Research Journal of Finance and Accounting
ISSN 2222-1697 (Paper) ISSN 2222-2847 (Online)
Vol.8, No.20, 2017

The Cashless Economy in Zimbabwe: The Golden Time to Tax the Informal Sector

Edmore Munjeyi* Oscar Chiwira Stephen Maponga Samson Mutasa
Faculty of Commerce, BAISAGO University, Bag 149, Suite#268, Kgale View PostNet Gaborone

Abstract
In this paper we sought to analyse the possibilities of raising revenue from the informal sector in the cashless/ plastic money era in Zimbabwe. The study employed literature review method. The evidence suggests that the informal sector play an important role in the Zimbabwean economy such as creating jobs, poverty eradication and also as a test bed from which willing taxpayers can graduate into mainstream however their contribution to the national tax revenue is insignificant despite Government efforts. We established that it is possible to increase tax compliance in this cashless era and formalise the informal sector activities. The study recommends that Zimbabwe Revenue Authority must follow the proposed outlined phases to accomplish the goal of increasing revenue from the informal sector.
Keywords: Informal sector, Tax, Cashless Economy, Zimbabwe

1. Introduction

The policymakers, world over have come to recognise the existing of informal sector in facilitating economic growth. Though they seem invisible in terms of recognition, and official accountability, they are undoubtedly a force to reckon with regarding job creation, poverty alleviation and socio-economic vibrancy of the national commercial outlook economic growth, wealth creation, and aid the rural economy in providing some form of income generating activities (with the resultant effect being balance income distribution and economic stability (Nkwe 2012, Mwobobia 2012, Amoako *et al. 2014,* Nathan *et al. 2015*). In his conclusion Mwobobia (2012) asserts that informal sector will be the key drivers of sustainable economic in Southern African Development Committee (SADC), and the world at large. Extant literature show that informal sector contribute to over 55% of GDP and 65% of total employment in middle to high income countries and in low income countries account for 60% of GDP and over 70% of total employment (OECD 2004, Nathan *et al* 2015, Maseko & Manyani 2011). Informal sector is becoming an important engine of growth since more innovations and new products originates from that sector (Maseko, & Manyan 2011).Unlike in the past, the informal sector was seen as a sign of technological backwardness, out-model, and very low class venture (Ibrahim,n.d).

Currently in Zimbabwe, the informal sector is now viewed as a domain that could bring sustainable development (Maseko & Manyani 2011). This is due to the fact that, greater percentage of the total national workforce is in this sector (Mwobobia 2012, Nkwe 2012). Zimbabwe has witnessed recurrent reviews of government programs and activities to ensure efficiency of informal sector such as the establishment of Ministry of Small and Medium Enterprise, Small Enterprise Development Corporation (SEDCO); however debates with regards to informal sector contribution to the fiscal have not been rolled out. Various factors are perceived to contribute to the proliferation of informal sector and include among others the growing poverty rate and weakness of economic conditions to create jobs. The paper examines the incentives in Zimbabwe that impact the growth of the informal sector economy, if any and how to persuade and empower this simmering force to make some contributions to tax revenue.

Several researchers argue that by not taxing the informal sector the government is providing an incentive to this sector which stifles growth of formal sector (Schneider and Williams, 2013, Tatariyanto 2014). Several researchers are is however questioning whether the informal sector merits recognition or any form of assistance from the government if they are not paying some form of tax.

2. Statement of the problem

Taxation of informal sector in most developing countries remains a challenge. Sikwila *et al* (2016) declare that since the introduction of presumptive tax into the underground economy the performance of this tax head to domestic revenues have been poor and insignificant and also the collection of tax from the underground economy has been a problem for the revenue authorities. Informal sector in Zimbabwe capitalises on the many loopholes in the current tax system (presumptive). The government of Zimbabwe is in serious cash crisis hence the adoption of plastic money system. Since revenue collection is key for the government, the study thus endeavours to answer the research question; can the use of plastic money be an opportunity for informal sector taxation?

