Voluntary/involuntary informal employment and tax payment, utilization of banking services and business growth: A survey of Mbare Magaba informal traders, Harare, Zimbabwe

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Abstract

This study looked at voluntary and involuntary informal employment and aimed at answering two major questions; first whether informal traders voluntarily or involuntarily became informally employed and second, whether this voluntarism had any effect on one’s tax payment behavior, propensity to grow business venture and utilization of banking services (as three forms of economic development). The study employed a descriptive quantitative survey design and collected data from 150 informal traders at Mbare Magaba Informal Market place using questionnaires.

It was established in the study that the majority of the informal traders involuntarily became informally employed. Further, the study established that those who voluntarily became informally employed were more likely to pay tax than those who involuntarily became informally employed and lastly, voluntarism has no effect on utilization of banking services or propensity to grow business.

Key words: Voluntarism, informal employment, banking services, tax payment, business growth

1 Introduction

It is no secret that micro-small to medium enterprises (MSMEs) are gaining recognition the world over especially in Africa and other developing nations. Most of these MSMEs operate in the informal sector and recent research has shown evidence of the growing importance of this sector in relation to employment creation, livelihoods and national socio-economic development in general.

Although much research has been done regarding the informal sector, a lot still remains to be understood about the sector and a lot of questions remain unanswered about the sector. Key among the unanswered questions concerning the informal sector is firstly how, in spite of continuously attracting large numbers of participants year in year out, the sector continues to contribute little to national tax revenues, secondly the lack of development within the sector and thirdly among other issues the shunning of financial services such as banking by informal sector players. This assertion was recognised by Anuradha and Ayee (2001), when they state that how to tax the informal sector remains a pressing question. This was also highlighted before Anuradha and Ayee by Masebula (1996) in his study of the informal sector in developing nations, particularly Botswana, Zambia and other SADC countries. He notes that developing countries face the challenge of regulating the informal sector yet the sector has the potential to contribute greatly to the national revenues.

One critical aspect of the informal sector that seems to be ignored or overlooked by many researchers is the circumstances under which one gets into the informal sector that is whether one voluntarily or involuntarily gets involved in the informal sector (voluntary/involuntary informal employment). Perhaps the most essential work on voluntary informal employment is Fields (1990), but the issue has received renewed attention with the contributions of Maloney (1999 and 2004) and his co-authors (e.g. Maloney and Bosch, 2007). The basic idea is that informal employment is heterogeneous, characterized by what Fields calls “easy-entry” and “upper-tier” informal employment, and that “upper-tier” informal employment is “better” than and “preferred to formal sector employment” and is “voluntary” (Fields, 1990, pp. 50 and 66).

Fields (1990) in his research in urban Costa Rica and Malaysia, developed the idea of dualism within urban informal employment characterized by “easy-entry” and “upper-tier” informal employment. Fields found that many upper-tier informal workers had previously worked in formal employment, where they had gained the skills and savings to set up their own informal enterprises. Though Fields emphasizes that upper-tier informal employment is “voluntary”, he also refers to its “constrained voluntary nature”, elaborating that “given the constrained choices available to them, a great many of informal sector workers are in that sector voluntarily” (1990, p. 67). This means that according to Fields’ concept, voluntary informal employment then results in one having the motivation to stay in the informal sector if things go well or even if he or she faces some challenges. This brings in the theory of motivation in the informal sector which is part of the basis of this study.
Other researchers argue that measuring voluntary informal employment is intrinsically thorny, for it requires knowing not just the characteristics of the informal job in question (as per existing definitions), but the characteristics and availability of the formal jobs the worker is qualified for as well as the worker’s qualifications themselves (Jütting, Parlevliet and Xenogiani, 2007). This means Fields’ definition of voluntarism is not enough until we know the options that the individual has especially in the case of most African nations like Zimbabwe where some researchers argue that informal traders are caused to enter the informal sector by difficult circumstances they face due to economic challenges. In this case their entry into informal employment becomes involuntary.

A lot can and has been written about voluntary (and involuntary) informal employment but what Fields and other researchers have not done is to link this voluntarism to the challenges that governments continue to face regarding the informal sector. It is the hope of this researcher that this paper shall close this gap by linking voluntarism to informal sector development or to one’s propensity to contribute to and participate directly in national economic development. The paper also looks into how voluntarism affects one’s propensity to grow his/her informal enterprise or even still, to formalize it or to participate in formal financial systems such as accessing banking services. By growing his/her informal enterprise, it then follows that the enterprise contributes towards the socio-economic development of the individual, his/her family and the livelihoods of those involved. Also by participating in the national economic system through paying taxes it also follows that the enterprise begins to contribute directly to national socio-economic development and lastly by accessing banking services, it follows that the money from the informal sector start to circulate in the formal system thereby helping ease national liquidity challenges among other financial benefits of circulation of the money.

