundu(2010); Ndiweni and Verhoeven (2013)     | Informal economy in Chegutu, Zimbabwe and informal entrepreneurs in Zimbabwe respectively.                                    | Unemployment, low capital outlays, lack of government support, inaccessible resources, lack of viable alternatives, survival and poverty, corruption, economic challenges and high tax rates.                                                             |
| Ordenez (2014)                                 | Informal sector and economic development.                                                                                     | Government inability to enforce tax and regulation on all firms.                                                                                                                                                                                          |

Source: Author's compilation from various sources

## **2.6 Taxation and informal sector development overview**

Calbreath (2010) defines the IS based on its relationship with the state especially with in relation to taxation. The researcher describes it as the sector that operates and earns income using facilities provided by government through taxes paid by others, yet they do not pay tax. The IS accounts for a greater part of tax defaulters and increasing cases of tax evasion leading to leakages in government revenue (Williams, 2015). Schneider & Enste (2000:155-177), argued that the growth of the IS in the current years was largely a result of the rising tax burden and stringent market regulations coupled with the declining tax morality and loyalty towards government. Wintrobe (2001) suggests four important aspects when it comes to tax evasion that could explain the enormous growth of the IS. Firstly, the lack of confidence in developing country governments' abilities to address the social and economic needs of citizens will influence citizens to evade tax. Secondly, as long as governments are not transparent on how they use tax revenues informality will grow as players hide from tax. Thirdly, as long as individuals believe the tax system is not fairly and equitably applied they will continue to flock to the IS and evade tax. Lastly, the comfort in numbers, which imply if tax administration frameworks continue to be weak and let others slip from the tax net, will cause many more to continue to hide. The empirical evidence on the influence of taxation on the IS remains mixed (Matsongoni & Mutambara, 2018).

The relationship between taxation and the growing IS remains ambiguous. Researchers argue that the erosion of the tax base is considerable but not as large as suggested by governments and tax authorities (Pimhidzai & Fox, 2011:21). There are disagreements as to the magnitude of the sector, potential tax base and potential revenue from this sector amongst researchers but there is concurrence that essentially something must be done to make this sector contribute to government revenue coffers (Ayee, 2007; Pimhidzai & Fox, 2011:3; Maloney, 2004). Schneider and Enste (2000), outline a two-pillar strategy to deal with the drivers of informality and the informal sector taxation puzzle, which they term the "voice" and "exit" strategy. Briefly, the "exit" strategy is to decrease the attractiveness of operating informally by recommending governments to reduce tax rates, social security contributions, simplify the tax system, deregulate the labour markets, reduce wasteful spending and fight corruption. The government should also strengthen the "voice" of the IS by increasing the sector's possibilities of influencing government decision and participation in policymaking (Meagher, 2016:16). Di John (2009) recommends that for this relationship between IS taxation and its growth to be meaningfully comprehended, there is need to draw micro economic estimates of sizes and

magnitudes from precise data. Policy recommendations for developing countries should consider macroeconomic estimates from developing countries as structural differences exist, between the IS in developing countries and that in developed countries. The need to theorise the IS growth and appropriately contextualise it on a country-to-country context becomes imminent. Table 2.5 provides a summary of the informal sector growth theoretical framework and implications for tax policy.

**Table 2. 5: Summary of the IS growth theories and their relationship with taxation**

| Model                           | Findings                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
|---------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Dualist School                  | <ul style="list-style-type: none"> <li>• The formal sector is dominated by the key industrial sector while the informal sector is small and subsistence</li> <li>• Economy is dual with the formal and informal sector viewed as primary and secondary respectively</li> <li>• Viewed as a temporary phenomenon, marginal and safety net for the poor.</li> <li>• Why tax the already vulnerable?</li> <li>• Even if taxed, tax revenues would be very low due to small scale nature and low incomes. Collection costs could be high.</li> </ul>                                                                                                                                                          |
| Structuralist School            | <ul style="list-style-type: none"> <li>• Structure or institutions of the economy lead to the growth of the informal sector.</li> <li>• Large enterprises, confronted by heightened global competition increasingly subcontracts informally to reduce costs, time and gain flexibility.</li> <li>• Unfair competition promoted by informality. The formal sector pay taxes, putting a premium on their goods and also financing government expenditure and infrastructure used by both sectors, therefore governments should bring informal firms into the tax net to level the playing field.</li> </ul>                                                                                                 |
| Legalist and illegalist schools | <ul style="list-style-type: none"> <li>• Tax evasion is the main driver of informality.</li> <li>• Informal firms operate informally because the process of formalising is time consuming and costly.</li> <li>• Certain rules and regulations hamper the formal economy and therefore enterprises shift to the informal sector.</li> <li>• Highly skilled personnel and professionals voluntarily opt out of the formal sector into the informal sector to enjoy the lucrative potential, independence and flexibility that comes with self-employment</li> <li>• Informality is a choice and therefore to widen the tax base, there is need to bring the informal sector into the tax basket</li> </ul> |
| Continuum School                | <ul style="list-style-type: none"> <li>• Informal and formal sectors co-exist (informal sector composed of both small unproductive firms as well as self-employment with little or no profits to tax and large firms with all the characteristics of formal firms: huge profits, registered and growing but are hidden from tax authorities)</li> </ul>                                                                                                                                                                                                                                                                                                                                                   |

|  |                                                                                                                                                                                                                                                                                                                           |
|--|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|  | <ul style="list-style-type: none"> <li>• The existence of the informal sector enhances the profitability of the formal sector. Linkages exist between the two sectors. To achieve equity and to bring about governance gains, governments should broaden the tax base by considering informal sector taxation.</li> </ul> |
|--|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|

Source: Author's compilation from various sources

## **2.7 Theoretical framework, Conceptual framework and methodological implications**

Grant and Osanloo (2014) emphasise that a theoretical framework gives the structure in how the researcher outlines their study philosophically, epistemologically, methodologically and analytically. This guides the researcher's selection of the research design, data gathering techniques, the type of data to be collected and ultimately how it is analysed. The conceptual framework for this research as well as the methodology adopted were all informed by the historical background, theoretical constructs, assumptions strength and weaknesses of the key theory guiding this study, the continuum (combines the dualist, structuralist and illegalist all into one). On the other hand, a conceptual framework elaborates the researcher's conception of how the research problem will be best investigated, the route that undergirds the investigation and the relationship between variables in the study (Grant & Osanloo, 2014).

A conceptual framework is categorised as a system of concepts, assumptions and beliefs that support and guide the research plan (Luse et al., 2012). It specifically outlines the key factors, constructs or variables and presumes a relationship amongst them (Miles & Huberman, 1994:440). For this research, it enabled the researcher to identify and construct for readers of this work epistemologically and ontologically the worldview (a visual display of how to identify ideas, define concepts and how these relate to one another to best explain the IS phenomena being studied within the chosen theoretical framework). For this study, the conceptual framework helped to accentuate the reasons why it was worth focusing on informal sector taxation, the assumptions made by the researcher, the scholars the researcher concurs and disagrees with and ultimately how the research approach was conceptually grounded. Adom et al. (2018) aver that a conceptual framework consists of concepts interlinked to expound the relationship between them, how the relationship between the main variables identified is conceptualised and makes an assertion on how the researcher seeks to answer the research problem earlier defined in Chapter One. The key variables are identified from the theoretical framework discussed, which explicates that informal operators are driven by different reasons to operate in the IS hence tax policy design must recognise this. Accordingly



the discussions from the previous sections and theories of IS development could be schematically conceptualised as depicted in Figure 2.1.

### **2.7.1 Definition of variables and their relationships**

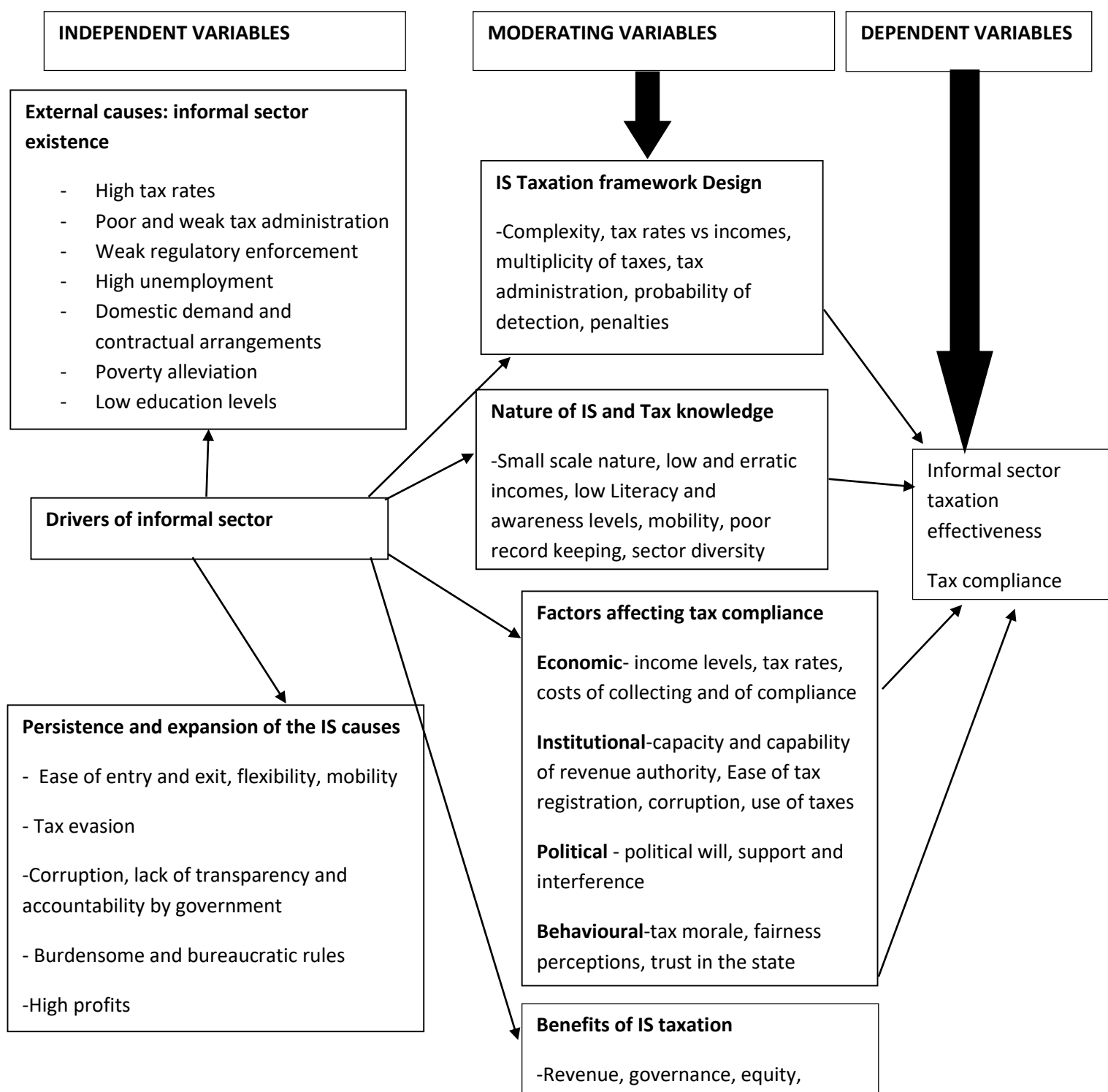
Informality (drivers of the informal sector) was viewed as the independent variable in this study, taxation (tax collection and tax compliance) were the dependent variables and factors that affect tax compliance were described as moderating variables. As earlier stated in Chapter One, it is important to first understand what drives the emergence, persistence and growth of the informal sector if tax policy is to be adequately informed. Drivers of informality have often been proffered as rationalisations for and against informal sector taxation. It will be inadequate to investigate the possibility and practicability of informal sector taxation without understanding these drivers of informality as important palliations that need proper interrogation and attention. The moderating variables (factors affecting compliance basically) provide the illustrative account of how informality and taxation of the sector is related. The ability of governments to effectively tax the informal sector is influenced by how it addresses the factors that affect tax collection in this sector (strength of tax administration; design of taxation policy; economic, political, legal and regulatory environment; government support and transparency as well as the nature of the IS). These factors can be grouped in benefits and costs of taxing the informal sector as well as other factors such as the nature and design of current informal sector taxation framework and taxpayer knowledge and awareness. The characteristics of the informal sector together makes this sector hard to tax (Mukherjee, 2016). Hence the factors that affect tax collection should take this important factor into consideration as the effectiveness of informal taxation will be influenced by how these factors are addressed by tax policy (for example factors in the deterrence model of Allingham and Sandmo, 1972 and the tax morale theory by Perry et al., 2007 and Schneider and Buehn, 2018:4). The drivers of informality discussed in literature review in this Chapter are argued to have an impact on the factors affecting IS tax compliance (Wedderburn et al., 2012). In summary the effectiveness of tax collection from the informal sector depends on the nature of the IS, reasons behind operating in the sector, motives for taxing the sector and factors affecting compliance levels in this sector. This relationship has been schematically presented in Figure 2.1.

From the definition of variables and their relationship it therefore follows that there are different types of players in the informal sector and their tax compliance behaviours will equally differ. Tax policy cannot afford to ignore these variations and prescribe a one size fits all policy. This also implies that informal sector policy prescriptions should be wary of the role

played by the IS in poverty alleviation, employment provision, economic growth and revenue contribution (collection and evasion) and the interdependent relationship between these roles and informal sector taxation as well as tax compliance levels. Factors explaining tax compliance levels cannot be ignored, the same applies to the cost and benefits analysis (revenue, equity, growth, governance gains as well as the downside of these arguments). This is consistent with the submissions by Benjamin et al. (2014) who argue that policy prescriptions must be applied “along a continuum”, taking into cognisance the diversity of firms in the sector, which in turn imply varying policy design for different firm structures and sectors.

It was thus, undoubtedly consequential that the study adopted the dominant qualitative mixed method research (MMR). This approach enabled the researcher to unpack different perceptions of the stakeholders in the IS, that is the taxpayers, the tax administrators, tax experts and policy makers. Studies encompassing multiple, dynamic and shifting relationships in context such as the one chronicled above, favour qualitative approaches which are capable of providing situated analytical explanations through the use of multi-method techniques such as interviews, focused discussion groups, case studies and surveys. Quantitative aspects on the magnitude of revenue collection, GDP, trend analysis and revenue contribution could not be overlooked hence the adoption of MMR. Benjamin et al. (2014) aver that informal sector researchers mix quantitative examination and qualitative inquiry effectively to unpack the complex phenomenon. In light of the arguments above, this study proposed a conceptual framework that sought to guide in constructing an IS tax policy that takes into consideration the drivers of informality especially how these act as determinants of IS tax compliance or hurdles to effective IS tax administration. These drivers do not only motivate players to operate informally but also undermine revenue mobilisation efforts. This relationship is presented schematically in Figure 2.1.

**Figure 2. 1: Conceptual framework schematic presentation**



**Source: Author's presentation**

## 2.8 Chapter Summary

Given the mixed evidence presented by researchers from the literature reviewed, it seems plausible that the informal sector may contain a heterogeneous mix of dynamic and subsistence subsectors. There seems to be merit in each of the perspectives as each perspective reflects one or another slice of the informal sector “cake”. Flórez (2002) offers evidence suggesting that the informal sector is indeed heterogeneous in Columbia. The evidence explains that the subsistence sector supports the dualistic view describing the informal sector as residual, hence no need for tax authorities to burden an already ailing sector. The capital accumulation subsector supports the structuralist articulation view while the legal and illegalist view explain informality as a choice and having elements of tax evasion as well as the avoidance of regulations. The three views suggest that governments can widen the tax base by considering taxing this growing sector. The continuum approach argues a co-existence of players in this sector: the genuinely marginal and those that seek to avoid regulation and taxes but are large, efficient and profitable enough to be taxed.

Conclusively one can deduce that two types of players exist in the IS, the first one being the parasitical, big and non-tax paying informal enterprises profiting at the expense of their tax compliant formal counter parts by escaping regulation (weighty taxes, deficient, fragmentary and variegated regulations). The second type of players represent the aspirational group epitomising the poor’s ambitious enterprising spirit necessitated by the need to escape poverty as opposed to inclination arguments. The pressing question now is how can IS taxation be implemented in such a way that it maximises equity, growth gains and other benefits without stifling the smaller firms’ growth considering the diversity of the players as well as continuum arguments. The conceptual framework brings out this controversial subject diagrammatically; especially the interconnection between drivers, tax compliance and effective taxation of the sector. This being a reflection of the IS tax compliance theories too. Based on the interpretation of the literature and mixed views from the various sources on theorisation of the informal sector as outlined in Table 2.5, the researcher further reviewed these theoretical perspectives in relation to Zimbabwe in Chapter Four and during data analysis (Chapter Six and Seven). This helped to situate the research question, provide empirical evidence for each of the perspectives as well as each theoretical approach’s applicability to Zimbabwe. The researcher contextualised the problem to Zimbabwe as well as provided a background and contextual literature in the operating environment in Zimbabwe in Chapter Four. The next chapter will provide a literature review that builds on this chapter by unpacking the objectives of bringing

this sector into the tax net, why this sector is hard to tax, methods of taxing it as well as challenges and benefits of taxing it.

## CHAPTER 3: INFORMAL SECTOR TAXATION IN AFRICAN COUNTRIES

*“Tax complexity itself is a kind of tax”- Max Baucus*

### 3.1 Introduction

Literature review as defined by Fink (2010:30) is “a systematic, explicit and reproducible method for identifying, evaluating and synthesizing the existing body of completed and recorded work produced by scholars, researchers and practitioners”. Therefore, this chapter critically reviews previous works on informal sector taxation. The chapter’s main aim is to explore the literature on the current state of knowledge about taxing the informal sector (literature that represent the “leading edge” of IS taxation research in “content and method” as described by Potter (2002:2)) in order to address the study’s three secondary objectives (secondary objectives 2, 3 and 4, Section 1.4.2). The key intention being to take stock of the state of debate on whether or not to tax the IS, in order to draw consistencies and inconsistencies, similarities and differences as well as identifying gaps that this research sought to fill. The first objective is to contextualise the IS taxation puzzle by investigating why developing countries should tax or not tax the IS, by comprehensively reviewing literature on the motives for taxing the sector (secondary objective 2). The second objective is to explore policy options and methods towards taxing the informal sector, by briefly reviewing efforts by other developing countries in Africa in trying to address the dilemma of informal sector taxation (secondary objective 3). The penultimate objective is to explore the challenges and benefits of informal sector taxation in order to recommend other possible ways to strengthen informal sector taxation and to identify key areas for further research. In seeking to address the above objectives, the chapter will put the research into perspective especially in drawing lessons that are vital to IS taxation, identifying boundaries and borders in this sector, major research issues and debates on the topic. Such a review is fundamental in any research as argued by Birmingham (2000:26). The researcher equates literature review in any research to what the foundations are to a house stating that if the foundation is not solid the house is likely to fall, similarly without adequate comprehensive literature review, the research risks being “simplistic, naive and an inferior repetition of work” already done by others.

Having defined the term informal sector in Chapter One and Two, the first section of this chapter explores the varying views on whether or not efforts should be directed towards taxing the IS. The next section will probe the challenges and benefits of IS taxation with the hope to

establish whether any solutions have been found towards addressing these known challenges so far and if not what can be done to strengthen IS taxation. The last section will address policy options and methods adopted so far in taxing the IS. Efforts made by other African countries towards taxing the IS will also be expounded on, with the object of drawing important lessons as well as to delineate alternative strategies of taxing the IS and to meaningfully recommend based on practical scenarios. In light of the above, the chapter aims at reviewing and critically evaluating the potential gains along with the costs of IS taxation. The motivation is to argue a case for or against IS taxation as well as to prescribe how the endeavours towards taxing this contentious sector can be made more effective and equitable. Is the informal sector really a veritable source of tax revenue? Can government collect revenue from the sector without suffocating these small firms or adversely incorporating them into the formal sector? Literature will be reviewed in the quest for answers to these contentious questions. The chapter is extensive in analysis and scope as it focused on three objectives as highlighted above.

### **3.2 Taxation in the informal sector: To tax or not tax the IS?**

A critical review, about tax policy or taxation frameworks refers to a policy evaluation to assess the performance of the policy. As highlighted in Chapter One (Section 1.6), the focus is normally on the structure of the framework, its appropriateness, feasibility of administration, its effectiveness and efficiency (Challenges, benefits, policy options and impact) (Bahl & Bird, 2008; Hoynes & Rothstein, 2016). Lenjosek (2004:19) reiterates that in terms of appropriateness of structure, the assessment is on whether the framework realistically addresses the objectives of the policy and effectiveness deals with the ability to mitigate the challenges of administration and achieving the objectives and curbing unwarranted outcomes. Effectiveness is also adjudged looking at other canons of taxation such as equity, economy, convenience and efficiency. This section briefly discusses informal sector taxation, setting a contextual literature background. The rest of the chapter reviews literature to show major issues and debates on IS taxation, the motivations behind wanting to tax the sector, the major questions and problems that have been addressed to date in order to make explicit any gaps, show how knowledge on IS taxation has been structured and organised (Denyer & Tranfield, 2015).

Resource mobilisation lies at the heart of economic development, if not the “life blood” of any economy, yet the “capability” to collect taxes continues to be a fundamental deficit of African nations (Soest, 2007). Fifty percent or more of potential tax revenue goes untapped in

developing countries (Ndikumana & Boyce, 2012). In the wake of fiscal crises of the states in sub-Saharan Africa, designing tax systems that can provide incentives for growth, can meet distributional demands and can increase revenue collection, remains central to state viability and effectiveness (Toye, 2000; Munjeyi, 2017). Revenue collection is said to be negatively impeded by the existence of a large ubiquitous informal sector, high tax evasion and weak taxation administration in developing countries especially Sub-Saharan African countries (Ayee, 2007; Moyi & Ronge, 2006). According to Joshi and Ayee (2008), not only the fact that revenue collection is small accounts for the budget deficit problems affecting these developing countries, but also the fact that tax compliance is very low. Tax compliance is said to be very low because most of the economic activities occur in the IS. The characteristics of this sector makes it hard to tax as the actors are mostly unregistered, largely mobile, not recorded in official statistics, small scale operators, deal mainly in cash transactions, unwilling to keep records and have little or no access to the formal markets (Joshi et al, 2013). The sector is usually made up of small-scale traders, small-scale manufacturing operations, garage owners, restaurants, small-scale miners and repair workshops among others. The current trend has leaned towards individual professionals such as lawyers, doctors, accountants, economists and engineers being players in this sector (Fajnzylber et al., 2009).

The sector is estimated to be massive in developing countries and was approximated at an average 50-60% of GDP in developing countries (Rogan, 2019). Zimbabwe, Tanzania and Nigeria were in a descending order, ranked to have by far the largest informal sectors and in the same order Namibia, Lesotho and South Africa to have the lowest informal sectors in Africa by Nakamba-Kabaso & (Phiri, 2012). The IS informal sector is continually growing in developing countries, Africa, SSA and Zimbabwe in particular (Ligomeka, 2019). The IS produces 30% of worldwide GDP and conservatively 40 to 60% of SSA economy (Dickerson, 2014). Currently the IS plays a central role in developing countries, pegged at around 50 to 80% of GDP of these developing nations, accounting for a greater share of employment of about 60 to 80% and 90% of new jobs as outlined by Bhorat et al. (2017). Medina and Schneider (2018) estimate Zimbabwe's IS to be second largest in the world contributing 60% of GDP as compared to Bolivia's contribution of 62.3%. Others view the figure as conservative since the measurement of this sector is fraught with challenges especially regarding the scarcity of national statistics, adequate data as well as the hidden nature of this sector. Zimbabwe's economy is largely informal, 80% of formal companies are argued to have collapsed between 2008 and 2016 (Ligomeka, 2019; Sikwila et al., 2016). More than 70% economic activity



happens in the IS and 90% of those employed are in the IS (Ligomeka, 2019; Newman, 2019:2; Nyamwanza et al., 2014; Sikwila et al., 2016). The immensity of the sector insinuates scope for employment creation, increased productivity, considerable economic growth and potential tax revenues.

Researchers have varying conclusions on the above possibilities especially about tax revenues, indicating an impressively colossal knowledge lacuna on IS taxation (Joshi et al., 2014; Kundt, 2017a; Maina, 2017). Considering the size and magnitude of the sector, if it is not taxed then substantial revenue might be lost. Disputation arises as to whether to tax or not to tax the IS as proponents against such taxation have attributed the growth of the IS to rising tax burden and strict labour market regulations coupled with a declining tax morality and loyalty towards government. Contention also surrounds the enormity of the potential “tax gap”, which is the difference between tax potential and actual tax collected. Scholars allude to its vastness (Dube, 2014; Joshi et al., 2014), yet others argue that erosion of the tax base is considerable, though not as huge as usually purported by governments (Meagher, 2016; Pimhidzai & Fox, 2011:14). The hypothetical tax gap might digress from the actual, as the VAT (input tax) collected from the IS is not refundable and some of the sector’s imports are subject to customs tariffs (Auriol & Walters, 2005).

According to Joshi et al. (2013, 2014) and the Africa Tax Spotlight (2012), there seems to be a consensus amongst revenue authorities, governments, development organisations such as the World Bank, African Development Bank and IMF that African governments would have to make “stupendous whacks” to bring the informal sector into the tax bracket. According to Newman (2019:1), how to tax the informal sector continues to be a critical question in Zimbabwe. The size of the sector and its socio-economic implications as well as the exogenous inhibitions to feasible taxation policies have generated a significant recurrent academic and policy interest by both developed and developing country governments especially SSA country governments. Efforts by these governments will help widen the tax base, increase tax revenues, enhance economic development and reduce the reliance on donor funding if the full revenue potential of this sector is exploited. Joshi and Ayee (2008:187) expound by saying “Broadening the tax base and developing a culture of compliance can achieve more than simply increasing revenues, it can be a way of re-engaging citizens with the state”. Researchers such as Prichard (2009) and Masarirambi (2013) are quick to point out that a large chunk of this sector continues to slip through the noose of tax authorities, even as governments continue to grapple with the

problem of how to manage this. However, while the subject of informal sector taxation has received considerable attention, this has not been without controversy.

Controversy has surrounded whether informal sector taxation should indeed be a policy priority for these fiscally constrained developing countries in view of the potentially low revenue yields, high administrative costs as well as costs of collection. Dissent has also surrounded the benefits to be derived from taxing this sector versus the costs and challenges associated with such a move (Joshi et al., 2013, 2014:1325-1330). At the same time the tax gap, operational problems faced by governments due to huge budget deficits and the uneven distribution of the tax burden cannot be ignored. Others have questioned whether presumptive taxes are the answer to informal sector taxation problems (Maina, 2017:2). There is an implied need to fundamentally consider the costs of collecting revenue from this sector when formulating tax policy for the IS. In Zimbabwe, despite the informal sector filling the employment void caused by the shrinking formal sector its contribution to the revenue gap created by formal company closures has been inconsequential (Dalu et al., 2013; Munjeyi, Mutasa, Maponga et al., 2017; Newman, 2019:1). This signals the need to evaluate the avenues used to tax the IS in Zimbabwe especially the practicality and adequacy/suitability of presumptive taxes in collecting revenue from the sector. Maina (2017:2) reiterates that there is still lack of clarity and consensus on presumptive taxes' adherence to the principles of a fair tax system such economy, equity and efficiency.

Debate on domestic revenue continues to be topical with calls for a clear policy direction on how to effectively mobilise revenue from the IS (Bongwa, 2009; Pfister, 2009:4; Maina, 2016, 2017; Sebele-Mpofu & Msipa, 2020:193). Makochekanwa (2020:18) refers to a rejuvenated focus on taxation of the large IS in Africa and Zimbabwe in particular being centred on its fundamental position with regards to revenue generation, governance and growth. Various scholars focusing on tax policy regarding IS taxation as challenging, hence less attention and interest is given to it. They argue that the mismatch between the enormous efforts required to tax the sector versus the proportionately insubstantial revenue realised as the major reason (Joshi & Ayee, 2008, Joshi et al., 2014:1327, Munjeyi, 2017). Di John (2009) laments the paucity of literature that provides a clear guide on how to tax the IS, presumably because the sector is heterogeneous. According to Sanderson (2017) and Rogan (2019:2), the grand debate lies on the justifiability of IS taxation. Maina (2017:2) alludes to the fact that there is need to investigate whether widening of the tax base by taxing the informal sector is a practicable and

attainable alternative. The researcher points to a void in studies that give direction on why presumptive taxes are performing below expectations through empirical evaluation that seeks to evaluate whether presumptive taxes are a tenable option to IS taxation in developing countries and even explicate the constraints to their effectiveness (Maina, 2016, 2017:2). Pimhidzai and Fox (2011:1) have questioned the logic of taxing the informal sector, querying whether such a move is “local economic development or taking from the poor” and stifling growth of small firms. Their argument is premised on the view that microenterprises in the informal sector are a major source of livelihoods in developing countries. The researchers argue that policy recommendations pushing for formalisation of the sector in order to enlarge government revenue through taxes could be misconceived. Using the case of Uganda they show that contrary to the widely held misconceptions that view the IS as tax evaders, the IS pays taxes- albeit not to central government but to local governments in the various fee payments. The single-minded focus on tax collection towards the IS, regardless of size or profitability ignores the role played by these enterprises in local economic development (Fox & Pimhidzai, 2011). Proponents for taxation of the sector (McKenzie & Sakho, 2010; Perry et al., 2007; Schneider & Enste, 2013; Torgler & Schneider, 2009), have pointed to foreseeable benefits of increased revenue, growth and governance gains as resultant products of IS taxation. In Zimbabwe, Sanderson (2017) alludes to the fact that the taxman is unfair in viewing the IS from the angle of tax evasion. He argues that the sector contributes significantly to purchasing activities of household goods and capital goods as it is general the largest employer and contributor to GDP in developing countries (Medina & Schneider, 2018; AU, 2008; Makochehanwa, 2020:20), thus indirectly contributing to tax revenues through VAT.

Rutasitara (2014) questions whether informal sector taxation is an accomplishable exercise that can be sustained in the future by these developing country cash strapped governments. Taxing the IS raises equity, efficiency and administrative issues (Dube, 2014). Taxes garble economic choices as they produce well-being loss over and above the revenue collections (Dube, 2018). This is often alluded to as the dead weight loss or the unbridled weight of taxation (Bird, 2015; Pimhidzai & Fox, 2011; Tanzi & Zee, 2000). According to Munjeyi (2017:74) “Taxing the informal sector will improve revenue collection, growth, governance, enhance, productivity, the provision of infrastructure, public education and health and (political) representation as well as provide an interface between government and stakeholders.” Reasonable as these benefits might sound; their accomplishment is debatable

(Joshi et al, 2014:1325-1330; Makochehanwa, 2020:20; Meagher 2016:3; Meagher & Lindell., 2013:67; Rogan, 2019:3).

Maina (2017:2), has questioned the validity and effectiveness of presumptive taxes as an answer to the hurdles of taxing the IS and domestic revenue mobilisation. The researcher concludes that presumptive taxes do not provide an adequate solution to IS taxation problem, calling for a redesign of the presumptive tax framework, improved tax regulation enforcement, increased transparency by government and more simplified formal business rules in Kenya (Maina, 2017). It is therefore indisputable that the questions to do with whether informal sector taxation should be a policy priority for developing countries and whether such taxation is indeed a feasible and sustainable exercise continue to beg for answers. In view of the characteristic of this sector that are likely to pose formidable challenges to effectively taxing the IS, what really motivates the developing countries towards taxing the IS? Is there significant potential tax revenue to be tapped? Is the motivation to tax the sector driven by other factors other than revenue? What could these other motives be? A review of the various factor by factor arguments will be synthesised below to try to unpack this subject of dissension, on whether taxing the IS should be a policy priority, the motives (likely benefits) and the plausibility of these anticipated benefits.

### **3.2.1 Increased revenues**

As tabled by Bhattacharya and Akbar (2014) and Joshi and Ayee (2008:186), efforts towards widening the tax base and improving revenue mobilisation should seriously consider taxing the burgeoning IS. Bhorat et al. (2017) argue that the IS accounts for 50% to 80% of GDP in developing countries, 60 to 80% of employment and 90% of new jobs. Surely if this sector goes untaxed, significant tax revenue is lost. Joshi et al. (2014) and Mbilinyi and Mutalemwa (2010) indicate that the revenue lost from not taxing the informal sector amounts to 35-55% of total tax revenue in some African countries citing Ghana, Nigeria, Tanzania and Kenya as examples. This implies that the revenue losses might be even higher for Zimbabwe, which is argued to have the second largest IS in the world as pointed by Medina and Schneider (2018). De Mel et al. (2013) and Bruhn and McKenzie (2014) argue that it is unlikely that taxing the informal sector would bring in consequential revenues at least in the short and medium term. The researchers observe that formalisation can enable access to credit, offer opportunities to engage with larger firms and government, reduce harassment by police and government officials in addition to improving access to training and support programmes (McKenzie &

Sakho, 2010; Bruhn & McKenzie, 2014). These benefits in the long run will foster increased productivity and improved profits, ultimately resulting in increased tax revenues.

Di John (2009) contends that domestic revenue mobilisation has not kept pace with rising public government expenditure therefore there is greater need to consider what governments should do or know better in order to raise revenue from the IS. Sharing the same view, Ebeke and Ehrhart (2012) assert that the ever ballooning public expenditure needs and budget deficits signal that revenue from the formal sector and foreign aid are not sufficient, making the IS a competing option for expanding domestic revenue. The argument is that the expansion of the non-tax paying IS undermines domestic revenue mobilisation and equity. Moyi and Ronge (2006) concur by pointing out that to expand the tax base and enhance equity, it is necessary to bring the IS into the tax net. As posited by Utaumire et al. (2013), in Zimbabwe presumptive tax policy was implemented in 2005 and further enforced in 2011 in an effort to broaden the tax base by widening the net to bag the IS and to address tax equity concerns raised by the formal sector. Fox and Pimhidzai (2011) question the taxable capacity of the informal sector in developing country conditions. They point to the low direct revenue potential from the IS. IS activities are characteristically constrained by their small-scale operation and hence low levels of profits. Since tax revenues are a product of profits, the lower the profits simply implies the lower the tax revenues. Therefore direct revenue benefits of IS taxation are likely to be relatively modest or comparatively low (Joshi et al., 2013:9, 2014:1329), and implications of equity potentially adverse (Dube & Casale, 2016; Loeprick, 2009; Rogan, 2019:5-7).

From a distance, taxation of the IS appears to be a promising source of government revenue considering its size and growing share of GDP especially in developing economies (Medina & Schneider, 2018; Schneider & Enste, 2013). However, in practice the cost and benefit analysis tells a different story. Individual incomes within the sector are very low, tax revenues correspondingly low, while the costs of collection are very high owing to the heterogeneity of the firms operating in this sector as well as the large number of individual firms and the difficulty in monitoring them (Rogan, 2019:4). In Kenya, Maina (2016:1) puts the IS at close to 40% of GDP, presumptive tax contributions to 0.1% of total tax revenues yet the tax potential was estimated at 4.26% of GDP. This maybe suggests a need for a deeper analysis of the cost and benefits, back with appropriate data.

Ayee (2007) and Bird and Wallace (2003) state that the ease of tax evasion and hiding from regulations by the IS makes tax collection from this sector on a sustainable basis quite daunting.

Consequently, many tax experts are sceptical of whether any meaningful value can be derived from committing significant sparse resources in developing countries on IS taxation, given the low revenue yields, high administrative costs and the questionable value of taxing low income individuals (Joshi et al., 2013:9; Kanbur & Keen, 2014:3; Keen, 2012:19-21, 30-32; Rogan, 2019:3). Affirming these concerns, Kundt (2017a:5) opines that the insufficient and low quality data on the influence of IS taxation on revenue increase and the costs of collection impedes any meaningful appraisal of the two vectors. Pimhidzai and Fox (2011: 4, 12, 17, 21 ) observe that formalisation for tax purposes might not lead to higher tax revenue generation in some economies as the IS already pays some forms of tax anyway through licence fees and other local authority charges. They argue that the majority of enterprises will remain too small to pay central government taxes such as VAT and PAYE, even if registered for taxes. Elaborating on the possibly negative impact of IS taxation on firm growth and revenue mobilisation, giving the example of Uganda Pimhidzai and Fox (2011:21) advance that “By increasing the risk of failure, the same strategy meant to raise tax revenues would most likely narrow the tax base leading to lower revenues instead”.

In order for developing country governments to reap any meaningful increased revenues from this sector, they have to equally invest into it and nurture it. There is a great potential to grow the contribution of the informal sector to revenue mobilisation and economic growth if necessary institutional support is availed to them to foster their productive capacity (Bruhn & Loeprick, 2014; Bruhn & McKenzie, 2014; Fourie, 2018a). An enhanced tax base expansion can only become a reality when governments start supporting the productive capabilities of IS activities through innovative formalisation activities that also address the growth constraints faced by the sector (Arosanyin et al., 2009; Gerxhani, 2004). While studying the IS in South Africa, Fourie (2018b:2) describes the sector as a “forgotten” sector that is often overlooked by policy makers and analysts hence confining it to “the margins of economy analysis and policy consciousness”. The problem with developing country governments is that they only want to tax this sector and not invest first in order to tax later, a problem metaphorically likened to a farmer who wants to milk and milk a dairy cow without feeding it. Pimhidzai and Fox (2011:2) suggest that to address the dilemma of informal sector taxation, government policy should thus aim to raise revenues through local economic development rather than pursue the short-term strategies that only focus on revenue collection through tax, risking the failure of small firms. A view shared by Fourie (2018b) who asserts that the IS should be thoughtfully and earnestly given the much needed attention and be adequately capacitated in order to fully

contribute to the developing country economies both in terms of economic development, employment creation and tax revenues.

While studying taxation of the IS in Zambia, Nakamba-Kabaso and Phiri (2012), concluded that assuming zero compliance costs, if the IS was taxed revenues would have been higher in Zambia by an average maximum of 7.7% of GDP per annum. They estimate the foregone revenues to be as large as 42% per annum, for 2010 the tax foregone due to informality at 6% of GDP or 34% of total revenue. In Kenya, the Institute of Economic Affairs (IEA)'s Budget Focus (2012:2) postulates that, on average foregone revenues were estimated at 4% of GDP. Empirically implications were that the government had the potential to expand the tax base by 4% of GDP. Contextualising this, assuming the same means that, in the year 2013 as Kenya's GDP was estimated at 1.68 Trillion ( USD16 679 880 000), 4% of this is KShs. 67, 2 billion (US 667 195 200, rate as at 28/01/19). Tax revenues would have been expanded by this figure (Mpapale, 2014:9). These figures seem promising enough to finance public expenditure, but their accuracy is questionable considering the controversy surrounding measuring informality. Even if for argument's sake, they are acceptable, it must be emphasised that compliance costs are a reality and also that only a fraction of this potential revenue can be actually realised (Mpapale, 2014:9; Nakamba-Kabaso & Phiri, 2012). Questions still remain, is there significant taxable income in the IS and is it worthwhile to follow this income? If yes, how can it be effectively tapped?

### **3.2.2 Equity and poverty reduction**

The contributions by Smith (1776) to economic theory on taxation are still highly regarded in economics and taxation. His propagation of the canons of taxation can be hardly exceeded in clarity and simplicity. The four canons of "Equity, Certainty, Convenience and Economy", are still regarded as yardsticks of a good tax system. IS taxation raises equity concerns. Equity issues have to do with fairness. Horizontal equity is treating people on the same economic level equally for tax purposes and vertical equity is when those at different levels are treated differently (Dube, 2014; Rogan, 2019:3). Players in the IS are said to have low incomes as well as low profits. Taxation of such firms is tantamount to disproportionately burdening the poor and is potentially regressive (Pimhidzai & Fox, 2011:21). Ligomeka (2019) argues that the single- minded drive towards collecting more tax revenue from the sector could be counterproductive and at the same time worsen the vulnerability of the IS firms and individuals. Opportunities of poverty reduction would be lost in the process and the growth of small firms suppressed. Joshi et al. (2014:1329-1330) and Ligomeka (2019:15) suggest that efforts to tax

the IS also exacerbate the risk of coercive and corrupt behaviour by tax officials who often demand bribes and in the case of women traders, sexual favours. Arguments have been raised in favour of IS taxation, based on the fact that if IS players are willing to pay bribes to tax officials and endure the inconvenience of harassment, why not pay taxes and operate freely (Pimhidzai & Fox, 2011:17; Prichard, 2009).

The informal sector is a predominant source of livelihood in Sub-Saharan Africa (SSA), accounting for a weighty share of employment and output. According to Pimhidzai and Fox (2011:2), SSA governments have an “ambivalent” view regarding the IS, indistinguishably so does the body of literature on economic development. The behaviour of the IS players and their role in economic development is often misunderstood, their actual and potential contribution to poverty reduction and provision of employment often overlooked (Biles, 2008; Evans et al., 2006; Fjeldstad et al., 2006; Fox & Pimhidzai, 2011; Rogan, 2019:15). It is a fact that this sector is an indispensable part of people’s sustenance on the continent and a major driver for poverty reduction (Wafula Wanyama, 2013). Employment creation and poverty reduction are some of the major macro-economic objectives of government yet this contribution made by the IS to governments’ responsibilities often goes unacknowledged. From an equity point of view, there have been suggestions for almost total exemption of the informal sector from paying direct taxes (Prichard, 2009). Pimhidzai and Fox (2011:13, 17) and Rogan (2019:9) contend that non-formal enterprises including those above the tax thresholds pay taxes at local level and their compliance is high. They are an important tax base, but for local governments. In Zimbabwe while studying flea market traders, Ligomeka (2019:7) established that in addition to presumptive taxes, these traders pay market fees, storage fees and toilet fees. It is therefore unfair to view them as tax evaders. Their contribution should be acknowledged and reciprocated in better institutional and policy environment if equity can be achieved.

About equity also, taxation of this sector is said to be a step towards ensuring equity. According to Smith (1776), equity is defined as the situation when the subjects of every state contribute towards the support of government as nearly as possible in proportion to their respective abilities. That is in proportion to the revenue, which they enjoy under the protection of the state. Based on the statistics presented by Bhorat et al. (2017) which puts the IS sector in African countries between the ranges of 20% for South Africa and above 50% of economic activity for countries such as Lesotho, Liberia, Zimbabwe, Tanzania and Zambia, not taxing such a significant chunk of the economy will invariably violate the equity principles. Despite that taxation of the IS would yield little revenue in the short to medium term, it will serve to bring



the IS into the tax net in the long term, thus ensuring equity (Terkper, 2003; Torgler & Schneider, 2009). The IS would be equally contributing (no matter however negligible the contributions might be) to government coffers in order to finance the public utilities, infrastructure and protection which enables the sector to function and make profits. Formal firms are financing the above through payment of taxes, therefore the troubling question would be, is there equity if the IS players remain free riders? The playing field is arguably not level as the firms in the formal sector would sell their goods at slightly higher prices, because of the VAT tax fraction yet the informal firms will have their goods affordable less the same fraction. The tax fraction would in turn make the formal goods less competitive hence tilting the scale towards the IS, giving the IS undue competitive advantage over the formal (Bongwa, 2009; Torgler, 2005; Rogan, 2019:6). As a result, the market share of registered operators would be lost due to pricing issues and the registered operator sales reduction would ultimately culminate in reduced VAT collections denying government the much needed-revenue. In a contradictory light, Auriol and Walter (2005) and Rogan (2019:9) argue that formal firms can claim input tax, a privilege that the IS does not enjoy, thus tilting the scale in favour of the formal sector (registered VAT operators), by lowering their prices.

As observed by Benjamin and Mbaye (2012), systematic studies on the IS in Africa are often deficient, as some cardinal dimensions are misunderstood. According to these researchers, these studies overlook the existence of “large informal firms” with sales and profits that rival those of formal firms yet these operate in ways that are similar to small informal firms. They “appear formal” in all dimensions but do not pay taxes. For these large firms for which formalisation is feasible, regulations and taxation should be systematically applied and enforced. For the smaller ones, improvements in support services and easing of burdensome regulations are in order (Benjamin & Mbaye, 2012; Maloney, 2004). Failure to tax the IS may be viewed by formal firms as unfair and as a breach of the canons of taxation. To exhibit the hallmarks of a sound tax system (equity, fairness and neutrality), taxation regimes must ensure compliance from both the formal and IS (Mpapale, 2014:10). Tax burden should not be shifted to the formal sector only, when the two sectors benefit from social infrastructure, service provision and related investments funded by taxes collected. Taxing formal employed individuals and not taxing the informally employed ones earning comparable incomes, creates inequalities and perpetuates tax injustice. Redistributive taxation may be seen as the best alternative to lower the inequality and provide tax justice as well as fairness. IS taxation is therefore not only a matter of revenue mobilisation but also of tax justice.

Kundt (2017a:6) and Rogan (2019:10) attest that from the equity angle, the impact of presumptive tax still remains contradictory and variegated especially in relation to the differences in tax treatments of informal and formal firms having comparable incomes. Questions also arise on the sector-by-sector presumptive tax rates, how are equity considerations upheld on informal firms operating in diverse sectors but with corresponding incomes? Pimhidzai and Fox (2011:14) consider the presumed and regressive nature of presumptive taxes being a violation of the equity principle.

Joshi et al. (2014:1330-1331) portend that formalisation for tax purposes might offer small firms a measure of predictability and protection. Researchers are quick to point out that the power inequities between the state and the IS may commensurately make the small firms vulnerable to unequal treatment and exploitation by state authorities as they will be now more visible (Meagher, 2016; Meagher & Lindell, 2013; Rogan, 2019:10). Overall potential equity benefits of IS taxation can be pictured, but the pitfalls of such a move are visible too, especially the concerns of disrupting precarious livelihoods, increased vulnerability and stifling growth of small firms as previously argued by Pimhidzai and Fox (2011:2). Restrictive institutions impose barriers to formality that reduce the growth rate of small firms and sometimes impose inequalities. Redistributive taxation lowers inequalities but blunts the incentives to accumulate capital, lowering growth (Davis, 2007). Examined through purely revenue and equity lenses, justification for widening the base by taxing the IS rests to a greater degree on more indirect connections such as tax compliance gains, growth and governance gains. There is need to comprehensively investigated how the different tax obligations borne by both formal and informal firms (local authority taxes, VAT in some cases, fees and operating licences) impact on the horizontal equity implications of taxation (Rogan, 2019:9). These connections remain only weakly explored and documented verifiably.

### **3.2.3 Growth**

The implications of a broadened tax base for the growth of small firms are as essential to the argument of IS taxation as the immediate revenue implications (Joshi et al., 2013:10, 2014:1329). Yet, the outcomes of IS taxation on growth remain complicated and results of studies remain somewhat debatable and indecisive. Along with the growth arguments comes into effect the need to consider issues of employment creation and poverty reduction among lower income earners and the unemployed (Pimhidzai & Fox, 2011:2), long term economic development and the development of a larger tax base over time (Joshi et al., 2014).

### **3.2.3.1 Taxation and growth controversy background**

The major issue of consideration by tax experts is that, a rise in the tax rates or tax burden could hinder growth, threaten viability of the small firms and push people into poverty (Atawodi & Ojeka, 2012b:129, Ocheni & Gemade, 2015:346), ultimately reducing the tax revenue even further. The costs may far outweigh the benefits. Tanzi and Zee (2000) avow that taxes skew economic choices leading to a loss of welfare over and above the tax payments. This is often described as the undue burden of taxation. Confronted with tax obligations, businesses' decisions on how to invest or allocate their resources may veer from those they would have taken in the absence of such taxes (Selmrod & Yitzhaki, 2002; Atowadi & Ojeka, 2012b:130). This tax-impelled travesty in economic behaviour culminates in reduced output and growth constituting a net efficiency loss for the economy as a whole (Barnett & Grown, 2004). The argument is intuitively convincing (Keen, 2012; Pimhidzai & Fox, 2011:2).

Borrowing from the literature, the dualist view sees the IS as purely marginal, sustenance and a safety net for the poor (Sabot, 1973), arguing for an empowerment approach before any taxation can be considered (Fox, 2009). In support of the argument against taxing the IS, the notion that informality is actually driven by the burdensome regulations and bureaucracies of regulatory authorities takes centre stage. Informal firms are informal because they are trying to survive by cutting loose the suffocating burdens of formality (exiting) as proposed by the legalist/exit view. However, despite these compelling arguments, a growing body of research argues otherwise. Formalisation, which entails being captured into the tax net as the central component may bring about significant growth gains contrary to hindering growth.

While informality helps firms avoid certain costs, it also comes with a variety of costs for example, it precludes access to certain opportunities available to formal firms, including greater access to credit and financing. Benefits such as increased opportunities to engage with large formal firms, access to government contracts, reduced harassment by government officials and municipal officers and access to training (Del Mel et al., 2013, McKenzie and Sakho, 2010) and other support programmes might be lost (Prichard, 2009). Formalisation alone will not yield any meaningful benefits to attract the IS. Therefore, developing country governments have to collaborate with SME organisations through stakeholder consultations, via “public-private collaborations on mutual reforms”, analogously advocated for by Mbaye et al. (2014) as well as show tangible benefit from formalisation.

### **3.2.3.2 How formalisation affects tax compliance and growth**

Informal firms are often viewed as “parasites”. This school of thought considers informal firms as a threat to formal firms and as an obstacle to economic growth. Impediments to growth are viewed from two angles: firstly, the small-scale nature of informal operations leads to inefficient production coupled with the incentive to remain in the “shadows” to avoid detection by public authorities (Ordóñez, 2014; Woodruff, 2013). As a result, the inability to fund technological changes and capital expenditure confines informal firms to an “informality low productivity trap” which adversely affect the overall productivity growth of a country (Kenyon & Kapaz, 2005). Secondly, tax evasion and regulatory non-compliance enjoyed by the informal firms allows them to impinge on the market share of their formal counterparts. The unfair competition that the formal firms are subjected to reduces their incentive to invest, expand and improve productivity. Low revenues from the IS may lead to over taxing the formal firms hence fuelling more informality and tax evasion.

Despite the fact that the IS plays an important role in significantly contributing to employment and output in developing countries, in addition to providing a livelihood for millions, whether it enhances economic growth has remained a subject of debate. On the one hand, it may obstruct and slow economic growth as suggested by Kenyon and Kapaz (2005) yet on the other it can be an engine for economic growth through economic dynamism, entrepreneurship and innovation (Atawodi & Ojeka, 2012b:126; Ojeka, 2011). Proponents for the former view propose the need for stronger fiscal and regulatory enforcements, while opponents to the view argue that firm level surveys do not find enough evidence to support the view (Fajnzylber et al., 2009; Maloney, 2004). Opponents to the view suggest that the provision of low cost goods and services to the public can be viewed as enhancing household savings, which ultimately results in physical and human capital accumulations. Positive implications for growth may follow (Fajnzylber et al., 2009; Fox & Pimhidzai, 2011). Maybe results mask variations across countries and firms or they depend on the institutional and regulatory distinctions across nations. This could be evident as argued by Gurtoo and Williams (2009) who attribute the divergent views to developing and developed country context where the views on the IS differ substantially. Developed countries view the sector as a “resource” to be harnessed, supported and nurtured through policy prescriptions in order to graduate into the formal sector. On the contrary, for developing countries, it is viewed as an evil to be extinguished yet it remains a fact that this sector contributes immensely to employment creation along with poverty alleviation efforts and is irrefutably burgeoning (World Bank, 2011). Fourie (2018a) affirms

the urgent need for properly planned policies that capacitate and assist the IS rather than to curtail it. IS tax policy has to play a twofold role: mobilise tax revenues from the sector and at same aid the growth of firms in this sector, as striking a balance between enforcing tax compliance and ensuring the survival of firms remains fundamental. For example one such was could be acknowledging that the IS pays tax despite not making payments to revenue authorities.

According to Mpapale (2014:9) and the IEA's Budget Focus (2012:5), "tax reforms in the informal sector are by no means strategies aimed at stifling growth or suffocating the very existence of informal firms", but are ameliorations targeted at opening the actual potential of the sector, creating new avenues for the poor to realise their potential and raising national competitiveness. Joshi et al (2014:1330) posit that there is growing evidence in favour of IS taxation having a favourable influence on investment, profitability and fundamentally on growth. Lending support to the dualist view of informality, La Porta and Schleifer (2014), pronounce that informal firms are too inefficient to survive in formal conditions hence they often suffocate from tax and regulations when forced to formalise. These arguments open room for more debate especially on the causal relationship between formalisation, firm growth, profitability, taxation and firm survival (research gap).

Another area of the research void, is the question, why is it that, despite these supposed benefits from formalisation, the informal sector is undeniably rapidly growing in developing countries and Zimbabwe in particular? Could it be because these costs and benefits vary across firms and across countries or is it a question of the legal, political and regulatory environments that vary across countries? Could it be that the tax rates are too high and firms operate informally to evade them? This calls for the need to understand the drivers of informality in order to inform tax policy prescriptions towards this sector.

### **3.2.3.3 Empirical review on formalisation, taxation and growth implications**

A variety of studies has explored the causal relationship between formalisation, tax registration and growth with heterogeneous conclusions. Researchers refer to the benefits of predictability of taxes to be paid, minimal harassment from tax authorities, access to skills development, expansion of customer base, access to credit and other infrastructural benefits (McKenzie & Sakho, 2010; McKenzie & Woodruff, 2008). From the perspective of Benjamin et al. (2014), no empirical evidence exist on how the tax protection would have a direct benefit on IS businesses. Fajnzylber et al. (2009) provide evidence that in Mexico, formalisation in the form

of access to credit, training, tax payments and participation in business associations had positive effects on firm growth, survival and profits. De Mel et al. (2013) proffer exhibit on benefits that have to do largely with greater legitimacy and freedom of operation by informal firm owners in Sri Lanka as by-products of formalisation. The researchers found significant growth benefits for a small group of firms, while most firms' incomes were largely unaffected. In Bolivia, McKenzie and Sakho (2010) conclude that formalisation, especially registration with tax authorities increase firm profitability, but only for medium enterprises. They corroborate this by showing an increase in the issuance of tax receipts and higher sales in medium size informal firms after formalisation. Similarly, in Viet Nam formalised informal firms demonstrated higher growth in profits and investments (Rand & Tom, 2012; Benjamin et al, 2014). In Uganda, Pimhidzai and Fox (2011:21) came to the conclusion that, any tax increases or additional taxes would hurt smaller firms and increase their risk of failure. This would increase the vulnerability of many families surviving through the IS (basically "killing the goose that lays the egg"). The increased risk of failure would see the same strategy aimed at growing small firms and increasing the prospects of increased revenues, resulting in their failure and reduced revenues respectively. The prominent argument coming out here is that growth benefits indeed exist but they are minimal for small informal firms. In Zimbabwe, summing up all the tax payments (presumptive taxes and customs duty) made by flea market traders, Ligomeka (2019:7) concluded that the tax payments were regressive, as they constituted a big portion of the traders' incomes.

McCulloch and Grover (2010) point that in Indonesia, the impact of formalisation was heterogeneous across firms, with medium sized ones gaining significant increase in profits and the small firms indeed citing exposure and harassment from tax officials. De Mel et al. (2009) argue that the benefits of formalisation though real are too minimal to convince firms to formalise. They are not high enough or exclusive enough to contend a case towards formalisation as concurred by Bruhn and McKenzie (2014). Focusing on Nigeria, Ocheni and Gemade (2015:346), attribute high SME mortality rates in the Benue state to multiplicity of taxes and onerous tax burdens. Also studying the impact of tax policy on SMEs' growth in the Nigerian economy, Atawodi and Ojeka (2012b:125), arrive at a similar conclusion pointing to a pronounced negative relationship between taxes and business' propensity to survive and expand its operations. Most SMEs are found in the IS (Dlamini & Schutte, 2020; Zeidy 2020). Notable from the different findings is that, probably the impact of informal sector taxation is heterogeneous across firm types and nations.

The inconsistencies in findings might be because preferences differ for small and larger informal firms. Individuals who are still job hunting or just operating them to supplement employment income might operate the former. These might not have a motivation for formalising and deem it an unnecessary costly exercise (Bruhn, 2013; Maloney, 2004). Fajnzylber et al. (2009) state that the dynamics of “inclusion or exclusion” might privilege other firms while disadvantaging some. Literature evidence has produced controversial and contradictory findings, while broader economic gains seem plausible, whether small firms are likely to benefit still remains hazy. Equally uncertain is the best strategy to tax the informal sector firms without compromising their economic survival. Solutions to the challenges of IS taxation and its impact to economic growth will differ across nations and should be tailored to fit the local context (Heggstad et al., 2011:1). Analogously, Benjamin et al. (2014) emphasise the need to view the IS on the continuum lens, hence acknowledging its heterogeneity. Formalisation and registration for tax alone will not yield the revenue and growth benefits of IS taxation, but education and training are also highlighted as paramount vectors in economic growth, skills development and tax compliance in the IS. Collaboratively, Adams et al. (2013) as cited by Benjamin et al. (2014), while evaluating the impact of skills development and education on the income, productivity and profitability of non-formal firms in Rwanda, Nigeria, Tanzania, Ghana and Kenya found a positive causal relationship. Education led to an increase in productivity, profits, tax compliance and ultimately tax revenues.

Conclusively, it is imperative to recognise that the actual benefits of improved profits, predictability of tax revenues, access to credit and training and support are likely to vary across firms and across countries. This is because power relations and political networks that link the state and individual firms differ across nations and diverge in particular contexts.

### **3.2.4 Size of the IS and the prospects of a broadened tax base**

A number of studies have shown that the size of the informal sector is unevenly distributed and varies across not only globally, but cross nationally, regionally and locally (Medina & Schneider, 2018; Williams, 2015). There is no precise or acceptable method of measuring the IS. As a result of this, though statistics that estimate the size, growth and magnitude of the IS exist, these are often controversial and contested. Despite the controversy that surrounds estimates, one thing is true, the IS remains indubitably large, ubiquitous, rapidly growing in absolute and relative terms (Bongwa, 2009; Cichello et al., 2005; Dube, 2014; Joshi & Ayee, 2008:183-186; Joshi et al., 2014). The informal sector plays a pivotal role in African economies, accounting for a large share of GDP and an even greater share of employment.

Africa's IS being arguably the largest the world over, with that of Zimbabwe ranked as the second largest in the world after Bolivia contributing around 60% of GDP as outlined by Medina and Schneider (2018). In terms of GDP, the magnitude of the IS can be depicted as shown in Table 3.1

**Table 3. 1: IS Contribution to GDP**

| Region                               | Estimated Percentage of GDP contribution by IS |
|--------------------------------------|------------------------------------------------|
| African countries                    | 43% or more                                    |
| Central and South American countries | 42%                                            |
| East and Central European countries  | 39%                                            |
| Developing Asian countries           | 30%                                            |
| Advanced OECD countries              | 15%                                            |
| Zimbabwe, Tanzania and Nigeria       | 60% or more                                    |
| South Africa                         | 28%                                            |

Source: CISLAC (2013)

In these economies some important sectors like commerce, transport, agriculture and manufacturing are totally or partially controlled by the IS (Benjamin et al., 2012). The IS contribution to the labour force was estimated by the AU (2008) as displayed in Table 3.2

**Table 3. 2: IS contribution to labour force in developing countries**

| Country/Region       | Percentage of the Labour force |
|----------------------|--------------------------------|
| Developing countries | 50-75%                         |
| Ghana                | 90%                            |
| Zimbabwe             | 80%                            |
| Tanzania and Nigeria | 60%                            |

Source: AU (2008)

The IS takes up an immense and rising share of GDP estimated at between 20- 60% in developing countries (Schneider and Enste, 2013). The ILO observes that the IS accounts for 48% of non- agricultural employment in northern Africa, 51% in Latin America, 65% in Asia and 72% in SSA (Benjamin & Mbaye, 2012). Steel and Snodgrass (2008) state that the IS accounts for 50-80% of GDP in Africa and 90% of employment. They estimate that sector contributes three quarters of Ghana's total income and 80% of Burkina Faso's. In Kenya, it is estimated at more than 30% of GDP and grows more than the formal sector employing an estimated 8.3 million people, which is approximately 75% of the nation's labour force (Mpapale, 2014:7). The IEA's Budget Focus (2012:3) contends that between 2002 and 2008,



the potential of the hidden economy in Kenya increased steadily every year from 7.5% in 2002 to 16.61% in 2008, with the potential measured as a percentage of GDP up from 2.52% to 7.66%. This signals a continuously growing informal sector with a potential to increase revenue flows but which otherwise escapes the tax net. If this mammoth sector remains untaxed and rapidly growing, governments will continue losing billions in untapped revenues. This would negatively affect revenue projections and consequently development agendas. In Zimbabwe taxation forms the backbone of government funding and a growing IS poses a formidable challenge to effective tax revenue mobilisation (Ligomeka, 2019:6; Newman 2019:2). Developing country governments have to find effective strategies to effectively and efficiently tax this enormous and problematic sector.

Tax bases are narrow in SSA as they rely on few taxpayers. The large taxpayers, who make less than 1% of the potential taxpayers, contribute more than 70% or more of the total revenue whereas small and medium taxpayers contribute as little as between 0-25% (Gerxhani, 2004; Gordon & Li, 2009; Udoh, 2015). Benjamin and Mbaye (2012) assert that, despite the importance of the IS in African economies, it only contributes 3% of overall tax revenue collections. The size and magnitude of the informal sector, implies the need to tax it if developing country governments are to remain afloat and be able to collect enough revenue to finance public expenditure (Munjeyi et al, 2017; Makochekanwa, 2020:18; Meagher, 2016:3). Taxation of the sector could also be a solution to reduce government-donor budget overreliance. Millin and Coetzee (2007) suggest that formal employment and output growth have been stagnant in most African countries, while informal employment and its share of GDP have been steadily increasing. With the informal sector, growing more rapidly than the formal sector, if not taxed then how would government raise revenue from a slowly dwindling formal sector especially in countries like Ghana, Kenya, Uganda, Nigeria and Zimbabwe? In 2010, Uganda's tax revenues were estimated at 12% of GDP, an underperformance on the revenue side of fiscal policy (Pimhidzai & Fox, 2011:2).

### **3.2.5 Impact of IS taxation on formal sector tax compliance**

Compliance is perception based, linked to expectations and attitudes ordered differently by taxpayers. It depends on how taxpayers judge fairness, trust in political situations, governance, institutional quality and delivery of public services, together these influence tax morale (Martinez-Vazquez & Bird, 2014; Torgler & Schneider, 2009). Despite the tax revenue potential of the IS being small, equity and growth benefits being questionable, it is highly possible that IS taxation might ensure high tax compliance over time. Paying little or no

attention towards IS activities lowers tax morale and increases the risk of non-compliance in the formal firms (Ayee, 2007; Joshi & Ayee, 2008:187; Terkper, 2003; Joshi et al., 2014). More simply, it is a matter of building tax compliance among the firms in IS. On the other hand researchers seem to view the uneven playing field as being unfair to the formal sector only. What about unfairness to the IS who do not recover capital expenditures through expensing tax depreciation such as capital allowances (special initial allowances and wear and tear in Zimbabwe, Tapera, 2017) or operational expenses as allowable deductions like their formal counterparts (Rogan, 2019). Is the equity principle not compromised? Arguing unfairness and undue competitive advantage from the formal sector perspective only is rather a narrow view of the tax morale compliance. Formal sector tax morale and compliance is driven by several other determinants that have no link to the IS such as fulfilment of the social contract, tax education, perception of fairness, tax rates and treatment by tax authorities.

According to Joshi et al. (2014), the moment tax is viewed as a source of unfairness; this will lower the morale and reduce tax compliance among formal firms leading to a reduction in government revenues. Several researchers share this view and document this by providing evidence that tax morale is lower in countries with a large IS (Benjamin & Mbaye, 2012; De Paula & Scheinkman, 2011; Torgler & Schneider, 2009). Mustapha and Zakaree (2015), while studying tax compliance in Nigeria, concluded that fairness has an impact on tax compliance. Perry et al. (2007) provide extensive evidence that failure to tax the IS builds up a “pervasive culture of noncompliance” where large informal firms use “fixers” to manage their relationship with the state for a fee ensuring these firms do not pay taxes but remain camouflaged from tax authorities. In Latin America, evidence pointed to the fact that tax compliance is inversely related to the size of the IS (Perry et al., 2007). In Tanzania, Rutasitara (2014) found out that the reason why people work informally is because they want to avoid taxation and other regulatory costs. In West Africa, Benjamin & Mbaye (2012) document the presence of large firms, which are “formal” in all dimensions (registered, have a fixed location and are able to access financing in the form of bank loans), but do not pay taxes. This has negative impacts on tax compliance.

In Uganda, Pimhidzai and Fox (2011:5) found no evidence on whether the size or persistence of the informal sector has an impact on tax compliance or drives tax evasion. In the opinion of Joshi et al. (2014), though studies indicate a correlation between informality and tax morale, it might be thought-provoking to explore the causal relationship in order to aid in policy prescription. Zimbabwe introduced presumptive tax in 2005 with three main objectives, that is

to broaden the tax base, bring the non-paying IS into the tax net, to address equity considerations in response to the outcry by the tax paying formal sector over the continually growing non-tax paying IS (Dube, 2014; Ligomeka, 2019:7; Sikwila et al., 2016:80). The move by Zimbabwe suggests that IS non-taxation or non-tax compliance might negatively influence tax compliance by formal firms hence reduce tax revenues mobilised by government. Gaspar et al. (2016) and Heggstad et al (2011:1,57), trying to relate tax compliance, economic growth and development posit an intriguing “virtuous circle” of good governance, voluntary tax compliance and eventually increased tax revenues, improved economic growth and development. These connections remain largely unexplored.

### **3.2.6 Governance gains**

Contemporary conceptions in taxation literature, view IS taxation as not only vital for revenue mobilisation, but also for political engagement, bargaining on policy aspects and an avenue for holding the state accountable for the way they use tax revenues (Joshi & Ayee, 2008:187; Meagher, 2016:3). Taxation and tax reform are pivotal to state building. Rogan (2019:6) considers the governance gains justification as a “far nuanced rationale”, one that is weakly explored and is often neglected by traditional “tax and economics literature for taxing the informal sector”. Kundt (2017a) who advances that that attainment of these benefits remains unconvincingly documented or even demonstrated experientially reiterated this. Everest-Phillips and Sandall (2009:2) and Sebele-Mpofu (2020a) on the other hand, reaffirm that the governance advantages are inadequately explored and their relationship with tax morale and compliance misconstrued. Meagher (2016) alludes to the conundrum surrounding the realisation of the governance rewards of IS taxation pointing out that such taxation might privilege others with the fulfilment of the governance and disadvantage other players in the sector by a further destruction of the governance relationship between the state and government institutions (Meagher & Lindell, 2013).

Government must be able to ensure sustainable funding for social programs, public investment to promote economic growth and development. Taxation enhances government accountability and provides a focal point through which interest groups can propose or comment on tax policy (Prichard, 2009). Fiscal capacities are needed to build state legitimacy. A sound tax policy is the main nexus that binds the state and its citizens (Di John, 2009). Therefore, the recent interest in taxing the informal sector may be largely motivated by the thought that taxation of the sector might promote good governance and foster political accountability of the state. This argument is developed on the three angles put forward by recent researchers: accountability, acceptance

of IS tax policy and dialogue (Joshi & Ayee, 2002, 2008; Joshi et al., 2013:11, 2014:1331; Prichard, 2009, 2010). Firstly, if the state becomes more responsive and accountable to groups that pay tax, quasi- voluntary tax compliance might be ensured. Secondly, the link between the state and the IS through taxes would give the sector a sense of ownership over government activities hence compelling the sector to demand accountability from government. Finally, efforts to tax the IS may encourage collective action by providing a platform for collective political engagement between the sector and the government. This is argued to have the potential of providing a longer-term foundation for expanded consultative bargaining (Joshi & Ayee, 2008:186).

Joshi and Ayee (2008) assert that in Ghana, associational taxation gave the IS associations some degree of legitimacy and fostered dialogue with government. In Ethiopia, Prichard (2010) documents that, an expanded tax base that captured the IS triggered engagement between government and the IS on presumptive tax. In a similar vein, De Mel et al. (2013) concluded that IS taxation fostered more trust in the state. In Nigeria, citing the possibly minimal tax revenues from the sector, lack of coordination amongst players in the IS and political interference, Meagher (2016:17) argues that endeavours to tax the IS may mobilise very little revenues for government but probably adversely impact on governance. In Zimbabwe, Machemedze et al. (2018) submits that the informal sector is disorganised, does not have a unified voice on issues affecting them and to even influence policy designing as well as public debates. The researchers attribute this to challenges such as the lack of skilled leadership to efficaciously table their problems, lack of appreciation of laws and policies affecting them, together with the curtailed democratic space that makes it hard for the sector to organise itself (Machemedze et al., 2018:26).

Discussions above on state-society bargaining, dialogue and broader governance gains seem very reasonable and potentially powerful motivations for IS taxation, but evidence of attainability of these suggestions remains very preliminary. Meagher and Lindell (2013:67), have questioned the wisdom of these arguments as the sector is usually poorly organised, generally lacking will power and might fear reprisal by the state. They pose the question, “Does taxing the informal traders strengthen public accountability or just create new avenues for predation? The potential for further marginalisation is very high considering the power imbalances between the IS and the state. Meagher (2013) argues that the resultant outcomes of IS taxation are diverse, ranging from cooperative bargaining to fragmentation of the political voice. The state can employ the divide and rule tactic, fostering the fragmentation of interests

and the marginalisation of certain groups. Others have suggested associational taxation (Joshi & Ayee, 2008) and decentralisation to local authorities (Bodin & Koukpaizan, 2008; Bongwa, 2009; Prichard, 2010) as routes to foster the governance gains; these propositions just remain possibilities whose feasibility and validity remain uncertain. There is still room for more research to investigate the soundness of both arguments for and against governance gains.

### **3.2.7 Demand from informal firms.**

Tax evasion is not the primary reason for people working informally. Not all informal operators are unwilling to pay taxes especially when these are in exchange for some legitimacy, predictability, stability and protection from arbitrary harassment from state agents as per implicit social contract between governments and its subjects (Joshi et al., 2014; Meagher, 2016). The tax burden is not as onerous as it is purported to be. Some operators are already paying through bribes or foregone production (Gerxhani, 2004). Paying taxes is a citizen's obligation in exchange for efficient public services (Bird & Wallace, 2003; Everest-Phillips, 2008, 2010). Taxation can provide a platform where the government can engage the informal sector on how to meet their demands of accountability and the provision of "cuts" (incentives in the form of infrastructure).

### **3.2.8 Section overview**

Expansion of the IS absorbs unemployment largely to the relief of policy makers, the same IS creates a "fiscal gap" that undermines policy makers' objective of widening the tax base. Tax policy should focus on revenue generation and its relationship with the construction of productive capacities of small firms. The argument albeit, does not assume formalisation will automatically expand the tax base; therefore, efforts have to be made into nurturing tax compliance. To reduce the fiscal gap and excessive foreign financing that often lead to the problem of debt sustainability, domestic revenue mobilisation had to be improved by taxing the IS. Non-payment of taxes by the IS kills the moral of compliant firms in the formal sector. Lower tax compliance morale leads to a rise in tax evasion and avoidance as well as a fall in tax revenue. On equity grounds, low incomes, large IS, poor tax administration and unproductive businesses have potentially resulted in the formal sector being burdened through VAT, corporate tax and excise duties. A keen appreciation of the imperatives entailed in the different perspectives of the main protagonists is vital for any reconciliation of the divergent policy prescriptions towards IS taxation. Economies will have to customise the different approaches coming to terms with the economic realities of informality. According to Oviedo et al. (2009), policy packages need to be adapted to the nature of informality in a country. In

some countries, regulatory reform might be more appropriate, while in others regulator enforcement or tax reform might be more relevant. The common denominator of the various policy prescriptions is the realisation that the IS cannot be dismissed out of hand, it has grown to the extent that it warrants serious attention and consideration for both taxation and economic growth.

### **3.3 Challenges of Informal sector taxation in developing countries**

Taxation is seen globally as the best means of raising revenue for the government. A review of literature suggests that limited progression has been made in strengthening taxation of the IS in practice (Ayee, 2007; Dube, 2014; Joshi et al., 2013, 2014; Prichard, 2009; Sebele-Mpofu & Msipa, 2020:194). The social, economic and political realities of the IS translate to complicated operational reality for tax administrators. Giving evidence in Mozambique, Tanzania and Zambia, Heggstad et al. (2011:5) admit that IS taxation is indeed an intricate exercise for developing countries. They add that high illiteracy levels compound the problem as taxpayer (TP) education is minimal. An observation affirmed by Sebele-Mpofu and Chinoda (2019:408), contending that tax law is observed to be ambiguous and complex, therefore the ability of taxpayers to comply is compromised if they cannot correctly interpret legislation or they are not aware of it. Researchers have been sceptical on pragmatic grounds of the feasibility and sustainability of IS taxation and they offer equally rational arguments on the challenges of IS taxation. Adding a voice to the IS tax compliance debate, Everest-Phillips and Sandall (2009:2) suggest that taxpayers will decide whether to comply or evade tax after their evaluation of the tax system based on three aspects. These are: (1) whether government is supplying adequate (quality and quantity) public goods and services that are worthwhile to citizens in an effective manner (2) whether government and its institutions are lawfully and productively employing state power (corruptly or transparently) (3) whether government is demonstrating legality in the way tax is administered, the tax authority's degree and power of enforcement (is it accountable or unaccountable, too much discretion in aspects such as taxes and penalties levied).

According to Obara and Nangih (2017:34), in as much as it is comparatively less complex to tax the formal sector, the informal sector that contributes significantly to GDP and is a hub of employment for many people occupies the most complex and challenging domain in taxation. The informal sector is not wholly without taxation as presumptive taxes have been adopted by developing countries to tax the IS, but the revenues from these taxes are comparatively low

and generally poor as a percentage of total incomes. In view of the above, Maina (2017:6) states that, at this juncture of a burgeoning IS and a critical need for sustainable domestic revenue generation, research pinpointing the most suitable avenue to use “when designing an effective presumptive tax for maximum revenue yield” remains crucial.

Researchers have identified a variety of reasons that makes it near impossible for tax authorities to effectively tax this sector and for the IS sector to comply with efforts made towards taxing it (Everest-Phillips, 2010; Joshi et al., 2013; Ligomeka, 2019:11-16; Newman, 2019:1; Prichard, 2009). These challenges range from the very nature of the informal sector, cost and benefit analysis, capacity constraints, notions of equity and political reasons among others. Munjeyi (2017) postulates that developing country governments have to grapple with extensive political, economic and administrative challenges in their quest to narrow the tax gap and widen the tax base by taxing the IS. Mpapale (2014:19) and Adak (2019:66) advance the disinclination by most developing country governments to deal with economic and social problems faced by those in the IS. These governments have equally ignored the IS in formulating business laws and tax policy affecting the sector resulting in the unwillingness of players in the sector to heed any calls to pay taxes even when presumptive tax rates are low. Heggstad et al. (2011:5) suggest that reasons for non-compliance may include misinterpretation of the tax legislation, complexity of the tax laws and systems, low education, manipulation of taxable activities, low risk of being caught and corruption. Von Soest (2007) alludes to lack of administrative accountability, political interference and costs of collection as possible challenges to effective collection from the IS. Administrative accountability is described as: corruption levels within the tax administration system, Taxpayer’s rights as well as tax education and the services provided to the TP. These reasons have crystallised themselves in the form of theories such as the rational economic choice model by Allingham and Sandmo (1972) or the Fischer’s compliance (Fischer et al., 1992) as well as the Fiscal Exchange or implied social contract model by McKerchar and Evans (2009). The Fischer’s tax compliance and the implied social contract models guide the exploration of the challenges to IS tax administration and compliance for this study.

Fjeldstad et al. (2006) summarised the reasons for IS tax non-compliance as:

- (i) Lack of fulfilment of the implied social contract as citizens perceive that they receive little in exchange of taxes paid (education, water, sanitation, order, justice and refuse collection)

- (ii) Oppressive and non-transparent ways of collecting taxes
- (iii) Lack of access to information on taxes collected and how they are spent.

These challenges were briefly reviewed as they relate to tax administrators and the IS.

### **3.3.1 Challenges for tax administrators.**

Despite the research on IS taxation having yielded numerous recommendations, a tax paying IS and a perfect tax system to address the sector remains a dream (Munjeyi, 2017). The wide, diversified, non-observable nature and constantly evolving nature of the IS has posed numerous challenges for tax administrators in their quest to tax the sector. Prichard (2009), identified three major reasons why taxation of the IS has been universally unsuccessful and these are capacity constraints, equity notions and political reasons. According to McKenzie and Sakho (2010) the challenges hinge more on the cost and benefit analysis. It becomes problematic how to balance the economic costs and benefits of IS tax administration, benefits of progressive and redistributive nature of taxation versus the regressive possibilities of taxing the IS as well as managing the equity/efficiency trade off. The IEA's Budget Focus (2012:3) and Mpapale (2014:9) explicate the lucid nature of the IS and the mistrust of, as well as weak structural engagement between developing country governments and the IS as fundamental hindrances to effective IS taxation. Therefore, the section below will explore the challenges facing tax administrators in enhancing revenue mobilisation through taxing the IS.

#### **3.3.1.1 Unavailability of information**

Taxation is an information game. All the basic functions such as tax administration, identification of taxpayers (TP hereafter), assessment of TP's liabilities as well as the tax collection require accurate information (Bird, 2004:149). Without the availability of reliable and complete information, it becomes nearly impossible to effectively deliver desired outcomes of tax policy. Designing the required administrative apparatus necessary to collect and monitor information required to develop a tax base is one of the most challenging functions of the state. Major characteristics of the IS operators include: failure to keep records, failure to register, poor internal controls, ease mobility and cash transactions that leave little audit trail (Steel & Snodgrass, 2008). The sector is said to be dominated by non-static entities that are largely "intangible". The foundation of computing tax liability in an accountable and transparent manner is the availability of accounting records without which (Bird & Wallace, 2003), it becomes nearly impossible to tell how much is due and when it is due. The process of ascertaining tax liability for the IS becomes difficult because for several reasons they do not keep records. The tax authorities then presumed the liability, which perpetuates horizontal



inequity and increases tax evasion (Bird & Wallace, 2003:21). Reliance on cash transactions coupled with the absence of records makes it easier for the IS to conceal taxable profits and manipulate their turnover figures (CISLAC, 2013). The reasons for poor record keeping include the associated costs of maintaining records, lack of requisite skills and knowledge to maintain sensible records, and the deliberate attempt to avoid settling obligations as players in the informal sector are fully aware of the capacity constraints of revenue authorities to chase the non-compliant ones (Bongwa, 2009). The commitment of a significant chunk of resources by revenue authorities to ensure compliance by the IS often raises questions on the opportunity cost of envisaged tax returns.

The cash based nature of transactions in the IS also makes taxing the sector a formidable exercise (CISLAC, 2013). Most transactions in the sector are done in cash either because players have no bank accounts or are unwilling to accept bank related forms of payment. This poses a challenge for revenue authorities. The all cash nature of transactions provides a much-desired tool for the sector to conceal their turnovers and taxable profits or to manipulate both as to understate their tax liability (Sebele-Mpofu & Msipa, 2020; Maina, 2017).

The non-existence of formal registers for informal firms makes it harder to locate them and to determine their tax liability (Dube, 2014). Tax authorities are also facing challenges in trying to obtain information from operators like hairdressers as well as cross border traders because they are largely difficult to locate, as they have no fixed place of business, a key requirement for one to be a registered operator. The ease of mobility makes it problematic for tax administrators to keep pace (Thuronyi, 2004). The nebulous nature of the IS makes ascertaining tax obligations and ensuring tax compliance extremely onerous considering the size and heterogeneous nature of the sector. Pimhidzai and Fox (2011:10) raise an important argument in this regard that in most cases the informal sector abides by local authority regulations and pay licence fees, surely a link between local authority and central governments would see tax authorities having a register of the informal player.

### **3.3.1.2 Capacity constraints/limitations**

The capability of a Revenue Authority to raise revenue is often linked to issues of efficiency and effectiveness in tax administration and tax policy implementation (Soest, 2007). Successful tax collection hinges on the ability of the authority to perform certain tax administration functions effectively, efficiently and on a sustainable basis. These include “capacities to penetrate society and organise relationships for tax administration purposes (Gerxhani, 2004;

Soest, 2007). Mashiri (2018) defined capacity in terms of five aspects: experience, skills and expertise, financial resources, sound staffing policy and specific staff or teams dedicated to a particular tax framework. Taxing the IS, because of its diverse and dispersed nature is undoubtedly administratively arduous and has capacity implications for tax authorities.

Another major challenge being faced by revenue authorities is the inadequate resources problems. Governments lack the resources in terms of workforce, materials and technology to initiate, implement, monitor and enforce tax laws. The large number of individual players in the IS, coupled with its complex nature creates additional logistical problems for tax authorities as they grapple with collecting taxes from this sector (Dube 2014; Dube & Casale, 2019:63; Bodin & Koukpaizan, 2008; Prichard, 2010). Most tax authorities only have a workforce to concentrate on bigger taxpayers rather than small informal ones. Sebele-Mpofu and Mususa (2019:79) advance that “shaky and incapacitated administration is often expostulated as one of the main constraint on the potency of the states to collect tax revenues”. Taxing the IS requires a lot of labour considering that a lot of effort is needed in locating them and ensuring compliance. Joshi et al. (2013) allude to the fact that most developing country governments do not have the resources as well as the capacity to effectively monitor and enforce tax laws and let alone in the IS. Obara and Nangih (2017:34) state that the other reasons in relation to capacity constraints include administrative problems bordering on chronic shortages of trained officials and ICT facilities to facilitate the process of taxation, ineffective implementation of withholding taxes and non-establishments of tax audits to quickly try to identify and punish defaulters.

In Nigeria, CISLAC (2013) established that poor tax administration was mainly due to inadequate training and compensation of tax officials, under qualification and lack of job motivation. Also in addition, the uniqueness of this sector need special skills to be able to service it, which most developing nations lack, for instance Nigeria (CISLAC, 2013). Some of the revenue collection officers fall short of the requisite skill and capabilities to assess, detect, audit and even to adequately enforce the applicable tax laws against non-compliant IS players. The situation is made worse by the ever-evolving business world, digital nature of transactions and mobile transactions. Revenue officers find themselves incapacitated and ill-equipped to handle such transactions (Chronicle, 2019a). Compounding the dearth in workforce, skills and inadequacy in training as challenges to effective IS, the nature of the sector makes it a less attractive ground to operate in. The high illiteracy levels, social status and other inherent dangers makes fieldwork aimed at assessing tax liabilities, identifying

evaders and monitoring compliance in the IS a dangerous exercise (Joshi & Ayee, 2008:190). The volatile nature of the relationship between tax authorities and disgruntled IS players trying to earn a living scares tax officials who ultimately end up shunning the sector (Joshi & Ayee 2008: 190; Joshi et al., 2014).

Dube (2014) cites poor coordination of tax departments, as another reason why tax authorities are ineffective in taxing the IS. In relation to capacity constraints, Soest (2007) argued that the prevalence of informal activities is largely related to weaknesses in two institutional areas namely taxation and regulation. Fiscal capacities are needed to build a legitimate policy of IS taxation. Political will and commitment towards the capacitation of Revenue Authorities is key (Chronicle, 2019a). Kundt (2017a:9) reiterates that capacity constraints impede the effectiveness of IS tax frameworks as Revenue Authorities have no adequate resource for productive administration, enforcement and monitoring.

### **3.3.1.3 Cost and benefit analysis**

Kanbur and Keen (2014) and Keen (2012:20-21) expressed concern against taxing the IS arguing that potential yields will be very low and administration costs high. They argue that the tax revenues collected from the IS may often fail to justify administration expenses incurred in the quest to collect from this sector. Kundt (2017a:5) describes this dilemma as the “low value for money” in terms of revenue expectations that has led to the lack of prioritisation of tax collection from an otherwise growing sector. A sector whose taxation is considered a vital ingredient for effective domestic revenue mobilisation, achievement of the Sustainable Development Goals (SDGs) of African countries, inclusive growth and attainment of governance gains (Kundt, 2017a:1, 2017b:10; Joshi et al., 2014:1325). In view of this, the researchers argue that the high costs negate the economic principles of a good tax system as propounded by Smith in 1776 (Prichard, 2006; Bird, 2004; Keen, 2012). Tax authorities have limited tax administration resources. Often, the priority of tax authorities is to pursue the large taxpayers who are easy to tax and shy away from the high delinquency rate and high costs of enforcement associated with small businesses (Joshi et al., 2014; Kundt, 2017a, 2019; Maina, 2017). The high mobility and heterogeneity of the players in the IS makes the costs of collection, monitoring and enforcement relatively higher than the actual taxes collected. For this reason, developing country governments often find the costs of collection and revenues collected from the IS irreconcilable, the latter not justifying the former (Prichard, 2009). Bird (2004:138) brings another side to the costs of collection, pointing to the fact that the costs of collection might indicate the “capability” of tax administration, the less effective and efficient

the tax administration the higher the tax collection costs. The focal point may be to revisit tax policy and administrative implementation issues. The researcher is quick to point out that just as with tax to GDP, various factors that cannot be correlated systematically to the capability of tax administration may also explain the costs of collection.

In Zambia, Nakamba-Kabaso and Phiri (2012) provide evidence that, if income tax collections for each taxpayer relative to their respective tax administration costs are considered, it becomes apparent that the tax revenue collections from the IS may not be adequate to cover the costs of tax administration. The researchers have argued that the seemingly large tax potential was found to be thinly spread over millions (4 million in Zambia) of participants in the IS, implying that the cost and benefit analysis will render IS taxation imprudent (Keen, 2012:19-20; Nakamba-Kabaso & Phiri, 2012). Kundt (2017a:5) suggest that a constructive conceptual assessment of the costs incurred and revenue collection impact is hindered by lack of adequate and comprehensive data as it largely either unavailable or of poor quality.

Researchers suggest that developing country governments should not focus on the trade off or cost benefit analysis but rather view the IS taxation as an investment that would yield benefits in the long run in terms of increased compliance (more revenues), growth of small firms and state citizen dialogue (Kundt, 2017a, b; Joshi et al, 2013:9-11, 2014:1325). According to Heggstad et al. (2011:xvi) “Tax is much more than collecting revenue, it is about building accountable relations between government and citizens”, therefore governments should not only blindly focus on revenues ignoring other functions of tax. Otherwise, putting forward the cost benefit analysis would mean the IS will never be effectively taxed yet its magnitude suggests turning a blind eye to its activity has multi-faceted socio-economic repercussions.

#### **3.3.1.4 Equity notions**

Prichard (2009) argues that IS operators have very low incomes advocating for their total exemption from taxation. According to Joshi et al. (2014) incomes per individual sector are low, thus tax rates are correspondingly low whilst the collection costs remain high. It is for this reason that many tax authorities have been sceptical about taxing this sector. Wintrobe (2001) states that as long as individuals and firms believe that the tax code is fair and applied fairly, they may be more willing to pay their taxes. Informal firms may feel unjustly treated considering they have negligible profits and some of the operations are indeed survival strategies or a safety net for the poor as suggested by the dualist view (ILO, 1972). This therefore makes the informal operators try as much as possible to avoid paying taxes. In

Uganda, Pimhidzai and Fox (2011:17) render evidence that the “poorest are paying the highest share of profits”. They sampled tax compliant informal operators and summed up all the payments they make to central government (small businesses tax and VAT) and all the payments they make to local government (licence fees and other fees). The researchers advance that considering the lower profits of the IS and comparing them with the presumptive tax rates or the fixed presumptive amounts as well as other local authority payments one would conclude that, this sector with lower incomes has higher effective tax rates. An observation also alluded to by Ligomeka (2019:18) studying taxation of flea market traders in Zimbabwe. Pimhidzai and Fox (2011:14) argue that contrary to general perceptions that small firms understate profits, evidence from measurements of small enterprises suggests that self-reported net profits are a close representation of actual profits. Therefore partly the low incomes in the IS versus the high tax rates could explain why the IS would feel unjustly taxed or genuinely fail to comply with tax obligations. This could also explain the negative relationship between tax policy and the growth and survival of small firms alluded to by Ocheni and Gemade (2015:345,359) as well as by Atowadi and Ojeka (2012b:125). Kundt (2017a:8) states that the IS taxation-growth paradox investigation results have been complex, contradictory and general inconclusive.

### **3.3.1.5 Political constraints**

Dube (2014) observes that the political situation in developing countries creates low tax morale in the citizens of the country making it difficult for tax authorities to administer taxes and this is beyond the control of revenue authorities. In relation to political constraints, the IS constitute the bulk of the voters thus state officials and politicians tend to turn a blind eye to the activities of the sector in order to pressurise government officials to reduce enforcement so as to retain a stronger base of supporters (Joshi et al., 2014:1337; Rutasitara, 2014). The Africa Tax Spotlight, (2012), asserts that governments have been reluctant to expand taxation of the IS owing to limited revenue benefits and fear of a public backlash against increased taxation. They have in fact opted to keep taxation low in what researchers have termed a “devil’s deal”. Simple political logic prevents politicians with short time horizons to alienate this bloc of voters by trying to impose taxes that raise little revenue. According to Tendler (2002:99), politicians make unspoken deals with the IS, “if you vote for me, I won’t collect taxes from you, I won’t make you comply with other tax or labour regulations and I will keep the police and inspectors from harassing you”. Once sealed the deal is difficult to break yet on one angle politicians are happy, the informal sector is happy but the on the other angle far reaching implications of reduced revenues, equity concerns and growth concerns are real as a result of

the untouchable informal sector (Ayee, 2007; Joshi & Ayee, 2002, 2008). Revenue Authorities often find themselves in a difficult position where in fear of political retribution, they have to be less aggressive with the IS. Experience with the reform in other areas suggests that these challenges are not insurmountable but require commitment from politicians and governments of developing countries, which is often lacking. Populist politics often complicate tax policy by shielding potential taxpayers in the IS. Mashiri (2018:160) describes these politicians in African countries as “larger than life political personalities” who are immune to tax and often intimidate revenue officers (they become afraid to follow up or penalise such characters).

#### **3.3.1.6 Leakages and Tax evasions**

Developing country governments grapple with problems of weak tax administration and porous tax collection systems leading to significant leakages. Tax evasion, tax avoidance and corruption are the three main sources of leakages in tax revenue of any nation (Ohaka & Zukbee, 2015). Tax avoidance is harmful to tax collection, though not as harmful as evasion. Evasion is commonly found among IS operators. Corruption is more prominent on tax officials who circumvent regulations to defraud and possibly embezzle the collected revenue or cheat the government by conniving with taxpayers to pay less revenue (Munjeyi et al., 2017).

Mobility of informal operators makes tax evasion easy for them as they at times operate in back alleys and roadsides. In most cases the operators in the IS are mobile, play hide and seek with law enforcement. Revenue leakages are motivated by various reasons which include complicated tax systems that lack transparency, lack of infrastructure, scarcity of qualified tax officers, low incentives for tax officers, low tax morale, weak legal sanctions for taxpayers and political influence (Udoh, 2015). In Nigeria, CISLAC (2013) observe that huge tax revenue leakages and the ever expanding tax gap can be attributed to a class of IS operators whose activities result in high turnovers and huge levels of taxable income, but these operators successfully evade or avoid tax because of weak and porous tax administration that fail to effectively close them into the tax net. These are the kind of IS operators whose evidence of existence in Mexico and West Africa is alluded to by Maloney (2004) and Benjamin and Mbaye (2012).

#### **3.3.2 Challenges of Informal sector tax compliance**

Informal sector tax compliance is driven by different reasons and for tax authorities to properly address this problem, they must be aware of the pertinent issues leading to such tendencies (Masarirambi, 2013). Obara and Nangih (2017:34-35) states that other challenges identified as bedevilling IS taxation include: poor understanding of tax laws, lack of understanding of

benefits of paying taxes by operators, culture of deliberate tax evasion, challenge of multiple taxes, high levels of illiteracy among players in the IS, lack of education and proper sensitisation by tax authorities to encourage tax compliance. Sikwila et al. (2016:83) state the compliance might be intentional or unintentional. With unintentional, taxpayers innocently fail to complete their tax returns correctly or are unaware of, or misunderstand various provisions of the tax system due to a knowledge gap. Some of the reasons stated include lack of rule of law and weak fiscal jurisdiction and insufficiencies in tax collection, high compliance costs (Masarirambi, 2013), possibilities of going undetected and perception of unfairness among other reasons (Maseko, 2014). Reasons and challenges explaining non tax compliance have been explained by the use of models. These include: the economic approach which considers issues such as income levels, tax rates and others (Allingham & Sandmo, 1972; Zivanai et al., 2016), Institutional approach focusing on governance issues, tax fairness and complexity of tax returns (Palil, 2010), behavioural approach which considers taxpayer perceptions (Kirchler et al., 2010) and the political approach centred on politics and state legitimacy (Bird & Wallace, 2003). Fischer et al. (1992) model groups on all the above factors into the socio-economic and psychological factors as shown later in Figure 3.1. These challenges are briefly reviewed below.

#### **3.3.2.1 Cumbersome registration and formalisation procedures**

The major challenge towards formalisation and registering for tax purposes has been identified as bureaucratic registration procedures (Joshi et al., 2014; McKenzie & Sakho, 2010). The business environment in Africa has been identified as one with institutional malfunction, too many legislative and administrative bottlenecks and lack of coordination between various agencies involved in the registration process (Mpapale, 2014:11). There is compatibility in opinions on this hurdle as Prichard (2009:17) avers “There appears to be remarkably little coordination between local authorities and national tax revenue authorities”. Such red tape tendencies discourage the informal firms from registering for tax purposes. The complicated and high costs of entry into the formal sector such as registration fees, legal fees and high taxes equally makes it difficult for small firms to register for tax purposes. According to Mpapale (2014:11), the cost of obtaining a business permit, as well as renewing it are unacceptably high in developing countries. In Nairobi, the researcher argues that these have doubled between 2012 and 2014. Zimbabwe was ranked one of the most difficulty countries to do business with (Mukokera, 2019). Fjeldstad et al. (2006) explain that, IS firms usually weigh the benefits of formalising and paying taxes against the costs of getting formal recognition and those of

complying with current and future regulatory obligations and taxes. Gerxhani (2004) shows that the costs include time and outflow of economic benefits involved in complying with regulations and the risk of conviction for non-payment of current taxes or future taxes.

With the use of a model Nelson and Bruijin (2005) argue that if the costs of formalisation are higher than the benefits firms will avoid formalisation and payment of taxes. According to their model:  $S = (II + OC) - FC$ , where II refers to institutional incentives, OC describes opportunity costs in the form of potential gains lost by remaining informal and FC being formalisation costs in the form of licences fees, taxes, product safety costs and other costs. If  $FC > (II + OC)$ , firms will avoid formalisation and taxes. When  $FC < (II + OC)$ , firms will formalise and pay taxes (Nelson & Bruijin, 2005).