3. Informal sector and Taxation

The common definition of informal sector is those economic activities and the income derived from them that circumvent or otherwise avoid government regulation, taxation or observation (PWC, 2016). This means that informal sector involves all unreported to tax authorities with the express purpose of evading payment of income taxes arising from legal or illegal activities, and which do not comply with any law. (Schneider and Williams, 2013, Tatariyanto 2014, Schneider, Raczkowski & Mroz, 2015)

Taxing informal sector is complex and complicated task requiring sophisticated approaches of recognising, observing and reporting underground income as well as creating a tax paying culture within the informal sector operators (Wedderburn *et al,* n.d). Udoh (2015) highlights that the once neglected informal sector is now at the heart of every debate in developing countries, reflecting the increased acknowledgement of the potential tax revenue to the economy. Some of the approaches adopted by some countries include: presumptive tax system (ZIMCODD, 2014; TRA, 2010); simplified tax model for the informal sector (Heggstad *et al,* 2011), corporation tax for the informal sector (Mpapale, 2014), turnover tax system (Mpapale, 2014), Value Added Tax, Block Management System (TRA, 2010), Unified revenue tax for the informal sector (Heggstad *et al,* 2011), Tax stamp system (Amoah, 2012), Identified groupings (Ofori, 2009) and PAYE (Mpapale, 2014).

Some of the tax reforms that has been adopted by African countries in an attempt to tax the informal sector are: Tanzania use Block Management System; Benin has implemented a "Taxe Professionnelle Unique" (TPU); Kenya adopted PAYE, Cameroon adopted Unified Zimbabwe use presumptive tax system; Ghana introduce Tax Discs for public vehicles; South Africa use Turnover Tax; Mozambique use Simplified tax model and to name but a few.

Despite the many strategies devised and adopted to tax the informal sector in developing countries, the outcomes were not impressive at all. Rahim (2015) maintains that presumptive tax system in Zimbabwe was not effectively implemented. AFRODAD (2011) adds that there has however been minimal progress in terms of tax collection from the informal sector due to noncompliance by players in the informal sector. Mwila, Manley, Chileshe, Phiri and Mpembamoto (2011:68) assert that revenue collected from the informal sector in Zambia has not been impressive. AFRODAD (2011) concludes that Zambia has no effective mechanism to collect revenue from the informal sector. TRA found evidence that the government is losing 40% of presumptive tax revenues annually due to the fact that some of informal sector are not taken in the tax network. TRA (2010) suggests that an investigation is required on the net effects of presumptive income tax as its impacts of presumptive tax with regards to efficiency, use, transparency and governance are significant and will improve systems and approach to informal sector. The empirical review shows that taxation of informal sector is still a challenge in most developing countries and hence stringent measure should be taken to harness revenue from this sector.

4. Measure to improve tax revenue from the informal sector

Taxing the informal sector is burdensome to Tax Authorities. This is due to the fact that the cost of administering informal sector taxpayers can offset revenue potentials (Tanui 2016). Literature suggests a number of policy measures that can be implemented by government to encourage informal sector into the formal economy and benefit the government in terms of creating decent formal jobs and increase tax revenue. These broad policy strategies include: (i) do nothing; (ii) extend technical support to the informal sector; (iii) eradicating the shadow economy; (iv) legitimising the informal sector, (v) simply regulatory compliance, understanding the informal sector; (vi) increase penalty, (vii) commitment to tax morality, (viii) improved detection together with (ix) society-wide amnesties (ZIMCODD, 2014; Enquobahrie; n.d; UNPD, 2016; The International Tax Compact (ITC), 2015; Dickerson.C.M, 2014II Schneider & Williams, 2013; Prichard W, 2010; Boakye, 2011.). All these strategies present their own problems such as abuse and corruption, prohibitive administration costs, resistance from some taxpayers and generally perceived as unfair approach hence the call for careful planning (Bornman, 2014).

Levin (2004) suggests that broadening the VAT-base is the best approach for tackling the informal sector. Levin further asserts that government should come up with policies to fully incorporate growing informal sector into the tax net. He further informs that the tax authority should research more to avoid adverse impact on the poor and improve efficiency of tax system. The root causes of the informal sector should be researched on and come out with better ways of addressing the generic problems, for example, if the root cause is regulations, then government should formulate policy to address such burdensome regulations (Levin, 2004). Schneider and Enste (2000: 17) conclude that tax authorities in many developing countries endeavour to curb the informal sector activities through education and punitive procedures rather than tax reforms of the tax and social security systems which have a long term effects on the economy.