### **3.3.2.2 Income levels and tax rates.**

The low incomes characterising informal firms makes it difficult for these firms to pay taxes. According to Ayee (2007), the low levels of income make smaller firms weigh the cost of survival against the benefits of complying and more often than not, they opt to preserve their small incomes to enable business continuity. Torgler and Schneider (2009) argue that the high tax rates that characterise developing country tax systems make it difficult for informal sector enterprises to comply even if they are willing to. The researchers add that some of the methods of taxing the informal sector are based on turnover for example turnover tax without considering the actual expenses incurred by the operators. The shortcomings of the various methods of taxing the IS coupled with low incomes is a challenge towards tax compliance by the IS (Atawodi & Ojeka, 2012b:130; Ligomeka, 2019:18). Small businesses have limited resources and technical capacity to comply with tax policy. Sebele-Mpofu and Mususa (2019:84-85) point out that IS transport operators in Zimbabwe were willing to pay their tax obligation but they found the tax burden onerous taking into account the ZINARA licences fees, city council operating licences, radio licences and toll gate fees all having to be remitted from the low incomes. Despite multiple researchers arguing in favour of not taxing the IS based on low and erratic incomes, Benjamin and Mbaye (2014), put forward a compelling argument against using the low revenues from the IS as a scapegoat for not paying taxes. The researchers argue that the IS must be viewed as a continuum. Admittedly, some of the players indeed have negligible taxable incomes, but there has been an emerging breed of new players whose operations results in huge turnovers and high levels of taxable income. These operators evade and avoid tax due to the weak and porous tax systems in developing countries that fail to



effectively capture such operators in the tax net. Maloney (2004) provides such evidence in Mexico, Benjamin and Mbaye (2012) in West Africa and CISLAC (2013) in Nigeria.

### **3.3.2.3 Complicated tax systems, multiplicity of tax rates and poor administration of taxes**

Multiplicity of taxes is another major problem faced by taxpayers in developing countries. This involves similar taxes on the same or substantially similar tax bases. PwC, Nigeria (2015) as cited by Olaitan (2016:2) gives examples as corporate tax, information technology tax, education tax and development levy which are all based on profits; the sales tax, VAT, hotel consumption all based on sales and lastly the employee compensation contribution, and industrial levy all based on employee gross incomes. Zimbabwe is no different, with pension contributions, PAYE, NSSA and AIDS Levy all coming from employee gross salary Corporate tax also comes with NSSA, AIDS Levy, Zimbabwe Development fund levy, Employee Pension contributions all coming from the same profits as outlined by Dube, (2014). Ocheni and Gemade (2015:359), point to the multiplicity of taxes causing a huge tax burden on small firms and ultimately impeding their tax compliance and crippling their survival and expansion in Nigeria.

### **Complexity of tax laws**

According to Bird (2015:9), “It is not possible to appraise the efficiency or effectiveness of tax administration without taking into account both the degree of complexity of the tax structure and the state to which the tax structure remains stable overtime”. Sebele-Mpofu and Chinoda (2019:407) advance that tax systems in developing countries are often complex yet taxpayer knowledge is insufficient or inept in these countries, compounding non-compliance with taxes. The ambiguities and complexities of tax laws as well as tax policies pose significant compliance challenges to the IS. The language of Tax Acts and tax law is ambiguous and difficult to comprehend even for taxpayers with tax and accounting knowledge, even more challenging for informal sector players whose literacy levels are low (Bodin & Koukpaizan, 2008; Dube, 2014; Olaitan, 2016:6). Isa (2014) citing Long and Swingen (1987:25), points to six perspectives of tax complications as follows: ambiguity, challenging calculations, continuous tax law amendments, details such as provisos, exemptions and exceptions, record keeping and often complex returns. Evans and Tran-Nam (2010), view complexity as twofold, legal and effective. The former referring to the comprehensibility of legislation and the latter to the capacity to compute tax liability appropriately. Complexity remains an impediment to tax compliance amongst taxpayers the world over and the informal sector is no exception.

These ambiguities cause a lot of confusion for compliant taxpayers who are at times forced to engage the services of accountants, lawyers and tax experts. Such expenses eat into the small profits of informal firms (CISLAC, 2013). Cost and benefit analysis often leads to non-compliance. Recapitulating the hurdle, Heggstad et al. (2011) posit that irrespective of tax administration improvements made by developing countries, tax structures and collection procedures have remained complicated, cumbersome and time consuming. “This facilitates discretion, open room for corruption, extortion and contribute to retard the process of building a tax culture based on transparency and accountability” (Heggstad et al., 2011:61).

In Ghana, Abdul-Razak and Adafula (2013) found that if understanding of tax laws is low, tax compliance is equally low. According to Beeson et al. (2016), taxpayers come from diverse backgrounds and have differences in knowledge, thus tax law should accordingly be simple and understandable to foster compliance. Von Soest (2007) states that tax education and dissemination of information to TPs is fundamental in lowering the costs of compliance. Tax education is undoubtedly an essential mechanism that is instrumental in creating general awareness amongst TPs as well as fostering voluntary compliance.

### **Sluggish dispute resolution and lack of accountability by tax officials**

Dispute resolution and tax audit procedures are very slow and inefficient in SSA (Maina, 2017:20; Sebele-Mpofu & Msipa, 2020; Olaitan, 2016:15), further discouraging the IS from paying taxes. Mashiri (2018) bemoans the inexpediencies and lack of effectiveness of the Fiscal Appeal Court in Zimbabwe, which she argued were hurdles to tax justice. She observes that the delays in concluding court cases impedes progress in tax legislation, incapacitates tax administration and diminishes taxpayer confidence in the tax system. In the Zimbabwe scenario, where tax morale is very low, this compounds tax evasion (Mashiri, 2018). The Zimbabwe Commissioner General of Taxes views this not only as tax injustice but also as an impediment to effective tax administration on behalf of ZIMRA. She advanced that the sluggish dispute resolution in the courts invalidates the effectiveness and efficiency of revenue administration, pointing to about \$4 billion in unpaid taxes in unresolved court cases in Zimbabwe (Chronicle, 2019a). To make matters worse, it is very difficult to get a refund for overpayment of taxes or VAT tax refund (input tax) for registered operators. In Zimbabwe, Dube (2014) and Utaumire et al. (2013) chronicle the struggle faced by registered operators in claiming their input tax refunds and tax over payments. Olaitan (2016:15) describes the problem in Nigeria.

The relationship between tax authorities and taxpayers is far from cordial in developing countries, it is characterised by fear and suspicion making open dialogue quite impossible, adding to the challenges of tax compliance. Tax authorities perceive the IS as tax evaders who are just unwilling to pay taxes while IS operators are wary of tax authorities' high handedness in collection of taxes (IEA's Budget Focus, 2012:3). Heggstad et al. (2011:4) as well as Oguttu (2016) also lament too much power and discretion at the disposal of revenue authority officials, which is often open to abuse in relation to assessments (estimation of tax obligations), litigation, selection of audits and delays in refunds especially VAT.

Von Soest (2007) argues that tax administration accountability is often poor in developing countries where corruption of tax officials is rampant; taxpayers' rights to tax education, objection and appeal are often ignored. A research in Ghana focusing on women in the informal sector showed that they had low levels of education and encountered very harsh attitudes from tax administrators. These women often had their possessions seized for failure to pay tax; their shops locked up by the authorities and were at times asked to pay bribes or other favours and in-kind payments (Africa Tax Spotlight, 2012). Ligomeka (2019:15) also outlined these challenges, when studying taxation of female flea market traders in Zimbabwe. In a similar vein, Heggstad et al. (2011: xii) state "the uncompromising revenue target focus of the tax administrations implies achieving the collective target becomes not "everything" but the "only thing" and sometimes at any "cost", even at the expense of other functions of revenue administration". The emphasis here being that such a single-minded focus heightens harassment and extortion of taxpayer while transparency, customer care and accountability are compromised. High incidences of corruption are likely to reduce tax compliance. Heggstad et al. (2011:5) emphasise that the problem should be closely looked into, as governments are often responsible for the behaviour of tax administrators as they often set high revenue targets for tax administrators and often castigate them for failing to meet these targets. An upright and approachable tax administration increases the likelihood of voluntary tax compliance (Von Soest, 2007). Of course, this is not to trivialise the need for coercive apparatus to control, monitor and enforce compliance. Developing country governments need to address these issues and to encourage a wider citizen dialogue and engagement around tax issues.

In addition to these challenges, policies in relation to the IS are poorly coordinated and disseminated across different related ministries namely finance, local government, labour and that of SMEs. This poor administration often makes it difficult for the informal sector to operate and to comply with taxes.

#### **3.3.2.4 Low education levels and lack of skills**

The informal sector has limited access to training and professional services that would enable them to adapt to a sound culture of corporate governance as well as keeping meaningful accounting records (IEA's Budget Focus, 2012:3-4). The lack of skills and access to online tax registration and the e-filing of tax returns complicate tax issues for the IS. The majority of players in the IS have low education, poor accounting skills and computer skills. Those few with modest education lack the computer skills that can help them comply with the recent developments of online submission of tax returns. Most current and prospective entrepreneurs are ignorant of registration procedures, regulations and tax procedures (Atawodi & Ojeka, 2012b:129; Bruhn & Loeprick, 2014; IEA's Budget Focus, 2012:4; Utaumire et al, 2013). This is coupled by lack or poor dissemination of information on strategies by governments and revenue authorities yet tax education and awareness are vital instruments towards voluntary tax compliance.

#### **3.3.2.5 Governance and trust issues**

UNDP (2011) defines good governance as the existence of effective mechanisms, processes and institutions through which citizens and groups articulate their interests, exercise their legal rights, meet their obligations and mediate their differences. Public governance is significantly related to tax compliance behaviour. In this regard mistrust and weak structural dialogue between the IS and governments hinders taxing the IS (Bhattacharya & Akbar, 2014; Everest-Phillips, 2008, 2010). This has led to mistrust and prevents the sector from engaging constructively with government in reform processes. Governments equally fail to engage the sector in reform processes. CISLAC (2013), assert that in developing countries the IS operators are often discouraged by lack of development in these countries and rampant corruption; hence they remain informal and evade tax. Only genuine stakeholder consultation and government interest in the IS taxpayers and their needs could foster trust in tax policy.

Most policies regarding taxation laws and business regulations relating to the IS have been formulated with little consultation or participation of the IS. This lack of communication leads to apathy and lack of faith in government policies and programmes by the IS (CISLAC, 2013; IEA's Budget Focus, 2012:4). Focusing on the sufficiency and challenges of "tax systems in Mozambique, Tanzania and Zambia", Fjeldstad and Heggstad (2011) argue that, despite the fact that considerable inroads have been made in terms of tax administration and taxpayer dialogue, it still remains equivocal whether these engagements have had any influence in tax policy. As such, this sector regards tax policies and tax rates as unfair prompting the sector to

declare false incomes and evade tax. Tax fairness is a strong indicator of tax compliance (Mustapha & Zakaree, 2015). Generally, if tax fairness is positively perceived, tax compliance is strengthened and the opposite is true.

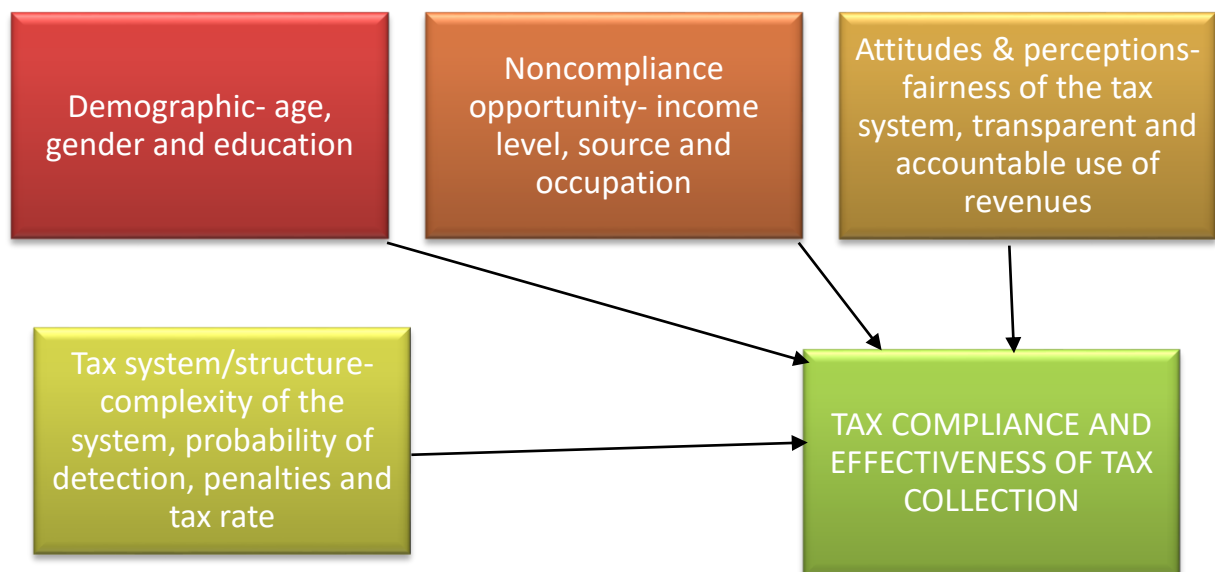
Finally the most emphasised of the challenges or factors compelling the IS to avoid paying taxes is the lack of transparency and accountability in the spending and often at times fraudulent utilisation of government revenues (Ohaka and Zubkee, 2015). The behaviour of the taxpayer is influenced by how the taxpayer “mirrors” the state in his mind (Kirchler et al., 2010). Power and trust have an influence on tax compliance. Developing country governments have failed to earn taxpayers’ trust. According to Ohaka and Zubkee (2015) and Obara and Nangih (2017) funds generated from revenue collection often “develop wings, are diverted or disappear”. This is the basis of lack of interest by the IS to pay taxes. The injudicious and reckless spending by developing country governments has shattered taxpayer confidence and trust in the state. “Quasi” voluntary tax compliance can only be fostered by the provision of public goods and by accountability. Heggstad et al. (2011:4) and Adak (2019:66), argue that there is need for governments to involve taxpayers in the formulation of tax policy through engagements and also highlighting of public goods financed through tax revenues cannot be over emphasised when arguing for voluntary tax compliance.

In a similar angle, Angahar and Alfred (2012), assert that in most cases funds are usually misappropriated and not used for basic infrastructure such as roads, bridges and schools. Most companies in developing countries privately source their own water and electricity and maintain roads and bridges leading to their premises to avoid inconveniences to business operations (Obara & Nangih, 2017). In Ghana, a “Tax and Gender” research found that 57% of the surveyed cited the lack of dialogue or education on their tax obligations by government as the reason for not complying. Fifty percent of these women said the lack of accountability of the funds collected and the poor public service delivery together with the dilapidated state of the infrastructure explained their lack of compliance (Africa Tax Spotlight, 2012). The challenges discourage tax compliance and fuel informality. Trust in the state fosters voluntary tax compliance together with policy acceptance by taxpayers and the exercise of power by the state ensures enforced tax compliance, which is coupled with resistance by taxpayers (Palil, 2010). Thus the challenges to IS tax administration and compliance were viewed in the context of Fischer et al. (1992)’s tax compliance model outlined in Figure 3.1 below and McKerchar and Evan (2009)’s Fiscal Exchange model. The former considers the socio-economic

determinants and the psychological factors, whereas the latter is built on the fulfilment or lack of fulfilment of the implicit social contract.

The fiscal exchange theory is constructed upon the premise that a social, relational and implied contract exists between government and its citizens (taxpayers). This contract relies on the reciprocity principle suggesting that citizens willingly comply with tax regulations when they are happy with what governments provides in exchange for the taxes, that is delivery of quality public goods and services, transparency and accountability as well as respectful relational engagement (McKerchar & Evans, 2009; Rogan, 2019). Unhappiness with the social contract due to poor delivery of public goods and services and lack of accountability and stakeholder engagement leads to loss of trust in government, increased tax evasion, lower tax morale and drivers taxpayers deeper in the IS to avoid taxes (Bongwa, 2009; Rogan, 2009). This is because when evaluating tax non-compliance, empirical research findings have largely exhibited that tax non-compliance can never be comprehensibly attributed to the economic factors alone, without paying attention to tax morale. Researchers have pointed to tax morale being an influential factor (Torgler and Schneider, 2009). Tax morale is inextricable linked to the implied social contract or the fiscal exchange model and other economic factors. Fischer et al. (1992) model appeared to be all encompassing the social, behavioural , economic and views on the implicit social contract between government and its citizens, hence it adoption for this study in explaining compliance to and effectiveness of the IS tax system. Figure 3.1 illustrates it.

**Figure 3. 1: Fischer' et al. (1992)'s tax compliance model.**



Source: Fischer et al. (1992)

These two models were adopted for this study in linking the drivers of informality, challenges to effective IS tax administration, IS tax compliance hurdles and the effectiveness of IS tax administration as they take into consideration, the economic, social, institutional and behavioural factors all in one model. This study ignored the demographic factors for this study as the IS participants were not included as part of this study as outlined in Chapter one.

Conclusively the challenges of IS taxation vary across nations with certain converging points as tax policy varies across nations but with certain similarities. Generally these challenges range from lack of statistical database of the IS operators, lack of accounting records, lack of residence of business operations, unstable nature of businesses and incomes, lack of trained and skilled staff in Revenue Authorities to political interference. The obstacles also include: the lack of interest by governments in taxing the sector, poor education and skills as well as the cost and benefit analysis among other challenges. For IS taxation to be a reality, these challenges have to be addressed by developing country governments and especially SSA governments where budget deficits cannot be ignored. The challenges can only be overcome through the realisation the achievability of effective IS taxation and informal sector compliance is a product of the political and economic environment in the country, drivers of informality, nature of IS, citizen's trust in the state, effectiveness of tax administration as well as government support to tax policy (interconnected relationship). The reasons for IS tax non-

compliance need to be taken into cognisance too as well as how the taxation framework delivers on the supposed benefits of IS taxation. Tax compliance also depends on the method used. The arguments above can be conceptualised as in Figure 3.2, feeding into the conceptual framework in Chapter Two.

**Figure 3. 2: Summary of the factors affecting IS taxation effectiveness and compliance**



Source: Author's schematic presentation



### **3.4 Policy options and methods used for taxing the Informal Sector**

Although the value of prioritising taxation of the IS, the costs and benefits as well as the challenges of such taxation remain debatable, there is agreement to work towards taxing the sector and calls towards improving existing policies and practices (Ayee, 2007; Joshi & Ayee, 2008:187; Joshi et al., 2014:1339-1341; Udoh, 2015). Despite the controversy and challenges bedevilling IS taxation in Africa and developing countries, inroads have been made in tax policy towards taxing this sector culminating into the various methods of taxing the sector (Dube, 2014; Joshi et al., 2013; Rutasitara, 2014). Resnick (2020) posits that approximately 65% of African economies have designed and implemented presumptive tax system targeting the IS. These vary in design, structure and administration across the different nations. This section explores the efforts employed by these countries in addressing the IS taxation challenge. A discussion of the strategies by selected counties will aid as a foundation for the formulation of strategies and recommendations on IS taxation drawn from the practical experiences, successes, challenges as well as overall effectiveness of each strategy.

As pointed out by Dube (2014) and Bird and Wallace (2003:7-8), the IS can be brought into the tax net through four main ways: firstly through the application of existing direct tax regimes such as income and capital gains. Secondly through indirect taxes such as VAT and thirdly through specific taxes targeting the IS such as presumptive taxes (Olaitan, 2016) and fourthly through tax holidays and exemptions. These will be discussed and evaluated below in terms of relevance and effectiveness as analysed by various tax scholars. These will be discussed under two broad categories of: (a) the expansion of the existing taxes on formal firms (direct and indirect) and (b) presumptive taxes specifically targeting the IS (Mpapale, 2014:12-15).

#### **3.4.1 Reliance on existing taxes**

The taxation frameworks in Africa has been largely designed to focus more on large formal firms with large incomes, profits and are more often tax compliant. The framework has been designed to rely on for major tax heads: corporate tax, PAYE, withholding tax and VAT. The first two being direct taxes based on incomes and the last two being indirect and based on transactions (Mpapale, 2014:12-15; Dube, 2014). The current tax legislation in most African countries includes the above identified tax heads and none of them were modelled with IS in mind. Efforts have been made to expand the reach of these common formal taxes to the informal sector through enhanced enforcement and compliance (Bird & Wallace, 2003). The use of each tax head in the IS and an evaluation of its effectiveness follows.

#### **3.4.1.1 Corporate or Company tax**

This is usually governed by Income Tax laws and is applicable to both resident and non-resident individuals and companies (these being those incorporated in the relevant country and those not incorporated in the country but derive their income from the country for example subsidiary companies). The tax is usually a certain percentage of taxable profits after granting the taxpayer applicable exemptions and deducting relevant expenses (Tapera, 2017). Registered informal operators are expected to pay this tax levied on companies. The effectiveness of this tax head as a revenue strategy from the IS has yielded little results (Mpapale, 2014:12). This is because as alluded to by Benjamin and Mbaye (2012) even large informal firms do not want to formalise and they continuously evade tax. Corporate tax is calculated on adjustable gross income of the company to arrive at taxable income; this process requires clear record keeping and a clear audit trail that can be used for tax computation. These requirements are overlooked in the IS because of lack of requisite skills and associated costs (Prichard, 2009). This casts doubt in the applicability and success of corporate tax in the IS. Only a few companies can be caught using this net.

#### **3.4.1.2 Income Tax**

PAYE is a method used collect direct tax on remuneration or personal emoluments of employees from employment. With PAYE, the employer is expected to act on behalf of the government to deduct and remit tax collected from employees to the Revenue Authority. The employer is expected to accordingly grant exemptions, deduct liabilities and grant tax credits to the employee in arriving at the correct tax (Tapera, 2017). Tax authorities usually recognise taxpayers with numbers, therefore to be able to deal with revenue authorities, entities need to be registered. With the majority of the informal operators being unregistered, it is difficult to efficiently tax personal incomes. Mpapale (2014:12) states that for tax purposes, such individuals are non-existent as their details appear nowhere within Tax Authorities' databases. The PAYE strategy therefore has failed to capture players in the IS in the tax net as only employers and employees in the formal sector and a few in the IS who are registered are captured. The bulk of the informal employees are excluded because of non-registration (Masarirambi, 2013). Pimhidzai and Fox (2011:12) allude to the fact that even if the informal firms were to register for tax purposes, the majority of their employees earn incomes within the tax-free bracket and therefore would still be exempt from tax.

#### **3.4.1.3 Withholding tax (WHT)**

This is a revenue mobilisation strategy specifically formulated to tax incomes of non-payroll earners and other irregular earners of income (often known as retention tax). Payers of income act as agents for government and deduct tax basing on prescribed rates at source from payments and accordingly remit to Tax Authorities (Chidoko et al., 2011). Withholding taxes are usually charged on incomes like management fees, director's fees, dividends, royalties, interests and entertainment services among others (Mpapale, 2014:14). In order to act as an agent of the government one has to be a registered operator. Therefore, despite the majority of IS operators receiving services that are subject to withholding tax, they are not able to deduct and remit to Revenue Authorities. Mpapale (2014:14) gives a revenue leakage example on entertainment WHT. He points out that in Kenya, government loses a lot of revenue where most entertainment spots despite making a lot of money on stage performance fees from foreign artists, do not account for WHT as required by law because they are not registered. Boadway and Sato (2009) argue that despite the applicability challenge in the IS, most governments use WHT as a strategy to tax the IS, by registered operators and other formal firms to withhold taxes on their transactions to unregistered operators. Keen (2008) states that WHTs can be highly efficient, for example WHT on imports acts like a tariff on non-compliant IS firms, while it is credited back to compliant firms hence improve revenue collections from the IS. Keen (2008) points out that despite their credibility and importance in deploying an efficient taxing structure for the IS, WHTs have been ignored by most countries. Joshi et al. (2013:13) observe that WHTs can be administratively burdensome, can introduce a high degree of incoherence to the overall system, while requiring support of withholding firms and mostly an efficient way of crediting those firms from which tax is withheld. The poor tax administration in Africa and developing countries causes inefficiencies in collecting and managing taxes discouraging taxpayers (Everest-Phillips, 2010; Joshi & Ayee, 2002; Kanbur & Keen, 2014). Therefore in practice evidence on the success of WHTs in taxing the IS remains limited.

#### **3.4.1.4 VAT**

VAT is an indirect type of tax levied on imports, and on domestic sales by registered operators making taxable supplies of a certain threshold. With this type of tax, registered operators enjoy a full credit or refund of their input tax (VAT charged on inputs or purchases used to make taxable supplies (Mpapale, 2014:13-14). VAT, for informal firms acts as a tariff on their imports and a tax on their purchases from the formal sector, even if these firms do not reach the stated threshold for VAT in order to be registered operators (Keen, 2008). Different scholars have raised varying arguments on the efficiency of VAT as a revenue collection tool

in the IS (De Paula & Scheinkman, 2011; Gordon & Li, 2009; Keen, 2008, 2012). Emran and Stiglitz (2005) argue that using a broad based tax like VAT may not be valid taking into consideration that most informal firms are relatively small. In Kenya, Mpapale (2014:14) asserts that the administration of VAT becomes challenging based on registration, as the fluid nature of informal operators makes the task difficult. Conversely, Keen (2008) contends that the extent to which VAT contributes to GDP for developing countries must not be underestimated hence the need to tax the IS using this tax base. In a similar vein, Joshi et al. (2014) and De Paula and Scheinkman (2011) state that VAT is less economically distorting as it allows government to tax a wide variety of activities and creates a positive incentive for the IS entities with actual and prospective dealings with the formal sector to enter the formal system and enjoy the input tax claim refunds or credits. Another positive for VAT as explained by Sanderson (2016), is that the IS employs a larger percentage of the population in developing countries who in turn are capable of buying various household goods and capital goods contributing significantly to VAT. Gordon and Li (2009) argue in favour of domestic VAT as opposed to the import tariffs, which they say prevent countries from fully exploiting their comparative advantage and may thus hinder growth. Emran and Stiglitz (2005), contradict the argument by theoretically demonstrating through a model that informal sector tariffs are welfare enhancing. Overall, the introduction of VAT to both the formal and the informal sector is regarded as a step towards modernisation of tax administration, adopting self-assessment among other things, which subsequently extends to income tax.

### **3.4.2 Presumptive taxes**

Fernandez and Villar (2016) and Loeprick (2009:2) argue that at the core of the challenges of IS taxation, two major challenges are prominent: high costs of collection for tax administrators and high compliance costs for small taxpayers perhaps due to the complexity of tax systems. Despite these challenges in Africa, SSA and other developing countries, Joshi and Ayee (2008) suggest that among other methods, presumptive taxation has been applied by many countries to fit the informal sector nature and to tax it as well as minimising the high costs of revenue collection. Loeprick (2009:2) adduces that the findings on the effectiveness of presumptive taxes are mixed, how to operationalise them at administrative level is problematic in the majority of countries. Machemedze et al. (2018:18) raise critical questions in relation to presumptive taxes “Is this a fair system of tax, we are assuming that the government is making certain presumptions about the earnings of these operators, is this a good approach? What is

the effect of the tax system on SMEs and the informal economy? Is the tax system designed to enhance SMEs growth? Does it discourage the growth of SMEs?”

According to Thuronyi (1996:1), the word presumptive indicates that there is a legal presumption or assumption that the taxpayer’s income is no less than the amount resulting from the application of the indirect method. Presumptive taxation uses an indirect method, which is different from the normal rules based on verifiable accounts. Presumptive taxes are used to minimise tax evasion and improve tax compliance as the taxes use a simplified indicator of the tax base such as profits or turnover so as to enable simplification of record keeping for small firms and the estimation of tax liability for tax administrators (Ayee, 2007; Dube, 2014; Joshi et al., 2013:14, 2014:1333).

Thomas (2013) contends that the rebuttable presumptions may encourage taxpayers to keep proper accounts, because they subject taxpayers to a possibly higher tax burden in the absence of accounts. Various presumptive tax systems with variable designs have been applied in developing countries in the past and currently. Some of the methods: are standard, estimated and minimum lump sum tax assessment systems. According to Joshi et al. (2013), Ethiopia uses presumptive tax on turnover (TOT) as well as 2% of turnover in place of VAT and income tax. Kenya charges a 3% flat rate on turnover to replace both VAT and Income tax whereas Ghana operates a flat TOT of 3% for small firms in place of VAT and a quarterly stamp duty is paid by micro businesses (Joshi et al., 2014; Prichard, 2009, 2010).

**Table 3. 3: Developing countries and types of presumptive taxes**

| Country      | IS Tax Focus                                                                                  | Presumptive Tax Type                                                                                        |
|--------------|-----------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------|
| Zimbabwe     | IS businesses such as informal traders, hair salons, bottle stores, transport sector          | Fixed presumptive tax rates rooted on sector of operation and nature of business                            |
| Ghana        | Small businesses                                                                              | Presumptive tax levied on type of business                                                                  |
| Ethiopia     | SMEs                                                                                          | TOT at 2% of turnover                                                                                       |
| Kenya        | Small businesses with turnover of less than U\$52 000                                         | TOT at 3% of turnover                                                                                       |
| Uganda       | Small businesses with annual turnover approximately U\$38 000                                 | TOT at a fixed percentage                                                                                   |
| South Africa | Small businesses that micro businesses with a qualifying turnover of not more than R1 million | TOT, 0% for taxable turnover not more than R335 000, to a maximum of 3% for taxable turnover above R750 000 |

Source: Ligomeka (2019); Joshi et al (2014); Mwanza (2015) and Viviers and Groenewald (2019)

Joshi and Ayee (2008) document the most prominent methods as the occupational and sector-specific assessment, the estimated lump sum system, the presumptive minimum assessment and the presumptive minimum assessment plus a percentage of gross receipts. These will be individually analysed below.

#### **3.4.2.1 The occupational sector and specific standards assessment**

This where a fixed lump sum is to be paid as tax by a person or enterprises engaged in a certain profession or business (Bird & Wallace, 2003). Ghana was the pioneer of this method in 1963. There after a number of countries adopted it and these include Nigeria, Mozambique, Lesotho, Sierra Leone, Burkina Faso, Gabon and Ethiopia (Africa Tax Spotlight, 2012). This method seems to provide a solution to the panacea of IS taxation especially as the interaction between tax officials and the firms is minimised, curbing corruption and bribery. This method is unpopular in public finance literature and for tax administrators as it treats all taxpayers in a given class equally, regardless of their actual incomes (Thuronyi, 2004). The method is ineffective in taxing higher income earners. Africa Tax Spotlight (2012) states that this method underperformed as a revenue collection tool in all the countries that tried it as the taxes ignored inflation and the dynamism of economic conditions and business environments.

#### **3.4.2.2 The Estimated lump sum Assessment system**

This is an indicator based system where the tax liability is estimated on observed features or indicators such as business size, premises, skills of and number of employees, location, energy and water bills, service capacity of the business such as restaurants, hotel rooms and others (Mbiliayi, 2012). The method has been adopted by countries such as Angola, Tanzania, Kenya, Uganda, Zambia, Malawi and Madagascar (Africa Tax Spotlight, 2012). Limitations of this method include subjectivity especially the fact that it involves some elements of discretion in assessment. The greater emphasis of tax on factors of production may limit growth for example companies might be tempted to invest less in capital expenditure or on employment to reduce labour. Discretion may also lead to corruption and inconsistencies. Taxpayers with similar incomes may end up with varying tax burdens and those with different incomes bearing the same tax burden (Bird & Wallace, 2003; Tadesse & Taube, 1996; Thuronyi, 2004). This type of presumptive tax might lead to a violation of the canons of taxation especially equity on both horizontal and vertical perspectives.

### **3.4.2.3 The presumptive minimum assessment**

In this system, taxpayers are assigned some minimum level of income in any given year and this might be graduated yearly. According to Tadesse and Taube (1996), this usually comes in different forms depending on country specifics: lump sum form which may or may not be graduated depending on volume and size of operation, as a percentage of turnover or gross asset or both and the use of lump sum plus a percentage of turnover. The method was used in various countries for example Benin applied lump sum regardless of volume and size of operation. Equatorial Guinea, Malawi and Senegal grew the agreed minimum gradually basing on turnover (Africa Tax Spotlight, 2012). The method based on a percentage of gross receipts was applied by the likes of Ghana, Guinea, Nigeria and Togo. The strength of this method lies in its ability to reduce under -statement of tax liabilities by large informal firms.

### **3.4.2.4 The lump sum minimum plus a percentage of gross receipts**

Here a specific lump sum is assessed together with a percentage of gross receipts of the enterprise in question for tax purposes. This method was applied in countries like Madagascar, Burkina Faso, Cameroon, Tanzania, Uganda, Ghana and Kenya, just to mention but a few (Africa Tax Spotlight, 2012). Others used the greater of the minimum lump sum and the lump sum plus (percentage of profits or of net assets or of paid up capital and in other times of turnover) (Tadesse & Taube, 1996; Thomas, 2013; Thuronyi, 2004). This method was aimed at reducing tax evasion and the dilemma of multinationals of underreporting profits. Researchers regard this method as a more effective revenue collection tool to tax the IS, though they suggest that there is need to continuously improve tax policy to suit the changing business environments (Thomas, 2013; Thuronyi, 2004).

## **3.5 Policy options and progress in taxing the informal sector by other African countries**

Broadening the tax base to include the IS has been quite challenging for tax administrators and governments the world over, the African continent and SSA in particular (Joshi & Ayee, 2002). Despite these challenges efforts have been made towards practically mobilising tax revenue from the IS, others being tailored to sub sector conditions and others being done subsector by subsector. These efforts include presumptive taxation tried and retried in Kenya (Moyi & Ronge, 2006), associational taxation in Ghana (Joshi & Ayee, 2008), segmental and the Block Management System in Tanzania (Rutasitara, 2014), presumptive TOT in Zambia (Nakamba-Kabaso & Phiri, 2012) and ceding collection rights to local authorities in Cameroon and Ethiopia (Bodin & Koukpaizan, 2008; Bongwa, 2009). The varied efforts are a testimony that there is no single mechanism to tax the IS, but a combination of approaches. These varied

efforts will be reviewed in order to draw lessons on the extent to which these different strategies have addressed the barriers to effective IS taxation. What can be learnt from these efforts as regards to feasibility and sustainability of IS taxation? What can also be learnt towards future research and policy options? The efforts will be reviewed country by country below.

### **3.5.1 Segmentation and the Block Management System (BMS) in Tanzania**

The IS in Tanzania is estimated at 58.3% of the economy (Africa Tax Spotlight, 2012:2). Tanzania is one of the countries that have embarked on tax reform efforts to improve IS taxation by trying to improve tax administration, strengthen monitoring services and incentivising tax administrators. The efforts have been made through segmentation and BMS of administering presumptive tax. The former entails segmental organisation of tax administration into separate departments to deal with small, medium and large firms respectively (Joshi et al., 2013, 2014). With the latter, the main market areas are mapped and divided into small and manageable blocks based on logical geographical boundaries.

Unlike in Kenya where presumptive tax is at a flat rate of 3%, in Tanzania, tax is payable depending on the level and extent of record keeping (Mpapale, 2014:15). Failure to keep records means tax will be estimated. BMS teams would then be appointed and given the mandate to oversee all tax activities relating to that block from identification, registration, assessment and accounting. The BMS teams move block by block and each block is given targets for registration and revenue collection.

This system tries to manage the outcry of high administrative burdens of taxing the IS raised by researchers such as Keen (2012), by attempting to use the scarce resources in an organised manner that minimises the costs and brings in uniformity as well as consistency in tax administration. Evidence suggests that BMS has improved IS tax administration and has increased the number of businesses registering with tax administration from 16% of new registrants being from BMS in 2006-2007 to 41% in 2008-2009 (Joshi et al., 2014). The BMS was said to be a way of addressing inequality arguments raised by formal businesses, which had the potential to discourage compliance. Tax compliance is said to have significantly improved amongst taxpayers. Interesting to note is that the BMS is a homegrown solution to the challenge of IS taxation in Tanzania and hence may be a higher degree of acceptance as evidenced by the increase in registered operators. According Joshi et al. (2014) the success of this method is also attributed to the stakeholder engagement by the TRA. The Revenue Authority is said to have had a close working relationship with local authorities such as



associations and the chamber of commerce who were viewed as providing a link to the IS. Another notable merit of the BMS was grouping the businesses in terms of the nature of their activities or sector and turnover threshold. The blocks were just structured like a tax office but the only difference is that this one is mobile and is brought to the taxpayer's doorstep for registration, collection and assessment (TRA, 2010). Experienced tax officers who have the capabilities to explain tax policy, address queries and educate taxpayers are assigned to these blocks. The BMS has tremendously improved taxpayer registration, compliance levels in the IS and revenue collection in Tanzania.

Despite these efforts, tax evasion and non-compliance still remain a problem in Tanzania. Capacity constraints, manpower shortage, the nebulous nature of the IS and ease of movement between blocks, corruption and collusion by revenue officers and the taxpayers are the notable key challenges compromising compliance (TRA, 2010). In the midst of these continued challenges, the application of presumptive tax could be a starting point to widen the tax base in Africa and the BMS a way of logically and systematically organising such efforts to reduce administrative costs and derive more value from IS taxation. However, the BMS might result in increase in workforce needs which results in increased administration costs. The BMS being a home grown solution could provide a foundation on which African governments could improve upon on the avenues towards taxing the IS (important to note is that these governments could contextualise the strategy in relation to their own economic environment, nature of the IS, IS taxation framework, sectoral performance as well awareness and taxpayer knowledge). Auriol and Walter (2005) emphasise the endogeneity of the IS and stress the need for tax policy prescription contextualisation.

In addition to segmentation and BMS, the Tanzania Revenue Authority introduced a cocktail of other measures to improve IS taxation. These include improving the business environment through reduced registration and formalisation constraints, providing informal firms with business premises, application of withholding taxes, tax amnesties, training and guiding SMEs on record keeping among others (Mbiliayi, 2012).

### **3.5.2 Associational taxation in Ghana**

Ghana's informal sector has been growing tremendously over the years, just as in other developing countries where it is estimated to constitute between 30% and 60% of the total economy (Africa Tax Spotlight, 2012:13). Osei-Boateng and Ampratwum (2011:1) estimated Ghana's informal workforce at 80% of the total work force. The large IS poses a big challenge

to tax officials, who are yet to find the cure in order to maximise revenue mobilisation from this sector. As the country where the term IS was coined, how they tax the IS will be an interesting case study.

Ghana introduced the presumptive system called the Vehicle Income Tax (VIT) for public transport cars to try to capture as much revenue as possible from the transport sector in 2003. Income tax stickers were to be stuck on the car window shield as evidence for tax compliance. It is also known as the “stamp system” (Adom & Williams, 2014). The tax stamp system was also used for small and medium operators as well as the vendors in the informal sector. Assessment criteria was aimed at classifying businesses and grouping them based on the type, location, activities and volumes. Stamps were also then administered by the target groups who would purchase them every quarter and display them on business premises or carry them around (vendors and hawkers) as a sign of tax compliance (Joshi et al., 2014). This fostered easy monitoring and enforcement, but this system was not without its own problems too. Corruption was the biggest challenge especially in situations where corrupt officials replicated stickers.

Ghana introduced associational taxation between 1987 and 2003, as an attempt to address the issue of collective action, negotiation and dialogue between the state and the IS. The system used IS associations in taxing the IS (Joshi & Ayee, 2008). In this instance, the Revenue Services in Ghana delegated the revenue collection responsibilities to informal sector associations through a strategy called Identifiable Grouping Taxation (Joshi et al., 2014). This was a noble way as associations had better knowledge and understanding of their members so they could easily have access to them.

The associational system was a success in the early years of implementation and was extended to 32 other informal activities and it saw increased revenues from the IS (Joshi et al., 2013). The system is said to have minimised some of the challenges of IS taxation for example it is said to have reduced collection costs to a fixed 2.5% paid to associations for their collection services. It is also said to have granted the associations and their members some legitimacy, protection from arbitrary harassment by state agents and given them a voice to bargain with the state (Joshi & Ayee, 2008). The system inculcated a culture of tax compliance among informal firms, which became evident in their acceptance of and compliance with the presumptive tax system when it was introduced in place of the Identifiable Group Taxation (Prichard, 2009). An important lesson drawn from the fair success of this system was the

support the legislation and policy enjoyed from government together with, also efforts made towards educating taxpayers (Joshi et al., 2013). The system was not without problems, associations often mishandled revenues collected or did not hand them in full to the Revenue Authority and government viewed the associations as tax havens that enabled larger enterprises to evade tax.

Currently tax collection in the informal sector in Ghana happens on a primarily face-to-face basis. Tax collectors pay visits to shops and markets to assess the amount of tax to be paid. Unlike in Kenya and Tanzania where TOT is used, in Ghana tax is not based on either income or turnover. Tax is based on the type of business, size of business premises and location of business (the estimated lump sum assessment system). There is a lot of subjectivity involved (Africa Tax Spotlight, 2012).

### **3.5.3 Presumptive tax tried and retried in Kenya**

In Kenya, the informal sector is growing and accounts for 35-50% of the country's GDP and 77% of the employment statistics. Kenya adopts a presumptive tax called Turnover Tax (TOT), which was introduced by the Finance Act in 2007 to mobilise revenue and reduce the fiscal gap (Kimaru & Jagongo, 2014). TOT is a presumptive tax where the tax base is turnover. TOT is applicable to any resident person whose turnover from business is above KShs.500 000 but below KShs.5million. It is calculated as 3% of gross annual sales of an entity. No expenditure or capital allowance is granted against TOT and for income tax purposes. TOT is final (Mpapale, 2014:15). Kenya adopts as its enforcement measure in the transport sector, outsourcing private entities to collect taxes from vehicle operators. TOT has the advantage of simplifying the tax procedure as computation is based only on sales, simplified recording keeping (for example cash books, annual sales receipts and invoices, daily sales summaries and bank statements) as sales are the main focus, less administrative costs and the ease of self-assessment even under e- filing of returns (Kimaru & Jagongo, 2014).

Despite the existence of the TOT regime, tax compliance still remains a challenge in Kenya because there are some implementation and capacity constraints. In the year 2008/09, TOT raised KShs. 136 million in actual revenue against the projected KShs. 442 million (IEA, 2012). According to a research by Thairu and Jagongo (2014) empirical evidence suggests that in Kenya 74.8% of the respondents were not complying with the tax obligations because they did not understand the system very well. The respondents also the presumed tax obligation was unfair, as it just focused on gross receipts without either considering the expenses incurred in

order to make the revenue or granting any tax deductions. Mpapale (2014:9) concurs as he suggests that the country is losing significant revenue potential through IS non-tax compliance.

#### **3.5.4 Taxation of the IS in Zambia**

Zambia's informal sector is large, with 89% (4.1 million people) employed informally (Nakamba-Kabaso & Phiri, 2012). Zambia's IS has not been entirely without taxation. In 2008, the IS in Zambia comprised over 70 percent of entities which can be classified as hard to tax entities. Since 2004 IS taxation was introduced, beginning with presumptive TOT on small and medium enterprises in 2004, a base tax on marketers in 2005 and advance income tax for cross border traders in 2007 (Nakamba-Kabaso & Phiri, 2012). Total revenue from the IS taxes as a proportion of total tax revenue has remained sluggish.

#### **3.5.5 Ceding Control to Local Government: Ethiopia and Cameroon.**

Bodin and Koukpaizan (2008) suggests that ceding control and responsibility of tax collection from the IS to local government as another way to improve IS taxation. Ethiopia followed this route. Regional governments rather than the federal government controlled small business taxation. Small businesses are subject to a presumptive tax on income and a 2% tax on turnover (Joshi et al., 2013:14, 2014). Such a move becomes beneficial in that local authorities will have a greater incentive to collect from the IS in order to mobilise resources. The relationship between local authorities and the IS place local authorities in a better position to bargain productively, tax collection will be closer to home and lastly it can create dialogue between the IS and local authorities (Bodin & Koukpaizan, 2008).

Cameroon has also considered ceding tax collection responsibility to local governments arguing that because of the limited revenue potential of this sector, national government has little interest in taxing it. The engagement between local authorities and the IS has brought about significant improvements in dialogue and taxpayer perceptions as they tend to perceive the system as fair and legitimate. Prichard (2010) documents the public engagement of the tax compliant informal firms in the 2005 elections in Ethiopia as one visible benefit. Despite the notable benefits, there are also a number of challenges associated with the system. Loeprick (2009) suggests that capacity constraints may cripple the efforts, there may be a risk of wasteful competition between local authorities and local government may be too aggressive, arbitrary and coercive in their tax practices hence increasing the vulnerability of the IS firms. Disconnecting local taxation from national taxation can come with its own problems such as accountability and complicating the transition of informal firms in to the formal system (Fjeldstad et al., 2009).

### **3.5.6 Auctioning Tax Collection Rights, Emphasising Transparency and Engagement: various countries.**

Privatisation of tax administration, with individual firms bidding for tax collection rights and retaining any additional revenue collected has been another policy option aimed at improving revenue mobilisation (Joshi et al., 2013:26-28, 2014). This system is poorly documented with notably experiences documented in Tanzania by Fjeldstad et al. (2009) and in Uganda by Iversen et al. (2006). These researchers concur that privatisation has resulted in greater and more predictable revenue collections. They are also quick to allude to resultant problems too for example, the price paid for collection rights by private tax collectors is far below the actual revenue potential, and this culminates into low government revenue and high profits for tax collectors (Joshi et al., 2013). In India, private tax collectors are said to be exploitative, over tax street vendors who are less educated and are clueless of their tax obligations and how these are calculated. Corruption and collusion between private tax collectors and municipal officers is said to exacerbate the vulnerability of the IS players (Iversen et al., 2006). Similar problems are being encountered in Nigeria (Africa Tax Spotlight, 2012).

Sierra Leone has sought to improve taxation of the IS by earmarking operating places for them and this has seen improved revenue collections as the players have become easy to access and monitor. Gambia through its Revenue Authority has improved transparency and interaction between the IS and tax administrators. This has been through improved customer handling, decentralisation of tax offices, tax clinics to assist with filing of returns and taxpayer seminars to educate taxpayers as well as foster dialogue between administrators and taxpayers. In a similar vein the Rwanda Revenue Authority (RRA) is seeking dialogue with associations of IS firms in order to improve communication and trust between the state and the IS (Joshi et al., 2014; Waris, 2013). Rwanda also made investments and efforts towards capacity building of tax collectors and taxpayers to address the skills gap in assessment and record keeping respectively. Appraisals are carried on to assess the effectiveness and adequacy of training programs. Stakeholder consultation was another initiative by RRA to foster dialogue between the government and the IS. Payment convenience and ease of doing business efforts saw the introduction of M-Payments, a mobile phone payments system for SMEs (Joshi et al., 2014; RRA, 2014). The authority made outreach programs to adequately address the skills gap and equip taxpayers on how to use the system. Hopefully, the strategy would reduce compliance costs and improve compliance levels.

### **3.5.7 South Africa's turnover tax (TOT)**

Introduced in 2009 in terms of the sixth Schedule of the Income Tax Act with the hope of lessening the administrative burden for micro businesses. Despite the system being less complex, it places administrative obligations on small businesses such as registration, interim payments and employers' responsibilities (Viviers & Groenewald, 2019).

### **3.6 Chapter Summary**

The size, magnitude and significant contribution to GDP of the IS in developing countries in general and SSA in particular implies that there is indeed room for governments to expand the tax base and revenue collection. Literature also proposes that in the long-term significant benefits in the form of economic growth, improved tax compliance and governance gains can be reaped from IS taxation (Section 3.2.3). Despite the existence of different tax regimes geared towards netting the IS such as TOT in Kenya, associational taxation in Ghana and presumptive tax in Zambia and other countries, most SMEs evade taxes due to capacity and implementation constraints bedevilling governments (Sections 3.5.1 to 3.5.6). Challenges range from limited government and local level administrative capacity, financial malfeasance and apathy towards paying taxes by the IS, high administrative costs and low revenue yields, lack of records, the invisible and fluid nature of IS as well as the diversity and heterogeneity of the sector. Thus largely tax evasion in the IS goes unchallenged (Section 3.3.1). This raises equity and efficiency concerns especially amongst the formal tax compliant firms who have to unfairly bear the burden of meeting revenue projections for the economy and shoulder high tax rates, thereby creating an uneven competing field. This challenges the canons of taxation (horizontal and vertical equity) as in this case taxation becomes systematically unfair and treats the citizens of the country differently. Such actions erode voluntary compliance and dampen the morale of tax compliant firms, leading to future tax evasions. On grounds of equity again imposing additional burdens (tax) on an already vulnerable group, violates the equity canon of taxation. It is also important to note that taxing the IS might either improve the growth of small firms through access to resources or impede their growth and risk reducing their dynamism by creating major obstacles such as high costs of registration and high tax rates. Conclusively, in order to make IS taxation a reality, minimise the challenges and to be able to reap the various gains proposed by tax scholars, developing country governments have to work hard to strengthen IS taxation. In the views of Heggstad et al. (2011:5), some of the challenges call for simplification of rules and tax procedures whereas others require long-term sustainable improvements. Legislative, technological and administrative reforms have to be considered and

implemented by developing country governments and SSA especially. Important to note is the fact that, these reforms have to be customised to suit each nation's political and socio economic environment.

This Chapter laid a foundation for this study by putting into perspective the current body of knowledge on the subject of IS taxation, drawing out the areas of convergence and those of divergence amongst scholars and researchers as well identifying the gaps in literature and policy. This was as guided by the three objectives that were the focus of this chapter, which were to explore the motives behind IS taxation, to explicate the challenges and benefits of IS taxation as well as to review efforts made by other developing countries in taxing the IS. The next chapter therefore contextualises this study by giving an overview of the IS in Zimbabwe, magnitude, its peculiarities and similarities when compared to other countries as well as its contribution to tax revenues. This is in line with Auriol and Walters (2005), who assert that the nature of the IS and its size is heterogeneous across continents and nations, hence tax policy recommendations must correspondingly endeavour to address contextual complexities in each given environment.

## CHAPTER 4: CONTEXTUAL LITERATURE ON INFORMAL SECTOR TAXATION IN ZIMBABWE

*“Between income taxes, employment taxes, capital gains taxes, estate taxes, corporate taxes, property taxes and security taxes, we are being taxed to death”- Chuck Norris*

### 4.1 Introduction

This chapter is a descriptive overview of the empirical context in Zimbabwe in which this study is located. This chapter is premised on the understanding that the contextual environment varies across nations in terms of the economic fundamentals, political environment and regulatory framework together with tax policy. The chapter provides the research context analysis by reviewing literature on the Zimbabwean economic, social, political and regulatory environment. The objective of the chapter is to contextualise the problem of informal sector (IS hereafter) taxation in the Zimbabwean perspective by exploring literature and evidence on the size, evolution, growth, structure, causes and characteristics of the informal sector in Zimbabwe, as well as how all this affects efforts towards taxing the sector. Contextualisation of the problem of IS taxation in Zimbabwe is fundamental to addressing the objectives of the study in Chapter One as it puts a platform upon which to evaluate the logic behind taxing the sector, effectiveness of the IS tax framework, the possible pros and cons of taxing this sector. This chapter also puts into perspective the works of other researchers on IS taxation in Zimbabwe in order to show how the current research fits into the body of knowledge which it is supposed to be part of (Potter 2002:119). According to Njaya (2015), the IS manifests itself in different ways in different countries and different regions. It encompasses different activities and is driven by various motivations that differ across regions and nations. The sector also differs according to various socio-demographic and socio-economic variables such as employment, age, gender, social status and income levels (Williams, 2019; Williams & Horodnic, 2016). There might be commonalities in the challenges faced towards taxing the IS, however solutions to the challenges vary across countries and should be customised to fit the local context (Heggstad et al., 2011:1; Benjamin et al., 2014). Accordingly Oviedo et al. (2009) propose that policy packages need to be adapted to the nature of informality in a country. In some countries regulatory reform might be more appropriate, while in others enforcement and administrative or tax reform might be in order, hence the need to contextualise the problem in developing country context such as Zimbabwe.



The first section of this chapter outlines the nature, size and growth of the informal sector in Zimbabwe, in order to show the magnitude of this sector as well as whether it warrants consideration for tax purposes (Section 4.2). The second section explores the drivers of informality in Zimbabwe as well as the role and importance of this sector; with the objective of evaluating the emergence and growth of this sector against the five schools of thought guiding this research (Section 4.3). These are the dualist view, the structuralist view, the legalist view, the illegalist view and the continuum view as outlined in Chapter Two. The aim is to argue which one/s are relevant in explaining the growth of the informal sector in Zimbabwe and motivations towards or against taxing the informal sector in Zimbabwe. A keen appreciation of the imperatives entailed by the different perspectives of the main protagonists is vital to reconciliation of any policy prescriptions towards the IS and its taxation. Section 4.4 discusses the contribution of the informal sector to livelihoods, employment creation and economic development in Zimbabwe, which is often a subject of controversy amongst researchers and policy makers. Section 4.5 describes the IS tax system or policy in Zimbabwe and how it is interlinked with the broader tax framework in the country. The objective of the section being to expound on the motivation for the introduction of IS taxation, how it has been implemented as well as laying a foundation to adequately inform the critical review (evaluation) of the performance of IS taxation in Zimbabwe. This will also aid in the investigation of the benefits and challenges in its implementation in the context of Zimbabwe as such investigation is vital if this study is to meaningfully recommend strategies to tax the informal sector effectively or improve the current IS taxation framework. The last section reviews literature and empirical evidence on IS taxation in Zimbabwe with the view of demonstrating where the current research fits into the body of knowledge on the subject as well as showing an understanding of what other researchers have done, their findings and conclusions. This will put into perspective gaps in knowledge, methodology and policy.

#### **4.2 Informal sector in Zimbabwe (nature, size and magnitude)**

Despite numerous studies having been done on the IS, its meaning and scope remain a matter of controversy and debate, as its magnitude, nature and composition vary between regions and countries (Dube & Casale, 2016:603). The consequence of these controversies and contradictions has been the need for a more contextualised understanding and research that recognises the informal sector can be burgeoning and growing rapidly in some countries and declining in some. The resultant effect is varying policy prescriptions. The IS in Zimbabwe has been growing rapidly in view of declining formal activities and has become the largest

employer. Economists peg Zimbabwe's informal sector at an astronomically high figure, contributing more than 61% of GDP (Bloch, 2013; Makochekanwa, 2020:22). When studying more than 158 economies around the world, Medina and Schneider (2018) conclude that Zimbabwe and Bolivia have the largest informal economies contributing 60.6% and 62.3% of GDP respectively. The Zimbabwe Economic Policy Analysis and Research Unit and Bankers Association of Zimbabwe (ZEPARU & BAZ) (2014) states that like many other countries in Africa, Zimbabwe's IS comprises of predominantly trade-related activities that account for 51.9%, whilst manufacturing and construction accounts for 16.7% and the remaining percentage being other services. In Zimbabwe the IS co-existed with the formal sector since time immemorial though at a very small scale up to the early 1990s (Dube & Sanderson, 2014; Ndiweni & Verhoeven, 2013; Njaya, 2015). Informal sector has been used to describe activities that escape the tax net, regulation as well as official measurement. Zimbabwe's IS activities include hair dressing, tailoring, wood and stone carving, welding, carpentry and other activities that require less capital and with marginal input such as construction, farming and manufacturing (Dube & Sanderson, 2014; Njaya, 2015). According to the ILO (1972:41), the IS activities are neither taxed nor monitored by regulators. Researchers have agreed on the characteristics of the IS activities to include low capital and labour, small scale operation, labour intensive, low technology, easy entry, high level of competition, limited capacity for accumulation, unreported and unrecorded revenues and unregulated activities (Dube, 2014; Dube & Casale, 2016). These activities include activities carried out by Micro, Small and Medium Enterprises together with those by cottage industries and hair salons. Estimating the size and trends of the IS in Zimbabwe, researchers have argued the sector grew by approximately 50 % after independence in 1980 to over 80 % in 2010 taking up to 60 % in GDP and 50 percent of total employment (Coltart, 2008; Dube, 2014; Mudamburi, 2012; Ndiweni & Verhoeven, 2013; Ngundu, 2012).

According to Coltart (2008), in 1980 approximately 10 % of the labour force was employed informally, by 1987 the figure had doubled to around 20% and almost tripled in 1991 to 27% and 40% in 2005 (an estimated 3 million out of about 11 million people in 2005). Concurring on the ballooning IS, Dekker (2009) adds that unemployment in Zimbabwe was estimated at 80% to 94% around 2007 to 2008 respectively. ZIMSTAT (2011) estimates that 88. 3% of the workers were employed informally and only 11. 7% were formally employed. Currently the Zimbabwean Economy is almost 90% informal activities. The RBZ (2015) estimated US\$

3.3billion to be circulating informally in the IS. Deducing from the arguments above the Zimbabwean economy appears to be highly informal.

Dalu et al. (2013) suggest that Zimbabwe's IS could be among the largest in Africa contributing 40% to 50% to GDP and with an estimated \$7 billion circulating in this sector between 2010 and 2014. ZIMSTAT (2015) estimated that between 2011 and 2014 the informal sector employment grew by a staggering 29% from 4.6 million people employed in the sector to \$5.9 million respectively. Another ZIMSTAT survey in 2015 showed the following:

**Table 4. 1: Informal employment statistics by sector**

| Details              | Statistics (number of people)                   |
|----------------------|-------------------------------------------------|
| Informally employed  | 94.5% (6.3m people) broken down as shown below: |
| Small holder farmers | 4.16m                                           |
| Trade and commerce   | 615 000                                         |
| Manufacturing        | 210 000                                         |
| Mining               | 70 000                                          |
| Education            | 118 000                                         |
| Transport            | 92 000                                          |

Source: ZIMSTAT (2014)

Citing a Finscope Micro, Small and Medium Enterprises (MSME) Survey (2012) which established that there were 3.5 million MSMEs with an estimated turnover of US\$7.4 billion or 63.5% of GDP and employed 5.7 million people in Zimbabwe, Ndiweni and Verhoeven (2013) indicate that the level of informality in Zimbabwe is undoubtedly high. The survey further broke down the 3.4 million businesses as follows:

**Table 4. 2: Breakdown of informal businesses in relation to number of employees**

| Percentage | Description                                |
|------------|--------------------------------------------|
| 71%        | Individual entrepreneurs with no employees |
| 24%        | Micro enterprises employing 1-5 people     |
| 4%         | Small enterprises with 6-40 employees      |
| 1%         | Medium enterprises with 40-75 employees    |

Source: Finscope MSME Survey (2012)

The survey found out that 85% of all MSMEs were not registered. Of the registered ones, 71% were registered with local authorities, 17% with the Registrar of Companies, 6% with the Registrar of Cooperatives and 7% with other institutions (Njaya, 2015). These figures reflect the magnitude of the IS in Zimbabwe and, solely basing on them, the implication is the need

for policy makers and revenue authorities to work tirelessly to bring the IS into the tax net. Dube (2014) posits that the IS in Zimbabwe is the most buoyant sector yet it contributes marginally to tax collection revenue.

#### **4.3 The growth of the IS and the drivers of Informality in Zimbabwe.**

It will be quite inadequate to argue the rationale, benefits and challenges of IS taxation without fully understanding the drivers of informality. The drivers of informality represent a topic of intense debate amongst researchers and policy makers, in relation to employment creation as well as fiscal and regulatory evasion (Bongwa, 2009). In order to strive to fully capture the IS into the tax base, possible policy options will be informed by its drivers. If restrictions to operating formal are the key driver then policies must hinge on alleviating the restrictions. If complexity of the tax system, high tax rates and multiplicity of taxes (Heggstad et al., 2011; Ligomeka, 2019:7-15; Meagher, 2016:5) are the major determinants of informality and obstacles to tax compliance forcing operators to evade tax and go deeper in the IS, then policy measures must accordingly address the tax structure (Bongwa, 2009). This section reviews literature on the drivers of informality in Zimbabwe as suggested by the few researchers that studied informality in Zimbabwe (Dube & Sanderson, 2014; Dube, 2014; Mbiriri, 2010; Muzenda, 2016; Ngundu, 2012; Njaya, 2015).

The informal sector in Zimbabwe accounts for almost 85% of the economy. The formal sector has dwindled as it has struggled over a decade due to withdrawal of investment, low investor confidence, rampant power cuts, acute shortages of raw material, lack of own currency, liquidity crunch, hyperinflation and the introduction of bond notes. The informal sector has grown at an alarming rate in Zimbabwe for the past 30 years, with estimates approximating a growth of 50% after independence in 1980 to over 80% in 2010 (Coltart, 2008; Njaya, 2015). Ndiweni and Verhoeven (2013) attribute the tremendous growth to changes in the socio-economic and political landscape. Concurring Dube and Casale (2016:612) assert that the political and economic crisis in Zimbabwe fuelled a large and growing IS. Saungweme (2013) gave the following trend in the country's industrial capacity utilization: 18.9% in 2009; 57% in 2011; 44.9% in 2012 and 39.6% in 2013, due to company closures. These company closures in Zimbabwe left a void that had to be filled by an estimated 3.5 million micro, small and medium enterprises (MSME), thus making them the anchors of future economic growth (Atowadi & Ojeka 2012b; Ocheni & Gemade, 2015; Ojeka, 2011; Ligomeka, 2019). Njaya (2015) attributes the growth of the IS in Zimbabwe to the Economic Structural Adjustment

Program (ESAP 1990-1995), price controls, war veteran pay outs in 1997, regulatory policies such as the Economic Empowerment and Indigenisation Act in 2010 (Chapter 14: 33), the fast track land reform programme in 2000, the economic meltdown in 2007 and massive retrenchments and company closures between 2011 and 2014.

Chigova (2014), suggests that the IS growth in Zimbabwe reached its zenith in 2008. He points out that tax revenue as a share of GDP declined from 28% in 1998 to 25% in 2000 before dropping dramatically to around 4% in 2008 because of the misguided economic policies, rural to urban migration, high unemployment and general economic meltdown. These factors pushed millions of Zimbabweans into the informal sector. The drivers will be reviewed individually below.

#### **4.3.1 Rural to urban migration**

According to Kanyenze (2011) and Kanyenze and Chitiyo (2004) rural to urban migration explains the growth of the informal sector in Zimbabwe. In this case the IS was viewed as marginal and peripheral and in no way linked to the modern capitalist development (Lewis, 1954; Harris & Todaro, 1970; Todaro & Smith, 2009). This school of thought views the sector as a buffer, which acts as a safety net in terms of a crisis, temporarily absorbing those rural to urban migrants awaiting to enter formal employment (Mbiriri, 2010). The sector will eventually disappear when once the migrants are fully absorbed in the formal sector. The IS was viewed as a temporary and disappearing phenomena. This might hold water for the early development of the IS in Zimbabwe soon after independence.

Kanyenze and Chitiyo (2004) allude to the fact that soon after independence; the removal of rural to urban migration restrictions had an effect on the growth of the IS. The urban population grew from 13% of total population in 1960 to 23% by 1980 creating a large pool of labour that could not be sponged by the formal sector hence the growth of the IS as these people turned to the IS for survival. Some of the migrants could not find employment in formal sector in the urban areas leading to the increase in the urban poor. Engaging in IS became a default survival strategy. The rural to urban migration can be used to explain the emergence of the IS around 1980, but the theory is not enough to explain the alarming growth, magnitude and size of the IS as it stands currently in Zimbabwe. The ubiquitous nature of the IS and the extent of its growth in Zimbabwe cannot be dismissed out of hand and hence it cannot be viewed as a purely transition and disappearing phenomena as proposed by the Todaro-Lewis model (Lewis, 1954; Harris & Todaro, 1970).

#### **4.3.2 Economic Structural Adjustment Program (ESAP 1990-1995)**

Researchers trace the fast and growing pace of the IS to around 1991, the year when the Economic Structural Adjustment Program (ESAP) was adopted (Coltart, 2008; Dube & Sanderson, 2014; Njaya, 2015). Dube (2014) describes this period as one that marked the beginning of an economic crisis in Zimbabwe as the economic restructuring led to massive deindustrialisation, company closures and increased informalisation of the economy signalling a decline in revenue collection by the government. Researchers paint a rosy picture of the Zimbabwean economy pre ESAP implementation arguing that between 1980 to 85 the Zimbabwean economy experienced a 26% growth in real terms, 4% growth in GDP between 1986 and 1990 and a 2.7% growth in employment in the same period (Kanyenze, 2011; Kanyenze & Chitiyo, 2004). Things changed after ESAP was implemented. Though the objectives of ESAP were to create employment, reduce government expenditure, increase exports and reduce budget the deficit, the program had disastrous effects. The standard of living deteriorated due to a decline in earnings by between 48%-62% in response to measures introduced by government to reduce expenditure. Mbiriri (2010) observes that despite the ESAP having been aimed at addressing falling revenues, declining productivity as well as curbing budget deficits the resultant outcome was purely the opposite as manufacturing output declined by 40% between 1991 and 1995 and inflation increased.

During the period of ESAP, Zimbabwe greatly de industrialised, the manufacturing sector that had previously contributed about 25% to GDP only accounted for 17% of GDP in 2000 as alluded to by Hawkins (2001:7) as cited by Dube (2014). Bond and Manyanya (2003) paint a gloomy picture of the effects of ESAP as they outline that 18 000 government jobs were abolished reducing the wage bill by 15.3% at the expense of quality standard of living for the people and the inflation allowance surpassed the targeted reduction of 10% as it ranged around 30%. In a similar vein, Lee and Vivarelli (2004) point to a direct relationship between ESAP and the growth of the IS. Ikiara and Ndung'u (1999) as cited by Verick (2006) provide evidence of such a relationship in Kenya where Structural Adjustment Policies (SAPs) saw a sharp increase in IS employment from 4% in 1970 to about 50% in 1994. According to Mbiriri (2010), the once steadily performing Zimbabwe in areas of education, industrialisation, and economic growth was on the verge of collapse around 1995 due to the effects of ESAP. Kanyenze (2011) states that there was a decline in the performance of Zimbabwean industries as they failed to compete and exports declined. This underperformance led to company closures

and retrenchments fuelling the growth of the previously dormant informal sector as people sought alternative ways of earning a survival income.

#### **4.3.3 War veterans' pay-out and the land reform program (1997-2005)**

Despite the fact that the economy was already ailing from the effects of ESAP, the government made pay-outs to war veterans, approximately US\$6000 (ZW\$50 000) upfront and ZW\$ 2000 per month. Such a move had far-reaching macro-economic implications (Njaya, 2015). The pay-outs increased the budget deficits and fuelled inflation. Despite the fact that the economy was already on the brink of collapse, in 2000 the government embarked on the fast track land reform programme (Dube, 2014; Kanyenze, 2011; Mbiriri, 2010). Mbiriri (2010) states that with the economic crisis, formal sector employment declined from a peak of 1241 500 in 1998 to 1012 900 amounting to a net loss of 228 600 representing an annual growth -5.0%. The fast track land reform destabilised agricultural activities and the sector as a whole, considering it was not planned and haphazardly implemented without consideration to the economy or even the thousands of workers that earned a living by working in these farms. This move also indirectly destroyed industries that depended on the agricultural sector for its raw materials and inputs. The land reform resulted in aid cutbacks and stringent borrowing measures on Zimbabwe by the international community. All these factors culminated in food shortages, cash shortages and hyperinflation (Coltart, 2008; Mbiriri, 2010; Njaya, 2015).

The informal sector took centre stage through its absorption of the jobless, retrenched, the displaced, unemployed graduates and the illiterate, becoming a source of livelihood for all of these people. CZI (2012) as cited by Muzenda (2016) allude to the fact that in 2000, 1.7 million people in Zimbabwe were involved in informal activities. The figures were further compounded by the fact that in the same year 9 684 people were retrenched and an additional 90 000 were rendered jobless in 2002. In also explaining the rapid growth of the 1S in Zimbabwe, Makumbe (2009:24) posits that between the years 2000-2007, 80% of manufacturing firms in Zimbabwe witnessed a decline in output volumes. Fifteen percent were operating below 30% capacity, another third between 30% and 50% and more than 90% were operating at a loss, failing to break even or cover their operating costs. Chirisa (2009:4) argues that the IS grew at an exponential rate during these years. The informal sector became the core of the country's economic activity. It became a means of survival for the majority of the country's population. Despite the IS having existed time immemorial in Zimbabwe, its growth gained momentum with the shrinking formal sector and increase in unemployment around the early 2000s.

#### **4.3.4 Regulatory regime**

Other than the rural-urban migration the IS was fuelled by over regulation and high taxes in the formal sector. In addition, an inefficient and corrupt system of enforcing taxes, also act as a catalyst to the growth of the IS. Williams et al. (2012) pointed to the influence of regulatory regimes as one of the major reasons explaining the emergence, expansion and existence of the IS in both developing and developed countries. The legalist perspective explains this school of thought.

According to Mbiriri (2010), while studying the IS in Zimbabwe, the perspective is of the view that government regulations are the key drivers of informality as they force SMEs to opt into the IS in order to avoid the burdensome and suffocating costs of regulation. De Soto (1989) popularised this school of thought stating that the IS was comprised of plucky micro entrepreneurs who choose to operate informally in order to avoid the costs, time and effort associated with operating formally. The school proposes that micro entrepreneurs will continue to operate informally as long as government regulations in the formal sector remain cumbersome and costly. The argument is that if taxes and regulations are too onerous and heavy, efforts to enforce them will merely drive businesses into hiding and into the informal sector, if not force them to close down. In the case of Zimbabwe the legalist view might hold water in trying to explain the growth of the IS as players in the IS exit the formal sector to escape the suffocating regulations. Kamete (2004), while studying the IS in Zimbabwe identified the issues to do with registration and payment of taxes as key in explaining the growth of the IS. Dube and Casale (2016) in a similar vein explain that small businesses in their early years may find it difficult to pay presumptive taxes as they do not realise substantial profits in the early stages.

Tax experts in Zimbabwe such as Tapera (2017) argue that tax and social security contribution burdens are the main drivers of informality in Zimbabwe. There is a strong influence of direct and indirect taxation of the IS. He attributes the driving force of the IS as the direct tax burden including social payments such as NSSA which in total amounts to almost 35% of income for companies (25% corporate tax, 3% Aids levy, 1% Industrial development levy and NSSA). African countries are said to be the most difficult ones to do business in because of stringent registration requirements, bureaucracies involved, high licences fees and an altogether cumbersome process (Benjamin & Mbaye, 2012; Pimhidzai & Fox, 2011:13), and Zimbabwe is no different (Mbiriri, 2010; Njaya, 2015).



In Zimbabwe tax and regulatory burdens, as well inefficiencies prevent businesses from formalising thereby pushing them into the IS. The school of thought is key in explaining the IS growth in Zimbabwe as it focuses on government policies because they are believed to have a direct impact on the growth and expansion of the sector. One such policy being the Indigenisation policy (Indigenisation and Empowerment Act, 2010), which required all foreign businesses to cede 51% to local ownership which made Zimbabwe more risky politically and this actually diminished investor confidence more (Njaya, 2015). This increased de-industrialisation and unemployment leading to growth of the IS. A paralysed formal sector pushed hordes of Zimbabweans into the IS to earn a living.

The illegalist view might also describe the IS in Zimbabwe, as in this case informality is viewed as tax evasion. The IS firms often operate informally to evade tax. To other researchers, the IS constitute a node of resistance and defiance against state domination by a sector which feels largely marginalised and rarely given an ear by policy makers (Zivanai et al., 2015).

#### **4.3.5 Linkages between the formal and informal sector**

The structuralist view argues that the linkages between the formal and IS explain the growth of the IS (Portes & Schauffler, 1993). In this case the IS and the formal sector are inextricably linked, connected and interdependent. The school of thought views the relationship from the perspective of buyer-supplier or employment angle. This relationship is seen as advantageous to the formal sector and the economy in that, the IS serves to reduce input and labour costs thereby increasing productivity and competitiveness of larger firms (Chen, 2012). Therefore, the nature of capitalist development accounts for the persistence and growth of the IS. The interdependence between these sectors is in a manner that leaves very little room for the dynamic expansion of small IS enterprises. In Zimbabwe these sectors have co-existed since time immemorial and during the times of economic meltdown in 2007/8, the formal sector was largely dependent on the IS for imported raw material or even foreign currency (Mbiriri, 2010; Ngundu, 2012). The formal and IS cannot exist in isolation despite the IS being precarious and semi-legal. Backward and forward linkages exist between these sectors in Zimbabwe.

Sometimes the IS has established relationships with large formal firms that engage them to actually sell merchandise on their behalf at a commission. This is because the IS sector is highly flexible as compared to the inflexible formal sector hence it is able to reach markets where the formal sector cannot and they can supply merchandise in smaller quantities. Sometimes the IS acted as subcontractors of the formal sector (Njaya, 2015).

#### **4.3.6 Unemployment and the need for survival**

Factors that have been directly linked to driving the growth of informality include loss of employment, low capital outlays, supplementing low incomes and simply earning a living in the absence of alternatives (Williams et al., 2012). This is in line with the dualist view which views informality as a purely survivalist strategy and a safety net for the poor. It is where the marginalised and disadvantaged members of society earn a living (Sabot, 1973). According to Njaya (2015), in the least developed countries people are likely to engage in the IS due to lack of government support or as a protest against government whose role has little relevance to their lives. The researcher also adds that the IS expansion in Zimbabwe was more pronounced in times of economic downturns (especially from 2008 to date) as the economy de-industrialised and unemployment increased, because of its survivalist nature. Ngundu (2012) and Ndiweni and Verhoeven (2013) argue that the lack of viable alternatives, hence survivalist motivations, compel many to engage in the IS in Zimbabwe in spite of the challenges that affect this sector. Participants in the IS in Zimbabwe in particular and in general the world over, are vulnerable and characterised by the absence of official protection and recognition, non-coverage by minimum wage legislation, absence of trade union, low incomes and wages, little job security and no fringe benefits. Despite participants in this sector being highly vulnerable, the IS expanded and continues to expand in Zimbabwe due to high unemployment levels, high retrenchments as well as company closures. The IS once derided as an exclusive presence for the less skilled and illiterate with no prospects of joining the formal sector, has become a life line for a growing number of Zimbabweans, from retrenched professionals and highly skilled workers to retirees and others entering the job market for the first time (Mbiriri, 2010).

A ZIMSTAT (2015) report exhibits that 248 000 people were formally retrenched in the 7 years to 2011 (approximately 35 400/ year). The retrenchment figure was estimated at around 227 000 people over the period 2011- 2014 (approximately 75 600/year). All these people were released into the IS. Dube (2014), on his study of the IS in Zimbabwe argues that the IS sector in Zimbabwe is dynamic and capable of achieving high levels of productivity contrary to the claims that it is purely a survivalist strategy with low productivity. This suggests that the IS in Zimbabwe is increasingly accommodating even the better educated and skilled labour force who are not only forced to venture into self-employment due to retrenchments and company closures, but some of them enter the sector voluntarily.

The informal sector in Zimbabwe can be viewed in two lenses, as a residual, less advantaged sector joined in search of survival and as a choice (voluntary entrepreneurial sector) joined due

to greater independence, flexibility and high incomes respectively (Maloney, 2004; Pimhidzai & Fox, 2011:4). Evidence for the former view was first exhibited by Brand (1986), while studying the IS in Mbare (in Harare, Zimbabwe) where he found out that poverty and the need to survive or even to make supplementary income explained the existence of the IS. The study pointed to retrenchment and low wages in the formal sector as some of the reasons too. The survivalist view is supported by Njaya (2015) who established that the majority of his respondents in a study of the IS in Zimbabwe were willing to go back to formal employment if given a chance arguing that IS incomes were uncertain, highly irregular, small and insecure. 34.6% of his respondents earned more than US\$250 per month, while more than 87% of the workers did not receive a regular or full-time wage. This is in line with the dualist school of thought which sees the growth of the IS as being motivated by purely survival strategies. Others contradict this view by giving evidence for motives other than survivalist (Maloney, 2004). Haan (2006) and Fox and Gaal (2008) argue that the image of the IS has evolved over time and changed as the dynamic business environment as well as the educational landscape evolved too. The previously dominant view of the IS as a safety net for the poor and less educated is no longer entirely adequate to describe the sector, the IS has become a preferred destination for the highly educated and skilled other than a temporary stop described by the ILO (1972). Accordingly, tax policy must evolve to broaden the tax base by capturing this new breed of entrepreneurs.

In Zimbabwe, just like in other low income countries where the IS takes up a wider share of the economy, current trends show that professionals like accountants, doctors, engineers, lawyers and economists are also operating informally. The informal sector incomes for some players in Zimbabwe are estimated to range as high as between \$1000 to \$24 000 per month which is way ahead of the formal sector salaries and above the tax-free bracket of \$300 (ZEPARU & BAZ, 2014). This therefore points to the fact that the survivalist motive cannot fully explain the IS in Zimbabwe, and maybe the continuum school of thought (Fajnzylber et al., 2009; Maloney, 2004), may fully address the drivers of IS in this country. The school argues that within the IS there are two different kinds of players: those that are in the sector because they have no choice but to find ways of surviving and those that are there out of their own free will because of the high income potential and flexibility that comes with operating in the sector.

Francis (2019) points to a trend of people with higher levels of education entering the IS in Zimbabwe as a career choice. It would therefore, be more prudent to view the IS in Zimbabwe as a coexistence of smaller, self-employment and household firms which are in the sector for

survival reasons and of larger, more successful profitable firms who are in the IS to avoid a relationship with the state so as to escape taxation. Similar views were shared by Benjamin & Mbaye (2012); Maloney (2004); Perry et al (2007) and Benjamin et al. (2014) in relation to the IS in other developing countries. Benjamin and Mbaye (2012) document the existence of such a relationship in West Africa.

#### **4.4 The role played by the IS in Zimbabwe**

Contrary to the economic situation in developed countries where the formal sector is the backbone of the economy, in developing countries especially African countries the formal sector plays a limited role and is confined to cities and towns. In the developing countries the majority of the population is rural based hence they depend solely on the IS (Haan, 2006; Fox & Gaal, 2008). The magnitude of the IS in these developing countries is therefore not surprising at all as it is bound to be huge. Schneider and Enste (2000) allude to the fact that in these developing countries, the IS sector is the largest employer and plays an important role in GDP, approximately contributing more than 60% in these developing countries and about 10% in the UK. Zimbabwe is no exception to a large and continuously ballooning IS, Schneider and Bajada (2005) estimated that the size of the IS in Zimbabwe was 59.4% of GDP in 2004. In recognition of the perpetual growth, prevalence and the permanent nature of the IS phenomenon, researchers and policy makers are forced to take a closer look at the value, importance and contribution of this sector to economies especially in developing country context like Zimbabwe. Failure to acknowledge the contribution of the IS to socio economic growth, revenue mobilisation and in other areas would result in misdirected and misguided macro-economic policies.

Muzenda (2016) investigating whether the IS can be used as an engine for sustainable development in Zimbabwe, states that the renewed interest in studying the IS, its impact and contribution to the economy and society in developing countries is key in policy design, fiscal space widening and implementation in these countries. This is because the sector constitutes a very significant part of the countries' macroeconomic environment. In the same line of thought ZEPARU and BAZ (2014) contend that the Zimbabwean economy has undergone a structural transformation in the past decade that saw the IS occupying a prominent position in the economy. This transformation implies that traditional business models and economic policies need to be revamped in order to adopt new mechanisms that are best able to recognise the

importance of the IS in economic growth and development, job creation, GDP, taxation and poverty alleviation. In light of this, the section explores the contribution of the IS in Zimbabwe.

#### **4.4.1 Employment creation**

There has been no consensus on the contribution of the IS to the economy. Controversies and contradictions have emerged especially on the sector's potential contribution towards development, poverty reduction, employment creation and above all tax revenue (IMF, 2011). Chen (2012) approximates informal employment in Sub Saharan Africa (SSA hereafter) at 72% excluding the agricultural sector. Adom and Williams (2014) observe that in Ghana the main source of employment is the IS, estimating that as of the year 2000, the IS provided for about 6.7 million jobs in that country. In Uganda, Fox and Pimhidzai (2011) as well as Pimhidzai and Fox (2011:2) argue that the IS should be appreciated as an important source of livelihood, accounting for an increasing share of employment and output in SSA and Uganda estimating the growth of the sector in Uganda at an annual rate of 8% between 1999 and 2005/6. The researchers point that during the same period they were 2.7 million informal non- farm household enterprises in that country. The case is similar in Zimbabwe to the other African countries mentioned, as without doubt arguably the IS plays a crucial role in employment creation. It is the largest employer in the country (Dube & Sanderson, 2014; Dube, 2014; Muzenda, 2016; Njaya, 2015). The IS acts as a safety net for the thousands of retrenched Zimbabweans both skilled and unskilled. This is evidenced by the burgeoning IS during ESAP, the land reform programme, the Indigenisation and Economic Empowerment Act and ultimately in times of economic meltdown in Zimbabwe (Coltart, 2008). This was because the formal business had been highly crippled during this time due to poor economic growth rates, inadequate capital and shortage of foreign direct investment (between 1980 and 2013, Zimbabwe received US\$1.7 billion in FDI compared to its counter parts such as Mozambique and Zambia whose FDI receipts were pegged at US\$15.8billion and US\$7.7billion respectively as cited by Njaya (2015). In Zimbabwe, almost 90% of the population is informally employed. The informal sector absorbs vulnerable groups such as women and approximately 85% of informal traders in Zimbabwe are women (Benjamin et al, 2014). ZIMSTAT (2014) found that 2.8 million small businesses created 5.7 million jobs and medium sized businesses created 2.9 million jobs.

Despite the sector playing such a tremendous role in employment creation, there has been no consensus amongst researchers about the role of the IS in stimulating broader economic development (Ndiweni & Verhoeven, 2013). Others relegate the IS to low productivity

employment, survivalist strategies with little contribution to economic development (Ebeke & Ehrhart, 2012; Hart, 1973) and others upgrade it to a true contributor to unemployment reduction and creation (Pimhidzai & Fox, 2011:2). In Zimbabwe researchers on informality agree on two important facts and these are: (1) the IS employment is characterised by indecent work at times, unsafe and precarious work, lack of regulation and social security, irregular incomes which are low and lack of legal and regulatory protection for both workers and owners. (2) The recognition that despite the vulnerability of the sector, it indeed employs the majority of the Zimbabwean populace and requires due recognition by government. As such, policy makers need to view it with non- antagonistic lens (Dube & Sanderson, 2014; Dube, 2014; Mbiriri, 2010; Muzenda, 2016). Jobs in Zimbabwe's formal sector have been exhibiting a negative economic growth whereas those in the IS have shown a positive economic growth. Government and policy makers need to accept the meaningful contribution that this sector makes to employment creation and help nurture the sector in order to help it contribute more, to economic growth and development as well as to tax revenue mobilisation.

Mbiriri (2010), brings out yet another interesting angle on the IS and employment literature that despite the IS having a low resource base, being labour intensive and using adapted technology, with experience over time, the sector enterprises and individuals in the sector are likely to expand, employ and train more people. Adom and Williams (2014) further buttress this point by alluding to the fact that the IS contributes greatly in training of the labour force in the acquisition of artisanal skills (traditional apprenticeship system), laying an indigenous base as a foundation for industrialisation. Haan (2006) contends that about half of the IS workers in Kenya, Senegal, Tanzania, Zambia and Zimbabwe have either no education or primary education and at times only 5% have tertiary education. Therefore, most of these people do not meet entry requirements into colleges and universities hence it is nearly impossible to get formal training creating a skills gap that is filled by the IS. Sometimes also formal training in colleges is said to be too theoretical focused, lacking sufficient opportunities for practice, too rigid and standardised to meet multi skilling needs of the business environment and such shortcomings are addressed by the IS (Haan, 2006; Fox & Gaal, 2008). Traditional apprentice is undoubtedly a great component of skills transfer and development in Zimbabwe.

The IS also at times increases the pace of innovation as in some cases small innovative companies are purchased by large companies who take advantage and invest on the innovations, produce and market the products. There is no doubt that the IS in developing

countries, in Africa, SSA and Zimbabwe in particular contributes immensely to production, consumption and employment creation as well as income generation.

In addition, it is a source of survival and a safety net for the poor and the unskilled in countries where formal jobs are scarce or formal sector growth is stagnant. Haan (2006) studying the contribution of the IS to employment creation in SSA provides evidence in Kenya, Zimbabwe and Tanzania that a large number of the youths acquire skills in the IS under the guidance of the master. In Kenya, 40-60% of youths acquire their skills through traditional apprenticeship. Therefore there is no denying that the IS alleviates poverty and the suffering of many, ultimately contributing to growth and development.

#### **4.4.2 Poverty Alleviation**

Pimhidzai and Fox (2011:2) lament the ambivalent attitude displayed by governments in SSA and the body of literature on employment and economic development towards the IS. The researchers argue that the role played by this sector towards economic development and poverty reduction is often overlooked. Providing evidence in Uganda, they show that the sector is an indispensable part of people's livelihoods and a major driver for poverty reduction (Fox & Pimhidzai, 2011). In Zimbabwe, just like the rest of SSA, poverty is a serious challenge. The Zimbabwean population poverty was compounded by declining living conditions, chronic shortages of goods and cash, hyperinflation as well as high unemployment. According to Mbiriri (2010), a 2003 Poverty Assessment Study Survey showed that 72% of the population was living below the Total Consumption Poverty Line (TCPL) compared to 55% in 1995. The relationship between the IS growth and poverty reduction is mixed and contradictory (Klapper et al., 2007; Mbiriri, 2010).

While scholars like Pimhidzai and Fox (2011:2) posit that the IS has become an integral component of the economies in developing countries and SSA by reducing poverty, others argue that the IS traps its actors in poverty. The latter argument is built on the very characteristics of the IS that is low quality employment, poor working conditions and low wages as well as lack of social protection. Proponents of this view argue that based on these, the IS accentuates poverty contrary to reducing it. They state that working in the IS means poverty. The earnings for small companies operating in the IS are often very low as compared to those of the big formal firms hence the small firms are often referred to as the "working poor" (Haan, 2006). Contrary to the latter view, the former view upholds the significant role played by the IS in poverty reduction. In Zimbabwe the IS has become strategic as it undeniably

enabled the country to survive the worst economic crises in history by providing a source of livelihood to the majority of the population (Mbiriri, 2010; Muzenda, 2016; Ndiweni & Verhoeven, 2013; Ngundu, 2012). Mbiriri (2010), specifically alludes to the cross border trade as one key activity of the IS that played a great role in moderating economic hardships, reducing poverty and enhancing human development in the country. One wonders what the situation in Zimbabwe would have been like in the absence of the IS, with the rate of unemployment of between 80%- 94%. According to Muzenda (2016), the majority of the population would have lived in abject poverty. Ncube (2013) concurs that the IS can be successfully used as a tool for poverty reduction as well as one to foster economic growth and development. Fox and Gaal (2008) allude to the fact that countries with a significant portion of the households operating in the IS have lower rates of poverty.

Mbiriri (2010) interestingly explains the role played by the IS in Zimbabwe by arguing that the sector provides a number of critical and social benefits that accrue simultaneously and buttress the operations of the formal sector. These are summarised as follows: minimisation of operating costs through outsourcing from the IS sector by formal firms (leads to employment creation), training (traditional apprenticeship leads to skills transfer and innovation) and economic buffering (safety net for the poor and illiterate hence reducing poverty) (Mbiriri, 2010). It can therefore, be said to be playing an important role in poverty reduction in Zimbabwe and contributing towards more than 60% of GDP (Bhorat et al., 2017; Medina & Schneider, 2018).

#### **4.4.3 Contribution to national output and GDP**

The IS activities are often unrecorded, unaccounted for and statistically difficult to verify, making it challenging to fully include the sector into the national accounts. Dube and Sanderson (2014) state that Africa's untaxed or under taxed IS represented 43% of the GDP in 2002-3. The significance of the IS activities in GDP and national output has been documented by researchers in both developed and developing countries (Dube & Sanderson, 2014; Fjeldstad et al., 2009; Joshi & Ayee, 2002; Joshi et al., 2014; Nakamba-Kabaso & Phiri, 2012; Ncube, 2013; Pimhidzai & Fox, 2011:2). Nakamba-Kabaso and Phiri (2012) tabulated and ranked IS contribution in selected African countries as portrayed in Table3



**Table 4. 3: Informal sector contribution to GDP rankings in selected African economies**

| Ranking                           | Country      | % GDP |
|-----------------------------------|--------------|-------|
| Top three largest informal sector | Zimbabwe     | 63.2% |
|                                   | Tanzania     | 60.2% |
|                                   | Nigeria      | 59.4% |
| Fourth ranked                     | Zambia       | 50.8% |
| Bottom three smallest IS          | Namibia      | 33.4% |
|                                   | Lesotho      | 33.3% |
|                                   | South Africa | 29.5% |
| Average for 37 countries          |              | 43.2% |

Source: Nakamba-Kabaso and Phiri (2012) and Medina and Schneider (2018).

The IS contributes immensely to Zimbabwe's GDP as shown on the above table. In addition, IS produces various goods and services that are added up to the national output. Ndiweni and Verhoeven (2013) assert that the IS creates value in Zimbabwe by providing products and services to a market to meet unsatisfied demand and through their ability to creatively respond to challenges and needs. This ensures the IS provides competition and increase product supply, thereby generating economic growth. Saunyama (2014) observes that the flexibility and malleability of the IS traders enables them to be more responsive to clientele needs hence filling the gap that the inflexibility of the formal sector creates in the supply chain.

SMEs are regarded as engines of economic growth and vehicles of employment for both developed and developing economies (Chinomona & Pretorius 2011). Eniola and Ektebang (2014) who argue that SMEs have a prodigious potential for sustainable development further support this view. Chigova (2014) states that the IS has led to increased domestic investment in Zimbabwe in the face of declining foreign direct investments. The increased incomes as well as economic activities has seen the IS firms and individuals accumulating savings which has enabled continued investing and reinvesting. As such, the IS contributes significantly to Zimbabwe's GDP. One major social contribution is that the IS keeps the majority of the population occupied and economically empowered hence the reduced crime levels in the country. The SMEs also serve as breeding ground for entrepreneurs and providers of employment in Zimbabwe.

#### **4.4.4 Linkages between the IS and the Formal sector**

The structuralist view suggests linkages and synergies between the formal and the IS. This indicates that some incomes earned in the IS are spent in the formal sector and vice versa (Nakamba-Kabaso & Phiri, 2012). According to Dube (2014), there are linkages between the IS and the formal sector in Zimbabwe, the IS contributes to the revenue flows of both local and national treasury through supplying inputs to the formal sector. This trade relationship allows the formal sector to increase production and resultantly profits as well as the amount of corporate tax, VAT and PAYE among other taxes paid by the corporate world (Mbiriri, 2010; Njaya, 2015). Viewed from the other side of the coin, the IS purchases goods and services from the formal sector thus stimulating demand, increasing production and consumption and ultimately economic activity if not growth. The IS also employs a significant number of people who are supporting the majority of the households in the country, their purchasing activities of various households and significantly contribute to productivity, economic growth and revenue mobilisation. During the times of economic distress and liquidity challenges in Zimbabwe the IS provides a source of raw materials and many other products that the formal sector cannot source due to foreign currency shortages (Mawowa & Matongo, 2010; Mbiriri, 2010). The IS because of its flexibility is able to access foreign currency from the parallel market. Chirisa (2009) states that the role of the IS in Zimbabwe is often overlooked and underestimated as it lacks official recognition and support, despite this sector having saved the country from complete economic collapse and devastation. Mbiriri (2010), on the same note adds that between 2000 and 2008, the IS was an instrumental tool in providing basic needs of millions of Zimbabweans and inputs for a number of companies in the formal sector. This sector is without doubt an important part of Zimbabwe's macroeconomic environment, essentially acting as a buffer, a mechanism for poverty alleviation and a platform for employment creation.

#### **4.4.5 Revenue collection**

This is a controversial area that has been a subject of debate by various researchers who studied the relationship between the IS and revenue collection especially tax, without reaching a consensus (Fjeldstad et al., 2009; Joshi & Ayee, 2008; Joshi et al., 2013, 2014:2325; Makochekanwa, 2020; Meagher, 2016 ;Ligomeka, 2019; Perry et al., 2007), just to mention but a few. Controversy surrounds whether the IS contributes anything at all to the fiscus and if it does, how meaningful is that contribution in relation to the magnitude of the sector in a country like Zimbabwe? Does the sector's contribution match the size of the sector? Proponents of collecting more revenue from the sector argue that the sector's contribution to revenue collection is marginally low and label the players in this sector tax evaders (Benjamin et al.,

2014; Benjamin & Mbaye, 2012; Olken & Singhal, 2011). On the other hand, opponents to taxation of the IS believe that the sector contributes to revenue collection and have given evidence of the sector's contribution to revenue collection through its linkages with the formal sector, production of affordable goods and services, payment of taxes and licences to local authorities and providing employment (Fox & Pimhidzai, 2011; Meagher, 2016:5; Muzenda, 2016; Pimhidzai & Fox, 2011:2, 13-14). The debate on how best to mobilise revenue from the IS remains topical. Currently, Zimbabwe is not meeting its revenue target. From January to October 2016, the revenue collected was US\$2.876 billion against a target of US\$3.84 billion (ZIMRA, 2017). This subject of controversy will be better reviewed in relation to Zimbabwe in terms of the rationale for taxing the sector, implementation of such a system and the contribution of the sector to revenue collection. Such review is as outlined in section 4.5 below.

#### **4.5 Taxation and the IS in Zimbabwe**

Taxation is an old practice that remains critical in government operations. It is one of the main tools to raise revenue from domestic sources (Makoche Kanwa, 2020:20; Sebele-Mpofu & Msipa, 2020; Meagher, 2016). It is the biggest source of long-term finance for sustainable development. According to Sebele-Mpofu and Msipa (2020) and Pfister (2009), tax is not only a predictable and reliable route to revenue generation, it is also a highly effective fiscal tenet for any government to achieve economic growth and poverty alleviation. Taxation enables government more policy space and capacity to be responsive and accountable to national objectives. Domestic revenues such as tax are locally controlled, stable and predictable thereby allowing fiscal planning (Zimbabwe Coalition of Debt and Development (ZIMCOD), 2014). Di John (2009) views taxation as a tool for state building, governance and redistributive justice. Currently the major sources of revenue for the Zimbabwean government such as VAT, PAYE and Corporate Tax are performing below expectations. According to Muzenda (2016), low incomes, a large IS, poor tax administration and low productivity in companies has resulted in the formal sector being burdened through various taxes. Therefore the Zimbabwean government has been forced to turn its focus to the IS in its quest to mobilise revenue in the face of traditionally high performing tax heads dwindling.

Literature indicates that there is a strong relationship between the IS and government's inability to collect adequate tax revenue. The sheer size of the IS in Zimbabwe (almost 90% of economic activity to be precise) can be argued to translate to reduced state revenues which in turn can lead to reduced quality and quantity of public goods and services (Sikwila et al,

2016:80; Dalu et al, 2013; Ligomeka, 2019; Newman, 2019:2). The concept of IS taxation is often fraught with confusion, possibly because the IS itself is a contested construct and the fact that IS taxation can refer to quite different practices in tax policy (Dube & Casale, 2016; Meagher, 2016:3; Pimhidzai & Fox, 2011). Zimbabwe introduced presumptive tax in 2005, it was further enforced in 2009 and in 2011 (presumptive tax will be fully discussed in the section below).

The Zimbabwe Revenue Authority (ZIMRA), intensified efforts to collect taxes from the IS as it desperately seeks to shore up state coffers. The IS sector has grown tremendously over the years, the epic being around 2000-2008, in order to absorb the retrenched and unemployed part of the population (Utaumire et al., 2013; Mbiriri, 2010; Nyamwanza et al., 2014). The Zimbabwean government has been trying to tax the IS who includes traders and manufacturers of assortment of household and industrial products. ZIMRA widened the target population of the IS to include hair salons, omnibus operators, airtime vendors, driving schools and tobacco farmers (ZIMRA, 2017). Tax experts concur on the potential of the move in order to improve revenue mobilisation but agree that the implementation will prove/proves to be a challenging. Taxing the sector is a difficult, complex and intricate task considering the failure to maintain records by players in this sector and the mobile nature of the players as they have no fixed place of operation (Dube, 2014; Joshi et al., 2014; Masarirambi, 2013; Utaumire et al., 2013; Thomas, 2013). Tax is an information game, without which it becomes difficult to estimate and levy it (Mpapale, 2014:11). Practicability of taxing the IS proves to be a challenge to Zimbabwe and other developing countries due to the heterogeneous nature of the IS and the fact that it is spread far and wide, mostly small and unregistered operators (Dube & Casale, 2016). To document the IS firms and tax properly could be a challenge if doable at all for ZIMRA.

Utaumire et al. (2013) assert that those that are involved in illegal operation shy away from registering and for the legal ones, profit margins are very small; hence the propensity to evade tax is high. Compliance levels are generally low in this sector, the IS in Zimbabwe is generally estimated to contribute about 3% of total revenue. Dube and Casale (2019:58) submits that presumptive tax collections in Zimbabwe were around USD 1.39 million in 2009 and increased to USD 13.3 million in 2011, which could be misconceived to signify formidable growth. This just implies 0.14% and 0.45% of total revenue. This is just consequently measly when compared to the sheer size of the IS. Given this conundrum, where ZIMRA needs to increase revenues to meet government expenditure in an economy dominated by the informal sector, is there a practicable way out?

#### **4.5.1 Rationale for taxing the IS in Zimbabwe**

As earlier alluded to, the Zimbabwean economy is highly informalised and revenues continue to dwindle as they are eroded by the shrinking formal sector, which has been negatively affected by the continuous company closures and the resultant job losses (Muzenda, 2016; Ngundu, 2012). Government needs to interrogate its revenue mobilisation plan carefully. Economists argue that the IS players show no willingness to pay taxes yet government is failing to mobilise enough revenue to sustain the current expenditure as shown by the recurrent budget deficits. ZIMRA missed its annual projected tax collection targets by 6% in 2013 and 2014 and by 7% in 2015, resulting in deficits of US\$100million, US\$150million and US\$250million respectively (ZIMRA, 2015). Under the current circumstances, ZIMRA has to look elsewhere for more revenue or government has to control its expenditure as most companies have closed down due to a number of earlier mentioned challenges, some of which include liquidity constraints, antiquated equipment and insufficient credit lines. The remaining operational companies are themselves ailing, either on the verge of collapse or have completely closed down rendering thousands of employees jobless and hence reducing both income tax and corporate tax (Munjezi, 2017; Ndiweni & Verhoeven, 2013; Dalu et al, 2013). This resultant reduction has an adverse effect on revenue collection. To sum it up renowned Zimbabwe Tax expert, Tapera (2017) observes that the Zimbabwean economy has many companies closing down, meaning the government is not getting as much revenue as it should from the formal sector hence the need to tax the IS. To further increase the tax on the formal sector would be burdensome on the remaining companies. He further alludes to the fact that employment levels have gone down further reducing income tax and the Statutory Instrument 64 of 2016 prohibiting the importation of certain products has seen customs duty decreasing, leaving VAT as the only stable revenue stream.

The introduction of the bond notes has further compounded the reduction of customs duty as it has now become difficult for both individuals and companies to access foreign currency to import (Tapera, 2017). The number of people purchasing used Japanese vehicles has greatly reduced implying a reduction in customs duty and VAT on these imports. Government is therefore compelled to review the tax system in order to effectively bring the enormous IS into the tax net.

The magnitude of the IS motivates the need to tax this sector in Zimbabwe. Unemployment in this country is high and estimated in the region of 90%, the bulk of Zimbabweans are in the IS and do not pay taxes as they are not properly registered (Utaumire et al, 2013; Makochehanwa,

2020). The need to tax the IS also comes against the background of the Finscope MSME Survey (2012), that revealed that 65% of the MSMEs in the sector generated close to \$7.4 billion in 2012. Considering that an estimated US\$7.4 billion is said to be circulating in the IS, if these figures are anything to go by, they serve to explain that with such abnormally high sums exchanging hands outside the formal system (ZIMCOD, 2014), the result is surely a cocktail of economic doom for Zimbabwe. Tax on this figure could go a long way to finance the \$4 billion 2016 National Budget and to contribute to the economic blue print (ZIMCOD, 2014). Taxing the blooming IS to stimulate and sustain economic growth becomes imperative. If the IS remains untaxed, the nation will continue to lose millions in terms of tax revenue. The report also established that more than 5 million people are employed informally and argued that if all employees were to contribute an average of US\$5 in PAYE per month, the fiscus would be US\$25 million richer every month (Finscope MSME Survey Report, 2012). Researchers have argued that the sector contributes very little to the fiscal revenue leaving the governments with very little amounts to finance public infrastructure and other expenditures (Dube, 2014; Utaumire et al. 2013; Muzenda, 2016).

Formalisation of the IS would significantly improve revenue inflows through taxation in the form of PAYE, import duty, property fees and other forms of taxes. Government has to design a working strategy to ensure the informal sector is formalised and its tax potential tapped. Dube and Sanderson (2014) are not so keen on the formalisation of the IS. The researchers argue that policies that try to formalise the IS by collecting taxes or forcing them to register have been found to have a negative impact on the IS in Zimbabwe. They actually borrow from Blunch et al, (2001) who pointed out that policies that have attempted to formalise the IS have failed because they fail to recognise that informalisation is part of economic development. Why not let the companies remain informal and tax them as they are. Similarly, Rogan (2019) suggests that governments should tax the IS firms in their current status without running the risk of asphyxiating them through formalisation rules and regulations.

The argument that the IS contributes very little to the nations' revenue basket has been met with mixed feelings. Tax experts have argued that tax authorities in Zimbabwe often ignore the fact that the sector contributes through VAT (Dube, 2014; Thomas, 2013). The IS in Zimbabwe employs a significant number of people in Zimbabwe who are supporting the majority of households in the country, their purchasing activities of various household goods and capital goods significantly contribute to VAT. In addition, through linkages between the formal and IS contributes to the revenues flows of the treasury. The formal sector sources its inputs from

the IS which allows them to increase their production and indirectly increase the amount of tax in the form of corporate tax, income tax on employment collected through the PAYE system, VAT among other taxes. Viewed from the other side, the IS purchases goods and services from the formal sector where they also pay VAT or the formal sector accordingly withholds 10% (withholding tax) of any amounts exceeding \$250 paid to a non-registered operator as prescribed in the Income Tax Act in Zimbabwe (23:06), Section 80.

#### **4.5.1.1 Equity and Efficiency considerations**

ZEPARU & BAZ (2014), state that despite the overwhelming growth of the IS, it remains untaxed and unbanked in Zimbabwe with only 23.8% of the players with bank accounts. The research unit estimates the IS revenues to range between \$120 and \$24 000 per month way above the salaries of formal employees. Substantial revenue is lost in the form of PAYE or corporate tax from the untapped IS. To emphasise the fact that the tax potential of the IS remains under tapped or untapped, Zivanai et al (2015) state that contribution of the IS to tax revenue does not reflect the sector's enormous contribution to GDP. For example, in 2011 presumptive tax revenues were a measly 3% as a percentage of total tax revenues against estimated GDP contribution of 60% by the IS. Zimbabwe needs to seriously reconsider and re-examine its policy of taxing the IS, address the challenges of taxing and regulating the IS as the repercussions of letting it slip through the tax net are threatening the survival and growth of the economy. Not taxing the IS in Zimbabwe violates the canons of taxation considering the magnitude of the revenues in the sector. The canon of equity is violated as earlier explained in Chapter Three. The tax burden is unevenly distributed, with the formal sector bearing a heavy tax burden. The heavily burdened formal sector may eventually shy away from tax hence an increase in tax evasion. If tax justice is to prevail in Zimbabwe, Zimbabwe like its counterparts, Zambia, Tanzania and Kenya must find ways of fully incorporating the IS into the country's tax net. Researchers such as Tapera (2017) and Sebele-Mpofu and Msipa (2020:205) argue that in Zimbabwe the IS players are saddled with VAT, import duty, council levies and a plethora of other taxes such as WHT. The single-minded focus to collect more taxes from this sector and continuous argument that they are responsible for the state's diminishing revenue is an unfortunate analysis. Dube (2014) establishes that taxation of the IS in Zimbabwe especially presumptive tax violates the canons of equity as the tax rates are too high citing a mismatch between IS revenues and the amounts charged monthly or quarterly as tax.

Researchers and economists in Zimbabwe have been sceptical about taxing the sector, arguing against such a move. They argue that despite the idea of fully enforcing presumptive tax in

Zimbabwe sounding good and promising, the government should proceed with caution as the Zimbabwean economic crisis is multi-faceted and it stems from various policy mistakes and inconsistencies that have left the majority extremely poor (Chigova, 2014; Dube, 2014; Dube, 2014b; Mbiriri, 2010). Informal operators such as vendors and hairdressers are extremely poor with no assets, savings or social security and just operate from hand to mouth. They argue that taxing such individual who are already in a precarious position is not only insensitive, but also heartless on the part of government and violating the canons of equity and economy (Dalu et al, 2013). Others have argued that taxing the IS may be tantamount to “killing the goose that lays the golden egg” as the sector is important for the survival of the economy considering other economic fundamentals (economic development, investment and employment creation) other than tax revenues (Muzenda, 2016). A view propagated by the ILO (1972). Several controversial questions arise from the above discussion. Firstly, is it unfair on the part of the Zimbabwean government to tax the IS? Secondly, Are all the players in the IS merely surviving? The next section will give a brief overview of the tax system in Zimbabwe and of presumptive tax administration in Zimbabwe to lay a foundation of a critical review of the taxation of the IS as presented in study findings in Chapter Six and Seven. Review in terms of the performance of presumptive tax, contribution to total revenue and tax administration in relation to the canons of taxation and taxpayer perception when it comes to fairness and equity as well as ability to pay.

#### **4.6 Zimbabwe’s tax system**

Zimbabwe’s revenue collection and administration is governed by a number of constitutional and legal provisions. The legal framework is composed of the country’s constitution, Public Finance Management Act(Chapter 23:19), Value Added Tax (Chapter 23:12), Customs and Excise Duty Act (Chapter 23:02), Capital Gains Act (Chapter 23:01), Income Tax Act (Chapter 23:06), Revenue Authority Act (Chapter 23:11), Estate and Duties Act (Chapter 23:02), Mines and Minerals Act (Chapter 23:05) and the Toll Road Act (Chapter 13:13) as outlined by ZIMCOD (2014). Each tax head is administered in terms of an Act of Parliament and supported by various statutory instruments. Periodic changes to the Acts, including tax rates are incorporated in the Finance Act as it is the charging Act (Dube, 2014; AFRODAD, 2011).

The Zimbabwe Revenue Authority (ZIMRA), is the institution that administers taxes in Zimbabwe on behalf of government. ZIMRA is a semi-autonomous body that focuses on revenue collection and was established in 2001 in terms of the Revenue Authority Act, Chapter



23:11 (ZIMCOD 2014). It replaced the Customs and Excise departments. ZIMRA has the mandate to administer a number of legislations for each tax head. The Revenue Authority has the following key responsibilities which are: assessing, levying and collecting revenue from various taxes, advising central government on revenue collection matters and facilitation of trade and travel, issuing and controlling of tax revenue certificates, administering regulations pertaining to import and export exchange control and licensing and controlling of premises used for the manufacture of goods under rebate. The Ministry of Finance is responsible for tax policy and ZIMRA's role is mainly that of implementing tax policy through administration (Dube, 2014; AFRODAD 2011, ZIMRA, 2017). ZIMRA has several departments under its control as duties are segregated accordingly to ensure easy flow of work and co-ordination of activities. These include the Investigations and International affairs, the internal audit division and the customs and border control among others. ZIMRA's operations have been decentralised throughout the country to ensure the Authority's presence, easy and effective monitoring of tax revenue collection points. ZIMRA now has offices in Harare, Bulawayo, Gweru, Kwekwe, Mutare and other towns across the country. In so doing, ZIMRA is aiming at creating convenience for both the taxpayer and the tax collector when dealing with tax issues, be it filing returns, resolving queries or actually payment of taxes (ZIMCOD, 2014).

The country has been working tirelessly through ZIMRA to improve its revenue collection capacity and to widen the tax base, as the effects of a narrow tax base have been adverse (Sebele-Mpofu & Msipa, 2020; Sikwila et al., 2016). The government has brought about various tax reforms over the years aimed at revamping and strengthening the revenue administration, improving tax compliance (promote voluntary as opposed to enforced) and reducing leakages in the tax system (ZIMCOD, 2014; Dube, 2014). The tax reforms saw the introduction of different tax heads over the years and the Zimbabwe tax heads were briefly reviewed.

#### **4.6.1 The Major Tax Heads in Zimbabwe**

Zimbabwe has various taxes levied on the country's population. These include VAT, Income tax collected through PAYE, Corporate tax, Capital gains, Estate Duty, Customs and Excise, Presumptive Tax, Withholding Tax, Tobacco levy, Carbon tax and others. The various taxes' contribution to the revenue collection basket varies with some being major contributors while presumptive tax contribution is too little or rather insignificant. PAYE, VAT and Corporate Tax are said to be the larger contributors with VAT being the highest (ZIMRA, 2017; Dube, 2014). Citing the Reserve of Zimbabwe Quarterly Economic Review (2018), Machemedze et

al (2018:19) posit that the total tax revenues for the 2018 first quarter totalled US\$ 159.6 million with an over reliance on VAT and Corporate Tax, with contributions of 35% and 34% respectively. The informal sector contribution (Presumptive tax included in Other Taxes) was a negligible 3%.

#### **4.6.1.1 VAT**

VAT is an indirect tax on the supply of goods and services by registered operators and is charged each time a transaction or supply or importation occurs. It is often referred to as consumption tax. It is a multi-stage tax levied at each stage for example production of goods, wholesale and retail. It is borne by consumers. VAT is levied at a standard rate of 15% in Zimbabwe, though there are some goods and services that are exempt in terms of Section 11 of the VAT Act and some that are zero rated as governed by section 10 of the VAT Act (Zimbabwe VAT Act, Chapter 23:01). Such exempt and zero- rated supplies cover basic goods and services for example transportation, basic food stuffs, fuel, medical services, domestic water and electricity among others. VAT was introduced to minimise the leakages and the rampant tax evasion that characterised the Sales Tax system by out rightly replacing sales tax with VAT (Dube 2014). The VAT system has been a significant success in increasing revenue collections.

Any business or person who makes taxable supplies of more than \$60 000 per year (\$5000 per month) is liable for VAT and are expected to compulsorily register for VAT. Those that make taxable supplies of less than \$60 000 are allowed to voluntarily register for VAT (Section 23 of the VAT Act, 2017). Registered operators are expected to account for output tax on their sales on all VAT chargeable goods and at the same time claim input tax on all their purchases to make taxable supplies that were charged VAT. VAT to be payable or refundable is calculated as output tax minus input tax. All the necessary documentation (for example a valid tax section invoice in terms of section 20 of the VAT Act, debit note or credit note (section 21 of VAT Act), among others) should be attached to the VAT returns to accompany a payment or claim of refund at ZIMRA.

Registered operators, quasi government, government and statutory corporations who enter into any contracts which result in an obligation to pay any amounts totalling or aggregating US\$250 or more are required to withhold 10% of each amount payable to payees without a valid clearance certificate (Section 80 of the ITA). Accordingly, all registered operators who fail to produce a valid tax clearance certificate are liable for withholding tax. The government has

since introduced 10% WHT on VAT in terms of statutory Instrument of 2016 with effective from 1 October 2016. This WHT is an early collection of VAT in order to curb leakages and speed up collections. In this case ZIMRA has appointed big companies such as Zimbabwe Electricity Supply Authority (ZESA), TM supermarkets to withhold 10% on all invoice amounts due to a registered operator when paying and remit to ZIMRA. The operator will then be issued with a WHT certificate, which they will then use to claim the 10% VAT withholding tax as input tax in order to reduce the VAT obligation (ZIMRA, 2017). It is against this background that tax experts argue that SMEs in Zimbabwe pay one tax or another. The antagonistic view that the IS players are tax evaders is a bit unfair.

Despite VAT being a reliable and stable revenue earner, tax experts and companies have lamented the aggressive nature and high handedness of ZIMRA officials in administering the tax head. The Authority's attitude is said to be the "pay now, talk later attitude". There has also been an outcry on the unwillingness or deliberate delay by ZIMRA in refunding VAT refundable (Gideon & Alouis, 2013; Nyamwanza et al., 2014; Mashiri, 2018). This may be attributed to the arguments put forward by Heggstad et al. (2011:62) who argued that developing country governments often set high revenue targets for tax administrators and often castigates them for failing to meet the targets. This often results in these officials being high handed when dealing with taxpayers as their objective will be to collect and collect at whatever cost.

#### **4.6.1.2 Income tax**

This tax on incomes levied in terms of the Income Tax Act, Chapter 23:06 (ITA). This Act levies tax on both companies (corporate tax) and individuals (PAYE). Section 6 of the ITA gives the government the mandate, through ZIMRA to levy and collect tax for the benefit of the nation. Taxes and levies are also on pensions, employment income, interest, dividends and trade and investment income of both individuals and companies. Withholding taxes are also collected in terms of the ITA (section 80 to 90) (Godwin Dube, 2014). Corporate tax is imposed on companies and is based on net profit. It is at a rate of 25% plus 3% aids levy on the 25% effectively making it 25.75%. PAYE is based on remuneration and is charged using progressive tax rates (amount of taxes increases as income increases) as given in the Finance Act, with the tax free bracket currently at \$300 (ZIMRA, 2017). Gross income is defined in terms of Sect 8 of the ITA, exempt incomes Section 14 and allowable deductions Section 15 whereas Tax credits are given in the Finance Act Section 10- 13.

**Table 4. 4: Zimbabwe Progressive Tax rates on an annual basis for 2019**

| INCOME RANGE<br>(US\$) | RATE | TAX    | CUMULATIVE TAX                  |
|------------------------|------|--------|---------------------------------|
| 0-4200                 | 0%   | –      | –                               |
| 4201-18000             | 20%  | 2 760  | 2 760                           |
| 18001-60000            | 25%  | 10 500 | 13 260                          |
| 60001-120000           | 30%  | 18 000 | 31 260                          |
| 120001-180000          | 35%  | 21 000 | 52 260                          |
| 180001-240000          | 40%  | 24 000 | 76 260                          |
| 240001+                | 45%  |        | 76 260 + excess over US 240 000 |

Source: KPMG (2020)

Corporate tax has been high in Zimbabwe at 37.5% in 2009, reduced to 35% in 2010, a further reduction to 30% in 2011 and ultimately to 25% in 2012 and the rate has remained the same up to 2017 (Dube, 2014; Gideon & Alouis, 2013). The Revenue authority explained the reductions as effort towards encouragement of employment creation, small business development and income generation as well as a step towards incentivising the IS to come through the tax net. The tax rates are still high and crippling to companies and the IS (Zivanai et al, 2015).

#### **4.6.1.3 Customs and Excise Duty**

These are customs taxes levied on imported goods. This tax is levied on certain goods and services as prescribed in the Customs and Excise Duty Act (Chapter 23:02). Excise duties are levied on goods such as alcohol, beverages and tobacco products (Dube, 2014). This was one area that was bringing in significant revenue before the introduction of the bond notes and the introduction of Statutory Instrument 64 that prohibited the importation of certain commodities. According to Tapera (2017), this instrument has seen a massive reduction in import duty as well as crippling the operations of some companies who relied on the imports for raw material. Most companies preferred imports as the price of locally manufactured goods are exorbitant. The exchange rate fluctuations have made imported goods more expensive because companies factor in the cost of the money (Mawowa & Matongo, 2010). The rate for sourcing the US from the black market, currently pegged at around 100 bond notes is equivalent to US\$1 (Chronicle, 2020). Fees for government services, tollgates and mining royalties are non-tax revenues. Currently, because of the economic meltdown, all the major tax heads for the state have all been performing below expectations. Up to June 2015, PAYE collections were US\$385million

against projected target of US\$390 million. VAT collections did not perform any better, collections were US\$482 million against a target of US\$512 million (ZIMRA, 2015)

#### **4.6.2 Informal sector taxes (Presumptive taxes)**

Chapter Three discussed the motivations of taxing the IS in general and these are aimed at addressing revenue concerns, equity and fairness concerns, governance concerns as well as efficiency concerns. In 2005, Zimbabwe introduced presumptive tax with the main focus of broadening the tax base as alluded to by the then Minister of Finance. His argument to introduce presumptive tax was to try to bring the IS into the tax net with a tax specifically designed for them (Dube, 2014; Government of Zimbabwe 2005). Despite being in force for over a decade in Zimbabwe, the presumptive tax system remains largely unexplored both from policy perspective and academic front in terms of research (Dube; 2014; Ligomeka, 2019; Newman, 2019). More so because the informal sector is quite diverse and heterogeneous accommodating from well skilled, qualified and professionals to the poorest and illiterate. ZIMCOD (2014) and Ligomeka (2019) describe presumptive taxes as taxes that were introduced to broaden the revenue base in Zimbabwe, in view of the ballooning IS in the country. The selected sectors from which presumptive taxes can be collected are transport and commuter operators, small-scale miners, cross border traders in 2008, driving schools, cottage industries in 2008 and informal traders among others. Presumptive tax was fully enforced in 2011 and the government has consistently incorporated reforms in its administration (ZIMCOD, 2014; Newman, 2019).

A presumptive tax is a presumed or assumed tax base where the tax is based on estimations (Joshi et al, 2013, 2014; Rogan, 2019). It is often based on some assumed base such as turnover, net profit or assets. The tax is aimed at obviating some administrative challenges which come with administering normal taxes on certain groups of taxpayers, in this case the IS. Presumptive taxes were employed to tax the IS because of their administrative simplicity and economic efficiency (GOZ, 2005; Taube and Tadesse, 1996). Presumptive taxes though aimed at alleviating challenges, they are administratively difficult to implement owing to design flaws (income or turnover estimation or just a fixed amount without considering that turnover and incomes fluctuate in response to dynamic business environments and economic conditions) and poor integration into the regular tax system (Dalu et al., 2013; Sebele-Mpofu & Msipa 2020:205). Presumptive tax collection has always performed below expectations in Zimbabwe. Collections improved from US \$1.39 million by 275% in 2009 to US\$5.2 million in 2010. For the year 2011, presumptive tax revenue collections increased from the 2010 figure by 151% to US\$13million. Though there was an increase, it was far less than the 2010 increase.

The increase in presumptive tax was attributable to improved economic conditions in the country as a result of dollarisation. Despite these increases, the presumptive tax contributions are actually in fact very minimal when compared with total revenues. In 2009 presumptive tax as a percentage of total revenue was 0.001%, 0.2% for 2010 and 0.45% in 2011 (Dube, 2014). The presumptive tax figures are difficult to get as standalone figures as these are always presented under other taxes as shown below due to their minute nature (Ligomeka, 2019).

**Table 4. 5: Contribution of Revenue Heads as a Percentage (%) of Total Income**

| Year        | Individual Tax | VAT | Customs Duty | Excise Duty | Mining Royalties | Carbon Tax | Company Tax | Other Taxes | DFIF | WHT | Non Tax | Total |
|-------------|----------------|-----|--------------|-------------|------------------|------------|-------------|-------------|------|-----|---------|-------|
| <b>2010</b> | 19             | 37  | 16           | 8           | 4                | -          | 11          | <b>9</b>    | -    | -   | -       | 100%  |
| <b>2011</b> | 22             | 40  | 12           | 11          | -                | 1          | 11          | <b>3</b>    | -    | -   | -       | 100%  |
| <b>2012</b> | 21             | 33  | 11           | 12          | 4                | 1          | 14          | <b>4</b>    | -    | -   | -       | 100%  |
| <b>2013</b> | 22             | 30  | 10           | 15          | 4                | 1          | 12          | <b>6</b>    | -    | -   | -       | 100%  |
| <b>2014</b> | 26             | 28  | 9            | 14          | 5                | 1          | 11          | <b>2</b>    | 1    | 3   | -       | 100%  |
| <b>2015</b> | 22             | 29  | 10           | 20          | -2               | 1          | 12          | <b>1</b>    | 2    | 3   | 1       | 100%  |
| <b>2016</b> | 23             | 29  | 8            | 20          | 2                | 1          | 10          | <b>2</b>    | 2    | 2   | 1       | 100%  |
| <b>2017</b> | 13             | 29  | 8            | 18          | 2                | 1          | 19          | <b>2</b>    | 2    | 3   | 3       | 100%  |

Source: ZIMRA (2017).

Presumptive tax legislation was introduced to widen the tax base in the view of increase in informal businesses. Selected sectors of the economy were targeted to ensure the participation of the IS in the payment of taxes in line with experiences of other developing countries. Zimbabwe's presumptive tax regime design and implementation was guided by results of the research carried out by ZIMRA in 2003 and submissions from the Ministry of Finance, which culminated into the Finance bill of 2005. Presumptive tax schedule for 2016 to 2017, which show the sector by sector charges are shown below.

### 1. *Transport operator's presumptive Tax*

| Operator of:    | Description                                                               | Presumptive tax/quarter/vehicle (US\$) up to 2016 | Presumptive Tax/ Month (US\$). With effect from 1/01/2017 |
|-----------------|---------------------------------------------------------------------------|---------------------------------------------------|-----------------------------------------------------------|
| Omnibuses       | 8 to 14 passengers                                                        | 150                                               | 40                                                        |
|                 | 15 to 24 passengers                                                       | 175                                               | 45                                                        |
|                 | 25 to 36 passengers                                                       | 300                                               | 70                                                        |
|                 | From 37 passengers+                                                       | 450                                               | 100                                                       |
| Tax-cabs        | All                                                                       | 100                                               | 25                                                        |
| Driving schools | Class 4 vehicles                                                          | 500                                               | 100                                                       |
|                 | Class 1 and 2 vehicles                                                    | 600                                               | 130                                                       |
| Goods vehicles  | More than 10 tonnes but less than 20 tonnes                               | 1000                                              | 200                                                       |
|                 | More than 20 tonnes                                                       |                                                   |                                                           |
|                 | 10 tonnes combined with a trailer of more than 15 but less than 20 tonnes | 2500                                              | 500                                                       |
|                 |                                                                           | 2500                                              | 500                                                       |

Source: ZIMRA (2017)

Note: With effect from 1 January 2015 ZINARA was appointed as an agent of ZIMRA for the collection of presumptive tax in respect of transport operators.

### 2. *Hairdressing salon operators' presumptive tax*

Every operator of a hairdressing salon is required to pay a presumptive tax amounting to US\$10 per chair per month. The full amount should be paid by the 20<sup>th</sup> day after the end of the quarter. Amounts not paid are subject to interest charges.

### 3. *Informal traders' presumptive tax*

All persons in receipt of rental income from an informal trader in respect of residential accommodation, premises or a place on which trade is carried on are required to recover an additional amount by way of presumptive tax equal to 10% of the rent and remit it to ZIMRA. This also includes local authorities.

The amount should be remitted within 30 days from the date the amount is recovered. Failure to remit is an offence. Failure to pay the presumptive tax by the informal trader constitutes a breach of the lease agreement and can lead to termination of the lease.

### 4. *Small scale miners' presumptive tax*

With effect from the 1<sup>ST</sup> of October 2014 Small scale miners' presumptive tax was reduced from 2% to 0% effectively meaning no presumptive tax for this group.

#### *5. Cross border traders' presumptive tax*

Cross border traders who import commercial goods into Zimbabwe are required to pay presumptive tax equal to 10% of the value for duty purposes (VDP) of the commercial goods. The only exceptional cases are where the trader is registered with ZIMRA for income tax purposes and is up to date with the submission of returns and payment of taxes.

#### *6. Operators of Restaurants or bottle stores*

Every operator of a restaurant or bottle store is required to pay a presumptive tax amounting to US\$70 per month. The full amount should have to be paid by the 10<sup>th</sup> after the end of the quarter. Interest is chargeable on all outstanding amounts not paid by the due date.

#### *7. Cottage industry operators*

Every person who owns or is in charge of a cottage regardless of it being licensed or not is required to pay presumptive tax amounting to US\$70 per month. Cottage industry operators include those in furniture making or upholstery trade, metal fabrication and any other cottage industry that the Minister may, by notice in a statutory instrument include.

#### *8. Commercial waterborne vessels*

| <b>Operator of:</b> | <b>Carrying capacity inclusive of cabin crew/description</b> | <b>Presumptive tax per quarter per vessel: US\$, effective 1/1/12</b> | <b>Presumptive tax per month per vessel with effect from 01/01/2017, US\$</b> |
|---------------------|--------------------------------------------------------------|-----------------------------------------------------------------------|-------------------------------------------------------------------------------|
| Waterborne vessel   | Up to 5 passengers                                           | 250                                                                   | 60                                                                            |
|                     | 6 to 15 passengers                                           | 500                                                                   | 100                                                                           |
|                     | 16 to 25 passengers                                          | 1 000                                                                 | 200                                                                           |
|                     | 26 to 49 passengers                                          | 1 500                                                                 | 350                                                                           |
|                     | 50 passengers+                                               | 2 000                                                                 | 450                                                                           |
| Waterborne vessel   | Fishing trips                                                | 350                                                                   | 80                                                                            |

Source: ZIMRA (2017)

It is of importance to note that ZIMRA (2017) explains that the payment of presumptive tax does not exempt the presumptive taxpayer from the obligation to submit income tax returns. ZIMRA normally carries out routine checks to ensure that operators comply with regulations.



Despite the outline of presumptive taxes above, there has been an outcry that presumptive tax has performed below expectations. It has contributed very little in terms of revenue generation, a measly 3% as a percentage of total tax revenue in 2011 (Zivanai et al, 2015). The majority of players in the IS in Zimbabwe are said to be guilty of non-compliance when it comes to paying taxes as laid down in the ITA schedule 17 (Ligomeka, 2019; Newman, 2019; Sebele-Mpofu & Msipa, 2020). There is a mismatch between the amount of tax revenue collected from this sector and the size of the sector (Dube & Casale, 2016:612; Makochehanwa, 2020). Presumptive tax implementation has been very low and with limited success. Presumptive tax in Zimbabwe is still performing below the expectations considering the extent and speed of growth of the IS (Machemedze et al., 2018). The low tax revenue trend is not only peculiar to Zimbabwe, but is also evident in most African countries (Maina, 2017; Rogan, 2019).

#### **4.6.3 Empirical literature review on the implementation of IS taxation in Zimbabwe.**

As mentioned earlier in Chapter one on the contribution of the study that there is a dearth in literature on IS studies in Zimbabwe, this section will be a review of the few studies conducted on the subject of IS taxation in Zimbabwe. Borrowing from Saunders et al (2009) who assert that, for any research to be meaningful the first source of information is the body of related literature, the works of other researchers was reviewed. These works include Chigova (2014), Dalu et al. (2013), Dube, (2014), Makochehanwa (2020), Masarirambi (2013), Muzenda (2016), Sikwila et al. (2016) and Zivanai et al (2015), among others. Literature is reviewed to discover what is known so far, what best practices exist and to discover what tools have been used/might be useful (Saunders et al., 2009) in reviewing IS taxation. It also enables one to establish what outcomes have been addressed and which ones have not as well as the plausibility of claims (Snyder, 2019). In assessing the previous studies in Zimbabwe common elements across studies are noted, those elements unique in each study identified, the ideas and concepts conveyed articulated and the limitations or gaps in the literature explained in order to clearly demonstrate the contribution of this study.

The main objective of this review is to contextualise literature within the problem statement and give an evaluative account of what has been done so far in similar settings (Collins and Hussey (2009), in this case Zimbabwe. This evaluative account informs the readers of the current concepts, state of knowledge and state of research on IS taxation in Zimbabwe hence putting the problem into historical perspective. Through giving an analytic account of the accredited work of the few scholars that have studied IS taxation in Zimbabwe, the researcher will be able to summarise, analyse and synthesise the arguments of others as suggested by

Snyder (2019) on effectively reviewing literature. This in turn aids the researcher in drawing similarities and differences, consistencies and inconsistencies and controversies in the work of the other researchers on the subject matter. This evaluation of literature is essential in identifying gaps to be addressed by this research (Fink, 2010), be they theoretical, policy gaps or methodological gaps and also in showing how this current research relates to previous published work.

In the last 7 years (2013-2020), a few papers have been published in Zimbabwe on the IS taxation phenomena and these will be individually reviewed. Masarirambi (2013)'s study was on "The investigation into factors associated with tax evasion in the Zimbabwe Informal sector: A survey of Magaba Mbare Informal traders, Zimbabwe". The study looked at factors influencing tax evasion without linking them to the drivers of informality but an understanding of the drivers is key to establish the motivations towards taxing the IS, factors affecting tax compliance as well as the pros and cons of IS taxation. The current study through an evaluation of the economic theories (dualist, structuralist, legalist, illegalist and continuum) explaining the drivers of informality sought to address this void. This is in line with arguments by researchers such as Nakamba-Kabaso and Phiri (2012) that arguments on the pros and cons of IS taxation without understanding the causes of informality will be ill informed and misguided. This is because these drivers have been put forward by researchers to argue for or against IS taxation. The study established that most informal operators were not aware of their tax obligations and others felt the taxes were too heavy on them. Other traders simply evaded because their counterparts were evading and because government was not accountable for taxes previously collected (Masarirambi, 2013). The current study sought to build on the foundation laid by this pioneer study, by aiming to build a balanced perspective through reviewing IS taxation, its motives, challenges to effective implementation and compliance as well as benefits from the perspectives of multiple stakeholders. These stakeholders include the tax experts, ZIMRA officers and officials from the Ministry of SMEs.

Sikwila et al. (2016) focused on the "Tax collection, constraints and tax burden on the urban IS enterprises: evidence from Bulawayo, Zimbabwe". This research was mainly focused on the informal sector in Bulawayo. The researchers used a mixed method approach combining quantitative and qualitative approaches through a cross sectional study. This was a small study based on a small target population. The study found out that tax collection from the IS was quite challenging and the following constraints hindered effective tax collection: tax education gap, corruption and political interferences. The researchers allude to the scarcity of research

focusing on constraints to IS tax compliance yet such research is necessary to enhance tax policy formulation and improve revenue mobilisation from this sector (Sikwila et al., 2016:84). This research sought to fill this gap by contributing to both policy formulation suggestions and the body of literature on IS taxation

Dalu et al. (2013) looked at the awareness and compliance levels of informal traders with regard to their presumptive tax obligations: a case of Harare Central business district informal traders. The research established that most of the informal traders were not aware of their tax obligations and were not registered. The focus was on a small population of the IS, that is those on the city centre of Harare only. The findings were contrary to those by Nyamwanza et al. (2014) who found out that the players in the IS were aware of their obligations but did not comply with presumptive tax and other taxes such as income tax on employment collected through the PAYE system. This was because they perceived these as too high, burdensome and crippling to the survival and growth of SMEs. The contradictions and inconsistencies in literature also motivate this study. The differences could be emanating perhaps from the different target populations, the variations in the research methodologies used and even perhaps the different study setting (Snyder, 2019).

Zivanai et al. (2015) investigate “Tax compliance challenges in fulfilling tax obligations among SMEs in Zimbabwe: a survey of SMEs in Bindura”. The study explores the causes of non-compliance or compliance amongst SMEs in Bindura and assesses the effectiveness of presumptive tax in the formalisation of SMEs. The study used 30 SMEs obtained through stratified random sampling. The study found out that non-compliance was propelled by the high tax rates, low risk of detection, lack of awareness by IS players of their tax obligation as well as comfort in numbers. Recommendations of the study were that ZIMRA should enforce presumptive tax through audits and monitoring of SMEs. The study was a follow up on another study by the researchers on the effectiveness of presumptive taxes on the viability of minibus tax operators in Bindura (Zivanai et al., 2014). This study established that presumptive taxes were perceived to be too high and poorly administered. Forty percent of the population argued that they were not paying taxes because there was comfort in numbers, their colleagues were also not paying, 15% suggested it was because they were managing their costs as tax was a cost that threatened their viability and survival and 10% said they were ignorant of their tax obligation. These results contradict Utaumire et al. (2013) whose study established that lack of awareness and lack of tax education were the key drivers of non-compliance in the IS. One limitation of Zivanai et al (2014) is that despite the study concluding that the effective

implementation of presumptive taxes would negatively affect the survival and growth of the minibus operation businesses, the study does not give actual figures on the profits and turnover of these operators and compare these to tax figures to buttress the conclusion. It will be vital for future studies to improve on this gap by analysing the actual performance of informal operators in evaluating the growth and equity controversy. This study does not address this gap as it did not include the IS players in the study as outlined in the limitations in Chapter One, but it builds on the shadow of doubt cast on the supposed benefits of IS (governance, growth, revenue and equity). Several researchers question the plausibility and attainability of these gains and call for further research that is backed by empirical evidence (Kundt 2017a; Joshi et al, 2014; Makokekanwa, 2020; Meagher, 2016; Rogan, 2019; Sebele-Mpofu, 2020a).

Muzenda (2016) analysed the impact of IS growth on tax performance: a case of Zimbabwe 1985 to 2013 established that the growth of the IS was synonymous with the dwindling formal sector and this translated into reduced tax revenues for the government. This is because the formal sector firms are often large and visible to tax authority hence tax collection is usually easier, systematic and guaranteed as compared to the fluid IS where tax collections proves to be a gigantic task. As the IS increases at the expense of the formal sector, tax revenues decrease as tax collection becomes challenging. As such the research established that tax revenue collections had drastically declined over the years due to the growth of the IS and retrenchments (income tax contributions from employment collected through PAYE, VAT tax revenues and corporate tax declined). The study recommended the widening of the tax net to include the IS, if Zimbabwe is to improve its tax revenue mobilisation. A view also put forward by Utaumire et al., (2013:114) who described the IS as a potential source of tax revenue in view of its huge contribution to GDP. It is against this background that this study sought to critical review the IS tax policy in Zimbabwe as pointed out in Chapter One.

The objective of Utaumire et al. (2013)'s study was to evaluate the effectiveness of the presumptive tax system in Zimbabwe using ZIMRA's region One (Kariba, Chinhoyi, Kurima). Utaumire et al., (2013) also explained the stiff resistance to presumptive taxes was due to lack of stake holder participation in the drafting of tax policy. In this case, the IS felt the taxes were being just shoved down their throats without due regard for fundamentals affecting their survival and operations for example, their profitability, resource capabilities, operational capacity, equity and fairness and above all their premises of operation (Sebele-Mpofu & Mususa, 2019:84; Utaumire et al., 2013:118). The traders felt governments just wanted to tax them without helping to nurture them or grow in any way or even providing any protection. It

will be interesting to investigate in the current study what government has done so far on stakeholder involvement and the provision of “cuts” (incentives to formalise and pay taxes), considering an efficient tax system is the one that evolves over time, as such IS strategies might have evolved also. The study though had a weakness in that it did not outline the sectors in which the 180 informal traders were taken from considering the sector is heterogeneous and with different amounts per sector as shown above on the presumptive tax schedules. This study did not give much on the practical challenges faced by ZIMRA in administering IS tax policy hence the current study sought to address this area in order to make more informed and appropriate administrative and policy recommendations. Dube (2014) also questions the appropriateness of Utaumire et al., (2013)’s sample which he feels had inherent weaknesses in that the respondents from the IS did not prove as knowledgeable as the researchers purported them to be in justifying their selection, most of them were not aware of their tax obligations contrary to the justifications for choosing them. This perhaps sheds light of the importance of knowledgeability of participants and “information power” of participants referred to by in enhancing saturation point attainment, improving rigour and quality of research as suggested by Malterud et al. (2016:1754-7) and Rosenthal (2016:511).

Chigova (2014)’s study is an analysis of the fiscal potential of the informal sector in Zimbabwe’s revenue base: the case of Glenview home industries. This was a purely qualitative study that just focused on the tax potential of the sector not the actual tax collection. The study’s major weakness was the inability to collect data from ZIMRA and this is essential in any study that considers taxation because the revenue authority is the actual implementer of tax policy and statutes. Epistemologically, the interest on ZIMRA hinges on the assessment of capabilities to collect revenue from the sector (Dube, 2014), practical experiences that are important in evaluating IS sector taxation, successes and challenges as well as benefits of such taxation. For this study, prior approval to carry out research with co-operation from ZIMRA was sought and granted from ZIMRA. On the academics the study only focused on the views of one academic, which can have a weakness of bias. The key strength was involving the IS though the focus was narrow as it focused on Glenview which is just a suburb in Harare hence the generalisability of the study has limitations. The study found out that low compliance levels were a result of the difficulty in implementing IS taxation, magnitude of taxes versus the operating profits of traders, corruption and unawareness. An interesting finding unique to this study so far was the effects of the “devil’s deal” (Tendler, 2002) as an obstacle to effective IS taxation. In this, tax evasion was politically motivated as some of the cottage industry owners

said in exchange for allegiance to the ruling party and providing transport to rallies they were assured of protection from ZIMRA and the police. Such selective application of legislation frustrates tax collection efforts. The current study focusing on a wider group of stakeholders sought to explore the governance gains and challenges to effective IS taxation from multiple perspectives. This evaluation also assessed the devil's deal impact as suggested by various researchers (Joshi et al, 2014; Joshi & Ayee, 2008; Meagher 2016), including Chigova (2014).

Dube (2014) looked at informal sector taxation: the case of Zimbabwe. The study drew on the political economy approach to taxation as the guiding theory of the study. It focused on state political failure as the theory explaining the growth of the IS in Zimbabwe. The study sought to investigate informal sector taxation, its challenges and successes in the context of political and economic crisis. It is the first such comprehensive study aimed at investigating IS taxation, contributing to the small growing literature on the subject in developing countries generally and Zimbabwe in particular. The study focused on Harare one of Zimbabwe's large cities. The current research sought to build the foundation laid by Dube (2014) and those from other researchers and further research on IS taxation in developing countries and Zimbabwe in particular. In terms of the theoretical framework, the current study was built on economic theories such as the dualistic, continuum and legalist theories in order to explain the drivers of informality as well as the arguments for or against taxation of the IS as opposed to the political legitimacy theories and state failure used by Dube (2014). The study by Dube (2014) analysed taxation of IS from implementation in 2005 to 2014. Considering tax policy is dynamic and continuously evolves, a lot has changed from 2014 to 2020 hence the current study will build on the study by Dube (2014) but at the same time focus on 2009 the period of dollarization to 2018 in order to incorporate the changes and improvements on tax policy over the period under study.

One key interesting aspect to note on the methodology by Dube (2014) was to translate interview questions with the informal traders to their mother language for easy comprehension and understanding by the traders. The study found out that presumptive taxes in Zimbabwe were poorly administered and that awareness of tax obligations was low amongst traders. The research also established that there were a number of disincentives to tax compliance because of the political crisis in Zimbabwe for example corruption, bribery and mismanagement of resources (Dube, 2014). The study also put into perspective the mismatch between profitability of IS firms and activities and the amounts charged as tax though this was never investigated in greater detail, the current study investigated the attainability of the equity and growth claims

and the impact of IS taxation on the survival and growth of IS firms. This was explored from the perspectives of the tax experts, ZIMRA and the Ministry of SMEs officials. The gains (governance, growth and equity) are important but weakly explored gaps identified various researchers (Kundt, 2017a; Meagher, 2016; Rogan, 2019; Makochekanwa, 2020). The study questions the viability of presumptive tax as a revenue mobilisation tool and recommends a re-examination of the framework. It recommends the use of incentives (“carrots”) to increase tax collection for example through easy access to credit and government tenders, though the feasibility and use of these was not explored. The study concludes that for IS taxation to be successful it has to be implemented in an efficient, equitable and administratively effective manner and hence more research needs to be done on IS taxation. From Dube (2014) and other studies (Meagher, 2016; Resnick, 2019), questions on what government has done so far in the form of positive inducements to IS taxation compliance persist. In light of this, the current study evaluated the governance gains (state-stakeholder bargaining, trusting building and IS participation on policy and tax matters) and growth gains in order to establish whether these benefits come into fruition.

Dube and Casale (2016) explored informal sector taxes and equity: evidence from presumptive taxation in Zimbabwe. The researchers used the representative taxpayer method to compare the tax burdens of formal and informal sector taxpayers and concluded that the presumptive tax regime undermines both vertical and horizontal equity. The research also found out that low tax compliance among IS taxpayer was attributable to weak enforcement of legislation, selective application of legislation amongst the country’s citizens and that presumptive taxes were highly regressive. Some of the recent studies focusing on IS taxation in Zimbabwe briefly summarised below in Table 4.6. These help in put the current study in the historical context as well as to show knowledge development in IS subject area in Zimbabwe, properly situating the current study (Snyder, 2019).

**Table 4. 6: A Summary of IS taxation studies in Zimbabwe**

| <b>Author and year</b>     | <b>Country studied and study focus</b>                                            | <b>Findings</b>                                                                                                                                                                                                                            | <b>Recommendations</b>                                                                                                                                 |
|----------------------------|-----------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------|
| Masarirambi (2013)         | Zimbabwe                                                                          | Presumptive tax aimed at simplification of informal sector taxation, reduce tax evasion and widen the tax base. The system is subjective.                                                                                                  | Improved tax education.                                                                                                                                |
| Dube (2018)                | The design as well as the implementation of minibus presumptive taxes in Zimbabwe | Presumptive taxes with respect to the transport operators and minibuses infringe on the equity principle and the ability to pay principle. Some fixed amounts to be paid as tax by the IS are way above their monthly or quarterly incomes | Lower the marginal tax rate and revisit the tax rates to align them to the ability to pay principle                                                    |
| Newman (2019)              | Taxation of Cottage industry in Harare, Zimbabwe                                  | ZIMRA failing to effectively collect enough revenue from presumptive tax in order to have it as a stand-alone tax head                                                                                                                     | Educate the IS on tax issues and record keeping                                                                                                        |
| Ligomeka (2019)            | Taxation of flea market traders in Zimbabwe                                       | Taxes paid by flea market traders are regressive. Women traders have a higher effective tax rate than men                                                                                                                                  | The need by government to consider the impact of presumptive taxes on the growth of small informal firms as well as on gender equality                 |
| Makochehanwa (2020)        | Informal economy in SSA: characteristic, size and tax potential                   | Rejuvenated focus on IS taxation in SSA being driven by the sector's continued growth as well as the controversy surrounding the growth, revenue and improved governance potential benefits                                                | Development of special IS tax system, widening of the formal taxes to capture the IS and the use of indirect taxes to mobilise tax revenue from the IS |
| Sebele-Mpofu & Msipa, 2020 | Hurdles in taxing the IS in Bulawayo, Zimbabwe                                    | Vast tax knowledge gap in the IS, economic challenges and complexity of the tax system as key constraints to IS taxation                                                                                                                   | Reduce the knowledge gap and complexity through taxpayer education programs                                                                            |

Source: Own Compilation from Various sources



#### **4.7 Chapter summary**

A review of literature suggests that limited progress has been made in strengthening IS taxation in Zimbabwe. The taxation framework in the country offers a starting point to understand the practical difficulties of IS taxation. In seeking to understand this continuing challenge, there is need to contextualise the problem and accordingly consider the barriers to effective implementation. This chapter's main objective was to situate the informal sector taxation puzzle (research problem) in the Zimbabwean context. It is against this background that this chapter gave an overview of Zimbabwe's informal sector from its growth, evolution and ultimately the efforts towards taxing it. This chapter described the growth of the IS from 1980 after independence to its current magnitude. An evaluation of the growth and drivers of informality against the theoretical framework was carried out in order to show the relevance of each theory to the Zimbabwe situation and then adequately motivate the argument for or against IS taxation. The chapter also described the structure of the Zimbabwean tax system in order to lay a foundation for an evaluation against the canons of taxation. The description of the tax system will also help in weighing the arguments of its complexity, multiplicity of taxes and high tax rates which are often put forward by the IS as stumbling blocks to tax compliance. The overview of the tax system gives room for evaluating the actual implementation against the supposed equity, growth and governance gains whose existence remains a matter of controversy among researchers with Prichard (2009), stating that these remain relatively unproven. The penultimate section of the chapter reviewed literature from previous studies on IS taxation in Zimbabwe. The chapter shows that there is a dearth in literature on IS taxation in the country. From the literature review researchers raised concern on the high tax rates, corruption, lack of stakeholder dialogue, selective application of tax policy and low levels of education as some of the hindrances of effective implementation of IS taxation policies. Lastly the chapter explained that given the fiscal constraints of the Zimbabwean government, the IS may be an attractive option for raising additional revenue. The next chapter focuses on the research methodology as the road map for conducting the study.

## CHAPTER 5: METHODOLOGY

*“If we don’t do anything to simplify the tax system, we are going to end up with a national police force of internal revenue agents- Leon Panetta*

### 5.1 Introduction

A potentially long-lasting solution to the informal sector ( hereafter IS) taxation puzzle is to find an effective way of bringing this presumably “hard to tax” segment of the economy, which is often viewed as unmanageable, problematic and evading tax into the tax net. Policy makers and revenue authorities in developing countries face a variety of challenges and constraints that require careful consideration in designing appropriate and effective IS tax systems (Maina, 2017:6). The tax system should be able to foster sustainable economic growth and ensure sustainable revenue collections so as to achieve political stability, economic growth, infrastructural investment, survival and growth of informal firms and improved standards of living for the citizens of the country (Everest-Phillips& Sandall, 2009; Sebele-Mpofu, 2020a:9). Researchers have lamented the lack of empirical evidence in this area and in some cases the contradictory and conflicting nature of the propositions (Kundt, 2017a; Joshi et al, 2014; Meagher, 2016) (see Section 3.2.6, Chapter 3). This research sought to fill this gap by critically reviewing the taxation of the IS taxation in Zimbabwe. Fulfilment of these objectives and in the quest to recommend meaningful tax reforms and enforcement strategies that address systemic challenges of effectively taxing the sector call for empirical investigation and analysis of real life contexts. There has however been a broad critique of research on IS taxation especially the lack of specific explicit theoretical framework and conceptual framework on how taxation of this sector should be studied (De Paula & Scheinkman, 2011). The main objective of the chapter is to chronicle the methodological journey of this research as well as outline the researcher’s understanding of how the research problem was explored, the specific direction the research will have to take and the relationship between the different variables in the study. This chapter therefore presents the research philosophy, approach, design and methods used to address the research problem outlined in Chapter One. The intent is to give an insight into the research methodology and the rationale for the choices made as well the suitability of the methods in addressing the study’s research objectives presented in section 1.4 in Chapter One. In order to outline properly the underlying issues of data collection and analysis the study adopts Saunders et al (2009)’s research “onion”.

The chapter begins by exploring the challenges of undertaking research in the IS in 5.2, as a way of reflecting on the methodological implications and problems. The main objective of the section is to aid in the methodological journey by focusing on what needs to be done in order to address the problem statement in Chapter One, despite the hurdles identified in 5.2. Section 5.3 discusses this research's Philosophy, Ontological, Epistemological and Methodological (POEM) assumptions as these determine the route adopted in any research, in this research particularly how reality is perceived and investigated regarding the IS and its taxation. Section 5.4 covers the research methodology and 5.5 explains the research approaches. The fundamental aspects of research design or strategy are explored in 5.6 whereas in 5.7 the strategies of inquiry (data collection methods) are considered as well the rationale behind the choices. How data analysis was conducted is discussed in 5.8. The summary of the chapter concludes the chapter in 5.9.

## **5.2 Challenges of IS taxation research and methodological implications**

The informal sector remains one of the most challenging domains both on the angle of academic research and that of policy prescription especially taxation. Undoubtedly, the study of this sector is likely to be fraught with challenges of research methods and data sources. Firstly, the informal sector is unwritten, unmeasured, unknown, unregistered and unrecorded (Joshi et al., 2013; Prichard, 2010), therefore efforts to estimate its size and magnitude for research purposes is a daunting task. Given the lack of accountability of data on the informal sector by developing countries (Schneider, 2002), there is usually incomplete or lack of nationally representative data. In developing countries, the informal sector is very large and spans across almost all sectors of the economy. The sector is both ubiquitous and highly heterogeneous. The sector involves arenas where corruption is high, at times where secret companies managed by powerful politicians operate (Joshi et al., 2013; Maloney, 2004; Perry et al., 2007; Pimhidzai & Fox, 2011:5), where data is scarce or produced or recorded in ways often challenging to comprehend. In addition this is a sector where public talk is often distorted for political reasons such as the “devil’s deal observed by Tendler (2002). This calls for the need for multiple data sources, though they cannot provide direct answers to research questions, triangulation can provide insights for corroboration, diversity and complementarity.

Secondly, the characteristics (cash economy, small scale, unregistered, inconsistent incomes, lack of accounting record and the fact that it is unrecorded in GDP) of this sector makes it quite challenging to gather information from this sector. The diversity of players in this sector

as suggested by Maloney (2004) that it comprises both those that are operating in the sector for survival purposes and those that are in the sector because of the flexibility and high incomes that they make, suggests problems for tax policy as a “one size fit all kind of policy” will not be appropriate. It would potentially violate the canons of taxation for example equity, certainty, simplicity, convenience and economy. Research methods adopted and recommendations made must take cognisance of this fact.

Thirdly, informal sector tax administration and compliance is a highly dynamic and complex social phenomenon, influenced by diverse factors such as tax administration and collection, tax policy, tax education and knowledge, taxpayer attitudes and perceptions, governance issues, equity issues and the complexity of tax law. Therefore, it is imperative that the methodology chosen addresses the complexity of the phenomenon, as the method of investigation and the guiding point of view are key to the construction of the conceptual framework to be used in the investigation. According to McKerchar (2008), taxation is complex and researchers in this field are often not extensively equipped to cope with the multidimensional nature of the area especially considering that it involves the study of human behaviour and as such needs to be explored from multiple points of view and data sources to enhance validity and reliability. Thus for this research the sequential MMR was employed to bring the advantages of expansion in terms of breadth and depth of the enquiry, complementarity, confirmation and development (Creswell, 2014).

Fourthly, tax collection and compliance is a result of “distributed action” between the taxpayer, tax authority and the unexplored middle ground between the taxpayer and tax authorities (McKerchar, 2008) and in the case of this research representing the academics, the formal sector and policy makers. Thus, drawing from the arguments by Pimhidzai and Fox (2011), IS taxation research is prone to relativity problems. The first one being that, depending on the stakeholders included in the study, the informal sector may be defined differently, informal sector taxation viewed differently and ideally, solutions proffered may differ. Secondly, relativity emanates from the fact that the drivers of informality, the role of the informal sector in the economy, the motives behind IS taxation as well as the benefits and challenges of IS taxation are all perceived differently by the IS, the government, policy makers and the citizens of the state at large (Joshi et al, 2014). Lastly, relativity also borders on that, solutions developed for informal sector taxation may bring benefits to one group of stakeholders and burdens to the other(s). For IS taxation research to be successful it must be able to address epistemological considerations from these players as their views are pertinent to the designing

and implementation of effective tax policy, otherwise the weaknesses in methodology may impinge on any recommendations made. Data collection and analysis instruments must be able to address the challenges of multiple data sources, contradicting and conflicting views, thus this study adopted a mixed method research specifically the sequential exploratory design.

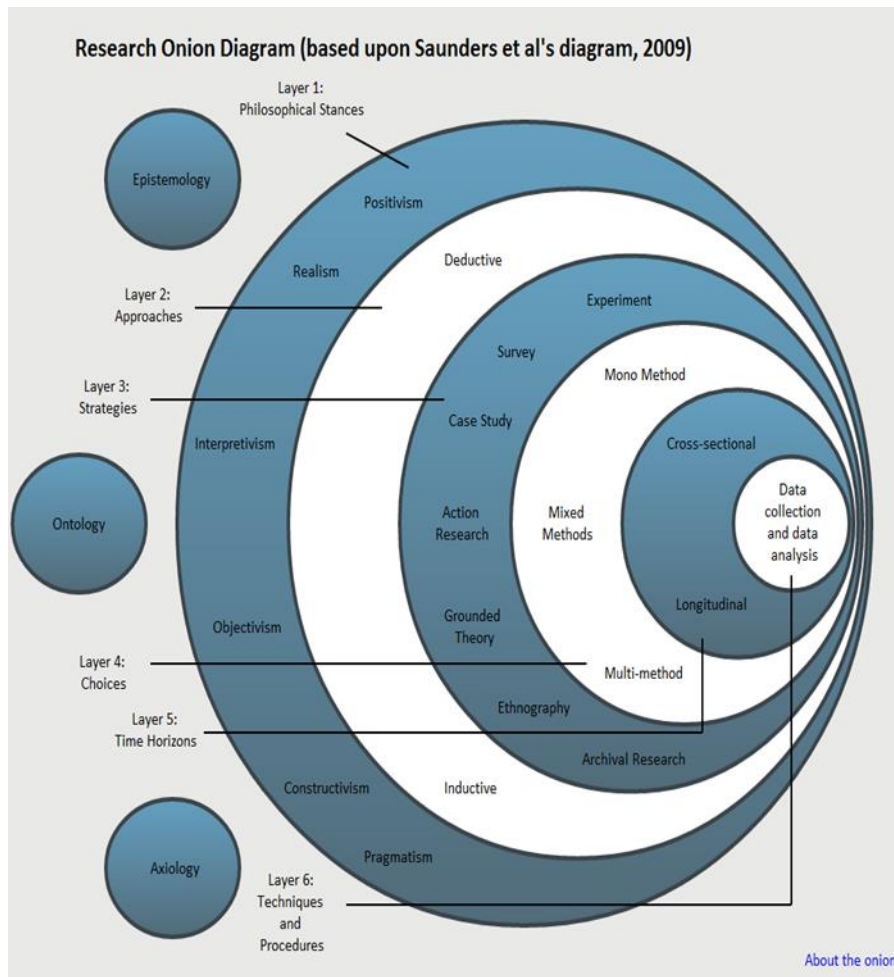
Lastly, tax and tax compliance by its nature is a very “sensitive topic” that stirs up controversies in any society and at any point in time (McKerchar, 2008). Prospective participants were always wary and sceptical of this researcher and tax researchers in general, therefore collection of meaningful data hinged on the data collection methods used as well as the successful the creation of rapport and trust with the target population. Failure to establish rapport could have resulted in high refusal rates to participate. Respondents might misconceive the objective of the research and be even suspicious of the researcher so research methodology should fully address this fact (Chen Loo, McKerchar, & Hansford, 2009; Mangioni & McKerchar, 2013). Gerxhani (2007) alludes to the fact that collecting data for tax research is often a formidable task for researchers in any country. Collecting information on human behaviour largely depends on qualitative tools like interviews and observations, which in turn rely heavily on the respondent’s willingness to share complete and accurate information. A mismatch between methodology and the problem at hand might lead to invalid knowledge claims and conclusions being drawn. It therefore undoubtedly becomes essential that an appropriate research paradigm is chosen. It will influence the questions the researcher poses and the techniques employed to answer them. This researcher used interviews for in-depth interrogation and conducted these in participants’ offices to make them feel safe and comfortable. Questionnaires were also used to make respondents free to express themselves in the researcher’s absence. Ethical considerations are also a vital part of tax research such as this one (Madushani, 2016; Mashiri, 2018; Sebele-Mpofu, 2020a). Therefore, for this research, the methodological choices and data collection instruments design sought to accordingly take into cognisance the above challenges.

### **5.3 Research paradigms, ontological and epistemological assumptions**

This research adopted Saunders et al. (2009)’s research onion as the overall general research plan. This is in line with Remenyi (2003), who described methodology as the overall approach to the problem, which could be put into practice, from the theoretical underpinnings to the collection and analysis of data. The onion depicts the problem statement as the centre of the onion thus several layers have to be peeled off as part of the research process in order to address or solve the research problem that lies hidden in the centre. Accordingly the research

philosophy, approach, strategy, choice of methods, time horizon, techniques and procedures were some of the layers identified for peeling (Saunders et al., 2009), in order for the research to answer the research question as shown diagrammatically in 5.1 below.

**Figure 5. 1: The research “onion”**



### 5.3.1 Research paradigms

According to Bryman and Bell (2015) there are several sets of assumptions that underlie any research, these are referred to as paradigms. Easterby-Smith et al., (2008) indicate that there are mainly two paradigms to the verification of theoretical propositions namely the positivist and interpretivist paradigms. A research paradigm has its own unique identifying characteristics, its methods and practices that create expectations about the nature and conduct of the research it embraces (McKerchar, 2008). Kuhn (1962) described a paradigm as an integrated cluster of substantive concepts, variables and problems attached with corresponding methodological approaches and tools, a view shared by (McKerchar, 2008). It can also be seen as accepted theories, approaches, frame of reference, body of research and methodologies (Creswell et al., 2007; Saunders et al., 2009). Different researchers have given different views

and meanings to the word “paradigm”, but what is important is the researcher’s comprehension of the philosophical underpinnings of the different research philosophies and their respective methodologies (Babbie, 2010; Cohen et al., 2007), what they entail and their application in the research process. Grix (2004: 171) opines that philosophical underpinnings form the foundation and backbone of any research, suggesting that all research operates within a paradigm, whether explicitly stated or not. Each paradigm proposes different assumptions pertaining to how one views the world, how research should be undertaken and what forms valid and reliable research (Villiers & Fouché, 2015). Guba and Lincoln (2004:21) posit that research paradigm restrains one’s ontological, epistemological and methodological approach to research and they term this the Paradigm, ontology, epistemology and methodological view to research (POEM).

Paradigm choice largely reflects how the researcher views the world (ontology), believes that knowledge is created (epistemology), the researcher’s values (axiology) and the process of research (methodology) (McKerchar, 2008). The argument is that the implicit beliefs along with the researcher’s discipline, focus and experiences will influence the philosophical approach to research. The key to effective research is for one to work within the most appropriate paradigm suitable for adequate investigation of the research problem at hand. Collis and Hussey (2013) state that before adopting the research design, researchers have to determine their philosophical foundations as these have an implication on the methodology, methodological assumptions and methods of inquiry. As earlier suggested a substantial body of literature on research design and conduct refers to two core research philosophical paradigms commonly described as positivism and interpretivism (Collis & Hussey, 2009; Creswell et al., 2008; Easterby-Smith et al., 2008; McKerchar, 2008). The former implies quantitative, objective, scientific, experimentalist and traditional in approach and the latter implying the qualitative, subjective, humanistic, interpretive and social constructionist approach (Collis & Hussey, 2009:55; Babbie, 2010:33). In the current literature pertaining to social sciences a robust number of research that lie between the two traditional cores have been debated and argued (critical realism, post-positivism and post modernism) (Creswell 2009:16) and these traditional core are presented in Table 5.1 and they will be further discussed in this Chapter.

**Table 5. 1: Positivist and Interpretivist paradigms summarised**

|                           | <b>Positivist paradigm</b>                             | <b>Interpretivist paradigm</b>                                   |
|---------------------------|--------------------------------------------------------|------------------------------------------------------------------|
| Basic beliefs             | The world is external and objective                    | The world is socially constructed and subjective                 |
|                           | Observer is independent                                | Observer is part of what is observed                             |
|                           | Science is value free                                  | Science is driven by human interests                             |
| Researcher should         | Focus on facts                                         | Focus on meanings                                                |
|                           | Look for the causality and fundamental laws            | Try and understand what is happening                             |
|                           | Reduce phenomenon to simplest elements                 | Look at the totality of each situation                           |
|                           | Formulate hypotheses and then test them                | Develop ideas through induction from data                        |
| Preferred methods include | Operationalising concepts so that they can be measured | Using multiple methods to establish different views of phenomena |
|                           | Taking large samples                                   | Small samples investigated                                       |

Adapted from Easterby-Smith et al. (2008) and Saunders et al. (2009:119)

### 5.3.2 Ontological and epistemological assumptions

As earlier outlined, all the research paradigms have philosophical implications for example how the researcher views the world (ontology) and their belief of how knowledge is created (epistemology) it will be incomplete to outline the basic assumptions of the different paradigms without explaining the terms ontology and epistemology (Easterby-Smith et al., 2015; Villiers & Fouché, 2015).

Ontology is the assumption we make about the kind and nature of reality as well as the relationship between different aspects of society. For example, whether social entities exist independently from social actors or rather they are social constructions themselves built from perceptions, interpretations and actions of individuals in that society (Al-Saadi, 2014; Blaike, 1993; Bryman et al., 2008; Bryman & Bell, 2015; Villiers & Fouché, 2015). Ontological assumptions therefore are the assumptions that researchers have about how the world operates, they relate to what is known, the philosophy of reality. The question to be answered in understanding the existence and structure of reality being that, is reality external to consciousness or is it a product of individual consciousness? (Hatch & Cunliffe, 2013; Ormston



et al., 2014). Guba and Lincoln (2004:21) explain ontology as a world view that defines, for its holder the nature of the world, the individual's place in it and the range of possible relationships to that world and its parts. In simpler terms ontology explains the claims or assumptions on the nature of reality, whether reality is objective or whether it is subjective, created only in one's mind. Accordingly, objectivism and subjectivism can be explained as the most important facets of ontology. Ormston et al (2014: 4) state that ontology addresses the question whether or not there is a social reality that exist independently from human interpretations and conceptions or whether there is shared social reality or only multiple, context specific ones.

Objectivism postulates the position that, social entities exist and operate in reality external to social actors concerned with their existence (Lincoln & Guba, 2004; Saunders et al., 2009). On a similar vein (Bryman et al., 2008) describes objectivism as the ontological position that asserts that social phenomena and their meanings exist independent of social actors. On the other hand, subjectivism which is often described as constructionism or interpretivism, contrary to objectivism argues that social phenomena is borne from perceptions and consequent actions of social actors concerned with their existence. In short, constructionism ontologically asserts that social phenomena and their meanings are a product of continual accomplishment by actors (Bryman et al., 2008). Ontology identification is therefore essential at the onset of the research process as it is critical in determining the choice of research design, epistemological assumptions and methodological assumptions. According to the positivist or objectivism ontology, the world exists independently of the researcher's knowledge of it whereas with subjectivism the world does not exist independently of the researcher's knowledge of it, the researcher is part of the researched or the observer is part of the observed. Choosing objectivism ontology leads to positivism epistemology, which in turn is linked to deductive research approach and accordingly calls for the use of quantitative research methods to be employed for data collection (Bryman & Bell, 2015; Denzin, 2012; Saunders et al., 2009). Alternatively, choosing constructivism ontology implies the selection of interpretivism epistemology, therefore adoption of an inductive approach and application of qualitative methodology in collecting and analysing data (Saunders et al., 2009).

#### **5.3.2.1 Epistemology**

Epistemology concerns what constitutes acceptable knowledge in the field of study. Closely linking it to ontology, epistemology considers submissions about the most appropriate ways of undertaking an enquiry into the nature of the world (Bryman et al., 2008; Easterby-Smith et

al., 2008). Eriksson and Kovalainen (2015) contend that epistemology explains how knowledge can be produced and argued for, accordingly seeking to provide answers to such questions as “what is knowledge and what are the sources and limits of knowledge?” As outlined by Blaike (1993), epistemology is described as the set of claims or assumptions about ways in which it is possible to gain knowledge of reality. In short, epistemological assumptions relate to how we know what exists, what can be known, how knowledge can be acquired and what criteria must be satisfied in order for knowledge to be described as acceptable knowledge. Providing a brief snapshot of epistemology Hatch and Cunliffe (2013) allude to the fact that it answers the questions “how is knowledge generated, how can one differentiate between good and bad knowledge, how should reality be described and represented?” Bryman et al. (2008) is of the view that epistemology concerns what is regarded or should be regarded as acceptable, legitimate and valid knowledge in a discipline and in this study knowledge as it relates to IS taxation. Cohen et al (2007:7) suggest that epistemology is all about the basic assumptions that one makes about knowledge, its nature and form as well as how it can be communicated to human beings. The authors give a profound analysis of how these epistemological assumptions held by researchers about knowledge largely impact on how one goes about uncovering knowledge of social behaviour, especially how the assumptions influence methodological choices. Hatch and Cunliffe (2013) allude to an inter-dependent relationship between epistemological assumptions, ontological assumptions and methodological assumptions especially how ontology informs epistemology (objectivism ontology points to positivism epistemological assumptions whereas constructionism ontology leads to interpretivism epistemological assumptions) and epistemology depends on ontology while these two influence the methodological assumptions made by the researcher basing on the paradigm choice. Two epistemological assumptions are referred to in research literature interpretivism and positivism (Al-Saadi, 2014). The former views knowledge as personal, unique, subjective, context and time dependent pointing to a rejection of methods used in the latter and adoption of largely qualitative methods (Al-Saadi, 2014; Lincoln & Guba, 2004; Villiers & Fouché, 2015). The latter considers knowledge to be hard, objective, tangible and independent from the researcher imposing an allegiance to methods such as experiments, testing and measuring towards research.

### **5.3.2.2 Axiology**

Axiology focuses on the importance of values in researcher and the stance of the researcher. About axiology, the interpretivist researchers adopt the emic stance or insider view, which

entails that social reality is studied from the perspective of the people themselves. The experiences of researchers and research participant greatly affect data collection and analysis for the research. On the contrary, for the positivist, the axiology stance is value free and etic, the researcher is independent of data hence employs an objective position (Saunders et al., 2009:119; Guba and Lincoln, 2005).

### **5.3.3 A link between research paradigms, ontology, epistemology and methodology (POEM)**

As earlier explained by McKerchar (2008) two traditionally core organising research frameworks differentiated by their ontology, epistemology and methodology choice exist in the name of positivism and interpretivism. These will be accordingly reviewed in line with POEM assumptions. Denzin (2010) marries methodological approaches with ontologies and epistemologies in trying to create a complete research picture. He argues that a proper marriage of these is essential in acquiring answers or information sought in a research.

#### **5.3.3.1 Positivism and objectivism**

Positivism may be seen as an approach to social science research that seeks to apply the natural science model of research as the point of departure for investigations of social phenomena and explanations of the social world (Denscombe, 2008). As discussed by McKerchar (2008), positivism is adopted by those researchers who seek objectivity in their explanations of social reality. Accordingly, in relation to this paradigm, the researcher is viewed as detached from the subjects under study and findings derived are based on empirical evidence and tested theories. Epistemologically the paradigm places great importance on objectivity and evidence in searching for the truth, accordingly facts and value are viewed as very distinct explaining why research is seen as possible to carry out objective and value free research (Al-Saadi, 2014; Villiers & Fouché, 2015). The positivist philosophy has been considered to be based on a realist and objectivist ontology, which views the world as an existence independent of our knowledge of it. This entails a belief based on the assumption that trends, generalisations, hypothesis testing, methods, procedures, cause and effect issues are applicable in the context of social sciences as in natural sciences. As such, people being objects of social sciences are suitable for application of natural science methods (Bryman, 2007). Describing the paradigm McKerchar (2008) observes that knowledge derived by a positivist philosophy is built on deductive reasoning whereby the researchers adopts a precise and structured route leading to the identification of cause and effect relationships, causal explanations and modelling, logical deductions and the making of predictions according to various confidence levels. Positivism

relies on classical theories, pointing that the formation of true knowledge can only stem from affirmation of theories through empirical observation

Ormston et al. (2014) state that positivist knowledge is assumed to be objective, value free, capable of being generalised and replicable hence the synonymous perception of the paradigm as a scientific method. The positivist researchers argue that it is possible to adopt a distant, detached, neutral and non-interactive position to research in terms of both data collection and interpretation. Gratton and Jones (2010) allude to this as the key strength of the positivist especially the precision, control and objectivity. They posit that any phenomena, which cannot be objectively studied cannot be accepted as evidence or a fact, for instance people's thoughts and attitudes cannot be accepted as valid knowledge and evidence. Positivism can be defined as "research that employs empirical methods, make extensive use of quantitative analysis, or develop logical calculi to build formal explanatory theory" (Blaikie, 1993). Denzin (2010) indicates that classical positivist assumed that social reality could be explained in rational terms, because people always act rationally. However, Babbie (2010) refutes the claims that people always act rationally, alleging that everybody thinks and interprets subjectively to a certain extent. The paradigm lends its self to highly valid and reliable research and can be successfully utilised in natural sciences. While well applicable to the natural sciences, the positivist paradigm is of little value in social sciences. Ormston et al. (2014) reject positivism basing on the arguments that if rules and laws are only derived from observation, then it is possible that future observation can prove to be the exception to current rules. This means reality can also be approximated contrary to it being known accurately as stated by the positivist.

This research paradigm immediately lends itself to taxation research. By objectively analysing and measuring contemporary views of stakeholders in taxation, it should be possible to evaluate results statistically within the context of clear expectations generated in literature. The challenge however is that it might not be feasible to confirm or disconfirm an expected outcome or hypothesis applying a range of alternative public perceptions.

#### **5.3.3.2 Interpretivism and constructionism**

In contrast to the above paradigm and its beliefs, interpretivism is based on the assumption that the researcher and what is being researched interact hence the researcher cannot be detached from the subjects being studied (Denzin, 2010; McKerchar, 2008; Villiers & Fouché, 2015). The research will arguably shapes the researcher's own identities, histories and expectation as well as the social and political context of the research. The interpretivist is also described as

the phenomenological or the anti-positivist (Presser, 2005). Reality is multiple and a product of political, economic, social, gender and other factors.

The paradigm emerged because of the criticism against the positivistic paradigm, mainly its inability to deal with social research. The view in the interpretivist paradigm is that social reality is different from natural reality in that, it is shaped by perceptions and opinions of participants as well as their values, beliefs and aims of the researcher. In as much as interpretive research is concerned with the meanings that people attach to norms, rules and values, it is important that the researcher does not impose a previous understanding of norms, rules and values on participants but to seek to understand their beliefs and actions from their point of view (Al-Saadi, 2014; Saunders et al., 2009). In short, the argument is that social practice gives meaning to social action, therefore, reality is subjective, context-dependent and constructed based on individual interpretation. Epistemologically, the paradigm claims that the objects of social research, which are people are different from those of natural sciences and as such, knowledge is gained from personal experience (Al-Saadi, 2014; Bryman et al., 2008). The interpretivist is not without its own limitations, one of them is that its understanding of social reality is based on subjective interpretation of the researcher as it abandons the scientific procedures of verification and therefore results cannot be generalised to other situations. Another criticism being that ontological assumption is subjective rather than objective. The paradigm does not provide hard and fast explanations that allow for identification and predictions of causal relationships. Denscombe (2008) observes that the interpretivist researcher's explanations are more likely to be messy and open ended contrary to the positivist's which are said to be nice, neat and complete. This, however does not mean interpretivists do not seek to be objective in their research.

Based on, the combination of POEM assumptions, it therefore suggests that a researcher who adopts an interpretivist philosophy is expected to adopt an inductive research process which implies a qualitative methodology. On the contrary, one who opts for a positivist paradigm who will accordingly be expected to choose a deductive process aligned to a quantitative methodological approach (Al-Saadi, 2014; McKerchar, 2008).

The diverse nature of taxation and the potential diversity in perspectives from stakeholders also lend themselves to interpretivism (phenomenology), as any categorisation of subjective views may be considered as being unreliable. In addition, the contradiction and controversy that surrounds what constitutes an ideal or optimal IS tax system may indicate a potential avenue

for theory generation. The complexity of the ontological map in taxation may lean more towards interpretivist paradigm as not all contributing ontologies may be objectively tested.

The present study focused on studying the informal sector taxation puzzle in Zimbabwe, with the main objective being to critically review the impact of informal sector taxation as a revenue collection tool and its conformity to the canons of taxation. It also seeks to investigate the challenges and positive outcomes of such taxation. According to McKerchar (2008) and McKerchar and Evans (2009), taxation with its intrigues and intricacies is a fundamental component of daily activities. It attracts scholars with diverse backgrounds, from policy makers, academics, the business community and the wider community as well as researchers from various research disciplines such as law, finance, fiscal studies, economics, political science and accounting, just to mention but a few. Therefore, its structure, embodiment and reality is a mirror of the “shared values, goals and aspirations of society and a means by which its members are bound together” (McKerchar, 2008:5). When studying taxation it is important to bear in mind that taxation goes beyond just understanding the study of revenue law and that taxation is not a discipline its own right but a social phenomenon that can be studied and enquired through various disciplinary lenses (McKerchar, 2008). In consonance, Meagher (2016) and Heggstad et al. (2011:1) affirm that taxation is a convoluted social phenomena hence it is often difficult for researchers in this field as they struggle with its multifarious nature and the intricacies of investigating and understanding human actions as well as behaviour. It is therefore without doubt imperative that the researcher makes informed POEM choices that are appropriate in the given context and to rigorously apply them in order to produce valid and credible findings as well as recommendations that contribute meaningfully to the body of knowledge on IS taxation. Poor POEM choices often lead to perilous research process routes with methodology and problem statement mismatch hence it is desirable that the chosen methodology is premised on a solid and defensible foundation (paradigm) (McKerchar, 2008; McKerchar & Evans, 2009). Interpretivism, therefore, becomes the ideal research philosophy for this study as it allows for the use of narrative form analysis to give a detailed explanation on IS taxation.

#### **5.3.4 POEM choice and justification for this research**

The two paradigms presented above are concerned with two concepts of social reality. While the positivist signifies objectivity, measurability, predictability, controllability and constructs laws and rules for human behaviour, the interpretivists essentially emphasise understanding and interpretation of a phenomena, making meaning out of its process (Guba & Lincoln, 2004).

The choice of paradigm for this study is between the two traditional cores of positivism and interpretivism discussed in detail above in 5.3.3 basing on the relevance and adequacy of the strategies of inquiry, in addressing the purpose of the research and being appropriate for the taxation discipline (McKerchar, 2008). By implication, the ontology of tax must include ontologies from the positivist and constructionist views. The epistemological orientation chosen should be influenced by the aim of the study, research work aiming for explanations, hypothesis testing and predictions, adopts a positivism paradigm and that aiming for interpretation, exploring and understanding a phenomenon adopting interpretivism (Curry et al., 2009; McKerchar, 2008). There are shortcomings in the positivist paradigm where reality may not be demonstrable; hence, the paradigm is declined for this research. Since this study aims at evaluating the IS taxation framework, scrutinise it, understand the different ways of taxing this challenging sector and the pros and cons of such taxation the positivist approach would be counter-productive. The interpretivist paradigm on the other hand would be more relevant. This study focuses on perceptions of taxation, such views and perceptions are concerned with human behaviour and experience.

The justification of the study pointed to IS taxation being a topic of controversy amongst developing country governments, policy makers and academics. There is also a dearth in literature in Zimbabwe and developing countries that this study sought to fill. As a result of the arguments above the interpretivism research paradigm seemed to be suitable for this research, in order to explore and obtain an understanding of the IS taxation phenomena in depth. Taxation is not a natural science but a social phenomenon and hence the disqualification of the positivism paradigm and adoption of the interpretivism as the most appropriate one. Cohen et al. (2007) explains that “social science is seen as a subjective rather than an objective undertaking, as a means of dealing with the direct experience of people in specific contexts and when social scientists understand, explain and demystify social reality through the eyes of different participants. Therefore, taxation cannot be seen as a purely objective phenomenon but a subjective one. Additionally, the researcher’s background in taxation impedes total objectivity as personal values and interests are carried to the research. These arguments already point to qualitative approach being a dominant aspect of this research. Instead of choosing perhaps the pragmatism paradigm which is argued to be more suited for MMR design (Goldkuhl, 2012), this research found the interpretivism paradigm more suitable due to the pre-dominantly qualitative nature of the study.

The interpretivism paradigm was considered most appropriate since it emphasises verification of a phenomenon. In addition its appropriateness stems from the fact that since it is often referred to as a phenomenological paradigm. Phenomenology seeks to investigate and understand the essence of human experiences concerning phenomena as viewed by participants in a study (McKerchar, 2008). The importance is placed upon gaining an understanding of the situation from the perspective of those who understand it and on understanding the meanings that actors (people) attach to their social situations, their own actions and the actions of others (McKerchar, 2008). In this case, the phenomenon of IS taxation was studied through this framework, a concerted effort was made to understand the informal sector especially in understanding what drives people to participate in it, whether it should be taxed or not, the negative and positive outcomes of such efforts. Care was taken to have a balanced view by contextualising the problem from the eyes of different participants for example how the IS engages with the tax system, how policy makers and revenue authorities view the IS and its contribution to revenue mobilisation and what economists have to say about the IS taxation puzzle.

The aim of understanding the subjective meanings as described by social actors in particular domains especially tax is essential in the interpretive paradigm. The basic idea is to work with the subjective meanings that already exist in the social world that is to acknowledge their existence, to reconstruct them, to understand them, avoid distorting them and use them as building blocks in theorising (Goldkuhl, 2012). For an interpretivist researcher it is essential to understand motives, meanings, reasons and other subjective experiences, which are time bound and context bound. Accordingly the interpretivist philosophy becomes ideal for this research considering research in taxation is typically derived from existing concepts, models and theories in the multi-disciplinary schools of thought (in this case the dualistic, structuralist, continuum, legalist and illegalist schools of thought as discussed by Chen (2012)). From the view point of Boll (2014:2), taxation and tax compliance does not lie in a vacuum continuum but as part of social reality, which can be understood, described and interpreted in different ways. Tax can be understood from the taxpayer's view and the policy maker's view. Tax compliance is a result of "distributed actions", by the taxpayer (TP), the tax authority (TA). This concurs well with Easterby-Smith et al (1997)'s description of the interpretivist paradigm that multiple methods can be used to establish different views of a phenomenon. Taxation is a highly dynamic and complex phenomenon, fitting well with "subjective experiences which are time bound and context bound" as alluded to by Goldkuhl (2012).



Lastly, the ontological and epistemological assumptions, which underpin this research are premised on the understanding that there is no single or absolute reality. Reality is multiple as seen by participants, other knowledge and realities exist and have to be explored as advocated by constructionism. Knowledge and experiences are a result of our efforts to interpret and understand the world hence these remain subjective and approximate in nature (Cohen et al, 2007:19). The researcher and the researched interact, the observer is part of the observed (Bruhn & McKenzie, 2014; Villiers & Fouché, 2015), considering that tax is a part of our everyday life, the researcher is a TP in her own right. Epistemologically the interpretivist view emphasises the close relationship between the researcher and the social world (Ormston et al., 2014). The two are not necessarily independent but impact on each other. Therefore, some of the knowledge was gained from experience and interaction with tax authorities and other stakeholders but care has been taken to eliminate researcher's epistemological biases and to see reality from the perceptions and stand point of participants.

The justifications of ontological and epistemological positions discussed above manifest themselves greatly in the research methodology and overall research design discussed below in Section 5.4. The chosen methodology aimed at exploring the reality of IS taxation through the perceptions and experiences of different participants (policy makers, taxpayers, tax revenue administrators) in their particular context while at the same time acknowledging and privileging their varied views and experiences.

#### **5.4 Methodology and methodological assumptions**

Research methodology is a plan used in the pursuit of knowledge; it outlines the investigative journey, laying out previously developed paths that lead to valid knowledge. The pathways are drawn on maps built on assumptions on the nature of reality and process of human understanding. The outline of a research methodology provides an answer to the methodological question, "How can the enquirer go about finding whatever he/she believes can be known?" (Lincoln and Guba, 2004:4). As pointed out earlier ontological perceptions, epistemological stances and methods of data gathering and data interpretation are closely linked. Ontological distinctions are a critical facet of the research process as they enable the researcher to uncover how their perception of human nature influence the methodological approach they consciously adopt to investigate social truths (Al-Saadi, 2014; Cohen et al., 2007). They guide methodological considerations and provide valuable justifications for the choice of methodology and research methods. In short, data collection methods, data analysis

instruments and interpretation is informed and understood through the ontological and epistemological assumptions made earlier (Al-Saadi, 2014), either positivist implying deductive, objective and quantitative approaches or interpretivist pointing towards inductive, subjective and qualitative approaches. The approach can also be a mixed methods approach implying a cross fertilisation of research paradigms driven by the desire to seek deeper understanding of the research problem and more critically real solutions (Gobo, 2015; McKerchar, 2008). This research adopts a mixed methods approach in order to enhance validity and reliability in the research while allowing for deeper interpretation of the phenomenon under study as discussed in the sections that follow.

#### **5.4.1 Research approaches**

This study employs a mixed method research approach (MMR). According to Bryman (2007), mixed method has increasingly gained ground over the years. The preference of the method being informed by the recognition that the world is complex and cannot be adequately comprehended by employing a single approach but by using a combination of both qualitative and quantitative approaches. This study adopted an exploratory MMR approach, which seemed more applicable based on the fact that there is a paucity in studies on informal sector taxation. Exploratory research designs greatly favour qualitative approaches and tax researchers such as Mason (2006), champion the adoption of MMR in unpacking the convolutions of tax compliance. The researcher advocates for employing qualitative approach first as starting point to comprehend taxonomies, tax-connected challenges and concepts to inform the quantitative part. The adoption of MMR in tax research was espoused by McKerchar (2008:20), Torgler (2007:52) and McKerchar and Evans (2009). Empirical research can be explained from three angles (a) Deductive/inductive (b) Qualitative/ quantitative (c) Subjective/ Objective. These different approaches will be reviewed in detail.

##### **5.4.1.1 Non-Empirical research/Review of related literature**

According to McKerchar (2008), it does not matter whether a researcher is following a total new methodological pathway or is following one already in existence, the research must address a gap identified at the very beginning of the research. To identify this gap, be it a theoretical (knowledge gap), methodological or policy gap, one of the first considerations is the pre-existing body of knowledge (review of literature). This literature is often used as a source of reference for information from research previously carried out in the chosen field (Fink, 2010; Birmingham, 2000; Snyder, 2019). Accordingly, for this research, relevant related literature was used to identify the problem statement and on breaking it down into smaller

defensible issues (questions and sub objectives) as guided by McKerchar (2008) and McKerchar & Evans (2009). The smaller questions were all aimed at resolving the overarching problem as smaller pieces of the cake all being brought together to build a complete cake. Literature was used to unearth how others have researched IS taxation, by especially focusing on assumptions of the researchers about the world, methods, data availability, research questions, data analysis and results.

Non-empirical research was also conducted and literature reviewed within the guidelines offered by Saunders (2009) as follows:

- To give a critical and evaluative account of what has been published by accredited scholars (Dube, 2014; Joshi et al., 2013; Joshi et al., 2014), on informal sector taxation in order to show what is already known on the subject area. The overall aim here was to identify who else was researching this subject area, whether or not there remains scope to make a valid contribution to the field (Snyder, 2019) (for example by using a different methodology or adopting a different angle to studying informal sector taxation as alluded to by McKerchar (2008)). This was fundamental in identifying gaps that is either theoretical, methodological or policy gaps (to discern what has been done, what has not been done and what could be done; what methodology has been used, rationale, its limitations and areas of improvement). This helped in identifying the gap to be addressed by the current research. This was as alluded to by Birmingham (2000) who argued that every researcher must invest apposite time and effort in investigating previous research in their chosen area, endeavours made so far, conclusions and recommendations in order to make meaningful progress, refine and build upon these. Appraising the strengths, weaknesses and limitations of the few studies on the subject of IS taxation and informality in Zimbabwe was vital in identifying areas of further research and gaps to be addressed by this research. Fink (2010:194) affirming the importance of synthesising literature review in any research posits that, this “provides answers to research questions, and describes the quality of evidence on which the answers are based”. The researcher further explains that this synthesis describes the present knowledge on the topic, supports the desire and justification for new research, explains research findings and interrogates the quality of the body of knowledge and research on the subject. This is affirmed by Snyder (2019:333) who posits that “building your research on and relating it to existing knowledge is a building block of all research

activities”, one that lays a strong foundation for knowledge advancement, theory development and synthesis of findings.

- To demonstrate adequate and up to date knowledge of the chosen area by reviewing, summarising and anatomising arguments by accredited scholars (Ayee, 2007; Dube, 2014; Joshi & Ayee, 2002, 2008; Joshi et al., 2013, 2014) in IS taxation in the literature review chapters. The objective was to reveal similarities and differences, consistencies and inconsistencies and controversies in the previous research in order to provide the background to the problem in Chapter One and put the problem into historical perspective as well as contextualising it to the Zimbabwean environment in Chapter Four. The importance of contextualisation is twofold, that is objectified and interpretive. The former builds on the fact that contextual factors such as the political, economic, social, technological, environmental and legal (PESTEL) environment prevailing in a country provide distinctive and quirky realities that influences drivers of informality, motives, challenges and benefits of informal sector taxation. As for the latter contexts offer interpretive meanings. Rogan (2019:15) suggests that “context specific research” on IS taxation especially on the equity, growth and governance gains motive should be a matter of priority for researchers and policymakers. For example, in this case comprehending the contextual environment in Zimbabwe (in Chapter Four) accentuates situational awareness that is essential in developing understanding of a complex phenomenon like informal sector taxation in developing country context and Zimbabwe in particular. This contextualisation is key for one to conduct an adequate and informed review of IS taxation in Zimbabwe.
- To inform the readers about current concepts, models, theories (Akintoye, 2017) and the state of knowledge on IS taxation. The theoretical framework and other key academic theories explored in this research were a product of non-empirical research as identified in Chapters Two, Three and Four. Chapter Two is primarily concerned with the theoretical framework guiding this research; while Chapter Three is a general review of related literature on informal sector taxation, the positive and negative outcomes of such taxation and ultimately how other developing countries have been grappling with taxing this sector. Chapter Four narrows the focus to Zimbabwe in order to provide the impetus and a contextual environment within which this research is undertaken.

- A review of the theoretical framework in Chapter Two culminated in the development of a conceptual framework in the same Chapter. The conceptual framework gives the researcher's own understanding of the progression of informality and taxation of the informal sector and how the research problem would be explored (Adom et al., 2018; Grant & Osanloo, 2014; Sinclair, 2007). This provides a visual display of the relationship between the main concepts of the study.
- To evaluate the strengths and weaknesses of previous published research including omissions or bias (Chapter Two, Three and Four) and take these into account in discussions of findings in Chapter Six (Analysis of findings from previous researches' are essential to show what were the results and how could the results be better).
- To show how this research relates to previous published research by justifying arguments pertaining to POEM choices (Chen Loo et al., 2009), in this chapter as well supporting arguments as demonstrated in Chapter Six, Seven and Eight.
- To direct readers of this research to the original work cited through clear referencing of points and ideas (Darling & Rogers, 1986; Fink, 2013; Potter, 2002). Contradictions and clashes of evidence and the contributors to different schools of thought were clearly referenced.
- To demonstrate research methods that have been previously applied to study the phenomena and how these relate to the currently adopted methodology. Darling and Rogers (1986:17) provide emphasis that literature review provides "insight into the research techniques used and their appropriate use in answering particular research questions". Controversies existing in studying IS taxation, how it has been studied despite these and the findings were explored. The tables comparing the researcher paradigms were adapted from Al-Saadi (2014) and methodology choice was largely influenced by the works of researchers in taxation who employed the mixed method approach (Chen Loo et al., 2009; Dube, 2014; Loo, Evans, & McKerchar, 2012; Mangioni & McKerchar, 2013; McKerchar, 2008; McKerchar & Evans, 2009).
- To fully acknowledge the work of others through organising the citations into a reference list as this is one of the key qualities of academic research that eliminates issues of plagiarism. Acknowledging the work of others is essential in demonstrating both "where things are" as well as providing a critical appraisal of what others have done, their recommendations and "warnings of possible pitfalls or research questions that have been thus far neglected" (Potter, 2002:119-121).

- To provide support and comparison for research findings in Chapter Six and Seven as well as to derive recommendations in Chapter Eight. When discussing and analysing findings literature provides a bedrock upon which to compare results with outcomes from other researchers and this is key in any research (Potter, 2002:119-121).

#### **5.4.1.2 Empirical research**

Research can either be explanatory, exploratory, descriptive or predictive, but whatever the case empirical evidence or fieldwork is necessary (Easterby-Smith et al., 2008). This is often explained as data based on observation, inquiry or experience. The motivation for empirical research is to gather appropriate, reliable and valid evidence relevant to the research problem, questions and research objectives. For this research, this section explains how empirical information was gathered to support and provide relevant evidence for the problem statement and the accompanying research questions and objectives in relation to IS taxation. The research objectives were to understand the drivers of informality, explore the theoretical framework for IS and develop a conceptual framework for studying IS, evaluate IS taxation in Zimbabwe, explore its challenges and benefits and recommend better ways of taxing the sector. Empirical investigation undertaken in the current study was based on both qualitative and quantitative methods using the mixed method approach.

##### **(a) Deductive/inductive approaches**

The choice between deductive and inductive approach has been a subject of discussion by many scholars in research as they link the choices to research philosophy (Al-Saadi, 2014; Collins & Hussey, 2013; McKerchar, 2008; McKerchar & Evans, 2009). The two approaches deal with the role of theory in research. With deductive approach theory and hypothesis are created and tested and inductive data are collected and theory built from the data analysed. The deductive method is described as moving from general theory to specific. It is described as a study in which conceptual and theoretical structure is developed and then tested empirically. Robson (2002), articulates that this approach involves deducing a hypothesis, operationally expressing such hypothesis, testing it, examining the specific outcomes of the tests and modifying the theory if need be. McKerchar (2008) emphasises that deductive approach identifies and explains the cause and effect relationship between variables as well as operationalizing concepts for quantitative measurement. Deductive approach is quantitative in nature and allows for generalisation whilst inductive process is qualitative in nature. The inductive approach describes theory building by understanding the way human beings build their world. According

to Collis and Hussey (2013), in inductive approaches theory is built from observation of empirical reality in which general inferences are induced from particular instances allowing for alternative explanations of a phenomenon. This is more inclined to the context of events. McKerchar (2008) observes that qualitative employs deductive reasoning rather than logic and requires more creativity and uses indirect means of collecting data. The approach uses various methods of data collection.

For this study the combined use of the two approaches as suggested by Perry (2001) when he advocated for a continuum between pure theory building (induction) and pure theory testing (deduction) was adopted. He suggested striking a middle ground between the two by what he describes as theory confirming or disconfirming. In this study the deductive approach has been used with emphasis on the exploratory approach to understanding the IS sector in the context of the Zimbabwean case with specific focus to confirming or disconfirming the theoretical framework outlined in Chapter Two. The dualist, structuralist, continuum, the legalist and illegalist models (Chen, 2012) as well as their relevance and applicability to Zimbabwe. In addition the cause and effect relationship between tax rates and informal sector compliance was investigated. The study was largely inductive in nature as it adopted a phenomenology focus which emphasises locating features of human awareness and configuration of those experiences in making assumptions. The phenomenological epoch focuses on human experiences of a phenomena or qualitative appearance or descriptions of the phenomena (Easterby-Smith et al., 2008). Therefore this study focused on mapping or investigating qualitatively the different ways in which people (taxpayers, tax revenue administrators, policy makers and other stakeholders) experience, understand perceive and conceptualise various aspects of IS taxation. The main idea was to discern the qualitatively different means or forms of subject experience and to conceptualise, interpret and explain how IS taxation can be viewed differently by different players because of their diverse backgrounds and experiences. The researcher was searching for quantitatively or qualitatively different, but logically interconnected conceptions or different understandings in relation to IS taxation. The research approach described more specifically was to critically review IS taxation in Zimbabwe. Therefore it investigates the government and its tax policy in relation to the IS, the RA, and the IS taxpayer experiences and how all these different experiences, views, perceptions and attitude influence the success or failure of IS taxation as a revenue collection tool as well as compliance challenges and benefits.