The European Union (EU) adopted breaking the cycle framework as a means to curb and bring the informal sector in the tax net. Breaking the cycle framework asserts that the underground economy is characterised by several interconnecting variable: the prevalence of cash, a lack of transparency surrounding transactions, and limited enforcement. The framework assumes that informal sector can contribute to the economy by ensuring that rules and regulations are enforced (that is controls and penalties). Further to that the government should according to Schneider (2013) simplifying tax reforms and online submission of tax returns; reduce red tap and offer incentive to those who remain in the formal sector. Recent research shows that government is however not providing incentives for not participating in the informal sector (Schneider 2013). The framework is illustrated in figure1:

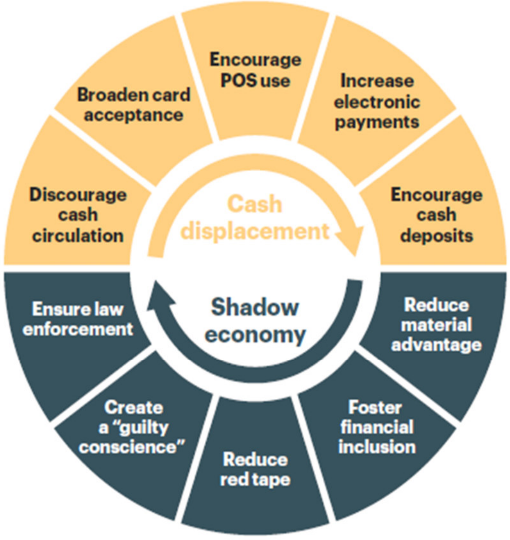

Figure 1: European Union breaking the cycle framework

Fostering financial inclusion reduces the size of the informal sector. Thus according to the framework the government should make access to basic financial services accessible and affordable to both the formal and informal sectors. This was adopted by a number of countries such as Netherlands; Portugal and Italy (Schneider, 2013). In order to build a culture of fiscal citizenship the cash displacement strategy (that replacing hard cash with plastic money) can be used. The approach is rather complex as it involves changing habits and synchronizing actions of government, banks, merchants and individuals. Schneider (2013) advocates that there must be improvements in the infrastructure so as to embrace transaction changes in the economy and this would help to reduce the informal sector. Several ways according to Schneider to displace cash in the system include: discourage cash circulation (absence of ATM fees), broaden card acceptance, encourage POS use (offer incentives: refund/rebate to card usage) and encourage cash deposits

In conclusion Schneider (2013) notes that while European legislation has encouraged EU member states to adopt stricter regulations to displace cash, the truth is that these procedures are difficult to administer. In most developing countries displacement of cash is a daunting task as it requires financial support, and political will. The proposed strategies are aimed at transforming beliefs and perceived social norms of taxpayers (Bornman, 2014:167)

5. Plastic money or Cashless economy

The use of cash presented some challenges for revenue authority world over (HMRC, 2015). The use of cash transactions promotes evasion by making underreporting of income and 'off book; dealings easier (ibid). Informal trader make use of cash as it allows them to trade in a way that is more complex to trace and that leaves a smaller digital footprint than electronic dealings (Mukhopadhyay n.d, HMRC 2015). Non-cash payments now account for the lion's share of consumer payments in many countries at different levels of economic development (Luecke *et al* 2016).

Several researchers conclude that shift from cash to cashless have an impact on the opportunity for intentionally tax non-compliance (Kaseke 2012, Mukhopadhyay n.d , HMRC 2015). Plastic money is a substitute to the cash or the ordinary 'money' (Patil 2014). Plastic money is referring to the credit cards or the debit cards that people use to make effect transactions .Various other types of plastic cards provided by banks are credit cards, Smart cards, Charge Card, Amex Card, MasterCard and Voisa, Debit Cards, ATM Cards (Kasese 2012, Patil 2014, HMRC, 2015). The following are the merits of using plastic money purchasing power; time saving; extra safety; Promote the remote collection of bill payments. ; promote financial inclusion; it will help plug the leakages advantages (as it will leave a digital footprint and lowering of transaction costs (Kasese 2012, Patil 2014, HMRC, 2015, Mukhopadhyay n.d). Luecke, Pintea, and Giucci (2016:) conclude that the use of plastic money more widely in transacting might create pressure on business to formalise the informal sector. Plastic money have been adopted by many developed countries namely Argentina, Australia, Belgium, Russia, USA, Chile, Finland, France, Denmark, Germany, Greece, UK, Sweden , Switzerland among others (the ratio of money in circulation to GDP is between 7% to 13% (McKinsey,2013))and a handful of South Africa and Egypt.

During a multi-currency era, Zimbabwe adopted plastic money system and it has been widely accepted.