### **(b) Objective/subjective**

Subjectivity and objectivity implications in the empirical research approaches were given due consideration. Bearing in mind that a positivist approach is considered more credible and objective as compared to interpretivist research paradigm, which is the philosophical choice for this research. Positivist researchers are very detached from what is being researched yet the interpretivist researcher is part of what is being researched implying subjectivity (Collins & Hussey, 2013; Collins & O’cathain, 2009). In recognising that phenomenological research is by its very nature subjective and seeking to address this limitation, an exploratory MMR approach was adopted in order to exploit its advantages. These benefits include: bringing diversity, complementarity, corroboration and confirmatory advantages to reduce subjectivity of views and data gathered (Collins, Onwuegbuzie, & Jiao, 2007; Collins, Onwuegbuzie, & Sutton, 2006; Onwuegbuzie & Collins, 2007; Onwuegbuzie, Johnson, & Collins, 2009; Zivanai, Felix, & Chalton, 2015). The weakness of subjectivity in phenomenology was also recognised in the analysis and interpretation. This was in line with what researchers such as Boll (2014) used in his research “Mapping tax compliance assemblages, distributed action and practices...” Attention was paid to this aspect as was discussed in the data validity and reliability considerations section.

### **(c) Quantitative/qualitative approaches**

The two fundamental approaches often applied in conducting research that are quantitative and qualitative approaches (Creswell, 2016). The choice was whether to adopt quantitative or qualitative approach or some mix of the two. The quantitative research approach assumes that reality is singular and objective and is independent of the researcher. Research designs embracing quantitative methodology were originally designed in the natural sciences to study natural phenomena using various forms of methods such as experiments and surveys as main strategies of inquiry (Easterby-Smith et al., 2015; Saunders et al., 2009; Villiers & Fouché, 2015). Quantitative researchers also assume that their studies can be replicated and that generalisations about any relationships identified in the context of a broader population are possible. Quantitative methodology is also often used to study causal relationships between variables for example in this case the cause and effect can be investigated in the following two dimensions, Is the amount of tax revenue contribution from the IS related to taxpayer compliance levels in the IS? Alternatively, is tax compliance in the IS related to tax rates or fairness perceptions? The cause and effect relationships are identified and tested (Loo et al.,



2012; McKerchar, 2008; McKerchar & Evans, 2009). Quantitative approach uses numbers and statistical methods or numerical measurements of aspects of phenomena, these include the random selection of participants from the study population in an unbiased manner, the standardised questionnaires and statistical methods used to test hypothesis or relationship between variables.

Quantitative approach to research helps to predict or provide theoretical rationale in explaining a phenomenon for example outlining why and how variables and relational statements are interrelated or why would independent variable A affect dependent variable B. Theory testing and hypothesis testing would provide the possible answers (Al-Saadi, 2014). Quantitative research approach is not without its setbacks and these include a flexibility problem in design as well as the fact that numbers cannot speak for themselves. Therefore, in some instances quantitative research alone may not generate effective results in interpretive and exploration research problems.

On the other hand, qualitative research is a tool for exploring and understanding the meaning individuals or a group ascribe to a social or human problem (Creswell et al., 2008). Qualitative research methodology does not lead to statistical generalisations that are prone to positivism. Proponents of this approach lend themselves to analytical generalisations and interpretations to a process as opposed to its outcomes (McKerchar, 2008). The idea is to gain an understanding and explanations about the size or scale of a phenomenon contrary to positivists who through quantitative methods seek to get a definitive answer. The qualitative approach is multi-method in focus and attempts to make sense or interpret a phenomenon in terms of meanings that people attach to it. Denzin and Lincoln (2005), describe qualitative research as “an approach that uses naturalistic approach which seeks to understand phenomena in context-specific settings, such as real world settings, where the researcher does not attempt to manipulate the phenomena of interest...” It is but the kind of research that whose outcomes are deduced from actual world situations where the phenomena under study occurs naturally. In the case of this study taxation of the IS was being studied in a natural setting, the Zimbabwean context and environment. The objective was to provide the researcher with the perspective of participants. This helped the researcher in gaining a better understanding and insight into the human behaviour of tax experts, the revenue authority officers, policy makers and taxpayers. This enabled in the verification and extension of IS theories and improve the researcher’s understanding of why participants behaved in a certain manner or had a certain attitudes from their experiences (Boll, 2014; Rosid, 2014).

Qualitative research methods were developed in the social sciences to enable researchers to study social and cultural phenomena. Qualitative researchers assume that reality is context bound; time dependent and that theories can be explicated to develop a deep understanding of a phenomenon. The researchers assume that reality is constructed by people's interactions with the social world and that the researcher is part of the researched (Ormston et al., 2014). Qualitative researchers seek to understand the phenomenon of interest in the eyes and experiences of participants and attach meanings to these experiences (multiple meanings of individual experiences built socially or historically from advocacy or participatory perspectives).

Within qualitative methodology, numerous theoretical frameworks exist encompassing ethnography, case study, narrative, phenomenology and grounded theory and their various strategies of enquiry (McKerchar, 2008; McKerchar & Evans, 2009). Qualitative data collection methods include interviews, questionnaires, observation of participants and archival documents. In this research these methods were adopted to assist the researcher to understand the meanings participants attached to IS taxation, what their views were towards it and to elucidate the mental views underlying their behaviours of tax compliance or non- tax compliance. The logic was to display the voice of the researched and to gain first-hand information regarding the lived experiences of IS tax experts, policy makers and the RA officers. This brings about various orientations and perspectives such as political, economic, social, stakeholder or change oriented perspectives. The most outstanding advantage of using the qualitative research approach was that it leads to obtaining thick data that entails real, rich and deep data, which exhibits everyday patterns of action and meaning from the perspective of those being studied. (Onwuegbuzie et al., 2009). Qualitative research generates rich, detailed data that leave participants' perspective intact and provide a context for the phenomena being studied (Creswell, 2014). Like quantitative research, qualitative research has also its weaknesses. For example, it produces data that does not permit generalisability, does not ensure objectivity, often likened to journalism and hence the quality of findings is often queried.

This research adopts a mixed method approach (MMR) combining both qualitative and quantitative approaches based on the advices derived from previous researchers but with qualitative being more dominant in this case (Sequential exploratory MMR). The researchers argue that the biases and weaknesses inherent in any single method can neutralise those of other methods (Creswell, 2014). Employing an effective mix of methods can enhance or enrich research by maximising on the strengths of each approach or method and exploiting the

strengths of one method to compensate for the limitations of another (Chen Loo et al., 2009; McKerchar, 2008). MMR is often adopted in cases where either approach alone cannot give a holistic approach. For example, where quantitative alone cannot fully address research the question, qualitative research can offer a detailed view of individuals or description of processes, thereby ensuring a more comprehensive understanding of the phenomenon of interest such as IS taxation in this case.

#### **5.4.2 MMR approach definition and justification for its adoption.**

In justifying the mixed method approach, the sections that follow would define and explain the mixed method in brief, offer the rationale for its adoption, explain how significant the use of MMR was for this study and lastly the specific mixed method research designs and the one adopted for this study.

##### **5.4.2.1 MMR defined and explicated**

The MMR approach has received significant attention by many scholars and researchers (Creswell & Tashakkori, 2007; Johnson & Onwuegbuzie, 2004; Tashakkori & Creswell, 2007; Tashakkori & Teddlie, 2010; Teddlie & Tashakkori, 2003, 2009, 2010, 2012; Venkatesh, Brown, & Bala, 2013; Venkatesh, Brown, & Sullivan, 2016). Mixed method research reflects a combination of quantitative and qualitative methods within a single study. The approach can be viewed as the research where the researcher combines qualitative and quantitative research techniques, approaches, concepts or languages into a single study (Johnson & Onwuegbuzie, 2004). Venkatesh et al. (2013) describe it as involving a research design that uses multiple methods that may or may not share the same worldview. Quantitative research is often viewed as highly formalised, well organised and epistemologically adopting a deductive approach often referred to as the “eagle’s view” to research. This gives a clearer and comprehensive picture to address the research. On the other hand, the qualitative approach is described as procedures not strictly formalised, often undefined, messy and inductive (Creswell et al., 2007; Creswell & Tashakkori, 2007; McKerchar, 2008; Schwandt et al., 2007). Understanding the differences between the two approaches is essential to researchers, especially appreciating their unique strength and weaknesses. Minimising the weaknesses of each method and exploiting the strengths as well is often the key motivation for the mixed method approach as the one adopted by this study (Bryman et al., 2008; Curry et al., 2009; Ivankova et al., 2006; Tashakkori & Creswell, 2007).

Qualitative research methods are often used to understand a complex social phenomenon, to address essential aspects of a phenomenon from the view angle of study participants, to

investigate beliefs, values, and motivations that explain certain individual behaviours. Qualitative research is largely exploratory in nature and aimed at generating novel insights using inductive rather than deductive logic (Curry et al., 2009; McKerchar, 2008). Qualitative and quantitative approaches can be differentiated in a variety of ways. Firstly, quantitative research counts occurrences for example incidence, magnitude, prevalence, estimates, frequency just to note a few, yet qualitative research explains the breadth and complexity of a phenomenon (Creswell, 2014; Curry et al., 2009). Secondly, qualitative research focuses on generation of hypotheses about a phenomenon, its consequences and its precursors while quantitative approach concentrates on statistically testing the hypothesis. Lastly, whereas qualitative research takes place in natural rather than experimental settings, quantitative research occurs in randomised experimental and natural settings (Creswell et al., 2007; Curry et al., 2009). The former produces text based data while the latter produces numeric data generated through standardised processes.

Quantitative research in this case was used in research variables identification. Variables can be considered to be independent, mediating (moderating) and dependent. McKerchar (2008) theorise that a variable is considered, independent if it is likely to influence the outcome under consideration (For example tax rates and IS tax compliance). Dependent variables on the other hand are the outcome variables caused by the independent variables. In this study dependent variables could be revenue collections from the IS, compliance levels of the IS players, survival and growth of the IS firms and so on. Moderating variables are those that dilute or mediate the effect of the independent variable on the dependent variable. In this study, maybe the size of IS sector firms, number of years in operation, profitability and level of education of taxpayers. (The relationship between variables was discussed in more detail in developing the conceptual framework in Chapter Two). It is quite challenging to control variables such as viewpoints and attitudes hence the qualitative aspect becomes undoubtedly an essential research tool. Creswell et al. (2007) view the use of open-ended questions on a survey instrument as a validated quantitative data triangulation mixed method design. Quantitative research approach is associated with cognitive instrumental rationality, while interpretive and qualitative methods are primarily associated with moral practical rationality.

MMR approach is often used when developing an understanding of a phenomenon for which either approach in isolation would be insufficient. Johnson and Onwuegbuzie (2004:14-15), proclaim that MMR is not primarily aimed at either replacing quantitative or qualitative approaches but rather to draw from the strengths of these approaches and to minimise possible

weaknesses. Researchers who adopt the MMR assume that with the integration of qualitative and quantitative approaches within the same study, complementarity of the approaches may be achieved especially in case studies where the aim of the research is to determine the efficacy of a programme or policy (Greene, 2007; Greene & Caracelli, 2003). Such is the case with this study as it sought to evaluate informal sector tax policy and its implementation in Zimbabwe. The authors further explain that MMR is motivated by the pragmatic assumption that in order for one to properly evaluate the value of a policy or social program, an evaluator should employ whatever method(s) that will adequately gather the most reliable and valid empirical evidence to draw conclusions and meaningful decisions.

The use or combination of the two approaches may vary with one being dominant and other less dominant or secondary in nature. For example, having a dominant quantitative (Dominant QUAN-qual), or a situation where the qualitative is dominant as is the case in this research (dominant QUAL-quant) or where their combined use is almost at par (pure mixed). Thus, the role of the two approaches in mixed research might be equal or interlaced, lead or dominant or uniquely separated and later combined (Creswell et al., 2006). Onwuegbuzie and Johnson (2006) posit the following justifications for using MMR: participant enrichment (to result in more reliable and valid findings), instrument fidelity (to maximise the appropriateness and utility of instruments), treatment integrity and significance enhancement (to maximise the researcher's interpretation of data). Johnson et al. (2007) state that MMR combines the use of qualitative and quantitative viewpoints, data collection, analysis, inference techniques, for the broad purposes of breadth and depth of understanding and corroboration.

#### **5.4.2.2 Justification for using MMR (rationale and objectives).**

Tax being a social science operates through experience, observation and attitudes as well as through ideas, models and theories. Hence an inquiry to address social phenomenon involving human behaviour which is influenced by various changes in the phenomena could not be measured microscopically, MMR allows the investigation of interrelationships, causal explanations and laws. MMR designs combining qualitative and quantitative approaches have been used in a number of studies in taxation. The examples include Mckerchar (2005), when investigating the impact of income tax complexity on practitioners in Australia and Chen Loo et al. (2009) when they sought to understand the compliance behaviour of Malaysian individual taxpayers using a mixed method approach. Jone (2013) while assessing the proposed tax mediation regime in New Zealand, Tsegaw (2017) when investigating tax compliance behaviour of business profit taxpayers in Addis Ababa as well and Lignier (2009) in measuring

the managerial benefits of tax compliance also used MMR. Chen Loo et al. (2009) and McKerchar and Evans (2009) used the mixed methods approach in studying tax compliances issues in Malaysian firms. The researchers were extending on the foundations laid by McKerchar (2008) in explaining the paradigm considerations, qualitative and quantitative research approaches as well as mixed methods in taxation research. Accordingly this research builds on the premise laid by these researchers and combines qualitative and quantitative approaches in studying IS taxation to exploit its strengths of using MMR.

In support of using MMR in tax, Mangioni and McKerchar (2013) stress that, the cross fertilisation of research paradigms is motivated by tax researchers looking for deeper understanding of research problems. This is true especially considering that the “where and what” questions are traditionally aligned to quantitative research and positivism and these may fail to provide complete answers for tax researchers seeking to influence a change in tax policy (McKerchar, 2008). On the other hand a qualitative approach which is associated with interpretivism is more relevant to the “why and how” questions which are more ideal for articulating the rationale for a phenomenon and human perspectives, prominent features in tax (Chen Loo et al., 2009; McKerchar, 2008). McKerchar (2008) laments the dearth in studies in taxation that adopts a MMR design yet she profoundly argues that it is an essential avenue if tax studies have to have methodological rigor. In seeking to address the methodological gap identified by McKerchar (2008), this study adopts a MMR approach. MMR is increasingly recognised as valuable in enhancing insights attained by complementarity and the opportunity to capitalise on the respective strengths of each method. Creswell et al. (2008) assert that MMR allows researchers to gain a more complete understanding of the research problem, to capture the complexity of human phenomena and respond to the interests and needs of diverse stakeholders in research.

Mangioni and McKerchar (2013:176) point out that, historically tax researchers were more aligned to applying the traditional quantitative and qualitative approaches. Nevertheless on going evidence suggests that contemporary tax research is noticeably becoming largely multidisciplinary and adopting mixed methodologies in the quest for deeper comprehensions of research problems as well as the need to seek more “critically real solutions to research problems”. Mixed method in taxation is not unconventional anymore and is rather regarded as indispensable to successful tax research and is increasingly being articulated (Chen Loo et al., 2009; Mangioni & McKerchar, 2013:177; McKerchar, 2008; McKerchar & Evans, 2009).

Tax is a complex and dynamic phenomenon that encompasses many aspects of social assemblages at a practical level and cannot be adequately studied using a mono method approach (McKerchar, 2008), hence the adoption of the MMR approach to address the what, how and why questions covered in this study adequately. This was in line with the views of Creswell (2014) and Johnson and Onwuegbuzie (2004:17) who point out that mixed methods go beyond just collecting both qualitative and quantitative data and actually mean that data collected is integrated, mixed and related at some stage of the research process. The underlying logic of mixing the methods being that when used in combination both qualitative and quantitative data yield a more complete analysis and complement each other. To buttress the point Johnson et al. (2007) further explain that MMR includes the use of induction which implies discovery of patterns and theories, deduction which implies theory and hypothesis testing and abduction which describes uncovering and relying on the best set of explanations for understanding one's results. This was vital for this research in unpacking the drivers of informality, the theories behind and how these influence tax compliance and efforts towards taxing this sector. Undoubtedly using MMR was essential for this study considering that a combination of the approaches provided a variety of perspectives from which a phenomenon (the IS taxation phenomenon) can be studied and they share a common commitment to understanding and improving the human condition, a common goal of disseminating knowledge for practical use (Onwuegbuzie & Johnson, 2006; Onwuegbuzie et al., 2009).

The IS by its nature is a complex and heterogeneous sector and attempting to study it was bound to be fraught with challenges (See Section 5.2). Seeking to critical review taxation of this sector proved to be even more challenging and demanding, hence the adoption of the MMR approach. This was in line with the advice of Greene (2008) and McKerchar (2008). The researchers point out that, the “what” questions are associated with quantitative research which is often built on the positivist approach, are often insufficient in articulating the rationale for a phenomenon (low tax revenues from the IS in this case), particularly for researches like this seeking to drive a change in tax policy and tax compliance. Such a research needs more complete answers including to the “why” and “how” questions traditionally linked with qualitative data. The MMR borrows from the qualitative and quantitative paradigms and their respective methods using the multiple methods either concurrently (that is independent of each other) or sequentially (findings from one approach inform the other) (Chen Loo et al., 2009; Venkatesh et al., 2013). This research adopted a sequential MMR. The rationale being that it allowed strengthening of the overall research design by allowing findings from one method to

inform the other. The method also allowed for triangulation and cross validation of findings in order to enhance reliability and validity as well as allowing for the drawing of meaningful and holistic conclusions.

Triangulation allows for combining two or more theories or sources of data to study the same phenomena or to exploit the interdependence of research methods to gain a complete picture of a phenomenon, in this case IS taxation and its challenges. The major proponent of triangulation for interpretivist researcher (Denzin, 2010, 2012) suggest that it allows the research to get as full and as accurate a picture as possible when using more than one data collection strategy. In this research the three types of triangulation (data triangulation, investigator triangulation and theory triangulation) suggested by the author were used in any attempt to explain more fully the complexity of human behaviour when it comes to IS tax administration, tax policy as well as compliance by standing these from different angles and perspectives of the different stakeholders involved. Tax research remains paradoxical, inherently interdisciplinary as well as multi-disciplinary in nature and can be viewed from various lenses. This multidisciplinary nature is a double-edged sword as it often leads to fragmentation of arguments and findings (Jones, 2013; McKerchar, 2008). MMR becomes vital in investigating the tax and development as well as the state-citizen tax relationship.

In terms of data and methodological triangulation, for this research multiple data sources were used in order to increase validity for example in depth interviews were conducted with stakeholder groups (tax experts, the ZIMRA officers and Ministry of Small and Medium Enterprises officials). In terms of data analysis, feedback from stakeholders was compared to determine areas of agreement as well as diverging views. Investigator triangulation was used through the involvement of one renowned Zimbabwean tax experts from the Institute of Chartered Tax Accountants in Zimbabwe, as an evaluator that helped assess the research instruments for appropriateness in addressing the research objectives and for any ambiguities. This was done in order to ensure that the research instruments help develop a broader and deeper understanding of IS taxation. How a different, knowledgeable, experienced and independent person would judge the instruments in adequately exploring the issue of IS taxation in Zimbabwe was essential for validity and reliability concerns. In consonance, Mangioni and McKerchar (2013:176) assert that the points of convergence and divergence in MMR findings enable researchers to “strengthen the validity (construct and internal validity) and reliability of findings without compromising the richness of data”.



Theory triangulation involved evaluating alternative theories of Informality and how they affect taxation in Chapter Two against the data collected in order to contextualise these to Zimbabwe. By identifying these theory propositions in Chapter Two and explaining their relevance to the research problem, showing the various interpretations towards IS taxation and ultimately evaluating which one holds water in Chapter Six, the aim was to reduce the risk of reaching incorrect theoretical conclusions.

MMR and paradigms may provide tools to tend adequately to all angles with their associated attitudes and rationalities for example the constituents of the subjective and social worlds (phenomena, participants, subjective experience, intentions, norms, rules and relationships and objective world (quantitative)). Proponents of MMR appreciate the value of combining qualitative and quantitative worldviews to develop a deep understanding of a phenomenon of interest (Venkatesh et al., 2013; Venkatesh et al., 2016). Considering the challenges in understanding revenue authority practices, capabilities and capacities in taxing the IS as well as the impact of the IS taxation framework as a revenue collection tool MMR provided a powerful mechanism to address the situation. According to Venkatesh et al. (2013), MMR is ideal for situations where existing theories and findings do not sufficiently explain or offer significant insights into the phenomenon as they provide a vital mechanism to deal with such cases and subsequently contribute to theory and practice. The research domain that studies the informal sector is fraught with controversy, contradictory and inconclusive findings. The theories that explain the drivers are also inconsistent (the dualist, continuum, the illegalist and the structuralist) making MMR the most suitable approach to study the taxation of IS domain. Discussions and views on whether to tax or not to tax the IS are often conflicting and divergent.

Venkatesh et al. (2013) and Johnson and Onwuegbuzie (2004) argue in favour of using the MMR when they point out the strengths of using the method. The advantages include: (1) triangulation which allows for convergence and corroboration of findings and results (2) complementarity- results from one method inform those from the other, gain complementary views about the same phenomena (3) initiation- discovering paradoxes and contradictions to lead to reforming the research questions development (4) expansion- different method for different inquiry components to expand or explain depth and breadth of the research (5) diversity- using different methods to identify diverging views of the same phenomena . (6) completeness- to gain a complete picture of a phenomena (7) compensation- to eliminate potential design weaknesses of one approach by using the other (Venkatesh et al., 2013). The MMR was used in this research in order to exploit the above advantages. Saunders et al. (2009)

suggest two advantages of MMR. The first one being that different methods can be used for different purposes in the study, for example in this study quantitative methods were used to evaluate the contribution of the IS to revenue collection and the impact of IS taxation on the growth and survival of IS firms whilst qualitative methods were employed to understand tax compliance issues in this sector. The second advantage has to do with enabling triangulation to occur. IS tax compliance is a sensitive research area which needs careful consideration of appropriate methodology. MMR was employed considering the complexity of the sector and the sensitive tax discipline under study as an endeavour to outline or expound more comprehensively the copiousness and intricacy of human conduct by analysing it from their circumstances and what they have been exposed to. Tax is known for its reflexivity (Jone, 2013). The use of MMR provides a greater repertoire of the research tools and methods to meet the aims and objectives of the study as it allows “one approach to inform the other, either in design or interpretation and to triangulate the findings from multiple approaches (either performed concurrently or sequentially) in an effort to provide greater confidence” (Jone, 2013:78).

According to Gorard (2010), any phenomenon, be it physical cognitive or emotional, has intrinsically both qualities and quantity, use of numbers to measure phenomena involves the acceptance of the theory and judgements on which numbers are based. Similarly, for this research, IS taxation has both numbers (tax rates, total revenues, tax to GDP ratios) and qualitative aspects (actions, attitudes and perceptions). In this same line of argument, Anguera and Izquierdo (2006) assert that quality and quantity are interdependent, the quantity is a predetermined quality and quality is a predetermined quantity and hence these two must be viewed in light of each other to enhance meaning and explanation of a phenomenon. The researchers interestingly point out that without acknowledging this interdependence and the need to adopt a MMR, how else can the research questions have been asked and variables identified and measured. Accordingly numbers cannot speak for themselves (low or high tax revenues), someone (qualitative) has to speak for them through interpretation of results (characteristics of the IS, compliance levels and factors that explain the levels). The numbered nature of phenomena has to be acknowledged as overlooking it often leads to under recognition and underutilisation of numbers in qualitative research. The meanings that qualitative researchers seek depends in part on numbers, just as numbers depend on meanings (Sandelowski et al., 2012). Tax is both a qualitative (policy and perceptions) as well as a numbers game (revenue magnitude and levels, GDP contribution) hence the applicability of

MMR. Accordingly, both quantitative and qualitative sources contribute to the contextualisation of any form of data being analysed, presented and consequently to the capacity for analytic generalisation from the results obtained (Bazeley, 2015a).

### **5.4.3 The Benefits derived and Challenges faced from using MMR**

Employing the MMR approach was not an easy journey. The researcher encountered several challenges that had to be mitigated in order to reap the envisaged benefits of adopting the MMR design. These are briefly discussed below with 5.4.3.1 focusing on the challenges encountered and 5.4.3.2 on the benefits (value derived).

#### **5.4.3.1 Challenges of using MMR**

Although there is a “resurgence” of MMR approach (Gobo, 2015) and the fact that it is valuable with numerous benefits as outlined in Section 5.4.3, it is not without challenges too. Possible limitations arise due to conflict between POEM assumptions and the need for greater time investment. Gobo (2015), despite acknowledging the potential limitations still argues in favour of MMR when the researcher points out that “combining both qualitative and quantitative approaches in a single instrument provides a potential solution to the challenges posed by these limitations while still squeezing the advantages of both approaches”. Tashakkori and Teddlie (2010), observe that MMR adopters do not always explicitly delineate or explain their reasons and rationale for adoption hence causing confusion and lack of clarity and link with the research process. For this research, justification and rationale for adopting MMR was outlined clearly (rationale, envisaged benefits, anticipated challenges and measures to mitigate these challenges).

MMR researchers have to subjugate cognitive, considerable paradigmatic and physical challenges of MMR. The first challenge is paradigm incommensurability and incompatibility concerns as paradigms are epistemologically as well as ontologically different (Venkatesh et al., 2013; Venkatesh et al., 2016). On the contrary, Cupchick (2001) presupposes that it is incorrect to assume that the two ontologies from the positivist and constructivist philosophical frameworks cannot be reconciled. The researcher proclaims the two approaches are viewed as complementary and in parallel and are just angles of viewing a phenomena, considering that statistical analysis can focus on areas that require descriptive analysis. Onwuegbuzie and Johnson (2006) raise concern on validity issues faced by MMR researchers. They cite representation, legitimization and integration as the major sticking points that often make MMR studies fundamentally flawed from the start as they merge and increase threats to validity and credibility with each methodological perspective. An argument affirmed by Teddlie and

Tashakkori (2003) when they posit that design quality and interpretive rigour are often a stumbling block to effective MMR. Bryman et al. (2008) emphasises the need for adequate planning from the onset of the research. Venkatesh et al. (2013) provide support when they contend peaceful coexistence of multiple paradigms in a research enquiry is feasible as long as proper consideration of the research question purpose and content has been made.

Researchers have to be aware of the inherent joint qualitative and quantitative elements embedded in the data collection methods and analysis and to carry that awareness through their interpretations and reporting. The most pressing challenge in this regard as viewed by Creswell (2011) is deciding which mixed method research approach to adopt for the study and its appropriateness. This depends on the nature of the research and accordingly the researcher has to answer four central questions (Creswell, 2014). Firstly, the sequence in which the qualitative and quantitative approaches will be employed, concurrently or sequentially. This is because there are challenges of duplicity when applied concurrently and there is a possibility of conflicting results. Secondly, the relative priority to be given to qualitative and quantitative data collection and analysis- is it a purely mixed approach giving equal status to both approaches or will it be dominated by one approach or the other (Dominant Qual or Dominant Quant). Thirdly, the stage at which (design, data collection or at data analysis levels) qualitative and quantitative aspects and data will be integrated and the extent of use of theoretical perspectives for cross validation (inductive and deductive) (Curry et al., 2013). For this research, the limitations was countered by making an explicit choice of the sequential exploratory MMR. Literature and qualitative data was first explored in depth to aid in building to the secondary quantitative stage, which was linked to the initial qualitative investigation and to design a conceptual framework in Chapter Two. Data from the exploratory qualitative interviews was used to derive themes, variables and constructs utilised to structure questionnaires. The questionnaires were subsequently distributed to a larger population and tested through regression analysis. Data integration occurred throughout the research process from the design stage to the reporting of findings stage.

The second challenge is for researchers employing a MMR to fully manipulate the integrative potential of their data during the analysis process rather than limiting their combination of data to a superficial commentary during the final discussion stage (Bryman, 2007; Venkatesh et al., 2013). To overcome this limitation from the data gathering process to the analysis process, data was organised by thematic elements of topics as guided by the research objectives (see interview guides and questionnaire) rather than by method used for collection or data analysis.

This was key in enhancing integration and interpretation of empirical results as per the advice of Bazeley (2015b). In addition contradictions and confirmations were clarified and subjected to further interrogation, evaluations, discussions and analysis

The third and final challenge has to do with skills. It is of paramount importance that researchers are critically aware of the complexity of the MMR in relation to their skills whether they are able to surmount the demands of utilising MMR (Bazeley, 2015a; Onwuegbuzie & Collins, 2007; Venkatesh et al., 2016). Clumsy application of MMR will result in research failure hence the need for MMR to be focused theoretically and conceptually to produce satisfactory outcomes. Integration of the analysis process and discussion of findings is the key to advancing research in mixed methods and a challenge to be prevailed over by researchers too (Bazeley, 2015a). Creswell (2011) stress that MMR may be expensive, demanding and time consuming especially for researchers working alone. The costs and time constraints were minimised by sending some of the questionnaires to tax experts respondents through their tax directors to print and circulate in their tax departments then collect for the researcher who then collected from one centralised place. This was done for tax experts in Harare. For the researcher, the study supervisor, conferences and research seminars provided the much needed insights, guidance and research training. Venkatesh et al. (2016) emphasised the need for training.

To address the above challenges the purpose of the research was clearly explained in Chapter One and articulated throughout the research process especially how the problem statement required the use of MMR. This was in line with Venkatesh et al. (2013), who advise that the adoption of MMR should be guided by research questions, objectives and research context. The rationale for adopting MMR was explicated, reasons for combining methods delineated clearly to guide the readers of the work to better comprehend the goals and targeted outcomes of this study. In this case, the dominating reasons were that social realities like taxation are inherently complex to be grasped in their entirety using a single method of inquiry and informal sector taxation is under-researched in developing countries and Zimbabwe in particular. The other reasons were to enhance validity by exploiting the advantages of both qualitative and quantitative research, hence one method compensating for the weaknesses of the other and vice versa. It would have been nearly impossible to capture the complexity of tax compliance especially in the IS by a single way of data collection or data collection from a single source, considering the challenges alluded to in Section 5.2. This is in line with the thought by Creswell et al. (2007), proponents of MMR who point out that the approach must be employed only

when the research intends to provide a holistic and fuller understanding of a phenomenon. This is especially where the extant research and literature is fragmented, contradictory, inconclusive and equivocal (Creswell et al., 2007; Venkatesh et al., 2013), as is the case in IS taxation. This view fits well with Ivankova et al. (2006) who posit that the motivating logic to qualitative-quantitative compound or mix is that neither quantitative nor qualitative methods are enough in themselves to capture trends and details of the situation, when used in combination, they yield a more complete analysis as they complement each other. Lastly, considerable review of literature on MMR (rationale, typology, design, pitfalls and ways to overcome them) was done prior to embarking on the research in order to clear any ambiguities and to aid informed choices on the design, data collection methods and analysis issues of the MMR (Bazeley, 2012, 2015a; Creswell, 2011; Venkatesh et al., 2016).

#### **5.4.3.2 Benefits (Value) derived from MMR**

The value for adopting a MMR approach for this research can be summarised deriving from the works of other researchers (Denzin, 2010; Venkatesh et al., 2016). MMR, through combining multiple theories, methods and empirical materials, the researcher was able to overcome the weaknesses, intrinsic biases and problems that come with a single methodology. Greene et al. (1989) put forward five distinct justifications for MMR. These are as follows: triangulation which they argue provides chances for corroboration and convergence of results from different research methods, complementarity which seeks elaboration, enhancement, illustration and clarification of the results from one method with the other, development where researchers utilise the results from one method to inform another in all aspects of inquiry, initiation referring to the discovery of contradictions and consistencies which aids in reformulating research questions. For this research, the value was summarised in the following points:

- MMR was able to address both exploratory and confirmatory questions in the study. This enabled one to gain data about a wide range of views and perceptions, get a fuller research picture, generate deeper and wider insights, clarify underlying logic of the relationship between variables as well as facilitating both the regulator and independent tax experts perspectives for better quality research (Teddlie & Tashakkori, 2010)
- Rich insights into investigating the IS taxation by leveraging the complementary strengths and non-common weaknesses of both qualitative and quantitative research methods. This was vital in providing depth in the research that would not have been possible when using one method. Interviews provided depth in this research enquiry by

allowing the researcher to gain insights from rich narratives. Quantitative data collection and analysis brought breadth to the study. This combination helped the researcher make better and informed inferences as guided by Venkatesh et al. (2016).

- MMR provided an opportunity for divergent or complementary views. Contradictory and consistent findings derived from quantitative or qualitative approaches were valuable as they necessitated the re-examination of the conceptual framework, theoretical framework and research assumptions. This was also imperative in understanding IS taxation and the appraisal of conditions for the growth of informality and successful taxation of the sector in a developing country context and in Zimbabwe in particular. Both converging and diverging views were essential for identifying further avenues of future research as well as for generating, discovering, extending and testing substantive theories. These views also accordingly reflected the different epistemological positions and experiences of participants (Teddlie & Tashakkori, 2003, 2009; Venkatesh et al., 2013).

These benefits in their totality are summarised as portrayed in Table 5.2.

**Table 5. 2: Benefits gained from adopting MMR for this study**

| Justification   | Tax research examples                                                                                                                    | Illustration for this study                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |
|-----------------|------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Complementarity | Newman (2019:3) while assessing the effectiveness of presumptive tax on cottage industries in Zimbabwe as well as Dube and Casale (2019) | Mixed methods were employed to gain complementary views about IS taxation from different participants through combining the qualitative and quantitative, constructing themes from qualitative findings and following up on those key noted findings and theme through questionnaires<br><br>Dube and Casale (2019) adopted a mixed method approach to evaluate the equity considerations regarding presumptive tax in Zimbabwe to gain in-depth analysis on enforcement and taxpayer perceptions |
| Completeness    | Ligomeka (2019), assessing the reality of taxing flea market traders in Zimbabwe                                                         | The qualitative data and results provided rich explanations of the findings from the quantitative data and analysis to portray a complete picture of IS taxation. The qualitative findings were buttressed by causal relationships tested through regression analysis using SPSS                                                                                                                                                                                                                  |
| Developmental   | McKerchar (2008) recommending MMR for tax researchers                                                                                    | A qualitative approach was used to develop constructs and themes for questionnaire designing. A quantitative focus employed to analyse the questionnaires through SPSS                                                                                                                                                                                                                                                                                                                            |
| Corroboration   | McKerchar and Evans (2009) investigating tax compliance                                                                                  | Questionnaires were used to confirm on a larger population the findings from the semi-structured interviews. This helped in assessing the credibility and logic of inferences obtained from one approach                                                                                                                                                                                                                                                                                          |
| Compensation    | Loo et al (2012) on tax compliance                                                                                                       | The quantitative analysis compensated for the small sample size in the qualitative approach (interviews). Mixed methods in this case, enabled the study to compensate for the weaknesses of one approach by using the other                                                                                                                                                                                                                                                                       |
| Diversity       | McKerchar and Evans (2009) studying tax compliance                                                                                       | Qualitative and quantitative research were conducted to compare perceptions of a phenomenon of interest by two different types of participants and to obtain divergent views on IS taxation, motives, challenges, benefits and recommendations                                                                                                                                                                                                                                                    |

Source: Based on McKerchar and Evans (2009), Venkatesh et al. (2016) and Chen Loo et al. (2009)

## 5.5 Research design and strategies

Research designs are largely focused on aims, uses, intentions and purposes with the practical constraints of time, location and money (Curry et al, 2013; Venkatesh et al., 2016). In design



choices, researchers seek to address three burning issues: knowledge and theoretical assumptions guiding the research, strategies of enquiry to be used and how data will be collected (Creswell, 2014). A research strategy on the other hand is a plan of action, which models the way the research proceeds. It considers the structure of the research, methods used, outsourcing and validation techniques (Saunders et al., 2009). Once the decision had been made to settle for the MMR approach, the next thing was to choose a specific mixed method design that best attends to the research problem. McKerchar (2008) alludes to the fact other than giving due consideration to the appropriateness, it is paramount that there is a clear alignment between the research problem and the research design to ensure theoretical vigour. Creswell (2009) embellish on the point by emphasising that it is crucial that there is a clear rationale for the overall design that will systematically, chronologically and purposefully guide the research. The need to identify the order of strategy implementation, priority and point of intersection is indispensable. For this research the choice was between the typologies (Concurrent or sequential) identified by different researchers (Creswell et al., 2006; Greene, 2007; Ivankova et al., 2006) and the research settled for the sequential mixed method exploratory research.

#### **5.5.1 Typology of MMR approach**

Once the appropriateness of MMR for a study has been justified, the next primary decision is associated with the priority of methodological approach, design strategies, mixing strategies and time orientation (Venkatesh et al., 2016). MMR scholars have alluded to a variety of mixed method designs. Two designs are prominently visible: the concurrent and sequential research designs. The former is whereby the researcher collects and analyses qualitative and quantitative data in parallel and then merge it to gain complete understanding of a phenomenon or to compare research findings (Creswell et al., 2008). The latter is whereby the researcher collects both qualitative and quantitative data in phases and integrates it either during data collection, data analysis or during interpretation. This research adopted a sequential MMR. Due to the complexity and diversity of mixed methods, Johnson et al. (2007) have put forward three types of MMR, qualitative dominant, pure mixed and quantitative dominant. Relevant to this research is qualitative the dominant mixed method research approach. The authors further expound on the type of MMR to describe it as the type that relies more on qualitative- constructivist view of the research process, while concurrently acknowledging the fact that the addition of quantitative data and approaches are possibly going to benefit the research (Johnson & Onwuegbuzie, 2004).

According to Tashakkori and Creswell (2007), a design might be considered mixed if it has elements of both qualitative and quantitative approaches at any stage, including research questions development, data collection methods and sampling techniques, data analysis and conclusions. With regard to questions, there are two common approaches to MMR: the separate quantitative and qualitative research questions and the overarching mixed research question, then expanded or broken down into quantitative and qualitative sub questions. This research employed the latter as the main research “What is the impact of IS sector taxation framework as a revenue collection tool and how does it affect the survival of IS firms?” has both quantitative (impact of revenue growth, economic growth, profitability, survival and growth of IS firms) and qualitative aspects (equity, efficiency, fairness and governance gains considerations). The other sub questions have qualitative aspects, for example, how other countries are taxing the IS requires content analysis. The above examples justify the use of MMR.

Creswell et al. (2007), taking into cognisance, timing, weighting and mixing proposed four MMR designs. These designs are: (1) the triangulated design to gather complementary data (2) the embedded design in which one data set provides a supportive secondary role (3) the two phase explanatory design which builds on quantitative results (4) the exploratory design which is two phase but dominated by qualitative research. For this, study the sequential MMR exploratory research design was considered more appropriate. This was in line with arguments by Creswell et al. (2008), who amplify that exploratory research designs encompass qualitative dominant design variants, in which importance is built upon the qualitative aspect and the constructionist-interpretive mental model governance.

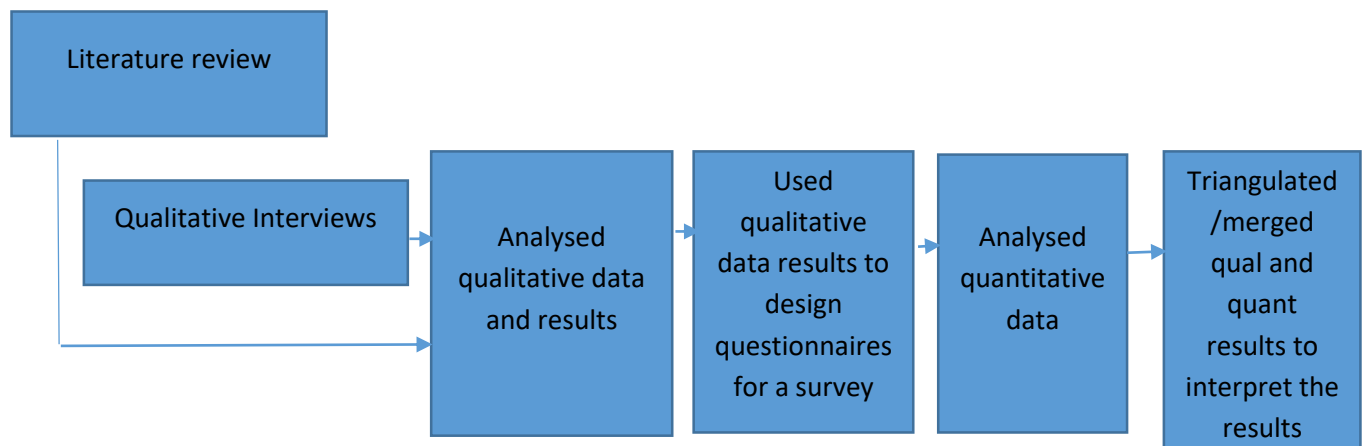
### **5.5.2 The sequential mixed method exploratory research design implementation**

As explained earlier that the design in this research combines qualitative and quantitative approaches in sequential phases. This study adopts an exploratory MMR approach. Researchers suggest often conducting the qualitative exploratory phase first, which is then used to inform the second quantitative phase intended to generalise the results to the population (Creswell, 2009; Onwuegbuzie et al., 2009). For this study, the core justification for MMR is to enable one approach to inform the other. Therefore the sequential (two-phase) MMR approach was such that a preliminary qualitative component (literature review and in depth interviews with key stakeholders) was employed, followed by the quantitative component (questionnaire and analysing of secondary data on revenue collections statistics). The findings from the qualitative component were used to construct themes in relation to the objectives of the study and these

themes were used to design the two questionnaires (One for the tax experts and one for the ZIMRA officers). The motivation was to generate preliminary insights and qualitatively examine them in greater depth with a smaller group (semi-structured interviews), then follow them up with surveys through questionnaires (quantitative methods). This also provided an opportunity to follow up inconsistent findings by restructuring the questions and reaching a larger population (Curry et al., 2009; Jone, 2013; Tsegaw, 2017).

For this research, using a sequential qualitatively led MMR was influenced by the fact that it was considered ideal to study complex issues, probe under-researched subjects and allow for the generalisability of findings. As observed by Mason (2006), such an approach offers huge potential for creating new ways of understanding the intricacies and contexts of social experience and for enhancing capacities for social explanations and generalisations. The author further elaborates that this kind of MMR can gain from ways in which qualitative researchers have tried to develop constructivist epistemologies and to deal with the thorny methodological issues bordering on questions of interpretation and explanation. Qualitatively driven mixed methods have been used and argued to be best equipped to capture the complexity of some taxation and tax compliance issues (Chen Loo et al., 2009; Loo et al., 2012; McKerchar, 2008; McKerchar & Evans, 2009). Teddlie and Tashakkori (2011) affirm that an exploratory MMR is suitable for undertaking research when there is minimal empirical knowledge about the research for example the absence of a theoretical framework or variables to adequately explain a phenomenon such as is the case with IS taxation research domain that is argued to be immature and under researched. According to Creswell and Clark (2007), exploratory MMR is also vital to allow generalisability of findings to a larger sample than the one used in the initial qualitative research. This strengthened the validity of this research as quantitative research component mitigated the criticism on qualitative research for failure to contribute to a wide understanding of the research problem. Validity was also improved by gathering and drawing similar findings from employing different methods and at times diverging findings which, challenged traditional wisdom unveiling dissonant data. This forced the researcher to investigate and seek explanations for the discrepancies noted. This was in line with the guidance from Creswell (2016). Figure 5.2 below schematically illustrates how the sequential exploratory MMR was employed in this study.

**Figure 5. 2: Schematic presentation of sequential MMR application**



Source: Adapted from Creswell (2016) and Creswell and Clark (2007).

Corbin and Strauss (2008), give details that qualitative research is central to the phenomenological perspective and hence qualitative investigation involves understanding people from their own frames of reference and experiencing reality as they experience it. In this case the researcher has to identify with people they study in order to understand how they see things (Curry et al., 2009), though there is great emphasis on that the researcher has to view things as if they are happening for the first time to eliminate subjectivity and interviewer bias. Taxation, and in this case IS sector taxation is social phenomena that has to be investigated from different vantage points especially as tax compliance depicts how people understand, recognise, conceive and experience tax policy and its administration. The main aim is to discern qualitatively by different means how participants perceive and experience taxation (McKerchar, 2008) and to conceptualise, interpret or grasp different views on the IS taxation phenomenon and to contextualise experiences and views (Creswell et al., 2006). A dominantly qualitative MMR is ideal in a study such as this one, where the research aims are to: (1) investigate complex phenomena that are challenging to measure quantitatively (IS taxation), (2) generate enough meaningful data for comprehensively understanding and addressing a problem, (3) gain insights into possible causal mechanisms and relationships (explain the continued expansion of the sector and why revenues from the sector are low), (4) study special populations (such as the IS and low income earners or those with low education levels) that are traditionally underrepresented in research (Curry et al., 2009). Though this research could not directly study the IS by including them as study participants, the views of the Ministry of SMEs and those of tax experts were used to compensate for this limitation (See limitations in Chapter One).

The importance of a quantitative approach though less dominant cannot be overlooked. Trends and patterns of revenue mobilisation can only be discerned quantitatively. Survival, profitability and growth of informal firms cannot be adequately investigated without analysing the impact quantitatively. Quantification of qualitative data was also out investigate the relationship between variables by running quantitative analysis of qualitative data sing the Statistical Package for Social Sciences (SPSS). This is in line with arguments by MMR researchers (Bazeley, 2015a; Venkatesh et al., 2013; Venkatesh et al., 2016). The benefits derived from using the sequential exploratory MMR are as tabulated in the Table 5.2.

### **5.5.3 Research strategies**

Saunders et al. (2009) outlines several research strategies that can be adopted by researchers both from the positivist, interpretivist or the critical realist angles and these are survey, ethnography, phenomenology, case study, grounded theory and action research. A MMR can combine strategies from the positivist approach and those from the interpretivist approach or use multiple strategies within the same approach for example case studies and phenomenology can be combined (McKerchar, 2008). In this study, survey and phenomenology are the strategies employed together with their relevant research methods,

#### **5.5.3.1 Phenomenology**

Phenomenology seeks to explicate how individuals experience a certain phenomenon. Rooted in this strategy, is the emphasis on gaining understanding of a particular situation or policy from the perspective of those who have experienced it. In this case from the ZIMRA officers' perspective, from the tax experts and from the Ministry of SMEs officials (Chen Loo et al., 2009; Curry et al., 2009; McKerchar, 2008). The goal is to generate a deeper understanding of the "essence" or meaning of a particular phenomenon from the lived experience of individuals. As explained by McKerchar (2008), focus groups, in depth interviews, semi-structured and unstructured interviews would be possible methods of enquiry in the phenomenology strategy.

#### **5.5.3.2 Survey**

Phenomenology is purely a qualitative research strategy, research models that uphold quantitative methodology use experiments and surveys as their main strategies of enquiry. For this study a survey was adopted as the secondary method of enquiry in the exploratory MMR using self-administered questionnaires to tax experts and ZIMRA officials IS in Zimbabwe Surveys are the most widely used data collection strategies in social sciences. McKerchar (2008) advises that surveys are good in identifying the cause and effect relationship for example how the level of incomes or profits and maybe tax rates influence tax compliance and

revenue collection levels in the IS. McKerchar (2010) affirms the importance of surveys in tax research as she argues that they are vital in reaching a wider population, providing descriptive, inferential and explanatory data. The survey was used as a follow up method to test the themes found from the qualitative results on a wider population than the initial used. Self-administered questionnaires have the advantage of investigating a wide field of issues, scanning a larger population at a minimal cost, though the strategy at times has the demerit of low response rate. Heggstad et al. (2011:6) opine that despite surveys being an important tool to gain insight into TP perspectives, it is often problematic to achieve reliable and operationally appropriate as well as admissible results. They suggest the need to narrow the survey scope and investigate TPs in terms of sectors or to combine surveys with other methods of data collection.

There are several important issues to consider in carrying out surveys such as instrument design, pre survey testing and evaluation, response rates and sampling. For this study, these will all be discussed under 5.6, the research methods section as per the research onion by Saunders et al. (2009).

## **5.6 Research Methods**

Methodology explains how the researcher goes about describing, predicting, evaluating and explaining a phenomenon. It pinpoints the methods that the researcher adopts in order to answer research questions. It takes cognisance of ethical issues, potential risks and challenges of any research approach or method (Cohen et al., 2007;). Research methods on the other hand are instruments the researcher employs in carrying out an enquiry and these must complement each other in order to generate relevant and pertinent information to address the research problem as well as ensure logical progression of the research (Bryman & Bell, 2015; Tashakkori & Teddlie, 2010).

Considering this research adopts a MMR approach, it is important that the research methods accordingly address the rationale (research questions, purpose, paradigmatic assumptions and research contexts) for MMR adoption. MMR data collection methods can be either quantitative involving predetermined questions for data collection or qualitative which embraces largely unstructured methods of data collection and observation (Creswell et al., 2008). Data collected might be text, audio recordings or numeric in nature. Therefore, this section discusses various data collection methods used in the study under the subheadings of quantitative and qualitative data collection methods. The section also addresses the strengths and limitations of the methods employed to show how strengths of one method were used to neutralise weaknesses of another

by combining both in the study. The strengths to be exploited normally encompass depth and complexity for qualitative research versus statistical power and representativeness often associated with quantitative research.

### **5.6.1 Quantitative data collection methods**

Quantitative research was employed through the use of two questionnaires distributed to ZIMRA officers and tax experts (tax consultants (see Appendices 1 and 2 respectively) and these were analysed through SPSS. The questionnaires were formulated from the findings of the qualitative study (development and refinement advantages of sequential MMR). The questions were designed guided by the objectives of the study and the themes generated from qualitative analysis (the focal themes were: drivers of IS growth as they relate to taxation, tax compliance levels, reasons for the compliance levels, benefits of IS, challenges for administrators among others). These questionnaires were made up made up of 90% structured questions to be answered and evaluated using 5 point likert scale of Strongly Agree, Agree, Neutral, Disagree, Strongly disagree. The 10% was composed of open-ended question to solicit for more information on suggestions on how to improve IS tax policy, its administration as well as its effectiveness as a revenue collection tool, a platform to improve governance and growth gains. The reasoning behind the mixing of close-ended and unstructured questions was that the structured questionnaires would help gather numerical or quantitative data, while the latter would provide the researcher with textual data (Zohrabi, 2013) as they can lead to in-depth exploration. To iron out the ambiguities and areas that could be unclear or misunderstood by the researcher, the questionnaires together with the interview guides for qualitative research were given to a renowned Zimbabwe tax expert (with over 30 years experience on Zimbabwean) tax for review and assistance, before the review by the supervisor and statistician. The final review was done by the university's faculty ethical clearance committee for adequacy in addressing objectives and data collection as well as ethical guidelines adherence. The questionnaires were also piloted first on a smaller sample before distributing to a bigger sample. Distribution and collection were done in person to increase the response rate

#### **5.6.1.1 Sampling techniques (quantitative and qualitative approaches) and justification**

For the quantitative approach, it is normally easier to determine the sample size as compared to the qualitative research approach. Cohen et al. (2007) suggests samples of between 30 and 500 at 5% confidence level, while others suggest a sample of between 10% and 50% of the population depending on the size and nature of the population as well as the type of research

design. For this research, two groups were targeted for the quantitative approach and these were the tax experts and ZIMRA officers. The target populations for both groups were small and less than 500. For tax experts, the active members with the ICTAZ were 70 and 40 of them were the target sample (44% of the population). With respect to ZIMRA, a target population of 250 officers was identified and a sample of 120 officers was randomly selected. Sample size determination and saturation requirement are often controversial issues that qualitative researchers should address (Guest et al., 2020:1; Sim et al., 2018:620; Saunders et al., 2018:1902; Vasileiou et al., 2018:1). Contention surrounds the definition, when and how saturation can be achieved (Sebele-Mpofu, 2020b). What exactly should be saturated? Is it the categories, codes, themes, data or meanings? (Guest et al., 2020; Saunders et al., 2018:1897). Saturation is considered a pivotal tool to ensure validity and rigour in qualitative research (Malterud et al., 2016:1753). Determining sampling a priori is challenging for largely inductive exploratory studies such as this one or even to explore under-researched phenomenon such as IS taxation, where variables cannot be easily discerned or identified in advance. Saunders et al. (2018) considers a priori sample size determination groundless and Sim et al (2018:619,630) describes as “inherently problematic” and “illogical”. In the words of Sim et al (2018:630), sample size selection “is an iterative, context dependent decision made during the analytical process as the researcher begins to develop an increasingly comprehensive picture of the developed themes, the relationship between these themes, where the conceptual boundaries of these themes lie”.

For this research, sampling for interviews was guided by the need to address saturation from the angle of information power or data richness as articulated by Morse (2000), Sim et al. (2018:636) and Malterud et al. (2016:1757). Purposive sampling was used as previously highlighted in Chapter One (Section 1.10.2.2). Purposive sampling being whereby the researcher chooses participants based on a certain criterion and in this case the target participants were information rich participants chosen because of their occupation, competences, experience and specificity to the research objectives, scope and questions (Moser & Korstjens, 2018:10; Rosenthal, 2016:511). Snowballing was also be applied where these participant stakeholders directed the researcher to other or more knowledgeable people on the subject at hand known to them in their circles. (Rosenthal (2016:511) suggests that this is an effective way to get information rich participants easily). Despite snowballing, not being the chosen sampling method, it interestingly and in an unplanned manner assisted in the sample confirmatory aspect of tax experts. The tax experts after their own interviews kept referring the



researcher to other tax experts as they knew each other as most of them had previously worked together at ZIMRA as Revenue Officers before moving to being tax consultants. The researcher would then check her list after the referrals and astonishingly 90% of those sampled from ICTAZ were given as referrals.

Sample size is a matter of judgement influenced by either the broadness or narrowness of the research question, the complexity of the topic (the less complex, the smaller the sample), the research design as well as the shadowed data (how the experience of participants might be reflected in the experience of others in both converging and diverging ways and why?). The appreciation of the shadowed data can give the researcher an insight into the rationale behind these similarities or differences (Morse, 2000:4) and epistemological view underpinning the study (Sim et al., (2018:623). On the other hand, Malterud et al. (2016:1757) argue that sample size must be assessed in terms of “information power” to reach saturation point and enhance research rigor and validity. Information power as a key consideration pays attention to five pivotal factors. Firstly, the purpose, objective or aim of the study (the broader the aim, correspondingly the bigger the sample size). Secondly, the relevance or particularity of the study sample (the greater the specificity of the sample in terms of knowledgeable, experience and exposure on the research subject area the smaller the sample needed). Thirdly, the theoretical underpinnings informing the study (“Theoretical underpinnings offer models and concepts that may explain relations between different aspects of empirical data in a coherent way (Malterud et al., 2016:1756), the hazy the theories, the larger the sample) Fourthly, the quality of dialogue (the stronger and clearer the communication between researcher and participants the lower the sample required, the strength of communication depends on the ability to build rapport, interviewer skills and articulateness of participants and it is impracticable to foretell these in advance). Lastly, the analysis strategy (research focusing on gathering data for an in-depth assessment and gaining complete picture of a phenomenon will suffice with a smaller sample) (Malterud et al., 2016:1757; Sim et al., 2018:630). This research fits the features of narrow aim focus (Zimbabwe), less researched area, in-depth focus, presence of clear theoretical framework (as given in Chapters Two and Three of this study), specificity in participants among others and quality dialogue as discussed by Malterud et al. (2016), Morse (2000) and Sim et al (2018). Therefore, the study had begun with a working sample of 10 participant per group as guided by methodology and “numerical guidelines” from other tax researchers such as Mashiri (2018) and Dube (2014). This was considered a planning sample, because it is also crucial to guard against presupposing an untrue uniformity in alike studies

and the risk of overstating the similarity in the studies and overlooking the individuality and peculiarity of studies (uniqueness due to contexts (content, time, developed and developing country), national variations, topic, population and the dynamism of the business environment) (Blaikie, 2018:636; Malterud, 2016; Sim et al, 2018:622; Vasilieou, 2018:1). Small samples are argued to be more ideal where the sample is for a homogenous group and “not good where the target population is heterogeneous, the data quality is poor and the domain of inquiry is diffuse and or vague” (Guest et al, 2006:79). The diversity in the target population was not problematic as they were grouped into homogeneous groups (ZIMRA officials, Tax Experts and Ministry of SMEs officials). The key to sampling in each strata was the information power of participants (Malterud et al., 2016) and their ability to support “the depth of case oriented analysis” and “provide richly textured information” on IS taxation (Vasileiou et al., 2018:2)

Considering sampling is considered at the planning stage, evaluated on an on-going basis throughout the conduct of the study and appraised for sufficiency in terms of analysis and reporting of the results in the final stage (Guest et al, 2006), despite having conducted 10 interviews for tax experts only 6 were considered in the sample as saturation point was reached on the sixth interview, the other four were further analysed to ensure confidence and verification that both the code and meaning saturation were achieved with the sixth interview. From the first interview the new preliminary and unique codes and themes to be used were generated, the second interview some new codes and those already previously generated emerged, the third interview yielded even fewer unique codes and concepts perhaps due to “snowballing effects of overlapping concepts” and the exercise was repeated until flatly no new codes and themes arose at the sixth interview (Rowlands et al, 2016:42). The seventh interview yielded nothing new in terms of both new themes and codes as well as new insights into the IS taxation puzzle and saturation point was considered to have been attained at interview six because of the information power of the tax experts interviewees (having more than 20 years of experience in the Zimbabwean tax field, intimate knowledge about the Zimbabwean tax system, running a tax consultancy full time or part time basis and being a member of Institute of Certified Tax Accountants, Zimbabwe was the criteria of purposively sampling). Having previously worked for ZIMRA in different capacities was an added advantage that most consultants brought into the discussion. Having worked with ZIMRA in their role as tax experts and on behalf of IS operators had been the pivotal consideration (in setting the criteria for inclusion in the sample) for the ideal and independent in assessment the tax administration process, (computation, filing of returns, objection and appeals). For ZIMRA

Officers saturation point was reached at 10 interviews and for the Ministry of Small and Medium Enterprises employees at interview three. These were the point at which it was found useless to further incorporate new interviews the point of “information redundancy”, “saturation” or decreasing returns (Rowlands et al., 2016:41).

#### **5.6.2 Qualitative data collection methods**

Researchers allude to methods that are especially useful when conducting qualitative research in management and economic science and these are in-depth interviews, focused discussion groups (FDGs), participant observations, case studies and archival research (Mangioni & McKerchar, 2013; McKerchar, 2008). These methods are often combined with each other or with quantitative methods by researchers as they seek the advantages of cross checking, the accuracy, validity, completeness of information from the research against that from different sources or methods. The complexity, integrative and multi-disciplinary nature of taxation calls for its investigation to be multi method and to focus on multiple participants in order to analyse tax policy from different vantage points. For example, interviews have the potential to clarify viewpoints or challenge conventional wisdom (Delpont et al., 2013). The tax expert’s perspective is as important as the revenue officers’ perspective. For this research, in-depth interviews and document analysis were employed. These were individually discussed below to explain the rationale behind their adoption, how they were implemented, the merits and challenges of their adoption and how these challenges were mitigated to ensure a credible research.

**Table 5. 3: Qualitative Data Collection Methods and Rationale for Adoption**

| <b>Method</b>                                                                                                                                                                                             | <b>Rationale/Purpose</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                         |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| In-depth interviews (discussion between researchers and participants often key stakeholders)                                                                                                              | Interrogate individual experiences and conceptions in rich detail. For exploration and confirmation purposes. Generate ancillary dimensions and unique insights into shared experiences especially in relation to the drivers of informality, IS tax administration, relationship with tax authority and perceptions in the context of whether to tax or not to tax the IS. Qualitative research studies people in the context of their past and present situations (Yin, 2011). |
| Document and archival review (independent and systematic analysis of written communication, policy documents, legislative documents and legal statutes (Zimbabwe Income Tax Act, VAT Act and Finance Act) | Identify patterns of communication, to understand tax policy, its design and implementation. Understand the legal statutes driving taxation of the IS in Zimbabwe, the prescriptions covered therein as well the ambiguities and complexities of the tax law.                                                                                                                                                                                                                    |

Own compilation with guidance from Curry et al. (2009)

### **5.6.2.1 In-depth interviews**

Starr (2014) explains In-depth interviews as extended discussions with research participants whereas Curry et al. (2009) support the description by stating that these are typically one on one interactions between the researcher and study participants. These interviews can be structured, semi-structured or unstructured depending on the degree to which the discussions follow a predetermined sequence of questions and the interviewer can either be empathetic, passive, probing and even provocative depending on the purpose of the research, flow of conversation and participant interviewed (Creswell, 2014; Curry et al., 2009; McKerchar, 2008). Interviews allow researchers to explore individual experiences and apprehensions in detail. Corbin and Strauss (2008) put forward that for the interviews to be a success the researcher has to empathise and identify with people they study in order to understand things from their view point. Care is necessary to minimise subjectivity and interviewer bias by viewing things as if they are happening for the first time.

For this study, in-depth interviews were carried out with key stakeholders in tax policy. These were modelled after normal conversation rather than formal and answer exchange. The main aim of using interviews was to clarify ambiguous statements, permit exploration of topics and yield a deeply experiential account. These stakeholders were purposeful chosen because of their experiences, positions and relevance of the experience and positions to tax research (Dube, 2014) This was in line with the suggestions of Curry et al. (2009) who point out that in

qualitative research, sampling is usually purposive aimed at identifying information rich participants who have detailed knowledge and direct experience relevant to the phenomenon under study and in this case IS taxation. The sample is also guided by the breadth and complexity of the enquiry. Diversity of participants in terms of fields, positions and epistemological perspectives is aimed at alleviating individual biases and increase the likelihood of a balanced view (Soest, 2007). Tape recording (where consent to do so was granted), transcribing and written notes were employed as avenues of documenting data collected during interviews. Borrowing from Dube (2014) and Soest (2007)'s arguments on getting relevant participants, the information implications for choosing them are tabled below.

**Table 5. 4: Participant description, number and implications**

| <b>Interviewee group</b>   | <b>Number</b> | <b>Implications and information gathered.</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |
|----------------------------|---------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Ministry of SMEs officials | 3             | They shared information the drivers of the IS, the size and contribution of the IS to various aspects of the economy. They helped shared light on their participation as a Ministry representing the sector and that of the IS in formulating IS tax policy. This held in evaluating the challenges to the implementation of the policy as well as the governance gains anticipated from IS taxation and are currently a bone of contention among IS tax researchers such as Rogan (2019), Meagher (2016) and Sebele-Mpofu (2020a). Their assessment of the policy impact on the IS growth, survival and general operations was pivotal to this review in evaluating the policy impact. Their Suggestions on how to improve IS tax contribution was important to this study.                                                                                                                                                                       |
| ZIMRA officers.            | 10            | They were an important source of information as the regulator, implementer and enforcer of tax law in the country, ZIMRA brought to the study information and practical views on the capacity and capability of collecting tax revenue from the IS, thus helping on critically review the implementation part of the policy. Their views on the practicability of IS taxation in Zimbabwe, the progress made so far in achieving the initial policy objectives, effectiveness of IS taxation framework and the reasons explaining the status quo as well as their assessment of the cost-benefit analysis were found critical to the review. The tax officers also shared their knowledge on how Zimbabwe's informal sector tax system compared with other countries' IS tax systems and made recommendations on how to improve IS tax administration and compliance based on their practical experiences during implementation and administration |
| Tax experts                | 10            | Almost all the tax experts interviewed were former ZIMRA employees and this was priceless in enhancing the reliability of the findings. Their experience with ZIMRA formerly as employees, both ZIMRA and the IS when it comes to tax matters with the expert as the mediator made them "information rich participants" essential for this study (Malterud et al, 2016). They shared information on their assessment of the IS tax system against the canons of taxation, its comparability to IS taxation frameworks used by other countries' taxation of the IS. Appraised the challenges faced by ZIMRA and reasons for tax non-compliance by the informal sector in a rather fair and balanced manner as the neutral group. Their suggestions on how to improve the IS tax system were deduced from practical experience.                                                                                                                      |

Adapted from Dube (2014) and von Soest (2007:48)

For this study, the interviews were semi structured in order to collect relatively unfiltered responses of participants' own views and experiences. Creswell (2014:239) alludes to the fact that sample sizes ranging from 3-10 respondents are ideal for qualitative studies hence the

ranges of interviewees from 3-10 for this study were viewed as adequate to provide reliable results (Justification used by Mashiri, 2018 for interviews of between 3 to 10 participants) Sample size justification was given in 5.6.1.1 above and epistemological rationalisations in Table 5.4.

### **Interview guides, testing the guides and how the interviews were carried out**

The interview guides were designed in relation to research objectives in Chapter One and the guidance given by Rosenthal (2016). The researcher advises that in-depth interview questions need to be carefully designed because the quality of data gathered hinges on the degree of thought and preparation put in the development of the research questions asked (for example knowledge, background and opinion questions) as much as it relies on interviewer skills and interviewee competence and knowledgeability. The researcher also proposes that where necessary, researchers must provide specific details and guide lines on factors that are integral to answering the question, especially where the scope of the question is too broad. This is despite the fact that others might find this guidance leading. The idea is to narrow the interview to the aspects relevant to the topic at hand (Rosenthal, 2016:510). So in some instances the researcher accordingly provided guiding factors to narrow the scope of the discussion. The interview guides and questionnaires were first given to a renowned Zimbabwean tax expert, researcher and part time lecturer to check for the language and areas of ambiguity. The areas highlighted by the expert were accordingly corrected, then given to the supervisor who after assessment gave them to the statistician for further evaluation. The interview guides and the questionnaires were lastly sent to the North West University Economic and Management Sciences Research Ethics Committee (EMS-REC) for ethical clearance and approval. The interview guides were then further tested on two PHD candidates who acted as interviewees in order to help the researcher gain composure and perfect interviewing skills.

Consent of the interviewees was sought to tape record the interviews and accordingly granted. All other interviews were taped recorded except with two ZIMRA officers who were not comfortable with being recorded and the researcher made copious notes especially on observations about responses. Green (2006) affirms the importance of audio recording and to transcribe verbatim but is quick to point out that it's important but challenging as well. The discussion guides used open ended questions (to ebb and flow in relation to participant experiences) within a predetermined set of topics which were designed in close reference to

the research questions and objectives of the study as well as literature reviewed. The interview guides were thus semi-structured.

These interviews were carried out in participants' own offices to ensure that the atmosphere is friendly, relaxed in familiar surroundings and in order to build rapport (Curry et al., 2009; McKerchar, 2008) considering tax is a sensitive topic. Places that ensure privacy and where participants can speak as candid as possible are ideal to enable participants to explore concepts fully and reflect their awareness completely (Greene, 2008). Participants were allowed to direct the flow of the discussion as much as possible and this was advantageous in that it allowed the respondents to identify concerns that had not been anticipated by the researcher. For example, ZIMRA officers highlighted that working for the revenue authority was very stressful. The officers indicated that they receive the public back lash for the taxes they administer, have corruption allegations levelled against them yet they also have a lot of pressure and threats from high level government officials who either want to circumvent tax legislation or pay less than their fair share of taxes. The researcher established rapport with respondents to enable her to enjoy the benefits of "a process of knowledge collection" often enjoyed by a "miner" researcher as compared to a traveller" researcher (Rosid et al., 2017). The former goes deeper to "mine" for information and the latter just touches on the surface just like a person passing by. The interviews were highly interactive especially considering respondents had been emailed the discussion guides earlier before the day of the actual interviews. On top of the discussion guides questions, the interviewer used prompts and probes to elicit more details, to get more clarity on concepts and to extend narratives as guided by Creswell et al. (2007).

The in-depth interviews were highly informative about IS growth, taxation as well as challenges to implementation of tax policy and recommendations on improving the effectiveness of IS tax administration. The interviews also allowed the researcher to reap the benefits of social psychological cues such as pitch, tone, facial expression, and intonation. The researcher explicitly looked out for the social-psychological cues during interviews of ZIMRA tax officials as they seemed to contain invaluable unspoken signals about informal sector tax administration, feasibility of such taxation, challenges and benefits. All these viewed from the perspective of a revenue authority, the implementer of tax policy. The interviews were not without their own challenges.

#### ***5.6.2.1.1 Challenges posed by interviews***

Some of the challenges were that interviews were expensive, intellectually fatiguing and time consuming. This is considering that it also took time especially to transcribe the recordings



verbatim. Another shortcoming of interviews is because of their intrusive nature, at times interviewees gave answers that are just surface structure revelations (Rosid, 2014). To minimise the impact of the challenges, the researcher took time to adequately plan for the interviews with special focus on appearance, issues to be explored (interview guides), building a good rapport and questioning approach. The researcher carried out preparation interviews with other PHD candidates (who are lecturers at NUST) acting as interviewees in order to help her iron out the questioning approach and techniques, improve and learn how to improvise and test the ability to control discussions. This platform also helped check on the activeness and attentiveness of the researcher's listening skills as well as the mapping of the approach to note taking and tape recording.

The other challenges had to do with reflexivity, interviewer bias, interpretation bias and low anonymity. To subjugate the negative impact of these weaknesses and to ensure descriptive validity and interpretive validity, measures such as probing hypothetical situations and getting participant confirmations and feedback on the interview contents after transcription to minimise interpretation bias were employed.

The challenges also included the need for the interviewer to be responsive to the language and concepts used by the interviewees for example economists used tax experts used tax jargon. The researcher's appreciation of tax language from her experience as a tax lecturer and tax researcher helped mitigate this challenge. The interviews also required interviewing skills, the ability to establish rapport with interviewees, to be flexible in the use of discussion guides and how to combine probes and follow up questions to solicit more information without appearing interruptive. The researcher combined passive listening, neutral probes and non-judgemental language to motivate respondents to give more detail on issues and concepts as suggested by Rosid (2014). The other challenge was interviewee digression from the issues under investigation, accordingly the researcher vigilantly kept track of the purpose of the interview and controlled the flow of the interview by asking appropriate questions in order to politely and skilfully bring back interviews on the right track. Verbal and non-verbal feedback were other tools of encouraging discussions and to obtain relevant data (Creswell et al., 2007). Despite the fact that taping of interviews allowed the researcher to preserve the full proceedings of the interview, transcription at a later stage and analysis of data, it has a disadvantage of debarring the frankness of interviewees (Curry et al., 2009). It proved to be an essential tool during data analysis stage, as it was a source of detailed, original and verbatim information that could be consulted and analysed ex- post.

## **5.7 Data validity, reliability and ethical consideration**

The researcher's conduct of research is influenced to a greater extent by the aims and context of the research as these to a larger extent influence the POEM choices, but there is need to pay due consideration to quality aspects, trustworthiness, credibility of findings and their generalisability including ethical implications of the research. These are discussed below.

### **5.7.1 Data validity**

The pre-eminence of validity in quantitative research is firmly established, yet the deliberations of validity in relation to qualitative research are contradictory, with "different typologies and terms" being tabled. In MMR, validity debates are argued to be in their beginnings (Onwuegbuzie & Johnson, 2006). Validity determines whether the research truly measures that which it sought/purports to measure and how credible the research outcomes are. According to Joppe (2000), validity answers the question "Does the research instrument allow you to hit "the bull's eye" of your research object?" Mangioni and McKerchar (2013) observe that validity tests the quality of the research in terms of accuracy of findings. The researchers refer to three aspects of validity to be addressed by any researcher that is construct, internal and external validity. Construct validity focuses on the appropriate measurement of concepts under study.

Internal validity centres on the appropriateness of methods used to gather relevant data that is adequate for the research to inform authentic drawing of conclusions. This validity measures the extent to which findings correctly depict the phenomenon under investigation. This research adopted MMR and used theoretical and methodological triangulation to enhance internal validity. MMR is essential in capturing complex human phenomena (Creswell et al., 2008; Creswell et al., 2007) such as taxation as it addresses the needs and views of diverse stakeholders (Greene & Caracelli, 2003), for example of the decision makers, implementers and other important stakeholders. The questionnaires used were first piloted on a few participants from the target population in order to assess whether there were any misinterpretations of words or questions and any ambiguities. These were reworked to iron out any areas of concern from the pilot study. Findings from the survey questionnaires were crosschecked with those received previously from the pilot study. Interviews were conducted with selected tax experts, officials from the Ministry of SMEs and ZIMRA officers in the domestic taxes department to get multiple and diverse views. Questionnaires were further administered to tax experts and ZIMRA officers as way to solicit more detail, clarity as well as depth to enhance reliability. Document review was also used to evaluate and cross analyse

findings. For example the Income Tax Act (Chapter 23:06) and ZIMRA guidelines detail the presumptive tax policy as shown in Table 1.1 in Chapter One. Interviews and questionnaires were used to investigate the comprehension and implementation of the presumptive tax policy (to identify any policy gaps, ambiguities and administrative gaps) from the angle of the regulator (ZIMRA), the taxpayer (Informal sector associations) and the neutral party (the tax experts). Concurrences and divergences of the different methods of investigating the IS phenomenon ensured the multiple stand points of view, which are fundamental in investigating complexity of human behaviour such as tax compliance.

Lastly external validity anchors on the generalisability of findings to broader groups (Mangioni & McKerchar, 2013). Qualitative (interviews) provided for greater interpretative validity as the interview guides had been first sent to knowledgeable people in the area (tax expert with more than 30years experience on Zimbabwean tax) to check the appropriateness and context of the guides. Content validity was thus heighten as complex, vague and obscure questions were worded differently in line with the expert's guidance. The use of quantitative data to explore IS taxation on a broader scale building on the initial qualitative interviews sought to allow for the transferability of findings on a larger population. Triangulation was used to strengthen internal validity (Zohrabi, 2013:258). Deriving similar findings using different research approaches and research instruments strengthened the validity of findings. MMR allowed confirmation, expansion and the contextualisation of results which also augmented validity. In addition to these procedures, participant feedback (member checks as described by) were used as transcriptions (from their own interviews), collective findings and interpretations were taken back to selected participants for confirmation and validation. This was to ensure, note and support plausibility and reasonableness of information.

“Collaborative modes of research” as discussed by Zohrabi (2013), was another important tool as some of the interview participants were included as questionnaire respondents. In winding up, the researcher tried to minimise bias emanating from her epistemological views clouding her judgement and interpretation in the research. The researcher strived to be as neutral as possible through all the stages of the research process (data collection, analysis and discussion). According to Zohrabi (2013:259), “the inquirer needs to be explicit, critical and faithful at different phases of the inquiry process”. It is key to validity to be ethical, thorough, truthful and accurate in assessing and reporting the findings and the researcher strived to maintain these throughout.

In conclusion, Akerlind (2005) refers to two common validity checks that qualitative researchers must take note of, namely communicative and pragmatic validity. Communicative validity being the propensity to convince the concerned research community on the reasonableness of the research methods employed on as well as the cogency and proper deduction of results derived from the study. Akerlind (2005) further highlights this validity is measured by the frequency of research seminars, conference presentations and acceptance of papers in peer reviewed journals. Two conference papers stemming from this research were presented and one published in the conference proceedings (The International Conference in Business and Management Dynamics in Namibia and the International Conference in Accounting and Business in Johannesburg respectively). Pragmatic validity is a check, which signifies the beneficence of the research especially how the results and recommendations are significant, relevant and beneficial to the target population.

#### **5.7.2 Data reliability**

Reliability refers to the reproducibility, consistency and dependability of study outcomes and themes to allow confirmation or disconfirmation of research findings (Mangioni & McKerchar, 2013). Zohrabi (2013:259) alludes to three types of reliability (general, external and internal). Reliability measures the extent to which results are consistent and repeatable or can be replicated overtime. It implies that the results of the study can be reproduced using similar methodology, with similar research instruments under a comparable target population in a like environment (Zohrabi, 2013:259).

Reproducibility of results is therefore dependent on the rationality and clear documentation of the research process as well as the appropriateness of methodological procedures to obtain quality and consistent information. Accordingly, for this study, the researcher explicitly gave an account of the purpose of the study, its research design and rationale for the research, study participants as well as how data was analysed. This also is essential for audit trail purposes. To further augment external reliability, the key definitions, constructs, concepts, theories and themes were described clearly. The methods of collecting and analysing data such as NVIVO for qualitative data and SPSS for quantitative data. This corroborates the replication procedure and accordingly boost reliability. Triangulation can be employed through the use of multiple sources or varied data collection instruments such as document analysis, interviews and questionnaires in a single study (Creswell, 2014; Curry et al., 2009; Zohrabi, 2013:254). This is said to enhance validity as replication of the study can be a bit straight forward. This study was a MMR one, which used combined quantitative and qualitative approaches, their different

data collection methods (document analysis, interviews and questionnaires) in to enhance the validity of the study findings.

Internal reliability explains the consistency in the research process from collection, analysis to interpretation. Two basic strategies were used in this study as guided by Zohrabi (2013:260). Firstly the combined use of both low inference and high inference descriptors, these being factual and open ended descriptive questions to elicit for opinions respectively. The former allowed for easy measurement and the latter gave detailed outlines and explanations. This inevitably increases reliability and allows for easy replication. Secondly, tape recording of interviews where consent for recording was granted allowed for preservation of data for transcription, analysis and reanalysis. This process enriched internal reliability and replication for both the data and eventually the research findings.

### **5.7.3 Ethical consideration**

Social sciences research such as taxation explore complex themes covering legal, economic, political and cultural concerns. Biber (2005), suggests that this complexity calls for such research to make sure the research process as well its outcomes are trustworthy, credible and valid by taking into consideration “moral integrity” and upholding respect for ethical issues. Ethical standards require research involving human participants such as this one to seek ethical clearance from the university, get letters of permission from concerned authoritative organisations, and ensure exchanges between the researcher and participants are truthful and respectful and to uphold voluntary participation by participants. Researchers are expected to seek informed consent and that researchers do not expose participants to harmful or potentially harmful situations either physically or psychologically through the research process or results publication (Biber, 2005; Mashiri, 2018). Hitchcock and Hughes (2002) refer to the above as the “non-negotiable” values of research, emphasising on honesty, fairness, respect of persons and beneficence. Barton and Young (2009)’s six yardsticks towards upholding ethics in research were adhered to throughout the research process as outlined in (a) to (f) below.

#### **(a) Informed Consent**

Participants were involved with their informed consent as the purpose of the research, the contribution of the research and benefits, the rights of participants were fully explained and then their informed consent was sought and granted. Research that has to do with taxation in Zimbabwe especially one that seeks to use national revenue collection statistics and information from the tax administration authority has to seek permission from the Zimbabwe

Revenue Authority (ZIMRA). Accordingly, the letter granting should be produced before any interviews or any information can be granted by revenue administrators and tax collectors (Mashiri, 2018; Newman, 2019). This research study was granted permission by ZIMRA. The approval is attached in a separate document. Informed consent was sought from participants before each interview began and all essential information disclosed to ensure informed and competent consent. Potential participants were appraised on voluntary disclosure and the fact that their anonymity and confidentiality of information shared was going to be maintained throughout the research. Participants were approached with questionnaires and the objectives of the study clearly explained and all implications of the study outlined in the cover letter. Interview participants were made verbally aware of the fact that participation is voluntary and that they are free to withdraw from the study at any moment and also the fact that they are free not to answer any questions they might consider intrusive. The beneficence of the study was also explained to participants. In this case, the fact that no individual benefits were going to accrue to participants but to the economy at large.

#### **(b) Explanation of research procedures and voluntary participation**

Procedures of the research were explained to participants fully and that data collected was going to be protected and securely stored. For example for interviews, that tape recording and transcription was going to be done and information protected as best as possible. This was to ensure that participants understood what participation involved, their rights as well as aspects of confidentiality and anonymity. Voluntary participation without coercion or deception is a must (Madushani, 2016; Ryan et al., 2007). No respondent was coerced or deceived to participate in the research. Respondents were made aware of their right to withdraw their consent at any time or to leave unanswered any questions they felt uncomfortable answering.

#### **(c) Beneficence of the research**

Beneficence is key to any research (Mashiri, 2018). The benefits of the research and any potential harm were explained to the participants especially the fact that the benefits will not accrue directly to individual participants but to them as the informal sector, tax administrators, policy makers and the economy. The likely benefits being improved informal sector tax system, platforms to share views on informal sector taxation and make possible recommendations. The study adds value to tax policy making, it was going to recommend improved and more effective ways of collecting from the informal sector. The research findings are vital to government policy makers, the informal sector, tax administrator and the community at large as revenue collection is a matter that affects all stakeholders. Public finance is essential for the economic

survival, growth and infrastructural development. The study should contribute to knowledge advancement on informal taxation filling the dearth on literature and research on this important sector that is often shunned and is understudied. Participants were made aware that no harm or potential risk (maleficence) was anticipated to emanate from their participation in study.

#### **(d) Privacy and confidentiality of respondents**

Respondents were assured of their confidentiality, anonymity and respect of their privacy and this was upheld at all stages of the research. Data was analysed using coding to further preserve anonymity of respondents (Chapter Six and Seven).

The researcher took an ethics-training course in order to have an appreciation of the ethical considerations in research. Privacy is concerned with who has access to personal information and records about the participant (Rosenthal, 2016). The researcher endeavoured to uphold the participants' right to protection, respect and cultural norms throughout the research. The researcher did everything possible to protect the information received from participants. The research tools such as interviews guides and questionnaires were designed in a way that does not infringe on the privacy of participants and were ethically evaluated by a Research Ethics Committee at North West University (See Appendix 7). The results were presented collectively not individually in Chapter Six and Seven. Informed consent was sought from participants after clear and understandable explanation on the objectives of the research, purpose, potential risks and benefits. Participants were asked to participate voluntarily and appraised on the fact that they have control over the extent of sharing themselves behaviourally and intellectually during the study. They are free to withdraw at any time or refuse to answer questions they are not comfortable with. This was also a way of respecting them and their decision (autonomy principle).

*Confidentiality* ensures that appropriate measures will be implemented to prevent disclosure of information that might identify the participant either during the course of the research or afterwards e.g. anonymising data or pooling results without making reference to individuals (Rosenthal, 2016). Confidentiality and anonymity of participants were maintained throughout the research. Participants' information was protected from unauthorised access, use, disclosure, modification, loss or theft by encrypting identifiable data, limit access of information to those directly involved in the research, securely store data documents within lockable locations, assign security codes to computerised records and exclusion of addresses and names of research participants on the research instruments such as questionnaires. Hard copies for this research, which contained information such as interview notes, audio tapes and completed questionnaires

and these were securely locked away in a filing cabinet accessed only by the researcher. When the information was captured electronically, data was anonymised before being stored. The soft copies were either encrypted or password protected and only accessed by researcher. Above all, all computerised files including those anonymised were securely kept and only shared in line with the terms of consent agreed with participants. Data was protected throughout the research process from collection, storage, retrieval for use from storage and sharing between the researchers and supervisor.

**(e) Data storage, security and destruction**

Data will be kept for 6 years and completely destroyed thereafter in line with the Zimbabwean Laws on record keeping (Income Tax Act, Chapter 23:06, Zimbabwe), the place where this research is carried out. Both hard copy and soft copy versions will be protected as outlined above and kept for a period of 6 years. The researcher will be responsible for the data storage. After 6 years the research records will be destroyed in a manner that protects the confidentiality of participants throughout the process. Papers recorded will be shredded. Records stored on a computer drive would be erased completely. Data stored on audio tapes will be physically destroyed. A record will be kept stating what records were destroyed, when and how. The study leader consistently kept up to date with the progress of the project ensuring that the researcher is carrying out the research according to protocol and time budgets. Feedback was shared and discussions were made on the research progress. Progress was evaluated and any incidents and adverse effects were immediately communicated.

**(f) Community of Announcement or publishing of study results**

Communication of research findings, new knowledge and research recommendations is essential in order to evaluate the research impact, strengthen research capacity and improve the repackaging of research results for continuing knowledge as well as to strengthen partnerships between participants, policy makers, researchers and other stakeholders ( Hitchcock & Hughes, 2002; Ryan et al., 2007). Appropriate measures of disseminating results were adopted especially the more affordable way by publishing the findings in peer reviewed journals, in addition to publishing articles and reports for different target audiences as well as conference presentations. For example, in this case the informal sector, ZIMRA and policy makers like the Ministry of Finance. Community engagements, presentations at conferences and newsletters are some the platforms that can be used to communicate results. Publishing of theoretical literature during the study and dissemination of information on the completion of the study will also be done. Communication was an ongoing and continuous aspect during the research going



back to interviewees for validation of feedback after transcription from tape to written (member checking) (Zohrabi, 2013). Results were reported collectively without attributing them to individual participants.

### **5.8 Data Analysis**

Data was analysed through the use of SPSS version 23 for the quantitative analysis (see Chapter Seven), whereas qualitative data was grouped into themes using NVIVO as shown in Table 5.5 below and accordingly analysed in relation to the themes. NVIVO application explained in Chapter Six.

**Table 5. 5: Analysis of data themes and focal points**

| Area of Focus                                                                       | Issues assessed                                                                                                                                                                                                                                                                                                                                                                         |
|-------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Tax administration                                                                  | ZIMRA's capacity and capability to tax the IS, objectives of IS taxation collections strategy and implementation, Database of the IS, amount of revenue collected, views on IS taxation, government-ZIMRA consultations on IS tax policy, dissemination of information, ZIMRA-IS relationship, views on non-compliance penalties for non-compliance, incentives to encourage compliance |
| Equity implications                                                                 | Perceived fairness of IS taxation, tax rates and administration by the IS, ease/complexity of paying taxes, financial performance vs tax rates within informal sector groups, formal sector perceptions on IS taxation, different stakeholders perceptions on IS taxation, multiplicity of taxes                                                                                        |
| Tax knowledge and awareness by the IS as perceived by the three participants groups | Literacy levels, tax knowledge, presumptive tax awareness, government-IS consultation and engagement on tax policy issues, ZIMRA- IS taxpayer engagement and tax education, complexity of returns. Discussions with participants explored their understanding and views on how the tax knowledge issues as they relate to the IS affected their tax compliance levels.                  |
| Revenue generation from the IS                                                      | Total tax revenue generated from the IS versus the Size of the sector, Tax revenue from the IS as a percentage of total tax revenue for the years assessed, trends in revenue collection from the IS, costs benefit analysis                                                                                                                                                            |
| Efficiency, economy and effectiveness                                               | Complexity of tax systems, cost and benefit analysis, IS tax compliance levels, costs benefit analysis, ease or difficulty in taxing and follow up on the sector, sustainability of IS taxation in the long run.                                                                                                                                                                        |
| Governance gains                                                                    | Engagement and consultations on tax matters between government and the IS, perceptions on government spending of tax revenues for example on transparency, corruption and accountability, service delivery, perceived value derived from tax payments.                                                                                                                                  |
| Growth implications                                                                 | Actual and perceived growth gains and challenges of IS taxation, impact of IS taxation on growth and survival of small firms, incentives derived from paying tax and implications for growth, tax rates versus profitability of SMES, turnover and operating costs.                                                                                                                     |

Adapted from Dube (2014:107) and von Soest (2005:69)

## 5.9 Chapter Summary

This chapter explicated the methodological journey followed by the researcher in gathering data to address the objectives of the study. As outlined earlier the study adopted the interpretivist paradigm to guide the study and accordingly employed a sequential mixed method exploratory approach which was dominant Qual-quant. Questionnaires, interviews and document analysis were used as data collection methods to enhance the depth and breadth of findings. NVIVO 12 and SPSS version 23 was used for qualitative and quantitative data

analysis respectively. These research approaches in their distinctiveness provide answers to research questions and address objectives up to a certain point and mixing them and combining results give a more detailed and broader explanatory account. The next chapter will present the analysis and discussion of qualitative findings. Salient themes that emerged from the qualitative results were then used to build questionnaires for the survey and these were quantitatively analysed and presented in Chapter Seven. The findings from the two approaches were then merged in the summary of findings in Chapter Eight to note the areas of convergence and divergence. This allowed for complementarity to enhance validity of findings and diversity which called for critical analysis, further investigation and explanations to address the disagreements accordingly.

## CHAPTER 6: QUALITATIVE DATA ANALYSIS AND PRESENTATION

*“It is a paradoxical truth that tax rates are too high today and tax revenues are too low, and the soundest way to raise the revenues in the long run is to cut the tax rates”-John F. Kennedy*

### 6.1 Introduction

Chapter Five, chronicled and expounded on the methodological journey of the research in detail especially the rationale for the process and purpose of the sequential exploratory mixed method research (MMR) adopted. This chapter focuses on data analysis and interpretation of results, being steered by the need for the research to address the objectives set out in Chapter One and to provide a nexus between the theoretical, conceptual framework and the empirical findings of the study within the context of the sequential exploratory MMR. Data analysis according to Patton (2002:432) entails “reducing the volume of raw information, sifting trivia from significance, identifying significant patterns and constructing a framework for communicating the essence of what data reveals”. As previously articulated in Chapter Five that the exploratory MMR entailed combining both qualitative and quantitative researches in a sequential manner, first stage and second stage respectively. This chapter therefore explicates the qualitative findings of the study and presents them in a comprehensible and interpretable manner to discern trends, perceptions and causal relationships in accordance with the objectives and contribution of the study in Chapter One. The Chapter tries as much as possible to ensure the study findings largely, echo the voices of participants in the analysis and discussions. It further orients the research findings in line with the policy and theoretical gaps highlighted earlier in Chapters Two, Three and Four. The findings are presented in line with themes and categories as analysed using NVIVO12 in order to show IS taxation in the eyes of participants. The presentation of findings purely qualitative.

### 6.2 Data analysis and presentation

As earlier outlined in Chapter Five, the sequential exploratory MMR employed in this study is aimed at gaining a fuller picture and deeper understanding of the research problem at hand and in this case the feasibility of informal sector taxation as well as the challenges to effective implementation of IS tax policy in Zimbabwe. The exploratory MMR adopted is predominantly qualitative. It presupposes that qualitative methodologies are utilised to dissect why or how phenomena happen, build theories or explicate individual experiences while the quantitative

approaches answer questions in relation to generalisability or transferability of findings, causality and the immensity of the impact of phenomenon (Fetters et al., 2013; Mckerchar, 2008). In an exploratory design, qualitative data is collected and analysed at the initial stage, themes generated to inform the development or improvement of quantitative tools to explore the research problem further (Tashakkori & Teddlie, 2008; Teddlie & Tashakkori, 2011). This explanation points to a triple stage data analysis for this study. The primary instance being qualitative data analysis, the secondary stage being the quantitative data analysis and the final stage is where the two data sets are integrated and the primary exploratory results of the research extended. Mixing relates to the intent (why), the weighting (how), as well as the timing (sequencing) when the qualitative data and results are connected to the quantitative data and results with an aim to go beyond what is derived from each of the methods separately (see Chapter 5, section 5.5). Therefore, there is need to adequately explicate what can be derived from the merged analysis and discussion of the results.

For this research, the first linking occurred at the first stage (design) adopting a sequential approach of collecting and analysing qualitative data. Results of the primary stage were utilised to design the secondary stage of the research design (integration through questionnaire building as posited by Fetters et al. (2013:2144). The secondary integration occurred at the interpretation stage linking the qualitative data and the quantitative data from the initial and second stage respectively. Two approaches of integration were adopted, contiguous and merging (Fetters et al., 2013:2144; Teddlie & Tashakkori, 2011. The former being the fact that qualitative and quantitative findings are all discussed in this thesis but reported separately in this Chapter Six and Seven respectively. The latter took place in Chapters Seven and Eight, where the results from both approaches were weaved together for analysis and comparative purposes. Qualitative results were employed to evaluate the validity of quantitative findings and vice versa. The aim was to extract novel deep understanding beyond the data acquired from the distinct quantitative and qualitative outcomes thus providing “an innovative approach for addressing contemporary issues” that are complex such as IS taxation as suggested by Fetters et al., (2013:2135). Qualitative data in this chapter was analysed thematically (using NVIVO 12 Pro) within the realm of the study’s objectives in order to provide answers to research questions and to establish patterns and connections among variables. This study’s objectives were to critically review the taxation of the IS in Zimbabwe, to explore the drivers of informality, benefits and challenges of such taxation, methods employed by other developing countries and lastly to guide to accordingly recommend possible ways of improving the effectiveness of IS taxation.

The following important references were adopted to preserve the anonymity of interviewees (coding), analysing and reporting qualitative data:

- **TE** represent Tax Experts
- **ZIMRA O** represents ZIMRA Officers
- **MSME** represents Ministry of Small and Medium Enterprises
- **Italics** symbolise verbatim quotes
- The **numbers**, for example 1 symbolises the code given to each interviewee to preserve their anonymity.

Chapter Five outlined the number of interviewees in each target group and the epistemological basis of interviewing them as well as the sampling procedures used including the justification for sample size and process. This last part of this section discusses briefly the demographic data of the respondents in order to inform readers of their competences and the possibility of gaining a deeper and balanced understanding of the subject matter. Their competences offer a likelihood to enhance validity and credibility of findings as well as that of reaching the saturation point (Malterud et al, 2016; Sim et al, 2018).

### **Demographic of interviewees**

For tax experts the respondents were targeted because of their experience in tax matters. The experience ranged between 20 or more years in the tax field. All 10 of them were former ZIMRA employees who either now joined the business world as tax directors in businesses or accounting firms and/or are running their own tax consultants part time or who had opened their own full time tax consultancies offering tax return preparation and advisory services. Examples of conversations with two of the TE interviewees are used to buttress this. TE1 asseverated that *“I offer consultancy, tax advisory services and preparation of tax returns to both the formal and Informal sector. I have over 30years experience in tax matters. I have previous experience with tax departments of renowned Accounting firms in the country. I have also previously worked in ZIMRA in the taxes department. I’m currently doing tax consultancy on a part time basis as the unstable economic conditions and the decline in the clientele base have driven me back to formal employment as a Tax Director”*. His wealth of experience brings to this discussion vital information from his exposure as a regulator/ tax collector, as a “taxpayer” on behalf of the IS and formal sector through tax computations and filing of returns and as a tax expert. Essential to this study, is also his current exposure to the formal tax system as a Tax Director. He brings critical and holistic analysis, views and perceptions to the discussions and the study. TE2 explained his experience as follows *“22 years of tax experience*

*and I have had the opportunity to work in several parts of the country and outside the country in ZIMRA and in accounting firms after I left ZIMRA 12 years ago. Have dealt with both the formal and IS on different matters, key among them tax consultancy, registration for tax, tax advisory and computations. I'm currently running my own tax consultancy offering tax computations, tax advice and I have assisted both formal and informal businesses in lodging objections and appeals with ZIMRA".* The participant thus brings in the discussion extensive and balanced experience as well as views. This was the nature of the TE respondents in brief. As outlined in Chapter One (under limitations) it was essential to have such respondents to mitigate the limitation of not having IS participants to share their views.

The ZIMRA interviewees also brought in a wealth of experience and exposure, the respondents were made up supervisors in the Small Claims office (SCO) as well as other revenue officers from the same office. These were complemented by revenue officers from the domestic taxes audit section and from the customs department. The diversity of participants was essential to bring a balanced view (Creswell, 2014). One important thing deduced from the conversation was that there was high movement of staff in ZIMRA across the country and across departments which possibly robs the authority of consistency in decision making and results in probably misalignment of skills with job requirements. The positive could be increased exposure to all functions of the authority and different working environments as well as reduction on the familiarity threat which provides a fertile ground for corruption. ZIMRA O9 described herself in the following words *"I have worked with ZIMRA for the past 20 years. I'm currently with the SCO. I joined ZIMRA as a young lady and I'm sure the grey hair tells you I have been here for quite some time. I have worked in different parts of the country as with ZIMRA you are never permanent in one station or section. I'm not complaining, the movement gives us exposure but it can also be demotivating and frustrating"*. ZIMRA O1 on the other hand explained *"I have been with ZIMRA for 16 and half years. I can comfortably say I have seen a lot to enable me to run my own tax consultancy in future"*. Lastly most of the MSMEs had been with the Ministry for more than five years. This was considered enough time for "institutional memory", the interviewees had a fairly good knowledge of the Ministry's operations. In terms of qualifications respondents all had minimum qualifications of an undergraduate degree or more. The level of education was essential for a more balanced engagement and comprehension of the purpose, objective, ethical considerations and beneficence of the research, considering tax is a very sensitive domain (Mckerchar, 2008).

The next section expounds on how NVIVO was used employed in analysing qualitative data.

### 6.2.1 Thematic analysis

Thematic analysis is often used in phenomenology in an interpretivist paradigm, which is the philosophy for this research. It provides weight to participants' views, experiences, feelings and perceptions as the critical object of study. It allows the respondents to express the subject under discussion in their own words without prejudice or limitations. Thematic analysis can be undertaken under two major routes that is the inductive approach and deductive approach (Creswell & Clark, 2017). The former entails coding data without trying to contextualise into a pre-existing model. The researcher still tries to uphold their theoretical epistemological assumptions. The latter is largely theory-informed. Preconceived models and theories guide the analysis. This research applied and mixed the two approaches as part of methodology as outlined earlier in Chapter Five. Their mix in relation to objectives is shown on Table 6.1.

**Table 6. 1: Thematic Analysis in relation to study research questions**

| <b>Analysis Type</b>                    | <b>Research Questions</b>                                                                                                                                                                      | <b>Data Collection Method</b>                                                     | <b>Thematic Data analysis Approach</b>                                                                 |
|-----------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------|
| Evaluative and analytical               | How practicable is the administration of IS taxation? How is the current informal sector taxation framework in Zimbabwe structured? How effective is it in mobilising revenue from the sector? | Literature review, legislation documents review, interviews and questionnaires.   | Deductive and inductive thematic analysis as well as interpretation of IS tax legislation              |
| Descriptive, investigative and analytic | What are the key drivers of informal sector growth in developing countries and Zimbabwe in particular?                                                                                         | Theoretical framework survey and interviews                                       | Deductive and inductive thematic analysis                                                              |
| Evaluative and analytic                 | Should informal sector taxation be a policy priority for developing countries? What are the motives for taxing the IS?                                                                         | Literature review, questionnaires and interviews (ZIMRA officers and tax experts) | Literature and empirical evidence on the magnitude of IS, contribution to tax revenues                 |
| Descriptive                             | What are the other policy options towards taxing the informal sector used by other developing countries in Africa in addressing the dilemma of taxing the informal sector?                     | Literature review, document analysis and interviews                               | Deductive and inductive analysis in order to learn from the efforts and experiences of other countries |

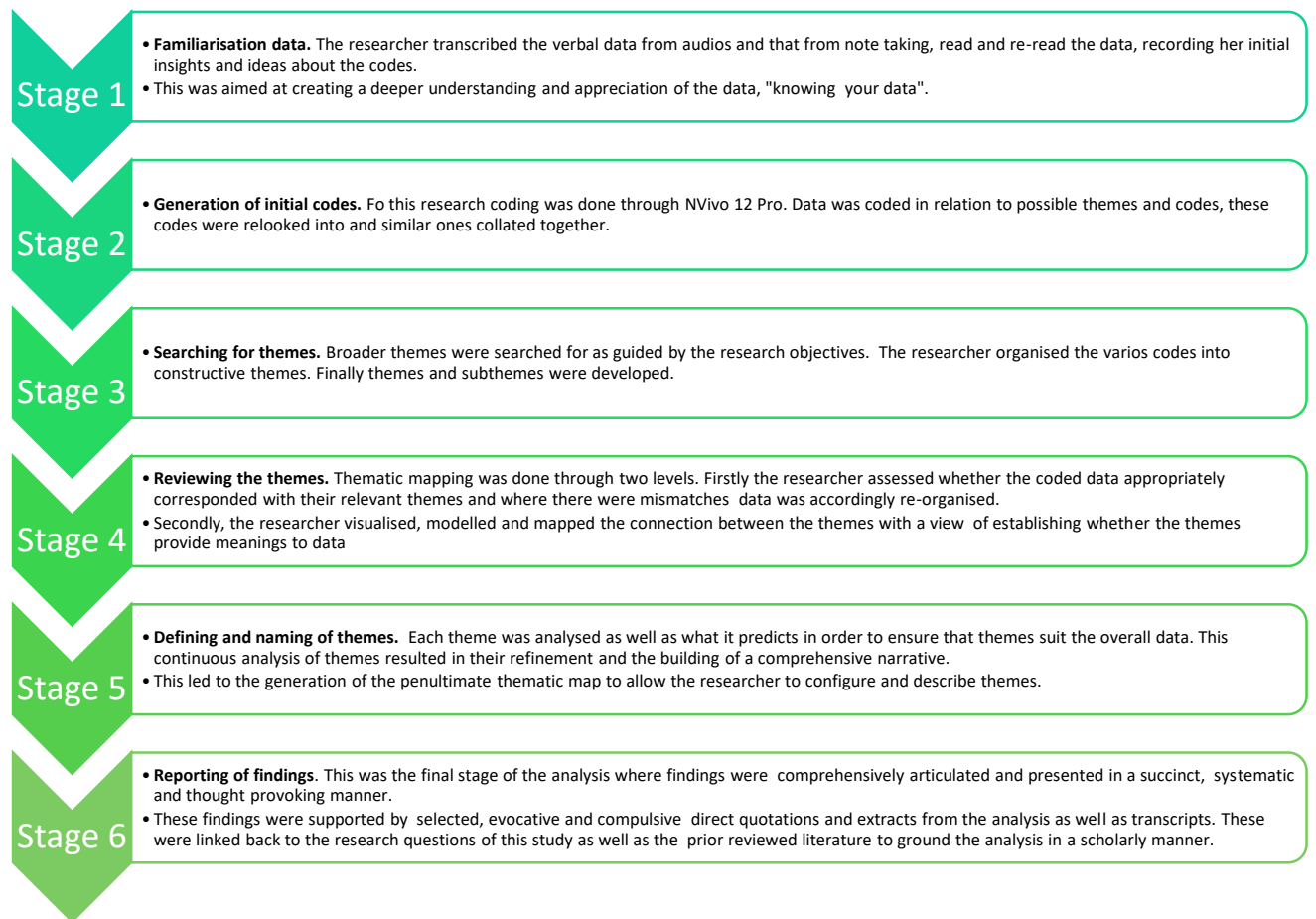


| <b>Analysis Type</b>       | <b>Research Questions</b>                                                                                                                      | <b>Data Collection Method</b>                    | <b>Thematic Data analysis Approach</b>                                                           |
|----------------------------|------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------|--------------------------------------------------------------------------------------------------|
| Descriptive and evaluative | What are the challenges and potential benefits of informal sector taxation in Zimbabwe?                                                        | Literature review, interviews and questionnaires | Deductive and inductive approach. Tax compliance models and practical experiences                |
| Analytic and descriptive   | What are the other possible ways to foster voluntary tax compliance and strengthen informal sector taxation in Zimbabwe and Africa in general? | Literature review, questionnaires and interviews | Deductive and inductive approach to recommendation. Theory informed and empirical evidence based |

Own Compilation with guidance from Mashiri (2018)

Data was analysed in terms of the six phases of thematic analysis suggested by Braun and Clarke (2006) and these were followed in this research as diagrammatically presented below in Figure 6.1.

**Figure 6. 1: The six step thematic analysis**

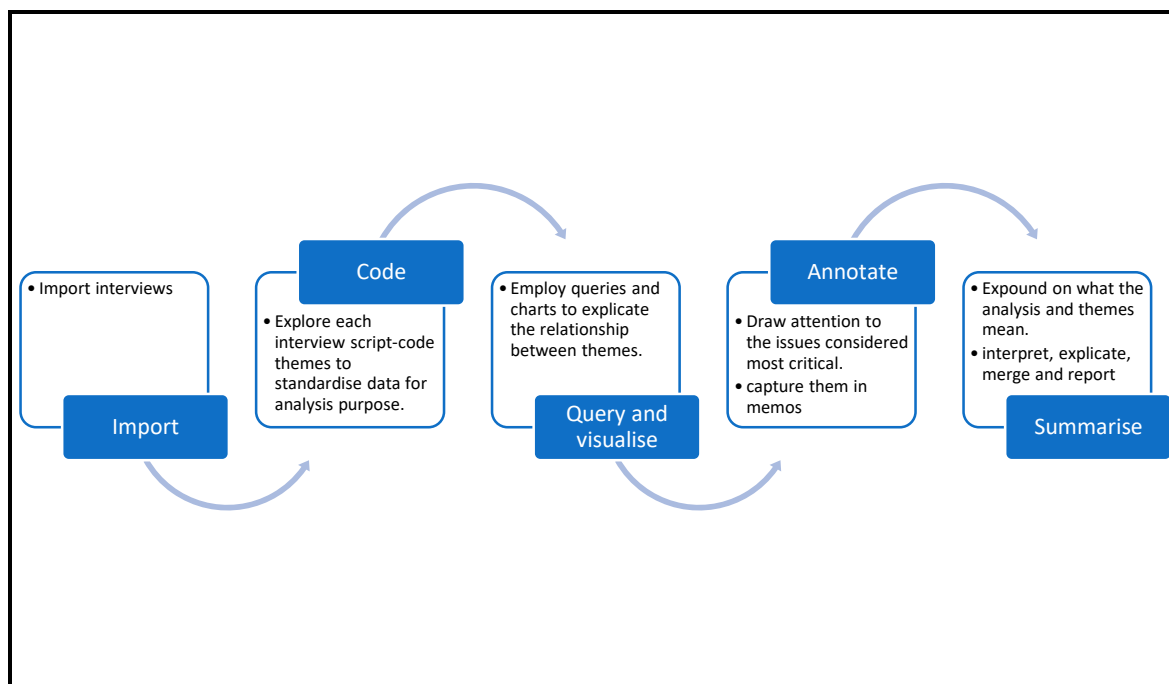


Adapted from Braun and Clarke (2006)

### 6.2.2 NVIVO applied

The NVIVO qualitative analysis tool was used to carry out the above six-stage process. After data collection all recordings were transcribed verbatim and the notes taken during the interviews where participants were not comfortable or did not consent to audio recording. A project "informal sector taxation in Zimbabwe" was then created in NVIVO 12 Pro to begin the coding process. The process was done as schematically presented in Figure 6.2. The refined transcripts were imported into the NVIVO project for coding after the researcher had made herself familiar with the data as suggested by Dollah et al. (2017). After all the transcripts had been captured into the project, the researcher began the coding process leading to the final analysis as outlined in Figure 6.2.

**Figure 6. 2: Steps in using NVIVO**



Source: Adapted from Dollah et al. (2017)

#### **6.2.2.1 The coding process**

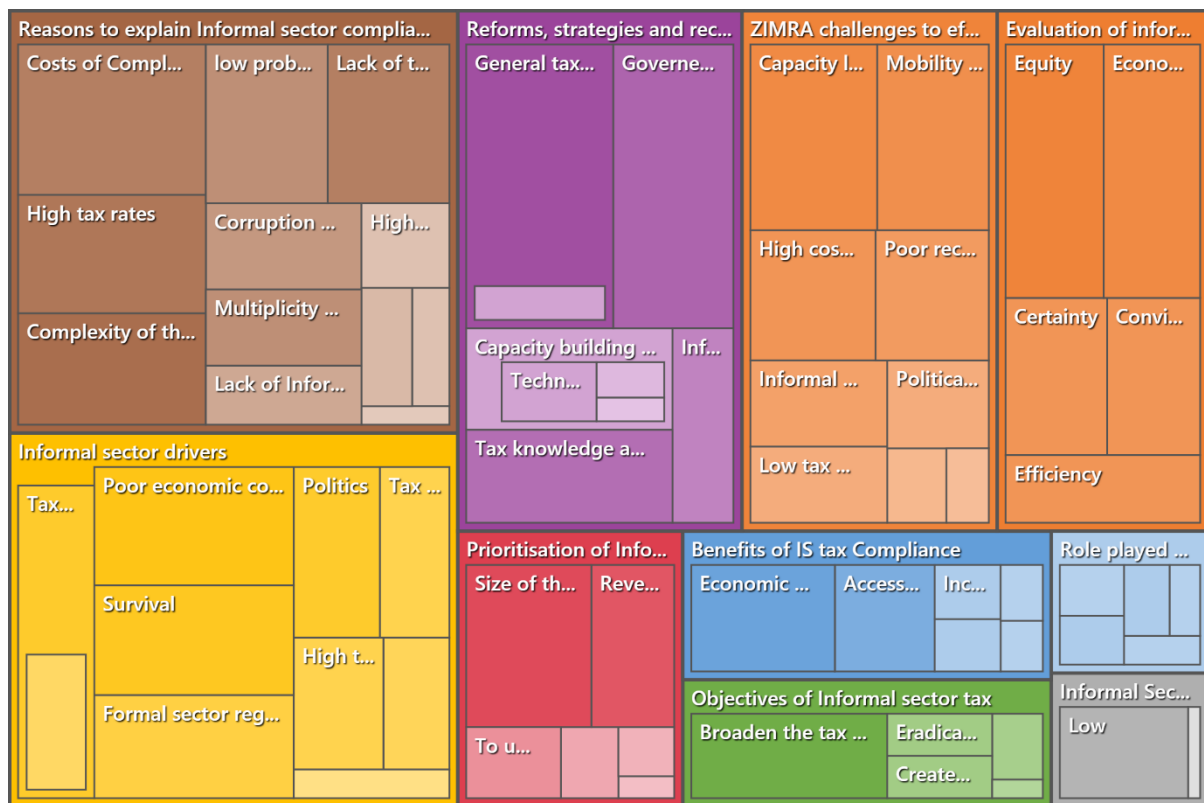
The researcher read through the interview transcript from the first interview noting fundamental themes and these were labelled in the comments dialogue box and any other thoughts considered critical were annotated as memos for the benefit of future reference by the researcher. A brief overview of the key features of the participants' viewpoints was made. The list of codes that were derived from the first coded transcript were analysed for similarities and those that had connecting themes were grouped together. The researcher then made comparisons of her own codes with those of other researchers who used NVIVO for analysis in order to search for similarities and disparities with her own codes just to make sense of the coding process (Dollah et al, 2017). The same process was repeated for all the other remaining transcripts. After capturing each transcript, it was pivotal for the researcher to constantly and continually check whether the existing codes adequately captured information from all these other interviews one at a time. This process led to the redefinition of codes and creation of new codes in some instances as well as their expansion or amalgamation in order to cater for new views emanating from the second, third and other interviews accordingly as guided by Dollah et al. (2017), Sim et al. (2018) and Guest et al. (2020). The impact of the changes on the codes compelled the researcher to consistently revisit the earlier coded texts to ensure that the codes as well as their design remained faithful to all transcripts. The process was continuously

repeated for all other transcripts resulting in redefinitions, constructing of new codes, alterations and adjustments of existing ones so as to keep an alignment of the codes and the emerging coding frame and meanings in sync with all interviews. This process was repeated until a point of thematic “**saturation**” “or information redundancy” was reached (Rowlands et al et al., 2016:41). This was the point where all the interviews were encapsulated accordingly within the confines of the created codes and coding frame (and these codes accordingly captured within the identified themes) and there are “no new emerging ideas in the data” as explained by Hancock et al. (2016:2125) and where no new insights were arising from any additional information (Sim et al, 2018:630; Malterud et al., 2016:1757). Therefore, two kinds of saturation were being paid attention to, the thematic saturation (Sim et al., 2018) and the meaning saturation (Hennink et al., 2017). This point is crucial in qualitative research and often considered as the “gold standard” for excellence and trustworthiness in qualitative research as it is largely anchored on various perspectives and viewpoints of the population (Hancock et al., 2016:2125). This was at interview 6 for the tax experts, interview 10 for ZIMRA officers and at interview 3 for the Ministry of SMEs officials as highlighted in Chapter Five.

#### **6.2.2.2 Themes**

Themes were then identified from the codes; those that cut across interviews were depicted in horizontal coding and vertical coding for those abridgements that related to individual viewpoints. These were then reviewed, defined and named as presented under themes in the hierarchical chart in Figure 6.3. A hierarchical chart is described as a tree map which displays shapes of diverse dimensions and colours (the intensity of the colour under each theme paints the emphasis made on the subthemes by interviewees) to conceptualise and illustrate how data was classified. This allows for comparative analysis of data and themes (Adu, 2016; Jackson & Bazeley, 2019). Figure 6.3 therefore delineates the key emergent themes and subthemes that contribute to the IS taxation project created in NVIVO. On the chart, under drivers, tax, poor economic conditions, survival and politics appeared topical whereas for ZIMRA, capacity constraints seemed to be the biggest challenge in IS tax administration. The data analysis in this chapter followed the thematic analysis displayed.

**Figure 6. 3: Hierarchical chart depicting themes from NVIVO**



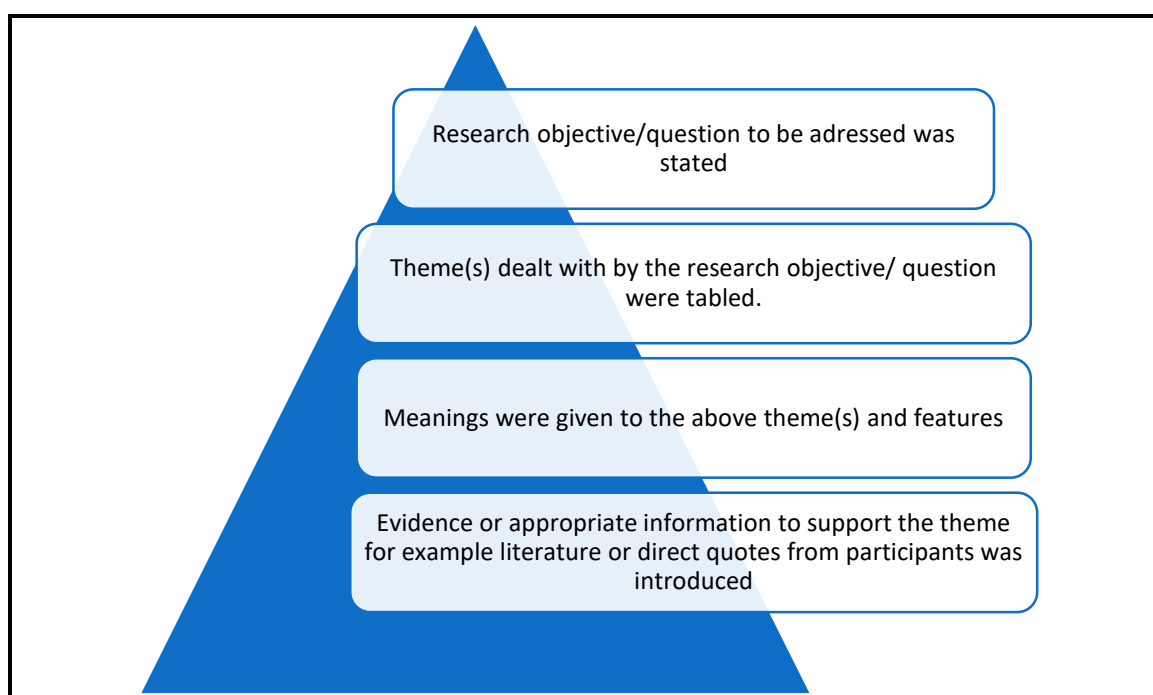
Source: Own Compilation from NVIVO results

### 6.2.2.3 Analysis of results and reporting

The researcher pinpointed the key codes, themes and described them. The researcher went further and explored, described and evaluated the connections, patterns as well as relationships between the codes. The themes were analysed in the context of the research objectives, the theoretical framework and literature reviewed in Chapter Two, Three and Four of the study. Utmost care was exercised to take into cognisance the convergences and divergences emanating from the different opinions. The differences and similarities were accounted for in the discussion of findings. Models, word clouds, word frequencies and tables were used to depict code relationships. These NVIVO outputs are purely qualitative presentations of data, hence stick to the core objective of the chapter which to present data as qualitatively as possible in addressing the study's research objectives. Text search queries and direct quotations extracted from transcripts as well as references to literature were used to theorise the relationships between codes and to illuminate findings and arguments. As earlier highlighted in Chapter One (Section 1.10), direct verbatim quotations were used to boost the validity of findings and to allow for the development and portrayal of persuasive rich data that created a sense of meaningfulness to the interpretative assertions deduced by the researcher (Dai et al.,

2016:18; Yin 2011). At times these quotations were displayed as branches to the NVIVO word search query tree (For example in Figure 6.7 on politics and Figure 6.15 on tax morale). Quotations were important in expressing opinions in participants' own words thus minimising researcher bias and paraphrasing that could dilute the views of participants. The researcher would then provide elaborations of the quotations and interpretation. Therefore, deeply reflecting on the topic under discussion, providing contextualised insights and nuances and fundamentally explicating the way in which data could be linked up to the research's theoretical framework and concepts (Dai et al., 2016:18-22). This analysis was both descriptive, thematic and analytic as shown in Table 6.1. Results were presented in line with the guidance of Saldaña (2015) as shown in Figure 6.4

**Figure 6. 4: Presentation of NVIVO Qualitative results structure**



Source: Own Compilation guided by Saldaña (2015) and Adu (2016)

Figure 6.4 above illustrated how the findings were discussed and presented, maintaining the golden link between the objectives and themes. NVIVO 12 Pro techniques which included queries like the word tree, text search, node matrix, project maps, contents maps, hierarchy charts, word frequency, nodes modelling of relationships, and cloud tags were used to analyse and present data as shown in the next sections. In order to enhance transparency of analysis process using NVIVO as well as the understanding and credibility of research outcomes, each of the techniques was explained briefly in the section they are used prior to their use (How the

technique is used, its outcome, what is illustrated by the outcome and what the result means). This was in line with suggestions given by Adu (2016) and Jackson and Bazeley (2019).

Figure 6.5 below gives meaning to how responses were analysed in relation to participants as presented Figure 6.8 and all other similar ones throughout the chapter.

**Figure 6. 5: Intensity of the blue colour explanation**

| Times mentioned |
|-----------------|
| 0               |
| 1               |
| 2               |
| 3               |
| 4               |
| 5               |

Source NVIVO results

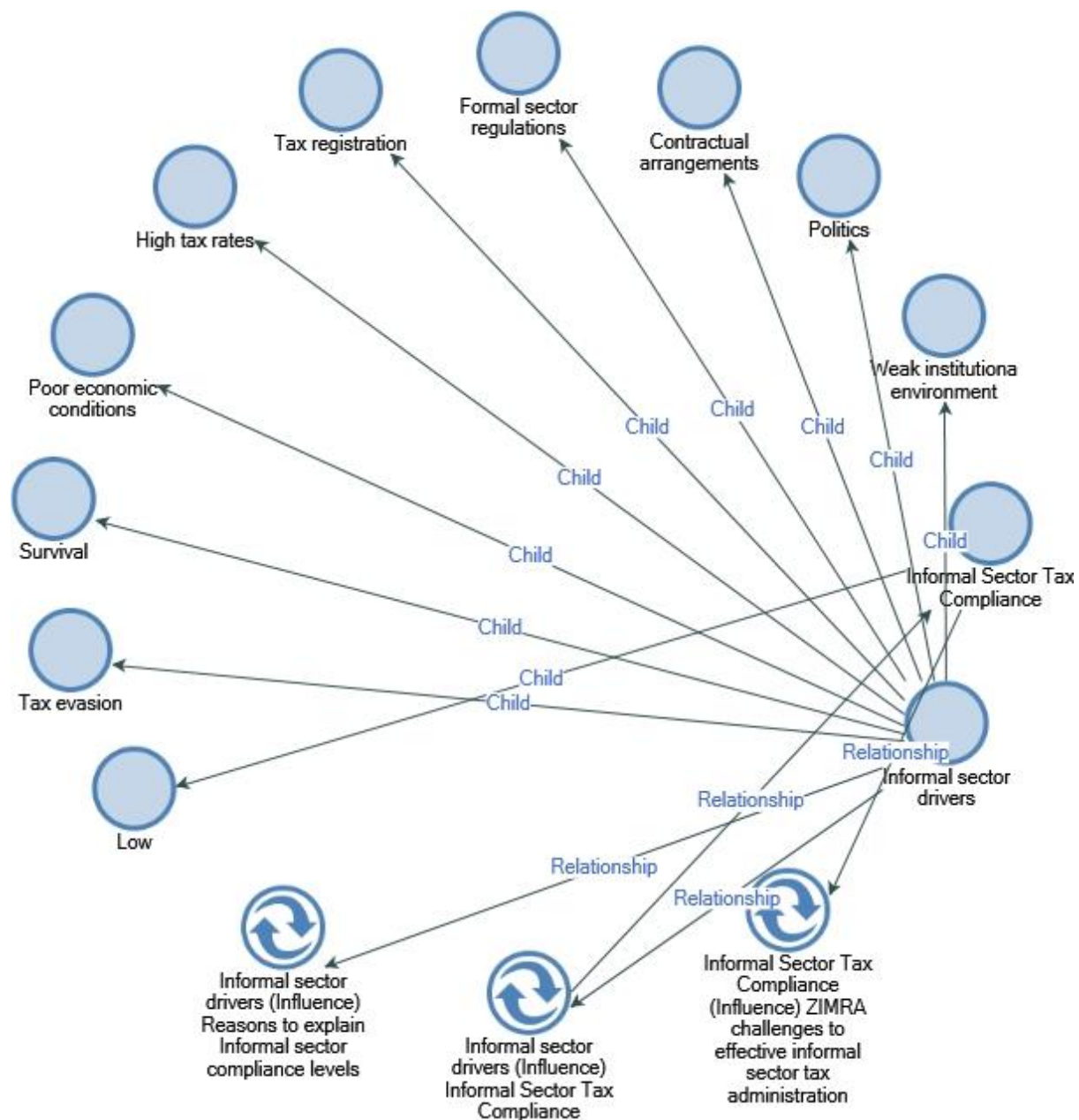
The intensity of the blue colour displays the level of emphasis made (times mentioned) by participants and this being a purely qualitative analysis the numbers were eliminated (Adu, 2016). In the discussions, interviewees in most instances gave a balanced analysis by evaluating both sides of the coin making it difficult to quantify those that support or not support a certain opinion. Results were presented in a manner that expresses the views of participants.

**6.3 Objective1: To determine the drivers of informality by exploring the theoretical framework on informal sector taxation in order to establish the relationship between drivers of informality and factors affecting informal sector tax compliance.**

### **6.3.1 Theme 1: Drivers of informal sector growth in developing countries and Zimbabwe**

Through literature review the researcher established that the reasons for operating in the IS (drivers) have often been tabled as constraints to tax compliance or at times as arguments against taxing the IS. This was also affirmed by Wedderburn et al. (2012) (See Chapter 1, Section 1.1). For example the view that the IS acts as a safety net for the poor so why tax the vulnerable (Hart, 1973), yet other researchers feel such arguments have been in the fore front of the non-taxation of the IS propositions to the detriment of designing effective IS tax policy (Joshi et al, 2014; Sebele-Mpofu & Msipa 2020). The investigation of these drivers yielded various factors to explain the origins and growth of the IS. These are presented below through a project map in Figure 6.6 (briefly explained underneath the diagram) and in terms of interview responses in in 6.8.

**Figure 6. 6: Map depicting the drivers of informality**



**Source: Own Compilation from NVIVO Results**

Maps such as the one above are used to investigate relationships between project items and the central nodes; this interrelatedness is then explained deeper to give meaning. These maps are used to clearly and easily exhibit relationships. Through analysis and discussion the researcher then elaborates on how in his or her own understanding the items are linked, gives meaning to the diagrams and explicates if there are causal or non-causal relationships (Adu, 2016; Jackson & Bazeley, 2019; QSR International). A project map is automatically generated and presents visualisations that explicate connections in the NVIVO project under a certain theme, of which various child nodes are the codes generated from the interview transcripts in



relation to a particular theme. For example, in Figure 6.6 the theme is ‘Drivers of informality’, in this case being the parent, thus giving birth to different codes, depicted as children (various factors explaining the origins and growth of the IS). In terms of Figure 6.6, the children are regulations, politics, survival needs, registration requirements, high tax rates, contracts and others as shown. The children nodes were then explored individually (subsections 6.3.1.1 and others) in detail by the researcher. It is paramount to investigate the drivers of IS in order to construct a logical and effective IS tax policy (Wedderburn et al., 2012). Figure 6.6 also depicts the relationship between the drivers and tax compliance levels (which are illustrated to be low by the child “low”) and links the compliance levels to the factors affecting compliance as well as the challenges faced by ZIMRA in administering IS tax.

#### **6.3.1.1 Formal regulations and Contractual arrangements**

Most interviewees pointed to the burdensome government regulations such as tax laws and requirements and financial obligations for operating formally such as licences, registration fees, taxes such as corporate tax and income tax on employment, social security burdens such as NSSA, ZIMDEF as the main reasons pushing small firms and entrepreneurs in the IS. TE6 expressed that:

*“To be frank with you, Zimbabwe has too many taxes, levies and statutory obligations that all come from taxable income. This rather heavy tax burden scares people and owners of small firms into hiding in the informal sector. If they pay all these statutory requirements and tax, they have very little left for running the business or growing it”.*

These difficulties in operating formally result in the lack of ease of doing business bureaucratic tendencies in government departments and this then forces players to trade informally. The majority of tax experts pointed to the complexity of the tax system, which results in increased compliance costs. Costs of tax compliance such as tax and accounting systems set up, use of tax consultants and advisory services become expensive thus small firms and individuals find tax obligations in the formal sector suffocating hence they just operate informally. Too many barriers of entry into the formal sector and heavy cost of compliance. TE4 put forward that:

*“Complexity of tax systems is a developing country issue, the Zimbabwean tax system is too intricate for a layman and the language of Tax Acts is seriously confusing even for us tax experts and ZIMRA officers. That is intimidating enough for one to seek solace in the informal sector where you can hide easily from tax responsibilities”.*

Mukorera (2019) explained the unwillingness to formalise in the IS in Zimbabwe as being driven by bureaucracy, burdensome formal regulations and lack of knowledge and skills development. This goes hand in hand with the legalist perspective, which explains informality from the Djankov et al. (2002)'s "Ease of Starting Business Index". According to Becker (2004:10) "informal arrangements are a rational response to overregulation by government bureaucracies". In affirmation, Nwabuzor (2005:126) described it as "a response to burdensome controls and an attempt to circumvent them". Informality in Zimbabwe can be therefore viewed as a rational economic choice catalysed by overbearing regulations, high costs of operating formally, inefficient and corrupt ways of tax administration as explained through the legalist lenses (Maloney, 2004; Perry et al., 2007).

Participants also pointed to contractual opportunities as a driver to informality. Contractual arrangements between the IS and formal firms who subcontract the former to exploit their flexibility to reach a wider population, minimise time and costs. Examples given were contract farming, Econet subcontracting Ecocash outlets, Tobacco industries, mining (there are artisanal miners who are subcontracted by financial stable individuals). TE1 explained this by saying *"I also believe these powerful politicians or I can call them capital assets barons as they own land, buildings and financial resources, they employ the youths, university graduates to run businesses informally for them hence subcontract"*. ZIMRA O4 also concurred by expressing that:

*"The informal sector is perpetuated by politicians especially the vendors and foreign currency dealers. These politicians import their goods into the country, flex their political muscle and do not pay duty. They normally employ vendors to sell these goods to get cash and sell them for lower prices since they wouldn't have paid any duty and will not be paying any VAT or incurring any operating costs"*.

IS growth in Zimbabwe can be viewed in the eyes of contractual arrangements both legal and largely the illegal ones. This gives merit to arguments by Castels and Portes (1989) and those by Portes and Schauffler (1993) who view the IS as product of the structuralist school of thought, driven by the formal-informal linkages and as continuum of both the vulnerable and those that evade tax respectively.

#### **6.3.1.2 High tax rates**

Tax is considered a big factor that drives Informality. Tax laws and requirements, heavy tax burden and high tax rates are viewed as catalysts to IS growth (Buehn & Schneider, 2012;

Williams, 2016). To illustrate the influence of burdensome taxation framework on the growth of informality and fear of formalising TE5 gave this account:

*“Taxation in Zimbabwe is perceived as unfair and burdensome, a case mind is a vegetable supplier who was supplying large supermarkets with vegetables and on being informed that without a tax clearance certificate 10% of his sales figure will be retained by the suppliers in order to remit it to ZIMRA as withholding tax, he approached me for guidance on the process and implications for filing of returns, compliance and registration procedures. When I explained the process to him and implications. He said it was better for him to lose the 10% than to burden himself and end up suffering penalties”.*

TE3 reiterated the fact that the tax rates were too high for the IS and often crippling but the interviewee was quick to allude to politics as a driving factor stating that:

*“Tax rates in Zimbabwe are high, but that alone is not the really issue. I agree high tax rates and penalties as well as tax laws are impacting heavily on companies, pushing some in the informal sector, but political connections especially for cross border traders, foreign currency dealers and the gold-panners, "amakorokoza" are the stronger factor for me. Politically powerful individuals are behind these operators”.*

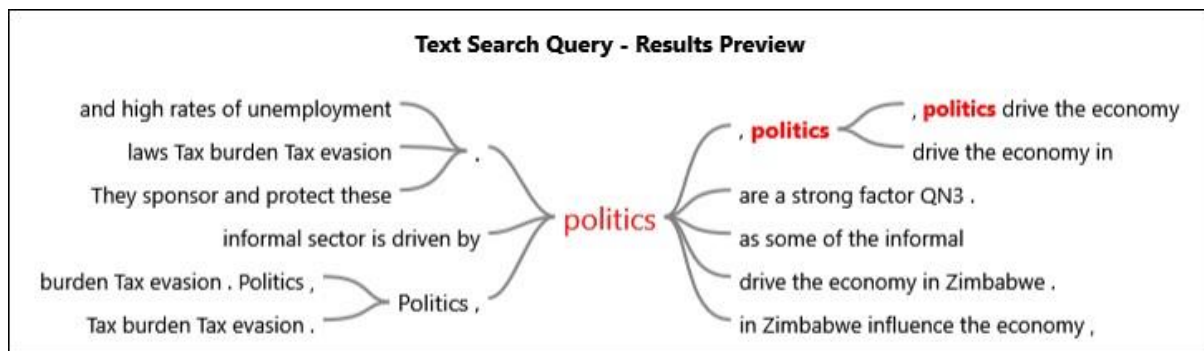
The presumptive tax rates are arguably high and even the corporate tax at 25% plus 3% Aids levy (25,75% of taxable income) is viewed as exorbitant considering the poor economic conditions and inconsistencies in policies, such as the monetary policy have made the operating environment even more challenging (Dalu et al., 2013; Dube, 2014; Ligomeka, 2019). The Exchange rate risk, currency risk and political risks are high. TE 5 raised an interesting fact, pointing to the fact that *“the challenge is that policymakers tend to view presumptive taxes in isolation yet they are linked to other fees paid by these operators. The taxes and these other operational fees basically come from the same income compounding the tax burden”*. In the same light Ligomeka (2019:7, 15) contends that in addition to presumptive taxes women flea market traders in Zimbabwe paid market fees, toll gates, hawker licence fees, storage fees, associated toilet fees, other payments and bribes (unofficial taxes as referred to by Meagher, 2016:6 may unfavourably impact on growth and revenue mobilisation). Pimhidzai and Fox (2011:2, 21) table a similar argument in Uganda. Thus the conclusion that the tax burden is high for the IS and presumptive taxes are regressive to the growth of firms in this sector.

### 6.3.1.3 Politics

According to ZIMRA O1, political issues are big factor affecting tax administration and compliance in the IS. The tax expert illustrated the issue as follows, *“for example, during campaigns towards elections politicians especially from the ruling party just give people land especially the artisanal miners without due consideration of the impact on the economy and revenue mobilisation”*. This is tantamount to the “devil’s deal” alluded to by Tendler (2002:99) in Chapter Three, Section 3.3.1.5. ZIMRA O9 suggested that some of the big players in the informal sector are politically connected for example, the illegal forex dealers. The officer expressed that *“how do you explain the fact that these dealers are never arrested and always have brand new large bundles of notes yet there is a cash crisis in the economy”*. In some cases the informal sector is driven by politics as some of the informal firms are either belonging to political figures or their relatives hence enjoying the political connections (Joshi et al., 2014; Meagher, 2016). Politics in Zimbabwe influence the economy, most of the informal activities are either funded or controlled by political figures. ZIMRA O9 commented that *“Politics, politics, politics drive the economy in Zimbabwe. The bulk of these informal firms are property of politicians who give them capital and shield them from regulators and tax authorities.”*

The arguments are illustrated in the “word tree” in Figure 6.7. A word tree is an outcome of text search query. This is where by the researcher picks a particular word of interest, maybe one which has been topical in interview responses, such as “politics” in this case and run a text search query to establish the discussions focusing on the word. The results are presented as a word tree, with branches portraying the various frame of references of situations in which the term or expression is applied. From this result one can visualise the circumstances encompassing the expression or word from across the data and discern recurrent themes and concepts. This can also highlight areas that the researcher could explore more or even areas of further research (Adu, 2016; Jackson & Bazeley, 2019; QSR International). In Figure 6.7 one can deduce a conversation that says “informal sector is driven by politics” and one that posits “Politics are a strong factor” among others from the tree branches.

**Figure 6. 7: Text Search Query-Word Tree for Politics**



Source: Own Compilation from NVIVO Results

Political motives and interference drive informality in Zimbabwe with ZIMRA O8, stating that:

*“The moment you talk about activities such as the informal ones like artisanal miners and cross border traders, you can never divorce them from political figures. They sponsor and protect these. Politics are a vital driver. The informal sector is perpetuated by politicians especially the vendors and foreign currency dealers. These politicians who import their goods in the country, flex their political muscle and not pay duty normally employ these vendors to sell these goods to get cash and sell them for lower prices since they wouldn’t have paid any duty and will not be paying any vat or incurring any operating costs”.*

Joshi and Ayee (2002) and Joshi et al. (2013:1337) emphasised that politics play a fundamental role in driving the IS growth as well as to making the sector’s taxability a formidable task as politicians see them as a strong bloc of voters that must be kept close, appeased and protected even at the expense of the economy. Tendler (2002) in concurrence described this kind of arrangement as the “Devil’s deal”. ZIMRA officers also concurred on the fact that politics drove the IS in Zimbabwe. MSMEs were not so agreeable arguing that the IS has nothing to do with politicians but more to do with entrepreneurship.

#### **6.3.1.4 Poor economic conditions, poor government policies and survival**

The majority of interviewees especially TEs referred to the survival motives being the biggest driver of the IS in Zimbabwe catalysed by poor and continuously deteriorating economic conditions, high rates of unemployment, increased company closures and retrenchment. TE 3 emphasised the issue of survival several times during the interview stating that “most people are in that sector just to survive, they make enough to just barely survive. For me, survival is the most important explanation. There are others who make money but most of them just

survive”. Some of the TEs (TE1, 3, 4 and 6) and ZIMRA officers (ZIMRA O4, 6 and 7) also alluded to poor government policies or not well structured and implemented policies such as the indigenisation policy that led to the country being shunned by investors and to capital flight, as some investors closed shop and moved to other countries with lower economic and political risks. ZIMRA O3 *“there are simply no jobs in Zimbabwe. It’s either you go to other countries or you go informally to survive”*. Therefore, because of lack of job opportunities, Zimbabwe’s informal sector is not merely a safety net for the poor and unskilled individual but it absorbs both the skilled and unskilled due to high rates of unemployment. It is a mixed bag as alluded to by TE1. MSMEs on the other hand acknowledged the poor economic conditions as a drive for informality but blamed the situation on sanctions as opposed to poor government policies. Survival and lack of employment appear to be the most dominating factors as most participants pointed to the survival and poor economic conditions as shown in Fig 6.8, which shows responses from interviewees. This akin to the dualist view of informality by Hart (1973).

**Figure 6. 8: Drivers of IS**

| Interviewees   | A : Contractual arrangements | B : Formal sector regulations | C : High tax rates | D : Politics | E : Poor economic conditions | F : Survival | G : Tax evasion | H : Tax registration | I : Weak institutions environment | J : Poor government service delivery |
|----------------|------------------------------|-------------------------------|--------------------|--------------|------------------------------|--------------|-----------------|----------------------|-----------------------------------|--------------------------------------|
| 1 : TE1        |                              |                               |                    |              |                              |              |                 |                      |                                   |                                      |
| 2 : TE2        |                              |                               |                    |              |                              |              |                 |                      |                                   |                                      |
| 3 : TE3        |                              |                               |                    |              |                              |              |                 |                      |                                   |                                      |
| 4 : TE4        |                              |                               |                    |              |                              |              |                 |                      |                                   |                                      |
| 5 : TE5        |                              |                               |                    |              |                              |              |                 |                      |                                   |                                      |
| 6 : TE6        |                              |                               |                    |              |                              |              |                 |                      |                                   |                                      |
| 7 : ZIMRA O1   |                              |                               |                    |              |                              |              |                 |                      |                                   |                                      |
| 8 : ZIMRA O2   |                              |                               |                    |              |                              |              |                 |                      |                                   |                                      |
| 9 : ZIMRA O3   |                              |                               |                    |              |                              |              |                 |                      |                                   |                                      |
| 10 : ZIMRA O4  |                              |                               |                    |              |                              |              |                 |                      |                                   |                                      |
| 11 : ZIMRA O5  |                              |                               |                    |              |                              |              |                 |                      |                                   |                                      |
| 12 : ZIMRA O6  |                              |                               |                    |              |                              |              |                 |                      |                                   |                                      |
| 13 : ZIMRA O7  |                              |                               |                    |              |                              |              |                 |                      |                                   |                                      |
| 14 : ZIMRA O8  |                              |                               |                    |              |                              |              |                 |                      |                                   |                                      |
| 15 : ZIMRA O9  |                              |                               |                    |              |                              |              |                 |                      |                                   |                                      |
| 16 : ZIMRA O10 |                              |                               |                    |              |                              |              |                 |                      |                                   |                                      |
| 17 : MSME1     |                              |                               |                    |              |                              |              |                 |                      |                                   |                                      |
| 18 : MSME2     |                              |                               |                    |              |                              |              |                 |                      |                                   |                                      |
| 19 : MSME3     |                              |                               |                    |              |                              |              |                 |                      |                                   |                                      |

Source: Own compilation from NVIVO results

### 6.3.1.5 Tax Evasion and Low tax morale

According to the majority of study participants, there are others that are in the informal sector just to evade tax, they slip into the informal sector to easily evade tax. This point of view was analogous to the illegalist view, which explained informality as purely tax evasion (Feige & Urban, 2008; La Porta & Shleifer, 2014). Pimhidzai and Fox (2011:11) described this view as unjustifiably negative expressing that “Tax evasion is therefore not necessarily the primary motive for HEs to operate as an informal nano-enterprise. Rather, it was the lack of skills like booking to prove their earnings are below the tax thresholds”. According to tax expert

participants it was unfair to just label the IS as tax evaders, the fair way was to explore tax evasion from three angles, that is politics, tax rates and tax morale as these were inextricably linked especially in the Zimbabwe scenario. The bulk of these informal firms are property of politicians who give them capital and shield them from regulators and tax authorities. The real issue was government's misuse of public funds that has forced people to run away from taxes by hiding in the informal sector. Tax evasion was driven by diminished tax morale. Operating in the IS was often done to evade tax and other regulations. According to TE1 *“Low or poor tax morale due to government’s controversial use of funds. Service delivery is poor, infrastructure old and worn out and no drugs in hospital. The motivation to pay tax isn’t there, due to corruption and lack of openness in government spending”*.

In a similar vein, Torgler and Schneider (2009) define tax morale as the intrinsic motivation or the feeling of moral duty to pay tax. They suggest that in countries where tax rates are high and the state over interferes in economic decisions and citizens do not see tangible benefits for paying tax, citizen are often not willing to pay taxes as tax morale is very low. A thought shared by McKerchar and Evans (2009) and Prichard (2019) in explaining the implicit social contract through the Fiscal Exchange theory that as long as government is not delivering on its side of the bargain in terms of quality service delivery and good infrastructure the taxpayer is equally compelled to breach his own side as tax morale decreases.

#### **6.3.1.6 Cumbersome tax registration process and weak regulatory environment**

Difficult registration process and complex tax laws were argued by interviewees to drive the IS. Burdensome registration requirements and tax compliance requirement made the registration process complex thus making some firms and individuals not keen to register for tax purposes. To buttress this point TE2 outlined the process as follows:

*“The prospective taxpayer or company operator is expected to register with the Registrar of companies, City council, ZIMRA. Must apply to ZIMRA; wait for approval, then go to the bank to apply for company bank accounting then go back to ZIMRA to finish the application”. Therefore firms find it difficult to register for tax due to the cumbersome registration process”*.

This is argued to be further compounded by the weak regulatory environment as tabled by ZIMRA O8 *“Weak regulatory environment and frail tax administration capacities make the IS an appealing option. There is low probability of detection by tax authorities and weak application of the rule of law in Zimbabwe.”* Soest (2007) observed that revenue administration

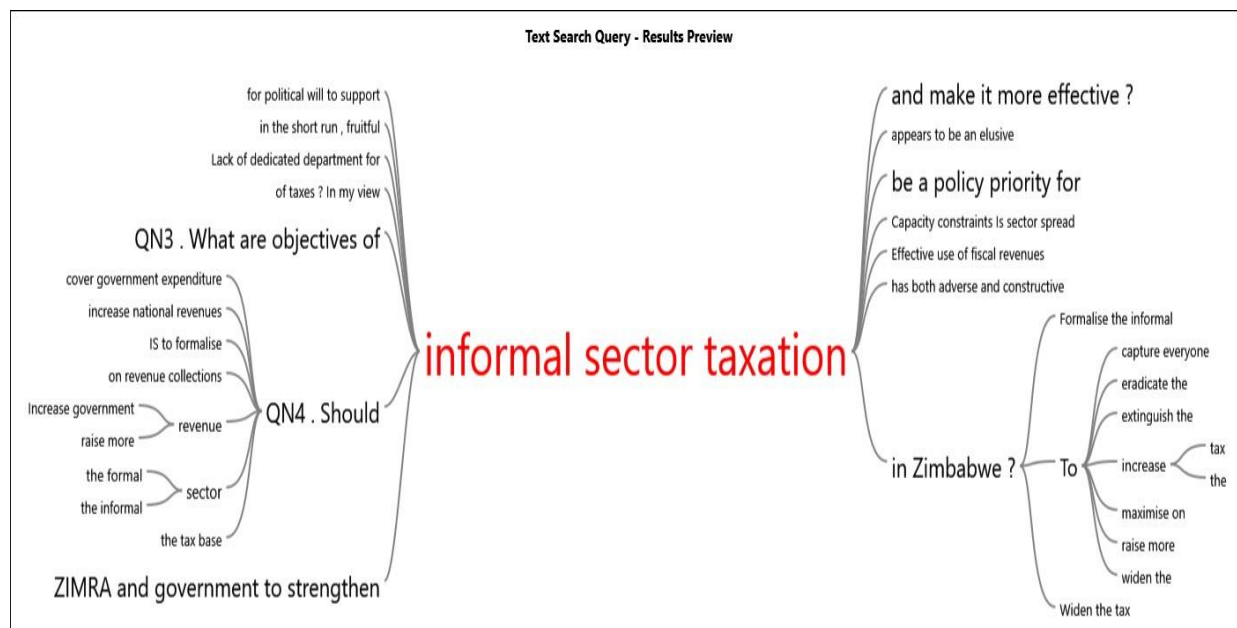


capacities and capabilities are weak in most developing countries and Sub-Saharan African countries in particular explaining a large IS in these nations.

#### **6.4 Objective 2: To establish the motives for taxing the informal sector (To tax or not to tax the IS).**

This objective was explored and themes derived as shown in the search query in Figure 6.9. As earlier explicated in section 6.3.1.3, Politics, a word tree illustrates conversations (branches) illustrating the different contexts in which the phrase was made use of and the context within which it was applied (Adu, 2016; Jackson & Bazeley, 2019). For example in Figure 6.8 the phrase “informal sector taxation” was used to pose a question “What are the objectives of informal sector taxation in Zimbabwe? It was also used in exploring the question on prioritisation “Should informal sector taxation be a policy priority for Zimbabwe? Various arguments (tree branches) for and against its prioritisation were raised by respondents such as that it has both adverse and constructive effects, raise revenue, widen the tax base, eradicate the IS and formalise the IS among others. The frequent phrases were to “*increase tax or revenue*” and “*widen the tax base*”. Possibly giving merit to the argument by Heggstad et al. (2011:4) that in developing countries widening the tax base and increasing tax revenues often becomes “everything” if not the “only thing” that a administration focuses on even at the expense of the functions of tax policy such as to aid survival and growth of firms. From the branches different reasons why taxation of the IS was not highly prioritised, despite suggestions that it holds a promise for increased revenues. From the tree, viewpoints such as capacity constraints, lack of a dedicated department to tax the sector and lack of political will and support for IS taxation are visible reasons why taxation of this sector has neither been effective nor embarked on seriously. Joshi et al (2014:1337), tabled political interference as an impediment to taxing the sector as it compromise the morale and dedication of tax officers. Munjeyi (2017) pointed to a lack of capacity in developing countries in terms of both financial and human capital.

**Figure 6. 9: Text Search Query-Word tree for “Informal sector taxation”**



Source: Own Compilation from NVIVO results

#### 6.4.1 Theme 2: Objectives of IS taxation

Through analysis of documents such as the ITA Chapter 23:06, Ministry of Finance Reports and past researches (Dube, 2014, 2018; Ligomeka, 2019; Newman, 2019:1), it was established that taxation of the IS was introduced in 2005 with three main objectives, which were to increase tax revenues generated, to address equity concerns tabled by the formal sector which felt unfairly disadvantaged by the non-taxation of the IS and lastly to broaden the narrow tax base by bringing the IS into the tax basket. Other researchers argued that the tax rates were abnormal hence the aim was to extinguish the IS or force them to formalise with punitive tax rates due to the negative view that developing country governments have towards the IS. Questions asked interviewees to say from their own understanding what they understand as the main intents for taxing the IS. The most dominant objective was to increase tax revenues as shown in Figure 6.9 above and Figure 6.10 below. All participants pointed to broadening the tax base as the major motive.

The participants emphasised that the formal sector is slowly crumbling and the IS growing exponentially hence the need to tax it to generate tax revenues. TE2 had this, to say:

*“Revenue generation is key, the shift in the dynamics of the economy have resulted in limited revenues being collected from the formal sector as the economy has largely become informal.*

*This points to a need to focus on IS taxation in order to widen the tax base in terms of policy, administration, taxpayer knowledge enhancement and loyalty”.*

ZIMRA O1 in agreement expressed that:

*“The main driver is to generate tax revenues for the government, all over the world government exists from being financed through taxes and in an economy like Zimbabwe with the failing of formal firms, budget deficits, the decline of formal sector growth due to retrenchments and company closure point to a decline in tax collections in tax heads such as PAYE, VAT, Corporate tax and Customs Duty, the informal is the next option for tax money”.*

This was in line with observations by Ligomeka (2019:6) that government has no choice but to find means and avenues to tap tax revenues from the IS as Zimbabwe’s economy is almost 90% informal.

**Figure 6. 10: Motives for taxing the IS**

|                | A : Address equity considerations | B : Broaden the tax base | C : Create a relationship between government and | D : Eradicate the Informal Sector | E : Growth motives |
|----------------|-----------------------------------|--------------------------|--------------------------------------------------|-----------------------------------|--------------------|
| 1 : TE1        |                                   |                          |                                                  |                                   |                    |
| 2 : TE2        |                                   |                          |                                                  |                                   |                    |
| 3 : TE3        |                                   |                          |                                                  |                                   |                    |
| 4 : TE4        |                                   |                          |                                                  |                                   |                    |
| 5 : TE5        |                                   |                          |                                                  |                                   |                    |
| 6 : TE6        |                                   |                          |                                                  |                                   |                    |
| 7 : ZIMRA O1   |                                   |                          |                                                  |                                   |                    |
| 8 : ZIMRA O2   |                                   |                          |                                                  |                                   |                    |
| 9 : ZIMRA O3   |                                   |                          |                                                  |                                   |                    |
| 10 : ZIMRA O4  |                                   |                          |                                                  |                                   |                    |
| 11 : ZIMRA O5  |                                   |                          |                                                  |                                   |                    |
| 12 : ZIMRA O6  |                                   |                          |                                                  |                                   |                    |
| 13 : ZIMRA O7  |                                   |                          |                                                  |                                   |                    |
| 14 : ZIMRA O8  |                                   |                          |                                                  |                                   |                    |
| 15 : ZIMRA O9  |                                   |                          |                                                  |                                   |                    |
| 16 : ZIMRA O10 |                                   |                          |                                                  |                                   |                    |
| 17 : MSME1     |                                   |                          |                                                  |                                   |                    |
| 18 : MSME2     |                                   |                          |                                                  |                                   |                    |
| 19 : MSME3     |                                   |                          |                                                  |                                   |                    |

Source: Own Compilation from NVIVO results

For the Ministry of SMEs officials, the three outstanding motives were the widening of the tax base, creating a relationship with the state and to grow the IS. When these officials were probed whether the other two objectives were fulfilled they argued that the other two were less prominent and are often not fully addressed though acknowledging that their Ministry is working tirelessly to engage the state on factors that affect the IS such as funding, tax rates, lack of operational spaces and general stakeholder engagements on matters affecting them. ZIMRA interviewees pointed also to the eradication of the IS as an objective of the presumptive tax policy. Asked to elaborate on the issue, interviewees suggested that the tax rates are high

in order to force the IS to formalise their operations, they pointed out that that's why presumptive taxes are not a final tax as taxpayers are still expected to submit tax returns. Tax experts and ZIMRA officials also alluded to the need to address equity implications as important to foster formal tax compliance as the IS would also contribute to tax revenues. This confusion in what the really motive for taxing the IS from the perspective of the IS and government resonates well with pronouncements by Olaitan (2016:44), who assert that the choice of presumptive tax policy must reflect government's objective in its adoption and "therefore government must define its goal for presumptive tax since the best policy for one goal may not be the same for others".

#### **6.4.2 Theme 3: Prioritisation of IS taxation**

Literature on whether IS taxation should be a priority for developing countries like Zimbabwe has offered controversial and contradictory findings with others arguing that the low potential tax revenues weighed against the potential high cost and do not warrant prioritisation (Joshi et al., 2013) yet others suggest that the revenues could be high in the long run, growth and governance gains could also accrue (Joshi et al., 2014; Kundt, 2017a:5-8; Prichard, 2019). Contention also emanated from the supposed impact of IS taxation on the survival and growth of small firms as well as economic growth, poverty alleviation efforts and employment creation (Kundt, 2017b:2, 10; Pimhidzai & Fox, 2011:21; Prichard, 2009). Thus, this controversy on whether IS taxation should be prioritised or was priority in developing countries was explored with participants. The results are as shown in Figure 6.11. The two most outstanding reasons for prioritising informal sector taxation were revenue mobilisation and the size of the IS and these are interconnected as the huge IS has been blamed for inadequate revenue mobilisation and huge budget deficits in developing countries (Heggstad et al., 2011:5). The officials from the Ministry of SMEs emphasised the governance considerations as depicted by the intense blue colour, which shows they repeatedly alluded to this in the conversation Figure 6.11.

**Figure 6. 11: Reasons on whether to prioritise IS taxation**

|                | A : Governance considerations | B : High tax collection costs | C : Negative impact on survival of | D : Revenue mobilisation | E : Size of the sector is huge | F : To uphold equity |
|----------------|-------------------------------|-------------------------------|------------------------------------|--------------------------|--------------------------------|----------------------|
| 1 : TE1        |                               |                               |                                    |                          |                                |                      |
| 2 : TE2        |                               |                               |                                    |                          |                                |                      |
| 3 : TE3        |                               |                               |                                    |                          |                                |                      |
| 4 : TE4        |                               |                               |                                    |                          |                                |                      |
| 5 : TE5        |                               |                               |                                    |                          |                                |                      |
| 6 : TE6        |                               |                               |                                    |                          |                                |                      |
| 7 : ZIMRA O1   |                               |                               |                                    |                          |                                |                      |
| 8 : ZIMRA O2   |                               |                               |                                    |                          |                                |                      |
| 9 : ZIMRA O3   |                               |                               |                                    |                          |                                |                      |
| 10 : ZIMRA O4  |                               |                               |                                    |                          |                                |                      |
| 11 : ZIMRA O5  |                               |                               |                                    |                          |                                |                      |
| 12 : ZIMRA O6  |                               |                               |                                    |                          |                                |                      |
| 13 : ZIMRA O7  |                               |                               |                                    |                          |                                |                      |
| 14 : ZIMRA O8  |                               |                               |                                    |                          |                                |                      |
| 15 : ZIMRA O9  |                               |                               |                                    |                          |                                |                      |
| 16 : ZIMRA O10 |                               |                               |                                    |                          |                                |                      |
| 17 : MSME1     |                               |                               |                                    |                          |                                |                      |
| 18 : MSME2     |                               |                               |                                    |                          |                                |                      |
| 19 : MSME3     |                               |                               |                                    |                          |                                |                      |

Source: Own compilation NVIVO Results

#### 6.4.2.1 Governance considerations

All the MSME study participants argued that the IS should be brought into the tax net in order to regulate it and create a relationship between the state and the sector, to enable monitoring, control and ultimately effective revenue collection. For TE3, the major motivation is that leaving this sector unchecked may make it ungovernable in the long run, when players in this sector becomes more powerful than the government thus having a parallel economy to the detriment of the main economy. This could compound tax evasion, low tax morale in the IS, illegal activity and result in reduced revenues and low economic growth as the sector's contribution is unaccounted for and difficult to track. Yet for the MSME interviewees their line

of thought hinged on this being a step towards creating effective dialogue with the state because tax can be used as a tool for representation. MSME3 submitted that *“Taxing the informal sector in a way, helps the government interact with the sector”*.

TE interviewees (4, 5 and 6) had a different opinion arguing that in a normal economy that could apply, but in Zimbabwe that was doubtful as tax was neither viewed nor used as a tool to foster dialogue and representation for other taxpayers let alone the IS. Their arguments were built on the view that the IS was too fragmented to have a voice and even the organised sectors of the IS, government does not engage the stakeholders in the construction of policy especially tax policy and even where engagements are made these contributions are often ignored. They pointed to the introduction of the bond notes where public engagements were made but their views ignored. TE6 had this to say *“Basically government has no consideration for stakeholder views”*. This was also alluded to by Machemedze et al. (2018:26), who observe that, despite the IS being a huge part of economic activity, “their issues remain peripheral”, due to lack of organisation and a united voice, politics, lack of effective leadership to table their concerns, space baron proliferation and shrinkage of the democratic space”.

#### **6.4.2.2 Revenue mobilisation and Magnitude of the IS**

Interviewees all concurred that IS taxation was supposed to be viewed as a matter of priority in Zimbabwe, due to the country’s context of a huge IS and over dependence on tax revenues. The informal sector was asserted to be continuously growing yet the growth in the formal sector was sluggish as the sector is slowly disappearing due to poor economic conditions and company closures as pointed out by Ligomeka (2019:6). Therefore the IS as a major player in the economy it has to accordingly fund government activity, through taxation. TE1 expressed that *“The IS in Zimbabwe is very large as most economic activities occur in this sector hence the need to tax it is in order, but what I’m not sure about is the cost and benefit analysis considering the nature and diversity of the sector”*. The magnitude of the IS warrants taxation as the IS has become a significant and fundamental component of developing countries as evidenced by *“statistics on GDP and employment contribution of more than 50% and 80% respectively in Zimbabwe”*, as described by TE2. Medina and Schneider (2018) estimated Zimbabwe to have the second largest IS in the world after Bolivia, contributing 60.6% to GDP. If this observation is anything to go by the country has the largest IS in Africa and SSA.

In analogy TE2 points out that:

*“Interestingly, the accounting profession in general, not focusing on tax only has appreciated the importance of the IS in the economic arena for development, revenue contribution and ultimately financial reporting and they have developed an International Financial Reporting Standard (IFRS) for SMES specifically, to make their reporting requirements simplified and less cumbersome. In this regard it is important to note the importance of the IS not only to developing countries or developed countries but also to the world at large, it has become a global phenomenon. Changes in the economic dynamics indicate that the informal sector is a permanent and growing feature for the world and especially developing countries and Zimbabwe in particular”.*

The Magnitude of the IS warrants taxation as it is now a huge and important component of developing countries. Despite acknowledging the need to mobilise revenue, interviewees were quick to caution on over taxing the IS at the expense of other roles played by this sector in the economy. ZIMRA O9 explained this concern clearly in the following quote:

*“Yes the IS tax has to be prioritised to boost tax revenues to finance government expenditure. The informal sector is now the majority of economic activity in developing countries, more than half of the economic activity in Zimbabwe, but government has to put measures in place not to suffocate the growth and survival of the informal sector as it is important for fighting against poverty, creating employment, being a source of living for the poor. Tax policy has to be accommodative and take into account the critical role played by the informal sector in developing countries, even out the need for tax revenues and the sector’s viability”.*

This caution is similar to the one raised by Pimhidzai and Fox (2011:2, 21) in Uganda that the outcry on non-contribution to tax revenues by the IS was blown out of proportion, if governments are not careful they risk crippling the activities of the IS robbing the economy of more jobs, economic growth and reduction in poverty.

#### **6.4.2.3 Negative impact on survival and growth of IS activities**

ZIMRA O6 and ZIMRA O7 felt that IS should not be prioritised due to the pervasive effect on the expansion and going concern abilities of small firms. In agreement, TE3 explicated this concern as follows:

*“On the one hand taxation of the IS cannot be ignored as tax revenues have declined due to the reduced economic activity in the formal sector. On the other hand, the sector is very vulnerable due to low production and low incomes hence the need to handle it with care. Come up with a level of tax rates that are not detrimental to the sector’s survival. How can we collect*



*tax revenues and still aid growth and expansion in the informal sector? This will be a vital question for tax policy to address”.*

Machemedze et al. (2018:18) shared a similar view, when commenting on presumptive taxes in Zimbabwe and raised the following questions “Is this a good approach? What is the effect of the tax system on SMEs and the Informal economy? Is the tax system designed to enhance SME growth? Does the system discourage the growth of SMEs?” Affirming the need to maintain a balance between taxing and enabling IS firm growth, ZIMRA O6 avowed that *“At same time government must dedicate financial, technical and training support to this sector so that the unfavourable effects of compromised expansion and viability are mitigated otherwise taxation would cripple the survival and growth of these small firms, people’s lives and employment chances.”*

#### **6.4.2.4 High costs of collecting**

The perceptions on the high costs of collection were mixed as depicted in Figure 6.7. Some interviewees felt that IS tax was not supposed to be a top agenda as the potential low incomes in the IS will not yield much tax revenues and due to the extensive nature of the sector, its variegated categories and sectors as well as its mobility, effectively taxing it was going to be an expensive exercise. Others argued that as the costs were going to reduce with time, taxation should be a matter of priority. To shed more light on this ZIMRA O1 averred that *“It should not be top priority due to the high cost of collection involved but rather systems must be put in place to reduce institutional barriers or bureaucratic hindrances which makes formalization of businesses a nightmare.”* ZIMRA O3 affirmed that:

*“No and Yes. The informal sector incomes are very low and the informal sector is found dotted everywhere all over the country, simple looking at the nature and incomes I doubt if any meaningfully taxes can be collected and at what cost. From my point of view I don’t think whatever we will mobilise from this sector will generate any worthwhile revenues and be worth the cost of identify, tracing, following, monitoring and taxing this sector.”*

TEs argued that, putting this argument on the forefront means governments were never going to tax this sector yet its taxation was an urgent call. These contradictory arguments were also evident in literature (Dube, 2018; Joshi et al., 2013, 2014:1325-1330; Ligomeka, 2019; Newman, 2019).

#### **6.4.2.5 To uphold equity**

Participants pointed out that that IS taxation has to be an issue of priority in order to address the equity canon of taxation. It was argued that it is currently unfair and burdensome to only tax the formal sector. ZIMRA O8 suggested that:

*“If the largest sector contributes to the fiscus the level of the playing ground becomes fair and level hence no one can benefit from unfair competition. The tendency is those who do not pay tax tends to win customers by virtue of their reduced prices resulting in the collapse of formal small firms.*

The Informal sector operators, are using the same public utilities such as roads just like the formal sector. It must equally fund these. This was also revealed by TE1 asseverating that:

*“On the other hand Zimbabwe’s informal sector is one of the most extensive in the world pointing to most economic activity happening in this sector so not taxing it will be unfair to the small formal sector and it means tax revenues collected will be minimal if the bulk of the activities is not taxed.”*

Paying little or no focus on IS activities reduces tax morale and accentuates the risk of non-compliance amongst formal firms who would view this as a fiscal injustice (Ayee, 2007; Benjamin & Mbaye, 2012; Joshi et al., 2014; Terkper, 2003). As alluded to in Chapter Three, Joshi et al. (2014) contend that, the moment tax is seen as a cause of unfairness, this lowers tax morale and reduces tax compliance amongst formal firms resulting in reduced tax revenues. ZIMRA O5 advanced that taxing the IS can be a violation of equity as their incomes are very low, thus taxing them disproportionately overloads the poor and that at times the presumptions made, such as fixed presumptive tax rates violate the equity principle. Thoughts shared by Machededze et al. (2018:18) and Pimhidzai and Fox (2011:14) as well as by Ligomeka (2019:18).

#### **6.4.3 Theme 4: Taxes paid by the IS in Zimbabwe**

The researcher established that income in Zimbabwe was subject to various taxes and these included the recently introduced 2% IMTT (Intermediate Monetary Tax on Transactions), Corporate tax, Withholding Tax, PAYE and presumptive tax (Chapter 4, Section 4.6). According to Machededze et al. (2018:15), the payment of presumptive tax by the IS does not exempt the taxpayer from the responsibility to submit income tax returns. This implies that the IS operators are still obligated to pay other tax heads such as VAT (if they make taxable supplies exceeding \$5000 per month), PAYE, Withholding taxes as well as other operational

licences and fees. This points to multiplicity of taxes and burden of compliance in terms of returns and financial resources. It was also highlighted by ZIMRA O6 that the small businesses that are registered operators can claim VAT input tax.

### **6.5 Objective 3: To explore policy options on how to effectively tax the informal sector by briefly reviewing efforts by other developing countries in Africa.**

The researcher sought to establish how other countries were taxing the IS. This objective was largely addressed in Chapter Three (Section 3.5) under literature review. Study participants had minimal exposure to IS taxation in other countries, as the majority of them said “no exposure at all”. The few ZIMRA officers that had exposure, had been exposed to Kenya and South Africa’s tax on turnover (TOT) which they felt was progressive and brought a measure of transparency and accountability in the presumptions and taxes levied. ZIMRA O1 expressed that *“at least turnover tax is based on the actual sales one would have made as compared to our current fixed tax that is based on assumptions, sales fluctuate in responses to changes in the market and fixed presumptive taxes are unfair”*. They felt though the system had its challenges, it was better and would be more fair and acceptable as compared to the fixed tax rates currently prevailing in Zimbabwe. This could perhaps address certain questions raised in literature. Presumptive tax (presumption), is it a good approach or fair system? Are the assumptions realistic and informed? (Machemedze et al, 2018). Others also pointed to the BMS in Tanzania and Ghana’s associational taxation they had read about. These efforts were discussed in literature in Chapter Three.

### **6.6 Objective 4: To evaluate the practicability and effectiveness of taxing the IS**

#### **6.6.1 Theme 5: Tax Compliance levels**

Literature pointed out that the compliance levels for the IS were low in Africa contributing very little to tax revenues, around 3% of total revenues as pointed out by Benjamin and Mbaye (2012). In Zimbabwe Sebele-Mpofu & Msipa (2020) and Newman (2019:1) as well as the ZIMRA reports analysis pointed to a similar point of view of inconsequential tax revenue contributions. Interviewees were asked to estimate in their own opinion the tax compliance levels of the IS, this was meant to aid in investigating whether the low revenues are due to the low incomes in the IS hence a self-fulfilling observation as pointed by Nakamba-Kabaso and Phiri (2012) in the literature review in Chapter 3 or due to levels of compliance calling for an exploration of why and ways of remedying the situation. Figure 6.12 depicts the results of the interviews.

**Figure 6. 12: IS Tax Compliance level**

| Respondent     | A : Low | B : Medium | C : High |
|----------------|---------|------------|----------|
| 1 : TE1        |         |            |          |
| 2 : TE2        |         |            |          |
| 3 : TE3        |         |            |          |
| 4 : TE4        |         |            |          |
| 5 : TE5        |         |            |          |
| 6 : TE6        |         |            |          |
| 7 : ZIMRA O1   |         |            |          |
| 8 : ZIMRA O2   |         |            |          |
| 9 : ZIMRA O3   |         |            |          |
| 10 : ZIMRA O4  |         |            |          |
| 11 : ZIMRA O5  |         |            |          |
| 12 : ZIMRA O6  |         |            |          |
| 13 : ZIMRA O7  |         |            |          |
| 14 : ZIMRA O8  |         |            |          |
| 15 : ZIMRA O9  |         |            |          |
| 16 : ZIMRA O10 |         |            |          |
| 17 : MSME1     |         |            |          |
| 18 : MSME2     |         |            |          |
| 19 : MSME3     |         |            |          |

Source: Own Compilation from NVIVO Results

All TEs estimated compliance levels to be very low, together with ZIMRA officers, with only one pointing to medium compliance. ZIMRA O9 emphasised that compliance was very low hence, the intense blue colour representing that he mentioned low compliance five times in the compliance level discussion. TE5 asseverated that *“Tax compliance is very low. The informal sector in Zimbabwe is growing exponentially but little tax revenues are harvested from the sector. The present presumptive tax policy is fruitless”*.

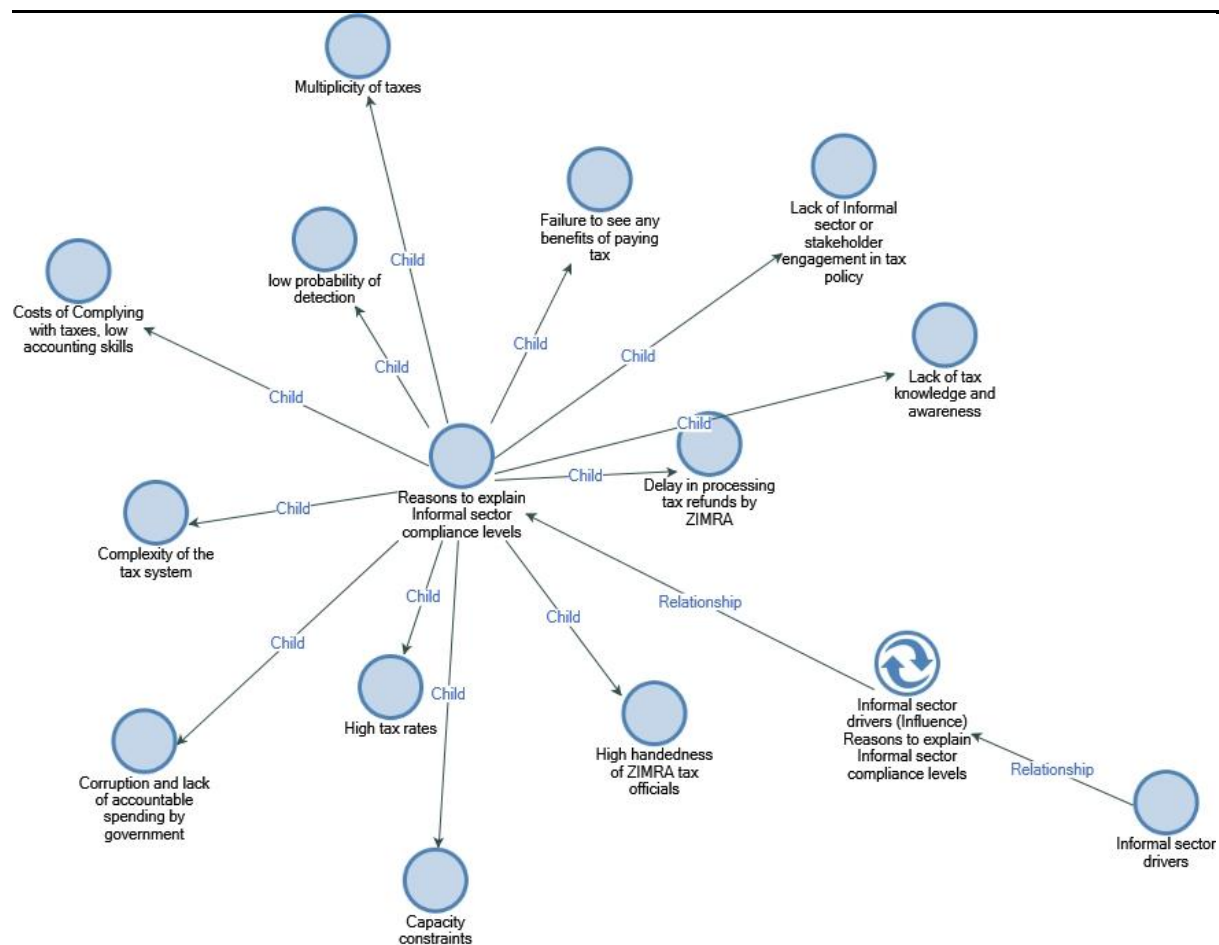
The MSMEs officials suggested that compliance levels were moderate hence the medium ranking. The differences in opinions could be linked to the standpoints as the MSMEs represent

the IS, being an arm of the government that deals with the sector whereas the practical encounters with the IS could explain the view of the TEs and ZIMRA Officers as the regulator could looking at issues in that perspective. The MSMEs justified their views by saying the sector was misunderstood as they do comply with taxes albeit not with national baskets but they pay fees, licences and operating fees to city council and remain with just enough to survive. Ligomeka (2019:7) when studying cross border traders in Zimbabwe, argued that those earmarked for taxation were just a small fraction of the IS activities, thus a comparison of the presumptive contribution and the size of the IS in Zimbabwe was not a fair one. Their view bears resemblance to one by Machemedze et al. (2018) who argued that the categories earmarked for IS taxation in Zimbabwe represent the easily recognisable ones (semi-regulated) and these are just a minute portion of the IS activities as the majority are largely found in the wholly unregulated informal businesses as the bulk of a Zimbabwe's economic activity take place under this umbrella.

#### **6.6.2 Theme 6: Reasons to explain IS compliance**

The research sought to explore the results of theme five further through theme six so as to have a better understanding of the compliance levels in order to enhance the evidence based policy improvements suggestions. The results are presented in Figure 6.13 (project map) and Figure 6.14, showing the factors derived from analysis (parent and child nodes) as well as respondents' views per factor respectively.

**Figure 6. 13: Factors explaining IS non-tax compliance**



Source: Own Compilation NVIVO results

The responses to the above factors are then as presented in Figure 6.14 below. The outstanding factor was complexity of the tax system with the majority participants pointing it out as a major hindrance to compliance. This was followed by high tax rates as the second most discussed. The other two prominent ones were lack of knowledge and awareness as well costs of complying with taxes due to low accounting skills referred. Otherwise, all the above factors were pointed out by participants, what differed was the degree of emphasis put on some factors by different participants which, is normal with gathering views and perceptions. The variations represent the varying experiences, understanding of the tax policy standpoints as well as interactions hence giving the multiple realities that are essential in exploring a complex phenomenon like tax, gain a deeper understanding and give a complete picture. The factors are discussed individually as explained by participants.

**Figure 6. 14: Response on Factors explaining low level of compliance**

| Interviewees    | A : Capacity constraints | B : Complexity of the tax system | C : Corruption and lack of accountable spending by government | D : Costs of Complying with | E : Delay in processing tax refunds by ZIMRA | F : Failure to see any benefits of paying tax | G : High handedness of ZIMRA tax officials | H : High tax rates | I : Lack of Informal sector or stakeholder engagement in tax system | J : Lack of tax knowledge and awareness | K : low probability of detection |
|-----------------|--------------------------|----------------------------------|---------------------------------------------------------------|-----------------------------|----------------------------------------------|-----------------------------------------------|--------------------------------------------|--------------------|---------------------------------------------------------------------|-----------------------------------------|----------------------------------|
| 1 : TE1         |                          |                                  |                                                               |                             |                                              |                                               |                                            |                    |                                                                     |                                         |                                  |
| 2 : TE2         |                          |                                  |                                                               |                             |                                              |                                               |                                            |                    |                                                                     |                                         |                                  |
| 3 : TE3         |                          |                                  |                                                               |                             |                                              |                                               |                                            |                    |                                                                     |                                         |                                  |
| 4 : TE4         |                          |                                  |                                                               |                             |                                              |                                               |                                            |                    |                                                                     |                                         |                                  |
| 5 : TE5         |                          |                                  |                                                               |                             |                                              |                                               |                                            |                    |                                                                     |                                         |                                  |
| 6 : TE6         |                          |                                  |                                                               |                             |                                              |                                               |                                            |                    |                                                                     |                                         |                                  |
| 7 : ZIMRA O 1   |                          |                                  |                                                               |                             |                                              |                                               |                                            |                    |                                                                     |                                         |                                  |
| 8 : ZIMRA O 2   |                          |                                  |                                                               |                             |                                              |                                               |                                            |                    |                                                                     |                                         |                                  |
| 9 : ZIMRA O 3   |                          |                                  |                                                               |                             |                                              |                                               |                                            |                    |                                                                     |                                         |                                  |
| 10 : ZIMRA O 4  |                          |                                  |                                                               |                             |                                              |                                               |                                            |                    |                                                                     |                                         |                                  |
| 11 : ZIMRA O 5  |                          |                                  |                                                               |                             |                                              |                                               |                                            |                    |                                                                     |                                         |                                  |
| 12 : ZIMRA O 6  |                          |                                  |                                                               |                             |                                              |                                               |                                            |                    |                                                                     |                                         |                                  |
| 13 : ZIMRA O 7  |                          |                                  |                                                               |                             |                                              |                                               |                                            |                    |                                                                     |                                         |                                  |
| 14 : ZIMRA O 8  |                          |                                  |                                                               |                             |                                              |                                               |                                            |                    |                                                                     |                                         |                                  |
| 15 : ZIMRA O 9  |                          |                                  |                                                               |                             |                                              |                                               |                                            |                    |                                                                     |                                         |                                  |
| 16 : ZIMRA O 10 |                          |                                  |                                                               |                             |                                              |                                               |                                            |                    |                                                                     |                                         |                                  |
| 17 : MSME1      |                          |                                  |                                                               |                             |                                              |                                               |                                            |                    |                                                                     |                                         |                                  |
| 18 : MSME2      |                          |                                  |                                                               |                             |                                              |                                               |                                            |                    |                                                                     |                                         |                                  |
| 19: MSME3       |                          |                                  |                                                               |                             |                                              |                                               |                                            |                    |                                                                     |                                         |                                  |

Source: Own Compilation from NVIVO Results

#### 6.6.2.1 Capacity constraints and low probability of detection

Capacity constraints were explored together with the probability of detection because the two are undeniably linked according to TEs. Weak tax administration capacities make it difficult to administer tax policy, audit or catch and punish defaulters. They advanced that it was strenuous to identify, trace and tax the informal sector as most players have no fixed place of operation, have a versatile and adaptable nature coupled with the fact that the sector is diverse

and wide spread. When asked to elaborate on what the interviewee meant by capacity, TE4 gave emphasis to this observation by explaining that:

*“By capacity constraints I mean that ZIMRA’s ability to effectively tax the informal sector that is dotted in all sectors of the economy and is so diverse as well as being widely spread is weak. They have no adequate human capital and technology to identify, trace, track and tax this problematic sector. The ease of evading tax due to non-detection then results in increased tax evasion due to the comfort in numbers syndrome. The players rationalise tax evasion saying that if others are not paying, why should I pay?”*

The interviewees alluded to the fact that the low probability of detection is further compounded by the nature of the IS and its features such as dealing in cash transactions that are easy to hide, flexibility to move and the lack of fixed operating premises (no fixed abode). In light of this opinion, TE 1 verbalised it as follows:

*“Mobility of the IS, because of the high handedness of tax authorities in dealing with the IS, the informal continuously move shop to hide from tax authorities. Despite the rule /Law to check on business’s previous history, this is not effective at all as companies continuously close shops and open another after being garnisheed by ZIMRA or failing to survive because of tax obligations and penalties”.*

According ZIMRA officers, tax evasion is the major reason for non-compliance in the informal sector, yet for the MSMEs, non-compliance was not a matter of low probability of detection but of low incomes that make it difficult to honour tax obligations.

#### **6.6.2.2 Complexity of the tax system and Multiplicity of taxes**

Complexity of the tax system and multiplicity of taxes were denoted as major deterrents for tax registration with ZIMRA. The complicatedness of the tax system was also underscored by TE 2 and ZIMRA O3 as a strong reason for IS tax non-compliance in Figure 6.4. Complexity of the tax systems coupled with low levels of education for some operators was indicated as a hurdle to compliance. The registration process was proclaimed to be too involving and complex discouraging the IS. The tax system was pronounced to be complex from registration, legislation and procedures both computational and the e-filing of returns by interviewees from all the three groups MSMEs, TEs and ZIMRA officers. Thus, Zimbabwe tax system is complicated and can be confusing to taxpayers even those with high levels of education and tax knowledge thus even more difficult for the IS with low levels. TE 6, giving merit to the finding enunciated that *“Most players in the sector do not understand why they pay taxes, the*



*benefits of paying tax, how they should pay the tax, the tax legislation and framework and procedures for example e-filing including how much they should pay".* The Zimbabwean tax system was argued to be very complex in terms of registration and compliance procedures and making it a costly exercise. The view was affirmed by TE1, indicating that *"Paying tax accountants and consultants for their services becomes a costly exercise that players in the IS cannot afford in view of their small incomes, this not to say all players are small scale, remember I said in Zimbabwe it's a mixed bag"*. This is greatly worsened by the challenges of e-filing as the ZIMRA website is often not accessible and is not user friendly. ZIMRA O8 proclaimed that *"the tax system is complex, the provisions of the Act are often ambiguous and can be confusing even to us Revenue Officers or interpreted differently by different people"*.

For a formalised company, taxes are numerous on one income for example corporate tax, VAT, PAYE, withholding tax as well as social contributions such as pension, NSSA and Zimbabwe Manpower Development fund contributions. This discourages tax registration and forces players in to the IS where they can easily evade taxes. Multiplicity of taxes and fees to be paid wipe out IS profits. TEs also highlighted the multiplicity of taxes and their impact on the survival and growth of small businesses. Tax was described as a cost that might stifle the growth and survival prospects of small businesses. If these taxes are, numerous on one income the impact was viewed as even more detrimental of expansion and going concern prospects. TE2 commented that *"Imagine a small business that has registered for tax purposes, say this business becomes obligated to pay corporate tax, PAYE, VAT and the social security obligations such as NSSA, pension and ZIMDEF, surely how much would they remain with?"*

### **6.6.2.3 Corruption and low tax morale**

Interviewees revealed that high levels of corruption in government and amongst revenue officers resulted in reduced tax morale, weighty levels of tax evasion and ultimately minimal tax compliance. The participants remarked that government's failure to fulfil the implicit social contract drove taxpayers to evade tax and hide in the IS. There were indications towards a lack of fulfilment of the "invisible" social contract as government is not delivering in terms of infrastructure such as working spaces, support for the informal sector in for example training. Taxpayers are not happy with the way the government spends the revenues collected, coupled with high corruption levels in government and no accountability. Political support and protection often given to firms owned by politicians increase non-compliance. Government spending that is not transparent and accountable causing poor tax morale. In view of the above statement, TE1 professed that *"People don't see the benefits of paying taxes in Zimbabwe."*

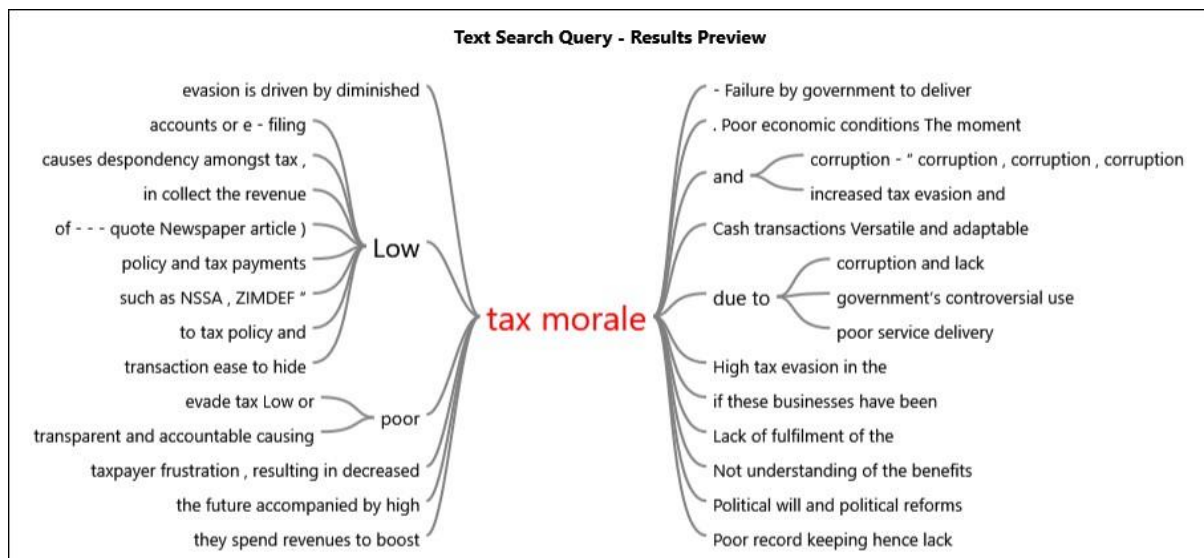
*Lack of transparency in the use of tax revenues frustrates taxpayers, lowering tax compliance compounding levels of tax evasion. People will police each other when they derive tax benefits. Or discourage each other if no benefits are perceived.”*

Impressing upon the relationship between tax morale and corruption TE2 phrased the argument as:

*“Corruption, corruption, corruption and corruption is cancer that has wiped away confidence in government, government spending and resultantly reduced taxpayer morale to its lowest ebb in the country. This diminished morale has been compounded by inconsistencies in policies together with lack of transparency and accountability in the way governments spends tax collections and other public funds. Auditor General’s report and NSSA forensic audit unearthed massive corruption in state owned enterprises, this has also wiped away taxpayer motivation to pay”.*

Bird (2010:3) rightly argued that “taxes imposed without adequately representing the interests of the people being taxed are unlikely to be collected easily” The arguments from the different participants are summarised in the “tax morale” word tree in Figure 6.15. Conversations such as “tax evasion is driven by diminished tax morale”, “Low tax morale due to poor service delivery” and “Low tax morale due to corruption and lack of fulfilment of the social contract” are some of recognisable branches to the word tree. This evidently illustrate the impact of tax morale on compliance and the context in which tax morale is discussed in the study. This points to areas of further investigation such as the impact of tax morale on tax compliance and as part of the recommendations, measures that can be used to boost tax morale.

**Figure 6. 15: Text Search Query-word tree for “tax morale”**



Source: Own Compilation from NVIVO Results

The conversations in the word tree above bear resemblance to observations drawn by Mashiri (2018) as she tabled corruption and political interference as the biggest obstacles to effective tax administration faced by ZIMRA. She alluded to an inseparable link between corruption, political interference, low tax morale and tax evasion.

#### **6.6.2.4 Costs of complying with taxes, High tax rates and low incomes**

According to participants, the small size of players in the sector as well as low and unstable incomes for some of the players makes it difficult to comply even with tax information, as tax is a cost that would gobble the low incomes. To protect their survival such players end up evading tax. TEs emphasised the skills gap or lack of tax literacy in the sector as a challenge to compliance. TE2 articulate this with the following quote:

*“Lack of accounting skills, systems and expertise to keep proper accounting records. The players find it difficult to do their books, raise invoices, even differentiate between revenue and expenses or let alone keep track of their performance as well as transaction. Outsourcing of these services becomes a cost that unduly burdens the taxpayer”.*

TE1 laments the lack of systems that nurture SMEs, expressing that *“Ministry of SMEs not doing enough skills development. Government runs down the entrepreneurial skills. It exhibits a negative view of the informal sector. The lack of support and unfavourable policies literally kill the goose that lays the golden egg”*. Registration for tax purposes is not easy. For example, one is required to have a bank statement yet very few people are using the banking system.

Most people now use mobile money platform but ZIMRA is still traditional and only needs a bank account, which is costly to open for the client, compounded by the loss of confidence in the banking sector due to constant changes on the monetary policy.

High tax rates, penalties and interest were fingered as reasons for non-compliance because they were onerous to taxpayers. Tax rates are on the high side as well as 100% penalty is burdensome to firms. This often leads to companies liquidating and winding up operations. Informal players are usually small-scale operations with low incomes, though there are some big players who can afford to pay tax but evade it, thus tax evasion can be another factor. Taxpayers tend to “rebel” against tax when the ability to pay is hampered and when the tax regime is perceived as unfair and oppressive (Bird & Wallace, 2003; Bird, 2004, 2008), such is the case with the Zimbabwean tax system. Despite the tax rates and penalties being arguably high and the economic conditions deteriorating ZIMRA continued to be uncompromising as stated by TE2 that

*“ZIMRA’s uncompromising and stringent approach to taxation in general and IS taxation in particular. The erratic and minimal incomes together with current cash flow challenges and unstable economic environment, advanced earlier often make it difficult for the informal sector operators to honour tax obligations in time, yet for defaulting by just a day or two ZIMRA charges 100% penalty. This ignores the precarious nature of the economy and the challenges faced by the IS”.*

#### **6.6.2.5 Delays in refunds processing and the high handedness of tax officials**

TE1 and 2 raised the sluggish processing of refunds to taxpayers. TE2 remarked *“It takes for ever to get a refund from ZIMRA and this has been exploited by ZIMRA officials, I’m sure you recall the story recently in papers on fraudulently processing of tax refunds”*. TE1 concurred pointing out that ZIMRA slogan of say, “pay now and argue later” was unfair on the taxpayers, as in most cases taxpayers are afraid to pursue any refunds with ZIMRA, stating that *“following up a tax refund at ZIMRA is as good as calling for trouble because they will come to audit, they will definitely find something, if not they will create it”*.

ZIMRA officials’ high handedness in dealing with taxpayers was viewed as an impeller to non-compliance. Interviewees point out that because of the high handedness of tax authorities in dealing with the IS, the informal businesses continuously move shop to hide from tax authorities. ZIMRA was said to be uncooperative and rigid even when the IS operators are

willing to pay but asking for payment terms so as to manage their cash flows, other financial obligations and to survive. TE1 shed more light on the observation by expressing that:

*“Some of our clients after negotiating with ZIMRA for leniency in terms of payment terms, in consideration of their cash flows you end up advising them to just close shop and start somewhere else even though it sounds unethical, sometimes it’s the only option. Current IS taxation framework and ZIMRA’s approach to implementation cares very little about the survival and growth of small business, the focus is on collection of revenue and only collection of revenue and nothing more”*

Oguttu (2016:13) advanced a similar account, when studying transfer pricing tax, bemoaned the unrestricted power bestowed on tax authorities as a vehicle for compounding corruption and the predatory actions of tax officials to the demotivation of the taxpayers. Lower tax morale reduces compliance.

The situation was said to be further worsened by the collection targets set by ZIMRA for its officials. Heggstad et al. (2011:4) also highlighted this concern. The lack of continuity in cases also frustrates taxpayers. TE3 explicated this point commenting that:

*“The constant rotation of staff does not make things any better, despite having previously made payment plans to pay the tax obligations and even negotiated for penalties, tomorrow you might find a new person with the old information as was before negotiation feigning ignorance of the arrangements made just to collect to meet the target”.*

IS shuns registration for tax purposes for fear of the negative consequences which are compounded by ZIMRA’s high handedness of taxpayers.

#### **6.6.2.6 Lack of stakeholder/ IS engagement**

Lack of stakeholder engagement and/or incorporation of their views in policy designing leads to resistance and lack of acceptance of policies. IS not engaged on IS tax policy formulation. It is very difficult to tax the IS in Zimbabwe. ZIMRA lacks a clear strategy on how to incorporate the IS to effectively contribute to tax revenue mobilisation. Lack of engagement breeds resistance towards tax policy in the sector. CSLAC (2013:7), gave similar evidence in Kenya. Adak (2019:66) in a similar vein observed that accordingly, if taxpayers feel that their views are valued in tax policy designing and the way the taxes are spent, they are more motivated to pay their taxes. Tax Experts explained the lack of engagement on the IS to be due to their fragmentation, pointing out that policy makers often ignore this sector. In Zimbabwe,

Machemedze et al. (2018) advanced that policies have remained repressive to the IS, creating room for corruption and exploitation of this sector by government agents. In South Africa, Fourie (2018), expounded that the IS was not taken seriously and appropriately enabled. The findings of this research are in analogue with the submissions by Kirchler et al. (2008:211) on their Slippery Slope tax compliance model. They argued that two environments often emerge in tax systems, dependent on the relationship between the tax authorities and the taxpayer and these being, the antagonistic and the synergistic relationship. The former depicts a standpoint where taxpayers are viewed negatively as tax evaders, robbing the government of income. The latter alludes to a relationship built on trust, co-operation and communication. The argument is that the former view increases non-compliance whereas the latter increases voluntary compliance. TE1 emphasised the prominence of the former relationship in the Zimbabwe context, pointing out that the Revenue Authority has to come up with strategies to build the latter relationship in order to instil trust and foster voluntary compliance.

### **6.6.3 Theme 7: Benefits of IS tax compliance**

This theme sought to investigate the benefits accruing to both the government and the IS. The results point to converging and divergent views on the effect of IS taxation, as a revenue mobilisation tool and its impact on the survival and growth of informal firms. Study participants had generally a negative view of government expenditure and actions. The majority of participants from ZIMRA as well as tax experts were of the view that the IS benefits very little if anything from paying taxes. The viewpoint bears resemblance to the argument by Meagher (2016:6) who argue that the general view of taxation in developing countries is of a “one way street” built on the state extracting tax revenues from taxpayers who receive very little in return. This casts doubt on the possibility of IS taxation being a tool to rejuvenate the social contract. This assessment of government is partly true but can be evaluated as rather harsh, a view shared by Dickerson (2014) in Cameroon. The researcher brought an intriguing argument of this negative view, raising that putting taxes aside some of the vendors rent spaces from city councils at lower than the market rentals, a benefit they overlook. In addition governments also provides schools, roads, clinics and other services that IS operators benefit from in their day-to-day operations as taxpayers and ordinary citizens (Dickerson, 2014). The views are as presented in Figure 6.16. The arguments centred on access to government tenders, growth of small firms, economic growth and increased revenues. These are explored below as described by participants.