Following the recent cash crisis and statutory limits to cash withdrawals ($50 per day), non-cash transactions gained grounds in Zimbabwe, both in rural and urban areas (The DailyNews, 2017). Paymaster facility offers the possibility to pay for various services (Utilities, mobile services) from a virtual wallet (Luecke *et al* 2016). In Zimbabwe, every corner people are now trading using Ecocash, TextCash, SWIPE (debit cards) and One Wallet. Many people in the rural areas were conditionally encouraged to adopt mobile banking/payment channels to ease the cash shortages. Luecke *et al (2016:9)* point out that *"*It must be noted that the main benefit of such restrictions on cash payments would be to shine the light of day on some shadow transactions".

6. Methodology

The authors adopted document analysis data collection technique whereby secondary data was obtained from books, government documents, and relevant journal articles, publications from private and public institutions.

7. Summary, Conclusion and Recommendation

From the literature reviewed the study found out that:

(a) The use of plastic money is widely encouraged in developed countries and some developing countries
(b) The governments in developing countries lack modern infrastructure for the adoption of plastic money system
(c) The use of plastic money will extinguish the informal sector in the short term
(d) Tax will increase as a result of more accurate financial information
(e) Formalisation of informal sector will naturally come

The study concludes that Zimbabwe should make use of this platform to tax the informal sector: which in any case constitute above 60% of GDP. The following are the phases that ZIMRA should follow in getting *all in* the tax net:

Phase 1: link all paymaster service providers such as Ecocash, TextaCash and One Wallet to Central Bank and also to ZIMRA. ZIMRA must spell out the objective of doing this to the Zimbabweans taxpayers. This will be through workshops, awareness campaigns and community sensitisation. The cost will be offset by the increased in tax revenue and tax compliance.

Phase II: ZIMRA must create a database of individual depositors and set a team to monitor the movement of cash in one's account. This is usually referred to Know Your Customers (KYC).

Phase III: ZIMRA should frame necessary guidelines for merchant payment standards and interoperability between various issuers and acceptance networks, including telecom, internet, pre-paid instrument providers and Payments Banks, to ensure that merchant payments are interoperable across the broad spectrum of payments and settlements system.

Phase IV: ZIMRA must introduce a single window system of Payment Gateway to accept all types of Cards/ Digital payments for private and public receipts. In order to achieve this ZIMRA must study feasibility and framing rules for creating a payments history for all card/ digital payments and ensure merchants/ consumers can leverage their credit history to access instant, low-cost micro-credit through digital means and create necessary linkages between payments transaction history and credit information.

Phase V: ZIMRA must monitor and evaluate the outcome and give feedback

It is further recommended that more research be conducted on the technicalities of the cashless system on the actual tax revenue and social impact.

Acknowledgements

We would also like to thank the anonymous referees for their very helpful comments on earlier drafts of this paper

References

AFRODAD Report., 2011, "*What has tax got to do with development: A critical look at Zimbabwe's tax system"*

Amoah.P.T, 2012. Small Business Owners' Attitude Towards Tax Stamp: A case study of taxpayers In Sekondi, Master Thesis, Department of Accounting and Finance, School of Business, University of Cape Coast,June, 2012

Amoako, K.O, Marfo, E.O, Gyabaah,E.N, and Gyamfi, o., (2014), Accounting records keeping practices of SmEs in Ghana: Evidence from sunyani Municipality, British Journal of Economics, Finance and Management science,vol.9, May, 2014

Boakye E. K 2011. Assessing the challenges of tax revenue mobilisation in Ghana: A case of Sunyani Municipality. Master thesis, Kwame Nkrumah University of Science and Technology, June 2011

Dickerson.C.M, 2014. Bringing Formal Business Laws to Cameroon's Informal Sector: Lessons and Cautions from the Tax Law Example. Washington University Global Studies Law Review, vol.13,Issue.2, 264-320

Enquobahrie.A, n.d. Some Controversies on informal sector operation in Ethiopia: Problems and prospects for a development strategy

Heggstad.K.J Ustvedt T, Myrvold-Hanssen and Briseid M , 2011. TOWARDS FISCAL SELF-RELIANCE: Capacity building for domestic revenue enhancement in Mozambique, Tanzania and Zambia. Workshop report, Maputo, 30-31 March, 2011 http://dx.doi.org/10.4236/me.2016.712134

HMRC (2015), Cash, Tax evasion and the hidden economy, call for evidence, 25 November 2015, HR Revnue & Customs, London

Ibrahim, M, (n.d) Impact Assessment of Accounting System On The performance of Small and Medium Enterprises (SMEs) In Bauchi Metropolis, Nigeria.