**Figure 6. 16: Benefits of IS tax compliance responses**

| Respondent     | A : Access to government tenders | B : Economic growth | C : Governance benefits | D : Improved record keeping and financial management | E : Increase in government revenues | F : Tax incentives, exemptions and deductions |
|----------------|----------------------------------|---------------------|-------------------------|------------------------------------------------------|-------------------------------------|-----------------------------------------------|
| 1 : TE1        |                                  |                     |                         |                                                      |                                     |                                               |
| 2 : TE2        |                                  |                     |                         |                                                      |                                     |                                               |
| 3 : TE3        |                                  |                     |                         |                                                      |                                     |                                               |
| 4 : TE4        |                                  |                     |                         |                                                      |                                     |                                               |
| 5 : TE5        |                                  |                     |                         |                                                      |                                     |                                               |
| 6 : TE6        |                                  |                     |                         |                                                      |                                     |                                               |
| 7 : ZIMRA O1   |                                  |                     |                         |                                                      |                                     |                                               |
| 8 : ZIMRA O2   |                                  |                     |                         |                                                      |                                     |                                               |
| 9 : ZIMRA O3   |                                  |                     |                         |                                                      |                                     |                                               |
| 10 : ZIMRA O4  |                                  |                     |                         |                                                      |                                     |                                               |
| 11 : ZIMRA O5  |                                  |                     |                         |                                                      |                                     |                                               |
| 12 : ZIMRA O6  |                                  |                     |                         |                                                      |                                     |                                               |
| 13 : ZIMRA O7  |                                  |                     |                         |                                                      |                                     |                                               |
| 14 : ZIMRA O8  |                                  |                     |                         |                                                      |                                     |                                               |
| 15 : ZIMRA O9  |                                  |                     |                         |                                                      |                                     |                                               |
| 16 : ZIMRA O10 |                                  |                     |                         |                                                      |                                     |                                               |
| 17: MSME1      |                                  |                     |                         |                                                      |                                     |                                               |
| 18: MSME2      |                                  |                     |                         |                                                      |                                     |                                               |
| 19: MSME3      |                                  |                     |                         |                                                      |                                     |                                               |

Source: Own Compilation from NVIVO Results

### 6.6.3.1 Access to government tenders and growth of IS firms

The benefits were debatable amongst participants even amongst one group for example ZIMRA officials, others felt there were no benefits at all as the IS was a forgotten sector, whereas others felt the benefits were there though minimal, for example the IS can go for tenders which require registration with ZIMRA hence more business. ZIMRA O2 indicated that the informal sector benefits from paying taxes as they can compete for bigger tenders once

they are in possession of a tax clearance. Positive effects can be exposure to trading opportunities with big firms and government, which can bring growth and business continuity benefits. ZIMRA O3 articulated that:

*“Very few benefits if any accrue to the IS as they seem to be forgotten by policy makers which discourages compliance. Access to government tenders is the only benefit I can think of and very few benefit from this anywhere. Tax policy makers say that taxation of the IS boosts the growth and survival through access to financing resources, dealing with large firms and government leading to increase in turnover and capital investment. I’m not too sure on the achievability of these”.*

The positive effect being associated with visibility and ease of doing business. If small firms register with ZIMRA, nothing will be withheld when they are being paid for their sales in the presence of a tax clearance certificate. TE1 expressed that:

*“Often IS firms comply in order to get government tenders and to deal with formal firms as it is difficult to get government tenders without a valid tax clearance. Normally when you see them asking for assistance to regularise their tax matters you just know there is a tender or loan application”.*

The firm can actually be able to grow in business trading with formal customers and suppliers. TE3 asseverated that *“Improved growth prospects and access to tenders with government can lead to the growth of small businesses and these growth gains can also stem from improved cash flow and financial management”*. Tax experts were quick to also point out that if too much resources are dedicated for tax and leaving little or nothing for expansion, capital investment and survival then tax can unfavourably affect small firms. This concern was similar to one raised by Atawodi and Ojeka (2012b:129-130) in Nigeria.

#### **6.6.3.2 Economic growth**

The evidence was mixed with some participants citing improved economic growth and others referring to a decline in growth. TE2 expressed that *“Economic growth, as governments collect more revenue it means it gives them revenues or surpluses that it can now direct to capital investment projects and infrastructural development thus stimulate demand among other sectors and industries in the economy”*. This consequently contributes to economic growth and GDP. In Zimbabwe, such surpluses could be directed to electricity generation through revitalisation or expansion of power stations in Kariba and Hwange for the survival and growth



of industry and production in the economy. The impact on economic growth was viewed as twofold with MSME1 stating that:

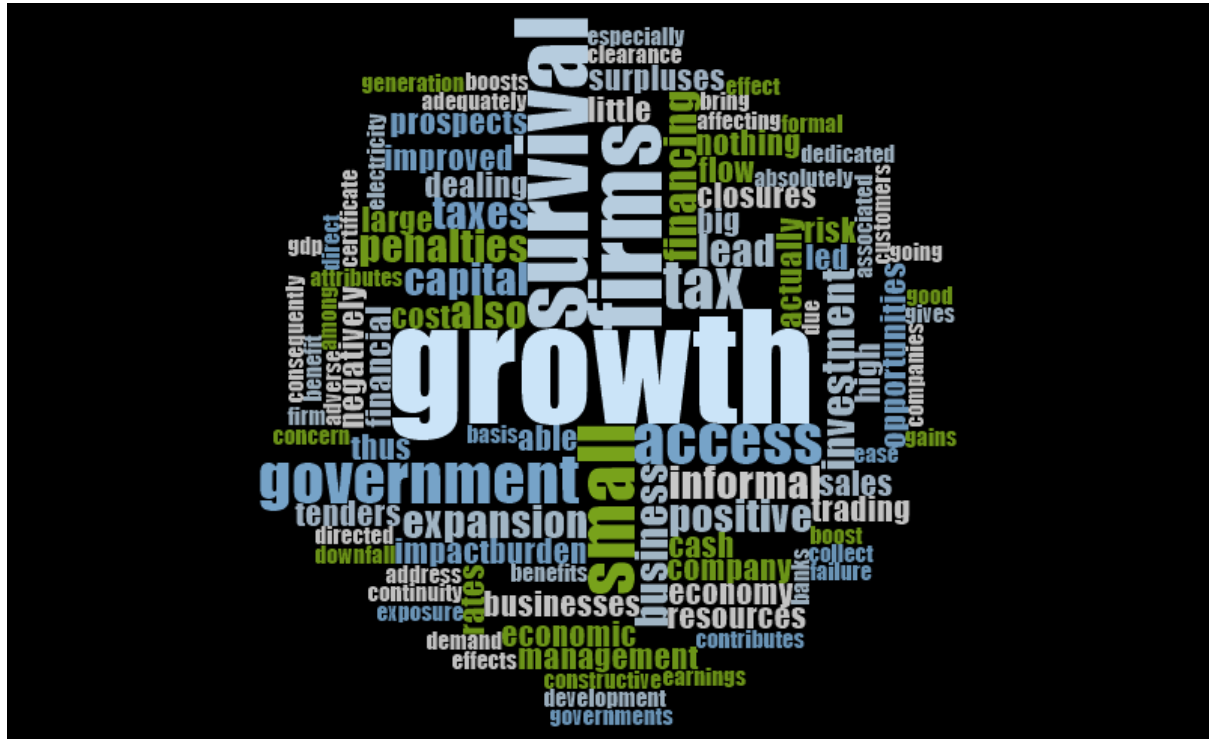
*“In my view informal sector taxation has both adverse and constructive impact on the survival and growth of small firms as well as on economic growth. Considering the sector contributes significantly to GDP, if taxing it can help it manage businesses in a more financially sound way and grow then that’s an improvement to economic growth but if taxing or over taxing leads to company failures and closures that is negatively affecting economic growth”.*

Those with low incomes, taxes can be a cost that can leave them with little earnings to use for survival and expansion. The high tax rates and penalties can also lead to companies winding up operations thus unfavourably affecting survival and growth. Positive effects can be exposure to trading opportunities with big firms and government, which can bring growth and business continuity benefits. ZIMRA O8 advanced that *“The tax rates are moderately high and impact negatively on the survival and growth prospects of informal firms”*. Tax is indeed a cost and a risk that if not managed properly can lead to huge financial burden with actual taxes and penalties. Failure to address this risk adequately has led to the downfall of many firms, big and small especially the small ones.

The arguments for 6.6.3.1 and 6.6.3.2 are summarised in a word tag cloud shown in Figure 6.17. A word tag cloud is a word frequency technique, which is used to picture or visualise the whole project, key terms and phrases, major themes and sub themes within the project (Adu, 2016). The motive is to depict the largely used terms and how frequently they were applied in the discussion on the subject of focus (in this case the impact of IS taxation on growth). Font sizes portray how frequently the word is applied, the bigger the size the higher the use. The idea is to make research findings more comprehensive and understandable as well as to capture a complete picture of responses in one exclusive glimpse (Adu, 2016, Jackson & Bazeley, 2019). Figure 6.17 displays the words and phrases that were largely dominating in interviewees’ answers on the subject of IS taxation and growth. Growth was the most leading descriptor or most featuring word. The other heavily weighted words were survival, firms, small, government, access and tax (in order of frequency). The adverse impact of survival was topical as well as the access to government tenders being the most referred to benefit in the discussions. The unfavourable effect on survival and growth was posited by Meagher (2016:6) as she advanced the need for policymakers to closely consider the actual tax obligations

(official and unofficial) shouldered by the IS, as it is often understated. This burden often impacts negatively on survival, growth and revenue generation in the IS.

**Figure 6. 17: Word Frequency-Word cloud tag for growth gains**



Source: Own Compilation from NVIVO Results

### 6.6.3.3 Governance Benefits

Differences in opinions also arose on the governance gains. Most participants especially amongst the ZIMRA officers and Tax experts were sceptical of these benefits yet all participants from the Ministry of SMEs felt those benefits were already accruing and were set to improve with time, hence the intense blue colour as a sign of the emphasis they made. Those doubting the governance benefits raised the argument that the IS was too fragmented to meaningfully dialogue with government. A view emphasised by Machemedze et al. (2018), who highlighted an exclusion of the IS from policy designing, revealing that most policies towards the IS were formulated top-down ignoring the sector's specific concerns. The researchers also alluded to a lack of relevant legal and regulatory framework amongst SADC countries to nurture, protect and grow the IS. They further advanced that the sector cannot engage government productively due to a "dearth in Unionism", paucity in leadership skills and deficiency in understanding of laws and statutory instruments. All of the tax experts shared a similar view pointing to minimal governance benefits if any. On the contrary, they argued that IS opens doors for extortion and harassment of the sector by politicians and revenue

administrators. Meagher (2016:2,16) arrived at a corresponding conclusion in Nigeria that IS neither rekindles the fiscal exchange contract nor fosters any improved accountability by government, otherwise it opens room for more exploitation through bribes, intimidation and multiple taxes

#### **6.6.3.4 Improved accounting records and financial management**

The study revealed that IS taxation can have positive attributes to firm growth and survival due to access to financing, government tenders and training opportunities as well as good cash flow management. TE3 asserted that *“Improved operational and control environment in relation to record keeping, accounting and financial management systems. This can lead to improved control environment, accountability, good cash flow management to enhance performance thus improving profitability.* ZIMRA O10 commented that most of the informal firms they have dealt with for tax purposes have benefited from improved accounting systems and this has acted as an incentive for cost control, performance monitoring and cash flow management which is good for the going concern and growth abilities of the company.

#### **6.6.3.5 Increased government revenues**

This was a controversial area as TE participants and ZIMRA officers observed that the IS contributed minimally to government revenues. They quickly pointed out that the contribution through the 2% IMTT (since its introduction in 2019) was improving and that the government managed to substantially collect from this sector because the economy has no cash, hence people transact through the mobile money platforms as well as bank transfers. This has led to increased revenues for the government. In the words of TE1 *“All things being normal, increased revenues should lead to improvement in service delivery, public utilities, economic development and drugs in hospitals, but in Zimbabwe the surplus from the 2% IMTT has not made much difference in service delivery and infrastructural development except in paper”.* Tax could benefit the public through redistribution of responses as alluded to by TE2:

*“Revenue Generation and Redistribution considering the economy has diverted from being formal to informal with more than 50% of employment creation and GDP being generated in the IS implying the formal sector tax base has been narrowed. In this regard government needs to enhance the tax base through adequately and productively taxing the IS”.*

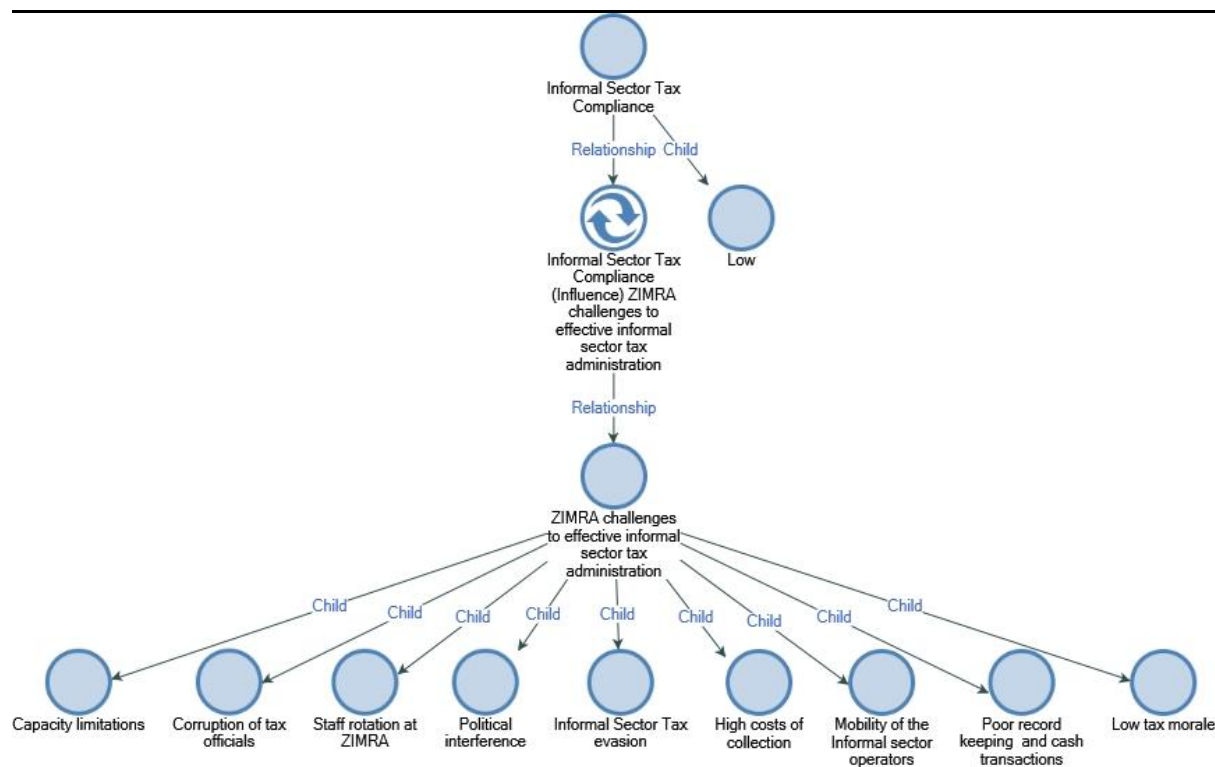
In terms of benefits, maybe those that formalise can fall under corporate tax and enjoy tax incentives, tax exemptions are allowable deductions for formal firms. TE and ZIMRA officers advanced that IS could benefit in tax incentives and exemptions, access to financing through

registration for tax purposes, but they highlighted that in Zimbabwe it opens avenues for more harassment and predatory behaviour by tax officials. An observation also expressed by Prichard (2019). 80% of the TE interviewees also raised questions on whether any meaningful revenues would be practically mobilised from this sector considering they are already paying licence fees and other operating charges from their small incomes. They suggested that these multiple charges including presumptive taxes would either fuel the collapse of small firms or drive them deeper into informality in order to evade tax. In concurrence with these findings, Meagher (2016:6) portends that in light of the meagre and unsteady incomes in the IS, adding more tax responsibility “risk fiscally overburdening” low income players has a pervasive impact on the survival and growth of small firms in the IS. MSMEs advanced that not everyone in the IS was being earmarked for taxation and the sector had low revenues hence the tax contributions were commensurate with the smaller portion of the targeted sector and the low incomes in the sector. Machemedze et al. (2018) also highlighted that the bulk of the IS activities fell out of the ambit of tax policy, with only a small fraction of the “easily identifiable” being targeted.

#### **6.6.4 Theme 8: Challenges to ZIMRA effectively administering IS taxation**

The theme sought to explicate the IS tax compliance levels from the angle of ZIMRA, because tax compliance is like a coin with two sides, the taxpayer’s view and the regulator’s view. The theme would help clarify whether IS compliance levels can be explained as the unwillingness to pay or failure to comply by the IS or maybe as a product of ZIMRA’s ineffectiveness. The project map in Figure 6.18 depicts the factors (children) that were evident from research as obstacles to ZIMRA effectively administering IS tax policy. The figure also shows relationship between tax compliance, tax compliance levels and these hurdles. The child nodes (individual challenges) are the sub headings for discussion. The individual responses are also shown in Figure 6.19.

**Figure 6. 18: Project Map for ZIMRA Challenges to effectively taxing the IS**



Source: Own Compilation from NVIVO Results

The factors above are explored in terms of responses as shown in Figure 6.19. Capacity constraints were tabled by all interviewees though with varying intensity of emphasis as shown by the intensity colours. The factors are discussed in detail below

#### 6.6.4.1 Capacity limitations and mobility of the IS

Study participants pointed out that ZIMRA had capacity limitations in terms of labour and technological limitations to track, monitor and ultimately tax the informal sector activities. Manpower, skills and technological infrastructure to constructively monitor the sector was lacking. ZIMRA also lacked financial resources to enforce compliance in this sector. They alluded to the absence of a dedicated department for informal sector taxation, which is an observation pointed out by other researchers and still remained unaddressed to date (Dube, 2014; Sebele-Mpofu & Msipa, 2020; Munjeyi et al., 2017). TE2 putting emphasis on Capacity constraints, remarked that

*“ZIMRA has no capacity to tax the IS. Taxation is dependent on the availability of information, control and monitoring yet ZIMRA lacks capacity to go on the ground, monitor and collect from the huge IS spread everywhere. Capacity constraints are in terms of minimal experience and expertise in dealing with the IS, human resources and workforce shortages, minimal*

*financial resources, poor and inadequate technological infrastructure. When it comes to e-filing, the ZIMRA website is not easily accessible, sometimes down and often overwhelmed by transaction hence glitches here and there”.*

Difficulties in creating and managing IS database was considered a hindrance to effective taxation as described by TE 1, *“Diversity and ease of mobility of IS players. These constantly “duck and dive”, playing a cat and mouse game with tax authorities. ZIMRA fails to keep pace due to capacity constraints these compromise the authority’s ability to productively tax the sector”.*

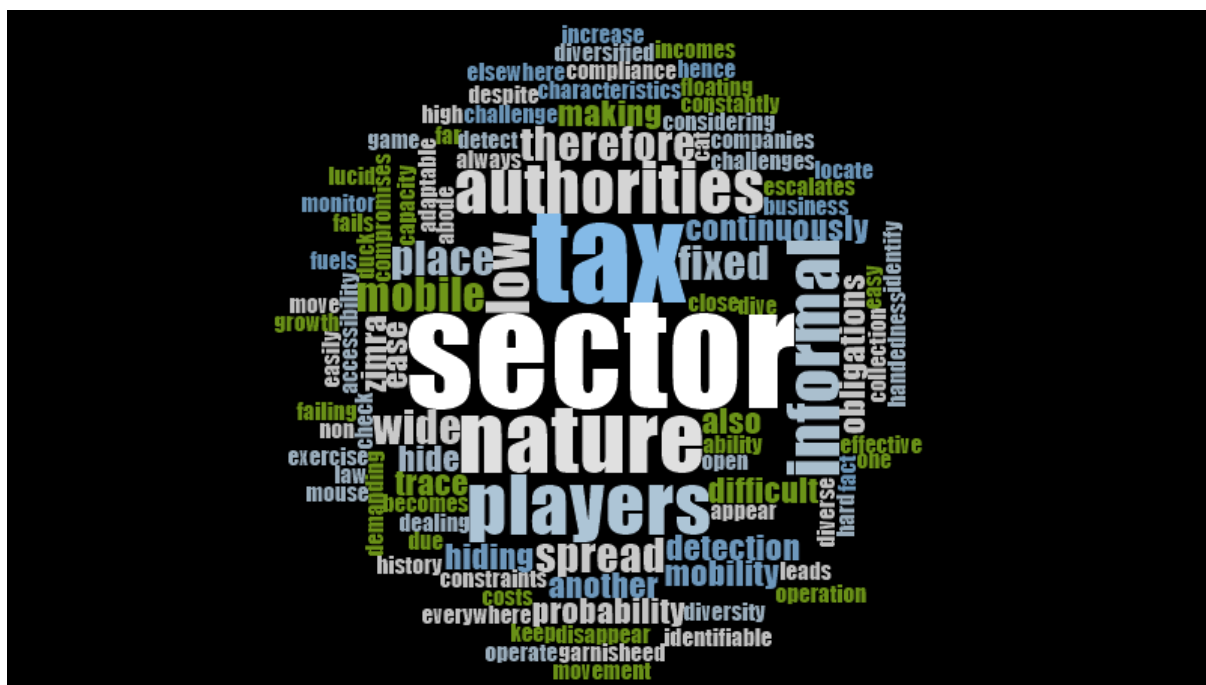
**Figure 6. 19: Responses on ZIMRA Challenges to effective IS taxation**

|                | A : Capacity limitations | B : Corruption of tax officials | C : High costs of collection | D : Informal Sector Tax evasion | E : Low tax morale | F : Mobility of the Informal sector | G : Political interference | H : Poor record keeping and | I : Staff rotation at ZIMRA |
|----------------|--------------------------|---------------------------------|------------------------------|---------------------------------|--------------------|-------------------------------------|----------------------------|-----------------------------|-----------------------------|
| 1 : TE1        |                          |                                 |                              |                                 |                    |                                     |                            |                             |                             |
| 2 : TE2        |                          |                                 |                              |                                 |                    |                                     |                            |                             |                             |
| 3 : TE3        |                          |                                 |                              |                                 |                    |                                     |                            |                             |                             |
| 4 : TE4        |                          |                                 |                              |                                 |                    |                                     |                            |                             |                             |
| 5 : TE5        |                          |                                 |                              |                                 |                    |                                     |                            |                             |                             |
| 6 : TE6        |                          |                                 |                              |                                 |                    |                                     |                            |                             |                             |
| 4 : ZIMRA O1   |                          |                                 |                              |                                 |                    |                                     |                            |                             |                             |
| 5 : ZIMRA O2   |                          |                                 |                              |                                 |                    |                                     |                            |                             |                             |
| 6 : ZIMRA O3   |                          |                                 |                              |                                 |                    |                                     |                            |                             |                             |
| 7 : ZIMRA O4   |                          |                                 |                              |                                 |                    |                                     |                            |                             |                             |
| 8 : ZIMRA O5   |                          |                                 |                              |                                 |                    |                                     |                            |                             |                             |
| 9 : ZIMRA O6   |                          |                                 |                              |                                 |                    |                                     |                            |                             |                             |
| 10 : ZIMRA O7  |                          |                                 |                              |                                 |                    |                                     |                            |                             |                             |
| 11 : ZIMRA O8  |                          |                                 |                              |                                 |                    |                                     |                            |                             |                             |
| 12 : ZIMRA O9  |                          |                                 |                              |                                 |                    |                                     |                            |                             |                             |
| 13 : ZIMRA O10 |                          |                                 |                              |                                 |                    |                                     |                            |                             |                             |
| 14: MSME1      |                          |                                 |                              |                                 |                    |                                     |                            |                             |                             |
| 15: MSME2      |                          |                                 |                              |                                 |                    |                                     |                            |                             |                             |
| 16: MSME3      |                          |                                 |                              |                                 |                    |                                     |                            |                             |                             |

Source: Own Compilation from NVIVO results

The low probability of detection and ZIMRA capacity limitations are inextricably connected, therefore it fuels the growth of the IS and increase non-compliance with tax obligations. ZIMRA O5 commented that *“Lucid and mobile nature of the informal sector. Most of the players have no fixed abode therefore can easily appear, disappear and resurface elsewhere, making it hard for tax authorities to detect, monitor and tax”*. The nature of the IS, especially the ease of hiding and movement escalates the collection costs. Most of that the players in the sector were said to operate from undesignated places hence it is difficult to locate or trace them. The IS was argued to be spread everywhere and in all sectors, therefore rendering accessibility a challenge. These arguments are discernible in the word cloud tag in Figure 6.20

**Figure 6. 20: Word Frequency-Word cloud tag for mobility**



Source: Own Compilation from NVIVO Results

As outlined earlier when explaining Figure 6.17, a word cloud vividly presents a complete and deeper insight into the focal subject, theme or phrase in a single glimpse (Adu, 2016). In this case, the topical or commonly used descriptor was sector, followed by tax, nature, players, informal and authority in their order of frequency as depicted by the font sizes. Noticeable in the cloud are words such as accessibility, spread, wide, detection, mobility, mobile, difficult, disappear, adaptable and diversity which are all prominent terms advanced by participants on why the IS presents a challenging domain for tax administrators.





which creates avenues for abuse and exploitation of the system by tax officials. Political interference was also noted as a hurdle as some of the IS firms are owned by high profile politicians. Others were said to be backed or sponsored by these politicians making their taxation quite challenging as they are protected by these. TE3 verbalised that:

*“The unemployed and those operating in the IS are often the biggest chunk of voters and government goes to lengths to gain and maintain their loyalty through liberalised rules and regulations even at the expense of collection of revenue for example artisanal mining claims allocations, which lacks accountability monitoring and is not contributing much to gold production and tax revenues in Zimbabwe”.*

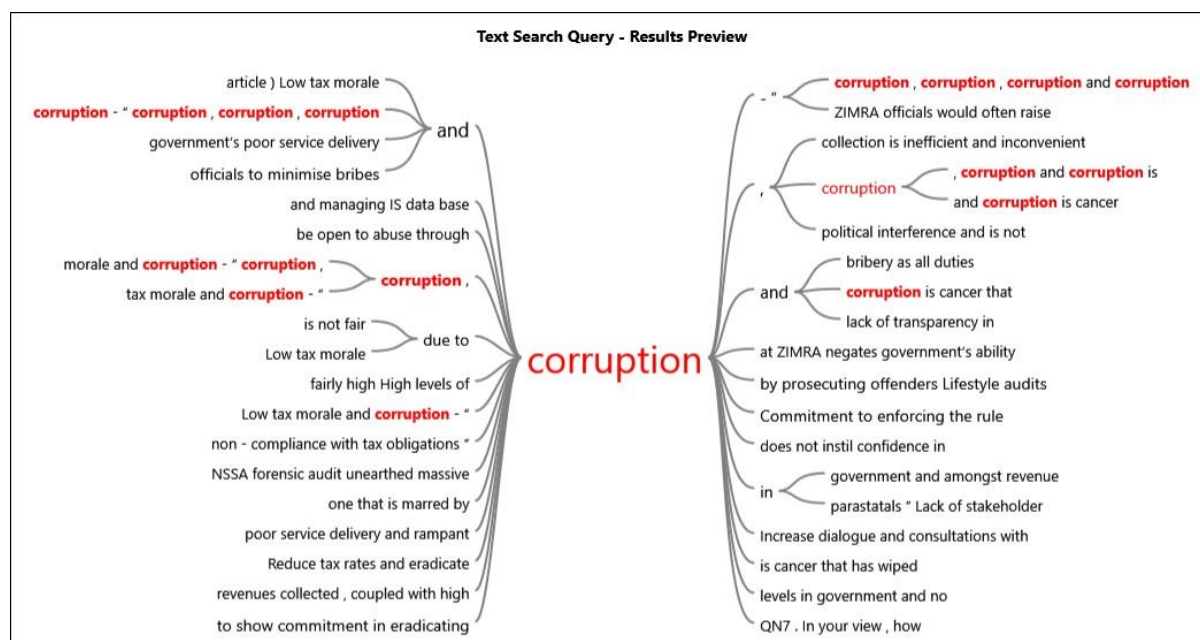
This sounds familiar to the “Devil’s deal” of slack tax administration and enforcement, coupled with inexplicable governance (Tendler, 2002; Joshi et al., 2014:1337). Observations by tax experts on the lack of political will and commitment to tax the sector suggest that IS taxation is a long way from substantially fragmenting the “Devil’s deal”. Conversely, it heightens the tax compliance segregation of the politically connected who are aided to evade tax and the unprotected who pay (Meagher, 2016:17).

Political protection given to some informal players due to political affiliation was also a cause for concern. ZIMRA O1 asserted that *“On the other hand the government lacks political will and commitment to decisively deal with the challenge of IS taxation”*. These statements corresponds to an observation by Mashiri (2018) that most African politicians are “immune” from tax and, revenues officers often feel intimidated to follow them up, thus leading to tax revenue leakages.

Low tax morale due to poor service delivery and rampant corruption also weakens ZIMRA’s effectiveness. The link between the arguments, with corruption at the centre is coined in the text search query in Figure 6.22 below. From the word tree, the word corruption is very prominent in the arguments of interviewees. As part of analysis, the NVIVO software highlighted the word “corruption” in red to emphasise that it was topical among participants. Some of the glaring arguments raised by the interviewees denoted as branches include: “government’s poor service delivery and corruption does not instil confidence in government” and “NSSA forensic audit unearthed massive corruption in parastatals”. Evident also were recommendations made by interviewees in relation to the subject such as “increase dialogue and consultations”, “reduce tax rates and eradicate corruption and “to show commitment to eradicating corruption by prosecuting offenders”. The word tree (Fig 6.22) is a very effective

way of contextualising arguments, topical themes, suggestions and areas of further research as suggested by Adu (2016).

**Figure 6. 22: Text Search Query-Word tree for Corruption**



Source: Own Compilation from NVIVO results

#### 6.6.4.3 Tax evasion by the IS

The findings on tax evasion and tax morale were mixed, especially on the interrelationship. While some of the ZIMRA officers felt that the low tax morale and tax evasion was linked to failure by government to deliver on their own side of the bargain (Figure 6.15, word tree for tax morale), others felt that the IS simply evades tax because of its nature even in economies where tax morale is high (Figure 6.20, cloud tag for mobility). ZIMRA O5 alluded to the illegal transport operators known as the “mushika shikas”, similar to the “matutus” in Kenya described by Maina (2016). The interviewee explained that *“These operate with no licences, largely flout road traffic regulations, operating anywhere and everywhere, picking and dropping people at prohibited places and above all paying no taxes. Surely the playing field becomes uneven with the registered transport operator who is expected to pay tax.”* This is analogous to the observation by Torgler and Schneider (2009), that the IS was prominent in countries with low tax morale, due to increased tax evasion. Government spending was said not to exhibit transparency and accountability, hence lowering tax morale and fuelling tax evasion. It is very difficult to collect meaningfully from the IS. ZIMRA O2, stressing the impact of tax morale contended that *“The public lacks confidence in the use of tax revenues. They always think that whatever they pay will not be used for the betterment of the country but will be used to fund*

*the lifestyles of politicians. Voluntary compliance won't be easy*". The MSMEs argued that the low tax morale was not necessarily linked to the implied social contract, but to low incomes in the IS hence taxpayers are not motivated to pay tax.

#### **6.6.4.4 Costs of collection**

High costs of collection versus potentially low revenues due to the IS diverse nature discourage taxation of the IS. This was also explained by Maina (2017), in Kenya and by Kundt (2017a) in Chapter Three as the "low value for money" argument on the cos-benefit analysis. TE 3 explained the costs of collection were high when compared to potentially low revenues as a result of the fact that the IS was spread far and wide across all sectors of the economy. In addition, the nature of the sector ease of hiding and movement escalates the collection costs. The tax experts emphasised that it is practically possible to tap some tax from the informal sector, though with a high cost. Their point was, tabling the cost and benefit approach in the short run, the IS was never going to be subjected to tax, yet in the long run the benefits are probable going to exceed the costs. The argument was that surely the magnitude of the sector warrants taxation and governments have to start somewhere and that just like any other project, the costs are high at inception but will decrease with experience. According to ZIMRA officers, very little was being collected in terms of tax in this sector. Low scale and low productivity nature of operations, implied low tax revenues not rationalising the costs incurred in collecting the revenue. Observations also alluded to by Joshi et al. (2014) in Ghana.

#### **6.6.4.5 Poor record keeping and cash transactions**

Tax computation is highly dependent on information availability. Lack of accounting and financial information makes IS taxation an arduous if not near impossible exercise. TE3 summed this up by revealing that *"Cash transactions and poor record keeping makes it difficult to have enough information to efficaciously compute IS tax liability or estimate it"*. Maina (2017) pointed to this in Kenya, as a constraint to both Revenue Authorities and the IS who find it burdensome to comply with taxes due to poor record keeping and inadequate financial information.

#### **6.6.4.6 Staff Rotations at ZIMRA**

Transfer of employees to different ZIMRA stations. This results in lack of consistency in decision-making and negotiations and this leads to taxpayer frustration, resulting in decreased tax morale. TE3 described this challenge as one that disturbs continuity and results in misalignment of experience and expertise at ZIMRA, he illustrated that there are *"persistent staff movements and rotations at ZIMRA. This results in inconsistency and lack of clarity in*

*decision making and negotiations and this causes despondency amongst taxpayers, low tax morale and increased tax evasion and avoidance schemes”.*

## **6.7 Objective 5: To evaluate IS taxation in Zimbabwe against the principles of taxation.**

Participants were asked to discuss Zimbabwe’s presumptive tax policy and taxation of the IS in general against the ideal cardinal principles of a tax system.

### **6.7.1 Theme 8: Canons of taxation**

The above discussion crystallised itself under the canons of taxation propounded by Smith (1776). Participants agreed and disagreed in some respects on the applicability of the canons to the IS taxation framework in Zimbabwe. The results are presented below in Figure 6.23

**Figure 6. 23: Canons of taxation responses**

| Respondent     | A : Certainty | B : Convenience | C : Economy | D : Efficiency | E : Equity |
|----------------|---------------|-----------------|-------------|----------------|------------|
| 1 : T E1       |               |                 |             |                |            |
| 2 : T E2       |               |                 |             |                |            |
| 3 : T E3       |               |                 |             |                |            |
| 4 : TE4        |               |                 |             |                |            |
| 5 : TE5        |               |                 |             |                |            |
| 6 : TE6        |               |                 |             |                |            |
| 7 : ZIMRA O1   |               |                 |             |                |            |
| 8 : ZIMRA O2   |               |                 |             |                |            |
| 9 : ZIMRA O3   |               |                 |             |                |            |
| 10 : ZIMRA O4  |               |                 |             |                |            |
| 11 : ZIMRA O5  |               |                 |             |                |            |
| 12 : ZIMRA O6  |               |                 |             |                |            |
| 13 : ZIMRA O7  |               |                 |             |                |            |
| 14 : ZIMRA O8  |               |                 |             |                |            |
| 15 : ZIMRA O9  |               |                 |             |                |            |
| 16 : ZIMRA O10 |               |                 |             |                |            |
| 17 : MSME1     |               |                 |             |                |            |
| 18 : MSME2     |               |                 |             |                |            |
| 19 : MSME3     |               |                 |             |                |            |

Source: Own Compilation from NVIVO results

#### **6.7.1.1 Certainty**

The majority of interviewees raised that the Zimbabwe IS tax system upholds the other principles of taxation such as certainty and convenience but not equity, economy and efficiency. In relation to certainty, the tax system in Zimbabwe is well defined and structured as guided by the relevant ITA, Chapter 23: 06 to provide certainty. There was clarity in tax rates as outlined in the Finance Act which is the charging Act. One can compute and know how much to pay hence certainty. The tax system builds on the certainty principle as the amounts to be paid are clear and can be computed easily. The few that queried the certainty principle alluded to the inconsistencies in policy formulation, changes in tax policy and introduction of statutory instruments (SI). According to TE2 *“Certainty, I’m not sure whether to say the system upholds this principle, of late it has been compromised through policy formulation which has been reactive. I’m sure within the year 2018, the Ministry of Finance has introduced over 80 statutory instruments, not mentioning the inconsistencies in Monetary Policy”*

#### **6.7.1.2 Convenience**

Some of the participants, mostly ZIMRA officials felt that the presumptive system was very convenient in that it was not complex to calculate and payment is done per quarter, though acknowledging that the payment avenue was not convenient to the taxpayers as most of the IS have no bank account and use mobile money platforms. ZIMRA O6, explicated this by saying *“With our ZIMRA database system that is always up one minute and down another it’s not convenient to pay the tax.”*

#### **6.7.1.3 Economy**

The arguments from participants were mixed for example, TE3 expressed that *“Economy, Yes and NO, depending on the size of the IS player, it might be viewed as not economic gobbling a huge chunk of the player’s income”*. ZIMRA officers argued that the IS tax rates were economic, reasonable and small compared to those of formal firms especially corporate tax at 25.75% inclusive of Aids levy. TEs professed that the tax rates were not economic as the costs of complying were burdensome taking the bulk of the income from the small IS players, thus leaving the citizens worse off thus against the economy principle. ZIMRA O2 explained that the current IS tax system poses a big challenge to ZIMRA as the cost of collecting such tends to be high. The rates are a bit exorbitant especially for small scale players such as hair dressers. It is also not cheap to comply with taxes and thus heavily eating into taxpayer incomes leaving them poorer. Cost of compliance and costs of collection are often interlinked with efficiency of tax administration system.

#### **6.7.1.4 Efficiency**

The system is not efficient or effective, for the informal sector money spent on collecting is most likely to be way more than the tax revenues. Cost of compliance and costs of collection are often interlinked with the efficiency of a tax administration system. The costs of administering the tax heads were argued to be incommensurate with the revenues collected. This concern was in sync with the concerns raised by Nakamba-Kabaso and Phiri (2012) in Zambia. The current informal sector system was said to be neither effective nor even efficient as the costs of compliance are viewed to be high and those of collection even higher. Contrary to the dominating inefficiency view, other ZIMRA officers stated that it addressed well all the canons of taxation. This could be linked to their perception as the regulator, perhaps a little biased.

#### **6.7.1.5 Equity**

IS taxation implementation was aimed at addressing the equity concerns as it was said to be unfair and burdensome to only tax the formal sector. Participants had diverse opinions on whether the current tax framework addresses equity or not. Others described the system as an unfair tax system not upholding equity, especially MSMEs and TEs. TEs expressed that presumptive taxes generally violate equity from their presumed nature especially the Zimbabwean one with fixed rates. They raised two vital questions centring on the cogency of the presumptions and basis of the assumptions. They pointed that the tax rates are high and income was being recognised on accrual basis yet the economy is struggling and bad debts are on the rise. Taxation in Zimbabwe was perceived as unfair and burdensome, currently violating both horizontal and vertical equity considerations. The fact that not everyone in the IS was being taxed was on its own a violation of equity. ZIMRA O6 commented that “*...but not equity as the tax policy is unfair and often selectively applied due to political interference. At times only those who also make an effort to act in accordance with the country’s laws get taxed*”. Machedze et al. (2018:15) gave a similar account highlighting that the current presumptive taxes in Zimbabwe, appear to be targeting the semi regulated and easily identifiable IS operators, ignoring the majority who are largely unregulated.

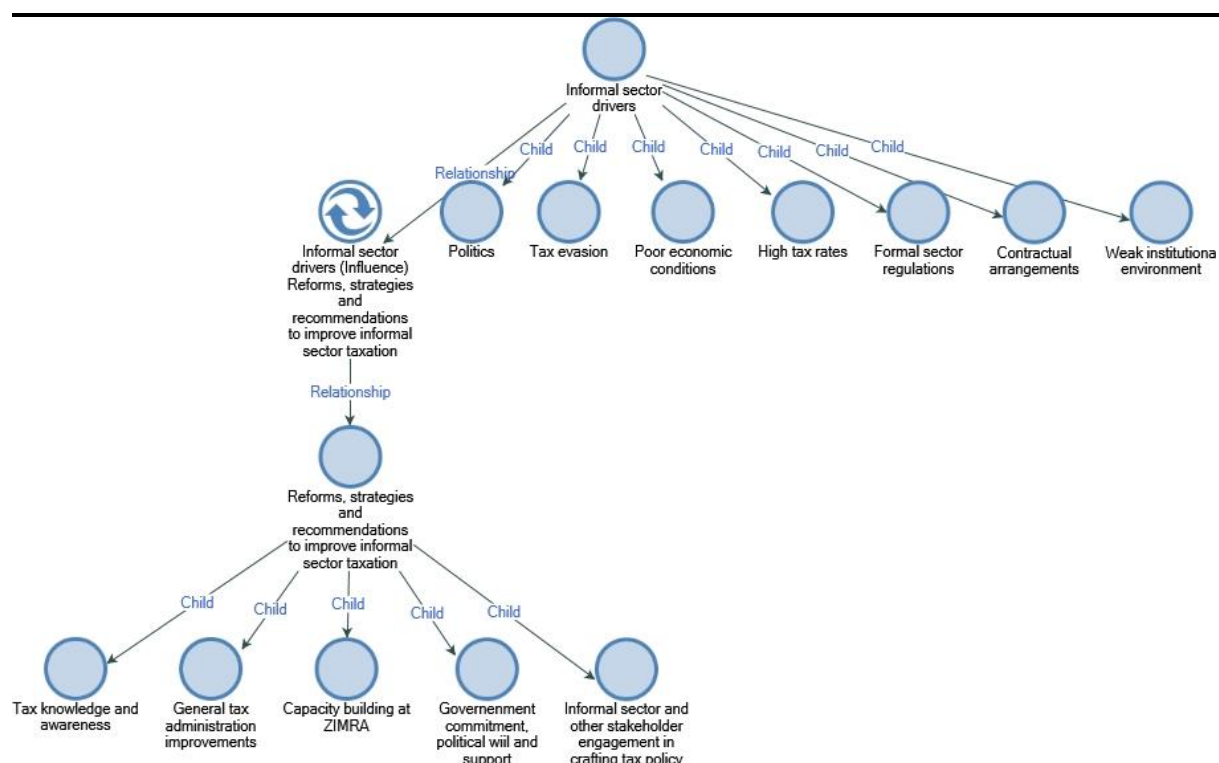
According to ZIMRA O1 and the TEs, the state of the economy also contributed in the violation of equity in tax administration, as profits generated from this sector were in the majority of cases enough for the survival of the members and their family leaving nothing for tax. For small entities, taxation takes most of their income compromising their viability. This was an argument similarly put across by Atowadi and Ojeka (2012b:129) in Nigeria.

## 6.8 Objective 5: To recommend other possible ways to strengthen informal sector taxation and identify key areas for future research.

### 6.8.1 Strategies, reforms and recommendations to improve IS taxation

Machemedze et al. (2018:26), called for the need to increase evidence-based IS policy improvement advocacy through research and accordingly this research sought to address this gap. It was thus essential to inform the study recommendations by suggestions from participants themselves and literature review. Makochekanwa (2020:20) recommends the following three strategies towards taxing the IS: (1) taxation of the IS through indirect taxes such as VAT and trade taxes (2) through expansion of major formal taxes to capture the IS (3) constructing special presumptive tax frameworks. Earlier in Chapter Two, through a conceptual framework the researcher explained the conceptualised relationship between the drivers of informality, their impact on tax compliance and ultimately policy prescriptions. The suggestions given by participants were depicted by the 5 child nodes to the strategies theme in Figure 6.24.

**Figure 6. 24: Project map on Recommendations to improve IS taxation**



Source: Own Compilation NVIVO Results

The individual participants' suggestions in relation the reforms are illustrated in Figure 6.25.



**Figure 6. 25: Responses on strategies, reforms and recommendations**

| Interviewees   | A : Capacity building at ZIMRA | B : General tax administration improvements | C : Government commitment, political will and support | D : Informal sector and other stakeholder engagement in | E : Tax knowledge and awareness |
|----------------|--------------------------------|---------------------------------------------|-------------------------------------------------------|---------------------------------------------------------|---------------------------------|
| 1 : TE 1       |                                |                                             |                                                       |                                                         |                                 |
| 2 : TE 2       |                                |                                             |                                                       |                                                         |                                 |
| 3 : TE 3       |                                |                                             |                                                       |                                                         |                                 |
| 4 : TE 4       |                                |                                             |                                                       |                                                         |                                 |
| 5 : TE 5       |                                |                                             |                                                       |                                                         |                                 |
| 6 : TE 6       |                                |                                             |                                                       |                                                         |                                 |
| 7 : ZIMRA O1   |                                |                                             |                                                       |                                                         |                                 |
| 8 : ZIMRA O2   |                                |                                             |                                                       |                                                         |                                 |
| 9 : ZIMRA O3   |                                |                                             |                                                       |                                                         |                                 |
| 10 : ZIMRA O4  |                                |                                             |                                                       |                                                         |                                 |
| 11: ZIMRA O5   |                                |                                             |                                                       |                                                         |                                 |
| 12 : ZIMRA O6  |                                |                                             |                                                       |                                                         |                                 |
| 13 : ZIMRA O7  |                                |                                             |                                                       |                                                         |                                 |
| 14 : ZIMRA O8  |                                |                                             |                                                       |                                                         |                                 |
| 15 : ZIMRA O9  |                                |                                             |                                                       |                                                         |                                 |
| 16 : ZIMRA O10 |                                |                                             |                                                       |                                                         |                                 |
| 17: MSME 1     |                                |                                             |                                                       |                                                         |                                 |
| 18: MSME 2     |                                |                                             |                                                       |                                                         |                                 |
| 19: MSME 3     |                                |                                             |                                                       |                                                         |                                 |

Source: Own Compilation from NVIVO Results

The suggestions were aimed to address the drivers of informality as they affect IS taxation, determinants of non-tax compliance and the hurdles to effectively administering IS taxation. This is in line with the pronouncement by Wedderburn et al. (2012) that any policy prescriptions or the design of a logical, feasible and productive IS tax policy cannot be divorced from those three interconnected issues. The emphasis made on the five broad categories by different participants is as presented in Figure 6.25.

#### **6.8.1.1 Capacitation of ZIMRA**

The majority of the participants (TEs and ZIMRA Os) emphasised the urgent need for capacity building for ZIMRA to be able to effectively bring the IS into the tax basket. They stressed the call to capacitate ZIMRA in both legislative, manpower, infrastructural and technological fronts. ZIMRA to create specialised teams that are sector based to target the IS. TE3 remarked that *“Capacitation of ZIMRA should be high priority in terms of skills, expertise, manpower, exposure to the other countries and on client handling”*. *Technological infrastructural improvements, key to enhance the effectiveness of tax administration, registration process, information access, e-filing and resultantly settling of tax obligation are a must*. There is need of a digital transformation by linking ZIMRA to banks, city council and other key players in tax collection and registration for tax or formalisation and to improve the functioning of the website. E-government in order to link all the governments departments together to effectually trace, follow, monitor and tax economic activities and operations was another suggestion advanced by ZIMRA officers. The problem of lack of co-ordination among government was also reiterated in literature by Prichard (2009) and Mpapale (2014), giving merit to the recommendation of e-government. TE4 submitted that there is need for flexibility and coming up with mobile offices to capture clients in remote areas and assist clients who have challenges with using online platforms, such an initiative would ease the burden of or cost of compliance. Similar suggestions were made in Kenya by Maina (2016, 2017) and by Munjeyi (2017). Easing the registration process through the introduction of self-registration (e-services portal) could also improve IS tax compliance, though the challenge could be lack of taxpayer education to increase tax literacy and competence of taxpayers in using the e-platforms. ZIMRA O9, in agreement verbalised that *“I recommend that the authority sets up a presumptive tax division that will be responsible for enhanced taxpayer education and stakeholder engagement as well as stringent compliance checks and enforcement”*. This call has also been made by several researchers to no avail (Dube, 2014; Newman, 2019; Munjeyi et al., 2017). ZIMRA O6, O7 and O9 on the other hand did highlight capacitation issue but instead felt the lack of the buy-in

on the tax policy by the IS was the biggest problem. They argued that in Zimbabwe there is generally a lack of stakeholder consultation on policy issues and not just tax policy. Therefore stakeholder engagement was key to policy acceptance. “Stakeholder inclusion is where government must start for any improvements to be made” asseverated ZIMRA O9.

#### **6.8.1.2 General tax administration improvements**

As part of the reforms, it was suggested that ZIMRA should ensure that IS players cannot renew local authority licences in the absence of a valid tax clearance. Insist on 10% deduction for withholding tax deduction on all payments to players without a valid tax clearance. The need for more research especially to study sectors carefully or come up with a sector policy was highlighted. TE2 explained that *“There is need for streamlining of the tax system to make it clear, easy to follow and administer so as to minimise its complexity and burdensome impact which remains largely a hindrance to tax compliance especially voluntary”*. This could also be done through reduction of tax rates to make them less burdensome. In addition to reducing tax rates, relaxation of penalties or interest for non- compliance can encourage voluntary compliance. Lower the presumptive tax rates to build a culture of tax compliance and tax paying culture then slowly adjust them with slight increase taking into account the sectoral performance, incomes and profitability. There is also need to simplify registration procedures and the filing of returns as well as the means of payment. Another suggestion made by TEs and ZIMRA officers was to improve the operational effectiveness and friendliness of the ZIMRA website. This resonates with several calls by researchers for simplification of tax systems and procedures in developing countries as their complexity was a vital factor explaining high degrees of non-compliance (Mpapale, 2014; Rogan, 2020; Sebele-Mpofu & Chinoda, 2019).

#### **6.8.1.3 Creation of a department dedicated for IS taxation**

All study participants suggested the creation of a specialised department or section within ZIMRA to deal with the IS. Lessons on the actual implementation of the recommendation could be drawn from RRA. Joshi et al. (2014) give evidence that in Rwanda, the Taxes Issues Forum (TIF) was created by the RRA to engage with the Private Sector Federation (PSF), which appraised the revenue authority on operational challenges (space and services needed such as training and funding) and economic issues (profitability level, cash flows and growth hurdles) affecting taxpayers. The building of such durable and inclusive institutions can enhance interactions between the state, revenue authorities and taxpayers thus improving tax compliance.

Contracting private individuals/ associations or decentralising collections to local authorities to collect taxes on behalf of the government can be a cheaper alternative as suggested by the majority of the ZIMRA and TE interviewees. The associations could be the ones such as the Vendors Associations, Commuter Associations or Hair Saloon Associations, which can collect taxes as part of membership subscriptions (Joshi et al., 2014). Though national governments and revenue officers often shun the sector for political administration and the cost and benefit analysis justifications, the city councils maybe more amenable to the task especially if their share from the tax revenues is increased.

#### **6.8.1.4 Government commitment, political will and support**

Political will and political reforms to regulate and tax the IS were suggested to be key to improve the effectiveness of taxing the sector. As expressed by TE6:

*“The Ministry of SMEs is not doing enough on skills development; this could be done by employing people with proven business record and skills to contribute meaningfully to the SMEs growth, development and tax compliance instead of employing basing on political affiliation. ZIMRA and government must nurture businesses and not focus on tax only. Concentrating on growing the small businesses first, may contribute to increased tax revenues in the future. This might be accompanied by more readiness to pay taxes if these businesses have been nurtured”*

Government was encouraged to be more accountable and transparent in revenue utilisation to build loyalty and trust amongst taxpayers as well as boost taxpayer morale to foster taxpayer compliance. The need to minimise political interference on tax administration was pointed out to be imminent by both TEs and ZIMRA officers. Similar recommendations were made by Mashiri (2018). Government to show commitment in eradicating corruption by prosecuting offenders. ZIMRA was also impressed upon to continue the ongoing lifestyle audits for ZIMRA officials to minimise bribes and corruption and to also do tax audits of flashy spenders as is the case in other countries. South African Revenues Services was pointed by TE1 as effective in that area. Commitment to enforcing the rule of law without fear or favour. *“Political will and political reforms to regulate and tax the IS are key to improve the effectiveness of taxing the sector”*, expressed ZIMRA O7. Improved corporate governance in the public sector to boost confidence in the way taxes are spent. Taxes must be made acceptable through consultations, fair and beneficial to citizens to fulfil reciprocity. Improved fiscal and monetary policies that seeks to address economic challenges. ZIMRA O6 commented that *“In as much as the government is promoting the indigenisation which culminated into the growth*

of the informal sector, the government should make it a law through its Ministry of indigenization that everyone who desire to operate and be assisted by the Government should register with ZIMRA first and be in possession of a valid tax clearance certificate”. This will also assist the tax authority in building up a data base of such players in the sector.

#### **6.8.1.5 IS stakeholder engagement on tax policy formulation**

Government was implored to meaningfully engage the IS on tax policy construction in order to understand their challenges, reasons for noncompliance and try to address those in the design of tax policy. TE3 emphasised that *“Tax policy formulation must be a consultative and inclusive process as opposed to being imposed in order to gain acceptance amongst taxpayers to minimise resistance and tax evasion”*. Taxes must be made acceptable through consultations, fair and beneficial to citizens to fulfil reciprocity. Stakeholder engagement especially the IS and their association in designing of IS sector policy to foster acceptance and ownership was pointed out by the majority of TE and all of the MSMEs as another worthwhile avenue to be explored. According to Meagher (2016:16), engaging IS associations is not enough. Attempts to enhance the role of IS taxation in bolstering public accountability should endeavour to reduce multiplicity of taxes and high tax rates in order to leave enough to contribute to associations. These contributions are vital for legitimacy, creation of a unified voice and building constructive IS tax policy negotiations with government (Meagher, 2016:16).

#### **6.8.1.6 Enhancement of tax knowledge and awareness**

The majority of the interviewees highlighted the need to intensify the dissemination of tax related information to the IS and explain the benefits of taxation to the economy of the country. The benefits could be in the form of improved service delivery, which could possibly improve the sector’s profitability and growth, as the IS operators access proper working space and perhaps financing. ZIMRA O8 re-affirmed the need to enhance voluntary compliance through tax education, expressing that *“Voluntary compliance can come as a result of taxpayer’s knowledge broadening. ZIMRA should have more workshops to educate people on the benefits of being formal as well as those of paying tax. Sometimes sheer ignorance and complex systems lead to failure to comply with tax rules”*. Study participants called for the need to increase workshops in partnership with IS associations and the Ministry of SMEs. Increase taxpayer education, tax literacy and awareness campaigns. Increase roadshows and exhibitions at platforms such as the Zimbabwe International Trade Fair, Mining and Minerals Exhibitions, Zimbabwe Agricultural shows. Increase taxpayer education especially in clarifying tax legislation as ambiguity and complexity of tax law is cited as a major hindrance to tax

compliance. Taxpayer awareness programs through social media technologies due to their efficiency in reaching taxpayers from all angles of the country can also be used. Intensified use of roadshows to create awareness in communities and educating the general public on tax issues, motives, benefits and the practical issues such as filing of returns and tax computations could also go long way in addressing the tax knowledge gap. Many tax researchers in developing countries have bemoaned the knowledge gap and have called on policymakers, revenue authorities and taxpayers to work towards addressing it (Maina, 2017; Mashiri, 2018; Sebele-Mpofu & Chinoda, 2019).

## **6.9 Chapter Summary**

This chapter presented and explained the qualitative findings of the study in line with the study's objectives, as analysed through NVIVO 12 Pro. The results were used as per the sequential MMR approach to inform the quantitative research whose results were presented in Chapter Seven, where both qualitative and quantitative results were integrated. The chapter also discussed the strategies and reforms suggested by the participants. TE1 summed up the recommendations as follows:

*“Knowledge is power, with weak capacity at ZIMRA being a stumbling block to effective enforcement our best bet in fostering compliance lies in moral persuasion and voluntary compliance. The key ingredients to the two are tax system simplicity, tax knowledge, awareness of the benefits, government transparency in spending revenues and approachable revenue officers”.*

The next Chapter presents and discusses the quantitative research findings and integrates them with the qualitative findings in line with the exploratory sequential MMR.

## CHAPTER SEVEN: QUANTITATIVE DATA ANALYSIS

*“Every tax ought to be levied at a time or in a manner in which it is most likely to be convenient for the contributor to pay”- Adam Smith*

### 7.1 Introduction

The challenges of a huge current account imbalance, increased fiscal deficit and high inflation are intertwined with Zimbabwe's frail tax revenue mobilisation capacity, as a large portion of development activities have to be financed through generating revenues from sustainably tapping tax revenues (Ligomeka, 2019). This points to the imminent need to bolster tax revenue collection efforts, thus the need to evaluate IS taxation in Zimbabwe, which is the major objective of this study. Several issues have been discussed in the previous chapters in relation to literature (Chapters Two to Four), methodology (Chapter Five) and qualitative research findings (Chapter Six), all these were guided by the research objectives and motivations for topic actuality outlined in Chapter One. As highlighted in Chapters One and Six, the objectives of the study were to: critically review the current IS taxation framework, the practicability of taxing the IS as well as the effectiveness of the current framework, establish why there is a surge in the need to tax the sector as well as its increased growth (motives of taxing and drivers of informality), whether and how the informal sector is subjected to tax by other developing countries and lastly to assess the benefits and challenges of IS. All this was done with the principal objective of understanding and explaining how taxation of the IS has progressed and how it is presently, in order to inform the how it should be or how to enhance or better it (recommendations in Chapter Eight). This chapter presents, analyses and interprets the quantitative findings in line with the research objectives. The findings were analysed and presented in tabular, pie charts and bar charts forms derived through the use of SPSS version 23. As previously articulated in Chapter Five, the exploratory MMR entailed combining both qualitative and quantitative researches in a sequential manner, first stage and second stage respectively. These first stage and second stage findings were discussed in Chapter Six and this Chapter consecutively.

In view of the fact that the study adopts a mixed method approach, this called for the mixing and integration of findings at some point. For this study, integration of findings occurred in this Chapter and in Chapter Eight. Viewpoints and verbatim transcripts from the qualitative research component were juxtaposed with the results derived from statistical analysis of the

quantitative results (through SPSS) from the questionnaire survey. Areas of convergence and divergence between qualitative and quantitative results were investigated and anatomised to build meta-inferences and to also shape the holistic comprehension of IS taxation through consolidation of the two data sets. The fused data was explicated within the realm of the study's objectives.

The breadth and depth due to integration of findings in this Chapter made it extensive, broad and detailed in coverage, discussions and interpretation. Section 7.1 discusses the demographics of the study sample. Section 7.2 recapped the objectives, section 7.3 to Section 7.9, deal copiously with the findings of the study, discussing the quantitative findings and supporting them with literature review and qualitative findings. Section 7.10 makes recommendations to improve the effectiveness of IS taxation as well as ameliorate the negative impact of such taxation.

## **7.2 Data Analysis, presentation and discussion**

This section elucidates on how data was analysed, presented and discussed in order to address the objectives of the study. Deductive and inductive processes were followed to give meaning to the study from evidence derived from both primary and secondary sources. This section describes the study sample (7.2.1) and outlines the approach adopted in analysing and presenting results (7.2.2).

### **7.2.1 Description of study sample and analysis of respondents**

Previously in Chapter Five, the researcher outlined how the questionnaires' study samples were arrived at (5.6.1.1). For ZIMRA officers the target population was those that are in the domestic taxes department of ZIMRA, both those involved with actual tax collection and those in the audit function of that same department. The logic of this target population for questionnaires was to target people that deal directly with domestic taxes and this department includes those that deal with small claims taxes such as presumptive taxes, other domestic tax heads and the audit section. Those that deal with domestic taxes deal with taxes such as PAYE, corporate tax, presumptive tax, VAT, IMTT, capital gains and withholding taxes. As for the tax experts these were identified and sampled through the Institute of Chartered Tax Administrators Zimbabwe. The response rate for tax experts was 80% as 32 responses were received out of a target responses of 40, while for ZIMRA officers the response rate was 83%, 99 out of 120 targeted respondents completed and returned the questionnaires. The demographic of these two categories are as outlined below in tables 7.2.1.1 and 7.2.1.2 respectively



### **7.2.1.1 ZIMRA respondents' demographics**

Table 7.1 shows that 57% of the respondents were from the taxes department and 43% were from the audit section. In terms of the qualifications, the population appeared to be highly qualified as only 5% had diplomas and the rest of the population (95%) had qualifications higher than a diploma, they had undergraduate degrees and masters' degrees or doctorates (72% and 23% respectively). Taxation is by its very nature highly sensitive and controversial (Mckerchar, 2009) and at times questions might appear intrusive as researchers seek to establish the views of participants on issues such as the fulfilment of the social contract, tax rates, tax compliance as well as government-stakeholder engagement on tax matters. The level of education, thus becomes essential for sensitive studies like taxation, participants give informed consent, appreciating what they agree to participate on, the implications of the study (both ethically and for them individually) and the beneficence of the study. These three attributes being considered as key elements of an ethical and value adding research (Ryan et al., 2007), these are "non-negotiable" aspects of research (Hitchcock & Hughes, 2002). The level of education is also vital in adding to the reliability of findings as in this case the high level of education signals that in responding to the questions the participants comprehended the questions, though this cannot be established with certainty, it can be inferred.

In relation to the experience of the respondents, they were made of experienced revenue officers that have served ZIMRA (9% had been with ZIMRA for 1-5years, 39% for 6-10years and 52% for more than 10years) for a considerable time in order to meaningfully contribute to the study, discern trends in the performance of presumptive taxes and to shed more light on the contribution of the informal sector to other domestic tax heads. IS taxation, through presumptive tax was introduced in 2005 and further enforced in 2011 (Ligomeka, 2019:6), thus the experience range is relevant to the 14 year period that the tax has been administered and more precisely the period under dollarization when presumptive taxes were to a greater extent administered in 2011. The experience of the respondents in tax administration and tax audit is also paramount in understanding the motives, benefits and challenges of administering informal sector taxation as their dealings with the IS gave these officers two different perspectives, which are their own viewpoint (regulator) and that of the IS (taxpayer). The other advantage was that as earlier pointed out in Chapter Six, at ZIMRA there is no permanent post, these officers are transferred across ZIMRA stations all over the country and across the different departments: taxes, customs and audit. Therefore, despite the target population being taxes and audit, the participants had diverse knowledge of ZIMRA operations. Sim et al. (2018)

the diversity of participants in knowledge, experience and exposure is essential to provide a more a balanced assessment and wider range of accounts to be used in the evaluation of the phenomenon.

Some of these officers in their line of duty got a chance to be exposed to other countries such as Kenya, Tanzania, Zambia, Ghana and South Africa, which have made efforts towards taxing this hard to tax sector, the IS. As such their viewpoints, perceptions and appreciation of IS sector taxation are pertinent in giving a fair assessment and critique of IS taxation in Zimbabwe as well as an informed comparison of Zimbabwe's taxation of the IS and its presumptive tax framework design against that of other developing countries and SSA nations. Hence, their recommendations would be knowledge-based and substantiated by exposure, thus purposefully contributing to the study.

**Table 7. 1: Demographic of ZIMRA respondents**

| <b>Demographic Characteristics</b> | <b>Category</b>      | <b>Frequency</b> | <b>Percent</b> |
|------------------------------------|----------------------|------------------|----------------|
| <b>Department</b>                  | Taxes                | 56               | 56,6           |
|                                    | Audit                | 43               | 43,3           |
|                                    | <b>Total</b>         | <b>99</b>        | <b>100,0</b>   |
| <b>Qualifications</b>              | Diploma              | 5                | 5,1            |
|                                    | Undergraduate Degree | 71               | 71,7           |
|                                    | Masters and above    | 23               | 23,2           |
|                                    | <b>Total</b>         | <b>99</b>        | <b>100,0</b>   |
| <b>Experience</b>                  | 1 to 5 years         | 9                | 9,1            |
|                                    | 6 to 10years         | 39               | 39,4           |
|                                    | Over 10 years        | 51               | 51,5           |
|                                    | <b>Total</b>         | <b>99</b>        | <b>100,0</b>   |

Source: Own Compilation from primary data

#### **7.2.1.2 Analysis of Tax Experts' Demographic information**

Tax experts were target participants of the study in view of their experience with the Zimbabwe tax which was vital in bringing a balanced view of the critical review of the IS taxation framework. This group of respondents tapped from their double-edged experience from dealing with both ZIMRA and the informal sector and at times as mediators in tax disputes. As displayed in Table 7.2, all the respondents focused on tax and tax advice in their line of work as tax experts. They had high education levels with 59% holding a Master's degree and above and the other 41% had Undergraduate degrees. In terms of experience, the respondents were

highly experienced in tax matters with 66% of them, having more than 15 years of experience, 25% had 11 to 15 years of experience and the remaining 9% with 6 to 10 years. This was very critical for the reliability of this research. Tax is a complex phenomenon, whose understanding requires a thorough comprehension of the tax legislative framework (which is often argued to be ambiguous, subject to misinterpretation and difficult to understand, especially the provisos) as well that of its practical application (Mashiri, 2018; Mckerchar, 2008, Sebele-Mpofu & Chinoda, 2019). Tax legislation in Zimbabwe is based on tax statutes issued out by the Ministry of Finance, Tax Acts and the Finance Act (charging Act) as well as legal precedence that often comes in to fill the void left by legislation. For example most terms are not defined in Acts but in terms of decided cases, for example the definition of “accrued to” and “received by” used in defining gross income in Section 8 (1) of the ITA, Chapter 23:06. A combination of education, skills, expertise and experience is crucial for a meaningful research in taxation as exhibited in Table 7.2.

**Table 7. 2: Demographics of Tax Experts respondents**

| <b>Demographic Characteristics</b> | <b>Category</b>         | <b>Frequency</b> | <b>Percent</b> |
|------------------------------------|-------------------------|------------------|----------------|
| <b>Area of Focus</b>               | Taxation and tax advice | 32               | 100            |
|                                    | <b>Total</b>            | <b>32</b>        | <b>100,0</b>   |
|                                    | Undergraduate Degree    | 13               | 41             |
|                                    | Masters and above       | 19               | 59             |
|                                    | <b>Total</b>            | <b>32</b>        | <b>100,0</b>   |
| <b>Experience</b>                  | 5 to 10 years           | 3                | 9              |
|                                    | 11 to 15 years          | 8                | 25             |
|                                    | 16 to 20 years          | 12               | 38             |
|                                    | Above 20 years          | 9                | 28             |
|                                    | <b>Total</b>            | <b>32</b>        | <b>100,0</b>   |

Source: Own Compilation

### **7.2.2 Outline of data analysis, presentation and discussion approach**

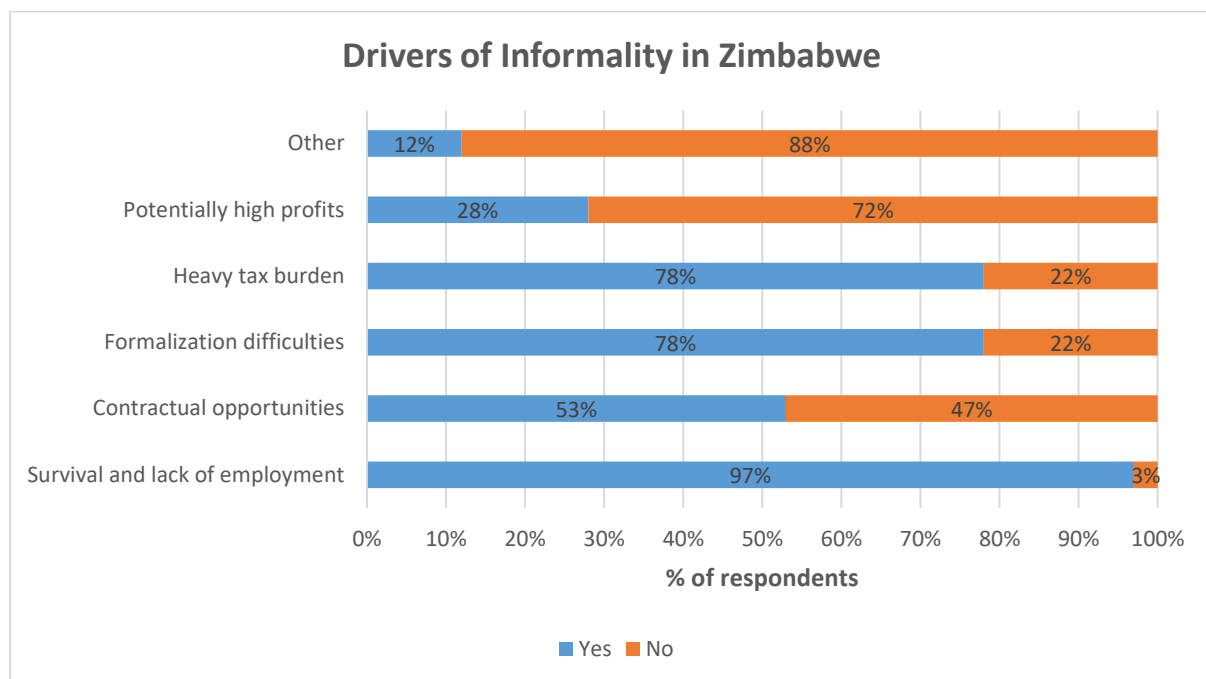
The study sought to evaluate the current IS taxation with the intention to make evidence based recommendations at the end of the study. Accordingly, the discussion and interpretation of results was structured in sections as guided by the research objectives. These include: investigating the drivers of informality (7.3), establishing the motives for taxing the IS (7.4), prioritisation of IS taxation (7.5) and efforts employed by other countries towards taxing the

IS (7.6), The objective aimed at exploring the challenges of taxing the IS was explored from the angle of the regulator (ZIMRA and the government) as well as from the taxpayer's perspective (IS) to bring a balanced analysis. This was done in section 7.8 and 7.7 respectively. These hurdles and advantages would accordingly vary depending on whose angle they are approached from (Waris, 2009). The benefits of taxing the IS were presented and discussed in section 7.9. Section 7.10 explicated the recommendations made by respondents on ways of enhancing the effectiveness of the IS taxation framework.

### **7.3 Drivers of informality in Zimbabwe**

Drivers of Informality have been prominent in the arguments for and against taxation of the IS, in some cases they have been put forward as the main reasons explaining the low levels of tax compliance in the IS. Wedderburn et al. (2012) state that it is irrefutable that a comprehension of the size and drivers of the informal sector is essential. They also argue that contextualising them to local conditions is crucial in designing an IS sector tax policy or even improving it, especially “to develop a rational, operational and enforceable tax system”. This section therefore presents findings on the drivers of informality with the view of relating them to the motives of taxing the IS, tax compliance levels in the IS as well as to the challenges to productive taxation of the sector in line with the conceptual framework set out in Chapter Two. This would also help in addressing questions such as, Are the drivers of informality the impediments to effective taxation or maybe the opposite is true? Perhaps the factors affecting compliance in the IS drive people into this sector (Dube, 2018). Figure 7.1 provides the drivers of informality as assessed by the study respondents.

**Figure 7. 1: Drivers of Informality in Zimbabwe**



Source: Own Compilation from SPSS results

From Figure 7.1 above, Zimbabwe’s informal sector is largely driven by the lack of employment and the need for survival as 97% of respondents confirmed. The continuously deteriorating economic conditions, massive retrenchments and high unemployment has left the majority of the population with no choice but to find solace in IS. This is in line with the dualist view (Hart, 1973). The heavy tax burden and formalisation difficulties were the second most compelling reasons with 78% of the tax expert respondents concurring in both. TE2 in qualitative findings, shedding more light on the registration challenge and expressed that:

*“Tax is considered a big factor that drives Informality coupled with the lack of ease of doing business and bureaucracy. A Prospective business operator has to register with the Registrar of companies, City council, ZIMRA. Must apply to ZIMRA, wait for approval, then go to the bank to apply for company bank account, then go back to ZIMRA to finish the application”.*

Mukorera (2019), in sync with these findings observed a significant relationship between informality and “institutional imperfections and asymmetry of bureaucracy associated with the registration process, lack of access to technology, market and financial constraints and lack of entrepreneurial and managerial skills.” These findings reflect merit to the legalist view as described by De Soto (1989). Contractual obligations ranked third with 53% of the respondents affirming the influence. In a similar vein, TE1 interviewee (Chapter Six) articulated that

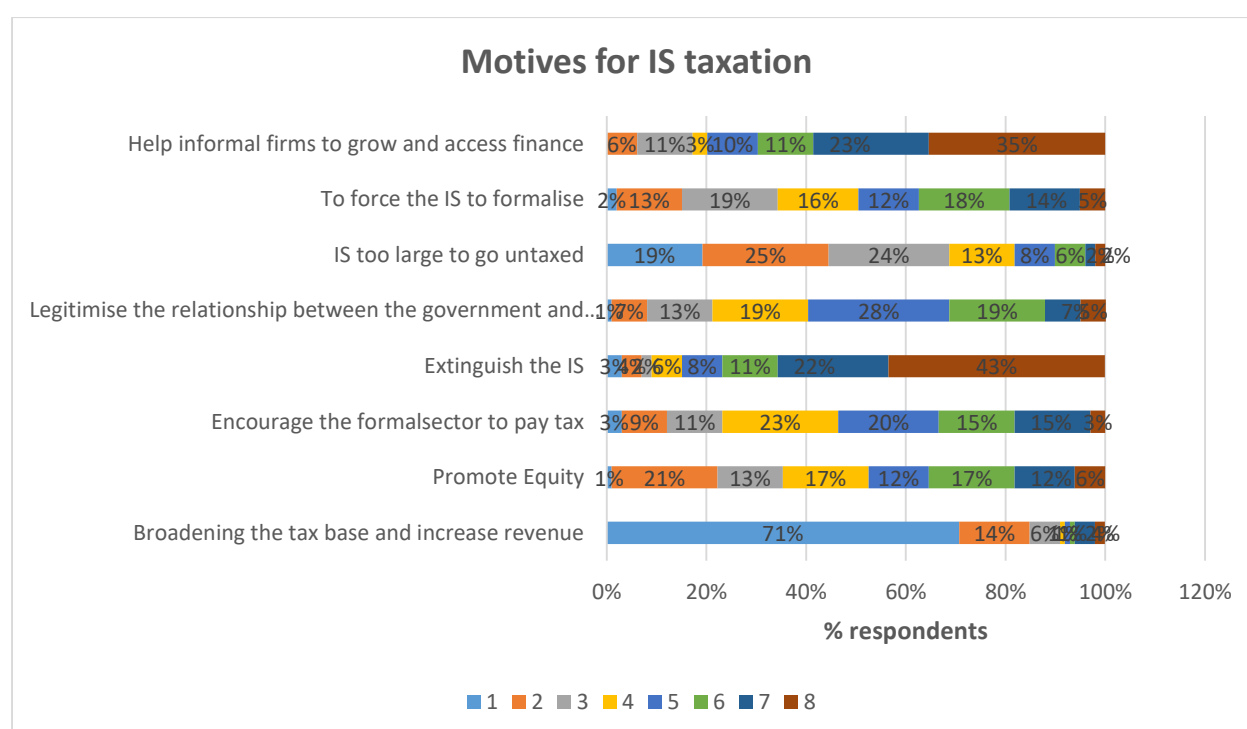
Informality can be viewed as a matter of “*Contractual arrangements between the IS and formal firms who subcontract the former to take advantage of their flexibility, examples are contract farming, Econet Wireless, Zimbabwe subcontracting Ecocash outlets, Tobacco industries, mining we have artisanal miners who are subcontracted by financial stable individuals*”. Potentially high profits ranked low as well as other factors. Interestingly those that stated “other” factors, explained informality in terms of innovation and entrepreneurial drive. They argued that it was naïve to view informality from the survival angle due to shortage of employment and poor economic conditions as well as from the tax evasion perspective only. 12% of the respondents stressed that some people operate from the informal sector because they want to. They are entrepreneurs in their own right and because of the dynamic business world and the globalised nature of transactions, they see opportunities for innovation, growth, flexibility and income generating, and accordingly exploit them. The arguments above point to merit in each perspective as highlighted by Chen (2012).

#### **7.4 Motives of taxing the IS in Zimbabwe**

As earlier outlined in Chapter Two, taxation of the IS was a contemporary issue that generated extra-ordinary debate amongst researchers, scholars, policy makers and organisation such as the IMF and the World Bank (Joshi et al, 2014), although there have been arguments that the sector normally generates too low profits to warrant taxation. Udoh (2015), advances that having this once overlooked sector being the core of debate is a reflection of the acknowledgement of its tax revenue potential, yet Meagher (2016) as well as Pimhidzai (2011:2, 21), have warned that taxation of the sector should not ignore the negative impacts that tax collections from the sector might have on the economy. Contention has also surrounded the motives of taxing the sector with researchers pointing to revenue mobilisation, equity implication, governance, growth gains ((Joshi et al., 2014:1325-1330; Ligomeka, 2019) and the need to extinguish this sector due to “ambivalent” views towards the sector (Pimhidzai & Fox, 2011:2). The prominent views from literature and qualitative findings were further explored quantitatively on a broader population. This section discusses these findings in the Zimbabwean perspective as highlighted by ZIMRA officials. During interviews with the three stakeholder groups, various motives for taxing were presented. These motives and some from literature review were grouped into eight reasons (broadening the tax base to increase tax revenues, promote equity, encourage the formal sector to pay tax, extinguish the IS, legitimise the relationship government and the IS, IS too large to go untaxed, to force the IS to formalise

and to help the IS to grow and to access finance). These motivations were explored with ZIMRA officials in the questionnaire where they were expected to rank them in order of how they felt these were prioritised by government and the revenue authority. The scale was one to eight in order of their perceived level of importance attached to each. One being the most important and eight the least important. These findings are as shown in Figure 7.2. Therefore the percentage relating to each ranking (number) are highlighted by the colours depicting how participants ranked each motive. For example, broadening the tax base was ranked as the most important motive by 71% of respondents and 43% identified the need to extinguish the IS as one of the least important motive for government's reasons for taxing the sector. The other motives respondents gave mixed responses

**Figure 7. 2: Motives of IS taxation outlined by ZIMRA respondents**



Source: Own Compilation from SPSS results

Figure 7.2 above displays revenue mobilisation (Broadening the tax base, with 71% in agreement) as the fundamental motive for introducing IS taxation in Zimbabwe. This seems more relevant as the country is largely informalised with an estimated GDP contribution from the sector of 60.6% (Medina & Schneider, 2018) with most of the formal firms having closed shop between 2008 to date (Ligomeka, 2019:6; Newman, 2019:1), the informal sector is the next best source of tax revenue mobilisation. Domestic revenue mobilisation seems to be the core motive even in platforms where the IS has featured in the agendas of economic forums of

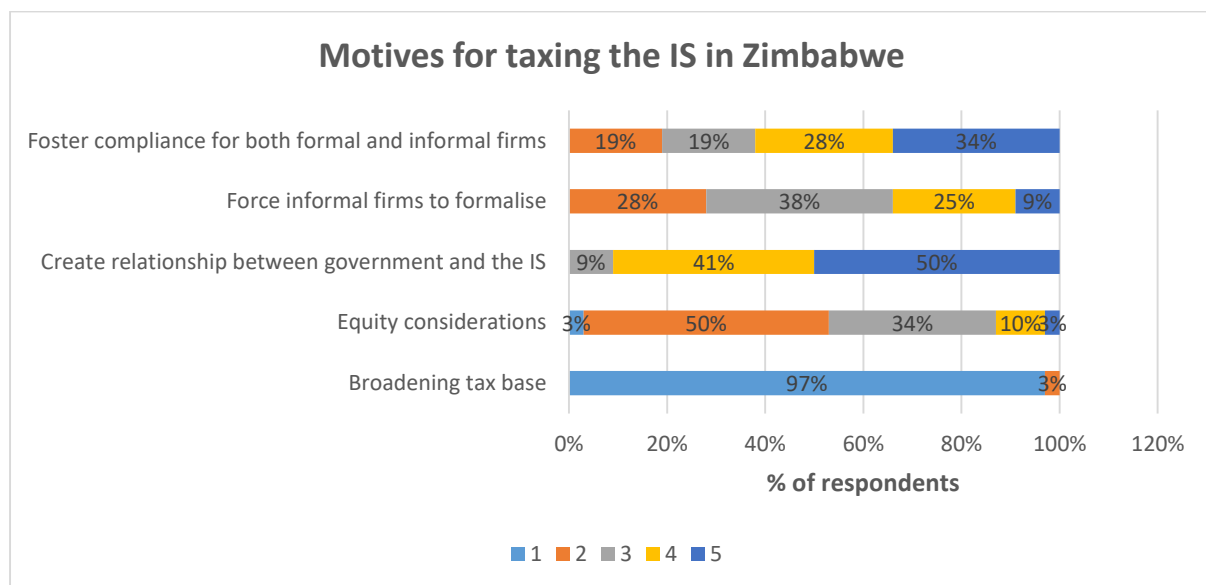
developing countries (Joshi et al., 2014; Kundt, 2017a:5, 2017b:1; Ligomeka, 2019), which perhaps explains the reasons why the other motives are ranked less important in this study. This could be consistent with the revenue authority perspective, as their key function is to mobilise revenue for the government through taxation.

The above findings could be a reflection of the government's focus on the IS, which is largely tax revenue mobilisation driven, ignoring all other key functions of taxation. One tax expert (TE 1) in Chapter Six, raised a similar concern advancing that *"The current IS taxation framework and ZIMRA's approach to implementation cares very little about the survival and growth of small business, the focus is on collection of revenue and only collection of revenue and nothing more"*

The analysis of Figure 7.2 also sheds more light on the outcry by players in the IS as shown in literature (Ligomeka, 2019) and the tax experts in this study as exhibited in Chapter Six and Figure 7.3 that the only focus of tax officials is on revenue targets and nothing more, not even considering the impact of the taxes on the company's cash flows, going concern ability and profitability. This concurs with Heggstad et al. (2011:4), who in a similar vein state that "the uncompromising revenue targets focus of tax administration implies achieving the collection target becomes not "everything" but the "only thing" and sometimes at any "cost", even at the expense of other functions of revenue administration." TE6 (in Chapter 6), concurred when he expressed that *"in Zimbabwe the focus tends to be on tax revenue generation only without focusing on how tax policy can first enhance growth of these small firms maybe through funding, incentives, exemptions and allowable deductions, ultimately building an enhanced tax base."* It goes without saying that for tax policy to bring meaningful responses and contributions to sustainable growth, it should focus on revenue generation and its relationship with construction of productive capacities, which in turn translates to an expanded tax base not just collection of revenue as is the case with Zimbabwe. Similarly as already discussed in relation to Figure 7.2 where the reasons raised for taxing the IS were grouped and ZIMRA participants were asked to rank them in order of how strongly they felt about each of them in terms of their prioritisation by government, tax experts questionnaire respondents were asked to do the same. These were further explored through questionnaires and the findings are exhibited in Figure 7.3.



**Figure 7. 3: Motives for taxing the IS in Zimbabwe as viewed by Tax Experts**



Source: Own Compilation

Having a broadened tax base appears as the key objective of IS tax administration (97% ranked first), could partly explain the lack of due diligence on the ability to pay and impact of the fixed presumptive tax rates on the additional IS categories brought into the Zimbabwean tax basket. All other motives were secondary to the revenue collection motive yet this is contrary to Atowadi and Ojeka (2012b:129) and Makochehanwa (2010) who indicate that, tax revenue mobilisation should not be the only, if not the dominating objective of IS taxation. They advised that tax policy should also be aimed at encouraging businesses to register with tax authorities and be designed in such a manner that it improves the operation of the business in the economy as well as improve their productive capacities. The desire to create was the second ranked motive with 50% pointing to. For tax expert respondents, their argument for ranking widening the tax base as the key reason for taxing the informal sector is premised on the view that, Zimbabwe's tax system focuses only on the revenue collection motive and ignores all other uses of taxation. This is despite the fact that taxation should also address equity consideration, be a redistributive tool and an apparatus to stimulate representation. Atowadi and Ojeka (2012b:125) allude to the interdependent relationship between business growth, survival and tax policy, hence the need to strike a balance between the vectors. In a similar view point Ocheni and Gemade (2015:347), expressed that most developing countries fail to uphold the much-needed balance and in the end tax becomes "a worm that eats deeply on the large chunk of revenues generated by SMEs for their growth and survival". This then leaves these SMEs with no funds for development, survival, investment and expansion. This is why some

respondents presented the need to extinguish the IS as a motive for taxing the sector, a view also presented by Pimhidzai and Fox (2011:2, 22) in Uganda.

### **7.5 Prioritisation of IS taxation in Zimbabwe**

The section was focused on evaluating whether IS taxation is a prime concern for the ZIMRA and its administrators. This was vital in assessing whether this subject was a matter of great importance, perhaps this could shed more light on the sector's inconsequential contribution to tax revenues that is pegged at 3% of total revenues in Africa by Benjamin and Mbaye (2012), the less than 7% to total tax collections in SSA countries in general and Zimbabwe in particular, as alluded to by Maina (2016) and Sebele-Mpofu & Msipa (2020) respectively. It was critical to establish the factors that justify the low revenue contributions which are incommensurate with the magnitude and sector's contribution to GDP in developing countries as advanced by Bhorat, Naidoo, and Ewinyu (2017) and low compliance levels lamented in literature in order to appropriately influence tax policy as advanced by Maina (2017).

The study established that IS tax was not a primary concern for ZIMRA as evidenced by the response rate on ranking whether taxation of this sector was a primary issue. 35.4% of revenue officers strongly disagreed that efforts towards mobilising revenue from this sector were prioritised, with an additional 44.4% disagreeing (resulting in an 80% disagreement). Only 20% felt IS taxation was being emphasised and fully enforced. It therefore becomes imperative to investigate why this topical area viewed by many as potentially fertile for domestic revenue mobilisation is given so little attention. Could it be the potential is misconceived or there are formidable challenges that frustrate collection effort? This lack of prioritisation established in this study gives merit to the observation by Fourie (2018b:2) describing the IS in developing countries as a "forgotten" sector which is often overlooked by policy makers and analysts hence confining it "to the margins of economy analysis and policy consciousness".

**Table 7. 3: ZIMRA Prioritisation of Informal Sector taxation**

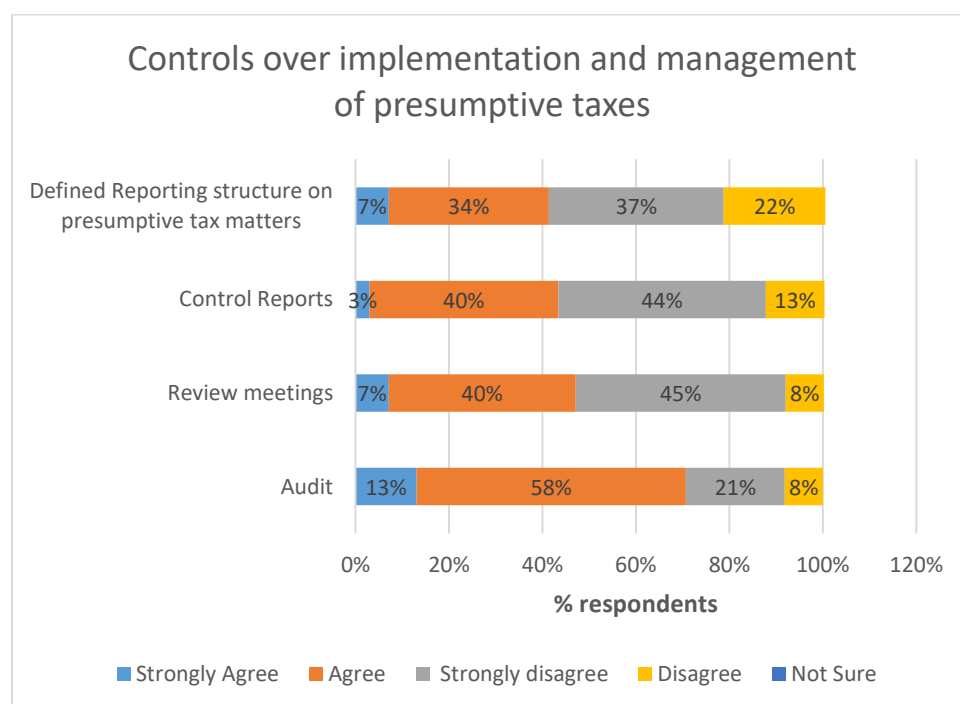
|       |                   | Frequency | Percent | Valid Percent | Cumulative Percent |
|-------|-------------------|-----------|---------|---------------|--------------------|
| Valid | Strongly Disagree | 35        | 35,4    | 35,4          | 35,4               |
|       | Disagree          | 44        | 44,4    | 44,4          | 79,8               |
|       | Agree             | 16        | 16,2    | 16,2          | 96,0               |
|       | Strongly Agree    | 4         | 4,0     | 4,0           | 100,0              |
|       | Agree             |           |         |               |                    |
|       | Total             | 99        | 100,0   | 100,0         |                    |

Source: Own compilation from primary data

### 7.5.1 Controls on presumptive tax administration

To investigate more on whether presumptive tax administration was a matter of priority at ZIMRA, ZIMRA respondents were asked to rank the following controls that had been established to be in existence at ZIMRA in managing tax administration during interviews. The results were as follows:

**Figure 7. 4: Controls over the implementation and management of presumptive taxes**



Source: Own Compilation

Figure 7.4 above shows that from the perspective of the ZIMRA study respondents, there is no clearly defined reporting structure on presumptive tax matters as 59% of the respondents

disagreed that this control is implemented and only 41% agreed. This is in line with the observation above that little attention is given to this sector as shown in Table 7.3 This could be linked to the qualitative results of this study in Chapter Six and literature that established that there is no dedicated department to focus on presumptive tax administration despite the magnitude of the sector in Zimbabwe and its perceived tax potential (Dube, 2014; Newman, 2019; Sebele-Mpofu & Msipa, 2020). The other two controls of: control reports and review meetings also are considered ineffective as respondents refuted their effectiveness with 57% and 53% respondents in disagreement. The only control that respondents considered to be somewhat used as a control measure in presumptive tax monitoring as well as implementation was the audit at 71% in agreement. Despite this finding being a positive move, it still remains a weak control as Figure 7.4 showed that the IS sector compliance is low because the probability of detection is minimal as the audit framework is weak and not effective because of capacity constraints as shown in Figure 7.14.

## **7.6 Policy options towards taxing the IS adopted by other developing countries**

To evaluate the level of exposure to other countries' tax systems and whether opportunities for training and tapping from experiences of other developing nations existed, ZIMRA respondents were asked whether they were ever exposed to any country that administered IS taxation. If their answer was yes, they were further asked to identify the IS tax systems they have been exposed to and to explain briefly the benefits and challenges they observed. The majority of the respondents (80% answered No and only 20% confirmed exposure). The follow up question being an open ended one, it was qualitatively and quantitatively (percentage composition of the 20%) analysed. This was meant to aid in providing fact-based recommendations and to evaluate the impact of the different presumptive tax systems on tax compliance as well as on the survival of small firms. Several researchers as established in the literature review raised concern on the negative impact of presumptive taxes on the performance of SMEs (Ligomeka, 2019:18; Ocheni & Gemade, 2015). The majority of ZIMRA officers did not have much exposure to the IS tax system of other countries robbing them of chances to draw practical experience and lessons. This was analogous to the findings drawn from interviews in Chapter Six where the majority of the interviewees expressed no exposure. Of the 20% who confirmed exposure, most were largely exposed to Kenya, Tanzania and South Africa in a descending order of percentage exposure as shown in Table 7.4. The findings were the benefits and challenges were collectively summarised as illustrated below.

**Table 7. 4: IS tax systems of other developing countries that respondents had exposure to.**

| Country and % of those who confirmed exposure | IS Tax system                  | Benefits and Challenges                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |
|-----------------------------------------------|--------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Tanzania (30%)                                | Block Management Systems (BMS) | The respondents expressed that the system was to some extent successful in increasing registration for tax purposes and tax compliance. They posited that it allowed for co-operation and stakeholder engagement on a smaller scale. The thorny challenge was corruption amongst revenue officers and taxpayers due to concentration of power and duties on one person (Block Manager). One ZIMRA officer advanced that the Tanzanian government addressed the issue of corruption by making the top officials pay their taxes to encourage compliance in both the formal and IS. Door to door follow-ups were said to be another avenue TRA used to encourage compliance, though because of a lot of corruption, most shops close shop until the exercise was over, as they would have been informed by some Revenue officers of the impending raids. This compromised effectiveness and compliance. |
| Kenya (35%)                                   | Turnover Tax (TOT)             | Was observed to be progressive in terms of turnover and based on a more clear and verifiable measure, but ignored expenses incurred by IS. For this reason, it was also viewed as unfair.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |
| Ghana (5%)                                    | Associational Taxation         | Improved stakeholder engagement and compliance but marred by corruption and lack of responsibility challenges                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |
| Zambia (2%)                                   | Presumptive Taxes              | Zambian tax system also carries out massive taxpayer education and embarks on door to door visits on the IS.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |
| South Africa (28%)                            | Turnover Tax (TOT)             | According to the respondents the South Africa tax system, uses a more simplified presumptive tax system, TOT. They conduct campaigns and enforcement blitz focusing on sector by sector, one sector at a particular time. <i>“In South Africa, the moment you start making an income you go to SARS and Register”</i> expressed on respondent. The punitive measures for non-compliance are heavy.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |

Source: Own Compilation

Some of the above observations were similar to the challenges and benefits raised by Joshi et al. (2014) and Mpapale (2014:15, 20) in evaluating the different types of presumptive tax systems. In South Africa, Viviers and Groenewald (2019) contend that despite the fact that the TOT system appears simplified, it rests certain administrative burdens on small businesses such

as registration, interim payments and employers' responsibilities. These are just as burdensome to the taxpayers as the corporate tax and PAYE obligations for formal businesses.

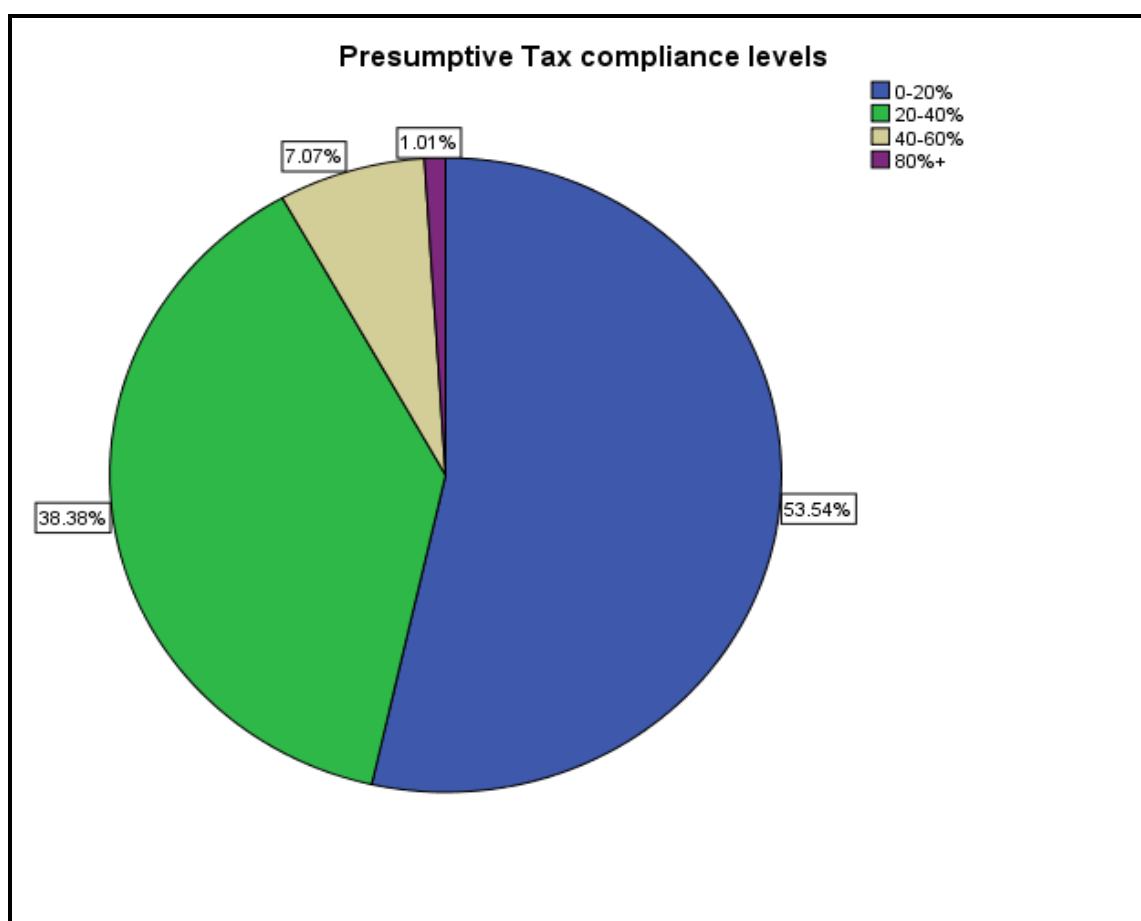
## **7.7 Tax compliance levels, motivators for IS compliance and determinants for non-compliance**

This section delved into the feasibility of administering IS taxation in Zimbabwe, this being explored in terms of compliance levels as well as the benefits that accrue to the IS from compliance with the taxes, in order to evaluate these in line with those that accrue to government. The section then sought to explicate the compliance levels identified by participants and connecting these to the determinants of compliance and the effectiveness of tax administration as well as enforcement as they affect the IS taxpayers and ZIMRA officers accordingly. These are discussed under the three subheadings, tax compliance levels, reasons for non-compliance and motivators for compliance

### **7.7.1 IS tax compliance levels**

The ZIMRA officers were asked to rank the tax compliance levels in the IS in scale of 0-20%, 20-40%, 60-80% and 80%+. The rationale being to possibly link the low revenue contribution from the presumptive taxes displayed in ZIMRA statistics to compliance. The findings showed that the compliance levels for the sector were low as the majority of participants (54% estimated compliance levels at less than 20% and 38% at 20-40%). In essence, 92% of the participants approximated the level of compliance at less than 40% and only 8% estimating it at more 40% as shown in Figure 7.5 below. In order to enhance internal consistency (dependability and consistency) of the results on the compliance construct, the results from the prioritisation (Table 7.3) and those of the compliance levels (Figure 7.5) were cross linked and correlated through descriptive statistics in order to see complementarity as shown in Table 7.5.

**Figure 7. 5: Presumptive tax compliance levels as outlined by ZIMRA respondents**



Source: Own Compilation

As explained above the reasons for the cross analysis, Table 7.5 below shows a strong connection between the views on lack of emphasis on IS tax administration and the levels of compliance estimated by ZIMRA respondents. The Table shows that of the 35 out of 99 respondents that strongly disagreed that informal sector taxation was an issue of significant concern at ZIMRA, 34 of these respondents estimated the compliance levels at less than 40% (30 at less than 20% and 4 at between 20%- 40%) and 1 at between 40-60%. Those that just disagreed were 44 out of 99 (23 approximated the compliance statistics at less than 20% and 21 estimated the level of compliance at between 20-40%). Therefore 79 out of 99 (80%) professed that IS taxation was not prioritised by ZIMRA and estimated compliance levels at less than 40%. The lack of prioritisation possibly explains the low levels of compliance as very little attention and follow up is made to taxpayers in the sector. The table also portrayed that 91 out of 99 which constitutes 92% of the population pegged compliance levels at less than 40%. Since 80% pointed to lack of prioritisation, the other 12% despite agreeing that compliance levels are low and less than 40%, they disputed the lack of prioritisation aspect,

they affirmed that IS taxation was prioritised (10 agreed and 3 strongly agreed) pointing to possibly other reasons other than prioritisation to explain the low levels of compliance. This points to a need to explore two angles to the compliance construct, why there is lack of prioritisation and the other possible reasons for the low levels of compliance. Overall, the answers in the two components of the compliance construct exhibit a strong internal consistency and correlation of respondents' answers thus enhancing reliability.

**Table 7. 5: IS taxation prioritisation in relation to compliance levels**

|                                         |                   | Presumptive Tax compliance levels |           |          |          | Total     |
|-----------------------------------------|-------------------|-----------------------------------|-----------|----------|----------|-----------|
|                                         |                   | 0-20%                             | 20-40%    | 40-60%   | 80%+     |           |
| Informal sector prioritisation by ZIMRA | Strongly Disagree | 30                                | 4         | 1        | 0        | 35        |
|                                         | Disagree          | 23                                | 21        | 0        | 0        | 44        |
|                                         | Agree             | 0                                 | 10        | 5        | 1        | 16        |
|                                         | Strongly Agree    | 0                                 | 3         | 1        | 0        | 4         |
| <b>Total</b>                            |                   | <b>53</b>                         | <b>38</b> | <b>7</b> | <b>1</b> | <b>99</b> |

Source: Own Compilation from primary data

### 7.7.2 Informal sector tax contribution to national tax revenues

The tax expert respondents established that IS tax compliance was very low as shown in Table 7.6 where 78% categorically affirmed compliance levels as low, thus pointing to low tax revenues from the IS. The results provide confirmation to the views expressed by ZIMRA respondents in Figure 7.5 above and could be linked to the minimal attention given to the IS.

**Table 7. 6: Tax Compliance level as explained by tax experts**

#### Tax compliance levels

|       |        | Frequency | Percent | Valid Percent | Cumulative Percent |
|-------|--------|-----------|---------|---------------|--------------------|
| Valid | Medium | 7         | 21.9    | 21.9          | 21.9               |
|       | Low    | 25        | 78.1    | 78.1          | 100.0              |
|       | Total  | 32        | 100.0   | 100.0         |                    |

Source: Own Compilation

This research as described in Chapter Five adopted a sequential mixed method exploratory design with an emphasis on the initial qualitative research (literature review and qualitative data gathering and analysis) to inform the quantitative part. Tax legislation, Statutes such as



the Tax Acts and ZIMRA reports were thoroughly reviewed to have an understanding of the tax policy, its administration and the performance of the tax heads. This was done to aid in making an informed evaluative account of IS taxation. Accordingly, some of the results of this document analysis of ZIMRA reports are as presented below. The contribution of the “Other Taxes” tax head which comprise of capital gains tax, capital gains withholding tax, tobacco levy as well as other indirect taxes which include stamp duty, banking levy and Automated Teller Machine levy are shown as percentage of total national tax revenues in Table 7.7. The ZIMRA Chairperson’s report for the year 2017 pointed to capital gains tax and capital gains withholding tax as the major contributor to this tax head.

**Table 7. 7: Contribution of informal sector to total national tax revenues**

| Year                                    | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018  |
|-----------------------------------------|------|------|------|------|------|------|------|-------|
| Other Taxes (including presumptive tax) | 3%   | 4%   | 6%   | 2%   | 1%   | 1.7% | 2%   | 1.37% |

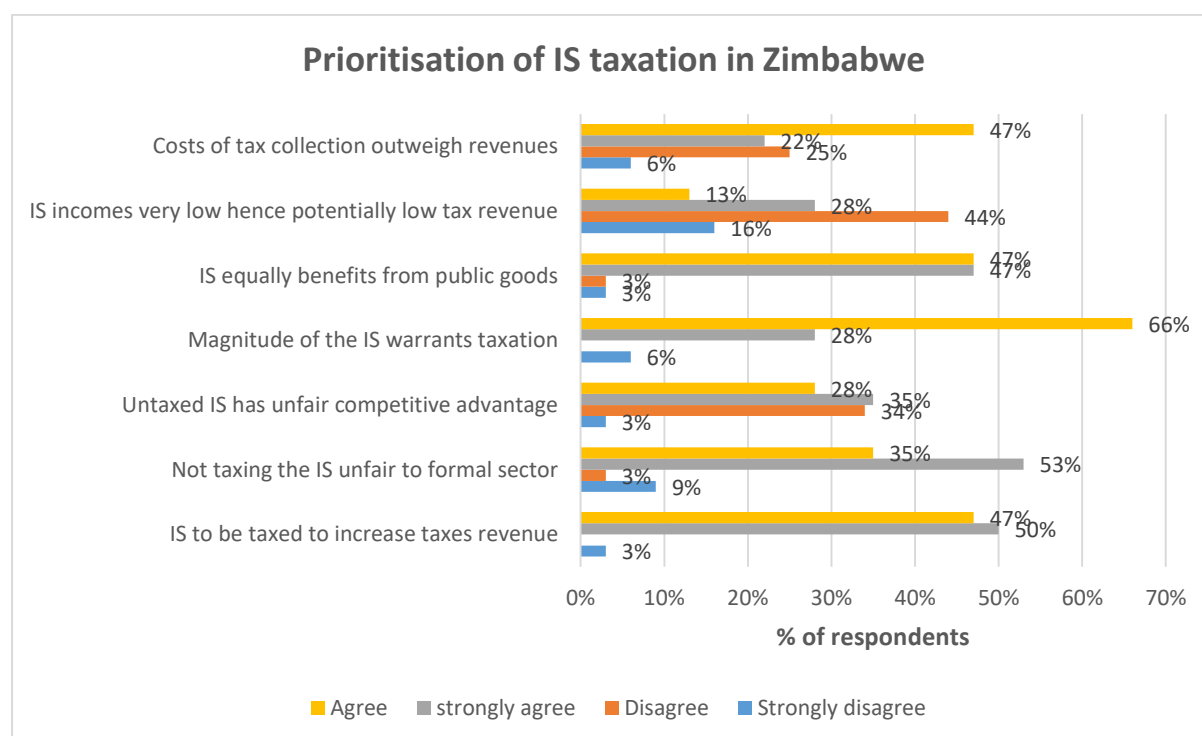
Source: ZIMRA Revenue Performance Reports (2011 -2018) and Sebele-Mpofu and Msipa (2020:194)

An unconcealed peculiarity in these Revenue Performance figures is the miniature contribution of “Other Taxes” (including presumptive tax) to the overall taxes in juxtaposition with the over 60% contribution to GDP alluded to by Medina and Schneider (2018). There is no figure categorically attributed to presumptive tax (Informal players’ Tax) in the reports, it is grouped under other taxes. This glaringly indicates its insignificance for the compilers of tax reports to bother showing it separately, a reflection that the revenue head inflows have been inconsequential despite the sector’s huge contribution to GDP or that less emphasis is given to it. If GDP contribution could be translated into revenue contribution, largely through tax compliance, the government would witness a significant revenue appreciation. The performance of the other taxes, especially the continuous decline of the revenue contribution 6% in 2013 to 1.37% in 2018 could be linked to the continually deteriorating economic conditions in the country. This is as communicated by one study respondent as follows *“Most businesses are facing economic challenges that have lowered productivity and profitability, tax revenue generation from both the formal and informal is bound to decline”*

Despite the fact that most of the economic activity and employment is in the IS in Zimbabwe, the sector’s contribution to tax revenue is very low as highlighted above. This raises questions such as: What could explain the low revenue contributions? Is it the lack of prioritisation or perhaps the high levels of non-compliance or possibly other factors and what could these be?

Notwithstanding the fact that revenue administrators are paying very little attention to this sector citing low tax revenue potential in the sector accompanied by high costs of collection, tax experts emphasised the need for taxation of this sector to be considered more thoughtfully. This is as chronicled in their assessment of the reasons affecting prioritisation of the sector as shown in Figure 7.6.

**Figure 7. 6: Factors affecting Prioritisation of IS taxation in Zimbabwe**



Source: Own Compilation

Figure 7.6 was analysed in terms of the “merged” agree (strongly agree and agree) and disagree (strongly disagree and disagree). The majority (97%) of the respondents acknowledged that government must prioritise IS taxation in order to mobilise revenues to finance public expenditure and that the magnitude of the IS warrants taxation (94%). In any economy like Zimbabwe where a huge chunk of the economic activity takes place in the IS as alluded to by Ligomeka (2019) and Medina and Schneider (2018) who approximate the IS contribution at 60.6% of GDP, not taxing the IS was said to be unfair (88%) and tilting the competitive scale to the sector’s favour (63%). The IS was said to be equally enjoying the public utilities and infrastructure funded by tax revenues yet the sector contributes very little to government coffers (94%). The unfairness of not taxing the IS and the unfair competitive advantage that it gives to the IS was expressed to be in terms of the cheapness of their goods relative to those of the

formal sector, due to the absence of the VAT tax fraction that affects the pricing structure of the formal firms. This argument was disputed by TE5 highlighting that:

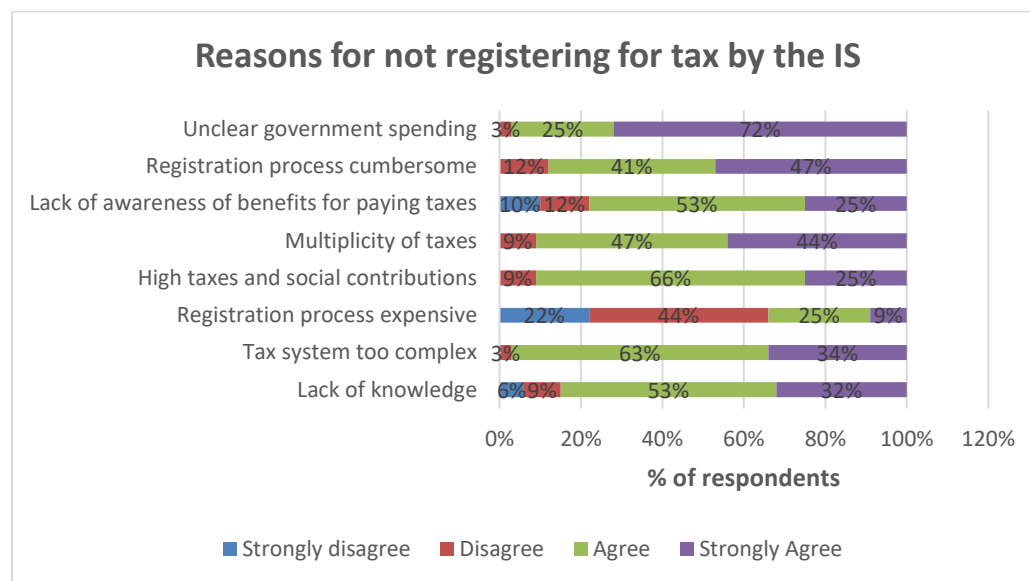
*“I don’t think that’s a fair assessment of things. The formal sector can claim input tax in relation to VAT tax fraction which the IS cannot. The allowable deductions and exemptions enjoyed by the formal sector, the IS does not enjoy. Advantages such as access to funding, skills and training that enhance productivity, the IS doesn’t access. This argument seems unfair. Maybe the only benefit they have is their mobility, meaning lower rentals cost”.*

La Porta and Shleifer (2014) refer to these productivity disadvantages of informality as the lower “productivity trap”. The low incomes versus high costs of collection argument against taxing the IS was refuted by the tax experts (60%) as well as those of exorbitant collection costs. This was affirmed by interviewee ZIMRA O7, with one respondent pointing that *“we surely have to tax this sector. As for the costs of collection, these will come down as we continuously improve our capacities and capabilities. The improved effectiveness will lower the costs, otherwise if we continue with the excuses we will never tax the sector or adequately nurture it”*. This is similar to observations by Joshi et al (2014) that if the non-futuristic cost and benefit analysis argument is perpetuated, the IS will never be subjected to tax yet every citizen of the state must be charged tax guided by their income. The IS with their low incomes must accordingly contribute in relation their income earning capacity as suggested by Smith (1776).

### **7.7.3 Reasons for failure to register for taxes**

During interviews, failure to register for taxes was raised as a major concern by ZIMRA officials. Their argument was that the difficulty in taxing the IS can be explained from the registration angle. Tax experts interviewees confirmed the assertion, thus the research sought to explore why the IS does not register for tax. The following hindrances were picked from qualitative data analysis and literature reviewed and these were further explored in detail on a larger population through questionnaires. The results are as displayed in Figure 7.7. The notable reasons were: unclear government spending (97% concurrence), multiplicity of taxes (91% in agreement), cumbersome registration process (88% agreed), complexity of the tax system (97% affirmation), lack of awareness of tax compliance benefits (81% confirmation), high taxes and social contributions (91% acceptance). Respondents refuted that registration process was expensive.

**Figure 7. 7: Reasons for failure to register for tax by the IS**

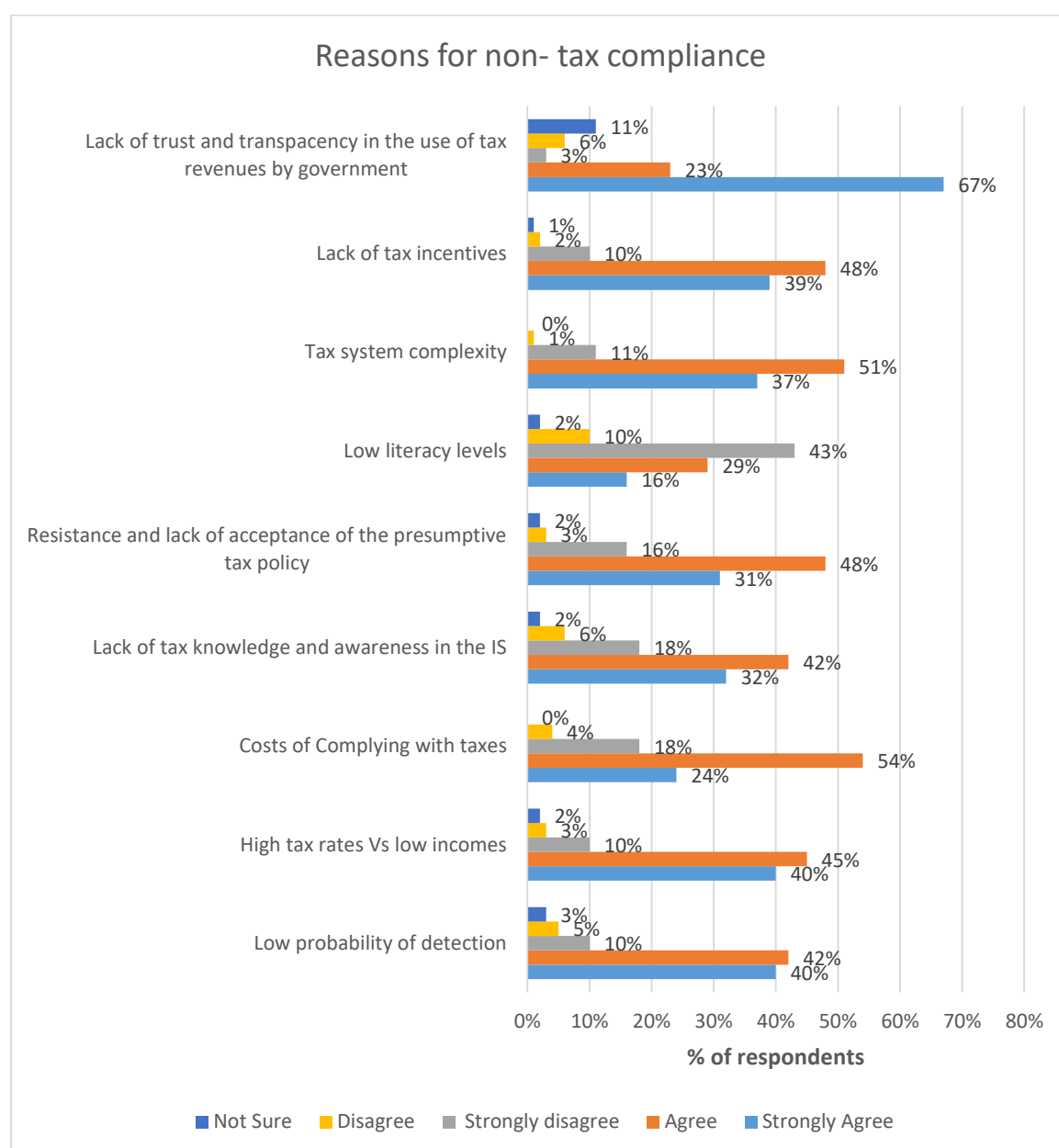


Source: Own Compilation

#### 7.7.4 Reasons for non-compliance amongst the IS

Literature has proffered varied reasons in seeking to explain the poor compliance levels in the IS together with the minimal revenue contributions that do not match the sector's estimated contribution of 50-80% of GDP, 60-80% of employment and 90% of new jobs in developing countries (Bhorat et al., 2017). Several reasons were derived from the literature review and qualitative data analysis and these were quantitatively explored with the results as presented in figure 7.8. These reasons, including the percentages of those who agreed from the revenue authority's perspective are as outlined in Figure 7.8 below.

**Figure 7. 8: IS non tax compliance reasons from ZIMRA respondents**



Source: Own Compilation from primary data

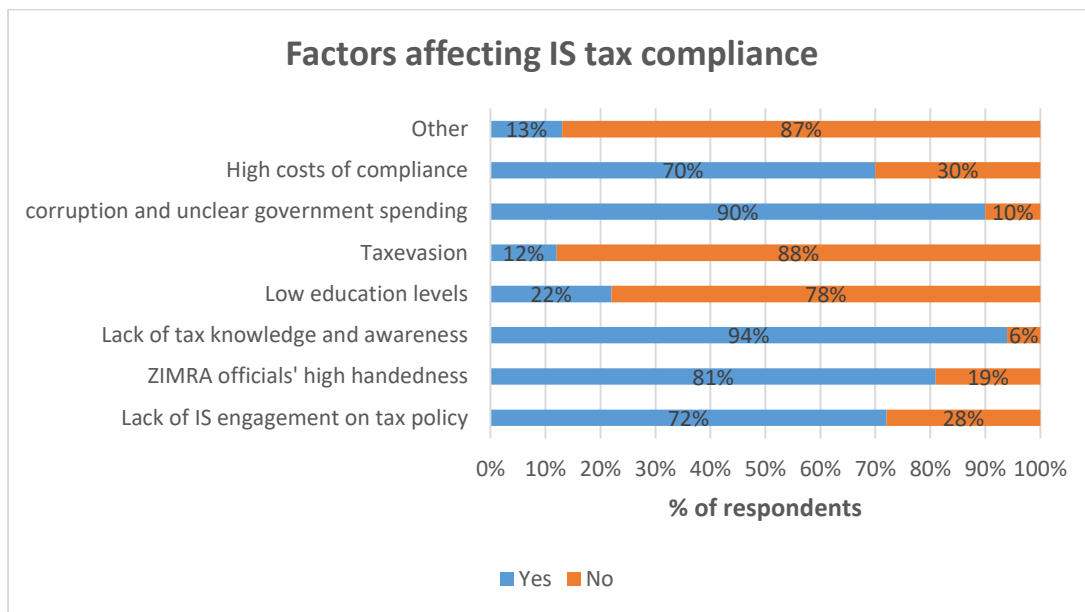
The reasons as shown above include lack of trust in the government expenditure (91%), lack of tax incentives (87%), complexity of the tax system (88%), low literacy levels (72%), resistance by the sector (79%), compliance costs (78%), high tax rates versus low incomes (85%) and low probability of detection (82%). Figure 7.8 is read together with Figure 7.9 which reflects the factors affecting compliance from the tax experts' viewpoint. Figure 7.9 shows that the majority of tax experts (94%) perceived lack of tax knowledge as the most outstanding factors accounting for low compliance levels in the IS, followed by corruption and lack of accountable government spending which lowers tax morale. ZIMRA'S high handedness

ranked third with 81% of tax expert concurring. 72% of the tax respondents pointed to lack of IS engagement in tax policy formulation. Low levels of education and tax evasion were pegged low as having less influence on IS tax compliance with 78% and 88% refutation respectively. The 13% that alluded to other factors pointed to sluggish tax dispute resolutions on the part of ZIMRA as well as the delay in the processing of refunds.

#### **7.7.4.1 Lack of transparency and accountability government spending**

As demonstrated above the most influential factor compelling taxpayers to evade and avoid taxes is lack of transparency in the use of tax revenues by government, with 67% of respondents in Figure 7.8 strongly agreeing that this encourages taxpayers to rationalise non-compliance with tax legislation. When merging “strongly agree” and “agree” into “agree” and “strongly disagree” and “disagree” into “disagree”, the same factor was still dominating, with 90% of the respondents acknowledging that taxpayers are not motivated to pay tax due to lack of accountable spending by government. This is a critical factor even in literature as McKerchar and Evans (2009), who explain it from the perspective of the “implied/implicit” social contract between government and its citizens. This silent contract assumes that as the taxpayer honours their tax obligation, governments meet their side of the bargain in the form of public utilities, good infrastructure, health services, education and security among others funded through the revenues generated from tax revenues. This was affirmed by ZIMRA O8, who explained that *“Government spending in Zimbabwe is not clear and instilling any public confidence, causing poor tax morale. Government is not delivering on the “invisible” social contract in terms of infrastructure such as roads, working space and support for the IS, so tax collection in such an environment is difficult”*. Buttressing the same point, TE4 who advanced that *“People don’t see any benefits of paying tax in Zimbabwe. Lack of transparency in the use of tax revenues frustrates taxpayers, lowering tax compliance and compounding levels of tax evasion. People will police each other when they derive tax benefits or discourage each other if no perceived benefits”*. This was also evident in Figure 7.9 from the tax experts’ questionnaire analysis.

**Figure 7. 9: Factors affecting IS tax compliance as viewed by Tax Experts**



Source: Own Compilation

#### 7.7.4.2 Resistance and lack of acceptance of the presumptive tax policy

As discussed in literature that very little was done in terms of research on the taxability of the IS in Zimbabwe and that the little research that was done was done in 2003 on the profitability and taxability of the transport sector (Dalu et al., 2013; Dube, 2014; Newman, 2019:13; Sebele-Mpofu & Msipa, 2020), this research also highlighted the inadequacy in research. In Figures 7.8, 7.9 and 7.11, the lack of IS engagement was visibly consistent as a hindrance on the part of the IS taxpayer compliance and effective tax administration on the part of ZIMRA. This study and previous research established that the findings on the transport sector was generalised to other sectors such as hair salons, restaurants and bottle stores among others, without further research. Even after Dube (2014), advanced this anomaly in his research, (most probably the pioneer research on IS taxation in Zimbabwe since its implementation in 2005), nothing has been done to date in terms of research on the sector's ability to pay these taxes. Surely with the ever-changing economic landscape, tax policy should evolve accordingly. Heggstad et al. (2011:5) emphasise the value of research in policy design and improvement as they state that, research is an important tool in policy available to both academics and policy makers to meaningfully contribute to policy designing. Even the Income Tax Act (Chapter 23:06) needs an overhaul as recommended by one tax expert questionnaire respondent on the open-ended question on suggestion to improve voluntary compliance. The respondent suggested that *“Legislation needs to be tweaked in terms of the provisions of Section 8 on the Income Tax Act, which provides for charging tax on the earlier of receipt or accrual as this overly burdens the*

*taxpayer especially in the current economic contexts of the country. Received by becomes more appropriate. In terms of this section “gross income is any amount received or accrued to ....”*

This points to a void and a probable high degree of misalignment of tax rates and the ability to pay in some sectors if not all sectors. The fixed presumptive tax rate (one size fits all kind of approach might not be appropriate). This could be an appealing detail, to explain the resistance by the sector and that the failure to comply might be genuine as the tax rates are probably high versus the low incomes (85% of ZIMRA respondents agreed), threatening the survival of the small firms. This leaves them with no choice but to evade tax in order to survive. It becomes essential for tax policy and research to view things from both the perspective of the regulator and the IS as advocated for by Waris (2009).

The void in government-IS engagement on tax policy is explicated in qualitative results of this study in Chapter Six and in this Chapter in, Figures 7.8 and 7.9 as well as in literature as tabled by CSLAC (2013:13-16) and Dube (2014) who contends that most policies regarding taxation and regulating business in IS in developing countries have been constructed without the sector’s input, hence the negative reception. TE 5 acknowledging this concern advised that:

*“Currently in Zimbabwe there is lack of stakeholder engagement on tax policy issues and policy issues in general and the policy designing, changes and implementation are general reactive, ill-planned, inconsistent and ever changing hence there is lack of ownership and acceptance of these. Same applies to IS tax policy, the voices of associations are ignored ...”*

These findings also give weight to advancements by Fourie (2018a), who observed that for the IS to meaningfully contribute to economic development, employment creation, poverty reduction and tax revenue, the sector must be thoughtfully and earnestly given attention and that includes engagement as well as dialogue relating to policy that affects the sector.

#### **7.7.4.3 Costs of complying, high tax rates and low incomes**

The majority of respondents agreed on the burdensome compliance costs, these could be further linked to the complexity of the tax systems. The more complex the tax system and the lower the tax knowledge levels, the higher the compliance costs. This is displayed in this study as shown in Figures 7.8 and 7.9, with the lower compliance levels shown in Figure 7.5 and linking them to Figure 7.7, which shows the majority of respondents acknowledging the negative impact of complexity and tax knowledge on IS tax compliance and registration. To overcome



complexity taxpayers would be forced to engage the services of accountants which are often expensive, thus leaving taxpayers with no choice but not to comply. This was also established in qualitative findings of this study as expressed by two respondents from both groups. ZIMRAO3, who said *“Zimbabwe’s tax system is complex in terms of registration and compliance procedures making it costly to comply”*. TE4 observed that *“Paying tax accountants and consultants for their services becomes a costly exercise that players in the IS cannot afford in light of their minimal incomes.”*

The costs of complying cannot be detached from the high tax rates and low incomes. In terms of literature, the high tax rates on low incomes provide a compelling argument on the drivers of informality. The legalist view proponents argued that the high handedness of tax officials, the high costs of compliance and high tax rates drive both firms and individuals in the IS as they weigh the cost and benefit analysis (De Soto, 1989). On the other hand the dualist suggest IS incomes are too low to warrant taxation, why tax the vulnerable (Hart, 1973; Sabot, 1973). Figure 7.8 shows that ZIMRA respondents seem to acknowledge the influence of high tax rates and low incomes on IS tax compliance. This probably also explains the low priority given to the IS as exhibited in Table 7.3. The tax authorities in Zimbabwe probably shun this sector because of the perceived low incomes, which imply relatively low tax revenue potential as submitted in literature by Kundt. (2017a). It was also established from the qualitative data analysis (Chapter 6), that the low incomes were another reason for low tax compliance. TE3 evoked that *“informal players are usually small scale with low incomes, though there are some big players who can afford to pay tax, thus I don’t dispute that both tax evasion and low incomes explain the small tax contribution from this sector.”* It remains paradoxical what drives the other, low incomes versus high tax rates account for low compliance levels and drive informality or tax evasion drives informality.

#### **7.7.4.4 Tax system complexity**

Tax complexity was the second dominating factor with (51% strongly agree and the merged agree of 89% respondents). This could be linked to two other variables: tax knowledge (64% concurrence) and low literacy levels (45% affirmation). Literature referred to an interdependent relationship between literacy levels, tax system complexity, tax knowledge and tax compliance (Sebele-Mpofu & Chinoda, 2019:412; Atawodi & Ojeka, 2012a). The ambiguity and complexity of tax law causes significant challenges to compliance by taxpayers and an even greater challenge for those with low education levels in the IS and where tax knowledge is minimal. From the study, the Zimbabwean population is different with high levels of education

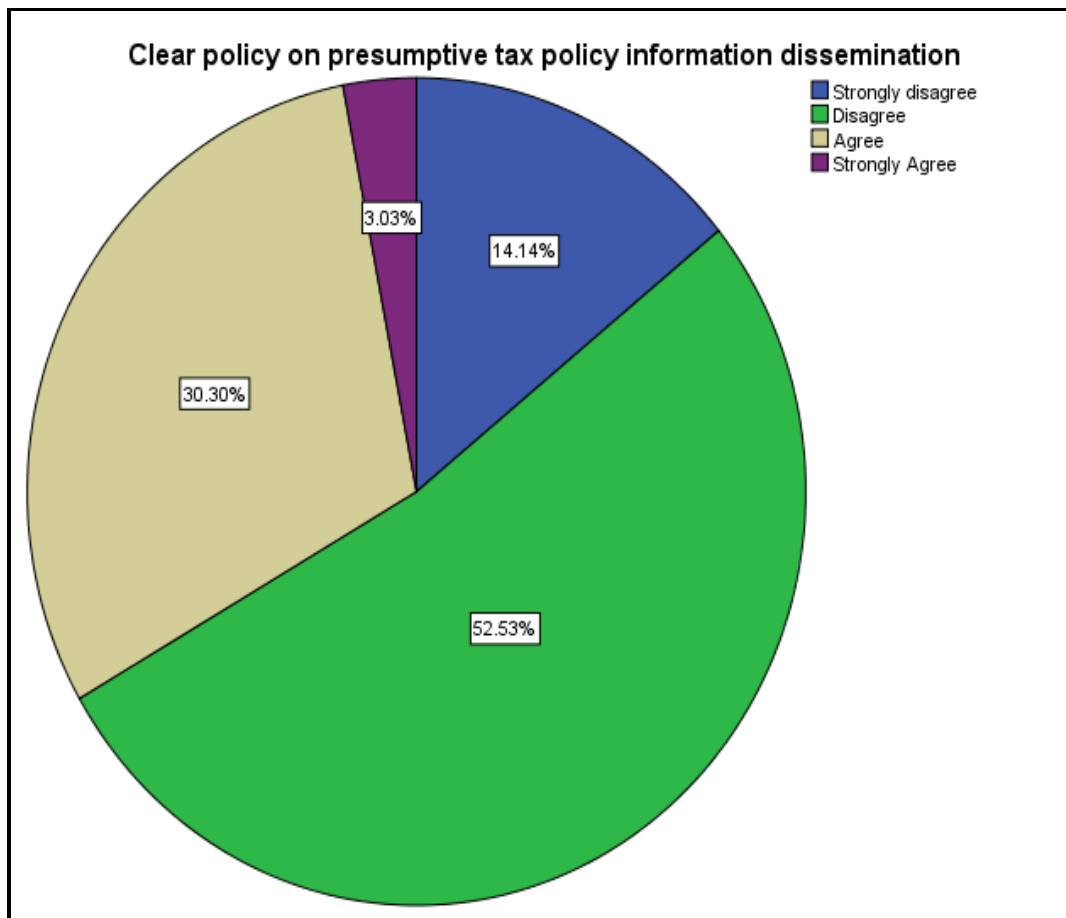
as the majority (53%) of respondents disputed that literacy levels were low. In this case a significant correlation is established between lack of tax knowledge, tax system complexity and compliance levels. This is also alluded to by TE1 in Chapter Six (Section 6.9) who observed that:

*“Knowledge is power, with weak capacity at ZIMRA being a stumbling block to effective enforcement our best bet in fostering compliance lies in moral persuasion and voluntary compliance. The key ingredients to the two are tax simplicity, tax knowledge, awareness of the benefits, government transparency in spending revenues and approachable revenue officers”.*

Tax legislation, continuous tax law amendments and computations are confusing even to accountants and revenue officers with tax knowledge leading to various interpretations of the same law and its worse for those who neither have tax nor accounting knowledge. TE6 reiterating the tax knowledge void said *“the situation in Zimbabwe is peculiar and unique, I’m sure the Ministry of Finance has issued more than 100 statutory instruments just this year, surely this is challenging to keep track of their provisions even for us professionals”*. The tax knowledge gap has been enunciated by the Zimbabwe Commissioner General of Taxes (Chronicle, 2019a), when she pointed out to, tax knowledge being scarce even on the side of policy makers who often overlook tax implications in negotiations of national contracts. She asseverated that significant tax revenues are lost due to uninformed or tax consideration deficient bargaining in contracts. This signals a tax knowledge gap confirming the findings of this study

In further pursuance to clarify the issue of tax knowledge and awareness established from qualitative research findings, questions were asked to establish through the surveys whether ZIMRA had a clear policy on tax policy dissemination to the IS and how ZIMRA disseminated information to the public on presumptive tax issues. The results were as shown in Figure 7.10 and Figure 7.11 respectively.

**Figure 7. 10: Clear Policy on Presumptive Tax**



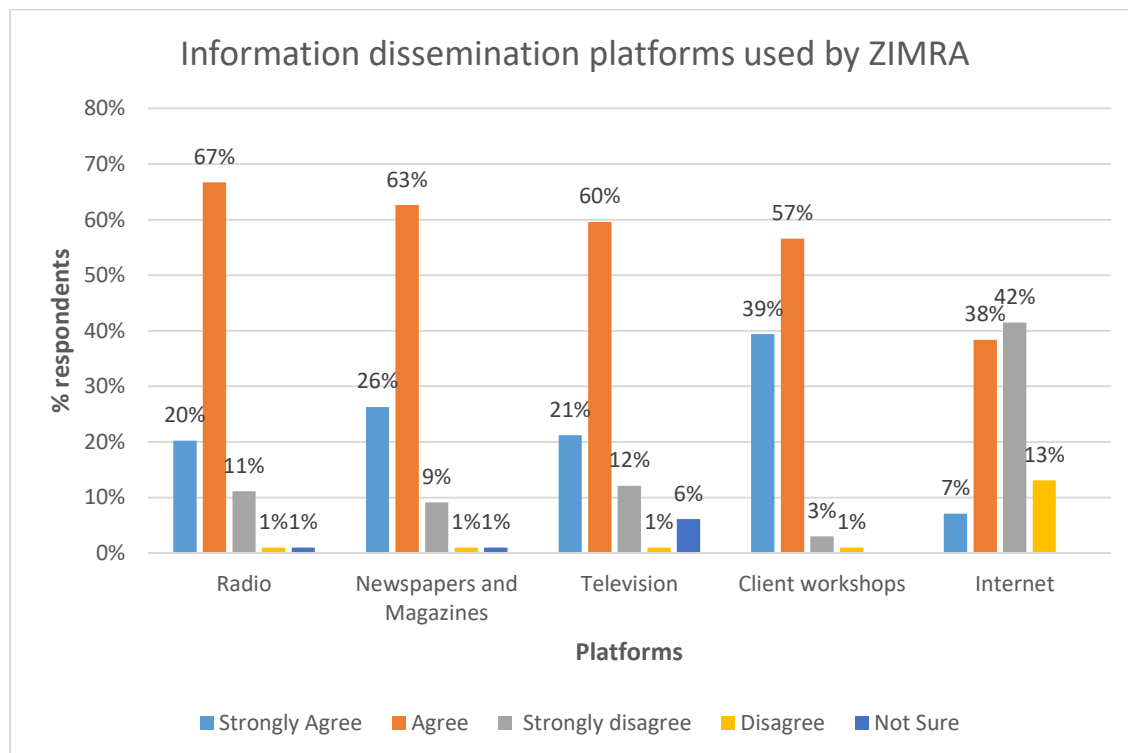
Source: Own compilation from primary data

Figure 7.10 above clearly shows that the majority of ZIMRA respondents are of the view that there is no clear policy on dissemination of tax information to the IS, explaining the tax knowledge gap that leads to non-compliance. TE4 emphasised inadequate information sharing and conveyed that:

*“Most players in the sector do not understand tax laws, tax payment procedure and reasons for paying tax and how to compute the tax. The ZIMRA outreach programs only target urban areas. How does ZIMRA reach out to an artisanal miner in the deep rural areas of Mhondoro who has never stepped foot in the urban area and they have always sold their produce to middlemen?”*

This was further investigated, by asking respondents on the information dissemination platforms used by ZIMRA, with the following results exhibited in Figure 7.11.

**Figure 7. 11: ZIMRA tax information dissemination platforms**



Source: Own Compilation from primary data

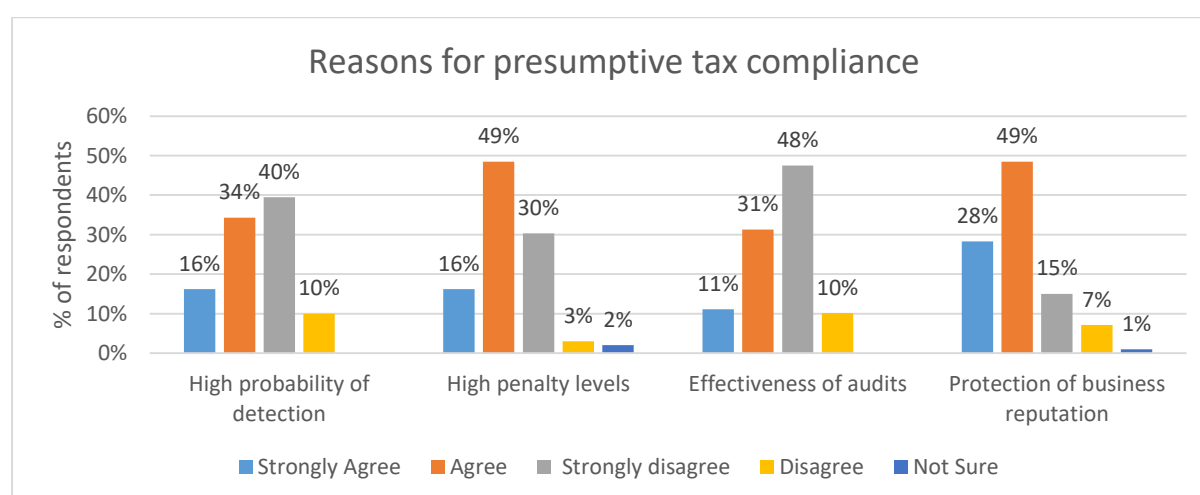
From the Figure above client workshops topped the list of the information dissemination tools with 96% of the population agreeing, followed by the use of newspapers and magazines (89% agreed), radio (87% affirmed), television (81% concurred) and lastly through internet (only 45% agreed). The internet appears to be the least prevalent platform used yet the world is dynamic and technology becoming a most vital tool to reach a wider population. This might compound the tax knowledge gap, especially with the other platforms such as radios and newspapers continuously losing the market share, as there is less appetite for them. The television also with constant power cuts in Zimbabwe is an ineffective communication tool. The tax experts had a contradictory view. This divergent view is confirmed by TE5 (Chapter Six) who expressed that:

*“Yes. ZIMRA might be holding workshops but who do they invite, how do they reach the IS who in most cases do not come for those workshops? For me and you the workshops at hotels, the tax seminars and briefings might work but I doubt if those work in the informal sector if one does not take these where the sector is found or through their associations”*

### 7.7.5 Reasons for IS tax compliance

Despite the fact that the reasons for IS tax non-compliance appear to be overwhelming and tax compliance levels in the IS are also argued to be very low as established in this study Figure 7.12, some factors have been put forward to explain why those few that comply adhere to the tax laws. The compliance levels were approximated by the majority of respondents to be below 40%. The sector's contribution to total tax revenues is estimated at 3% in Africa, 2 % for SSA (Benjamin & Mbaye, 2012; Maina, 2017) and less than 7% for Zimbabwe (Dube & Casale, 2016; Sebele-Mpofu & Msipa, 2020) and as analysed and presented in the ZIMRA statistics summarised from their reports in Table 7.7. The reasons for compliance are outlined in Figure 7.12 and discussed below.

**Figure 7. 12: Reasons for IS tax compliance**



Source: Own compilation from primary data

#### 7.7.5.1 High probability of detection

In relation to probability of detection, there were equally respondents who agreed and disagreed on the potency of the factor at 50% for both views. This could be linked to sectoral variations, to say in sectors such as the transport sector respondents are easy to detect as one would require a valid tax clearance certificate to renew their vehicle operating licence for public transport and for driving schools. These are easy to detect also even by traffic officers and these would sometimes collaborate with the vehicle inspection department and ZIMRA in their road blocks. Otherwise, the bulk of the informal sector participants are not easy to detect as shown by 50% disagreement and difficult to monitor as summed up by one tax expert interviewee *“The intangible and mobile nature of the informal sector poses problems to successfully taxing the*

*IS. Most of the players have no fixed abode and therefore can easily “appear, disappear and resurface elsewhere”, making it hard for tax authorities to detect, monitor and tax.”*

#### **7.7.5.2 High penalty levels**

High penalties were found to be a compelling factor by ZIMRA respondents with 65% concurring. This could be explained by the nature of the tax system in Zimbabwe where penalties are very high in cases of default at 100% plus 10% interest for outstanding amounts. In the same line of thought, the SMEs’ mortality rates have been linked to the impact of taxes in Zimbabwe (Sikwila et al., 2014). Similar conclusions were drawn by Atowadi and Ojeka (2012a) and by Ocheni and Gemade (2015) in Nigeria. Therefore to preserve their survival some IS players would want to have their tax matters up to date to avoid the negative consequences of being detected as a defaulter, taxes estimated and penalties as well as interest being levied leading to liquidation of the business. Most companies close shop after ZIMRA garnishes them, due to cash flow challenges. This concern was also evident in the qualitative research component, with one newspaper article captioned “ZIMRA blamed for company closures”. The article quoted an entrepreneur who expressed that “ZIMRA is instituting drastic garnish orders and attaching company assets of defaulting businesses. This is a sad scenario that has led to many workers being thrown in the streets” (Newsday, 2014). The 33% who disagreed that high penalties pushed for tax compliance in the IS could be connected to the 50% who disagreed that there is a high probability of detection. If one is not detected, tax liability estimation and penalties have no impact.

The high penalties could also be linked to non-compliance as explained by the legalist view (De Soto, 1989) as they are said to drive firms into the IS and in addition explain the failure to register for taxes. In fear of these penalties and interest IS players were found to be unwilling to register for taxes. In Figure 7.7, reasons for failure to register for tax by the IS are shown. This view was pronounced by TE2 in Chapter Six (Section 6.6.2.4), who emphasised the cumbersome registration process and penalties as hindrances to IS tax compliance. TE2 stressed that:

*“ZIMRA’s uncompromising and stringent approach to taxation in general and IS taxation in particular is a cause for concern. The erratic and minimal incomes together with current cash flow challenges and unstable economic environment, advanced earlier often make it difficult for the informal sector operators to honour tax obligations in time, yet for defaulting by just a day or 2, ZIMRA charges 100% penalty. This ignores the precarious nature of the economy*

*and the challenges faced by the IS. This is the reason why people operate in the shadows and hide from tax officers.”*

#### **7.7.5.3 Effectiveness of audits**

The effectiveness of the audit framework was not considered a motivating factor to IS compliance only 32% suggesting that it has an influence and the majority of 68% disputing the influence. This implies, that as the probability of detection is very low, whether penalties are high or low, the motivation to comply is still minimal. Audit is an effective tool for evaluation, compliance, monitoring and remedying performance of any project or policy. Similarly for this study, having established that the audit framework is ineffective due to lack of priority towards the IS and due to capacity constraints at ZIMRA, it simply explains the low probability of detection. Through chi charts, this study further established a positive relationship between probability of detection, penalties and effectiveness. A significant correlation was found between the probability of detection and effectiveness of the audit framework. This is further compounded by the nature of the IS: poor record keeping, lack of accounting skills, cash transaction, heterogeneity and mobility of the sector (Joshi et al., 2013; Ligomeka, 2019).

#### **7.7.5.4 Protection of business reputation**

This research established that for Zimbabwe’s IS the most cogent facet of tax compliance was the protection of business reputation (77% agreed). With weak enforcement as explained by the low probability of detection, frail capacity and fragile audit framework, those that comply with tax legislation are likely to be those that are easily detectable like the transport operators and driving schools. Those that are not easy to detect are probably moved by different reasons altogether such as the protection of business reputation, moral uprightness and the need to compete for business tenders and trade with large registered operators who in turn require a tax clearance certificate as a prerequisite. The majority of interviewees from both the ZIMRA officials and Tax experts groups, concur on these reasons as the likely aspects fostering compliance with TE3 articulating that:

*“Growth gains can also stem from formalisation for tax purposes, as these formalised operators become eligible to deal with formal firms as they now have tax clearing certificates and are then not subject to 10% withholding tax for non-holders of tax clearance certificates. They can access tenders especially government tenders. These avenues open doors for big orders, bigger sales revenues and ultimately improved profits but these benefits are limited to a few players”.*

Therefore, part of those that comply with IS taxation legislation in Zimbabwe are driven by voluntary compliance. In addition, others pay their taxes out appreciation of the benefits of having a good tax standing as well as due to the desire enhance the business reputation, otherwise very few benefits seem to be attributed to tax compliance. The perceived lack of advantages would point to low tax compliance as the players being rational actors, do a cost-benefit analysis and find tax evasion being beneficial. This resonates with the deterrence model by Allingham and Sandmo (1972).

## **7.8 Challenges faced by ZIMRA in taxing the IS and benefits of IS taxation**

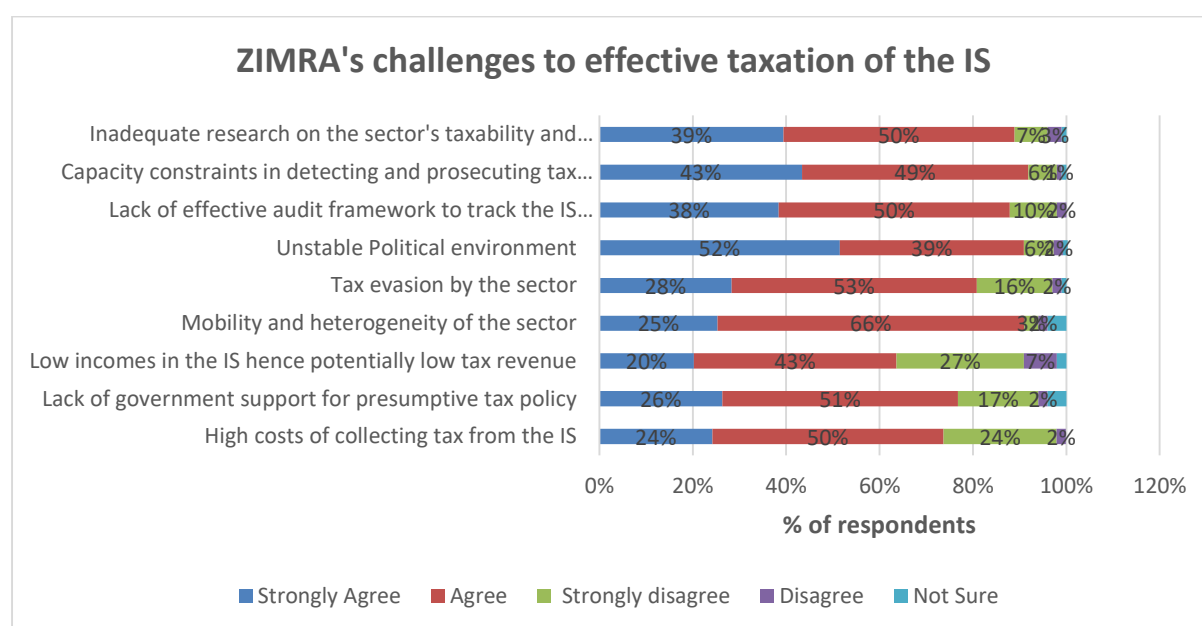
Several reasons have been tabled to explain why revenue authorities the world over grapple with taxation of this fast growing sector. Despite opponents of informal sector taxation expressing that taxing this sector is not a worthwhile exercise (Pimhidzai & Fox, 2011:2, 21; Ligomeka, 2019), several proponents for such taxation have given varying reasons why it is beneficial to tax the sector (Joshi et al., 2013, 2014;Loeprick, 2009:2). Section 7.8 explores the challenges in detail whereas 7.9 discusses the benefits in relation to the Zimbabwean angle as established by the study.

### **7.8.1 Challenges faced by ZIMRA in taxing the IS in brief**

Qualitative data collection and analysis also guided by the literature reviewed, explored and explicated the determinants for non-compliance on the standpoint of the IS and at the same time investigated the hurdles that explain the tax administrators' failure to satisfactorily harness the IS into the tax bracket. Qualitative findings revealed that IS taxation is a complex and complicated phenomena that calls for sophisticated approaches in identifying, tracking and tapping tax revenues from the sector. Utaumire et al. (2013) observe that contrary to the perception that lays the blame for the meagre tax revenue contributions on the IS non-compliance viewing them as tax evaders, IS tax administration is not a walk in the park as formidable economic, political and operational challenges have to be surmounted for practicable tax collection to be a reality not just an elusive dream (Munjeyi et al., 2017). An evaluation of these challenges and their perceived level of impact, as viewed from the angle of ZIMRA respondents are as presented in Figure 7.13.



**Figure 7. 13: ZIMRA's hindrances to effective IS**



Source: Own Compilation from primary data

From Figure 7.13 above, it is evident that tax administrators are faced with various challenges in trying to accomplish IS taxation. From the ZIMRA officers perspective, these include high costs of collection, inadequate research on the sector's taxability and, capacity constraints in detecting and prosecuting tax evaders, lack of effective audit framework to track IS sector players and assess their activities, unstable political environment, tax evasion by the sector, mobility and heterogeneity of the sector, low incomes in the sector signalling potentially low revenues and lack of government support for presumptive tax policy.

### 7.8.2 Unstable political environment

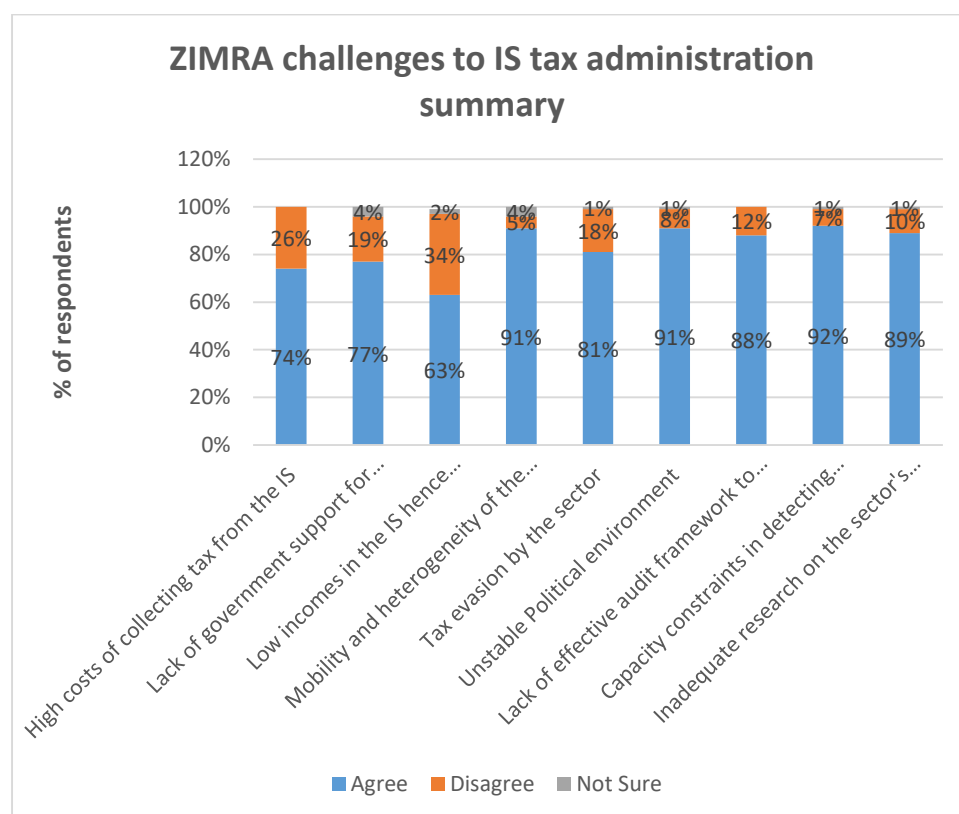
The unstable political environment in Zimbabwe tops the list of these constraints with 52% respondents strongly agreeing that it is indeed a challenge. The prominent argument being politics of a country drives its economic fundamentals, the policy inconsistencies that characterise the Zimbabwean administration makes tax administration laborious. This in line with the arguments raised during qualitative research where TE 4 argued that *"policy inconsistencies frustrate every one, the economic landscape is very fragile with reactive policies and this doesn't only affect business but tax collections as well. Just reflect on the eradication of the use of foreign currency. What were the implications for business? What did it mean for ZIMRA?"* Considering politics also raises the issue of political interference. Effective and efficient tax revenue mobilisation, without fear or favour is a knotty task in politically fragile countries like Zimbabwe (Bird & Zolt, 2008). It goes without saying that to

build a functional tax administration it is pivotal to have respect, support and acknowledgement on the importance, obligation, willingness and commitment to pay taxes at the highest level of political administration.

Political interference was also raised as one of the top factors that encourage the IS not to pay taxes in developing countries in general and in Zimbabwe in particular as Figure 7.8 under section depicts that 91% agree. This concurs with the “devil’s deal” referred to by Tendler (2002), whereby politicians fearing the public backlash and antagonising this bloc of voters will turn a blind eye to their activities or offer no support to IS tax policy to weaken tax enforcements and stay on the sector’s good side. In most developing countries, there are firms that are large enough to pay taxes but escape because either they are linked to or protected and owned by powerful politicians (Benjamin & Mbaye, 2012; Joshi et al., 2014; Ligomeka, 2019; Maloney, 2004). This concern was also raised by respondents during qualitative analysis in Chapter Six, with ZIMRA O6 pointing out that *“political interference is a reality that we face”* a view shared by the majority of tax experts with TE1 categorically asserting that *“looking the allocation of the mining rights to artisanal miners, how does ZIMRA even trace them for tax purposes as they were just told to mine and mine. This was a political move to gain votes”*

For easier analysis Figure 7.13 was compressed into Figure 7.14 where “strongly agree” and “agree” responses were merged into agree and “strongly disagree” and “disagree” were merged into disagree to make interpretation of the results easier. These two Figures will be discussed in Conjunction with Figure 7.15, which focuses on the obstacles perceived to be faced by ZIMRA on the perspective of Tax Experts. As outlined earlier that the perceptions from ZIMRA and those from tax experts are ideally expected to converge and diverge on some aspects, which is a true reflection of their positions and experiences about tax policy in Zimbabwe. The experience of ZIMRA as implementers of tax policy and as the regulators brings its own vital information as well as its subjectivity and that of tax experts, which are to some extent independent and bring a bit of the taxpayers’ view of policy. As displayed in Figure 7.15, for tax experts the most convincing challenges (with 97% concurrence) for ZIMRA were the poor record keeping that characterise the sector and cash transactions that are easy to hide. Tax is an information game as described by Mpapale (2014), stating that without adequate financial records how else would the tax authorities calculate tax liability and audit for compliance. Capacity constraints also were perceived as big hurdles to effective taxation with 92% of the respondents concurring as shown below.

**Figure 7. 14: Summary of Figure 7.13**



Source: Own Compilation

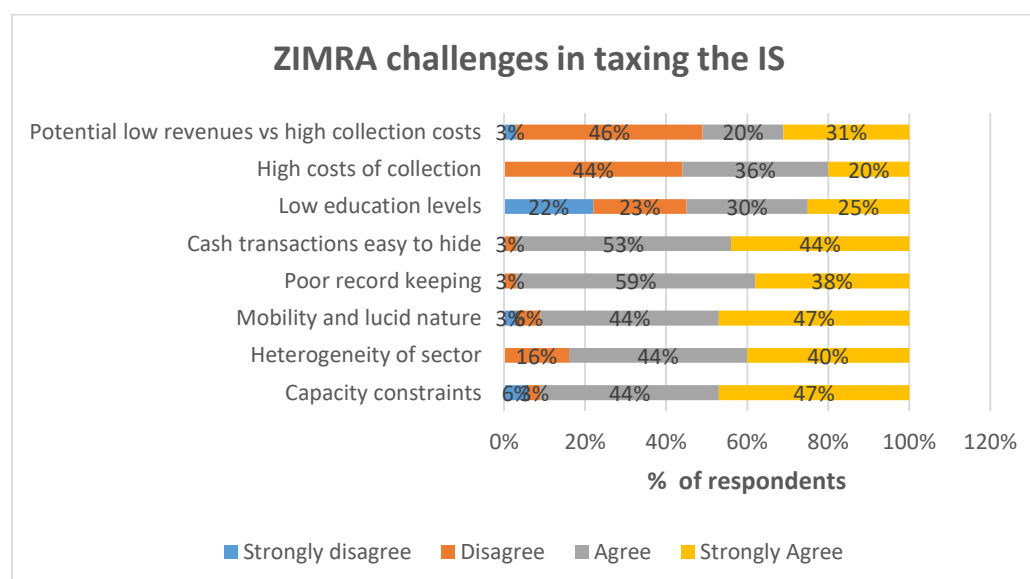
Having merged the responses as exhibited in Figure 7.14 above, capacity constraints appear as the predominant hindrance to productive taxation of the IS with 92% acknowledging, 7% disagreeing and 1% not sure.

### 7.8.3 Capacity constraints

Capacity challenges at ZIMRA as derived from the qualitative interviews themes were the pre-eminent factor, these were broken down by different interviewees but the compelling categorisations were administrative, human capital and infrastructural hurdles, which, for survey purposes, were grouped together into just capacity constraints. These findings are in harmony with those from the qualitative research as explained in Chapter Six with one tax expert expressing that *"ZIMRA has no capacity to successfully tax the IS. Capacity as in manpower, technical capacity, skills and financial resources. The ZIMRA website is very unreliable also, it is always up and down and it's not even user friendly"*. This could also complement the findings displayed earlier in Figure 7.8 that attribute non-compliance in the IS in Zimbabwe to a low probability of detection as 82% of the respondents agreed that it affects compliance levels. This is further compounded by the weak audit framework as was previously

shown in Figure 7.8. In the same accord, while giving her speech at ATAF (2019), the Zimbabwe Commissioner General of Taxes alluded to the need for political will and support for the capacitation of ZIMRA in cognisance of the economic globalisation, dynamic economic environment and digitalisation (Chronicle, 2019a). These three come with their handicaps to tax administration and compliance, such as business evolvement, market expansion, mobile money and online trading. The contemporary economic situation in the country is also making revenue collections more demanding as people are becoming more innovative and cunning in avoiding paying tax. Soest (2007), correctly points to the weak capacities and poor capabilities as the major stumbling blocks to effective domestic revenue mobilisation in developing countries and SSA in particular. Mashiri (2018) discusses the capacity inadequacies at ZIMRA as major obstruction to effective implementation of transfer price regulations. This study revealed that despite the fact that IS in Zimbabwe accounts for 60,6% of GDP, 90% of economic activity and the majority of those employed (Sikwila et al., 2016, Newman, 2019; Medina & Schneider, 2018), there was no special tax department dedicated to it, it was administered through the small claims office. This could be reflection of the lack of priority accorded to it (the potentially low tax revenues versus the anticipated high collection costs or capacity limitations). Capacity constraints views appeared to be a resounding challenge as tax experts attested to that view as shown in Figure 7.15.

**Figure 7. 15: ZIMRA challenges to effective IS taxation as viewed by tax experts**



Source: Own Compilation

The issue of capacity, could be linked to the theoretical framework and conceptual framework Chapter One and Two respectively as explained by the dualist view (Hart, 1973). This view

depicts the informal sector as marginal and subsistence and a disappearing phenomenon. As such there was no need for tax authorities to pay particular attention to this disappearing phenomenon and hence tax policy was designed with only the formal sector in mind (Kristoffersen, 2011), thus the poor planning associated with most presumptive tax policy designs. Possibly, that explains why revenue authorities worldwide, ZIMRA included are grappling with this sector. They are not yet fully equipped in terms of capacities and capabilities to tackle this contentious sector. The magnitude, contribution to GDP and non-tax impact on revenue of the IS was never expected to reach the current levels that call for immediate attention

#### **7.8.4 Mobility and heterogeneity of the IS**

Second on the list in Figure 7.14 is the unstable political environment and the mobility and heterogeneity of the sector with the following statistics, 91% agreed, 8% disagreed and 1% were unsure as well as 91% agreed, 5% disagreed and 4% were not sure respectively. Having already interpreted unstable political environment earlier, mobility and heterogeneity of the sector becomes the next focal point. The IS players are described in literature as lucid, with no fixed place of operation and very mobile and because of this they become one of the most intricate groups to tax (Joshi et al., 2014; Newman, 2019). Tax experts are of the same opinion as shown in Figure 7.15. Qualitative findings were in unison, with one TE2 saying *“ZIMRA’s capacity is frail, hence their inability to fruitful tax the informal sector that is dotted in all sectors of the economy and is so assorted. They lack enough staff and the requisite technology to identify and build a database, follow and administer tax on the sector”*. ZIMRAO8 emphasising the impact of the mobility and varied nature of the IS opines that, *“the diversity and ease of mobility of IS players is a thorny issue. These constantly “duck and dive”, playing a cat and mouse game with tax authorities. ZIMRA fails to keep pace due to capacity constraints and this compromises its ability to productively tax the sector”*.

This is in line with findings by Mashiri (2018) (when studying transfer pricing policy in Zimbabwe), who explained capacity constraints at ZIMRA in terms of experience, skills and expertise, financial resources, sound staffing policy and specific teams or personnel dedicated to a task. The observation goes hand in hand with the fourth ranking factor, lack of effective audit framework to effectively monitor and assess the IS with the majority of revenue officers (88%) admitting and only 12% were in disagreement.

#### **7.8.5 Inadequate research on the sector’s taxability, profitability and ability to pay.**

Third in topping the chart is the inadequacy in research on the sector’s taxability and the levels of profitability (89% agree, 10% disagree and 1%). Being a complex and complicated

phenomena, taxation of the IS requires in depth analysis of the drivers, profitability variations, size variations, sectoral and industry vulnerabilities and contextualisation of these to country by country conditions in order to design an informed tax policy. This is as earlier suggested by Wedderburn et al. (2012) in Chapter Two, yet according to the majority of tax officers (89%), research on taxation of this sector was barely sufficient and Von Soest (2007) arguing that studies on tax and tax policy in developing countries are minimal. Analogously focusing on Zimbabwe's flea market traders Ligomeka (2019) and Newman (2019) studying cottage industries in Harare arrive at similar findings such as Dube (2014). The researchers established that the research that informed the IS taxation framework formulation was carried out on the Transport Operators Category in 2003 and no research has been carried out since then, yet the business world is dynamic. An acknowledgement made the by the Zimbabwe Commissioner General of Taxes that the business world is becoming increasingly globalised, digitalised and ever changing (Chronicle, 2019). The researchers also pointed out that no research was done prior to imposing the tax rates on the other categories added such as cottage industries, hair salons, small scale miners etc.

It is imperative for research on the profitability, ability to pay, expenses and vulnerabilities of the different categories to have been carried out, as taxing people in relation to their income earning capacities is one of the fundamental principles of an ideal tax system. Research would also give an understanding of the actual income of informal sector so that taxes do not wipe out the greater portion of incomes, violating the economy principle of taxation. One ZIMRA questionnaire respondent emphasised this fact, suggesting on the recommendations that *“extensive research must be done on the feasibility of taxing the sector, the right tax framework to use, what rates the sector is able to pay and sustain and ZIMRA's preparedness to roll out the informal sector tax policy. Groundwork is needed”*.

In Figure 7.14, lack of effective audit framework is the fourth most notable factor followed by tax evasion by the sector (81% agree, 18% disagree and 1% not sure). On sixth position was the lack of government support which ranks on the seventh slot with 77% accepting that this weakens ZIMRA's ability to adequately administer tax policy in general and IS taxation policy in particular, 19% disagreement and 4% unsure. Ranking in eighth position were the high costs of collection, with 74% of the ZIMRA respondents admitting that the high costs of collection in the IS sector negate ZIMRA's effectual collection of taxes from the sector. Tax experts in Fig 7.15 had a slightly different perception as only 56% of the respondents showed a buy in on the factor. This perhaps was in line with the argument by tax experts interviewees that ZIMRA

was not dedicating itself to taxing the IS and that IS tax policy was not adequately researched on as the two avenues would help substantially lower the costs of collecting over time. Lastly 63% of the ZIMRA study participants suggesting that the potentially low incomes that characterise the IS make it difficult to collect any meaningful revenues from the sector, 34% disputed the notion of low incomes and 3% were not sure. The outcome on the potentially low revenues is moderately divergent from those of ZIMRA officials as tax experts in Figure 7.15 suggest that the argument is not a persuasive one. This reflects their views in Chapter Six where interviewees, (especially TE1) raised that Zimbabwe's IS was a mixed bag comprising both those that earn low incomes just enough to earn survival and those that are making huge profits and are there with a tax evasion motive.

#### **7.8.6 Lack of effective audit framework**

In a society like Zimbabwe where the economic landscape is very unstable, revenue authority capacities and capabilities very weak and where tax moral is generally very low, it is critical that the enforcement of tax policy through raids, close monitoring and audits becomes stronger. This suggests that in such a context, voluntary compliance is low hence the need for enforced compliance. This ineffectiveness of the audit framework is reflected in Figure 7.12 where the ZIMRA respondents were asked to assess the factors that explain why those few players that comply with taxes in the IS do so. The study established that the audit framework was weak with only 42% accepting that it compels taxpayers, otherwise a greater number of the participants at 58% refute the cogency of the audit framework in fostering tax compliance. The dominant factor explaining compliance was the protection of business reputation by owners at 77% concurrence. This feeble audit framework is linked to four major stumbling blocks to fruitful taxation of the sector, these are ZIMRA capacity challenges, unavailability of information due to poor record keeping, cash transactions that leave no audit trail as well as the mobility and heterogeneity of the sector (Figures 7.14 and 7.15). With weak capacity when faced with a diverse and mobile sector, it becomes difficult to compulsorily ensure compliance. Tax is information dependent and so is the audit function. It becomes difficult to compute tax liability or even assess the reasonableness of tax returns without records and a proper audit trail (Ligomeka, 2019; Mpapale, 2014).

#### **7.8.7 Tax evasion by the sector**

81% in Figure 7.14 concurred that the sector is unwilling to pay taxes as the players try by all means to evade their tax obligations either through hiding from tax authorities or under declaring incomes. This evasion is further aided by the nature of the sector: low incomes, cash

transactions, lack of audit trail and poor record keeping as expostulated by Dalu et al. (2013). Literature contends that the IS was purely driven by tax evasion (illegalist view subscribed to by neo liberal economists like La Porta and Shleifer (2014)). Analysis of this same factor by tax experts in Figure 7.9, yields a different notion all together as the majority of respondents were not in agreement (88% disputed and only 12% agreed) with tax evasion as an explanation for non- tax compliance. These views are not entirely inconsistent. Perhaps they reflect the status and understanding of the participants in their standpoints, the regulator's view by ZIMRA officials and the tax expert's viewpoint. The former being more leaned to the enforcer's perspective and the latter more neutral reflecting experiences with both the regulator and taxpayer. Researchers have argued that this tax evasion standpoint has been perpetuated to the detriment of effective tax policy towards this sector, with Pimhidzai and Fox (2011:2) affirming this observation. The researchers argue that the body of literature in economic development and SSA governments have an "ambivalent view" towards the IS and that the contributions made by the IS to tax, albeit not to national coffers directly but indirectly through local authority fees and licences even to VAT through consumption of goods and services are often ignored. The precarious nature of this sector is often overlooked too. How much income is made in the informal sector and how do taxes impact on the survival of the IS? Is the informal sector really contributing inconsequentially to tax revenues and is the focus on presumptive taxes only, a fair assessment? Other than revenue generation, what other roles does the IS play in the economy? Perhaps if adequate research could be done in the IS, answers to these questions would have provided vital input in the formulation of a logical and enforceable IS tax policy advocated for by Wedderburn et al. (2012) yet lack of research is a paramount factor compromising the practicability of taxing the IS as revealed by this study (89% of respondents concurring).

Conceivably, the addition of more categories such as cottage industries, hair salons, bottle stores and restaurants among others to the Zimbabwe IS tax bracket, without any prior research on their profitability and ability to pay as avowed by other researchers (Dube, 2014; Ligomeka, 2019; Munjeyi et al., 2017; Newman, 2019; Sebele-Mpofu & Msipa, 2020) was driven by the view that these players were tax evaders and had to be taxed at all cost. Maybe the tax evaders view is not entirely out of line, there are players that are in the IS to evade tax, firms who are large enough to pay tax and hide from tax authorities or because of their political links become untouchable on tax matters, the kind referred to by Benjamin and Mbaye (2012) and Perry et al. (2007) in West Africa and Latin America respectively. In this study (Chapter 6, Section



6.3.1.4), in affirmation TE1 stated that *“Remember the fact I alluded to earlier on that Zimbabwe’s informal sector is a mixed bag of the organised IS and the highly fragmented one, which is the larger portion, we also find those that have larger incomes that justify taxation, but are evading tax and those with genuinely low incomes”*.

#### **7.8.8 Lack of government support**

77% of the respondents pointed to lack of adequate government support for IS taxation. As alluded to in literature earlier in Chapter Three (Section 3.3.15 on political constraints), this is one of the most significant impediments to effective policy implementation (Von Soest, 2007). Accordingly Bird (2008) and Bird and Zolt (2008) contend that, in desperation to mobilise more tax revenues, developing countries have from time to time launched frantic efforts to round up defaulters, without hurting politically powerful interests or without providing time, resources and consistent long term political support which is vital for efficient and purposeful tax administration. Such efforts are doomed and destined for failure. Similarly, for this study, the ineffectiveness of IS tax administration can be attributed to such political hurdles.

Shedding more light on this observation TE3 during interviews had this to say:

*“In relation to lack of political will and government support, tapping from my experience as a former ZIMRA high level employee, I want to make one thing very clear. Working for ZIMRA is very challenging and strenuous. You suffer the backlash from the general public, you have set revenue targets to meet and you have to deal with pressures from all directions. These politicians and government officials do not make the job easier either, they would want special treatment, not to pay taxes and be “unofficially” exempt from customs duties. They can go to any length, try to bribe you and even threaten your family to weaken your enforcement spirit”*.

This concern was also raised in the Financial Gazette (2018) in a caption rubric “Big wigs shield companies from ZIMRA”. An observation also alluded to by Mashiri (2018) in her study of transfer pricing in Zimbabwe.

In her address at the ATAF, 2019, the Zimbabwe Commissioner General of Taxes brought a different perspective to this challenge of lack of support. She raised concerns in the resolution of tax disputes as a factor that stifles the effectiveness and efficiency of revenue administration. She pointed that the legal process has been very sluggish pointing to about \$4 billion being tied in outstanding tax disputes between ZIMRA and taxpayers (both individual and corporates) (Chronicle, 2019a). Political will and commitment are essential ingredients in the design and

implementation of tax policy as well the capacitation of the revenue authority and legal resolution of tax matters.

#### **7.8.9 Low incomes and high costs of collection**

The study reveals that the nature of the IS especially the low incomes (63% in agreement) and the fact that it is spread far and wide (91% concurrence) would make tracing and taxing this sector a costly exercise (74% acceptance) and hence weighing the cost and benefit analysis, revenue authorities often pay very little attention to it. This possibly explains the views in Table 7.3 where the majority of respondents disputed that IS taxation was prioritised at ZIMRA. The focus is on the few formal firms that are less complex to tax or the semi-regulated that was easily identifiable as suggested by Machemedze et al. (2018). The low incomes could be linked to possibly the drivers of informality. In developing countries IS activities are adjudged purely as survivalist and these arguments have been on the forefront legitimising the sector's avoidance of regulations and tax payments. This view ignores the peculiarities and dynamics within this sector and has contributed to inappropriate analyses and policy planning. The 34% who disagreed that low incomes are not a stumbling block to revenue collections and the 26% who also had a different opinion on the high costs of collection affecting ZIMRA's collection abilities in the IS could have reasons for their difference in opinions. In qualitative analysis one TE 3 said *"yes I agree that the costs of collection might be a factor, but ZIMRA is not enforcing tax payment in the IS, they pay no attention to this sector probably because of perceived low incomes but there are people who make money in that sector I tell you"*. Bird (2004) brings a thought-provoking angle to the costs of collection, suggesting a link between the costs of collection and "capabilities" of tax administration. The less effective and efficient the tax collection, the higher the cost of collection. According to the tax experts if ZIMRA was effective in implementing IS taxation, enforcement and compliance would have greatly improved by now slowly lowering the costs of collection and compliance, exploiting the benefits of experience.

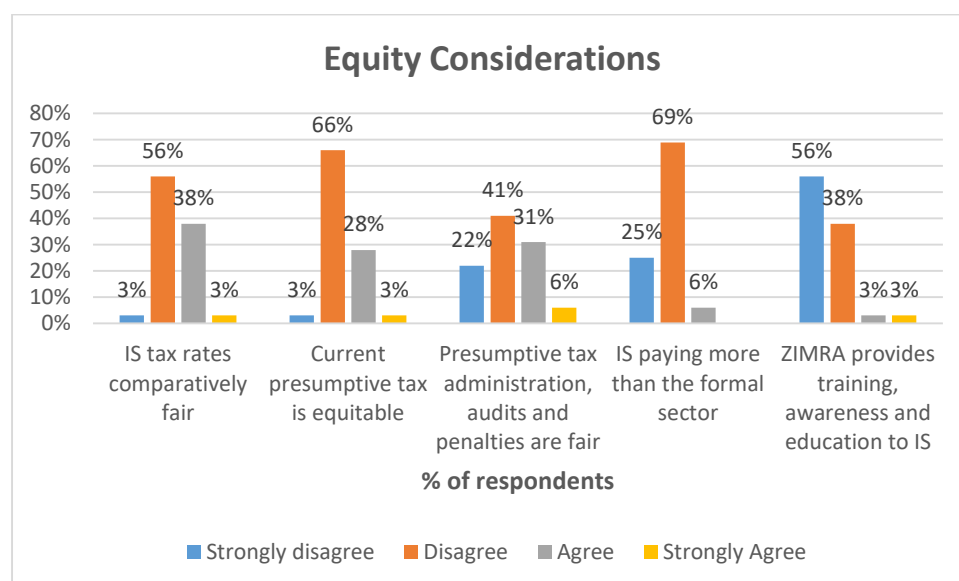
#### **7.9 Benefits of IS taxation**

Despite the challenges of IS taxation and the hindrances to compliance being powerful, an assessment of the benefits of IS taxation often raised as cogent motives for its taxation in literature was made. These were grouped under three main categories as explained in literature that is growth gains, governance gains and equity considerations. These are accordingly displayed in Figures 7.16, 7.17 and 7.18.

### **7.9.1 Equity considerations**

The analysis and synthesis of arguments by previous researchers on IS taxation revealed that IS taxation was motivated by the need to address equity implications of not taxing this sector (Joshi et al, 2014), yet its taxation through presumptive taxes has also raised controversies (Ligomeka, 2019; Maina, 2017). Figure 7.16 shows the perception of respondents in relation to IS taxation. Even though the majority of respondents suggested that the IS was not paying more tax than the formal sector, they still viewed the IS taxation framework as unfair and not equitable. This is in line with earlier findings on non-compliance factors which revealed that the tax rates are perceived to be too high and threatening the survival of the small firms as it gobbles money for investment and expansion. The presumptive tax framework was also perceived as not equitable (vertical equity) because of its treatment of dissimilar players in the same manner. The fixed amount presumptive taxes rates currently prevailing treats different players in an equal manner which violates the equity and ability to pay principle advocated by Smith (1776) as he advocated that “The subjects of the state ought to contribute towards the support of the government, as nearly as possible in respect of their abilities”. Presumptive tax rates ought to be progressive to ensure that the more you earn the more you pay and not have a fixed amount as is the case with current Zimbabwean presumptive tax rates (Table 1.1 in Chapter One). About horizontal equity, presumptive taxes were seen as unequitable, because of the different amounts charged in terms of the different players as shown in Chapter One, Table 1.1). This implied that players with the same level of economic activity and incomes but belonging to different categories for example small scale miners and cottage industries are taxed differently thus violating horizontal equity. Lastly, the tax impunity accorded to those linked to powerful politicians violates the equity principle in general.

**Figure 7. 16: Equity implications**

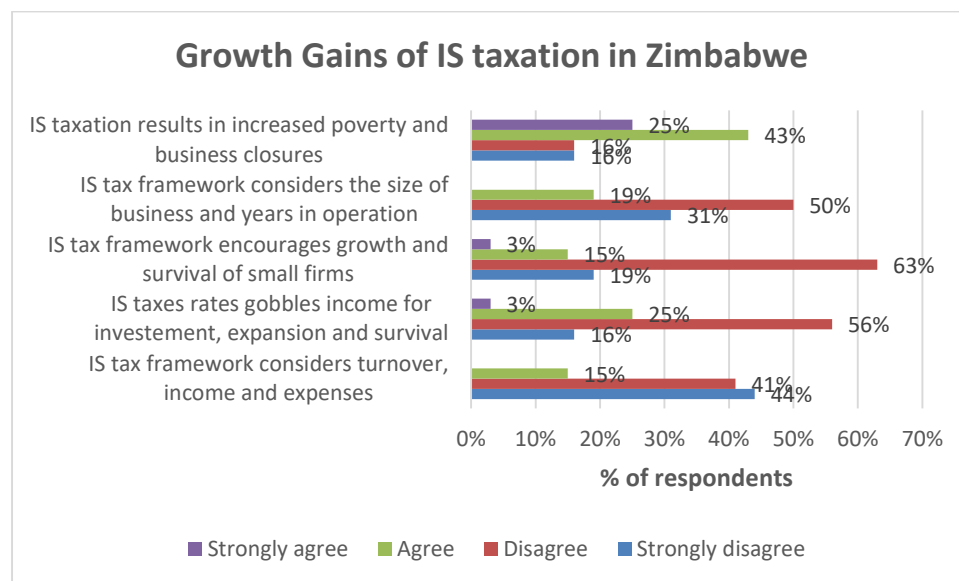


Source: Own Compilation

### 7.9.2 Growth implications

Varying arguments were tabled by researchers in Chapter Three, in relation to the impact of IS taxation on growth. In line with those arguments, these were summarised in the following statements to cater for both the favourable and unfavourable outcomes. The majority of the respondents were of the view that in as much as IS taxation is crucial the arguments relating to its negative impact on economic growth, growth of small firms and poverty alleviation are equally cogent. The majority of respondents pronounced the unfavourable influence as they pointed that IS taxation results in increased poverty and business closures (78% agreed) because it does not consider the size of the business, the years in operation, business turnover, income and expenses and therefore gobbles income for investment, expansion and survival. This does not encourage the growth and survival of small firms. Thus the current IS tax framework will result in high SME mortality rates. Similar concerns were raised in Nigeria and Uganda (Atawodi & Ojeka, 2012b; Ojeka, 2011; Pimhidzai & Fox, 2011:21).

**Figure 7. 17: Growth Impact of IS taxation in Zimbabwe**



Source: Own Compilation

The arguments on the growth effects was explored further (guided by statements from previous scholars (Atawodi & Ojeka, 2012b; Joshi et al., 2014; Ligomeka, 2019; Ocheni & Gemade, 2015)), with respondents being asked to evaluate whether IS registration and compliance enables access to financing (75% affirmed), enhances chances of trading with bigger formal firms and eligibility for government tenders (87% concurred). The other factors appraised were whether IS tax registration, especially for corporate tax would ensure access to training, tax incentives, exemptions and allowable deductions given to formal firms which would minimise the tax burden and avail money for growth (87% agreed). Respondents were also asked to make their judgements on whether tax compliance aids in more visibility resulting in growth in terms of sales and ultimately increased profits (56% confirmed). Lastly the analysis was on whether IS tax registration and compliance made IS operators an easy target for harassments by tax authorities (78% concurred). The findings were complementary to those in Chapter Six. Despite the interviewees acknowledging the potency of the above findings, they were quick to point out that those benefits were not uniform across firms. They argued that these were influenced by firm size, the nature of the industry and market exposure. TE3 asseverated that:

*“Growth gains can also stem from formalisation for tax purposes as these formalised operators become eligible to deal with formal firms as they now have tax clearing certificates and are then not subject to 10% withholding tax for non-holders of tax clearance certificates. They can access tenders especially government tenders. These avenues open doors for big*

*orders, bigger sales revenues and resultantly improved profits but these benefits are limited to a few players”.*

Contrary to the growth gains accruing as suggested by study respondents, Mashiri (2018) posits that taxation has a burdensome impact on small firms, in terms of the actual taxes and the compliance costs in light of their administrative capacities. This may be viewed as rather exploitative and may lead to disinvestment.

In relation to increased exposure to harassment, TE1 in concurrence had this to say *“In a normal economy the IS would benefit in tax incentives and exemptions, access to financing but in Zimbabwe it opens avenues for more harassment and predatory behaviour by tax officials, this often leaves these players with no choice but to close shop and open elsewhere under a new name.”*

### **7.9.3 Governance arguments**

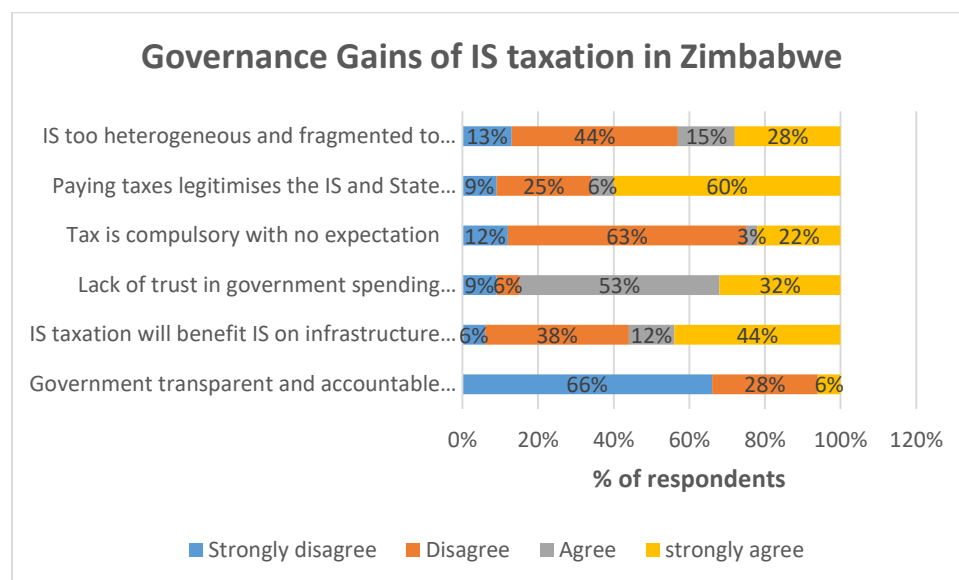
IS taxation was argued to foster governance gains especially an improved IS-government engagement as suggested by Joshi et al. (2014:1331) and Prichard (2010). These researchers argued that the validity of this argument remains largely unproven empirically, hence, the following statements as shown in Figure 7.17 with the outcomes of the assessments were employed to test for the cogency of the governance benefits in Zimbabwe.

On whether the failure to derive the governance and foster meaningful engagement with the government was because the IS was too heterogeneous and fragmented to have a powerful voice, the majority of respondents disputed the reasoning. This was in line with the interview responses where interviewees pointed out that in as much Zimbabwe’s IS was a mixed bag of both the highly fragmented and organised one, with viable and powerful associations, government was not engaging these associations on tax matters. This was a line of thought shared by TE2 who expressed that:

*“Currently in Zimbabwe there is lack of stakeholder engagement on tax policy issues and policy issues in general and the policy construction, changes and implementation are generally reactive, ill-planned, inconsistent and ever changing hence there is lack of ownership and acceptance of these. The same applies to IS tax policy, the voices of associations are ignored yet these associations (Zimbabwe Miners Federation and Bulawayo Passenger Transport Association, BUPTA and the Zimbabwe Cross Border Association as examples) are self-regulating when it comes to their members, they are respected, come up with effective and*

*binding resolutions for all members so why not exploit their strengths to make tax policy worthwhile and effective”.*

**Figure 7. 18: Governance impact of IS taxation in Zimbabwe**



Source: Own Compilation

According to tax expert interviewees, in a normal economy, tax must be a tool to foster representation and dialogue with the state, hence 66% of the respondents in Figure 7.17 concurred. The “ambivalent” view of SSA country government to the IS and the lack of “policy responsiveness” towards the IS described by Pimhidzai and Fox (2011:2) and Fourie (2018a) respectively were evident in Figure 7.17. Only 56% of the respondents believed that the IS would benefit from taxation through infrastructural developments. The 44% who disagreed could be linked to the views shared by tax expert interviewees, with one respondent having expressed that *“the problem with government is that it does not deliver direct benefits to the IS such as working stalls, social security benefits, access to financing and training in skills such as accounting and financial management.”*

There was a refutation by 75% of the respondents of the argument that, tax is a compulsory contribution with the taxpayer expecting nothing in return from government. This signalled that the reciprocity or the “implicit social contract” referred to by McKerchar and Evans (2009) was real as perceived by taxpayers. Taxpayers expect governments to deliver their side of the bargain in terms of good service delivery, infrastructure and security among other “benefits”. Failure by government to deliver on these reduces tax morale, fuels tax avoidance and evasion, pushing many into the IS, so as to easily hide from tax authorities. In Figure 7.17, 94% of the responds disagreed that the Zimbabwe government was transparent and accountable in

spending tax revenues. This was consistent with 85% of the respondents who confirmed that the lack of trust in government spending discouraged the IS from paying taxes. TE 1 shared a similar thought and avowed that *“The Zimbabwean government’s poor service delivery and corruption does not boost confidence in taxpayers, hence most people go into the informal sector to avoid tax”*. *Honestly service delivery has to improve for people to be convinced and corruption needs to be earnestly looked into”*.

## **7.10 Recommendations to improve the effectiveness of IS tax administration**

Heggstad et al. (2011:5) suggest that research is one of the most crucial tools to influence policy change. Research can only be effective in contributing to policy changes and improvements through making empirical based recommendations that are factual, informed and relevant. This desire to make appropriate suggestions required an understanding of the current strategies adopted by ZIMRA to improve IS tax policy and then juxtaposing them with the challenges to effectively collecting tax from the sector and the hurdles to compliance, then make relevant input. Section 7.10.1 covers the current strategies by ZIMRA and 7.10.2 makes the appropriate recommendations. The questions were open-ended in order to elicit more information from participants as argued by Gillham (2000) that open-ended questions allow for deeper levels of information discovery but are often difficult to analyse.

### **7.10.1 Current strategies by ZIMRA to improve IS tax policy**

a) According to the majority of ZIMRA respondents (80%), in 2017, in trying to improve compliance levels, ZIMRA reduced the monthly presumptive tax rates for categories such as the transport sector and left the quarterly rates, as they were to encourage operators to remit monthly as opposed to quarterly. The respondents also highlighted that this noble strategy did not improve tax compliance as envisaged. Respondents elaborated that such a strategy is more beneficial in a stable economy, but in a hyper inflationary one such as Zimbabwe, a dollar today is better than one tomorrow. Operators would rather pay quarterly.

b) The use of agencies-ZIMRA partnered with government agencies such as ZINARA, Local authorities and Ministry of Transport so that these collect presumptive taxes from the IS when they come to apply for operating licences was alluded to by 90% of ZIMRA. Though this seems to a reasonable strategy, the challenge comes on the implementation and enforcement part, because in order to raise their own revenues local authorities often issue operating licences to non-tax compliant traders as pointed out by TE1 during interviews. The interviewee also suggested that there was is no clear delineation of responsibilities between the agents and



ZIMRA especially on the following up of defaulters, an observation that resounds with an advancement by Prichard (2009:17, 28) that the lack of coordination and clear information sharing guidelines between revenue authorities and other government arms cripple the effectiveness of IS tax administration in developing countries.

c) 100% of ZIMRA respondents and 80% of tax expert respondents suggested that, ZIMRA at times conducted joint awareness workshops with the Ministry of SMEs to enhance tax knowledge and conducts public awareness seminars countrywide. During interviews when the interviewees were probed further on the effectiveness of the workshops, the major concern was that these are never taken directly to the IS for example their operating spaces such as flea markets and other vending places. Therefore, the target population is often missed.

d) The respondents also raised the fact that ZIMRA has a toll free line for the public to report defaulters and offers a monetary incentive to whistle-blowers (This is also enshrined in Section 34B of the Revenue Authority Act, Chapter 23:11 which governs the whistle-blowing facility). Tax experts were quick to point out that this strategy was often abused by both ZIMRA officers and politicians, though the Head of Corporate communication at ZIMRA highlighted that they benefited a great deal from the whistle-blowers, as they managed to collect \$87.9 million in taxes due to tips given by whistle-blowers against the \$7.7 million paid to whistle-blowers from 2009 to date. He indicated that whistleblowing cases were speedily concluded due to the accuracy and clarity of evidence and information availed by whistle-blowers. He also acknowledged that the system was prone to abuse by “professional whistle-blowers” who often connive with employees in target companies and later share the reward and others who use the facility to settle their own scores such as rivalry competitors (Sunday News, 2020a).

e) According to respondents in both groups, audits and monitoring as well as penalties have been used by ZIMRA as avenues to boost compliance. The challenges to these strategies as highlighted in literature (Ligomeka, 2019; Maina, 2017; Mashiri, 2018), qualitative research (Chapter Six) and earlier in this chapter (Figure 7.14 and Figure 7.15) centred on the mobility of the sector, poor record keeping, low probability of detection, ineffective audit frameworks, capacity constraints and political interference.

#### **7.10.2 Recommendations on strategies to enhance compliance and ameliorate the administration challenges.**

This research investigated the perceptions of study participants about the effectiveness of current IS tax administration framework, challenges to its administration and reasons for the

low compliance levels. Based on the views given by participants, they were accordingly asked to make recommendations on how things should be made better. The recommendations question being qualitative in nature was difficult to analyse as respondents offered similar and at times diverse recommendations. The researcher tried to group the suggestions in terms of thematic focus. These were also substantiated by some recommendations from the literature review. One questionnaire respondent wrote “*ZIMRA should encourage voluntary compliance, reduce penalties and come up with incentives to motivate tax compliance coupled with increased taxpayer education. ZIMRA should train its officials on how to respectfully deal with the public, not to treat taxpayers as criminals*”. Some of the suggestions are captured below:

a) Tax administration

- 90% OF ZIMRA respondents and 100% of tax experts expressed the need to simplify taxation of IS (this was also raised in Chapter 6 and in literature reviewed in Chapter 3). The respondents also pointed to the urgency of making ZIMRA and tax payments point more accessible and tax collection decentralised, for example, by using ZINARA for kombis and Municipalities for SMEs. The respondents also highlighted that corruption and abuse of funds by these bodies do not instil confidence or boost tax morale so government has to address this also. On the suggestion to improve voluntary compliance, one tax expert respondent advocated for the consideration of the complexity of the tax system in Zimbabwe stating that “*the tax law is hard to understand, procedures complicated and combined with low tax knowledge, the only recipe is to simplify the tax system*”.
- Review and lower tax rates to make them more favourable and accommodative to the IS to encourage compliance and growth. Link IS tax rates/presumptive tax rates to the profitability of companies instead of using a blanket tax system such as the fixed. This suggestion is similar to a passionate plea made by Rwandan President, Paul Kagame at the ATAF 2019. He implored African governments to evaluate the impact of taxes and tax decisions on national production and the survival of small firms. He argued that taxation levels should not curtail innovation or domestic production (Chronicle, 2019b). Compatible suggestions were also tabled by Rogan (2019:16) that there is an urgent need to revisit the equity justification for taxing the IS, by formulating guidelines and methods that objectively compare the taxes paid by the two sectors, considering

the formal sector can claim VAT, deduct business expenses as allowable deduction and claim tax depreciation on capital expenditure yet the IS cannot do so. Respondents were of the view that perhaps the tax system base IS tax on turnover not just a fixed amount as is the case currently or take into consideration profitability of the entity to enhance equity, same level of profitability same tax rate. The other proposal was to consider sectors so as to know how to tax, how to incentivise as the one size fit all approach is inappropriate. This is an area that tax administrators and policy makers should closely consider, evaluate and review.