Luecke M, Pintea D, and Giucci R (2016) The Limited use of non-cash payments in Moldova: Diagnosis and policy options German Economic Team Meldova, Policy Paper(pp/02/2016)

Maseko, M and Manyan, O., (2011)., Accounting practices of SMEs in Zimbabwe: An investigative study of record keeping for performance measurement (A case study of Bindura)', Journal of Accounting and Taxation vol.3(8), 171-181, December 2011

McKinsey & Co (2013) Forging a path to payments digitisation, no.16,March, 2013

Mpapale C, 2014. Broadening the tax base in Kenya: A case of informal sector. A diagnosis of the current practices and prognosis of reform option. EATGN August 2014

Mwobobia, F.m, (2012), " Empowering of Small Micro and Medium Enterprises (SMMEs): A case of Botswana", Business and Management Research, vol.1, no.4; 2012.

Nathan F.O , Molefhe, L, Mupimpila, C, Nkuba, M and Okurut M.L (2015), Determinants of SME growth in Botswana, IDR: vil.13, no.1-2, (January- December, 2015): 51-70

Nkwe, N., (2012), 'Role of SMES in Botswana", American International Journal of Contemporary Research, vol.2,no.8, August, 2012

OECD (2004) Entrepreneurship and innovative SMEs in a Global Economy: Towards a more Responsive and inclusive Globalisation, 2nd OECD Conference of Ministers Responsible for Small and Medium Sized Enterprises (SMEs), Istanbul, Turkey 3-5 June 2004

Ofori, E.G., 2009, *Taxation of the Informal Sector in Ghana: A critical examination*. MBA thesis, a, Kwame Nkrumah University of Science and Technology, Kumasi, May 2009

Prichard W, 2010. Taxation and State Building towards a Governance focused tax reform agenda. IDS working paper 341, May 2010

Schneider F and Enste. D. H 2000. Shadow Economies: Size, causes, and Consequences. Journal of Economic Literature vol. XXXVIII (March, 2000), 77-114

Schneider F, 2013. The shadow economy in Europe 2013. Affairs Shadow economy Shedding light on the shadow economy

Schneider F, Raczkowski K and Mroz B 2015. Shadow economy and tax evasion in the EU.journal of Money laundering Control vol.18, no. 1, 2015 pp.34-51

Sikwila.M.N, Kareza G and Mungadza A, 2016. Tax collection constraints and tax burden on the ubarn informal sector Enterprises: evidence from Bulawayo Zimbabwe. *Mediterranean Journal of Social Sciences, vol.7, no. 6, November 2016*

Slozko, O., Pelo, A. (2014), The Electronic Payments as a Major Factor for Futher Economic Development, *Economics and Sociology*, Vol. 7, No 3, pp. 130- 140. DOI: 10.14254/2071-789X.2014/7-3/13

Tanui,P.J.,(2016) Demstifying the key taxation concepts to improve compliance by Small and Medium Enterprises in Kenya, European Journal of Accounting, Auditing and Finance Research, vol.4, no.6,47-60, June, 2016

Tanzania Revenue Authority., 2011, *Review of informal Sector for Taxation purposes*. First Draft Report R-RPD-001/2010/1, January 2011

Tatariyanto F, 2014. Taxing the Underground Economy: The case of Indonesia. Journal of economics and sustainable development vol.5, no.27, 2014

The Daily News Zimbabwe, Cash Crisis, January 4, 2017

The International Tax Compact (ITC), 2015. Examples of Successful DRM Reforms and the role of International Co-operation. Discussion Paper. July, 2015

Udoh.J.E, 2015. Taxing the Informal Economy in Nigeria: Issues, Challenges and Opportunities. *International Journal of Business and Social Science,vol. 6, no. 10; October 2015*

UNPD, 2016. Informal work: From Challenges to Solutions. National Human Development Report, Podgorica, 2016

Wedderburn C, Chiang E. P and Rhdd R , n.d. the informal economy in Jamaica: Is it feasible to tax this sector? Journal of International business and Cultural Studies

ZIMCODD, 2014. Zimbabwe's Tax system: Opportunities and threats for enhancing development in Zimbabwe. Zimbabwe Tax justice, May 2014