- The setting up of a department solely dedicated for IS tax administration in order to enhance monitoring instead of using the Small claims office was recommended. This suggestion was highlighted by all ZIMRA and Tax expert respondents. The same recommendations has been tabled by several researchers in Zimbabwe (Dube, 2014; Munjeyi, 2017; Ligomeka, 2019) and in other Africa countries ( Maina, 2017; Mpapale, 2014)
- Government should simplify and minimise complexity of income tax and presumptive tax computation and payment procedures. Tax system complexity was raised by the majority of respondents as a stumbling block to tax compliance, hence as a measure to improve compliance they called for simplification of the tax system. Their call resonates with findings by Mashiri (2018) who portends that legislative inconsistencies and inadequacies results in tax legislation not being precise or simplified enough for taxpayers. In consonance Heggstad (2011:61) argue that the intricacy of tax system structures and administrative processes open crevices for corruption, exploitation and stifle effectiveness as well transparency and accountability.
- The introduction of tax concessions and tax amnesty were tabled as recommendations to improve registration for tax and compliance by all groups of study participants. This seems plausible as the manner in which tax disputes are settled is crucial for taxpayers' outlook of fairness and has considerable effect on the efficacy tax administration as advanced by Jones (2013:7) Respondents also highlighted that for this proposal to be effective there was need to educate taxpayers more on what concessions and amnesties imply for them otherwise this could be a futile exercise. Sebele-Mpofu and Chinoda

(2019) highlight that there was a tax knowledge gap amongst taxpayers in Zimbabwe. This void explained the failure by most SMEs and Sugarcane farmers in Zimbabwe to take advantage of the amnesty granted to taxpayers in 2014.

b) Improve capacity at ZIMRA

- Capacity constraints were ranked as the most dominating impediments to effective IS tax administration (Figure 7.14 and 7.15). Therefore respondents proposed the increase in government support and provision of resources to boost capacity as strategies that can be used to improve IS tax administration. This encouragement was also made by the Commissioner General of Taxes (Chronicle, 2019a) and Mashiri (2018). Capacitation alone is not enough as the eradication of corruption is equally vital as the “legitimacy of the tax system is dependent on a credible system of enforcement (Heggstad et al., 2011:62).
- Poor remuneration was raised as a catalyst for corruption amongst revenue officers in literature (Joshi et al., 2014; Olaitan, 2016) and by study participants, with TEs outlining this as another cause for high staff turnover at ZIMRA. This study therefore calls for government to remunerate revenue officers fair wages to minimise corruption. This is not to say it will eradicate corruption but mitigate it, as engaging in it is also a matter of conscience and ethics but its reduction is vital because morality of tax officers is the most probable crucial fountain of government credibility and trustworthiness (Dickerson, 2014; Heggstad et al., 2011:4).

c) Research

- Respondents also underscored the need for research by both academics, revenue and policymakers or even research collaborations by the various stakeholders on the best possible way to tax the sector. The issue of research was also raised by interviewees on ways to ameliorate taxation of the IS problems in Chapter Six and Heggstad et al. (2011). Conduct more research to build on the initial research that only focused on the transport sector (Dube, 2014), but to focus on a broader group and also learning from other developing countries like RWANDA where tax rates are high but tax morale is high. Thorough research on IS taxation and the profitability of the IS and its nature to come up with tax policy that takes cognisance of these issues in its formulation. Machemedze et

al. (2018:18) allude to misalignment of the tax presumptions and the actual profitability of the IS operators. The authority should go down to the sector and first understand the sector and with reference to other countries that are successfully taxing this sector, design policies that align with the Zimbabwean IS. Research alone is not enough but implementation of the recommendation emanating there from is very important yet this seems lacking in developing countries and Zimbabwe in particular leading to Munjeyi (2017) questioning whether research has failed to provide solutions to the challenges of IS taxation.

#### d) Education/Outreach/Inclusion

- Intensify Information dissemination on presumptive taxes through more workshops and roadshows, taxpayer education and awareness campaigns. This was raised also by study participants and several researchers (Dube, 2014; Ligomeka, 2019; Mpapale, 2014:18; Munjeyi et al, 2017).
- Stakeholder engagement. Improve the relationship between tax officers and taxpayers to create trust and cooperation. Engage IS associations and formulate friendly and acceptable policies. Engagement of IS participants through their associations or giving them access to tax policy exposure drafts in order to incorporate their views. Information sharing must be priority not the current state where the revenue authority is witch hunting which scares potential taxpayer. Award incentives or recognition for IS tax compliance. Adak (2019:66) emphasised the need for taxpayer involvement in tax policy design in order to instil a sense of ownership and acceptance of the policy. Otherwise, if tax policy is viewed as not in the best interests of those being taxed such tax policy will be very difficult to implement (Bird & Wallace, 2003).
- Capacitation of the IS. All the tax experts suggested that the IS has to be assisted and appraised on the importance of having a unified voice, skilled leadership that can constructively articulate their views and to have organised association that can influence policy and hold government accountable to the operational and infrastructural requirements of the sector. Meagher (2016:16) postulates that the informal sector has to be enabled to build effective associations and a political voice if IS taxation is to be used as a political tool for governance.
- Establish a national database of the IS. Engage local authorities on the creation of the IS database as most of the operators are normal registered with local

authorities where they pay for operating licences. Synchronise ZIMRA with municipalities and vehicle departments so that no one can be issued a licence to operate without a tax clearance certificate. There is also a need for the integration of systems amongst revenue departments and other government departments to create information and operational synergies. The lack of taxpayer database constraint was observed to cut across developing countries by Mashiri (2018). In concord, Prichard (2009:28) on Ghana expressed that “At the base of this inability to collect taxes lies the desperate lack of information about taxpayers which is linked to poor internal record keeping and very limited information sharing across agencies”. E-government where a person’s activities are linked across all government departments via a single or linked database was also tabled by some respondents as possible measure to improve compliance. Rogan (2019:16) reiterates the need for quality data especially on the local taxes, fees and other operating charges if policymakers are to be constructively guided the construction of appropriate IS taxation frameworks.

- Increase awareness on tax issues from a younger age, primary school, secondary schools and in Universities. Intensify taxpayer education on tax computations, lodging of tax returns, payments of taxes, objection and appeals. Explain to the taxpayer the benefits of formalising and paying taxes as well as training on record keeping and accounting for various tax heads. The lack of tax knowledge was viewed as a major stumbling block to tax compliance in view of the complexity of tax legislation (Sebele-Mpofu & Chinoda, 2019:412) and by the majority of tax experts in this study as opposed to low levels of education in Zimbabwe.

#### e) Registration

- Respondents also proposed the simplification of registration processes, accompanied tax education to taxpayers on how to register for tax purposes. Respondents raised that registration processes was cumbersome but not expensive. ZIMRA 01 during interviews also expressed “*there is need for flexibility and coming up with mobile offices to capture clients in remote areas and assist clients who have challenges with using online platforms, such an initiative will ease the burden of or cost of compliance*”. Street mapping and door to door visits when checking for registration and compliance were suggested by ZIMRA respondents who were exposed to the BMS in Tanzania.

f) Government commitment and support

- Engage local authorities and other government arms for them not to issue licences for trading activities unless the business is tax compliant. The challenge tabled by one questionnaire respondent was that currently these other government arms such as local authorities often deliberately overlook the issues to do with tax compliance in order to raise their own revenues through licences. An inclusive strategy is needed with a buy in from the concerned departments and ways to monitor adherence and accountability.
- The lack of trust in government spending and failure to fulfil the “implicit” social contract stood out as vital determinants for low tax compliance in the IS in both the qualitative component (Chapter Six) and quantitative analysis of this study. Respondents urged government to improve transparency in the use of funds, decisively deal with corruption cases such as those highlighted in Auditor General’s report and in forensic audits of parastatals in order to instil public trust and improve tax morale amongst taxpayers. According to one respondent government should display tangible development in infrastructure and other benefits attached to transparent and responsible use of tax revenues. As a measure to make tax administration smooth, government should engage all political players to educate them on the importance of taxation and the need to reduce political interference. This was also emphasised by Rogan (2019:16) who called on governments to for the need to carefully analyse the impact of governance gains especially the fulfilment of the social contract as a driver to tax evasion and informality. The IS needs tangible benefits in the form of infrastructure, working places, social security, respect and engagement just like their formal counterparts. Governments should do more in this areas if IS taxation is to be effective (Meagher, 2016; Kundt, 2017a; Rogan, 2019). This study established that lack of political will and support made it difficult to tax the IS. This study also found out that corruption and conflict of interest even at higher levels of government was a cancer that enfeebles tax administration and efforts to curb leakages and accordingly required urgent attention (Chronicle, 2019a). Thus the counsel on the need to garner for political will and support to minimise the impact of the “devil’s deal” (described by Tendler (2002:99) in

Chapter Three, Section 3.3.1.5). Government was also urged show support for tax administration by allowing for stiffer penalties and prosecution

- Tax farming through the contracting of private firms to collect taxes in this sector on behalf of the authority for a fee was advocated for by one ZIMRA respondent. This is similar to the ceding of tax collection rights to local government and private companies in Ethiopia alluded to by Bodin and Koukpaizan (2008). One tax expert respondent opined that perhaps instead of engaging private companies the informal traders associations such as the Bulawayo Vendors and Cross borders, Association, Bulawayo Passenger Transport Association and the Zimbabwe Chamber of Informal Economies Associations among others, but with some of the tax revenue being left for these associations or being dedicated to improving working spaces for the IS. In a similar vein, a ZIMRA questionnaire respondent recommended that *“there has to be a buy in on IS tax policy form the IS associations and their members, otherwise without that it will continue being problematic to win the sector on tax matters”*.

### **7.11 Chapter Summary**

This chapter presented, analysed and discussed the quantitative findings of the research. The chapter also integrated the qualitative and quantitative findings and compared the findings of this research with the findings of other researchers on the same subject matter. Various challenges obstructing the effectiveness of taxing the IS and reasons for non-compliance were identified from the findings and discussed in detail. Several strategies on how to improve effectiveness and foster compliance were given by respondents and accordingly summarised. These recommendations, together with other intriguing strategies provided by the tax literature reviewed were used to suggest possible ways of building voluntary tax compliance as well as avenues to improve IS tax administration in the final chapter (Chapter Eight). According to Dickerson (2014:307), tax compliance is enhanced by the tax compliance of other taxpayers, respectful and communicative relationship between the taxpayers and tax authorities as well as the belief that government uses the tax revenues to accordingly fund public goods and services “but not the crudely quid-pro-quo reward system” (tax compliance incentives). The final chapter presents a summary of findings, study contributions, conclusions, recommendations and areas of further research.



## CHAPTER 8: SUMMARY, CONTRIBUTION AND RECOMMENDATIONS

*“The power of taxing people and their property is essential to the very existence of government” – James Madison*

### 8.1 Introduction

The main aim of the study was to critically evaluate IS taxation in Zimbabwe (its practicability, progress made so far, challenges and benefits, policy options by other developing countries as well as to suggest measures to ameliorate IS tax administration). Literature in Chapters Three and Four advanced three objectives behind the adoption of presumptive taxes as an avenue to tax the IS: revenue mobilisation, broadening the tax base, addressing equity consideration and bringing the problematic IS into the tax basket (Ligomeka, 2019; Sebele-Mpofu & Msipa, 2020). The critical review of the IS taxation framework also paid great attention to these objectives as they helped in the meaningful assessment of the tax system and some of these were evident in the controversial gains proposed and critiqued (Revenue, Growth, Equity and Governance gains) in literature in Chapter Three and in the study findings in Chapters Six and Seven. This chapter concludes this thesis by recapping the objectives of the study and demonstrating how these objectives were addressed, under Section 8.2 (Thesis summary). The chapter further explicates on the main findings and conclusions of the study in Section 8.3, while the emanating recommendations are discussed in Section 8.4. The contributions of the study (contextual, theoretical and methodological contributions) are discussed in Section 8.5. The penultimate section 8.6 provides concluding remarks for this chapter and the thesis, by expounding on the limitations of the study and areas of further research. The researcher takes a reflection on the overall study, pointing out what could have been done better or was left unresolved.

### 8.2 Thesis Summary

The main objective of the study was to evaluate IS taxation in Zimbabwe. The study was situated in Zimbabwe, which is a typical developing country context with an exponentially growing IS, described by Bhorat et al., (2017). They state that in developing countries the IS occupies a very pivotal domain, representing a huge share of economic activity, pegged at about 50-80% of the GDP, with an even larger share of employment estimated at around 60 to 80% and approximately 90% of new jobs. With its own peculiarities (hyperinflation, dollarisation, de-dollarisation and high unemployment and loss of confidence in the formal

sector), Zimbabwe depicts a developing country context with a slightly worse economic scenario and with the highest IS in SSA, pegged to be the second largest in the world after Bolivia in Central America (Medina & Schneider, 2018). Given the contemporary debates on the magnitude of the IS and its implications for sustainable domestic revenue mobilisation in developing countries and SSA in particular, this study interrogates the feasibility of taxing the IS under developing country macroeconomic conditions, legal, regulatory and political environments. Despite the controversy that surrounds this sector, debate has slightly moved from whether or not to tax this sector to whether and how it can be done efficiently and effectively. This calls for the need to evaluate the efforts made so far in attempting to mobilise tax revenues from it. This study sought to do exactly that. The key motives were to assess the efforts made so far, their success, challenges and any benefits derived from such efforts as well as to learn from them to map corrective strategies to improve IS taxation effectiveness. The objectives that guided this study and their achievement is summarised in Table 8.1, which foregrounds the thesis summary outline.

**Table 8. 1: Research Objectives and their achievement**

| <b>Research Objective</b>                                                                                                                                                                                                                                                             | <b>Articulated in</b> |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------|
| To critically review the taxation of the IS in Zimbabwe                                                                                                                                                                                                                               | All chapters          |
| To determine the drivers of informality by exploring the theoretical framework on informal sector taxation in to order establish the relationship between drivers of informality and factors affecting informal sector tax compliance and develop a conceptual framework in Chapter 2 | Chapter 2             |
| To contextualise the informal sector taxation puzzle by investigating why developing countries and Zimbabwe in particular should tax or not tax the informal sector (motives for taxing the informal sector).                                                                         | Chapter 3,4,6 and 7   |
| To explore policy options on how to effectively tax the informal sector by briefly reviewing efforts by other developing countries in Africa such as Kenya, Ghana, Uganda, Zambia and Nigeria in trying to address the dilemma of informal sector taxation.                           | Chapter 3,6 and 7     |
| To evaluate the practicability, benefits and challenges of informal sector taxation in relation to the informal sector and government.                                                                                                                                                | Chapter 3, 4,6 and 7  |
| To recommend other possible ways to strengthen informal sector taxation and identify key areas for future research.                                                                                                                                                                   | Chapter 8             |

Source: Own Compilation

The thesis was made up of eight Chapters. Chapter one put the study into perspective by giving an insight into the background of the study, identifying the research gaps and articulating the research objectives, limitations and contributions of the study. The aim of this study was to critically review IS taxation in Zimbabwe through investigating the practicability and challenges of this exercise from the viewpoints of both the IS and ZIMRA. In Chapter Two, the theoretical framework, which guided this study was identified and discussed. The works of other researchers on the drivers of informality were reviewed (Ebeke & Ehrhart, 2012; Hart, 1973; Maloney, 2004; Perry et al., 2007; Pimhidzai & Fox, 2011:3). In this Chapter, key theoretical foundations of the five different theories underpinning this study were evaluated. Variables that define the problem area were identified and their relationship conceptualised. This culminated in the development of a conceptual framework.

Chapter Three put the IS taxation into perspective by delving into three study objectives of investigating the motives towards the IS, exploring the efforts by other developing countries towards taxing the IS and ultimately explicating the challenges and benefits of IS taxation. This Chapter was evaluative and argumentative in nature as it sought to bring forward and synthesise the different arguments put forward by researchers about this contentious topic as it relates to the three objectives outlined above. The work of scholars like, Dube, 2014, Joshi et al. (2013, 2014) and Ligomeka (2019) were reviewed. This was in line with Grant and Osanloo (2014), who likened literature to the foundations of a house or the “blue print”, without which the house risks crumbling. Analogously, without proper literature review, the research risks being naïve and a repetition of work done by others.

Due to the variations in economic, social, legal and political fundamentals in country-by-country contexts, Chapter Four contextualised the study setting by giving an outline of the socio-economic situation in Zimbabwe (Sections 4.2 to 4.5). The growth of the IS in Zimbabwe, its role in the economy and ultimately efforts made towards taxing it were also discussed. This was in line with advancements by Auriol and Walters (2005) as they argued that due to the endogeneity of the IS, policy prescription must accordingly seek to respond to the contextual complexities in each given context or policy environment. The Chapter concluded by looking at the tax system in Zimbabwe and further narrowing the IS taxation framework in order to give insights into the operational and tax administrative environment in Zimbabwe. This was aimed at giving readers the highlights into the environment upon which the case study is situated. Bahl and Bird (2008) also highlight that the magnitude of the tax

gap (difference between projected tax collections and the actual) is influenced by the scope and efficacy of national tax administration and this varies across countries.

Chapter Five described the methodological journey in detail, outlining the POEM assumptions and giving justifications for the choices made (Sections 5.3 to 5.7). The research adopted a sequential MMR design to evaluate IS taxation in Zimbabwe. The Chapter covered in detail the overall research approach as well as the data collection methods employed and their appropriateness. Insights were tabled as to how other tax researchers gathered and analysed their data as well as the rationalisations they offered for the choices they made (5.3.4). The research findings, their analysis and discussion, were given in Chapters Six and Seven, (qualitative and quantitative respectively) and further merged in this Chapter in the discussions of the main findings and conclusions. The empirical themes and concepts outlined in Chapter Three were assessed for the impact and applicability to the Zimbabwean context to show convergences and divergences with reviewed literature. This chapter is the penultimate chapter. Having critically reviewed IS taxation in Zimbabwe in terms of policy design, implementation and impact as well as effectiveness, this chapter summarises the research, draws out conclusions and ultimately tables recommendations and conceptualises suggested solutions to the challenges and issues identified as shown in Figure 8.1 (under recommendations).

### **8.3 Main Findings of the Study and Conclusions**

This section summarised the findings of the study and drew conclusions as guided by the research objectives. The effectiveness of a tax system is centred on clear legislation; adequate resource allocation; tax knowledge amongst tax officers together with their skills, expertise and experience as well as awareness by taxpayers (Chapter Six, Section 6.6.2.1, 6.6.4.1 and Chapter Seven, Section 7.8.1). This was in consonance with Mashiri (2018), who found lack of capacitation (technical, financial and human capital) at ZIMRA as the biggest obstacle to effective application of the transfer pricing tax guidelines. As previously discussed this study sought to evaluate IS taxation in Zimbabwe, investigate the drivers of informality and their influence on tax policy, establish the motives of IS taxation, explore the hindrances to effective IS tax administration as well as the challenges to compliance. The study also sought to expound on any benefits from IS taxation and recommend ways of improving IS tax administration. The main findings were as discussed below.

### **8.3.1 Drivers of Informality**

The study established that the IS in Zimbabwe was a continuum as described in literature (Chapter Two, Section 2.5), driven by a combination of economic and political factors (Chapter Four, Section 4.3 and Chapter Six, Figure 6.24). It was explained as a function of the economy, whereby the massive retrenchments and company closures that slowly but surely wiped out the formal sector, left the majority of Zimbabweans with no choice but to resort to the IS in order to eke out a living (employment and survivalist motive topping the list in Chapter Seven, Figure 7.1). On the one hand the IS was found to be a product of capital development whereby big formal firms subcontract the informal players in order to exploit their mobility, flexibility, access to cash and to a wider population as well as to cut operating costs such as rent, salaries, electricity etc. (structuralism motive). On the other hand, the growth of the IS could be seen as a result of institutional problems such as high costs of formalising, bureaucracies in the registration process, high tax rates that suffocate small firms, high levels of corruption and political interference (institutionally driven/ neoliberalist perspective). It could also be deduced that the sector's growth could be fuelled by low tax morale due to government's undermining of the fiscal exchange or social contract (Chapter Six, Section 6.3.1.5). In a compatibility of opinion, Sebele-Mpofu (2020a) observed that governance quality (quality and quantity of public goods as well as trust in the state) had an influence on tax morale and ultimately tax compliance and evasion. Participants also described Zimbabwe's IS as a mixed bag of the genuinely low income and those that make huge profits but are in the sector to evade tax (illegalist perspective) (Chapter Seven, Section 7.3). In view of this Zimbabwe's IS was found to be a continuum described by Maloney (2004) and as such policy prescriptions should accordingly consider those.

### **8.3.2 Motives of taxing the IS**

Despite the motives for taxing the IS through presumptive tax in Zimbabwe having been outlined as: the need to broaden the tax base, promotion of equity and to bring the growing IS into the tax net (Dube, 2014; Ligomeka, 2019; Newman, 2019:3), the study established that the persuasive motive as viewed by participants was broadening the tax base and mobilising more revenues (Figure 7.2 and 7.3, Chapter 7). The study found out that the need for more revenues was the major if not the only objective towards taxing the IS. The second compelling motive was to extinguish the IS. It was interesting to note the irony of the two motives (Chapter Six, Figure 6.10 and Chapter Seven, Figure 7.2). Government wants to mobilise more revenues from the sector at all cost, yet the same government through high tax rates and policies that do not favour the IS displays the negative attitude towards this sector as advanced by Pimhidzai

and Fox (2011:2). This study concludes that the current presumptive tax framework is more of a punitive tool to force IS players to formalise their activities and register for income tax. This was compatible with the submissions by Makoche Kanwa (2010, 2020) that developing country governments need to have clear objectives towards the IS and that tax revenue mobilisation should not be the key objective of IS taxation but to encourage businesses to register with tax authorities so that they can be assisted to enhance their productive capacities. Zimbabwe should not focus on curbing the IS activities through punitive measures but rather through tax reforms, tax education, social security systems, fair tax rates and friendly tax environments which is a fact also articulated by Sebele-Mpofu and Msipa (2020:206).

### **8.3.3 IS tax administration**

This research established that tax compliance levels were very low in the IS. The sector was contributing very little to the tax basket and the contribution of presumptive taxes was not reported separately but lumped together with other taxes as shown in Table 7.7 in Chapter Seven. The other taxes contributed less than 7% to total revenues. This was in line with arguments by Benjamin and Mbaye (2012) who estimated the IS's contribution to total tax revenues at less than 3%. It was also evident from the study that the low revenue contributions could be attributed to the lack of prioritisation of IS taxation (Chapter Seven, Table 7.5 and Figure 7.5). There was no department solely dedicated to IS taxation as it was dealt with under the Small Clients Office, which dealt with small clients, despite the fact that 90% of economic activity is now in the IS. This pointed to perhaps the potentially low incomes from the sector, the high costs of collection maybe or the challenges associated with taxing the sector. Dube (2014) made this observation, but 6 years later the same pronouncement is made. Why is the Zimbabwean government not addressing this, yet the economy is highly informalised, as described in Chapter Four? Is it high collection costs versus anticipated low revenues or is it perpetuation of the Devil's deal (Tendler 2002)? Despite the current low prioritisation, the need to prioritise the sector in view of the dwindling formal revenues, low tax revenues from the formal sector, the current magnitude of around 60.6% contribution to GDP (Medina & Schneider, 2018) and continuous growth of the sector in Zimbabwe was imminent.

### **8.3.4 Challenges of IS tax administration**

NB\* All the findings in relation to the challenges of administering IS taxation on the perspective on of the tax Authority (ZIMRA) are fully explained in Chapter Six (Section 6.6.4) and Chapter Seven under Section 7.8 (Sub Sections 7.8.1 to 7.8.9) and comprehensively

supported by literature reviewed in Chapter Three (Section 3.3). This led to the drawing of the following conclusions:

a) Nature of the IS- IS participants are not easy to identify and track, are very mobile, intangible and often have no fixed trading place. The data on their business transactions are not easily available, these players do not keep proper books of accounts and records, yet taxation is based on information, without which proper assessment, estimation and computation of tax liability is close to impossible. This was the biggest challenge to taxing, auditing and penalising the IS. In addition, ZIMRA had no database for the IS players. Mashiri (2018) explained the challenge of failure to maintain databases as one that is not only unique to Zimbabwe but cuts across many developing countries. This problem was also noted in Ghana by Prichard (2009:28) who expresses that “At the base of this inability to collect taxes lies a desperate lack of information about the taxpayer which is linked to poor internal record keeping and very limited information sharing across agencies”. Such hurdles need urgent attention to make IS taxation a reality not just an unachievable dream.

b) Poor research on the sector’s taxability, feasibility to tax it as well as the sector’s ability to pay tax. The study found out that to date, 5 years after Dube (2014)’s pioneer research on IS taxation in Zimbabwe raised the issue of inadequate research on the presumptive tax rates, nothing has been done to remedy the situation. These findings were similar to those raised by Ligomeka (2019). Maybe the lack of prioritisation of IS taxation explains the lack of progress on the matter.

c) Capacity constraints- One of the main challenges was also lack of capacity and resources for ZIMRA to effectively tax, audit and capture the IS. ZIMRA does not have the legal framework to track down and prosecute defaulters. The study also concludes that because of the lack of resources, ZIMRA has no ability to manage IS taxation which explains their engagement of agents like ZINARA and local authorities, yet still their weak capacity inhibits them from following up their agents, meaning they can’t police them. There was no legal framework on the understanding with agents to set out parameters and consequences of failing to collect as expected of them during the application for operating licences process. In light of the shortcomings in the institutional structures, inadequate expertise, insufficient capacity and resources to implement and effectively keep track of the intricacies of IS tax compliance in developing countries and Zimbabwe in particular. There is an urgent need for capacity building at ZIMRA to enhance the effectiveness of tax administration especially for the IS, coupled with

another dire one for empirical research to explore how these revenue authorities can be adequately capacitated. The problem of lack of capacity leads to the challenges in detecting and penalising yet these are key to enforcing compliance as outlined by Allingham and Sandmo (1972) in the deterrence tax compliance model.

d) The inexpediciencies and ineffectiveness of the Fiscal Appeal Court were also established as impediments to tax justice as alluded to by the Commissioner General of Taxes (Chronicle, 2019) and Mashiri (2018). This is delayed tax justice for the few that actually challenge the Tax Authority as the majority shy away from such confrontation in fear of future repercussions, such as victimisation, tax audits and other predatory behaviours as suggested by TE 2. The tax expert advanced that *“Objecting to ZIMRA or following up on a refund is as good as inviting them to your door step for more scrutiny and very few taxpayers are willing to take the risk”*. This study also found out that there were also significant delays at ZIMRA in finalising cases with taxpayers and it took forever to get a tax refund (Chapter Six, Section 6.6.2.5). The delays in bringing cases to finality, be it objections at ZIMRA or court cases, curtailed progress in legislation, undermined tax administration and reduced taxpayer confidence in the tax system, worse for the Zimbabwe scenario where tax morale is at its lowest ebb due to harsh economic conditions and lack of transparency as well as accountability in government spending. An effective tax administration, speedy dispute resolution mechanism and a productive tax court are ideal tools for curbing tax evasion and avoidance.

e) Political interference and lack of government support and commitment. These open avenues for corruption. The study found these as hindrances to effective tax collection in the IS as discussed in detail in Chapter Seven. Mashiri (2018) also established these challenges in a study of transfer pricing in Zimbabwe. The author observes that political elites in Africa and Zimbabwe in particular are larger than life characters, who are immune from tax and revenue officers are often intimidated to follow up taxes and let alone penalise such characters. Such is the challenge raised by all study participants in this research. The Financial Gazette (2018) chronicled this obstacle in a caption entitled *“Zim big wigs shield companies from ZIMRA”*. Corruption, political interference and tax evasion were found to be inextricably linked and thus government has to address these in order to be viewed as legitimate and credible as to indirectly increase tax morale. Bird (2012) correctly observes that tax policy effectiveness is not only influenced by the economic landscape but by political dynamics as well.



### **8.3.5 Hindrances to IS compliance**

The hindrances explaining the low tax compliance in the informal sector were fully explored in Chapter Six (Sections 6.6.2.1 to 6.6.2.6) and in Chapter Seven (Sections 7.7.4.1 to 7.7.4.4) and extensively substantiated by diverging and converging views from literature review in Chapter Three (Sections 3.3.2.1 to 3.3.2.5). The conclusions drawn were as follows:

a) Lack of knowledge and awareness- The study found out that despite the literacy levels being high in Zimbabwe amongst players in the IS, there was a tax knowledge gap which ZIMRA should adequately address. There is need to educate the IS on tax registration, tax computation and payment.

b) High compliance costs versus low incomes

The study recognised that the IS in Zimbabwe had low accounting and financial management skills to keep financial books and let alone to compute and file tax returns. If they are to be compliant it therefore means that they would have to use the services of tax experts and accountants which are a cost considering the sector's low incomes. This impedes tax compliance. This conclusion was in line with Mashiri (2018) who explicated that the impact of burdensome compliance costs of small firms in light of their administrative capacities maybe viewed as exploitative and leading to disinvestment.

c) Low tax morale- The research found out that, due to corruption, unaccountability in the use of tax revenues, poor infrastructure and service delivery, the IS was not motivated to comply with taxes as they see no benefits in paying tax. Government is failing to meet its side of the "implied social contract". Fiscal exchange and reciprocity in the delivery of public services and goods as well as respectful treatment, participation and consultation of taxpayers on policy formulation are key ingredients to this "invisible" contract (Cevik, 2016).

d) Complexity and multiplicity of taxes also led to lower compliance levels in the IS. This was compounded by the introduction of the 2% IMTT tax that has seen companies paying significant amounts through transaction tax. The impact of this tax is out of the scope of this study and remains an interesting area of further research.

e) High handedness of tax officials and their predatory behaviour was found to be a disincentive to IS tax compliance as taxpayers often felt violated, disrespected and treated as an inferior part in the social contract. Schneider and Buehn (2018:4) advocate for a relationship where

taxpayers are viewed as equals or partners in the implicit social contract instead of subordinates or inferiors in a tiered relationship as the best avenue to increase tax morale.

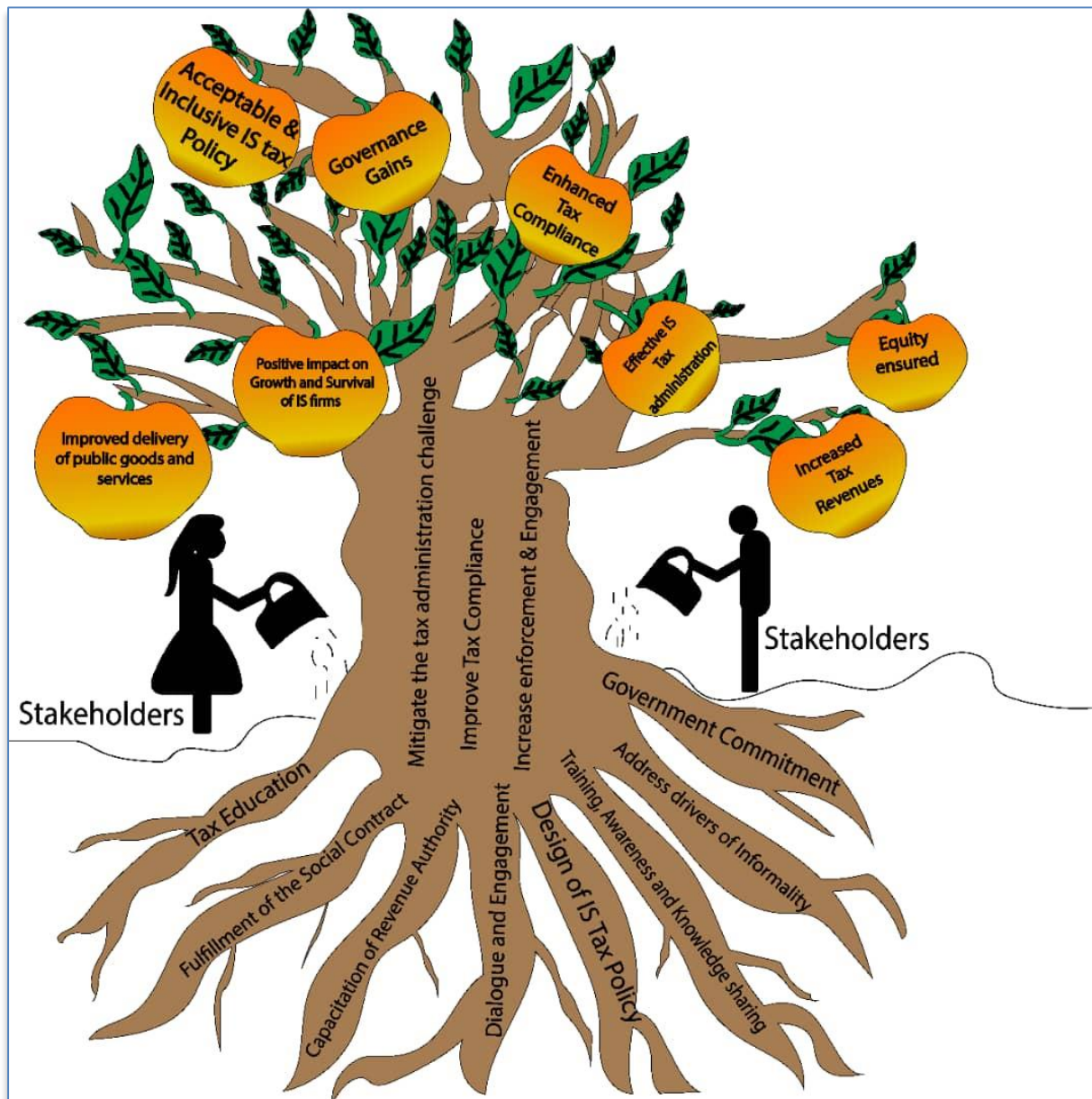
#### **8.4 Policy Recommendations**

This section highlights possible ways to ameliorate the administration and effectiveness of IS taxation in Zimbabwe in particular and developing countries in general. These recommendations are being informed by the literature reviewed in Chapters Two to Four and findings and suggestions made by study participants in Chapter Six and Seven (qualitative and quantitative data analysis respectively). Before the individual recommendations are discussed, four fundamental risk management activities became evidently necessary for the IS tax system to be improved and these are to: (1) Estimate the probable tax base for the IS in Zimbabwe or any other country. (2) Pinpoint the possible taxable operators or firms in the IS. (3) Construct a risk management tool to manage (how to tax, how to disseminate information, how to penalise, what penalties to levy, how much as penalty and for what and when) and to group these prospective taxpayers into comparatively homogeneous categories (The groupings could be industry or sector focused in order to adequately evaluate the resources and plan of action needed to collect taxes from each group.) It is also important for the risk management tool design to consider how to separate mistakes from intentional tax evasion, the process to address taxpayers' grievances, reviews, appeals and other administrative corrective measures. (4) Monitor, evaluate and gather feedback on the effectiveness of the systems, its advantages and shortcomings and accordingly remedy the situation on a continuous basis in light of the changing business world and tax evasion tactics used by taxpayers. These changes can open significant loopholes in the tax system that can be exploited by taxpayers, hence, the need for a continuous balancing act is inevitable. This line of thinking was guided by literature from Bird (2008).

In addition to the suggestions highlighted above, the researcher schematically conceptualised the recommendations of the study in the form of a tree as portrayed in Figure 8.1. From the reviewed literature, study findings and suggestions from participants, it was indeed clear that taxation administration is an intricate and delicate topic and effectiveness as well as acceptance depends on how it is viewed by various stakeholders. This led to the realisation that various stakeholders (IS, tax consultants, tax administrators, policymakers or government) have to invest time, effort and resources to make IS tax administration a worthwhile exercise that also upholds the principles of taxation as discussed in Chapter Six. The roots of the tree symbolise

the inputs (tax reforms or contributions) that should be put into IS tax administration in order to improve the processes depicted by the stem (challenges, compliance and actual administration) and the fruits being the envisaged results of these tax reforms. The anticipated outcomes could be in the form improved compliance, enhanced tax revenue mobilisation, realisation of governance benefits, inclusivity and acceptance of IS and growth advantages among others. These recommendations, the improved processes and the envisaged implications could help address the research problem identified in Chapter One, but it is important to bear in mind that the success of these is context dependent. It would depend on the nature of the IS, competences and capabilities of revenue authorities, the regulatory environment as well as the legal and economic setting of individual nations among other issues, as adduced by Oviedo (2009). This resonates well also with the argument by Chipo Madiwa of ZIMCODD who expressed that “In the interest of doing business profitably and for the benefit of the country, we all must pay tax. There is no way we can grow the economy and have sound businesses if we hide away from tax”. She was quick to call on government to aim towards constructing inclusive and informal sector “friendly’ tax policies (Sunday News, 2020b). Figure 8.1 conceptualises the suggested solutions and these individual recommendations are discussed below Figure 8.1.

Figure 8. 1: Schematic conceptualisation of recommendations



Source: Own Compilation

#### a) General IS Tax administration reforms

- There is need to improve the ease of doing business including simplifying the registration procedures (both for formalising and for tax purposes) and filing of returns as well as the means of payment.

- There is need for streamlining of the tax system to make it clear, easy to follow and administer so as to minimise its complexity which remains largely a hindrance to tax compliance amongst the IS operators.
- Government, through the Ministry of Finance, could reduce tax rates to make them less burdensome, that is after adequate research has been carried out on the taxability of the IS and its ability to pay. In addition to reducing tax rates, a relaxation of penalties or interest for non-compliance can encourage voluntary compliance.
- ZIMRA should create specialised teams such as those in the block management system in Tanzania that are sector based to target the IS.
- Policymakers to take into consideration, sectoral differences as well as profitability levels in constructing the IS tax policy.
- There must be improved the cooperation and co-ordination between ZIMRA, local authorities and agencies such as ZINARA with clear delineation of responsibilities, because it was evident from both ZIMRA officers and Tax Experts in Chapter Six and Seven that these departments were working together in theory, but practically it was a different story. This seems to be a weakness for most developing countries, summed up by Prichard (2009:17) as follows, “There appears to be remarkably little coordination between local authorities and national tax revenue authorities”.

#### b) Legislative reforms

- Policymakers must make efforts to improve the tax laws and regulations as these are argued to be confusing, complex and ambiguous
- It is also imperative to refine the tax legislation to adequately address the IS and the changes in the economic landscape. As suggested by one tax expert there is need to “tweak legislation” as the tax frameworks have been static for a long time yet the business environment is dynamic and ever changing (Chapter Seven, Section 7.7.4.2).
- More research should be done on incentives and rebates as tools for tax morale enhancement. Government and ZIMRA to engage with stakeholders to come up with innovative solutions to improve tax compliance, because enforced compliance is expensive as compared to voluntary compliance.

#### c) Technological reforms

- Technological infrastructural improvements are key to the enhancement of the effectiveness of tax administration, registration process, information, e-filing and

resultantly settling of tax obligation. The business environment is increasingly becoming digitalised and globalised so there is need for investment, training and expertise in technology that can trace these hidden transactions, audit them and compute the tax implications,

- There is an urgent need for a digital transformation by linking ZIMRA to banks, city council, ZINARA and other key players in tax collection and registration for tax or formalisation. E-government could be an ideal solution.
- The current ZIMRA website needs to be improved especially concerning its functionality. It is not user friendly and is often overwhelmed by transactions especially towards the deadlines for paying tax heads such as VAT and Corporate tax and even for renewing tax clearance certificates.

#### d) Capacity building at ZIMRA

Capacitation of ZIMRA should be high priority in terms of skills, expertise, manpower as well as exposure to other countries and training on client handling. The government needs to adequately build capacity for ZIMRA to be able to effectively bring the IS into the tax basket. The government has to capacitate ZIMRA in both legislative, manpower, infrastructural and technological fronts. This resonates with the advice given by the Zimbabwe Commissioner General of Taxes at ATAF, 2019, where she urged the government to show political will and commitment for the capacitation of the Tax Authority in light of the challenges to administration and compliance emanating from increased globalised and digitalised nature of the business world (Chronicle, 2019a).

Bahl and Bird (2008), were quick to point out that the line of thought that argues only for an increase in the allocation of resources, as a tool for improving tax administration, was particularly “naïve” as revenue administration effectiveness is a matter of revenue authority capacity and capability, political and legal environment, governance quality, tax morale and the economic situation in any country. There is need to formulate laws that allow for enforcement and are punitive enough. The changes in the economic dynamics indicate that the IS is a permanent and growing feature for the world and especially in developing countries and Zimbabwe in particular. Most importantly there is need to match skills, expertise and experience with areas of responsibility as well the business world dynamism, mobile nature of transactions and market expansion. ZIMRA must relook into the staff rotation policy, which is often argued to be a way of managing familiarity threats and exposing employees to all functions of the Authority (Mashiri, 2018), yet on the other hand it results in lack of continuity

in decisions and skills-position misalignment. Thus there is need to place people with the right skills and qualifications in the right places.

e) Taxpayer education and awareness programs

- The study revealed that in Zimbabwe, literacy levels were very high but tax knowledge was inept amongst taxpayers. Tax legislation was argued to be confusing and ambiguous even amongst revenue officers and sometimes subject to different interpretations. To enhance voluntary compliance ZIMRA has to adequately equip taxpayers in terms of tax knowledge. They should hold more workshops to educate people on the benefits of being formal as well as those of paying tax. ZIMRA could take the workshops to where the IS activities are and educate them on how to register for tax purposes. Taxpayer education awareness campaigns could also be done through their associations to exploit the advantages of associational taxation such as acceptance and easy monitoring that accrued to Ghana as explained by Joshi et al. (2014). This study also recommends that tax literacy could be a module introduced in the early learning stages, perhaps at secondary level then incorporated in all tertiary level qualifications as is the case in Rwanda (Joshi et al, 2014). Hallsworth et al. (2017) suggest that in the UK, tax compliance was improved by educating taxpayers not only on the importance of paying taxes but on that of paying them timeously as well. Taxpayers were also appraised on the pervasive impact of non-payment or late payment on the government's ability to deliver public goods and services. An earlier concern was raised by the Zimbabwe Commissioner General of Taxes on the scarcity of tax knowledge amongst taxpayers and even on the part of policymakers who often ignore tax implications when negotiating government contracts (Chapter Three, Section 3.3.2.3 and Chapter Seven, Section 7.7.4.2). These deficient contracts often lead to tax revenue losses (Chronicle, 2019a).
- There is indeed a need to address the knowledge gap through training and to conduct massive tax knowledge dissemination programs by using platforms such as the social media and workshops for legislators and politicians. Conceivably these workshops could be a double edged sword, by enhancing tax knowledge as well as appeal to the moral conscience of these political elites in order to reduce political interference on tax matters.
- ZIMRA needs to continue with their recently introduced “#tag catch them young” initiative targeted at university students to educate them on tax matters and sharing their

strategy pillars of “people, processes, partnership’ This was a way of creating a relationship based on trust and respect with taxpayers. ZIMRA’S high handedness is often fingered as a reason for not registering for tax purposes. Heggstad et al., (2011:4)highlighted this problem in Tanzania, Zambia and Mozambique.

f) General recommendations

- Tax policy formulation must be a consultative and inclusive process as opposed to being imposed in order to gain acceptance amongst taxpayers to minimise resistance and tax evasion. Stakeholder engagement is a key input to policy acceptance and compliance, with knowledge and partnership being key vectors to the engagement. Government must engage the IS associations on policy issues that affect their members and they in turn should consult their members. Machemedze et al. (2018:26) and Meagher (2016:16) raised concerns on whether IS taxation could really move the sector from “exit (tax evasion) to “voice” (engagement) owing to lack of leadership, disorganisation and fragmented voices. This therefore points to an important call to consider avenues on how IS taxation can be used to gain a strong “political voice” (Meagher, 2016:16).
- The non-reciprocal and predatory treatment of taxpayers by ZIMRA was considered a factor in explaining IS tax non-compliance. Tax morale and tax compliance in the IS can be increased by the treatment of taxpayers with respect, not only for the actual taxes but for any other obligations that taxpayers believe they are honouring to government, it means the licences and operating permits paid to city councils as well. Accordingly, ZIMRA must work towards rebranding themselves in the way they engage with the public and taxpayers through change management, to create a tax friendly environment. Resnick (2019) acknowledges political legitimacy and confidence in tax authority as well as equal tax enforcement and having citizen perceiving the government as having their best interest in how they use the collected tax revenues to be fundamental ingredients in improving tax compliance.
- The mismatch between the taxes contributed by taxpayers and the quality of goods and services delivered by government lowers tax morale. As described by Dickerson (2014:310) if taxpayers perceive an unfair return on their “tax investment”, their tax morale declines. Therefore, in order to improve tax compliance, governments have to display tangible benefits that will morally persuade taxpayers (increase tax morale) such as quality governance and service delivery including transparent and accountable spending. Government accountability and responsiveness are considered key drivers of



tax morale (Joshi et al., 2014; Meagher, 2016:1; Sebele-Mpofu, 2020a). Re-affirming the importance of improved service delivery as a motivator for tax compliance, Resnick (2020) argues that tax compliance is connected to the governance contextual environment and the drivers of tax compliance differ among nations in response to the nature and level of accountability “between taxpayers, revenue collectors and service providers”.

- Areas of controversy such as the tax dispute resolution process, inconsistencies in regulations, which increases the risk exposure as well as corruption, must be addressed as a matter of urgency. Speedy resolution of tax disputes and court cases by both ZIMRA and the courts will build taxpayer confidence and improve tax justice as explained by Mashiri (2018) and Olaitan (2016:15). This was also advocated for by the Commissioner General of Taxes when she expressed that the stagnant process of tax dispute resolution impedes the effectiveness and efficiency of revenue administration (Chronicle, 2019a).

### **8.5 Contributions of the Study**

As discussed throughout the research, this study made several contributions and these were categorised under three subheadings, these are: the contextual contributions, which also explained the policy implications of the study, the theoretical and the methodological contributions. These are recapitulated in Table 8.2 that forefronts the detailed discussion of these under the relevant subheadings.

**Table 8. 2: An Overview of Research Contributions**

| Study contribution                 | Explanation                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |
|------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Contextual/situational             | <p>Evaluating the developing country context legislative, administrative and technological “capacities and capabilities in tackling IS taxation has been neglected and under-researched as alluded to by Mania (2017:1) and Soest (2007). This study addressed that gap by focusing on IS taxation as a way to contribute to the barely sufficient literature on tax and its administration in SSA, especially in the context of the IS as advanced by Soest (2007). IS taxation literature on the Zimbabwean context is very minimal yet the IS was rapidly growing at the expense of the formal sector as shown in Chapters Three and Four. The economic landscape is tilting to a dominating IS, despite its minimal contribution to tax revenues. This study addressed this void in literature and with its findings, accordingly contributes to policy formulation as well as improvement of IS taxation framework. This is in line with arguments by Fourie (2018a,b) who tabled that the IS has been “forgotten” and remains on the side lines of policy construction and responsiveness and Heggstad et al. (2011:4) who emphasise the importance of research in policy development and improvement in this dynamic business world.</p> |
| Theoretical/knowledge contribution | <p>The exploration of an under-studied, topical and controversial subject of IS taxation is on its own contribution to new knowledge in seeking to close the research gap. Evaluating the effectiveness of the IS tax framework sought to address an administrative gap in tax knowledge. With a peer reviewed and published paper based on the theoretical framework guiding this study, cardinal to a PHD study, the researcher critically analysed and reviewed contemporary debates on the value of existing theories in explaining informality in order to conceptualise the factors driving IS and connecting them to the feasibility of taxing the sector. This in itself is a contribution to the body of knowledge in the area (See preliminary page v on publications or conference papers from this research).</p>                                                                                                                                                                                                                                                                                                                                                                                                                   |
| Methodological                     | <p>This study adopted an exploratory sequential mixed method approach (Chapter One, Section 1.10.2) and Chapter Five). The adoption of a MMR approach which is still in its infancy, though gaining attention in tax studies (McKerchar, 2008), is a methodological contribution in an area that has been, predominantly explored through the use of singular methodologies which are either qualitative or quantitative separately. There is a dearth in tax research that adopts MMR, yet its adoption is essential in advancing and sustaining methodological diversity in tax research as well as in building a “cumulative body of knowledge” (Venkatesh, Brown, &amp; Bala, 2013). This is due to the intricate challenges associated with mixing the research approaches, in light of their different philosophical, ontological, epistemological and methodological assumptions into a single study and managing the pitfalls that come with failing to anticipate these challenges. As outlined in the methodological journey</p>                                                                                                                                                                                                      |

| Study contribution | Explanation                                                                                                                                                                                                                                                                                                                                                                                                   |
|--------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|                    | in Chapter Five, guided by literature from researchers such as Creswell (2014) and Curry et al. (2009), the study minimised the impact of the challenges and exploited the advantages of mixing which included complementarity, expansion, development, diversity and confirmation through the use of multiple approaches, multi-methods of collection and analysis. This enhanced the validity of the study. |

Source: Own Compilation

### 8.5.1 Contextual contribution

Domestic revenue mobilisation, on a sustainable basis, is a topical issue worldwide and more so in developing countries where it is argued to be impeded by a rapidly growing IS that is contributing very little to tax revenue as evidenced through literature reviewed in Chapter Three. Taxation remains one of the most steady and foreseeable revenue mobilisation routes (Ligomeka, 2019; Sebele-Mpofu, 2020a). This study contributed to the taxation research, which has largely overlooked taxation of IS, yet it is a critical component of developing country economies. In addition, the study sought to evaluate whether the presumptive taxes implemented by developing countries in general and particular African countries provide an answer to taxing the IS. This study contextualised the problem to Zimbabwe after providing a situational analysis of the Zimbabwean environment in the context of taxation in general and IS taxation in particular in Chapter Four. Heggstad et al. (2011:1) accentuate the need to investigate issues to do with taxation on a country-by-country context as economic, social, legal and economic fundamentals differ. Oguttu (2016) underscores the need for research to focus on distinct problems at national levels and Oviedo et al. (2009) emphasise that policy prescriptions should also consider country context dimensions as the legal, economy and regulatory environments vary. A critical review of informal sector taxation in Zimbabwe by the study, addressed these concerns, in light of the fact that Zimbabwe has the second largest IS in the world as observed in literature in Chapter Three (Medina & Schneider, 2018).

In view of the peculiarities of Zimbabwe's economic, social and political landscape, contextualising the study was necessary, as that was essential in investigating the capacities and capabilities in line with legislative and administrative functions of the revenue authority (ZIMRA). A country by country assessment of other selected developing countries that have made efforts towards taxing the IS was done (Chapter Three, Section 3.5 and Chapter Seven, Table 7.4) and this established that in some cases these presumptive tax systems made inroads in building a culture of tax compliance and improving the IS-government dialogue especially where associational taxation was employed (Chapter Three, Section 3.5.2 and Chapter Six).

Zimbabwe has been taxing the IS for over a decade (Ligomeka, 2019; Sebele-Mpofu & Msipa, 2020), but the effectiveness of the framework has been hampered by numerous legislative, political, operational and administrative challenges. The IS in Zimbabwe was found to be heterogeneous with players that are genuinely small scale and those that are large enough to pay corporate tax but evade it (Chapter Six and Seven), hence a one size fits all as the current fixed amount presumptive taxation framework was not ideal.

Tax rates were found to be too high for the IS in comparison to their incomes. The addition of other categories of players to IS taxation was argued to have been poorly informed and in violation of the equity and ability to pay principle as prior research was not done. The research previously done on taxation of the transport sector was generalised to these other categories. Corruption and political interference were pointed out as obstacles to effective implementation of the IS tax policy. Unclear government spending and lack of accountability (Chapter Seven, Section 7.7.4.1) was found to be compelling in discouraging tax compliance, as taxpayers are not motivated to contribute to the national tax basket when government is not providing “cuts” in the form of working space for the sector, good infrastructure and public utilities. The Zimbabwean economic situation and policy inconsistencies have compounded the challenges to effective taxation of the IS. Conclusively, this research highlights that the IS taxation framework and the legislation guiding the collection of income tax should be revisited, revamped and take into consideration the various challenges pinpointed by researchers (Chapter Six, Section 6.6.2.6).

Political will, commitment and government support were noted as essential ingredients to make tax policy effective, in light of the implementation capacity challenges at ZIMRA. Prichard (2019) argues that trust in state institutions is pivotal for tax compliance to be enhanced especially the voluntary one. Perhaps such realisation would motivate the Zimbabwean government and other developing countries’ government to revisit their relationship with their citizens and strive to build trust through citizen engagement, accountability and responsiveness. The revenue authority was faced with numerous challenges in relation to capacity and these include inadequate human capital, financial as well as technological resources. This was coupled by high staff turnover, the impact of constant staff rotations and transfers as alluded to by Mashiri (2018). Skills gap, lack of experience in some cases and tax legislation knowledge indisputably weakens ZIMRA’s ability to enforce taxes.

### **8.5.2 Theoretical contribution**

This study made several theoretical contributions to the body of knowledge in the area of taxation in general and IS taxation in particular. The initial one being, the contribution to theory. This research was built on and extended already existing theories on the subject area. The theoretical framework was premised on five schools of thought as explicated in Chapter Two: the dualist, the structuralist, the legalist, the illegalist and the continuum perspectives (Chen, 2012; Matsongoni & Mutambara, 2018). The theoretical framework analysis and the published paper emanating from this chapter was aimed at advancing current theory and adapting theory to local conditions and developing country contexts, thus contributing to the existing body of knowledge. The chapter was further aimed at reviewing and synthesising key existing theories on the development and expansion of the IS in order to contextualise the drivers of informality, in order to adequately inform policy prescriptions towards addressing this sector in developing countries. This is a theoretical contribution. There is a dearth in literature that investigates the connection between the dimensions that explain the IS genesis and its impact on economic development and national tax revenues. This research was motivated by a paucity in literature that appraises the cogency of these theorisations. According to La Porta and Shleifer (2014) and Williams et al. (2012), the number of scholars who have worked towards documenting these theorisations and evaluating critically their validity is very small.

A review of literature culminated in the development of a conceptual framework to inform IS taxation by building from the theories that explain the drivers of informality and to explore how those drivers should be addressed to formulate an effective IS taxation framework as postulated by Wedderburn et al. (2012) who accentuated the need to understand the size and drivers of IS growth in order to develop a “rational, operational and enforceable IS tax policy”. The concepts from the theories that explain tax compliance (Fischer’s tax compliance model by Fischer et al. (1992) and the “implied” social contract model by McKerchar and Evans (2009) were adopted as moderating variables that should accordingly be paid attention to. The conceptual framework can thus be used to push theoretical boundaries in IS taxation in developing countries.

This study contributed to empirical literature. The feasibility of IS taxation has been a subject of contention, with disagreements on whether such an exercise can really be accomplishable and in a manner that is sustainable into the future. This study has contributed to the on-going debate by critically reviewing IS taxation in Zimbabwe especially the application of the fixed

presumptive tax rates on a practical case (Main Objective as stated in Chapter One). Zimbabwe adopted the presumptive tax framework in 2005 and further enforced it in 2011. The study showed that the IS in Zimbabwe is growing rapidly relative to the formal sector and the need for its taxation is apparent. The study established that, despite the cost and benefit analysis argument being reasonable, IS taxation can be a reality with adequate research and planning as well stakeholder consultative engagement to foster policy ownership and ZIMRA capacitation (See Figure 8.1 on recommendations). Taxpayer knowledge enhancement was found to be a key input to voluntary tax compliance and improvement of tax knowledge in relation to tax legislation, computation and payment. A shift in government attitude in the use of revenues was a topical concern. The government needs to be more responsible, transparent and accountable in the use of collected tax revenues in order to boost taxpayer morale and to encourage voluntary compliance.

The Zimbabwean government could take a leaf from countries such as Rwanda and New Zealand. Despite the high tax rates, citizens are willing to pay tax as they can see the benefits in public utilities and infrastructure. This study therefore, found out that with enough government support through legislative reforms such as tweaking the Income Tax Act, and its provisions; institutional reforms such as addressing the corruption cancer; capacitating ZIMRA as called upon by the Zimbabwe Commissioner General of Taxes and all this accompanied by political will and stakeholder engagement, IS taxation can be a reality.

The penultimate contribution to the body of knowledge from this study is towards policy. The study gave pragmatic insights on how tax policy can be properly aligned to the legislative and administrative framework in order to ameliorate the implementation and compliance challenges faced by revenue authorities (ZIMRA) and taxpayers (IS) respectively. The recommendations made in this study were aimed at contributing to how policy vectors such as institutional constraints, resources and the actual legislation can be tweaked to improve the effectiveness of IS taxation. The premier focal points were the need to pay more attention to IS taxation, engage the sector especially their associations on policy issues and build ZIMRA capacities in all angles that is legislative, technological, infrastructural, human capital and administrative. The address of those principal issues and research on the profitability and ability of the heterogeneous sectors in the IS to pay, before adopting a tax rate was considered topmost in designing an efficient and practicable IS tax policy.

### **8.5.3 Methodological contribution**

Employing a MMR approach was a big step for this study, addressing the calls and void in methodological pluralism (Venkatesh et al., 2016), despite the challenges linked to MMR adoption as pointed out by Teddlie and Tashakkori (2003), that “researchers who combine the two methods are doomed to failure due to the differences in the underlying systems.” Employing MMR successfully in tax research widened the base of interdisciplinary research as tax is not a discipline in its own right but is multi-disciplinary cutting across finance, economics, law and others (McKerchar, 2008). A combination of both qualitative and quantitative approaches in one study in a manner that allowed the strengths of either method to compensate for the weakness of the other as well as to be able to adequately exploit the advantages of mixing such as development, complementarity and diversity represents a methodological contribution to tax literature on methodology. This was in line with suggestions by Venkatesh et al. (2013:22) that MMR adoption can assist researchers to provide “theoretically plausible answers” to their research problems, on condition that they subdue the “cognitive and practical” challenges linked to MMR approach. Interviewer de-briefing, participant feedback and experienced tax expert’s review of questionnaire questions for appropriateness, relevance and ambiguity improved the data reliability. Qualitative and quantitative data was gathered from experienced participants who were knowledgeable on tax matters (ZIMRA officers, tax experts and consultants) and this was enhanced by support from relevant related literature. MMR approaches are often shunned by researchers because they consider the approaches to be costly, complex and time consuming.

Creating rapport, upholding ethical considerations, being able to get informed consent and carrying out a successful research on taxation, which is considered a sensitive topic evoking controversy in any society and at any given point in time (McKerchar, 2008), is a methodology contribution on its own. Research needs to address two critical facets: to be ethically responsible and to address beneficence considerations.

### **8.6 Limitations and Areas of further research**

Some of the limitations were summarised in Table 1.6 in Chapter One. A few of the limitations are discussed here in order to shed more light on the areas for future research. Taxation is an intricate subject that cuts across various stakeholders such as ZIMRA officers, tax experts, the public, investors, politicians, government and its officials and the taxpayers themselves. A conceptual framework was designed to tax the IS from this study. However, this study did not

adequately explore the constructed conceptual framework as the views of the IS were inferred from their dealings with ZIMRA and the tax experts and not directly sought from the horse's mouth. Future research needs to address the argument of the sector's vulnerability and include them in research.

While the informal sector is a predominant feature of developing countries and its taxation topical; tax policy, the legal, political, economic and administrative frameworks might manifest themselves differently. This implies that the challenges and benefits of tax administration as well as compliance might present themselves varyingly. In view of the peculiarities of operating environments and complexities around taxing the IS, the findings of this debate may stimulate debate and more research on the area, maybe with varying results if different theoretical frameworks are adopted.

The study established that the unfavourable outcome of unrealistic taxation policy, inadequately researched and lacking stakeholder acceptance, coupled with the high handedness of tax officials crippled tax morale amongst actual and potential IS taxpayers. The economic environment in Zimbabwe is not favourable yet government cannot survive without taxes and the IS is growing tremendously and contributing very little to tax revenues. How can the government, considering this challenging and unique environment improve tax revenue generation from the IS? Does government have the necessary political will to tax the IS and to eradicate corruption that stifles institutions like ZIMRA? If yes, why hasn't it addressed these issues? If no, how can it be enabled to deliver? This also points to the necessity for more empirical and institutional research out on quality of governance, tax morale, IS growth and IS tax compliance in developing countries such as Zimbabwe.

The explorative genre of this study and the fact that interviewee respondents were purposively sampled brings in an element of subjectivity. The interview results depict views and perceptions of particular individuals at a particular time, together with the use of documents such as ZIMRA reports, newspaper articles and statistics compilations from organisations like the IMF and the World Bank. All this data could be subjective in its own way as documentation could have been compiled and designed for certain reasons and not for this research. This limitation was minimised through the adoption of MMR, where the combination of both qualitative and quantitative approaches allowed for the exploitation of advantages of MMR and the use of multiple methods allowed for the consideration of multiple realities, which is essential for a sensitive and controversial subject like taxation.



Taxation, being a sensitive topic, brought its own limitations. People are generally very suspicious and sceptical of tax researchers and the fact that ZIMRA officials are bound by the oath of secrecy and confidentiality. This makes it difficult get exhaustive and sometimes truly unbiased opinion, as there is always an element of concealing or window dressing some of the information. Tax researchers always have to bear with this inherent limitation and to try as much as possible to build rapport with participants, allay their fears and uphold research ethics to open room for less guarded discussions. Most of the ZIMRA interviewees were at first a little apprehensive about being recorded but after assurances by the researcher of the ethical considerations and that confidentiality and anonymity of respondents was going to be upheld as well as collective reporting of results, they allowed the researcher to record. Two officers did not agree to being recorded despite the assurances. Therefore, some of the quotations from these respondents might contain a bit of paraphrasing, though with the note taking the researcher strived to capture the words as they were from the horse's mouth to minimise the impact. Member checking was also used to enhance the validity of the findings. There is also a need to evaluate the recently introduced 2% IMTT tax on its impact on widening the tax base and ameliorating compliance problems.

In some of the questionnaires, respondents left the open-ended questions unanswered especially on the possible recommendations on how to improve IS taxation effectiveness and ways to foster voluntary compliance. This was an anticipated weakness of using questionnaires as a data collection instrument (Saunders et al., 2009; Zohrabi, 2013). The responses from those that made suggestions were analysed and buttressed using qualitative findings, thus reaping the benefits of MMR, with the strengths of one method compensating for the weaknesses of the other (Curry et al., 2009).

Lastly, future studies could focus on the impact of IS taxation on governance quality and perhaps breaking the investigation to relate to towns in Zimbabwe or the ZIMRA Regions as broken down by the Revenue Authority for assessment. This is in line with observations by Meagher (2016:1), who described a great increase in tax performance, tax morale and voluntary improvements in Lagos because of improved accountability, service delivery and legitimacy. The author attributed this change to political leaders, their political commitment and a positive attitude in improving public service delivery, accountability, transparency in administration accompanied by stakeholder education and engagement.

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## **Appendices**

### **Appendix 1: ZIMRA Questionnaire Cover Letter for ZIMRA officers.**

**Dear Participant**

My Name is Favourate Y Mpofu. I am a PHD in Tax Candidate at North West University in South Africa and I am in the process of collecting data for the research thesis entitled “**AN EVALUATION OF INFORMAL SECTOR TAXATION IN ZIMBABWE**”. The research seeks to gain information concerning stakeholder views on taxation of this sector. This information would be used to evaluate the informal sector tax system with the objective of suggesting possible ways of improving it.

You have been chosen as potential participant in the study due to your expertise and experience as Revenue Officer/Administrator employed by ZIMRA. Your contribution to the success of this study is invaluable. Your anonymity and confidentiality of information collected is guaranteed. All the information provided will be handled with strict confidentiality. The researchers would endeavour to uphold the participants’ right to protection, respect and cultural norms throughout the research. The researchers would do everything to protect the information received from participants. Confidentiality and anonymity of participants will be maintained throughout the research. Participants information will be protected from unauthorised access, use, disclosure, modification, loss or theft by encrypting identifiable data, limit access of information to those directly involved in the research, securely store data documents within lockable locations, assign security codes to computerised records and exclusion of addresses and names of research participants on the research instruments such as questionnaires. All identifying data will be securely stored and accessible only to the researcher and supervisors. In addition any findings obtained will be reported collectively without linking it to any particular individual. The information will be kept for 6 years as required by the Zimbabwean law on record keeping.

The researcher being fully aware that all ZIMRA employees are bound by the oath of confidentiality and secrecy sought permission to carry out this research from ZIMRA and was granted. The proof is attached before the consent form so that you a fully aware that the

researchers was ethically cleared to carry out the study and collect information from ZIMRA employees. The researcher also sought ethically clearance from the Ethical Clearance Committee at NWU to use the research instruments, where these were assessed for clarity, comprehensiveness and that they are not intrusive or violating the dignity of participants in any way. By completing the questionnaire, it will be surmised that you consent to participate, with the understanding that your anonymity will be preserved. This remains only an invitation and a humble request, your willingness to do so will be highly appreciated. Participation is voluntary. You are free to withdraw consent at any time or leave unanswered, any questions you are not comfortable to answer. All the information provided will be handled with strict confidentiality.

If you would like clarity or additional information concerning this study, please do not hesitate to contact me by phone or email. Attached also is a consent form for your signature. This will take approximately 25 minutes. Thank you very much for your time and cooperation.

Yours Sincerely

F Y MPOFU (PHD CANDIDATE)

0772 975 005, fsfsebele@gmail.com/ [favourate.sebele@nust.ac.zw](mailto:favourate.sebele@nust.ac.zw)

## ZIMRA Research Approval Letter



**ZWS ISO 9001:2008 QUALITY MANAGEMENT SYSTEM**

**ZIMBABWE REVENUE AUTHORITY  
COMMISSIONER GENERAL**

|                                                                                              |                                                                                                |                                                                                                               |
|----------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------|
| WRITE TO:<br>THE COMMISSIONER GENERAL<br>ZIMBABWE REVENUE AUTHORITY<br>PO BOX 4260<br>HARARE | TELEPHONE:<br>+263-4-708114<br>+263-4-75171/3<br>FAX:<br>+263-4-752113<br>TELEGRAMS:<br>HARARE | CALL AT:<br>RECEPTION<br>8 <sup>TH</sup> FLOOR ZB CENTRE<br>ONE KINABASE HILLWAY<br>AVERFIST STREET<br>HARARE |
|----------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------|

IN REPLY PLEASE QUOTE:  
Request for Authority to carry  
research

18 July 2017

Favourate Mpfu  
812 Mahatshula North  
P. O. Ascot  
Bulawayo

Dear Favourate

**RE: APPLICATION FOR AUTHORITY AND ASSISTANCE TO CONDUCT  
RESEARCH**

**Topic: "Evaluation of Informal Sector Taxation in Zimbabwe. A case of Zimbabwe  
Revenue Authority."**

The above matter refers

Please be advised that your application for authority to carry out the above research has been approved. However, we may be unable to release some of the information to you because of its confidential nature. Upon completion you are required to furnish this office with a copy of your final research findings.

We wish you success in your studies.

Yours faithfully,

  
J. Törngren  
HUMAN RESOURCES MANAGER

**Acknowledgement**

I, Favourate Mpfu acknowledge receipt of this letter and accept its contents.

Tel/Cell No. 8733232605 Signature [Signature] Date 20.07.2017

HR/T, HR Administration Issue No: 1 Version 1 Issue Date: 30/04/2016 Page 1 of 1

## CONSENT FORM FOR QUESTIONNAIRE

I have read and understood the information outlined on the cover letter and I willingly consent to be part of this study. I'm fully aware that I have been chosen as a participant for this research because of my experience and employment with the ZIMRA and that researcher has been ethically cleared by both ZIMRA and NWU. I have understood that my participation and responses will remain completely confidential, my anonymity preserved, my privacy respected and that results of the study will be reported as a collective combined total without attribution to individuals. I have also understood that my contribution to this research through the completion of the attached questionnaire is for purely academic purposes and to contribute to the improvement of informal sector taxation policy. I appreciate that the information will be kept for a period of 6 years as per the requirements by the Zimbabwean law that records have to be kept for such a period. In addition I have a right to withdraw my participation and consent at any time.

Signature and date.....

## ZIMRA Questionnaire

### **SECTION ONE** (Introduction)

1. Department/section.....
2. Highest Professional Qualifications: Diploma ☐ Degree ☐  
Other (Specify).....
3. For how long have you been in your current position of responsibility?  
Less than 1 year ☐ 1 to 3 years ☐ 3 to 6 years ☐ Over 6 years ☐

### **SECTION TWO**

- Answer all questions
- Please complete the questionnaire as objectively as you can
- Tick appropriate answer [✓]
- You are free to provide further comments on spaces provided

4. Informal Sector Tax compliance is a matter of priority in the revenue generation efforts of the Authority:-

|                |  |       |  |                   |  |          |  |
|----------------|--|-------|--|-------------------|--|----------|--|
| Strongly Agree |  | Agree |  | Strongly disagree |  | Disagree |  |
|----------------|--|-------|--|-------------------|--|----------|--|

5. How would you rate levels of Presumptive tax compliance in Zimbabwe

|      |  |        |  |        |  |        |  |      |  |
|------|--|--------|--|--------|--|--------|--|------|--|
| <20% |  | 20-40% |  | 40-60% |  | 60-80% |  | >80% |  |
|------|--|--------|--|--------|--|--------|--|------|--|

6. The likely causes of non-compliance are:-

|                                                                      | Strongly agree | Agree | Disagree | Strongly disagree | Not sure |
|----------------------------------------------------------------------|----------------|-------|----------|-------------------|----------|
| 1) Low Probability of detection                                      |                |       |          |                   |          |
| 2) High tax rates versus low incomes                                 |                |       |          |                   |          |
| 3) Costs of complying with taxes                                     |                |       |          |                   |          |
| 4) Lack of tax knowledge and awareness in the informal sector        |                |       |          |                   |          |
| 5) Resistance and lack of acceptance of the presumptive tax policy   |                |       |          |                   |          |
| 6) Low literacy levels                                               |                |       |          |                   |          |
| 7) Tax system complexity                                             |                |       |          |                   |          |
| 8) Lack of tax incentives                                            |                |       |          |                   |          |
| 9) Lack of trust in the use of tax revenues and perceived unfairness |                |       |          |                   |          |

Other: \_\_\_\_\_  
Specify

7. Major causes of tax compliance to those clients that do comply are:-

|                                          | <i>Strongly agree</i> | <i>Agree</i> | <i>Disagree</i> | <i>Strongly disagree</i> | <i>Not sure</i> |
|------------------------------------------|-----------------------|--------------|-----------------|--------------------------|-----------------|
| 1) High Probability of detection         |                       |              |                 |                          |                 |
| 2) High penalty levels                   |                       |              |                 |                          |                 |
| 3) Effectiveness of audits and follow-up |                       |              |                 |                          |                 |
| 4) Protection of business reputation     |                       |              |                 |                          |                 |

Other: \_\_\_\_\_  
Specify

8. Please assess the following measures aimed at improving presumptive tax compliance in relation ZIMRA

|                                           | <i>Strongly agree</i> | <i>Agree</i> | <i>Disagree</i> | <i>Strongly disagree</i> | <i>Not sure</i> |
|-------------------------------------------|-----------------------|--------------|-----------------|--------------------------|-----------------|
| 1) ZIMRA- Informal sector engagement      |                       |              |                 |                          |                 |
| 2) Taxpayer education programs            |                       |              |                 |                          |                 |
| 3) ZIMRA- tertiary education links        |                       |              |                 |                          |                 |
| 4) Awarding incentives to compliant firms |                       |              |                 |                          |                 |

9. The reasons for failure to fully implement presumptive taxation:-

|                                                                     | <i>Strongly agree</i> | <i>Agree</i> | <i>Disagree</i> | <i>Strongly disagree</i> | <i>Not sure</i> |
|---------------------------------------------------------------------|-----------------------|--------------|-----------------|--------------------------|-----------------|
| 1) High cost of collecting tax from the sector                      |                       |              |                 |                          |                 |
| 2) Lack of government support                                       |                       |              |                 |                          |                 |
| 3) Low incomes and low revenue potential of the sector              |                       |              |                 |                          |                 |
| 4) Mobility and heterogeneity of the sector                         |                       |              |                 |                          |                 |
| 5) Tax evasion by the sector                                        |                       |              |                 |                          |                 |
| 6) Unstable political environment                                   |                       |              |                 |                          |                 |
| 7) Lack of audit framework to track down informal sector activities |                       |              |                 |                          |                 |
| 8) Capacity constraints in detecting and prosecuting tax violators  |                       |              |                 |                          |                 |
| 9) Inadequate research on/of the sector's taxability and tax rates  |                       |              |                 |                          |                 |

Other: \_\_\_\_\_  
Specify



10. There is a clear policy on presumptive tax information dissemination to be followed

|                          |  |                 |  |                 |  |              |  |                       |  |
|--------------------------|--|-----------------|--|-----------------|--|--------------|--|-----------------------|--|
| <i>Strongly disagree</i> |  | <i>Disagree</i> |  | <i>Not sure</i> |  | <i>Agree</i> |  | <i>Strongly agree</i> |  |
|--------------------------|--|-----------------|--|-----------------|--|--------------|--|-----------------------|--|

11. ZIMRA disseminates information to clients through the following platforms:-

|                           | <i>Strongly agree</i> | <i>Agree</i> | <i>Disagree</i> | <i>Strongly disagree</i> | <i>Not Sure</i> |
|---------------------------|-----------------------|--------------|-----------------|--------------------------|-----------------|
| 1) Radio advertising      |                       |              |                 |                          |                 |
| 2) Newspapers & magazines |                       |              |                 |                          |                 |
| 3) Television             |                       |              |                 |                          |                 |
| 4) Client workshops       |                       |              |                 |                          |                 |
| 5) Internet               |                       |              |                 |                          |                 |

Other: \_\_\_\_\_  
Specify

12. The controls below help to implement and manage presumptive taxes.

|                                | <i>Strongly Agree</i> | <i>Agree</i> | <i>Disagree</i> | <i>Strongly disagree</i> |
|--------------------------------|-----------------------|--------------|-----------------|--------------------------|
| 1) Internal Audit              |                       |              |                 |                          |
| 2) Review meetings             |                       |              |                 |                          |
| 3) Control reports             |                       |              |                 |                          |
| 4) A clear reporting structure |                       |              |                 |                          |

13. How do you rank the objectives for presumptive Taxation as applied by the authority in Zimbabwe in order of importance? 1 being the most relevant and 7 the least relevant

|                                                                                       |  |
|---------------------------------------------------------------------------------------|--|
| 1) To broaden the tax base and increase tax revenue                                   |  |
| 2) The promotion of equity                                                            |  |
| 3) As an incentive for the formal sector to pay tax                                   |  |
| 4) To extinguish the informal sector                                                  |  |
| 5) To legitimise the relationship between government and the informal sector          |  |
| 6) The magnitude of the sector cannot be ignored, economy largely informal            |  |
| 7) To get the informal sector to formalise their activities and gain legal protection |  |
| 8) To help the informal firms grow and access services available to formal firms      |  |

14. What other strategies has the authority applied in trying to capture the informal sector?

.....  
.....



## **Appendix 2: Tax Experts Questionnaire**

### **Questionnaire Cover Letter**

**Dear Participant**

My Name is Favourate Y Mpofu. I am a PHD in Tax Candidate at North West University in South Africa and I am in the process of collecting data for the research thesis entitled “**AN EVALUATION OF INFORMAL SECTOR TAXATION IN ZIMBABWE**”. The research seeks to gain information from relevant stakeholders on their views on taxation of this sector. This information would be used to evaluate the informal sector tax system with the objective of suggesting possible ways of improving it.

You have been chosen as potential participant in the study due to your knowledge, experience and expertise on Zimbabwean tax. As a Tax Expert, your views and suggestions are pertinent to the success of this study and improving informal sector taxation in Zimbabwe. Your anonymity and confidentiality of information collected is guaranteed. All the information provided will be handled with strict confidentiality. The researchers would endeavour to uphold the participants’ right to protection, respect and cultural norms throughout the research. The researchers would do everything to protect the information received from participants. Confidentiality and anonymity of participants will be maintained throughout the research. Participants information will be protected from unauthorised access, use, disclosure, modification, loss or theft by encrypting identifiable data, limit access of information to those directly involved in the research, securely store data documents within lockable locations, assign security codes to computerised records and exclusion of addresses and names of research participants on the research instruments such as questionnaires. All identifying data will be securely stored and accessible only to the researcher and supervisors. In addition any findings obtained will be reported collectively without linking it to any particular individual. The information will be kept for 6 years as required by the Zimbabwean law on record keeping.

Permission to carry out the research has been sought and granted by ZIMRA and the research instruments have undergone ethical clearance at NWU by an Ethical Clearance Committee where they were assessed for clarity, comprehensiveness and that they do not in any way violate the privacy and dignity of participants. By completing the questionnaire, it will be surmised that you consent to participate with the understanding that your anonymity will be preserved. This remains only an invitation and a humble request, your willingness to do so will be highly

appreciated. Participation is voluntary. You are free to withdraw consent at any time or leave unanswered, any questions you are not comfortable to answer.

If you would like clarity or additional information concerning this study, please do not hesitate to contact me by phone or email. Attached also is a consent form for your signature. Thank you very much for your cooperation.

Yours Sincerely

F Y MPOFU (PHD CANDIDATE)

0772 975 005, fsfsebele @gmail.com

## CONSENT FORM FOR QUESTIONNAIRE

I have read and understood the information outlined on the cover letter and I willingly consent to be part of this study. I'm fully aware that I have been chosen as a participant for this research because of my experience and expertise in Zimbabwean tax and that researcher has been ethically cleared by both ZIMRA and NWU. I have understood that my participation and responses will remain completely confidential, my anonymity preserved, my privacy respected and that results of the study will be reported as a collective combined total without attribution to individuals. I have also understood that my contribution to this research is for purely academic purposes and to contribute to the improvement of informal sector taxation policy. I appreciate that the information will be kept for a period of 6 years as per the requirements by the Zimbabwean law that records have to be kept for such a period. In addition, I have a right to withdraw my participation and consent at any time.

Signature.....

Date.....

## QUESTIONNAIRE FOR THE TAX EXPERTS/ TAX ACCOUNTANTS

### Section A: Background information

1. As a Tax expert, what is your area of focus?

.....

2. How long have you been in the profession

i. ☐ Less than 5years

ii. ☐ 5-10 years

iii. ☐ 11-15years

iv. ☐ 16-20years

v. ☐ More than 20 years

3. What services do you often offer to the informal sector?

i. ☐ Registration advice and services

ii. ☐ Tax education and training

iii. ☐ Preparation of tax returns and e-filing

iv. ☐ Legal advice and representation in tax disputes with ZIMRA

v. ☐ None

vi. ☐ Other

### SECTION B: DRIVERS OF INFORMALITY

4. Amongst the following reasons, which one(s) explain the emergence and growth of the Informal sector in Zimbabwe (choose one or more):

i. ☐ Survival strategy due to lack of employment opportunities

ii. ☐ Contractual opportunities from existing established firms

iii. ☐ Difficulties with formalisation due to complex regulatory requirements.

iv. ☐ The heavy tax burden in the formal sector

v. ☐ High or potentially high profits

vi. ☐ Other (explain).....

5. If the Zimbabwean economic situation improved and job opportunities become available, do you think those in the informal sector will consider going to the formal sector?

☐ Yes/ ☐ No

6. If yes, what could be the possible reason(s)? Choose one or more:

- i. ☐ Low incomes in informal employment
- ii. ☐ Lack of social security in the informal sector
- iii. ☐ Poor working conditions in the informal sector
- iv. ☐ Benefits of formalisation

7. If No, what could be the factor(s) pulling them to stay in the informal sector?

- i. ☐ Current and/or potentially high incomes and profits
- ii. ☐ Ease of evading tax and other regulations
- iii. ☐ Flexible working conditions
- iv. ☐ The low tax rates

### **SECTION C: MOTIVATIONS FOR/ AGAINST INFORMAL SECTOR TAXATION**

8. What is the role of tax in the economy? Choose one or more from the following.

- i. ☐ A source of funding for the government
- ii. ☐ Redistribution of wealth among the citizens of the country
- iii. ☐ A tool to stimulate representation
- iv. ☐ A tool to regulate fiscal policy and market externalities
- v. ☐ Other (specify).....

9. What do you think are the objectives of taxing the informal sector in Zimbabwe?

- i. ☐ Broadening the tax base to increase revenue
- ii. ☐ Equity considerations
- iii. ☐ To create a relationship between government and sector
- iv. ☐ To drive informal firms to formalise
- v. ☐ To encourage tax compliance in both the informal and formal sectors
- vi. ☐ Other (specify).....

10. Assess the following statements, considering whether taxing the informal sector is worth prioritising in Zimbabwe?

| No | Statement                                                                                                      | Strongly disagree | Disagree | Not sure | Agree | Strongly agree |
|----|----------------------------------------------------------------------------------------------------------------|-------------------|----------|----------|-------|----------------|
| 1  | The informal sector should be taxed to raise government revenue                                                |                   |          |          |       |                |
| 2  | Not taxing the informal sector is unfair to the formal sector                                                  |                   |          |          |       |                |
| 3  | Goods sold in the informal sector are cheaper because they don't pay tax                                       |                   |          |          |       |                |
| 4  | The magnitude of the sector warrants taxing it                                                                 |                   |          |          |       |                |
| 5  | The informal sector equally benefits from public goods such as roads, schools etc, hence they must pay tax     |                   |          |          |       |                |
| 6  | Informal sector incomes are too low to pay any tax hence taxing will negatively affect the sector's operations |                   |          |          |       |                |
| 7  | Cost of collection outweighs any benefits of taxing                                                            |                   |          |          |       |                |



## SECTION D: BENEFITS AND CHALLENGES OF INFORMAL SECTOR TAXATION

### 11. Governance gains

| No | Statement                                                                                                                                                  | Strongly Disagree | Disagree | Not sure | Agree | Strongly agree |
|----|------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------|----------|----------|-------|----------------|
| 1  | Government is transparent and accountable on spending taxes                                                                                                |                   |          |          |       |                |
| 2  | Informal sector benefits from paying tax in terms of infrastructure and consultative engagement                                                            |                   |          |          |       |                |
| 3  | The unclear spending and poor service delivery discourages the informal sectors and other taxpayers                                                        |                   |          |          |       |                |
| 4  | Paying tax is every citizen's obligation without expecting anything from the government                                                                    |                   |          |          |       |                |
| 5  | Paying tax legitimises the relationship between the state and the informal sector, enabling dialogue between the two and the accountability from the state |                   |          |          |       |                |
| 6  | The informal sector is too heterogeneous and fragmented to have a voice                                                                                    |                   |          |          |       |                |

## 12. Growth and income levels

| No | Statement                                                                                                                        | Strongly disagree | disagree | Not sure | agree | Strongly agree |
|----|----------------------------------------------------------------------------------------------------------------------------------|-------------------|----------|----------|-------|----------------|
| 1  | The current informal sector tax system takes into account the turnover as well as expenses of the firms in the sector            |                   |          |          |       |                |
| 2  | The current informal tax rates take away most of their incomes                                                                   |                   |          |          |       |                |
| 3  | The current informal sector tax system encourages growth and survival of informal businesses                                     |                   |          |          |       |                |
| 4  | The tax rates applied to informal sector businesses, take into account the size of business, time of operation and income level. |                   |          |          |       |                |
| 5  | Poverty and business closures have been a result of the current informal sector tax system                                       |                   |          |          |       |                |

### 13. Impact of tax on informal sector growth

| No | Statement                                                                                                                                  | Strongly disagree | Disagree | Not sure | agree | Strongly agree |
|----|--------------------------------------------------------------------------------------------------------------------------------------------|-------------------|----------|----------|-------|----------------|
| 1  | Paying taxes and formalising increases business' chances to access financing                                                               |                   |          |          |       |                |
| 2  | Paying taxes allows informal sector businesses to compete for government tenders and to deal with other tax compliant companies            |                   |          |          |       |                |
| 3  | Paying taxes, especially corporate tax, offers businesses a chance to enjoy tax incentives, exemptions, deductions as well as tax training |                   |          |          |       |                |
| 4  | Paying taxes gives informal businesses more visibility and enables growth in terms of turnover and profitability etc                       |                   |          |          |       |                |
| 5  | Paying taxes makes informal businesses more visible and an easy target for tax authorities hence increased harassment                      |                   |          |          |       |                |

14. How would you assess the statements below in relation to equity considerations?

| No | Statement                                                                         | Strongly disagree | Disagree | Not sure | Agree | Strongly agree |
|----|-----------------------------------------------------------------------------------|-------------------|----------|----------|-------|----------------|
| 1  | The informal sector tax rates are comparatively fair relative to formal tax rates |                   |          |          |       |                |
| 2  | The current presumptive tax system is equitable                                   |                   |          |          |       |                |
| 3  | The way the tax system is administered, tax audits and penalties is fair          |                   |          |          |       |                |
| 4  | The informal sector is paying more than the formal sector                         |                   |          |          |       |                |
| 5  | ZIMRA provides taxpayers with sufficient information, tax education and awareness |                   |          |          |       |                |

15. How would you rate the level of informal sector compliance with the presumptive tax?

- ☐ High
- ☐ Medium
- ☐ Low

16. What factor(s) do you think explain the level of tax compliance in the sector

- i. ☐ Lack of stakeholder engagement by the government
- ii. ☐ ZIMRA not educating the informal sector on tax
- iii. ☐ Lack of tax knowledge and awareness
- iv. ☐ Low education levels
- v. ☐ Tax evasion
- vi. ☐ Other, explain.....

17. How would you assess the following as reasons for not registering for tax amongst informal sector players?

| No | Statement                                         | Strongly disagree | Disagree | Not sure | Agree | Strongly agree |
|----|---------------------------------------------------|-------------------|----------|----------|-------|----------------|
| 1  | Lack of knowledge                                 |                   |          |          |       |                |
| 2  | Tax system too complex                            |                   |          |          |       |                |
| 3  | Registration process expensive                    |                   |          |          |       |                |
| 4  | Taxes and/or social contributions high            |                   |          |          |       |                |
| 5  | Multiplicity of taxes                             |                   |          |          |       |                |
| 6  | Lack of awareness of the benefits of paying taxes |                   |          |          |       |                |
| 7  | Registration process cumbersome                   |                   |          |          |       |                |
| 8  | Unclear government spending                       |                   |          |          |       |                |

18. What do you think are the challenges faced by ZIMRA in taxing the Informal Sector in Zimbabwe? Answer by assessing the following factors:

| No | Statement                                                    | Strongly disagree | Disagree | Not sure | Agree | Strongly agree |
|----|--------------------------------------------------------------|-------------------|----------|----------|-------|----------------|
| 1  | Capacity constraints (manpower, resources, capabilities etc) |                   |          |          |       |                |
| 2  | Heterogeneity of the sector                                  |                   |          |          |       |                |
| 3  | Mobility and undetectable nature                             |                   |          |          |       |                |
| 4  | Poor record keeping                                          |                   |          |          |       |                |
| 5  | Cash transactions that are easy to hide                      |                   |          |          |       |                |
| 6  | Low education levels                                         |                   |          |          |       |                |
| 7  | High costs of collection                                     |                   |          |          |       |                |
| 8  | Potentially low revenues not justifying costs of collection  |                   |          |          |       |                |

## SECTION E: RECOMMENDATIONS

19. What are the possible ways to foster voluntary tax compliance and strengthen informal sector taxation in Zimbabwe and Africa in general?

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

20. If required to participate in the formulation of tax policies for the informal sector, what suggestions would you make in order to improve compliance especially with particular reference to:

- Tax policy formulation process

- .....
- Tax administration
  - .....
- Tax rates with respect to:
  - ❖ Size of entity
    - .....
  - ❖ Number of years in operation
    - .....
  - ❖ Levels of profitability
    - .....
  - ❖ Sectorial differences
    - .....
- Taxpayer expectations on tax revenue utilisation
  - .....

**Thank you for your time**

### **Appendix 3: ZIMRA Interview guides**

QN1. For how long have you been with the ZIMRA TAXES DEPARTMENT?

QN2. What drives the emergence and growth of informal sector in Zimbabwe?

QN3. What are objectives of informal sector taxation in Zimbabwe?

QN4. Should informal sector taxation be a policy priority for Developing countries and Zimbabwe in particular?

QN5. How would u rate the level of tax compliance in a scale of high, medium and low?

QN6. What do you think are the reasons to explain the level of compliance you have identified above?(focus on registration for tax purposes, level of tax rates, tax penalties and company closures due to tax obligations, complexity of taxes, multiplicity of taxes and the nature of the IS)

QN7. In your view, how does the current informal sector tax system impact on the survival and growth of small firms? What benefits does the informal sector draw from registration for and payment of taxes?

QN8. How does the Zimbabwe IS tax system compare with those of other developing countries, who have made efforts to tax this sector?

QN9. How would you evaluate the current IS tax system against the canons of taxation (Equity, Convenience, Economy and Efficiency especially costs of collection)?

QN10. How practically possible is it for ZIMRA to collect tax from the IS? Elaborate on the challenges.

QN11. Drawing from your experience ZIMRA, what reforms/strategies or recommendations would you suggest to ZIMRA and government to strengthen informal sector taxation and make it more effective? (Focus on administrative, legislative, technical reforms and any other ones that you may think of)

QN12. Specifically for the Zimbabwean situation, what approaches would you recommend to improve tax under the enforced tax compliance and voluntary compliance methods?



#### **Appendix 4: Ministry for SMEs Officials Interview guides**

1. What are your key responsibilities to the informal sector as a ministry of SMEs?
2. The informal sector spans across almost all sectors of the economy, is it possible to give us a sectorial composition of these different sectors?
3. What are the key drivers of informal sector growth in developing countries and Zimbabwe in particular? Focus on:
  - Government Gender based programmes
  - Government financing initiatives/ lack of it.
  - Entrepreneurial initiatives and high income potential
  - Government regulations & tax policy
  - Lack of employment opportunities
4. What is the role of the informal sector in Zimbabwe with respect to:
  - Contribution to revenue
  - Contribution to employment & poverty alleviation
  - Contribution to GDP
5. Has the informal sector in Zimbabwe achieved its full potential with respect to the above roles or there is still an opportunity for improvement?
6. What support schemes does your ministry/government avail to the informal sector and what is the frequency of these schemes? Are there any progress monitoring mechanisms that your ministry has put in place?
7. There is an on-going debate in favour of and against informal sector taxation in Zimbabwe in particular and developing countries. What is your view on this?
8. The government introduced taxes for the IS for example the transport sector, hairdressers, informal trader and cottage industries, how practical and administratively feasible is it to tax this sector?

9. What implications does taxation or non-taxation of this sector have on the economy at large, the formal sector, the growth and survival of the informal sector and on poverty alleviation efforts?
10. How does the current informal sector tax system compare with that of other developing countries?
11. What are the challenges faced by the IS in complying with their tax obligations in Zimbabwe?
12. What is your view about the informal sector tax compliance outcomes in terms of :
  - Revenue contribution to the fiscus
  - Access to financing
  - Survival and growth of this sector
  - Visibility of the informal firms
13. What forms of intervention has your ministry rendered to the by the informal sector with regards to tax issues or disputes?
  - tax compliance issues
  - tax affordability issues & ease of tax payments considering sectorial differences
  - tax law & regulation complexities
14. As a major stakeholder dealing with the informal sector, to what extent are you involved in the drafting of key tools such as the Tax legislation and policy affecting this sector?
15. What suggestions would you recommend for the government and ZIMRA in order to enhance the effectiveness of the IS tax system.
16. Specifically for the Zimbabwean situation, what approaches would you recommend in order to improve compliance under the enforced tax compliance and voluntary compliance methods?

## **Appendix 5: Tax Experts Interview guides**

1. For how long have you been in the tax field?
2. How would you define the informal sector?
3. What do you think are the drivers of informality in Zimbabwe?
4. What is the role played by this sector in the economy?
5. What tax/taxes is the sector expected to pay in Zimbabwe?
6. Evaluating the current informal sector taxation framework in Zimbabwe against the canons of taxation, what would be your comment?
7. Do you think informal sector taxation should be a policy priority for Zimbabwe and other developing countries?
8. What are the benefits or perceived benefits of informal sector taxation if any?
9. What are the challenges of informal sector taxation?
10. From your experience in dealing with the informal sector what could be the reasons for the low compliance levels often suggested by Revenue Authorities?
11. From a tax expert point of view what reforms would you recommend to government in order to improve informal sector taxation?
  - General tax administration reforms
  - Legislative reforms
  - Technological reforms in tax administration

## Appendix 6: ZIMRA Research Approval Letter



**ZIMBABWE REVENUE AUTHORITY**  
**COMMISSIONER GENERAL**

ZIMRA ISO 9001:2008 QUALITY MANAGEMENT SYSTEM

|                                                                                                         |                                                                                                                 |                                                                                                            |
|---------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------|
| <p>WRITE TO:<br/>THE COMMISSIONER GENERAL<br/>ZIMBABWE REVENUE AUTHORITY<br/>PO BOX 4260<br/>HARARE</p> | <p>TELEPHONE:<br/>+263-4-7086174<br/>+263-4-7086175<br/>FAX:<br/>+263-4-7086173<br/>77, BUCKINGHAM<br/>ROAD</p> | <p>CALL AT<br/>RECEPTION<br/>8TH FLOOR ZB CENTRE<br/>CNR KIRAME NKURUMU<br/>ANDERSON STREET<br/>HARARE</p> |
|---------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------|

IN REPLY PLEASE QUOTE:  
Request for Authority to carry  
research

18 July 2017

Favourable Mphofu  
812 Mahabudha North  
P. O. Ascot  
Bulawayo

Dear Favourable

**RE: APPLICATION FOR AUTHORITY AND ASSISTANCE TO CONDUCT RESEARCH**

**Topic: "Evaluation of Informal Sector Taxation in Zimbabwe. A case of Zimbabwe Revenue Authority."**

The above matter refers

Please be advised that your application for authority to carry out the above research has been approved. However, we may be unable to release some of the information to you because of its confidential nature. Upon completion you are required to furnish this office with a copy of your final research findings.

We wish you success in your endeavours.

Yours faithfully,

  
J. Tseingepi  
HUMAN RESOURCES MANAGER



**Acknowledgment**

I, Favourable Mphofu acknowledge receipt of this letter and accept its contents.

Tel/Cell No. 0772233005 Signature [Signature] Date 20.07.2017

HR/V, HR Administration Issue No: 1 Version 1 Issue Date: 30/04/2016 Page 1 of 1

## Appendix 7: Ethical Clearance Letter



Private Bag 30201, Potchefstroom  
South Africa 2520

Tel: 018 259-1111/2222  
Web: <http://www.nwu.ac.za>

Economic and Management Sciences Research  
Ethics Committee (EMS-REC)

18 August 2020

Prof K Coetzee  
Per e-mail  
Dear Prof Coetzee

**EMS-REC FEEDBACK: 31072020**  
**Student: Mpofu, FY (29253438)(NWU-00732-20-A4)**  
**Applicant: Prof K Coetzee – PhD in Taxation**

Your ethics application on, *An evaluation of informal sector taxation in Zimbabwe*, which served on EMSREC 31 July 2020, refers.

### Outcome:

Approved as a minimal risk study. A number NWU-00732-20-A4 is given for one year of ethics clearance.

Due to the Covid-19 lock down ethics clearance for applications that involve data collection or any form of contact with participants are subject to the restrictions imposed by the South African government.

Kind regards,

**Mark**  
**Rathbone**

Digitally signed by Mark Rathbone  
DN: cn=Mark Rathbone, o=North  
West University, ou=Business  
Management  
email=mark.rathbone@nwu.ac.za,  
c=ZA

Prof Mark Rathbone  
Chairperson: Economic and Management Sciences Research Ethics Committee (EMS-REC)

## **Appendix 8: Confirmation of Editing Letter**

Effort C. Chiware Lecturer

National University of Science and Technology

P.O. Box AC 939 Ascot

Bulawayo, Zimbabwe

26 November 2020

TO WHOM IT MAY CONCERN

### **REF: CONFIRMATION OF EDITING FAVOURATE Y. MPOFU'S PhD THESIS**

I hereby acknowledge and confirm that I edited a PhD thesis by Favourate Y. Mpofu (Student Number 29253438) titled, **“A CRITICAL REVIEW OF THE TAXATION OF THE INFORMAL SECTOR IN ZIMBABWE”**. I did language editing; structural editing as well as copy editing on the thesis.

Yours Sincerely



Effort C. Chiware

MSc in Publishing Studies, Moi, Kenya [effortchingono@yahoo.com](mailto:effortchingono@yahoo.com)

Cell+263 772361746