This calls for a deeper understanding of the dynamics surrounding one’s decision to become informal. It is the writer’s belief that this understanding would help policy makers and researchers in crafting the right strategies that work towards unlocking developmental value from the informal sector. In this paper, the writer looks into these issues and tries to understand the informal sector from an entry level and tries to answer two major questions; 1) Did the informal traders voluntarily or involuntarily become informal and 2) How does this voluntarism affect their decisions pertaining to the growth of their enterprises as well as their participation in national economic systems through tax payments and accessing services such as banking among other things?

2 Background
Prior to Zimbabwe’s independence, indigenous Africans were regarded as temporary residents in urban areas. Permanent urban settlement was for the white settlers. Africans who were destitute or had been made redundant in the formal sector were repatriated to their rural homes where they had a piece of land and relatives who could meet their social security needs.

Legislative measures such as the Vagrancy Act (1960), the Pass Laws, the provision of single accommodation for workers and the controlled lodger system implemented in 1955 effectively slowed down the rate of urbanisation. Municipalities also kept registers of all the new arrivals in town, and those looking for employment, in an attempt to weed out illegal immigrants.

With the advent of independence the floodgates were opened as most of the restrictions to the migration of the indigenous people to urban areas were removed. There was a massive movement of people from rural to urban areas. This was in an attempt to escape from rural poverty as the successive colonial regimes neglected the development of rural areas.

Urbanisation occurred at a very fast pace, far exceeding the rate of industrialisation. According to Tibaijuka (2005) urbanization occurred at 23% in 1982 to 30% by the early 1990s and 35% by the early 2000s resulting in overstretched infrastructure, straining of social services, unemployment and an acute shortage of housing. Retrenchment in both the public and private sector was also a major cause of socio-economic challenges in urban Zimbabwe. As a result, unemployment levels increased to as high as 80% in the late 2000s (Luebker, 2008). The rapid growth in the number of increasingly educated people unable to penetrate the formal sector inevitably meant that they had to fend for themselves. The Business Herald (1998) revealed that out of 300 000 school leavers churned out by the country’s education system, the formal sector only had room for 70 000. The remaining 230 000 thus had to find their own means of earning a living, most of which were informal. This brings in the question in this paper that can this be called voluntary or involuntary informal employment, especially if the people concerned had limited options and had to take the only option they had which was to become informal. If this first question is answered it then gets us to the point where we need the second question to be answered, how does this voluntarism or involuntarism affect one’s decision or motivation to grow their business, participation in the national economic system through tax payment and accessing banking services?

With deregulation after independence and economic stagnation and decline, the informal sector share of employment grew to 20% by 1986/87, 27% by 1991 and an estimated 40% by 2004 (Tibaijuka, 2005). The informal economy had effectively become the mainstay for the majority of the Zimbabweans. ILO reported in June 2005 (ILO, 2005) that 3 to 4 million Zimbabweans earned their living through informal sector employment and supported another 5 million people, while the formal sector employed about 1.3
insurance systems, and thus open unemployment can countries generally have stronger unemployment and levels of economic development. More developed ratio of voluntary to involuntary informal employment development?

informal employment and levels of economic development in this regard: “One is hardpressed to see functions regarding its motivations based on their historical start-up circumstances. In other words, we need to know whether voluntary or involuntary informal employment has any effects on informal traders’ growth and economic participatory decisions which in turn affects development.

3 Statement of the problem
The major question under study in this paper is: Is there a relationship between voluntary/involuntary informal employment and levels of economic development?
Indeed there are several reasons to suspect that there might be a generally positive relationship between the ratio of voluntary to involuntary informal employment and levels of economic development. More developed countries generally have stronger unemployment insurance systems, and thus open unemployment can more readily provide an alternative to involuntary informal employment in the face of job loss. This is not the case in developing nations like Zimbabwe considering that the share of informal employment is highest in the poorest developing regions, particularly in South Asia and sub-Saharan Africa where economic development is happening at a slower pace than anticipated even when the African continent is endowed with the greatest natural resources.

Research questions
This paper seeks to answer the following research questions;
i. Did informal traders at Mbare Magaba voluntarily or involuntarily become informal?
ii. Does voluntary/involuntary informal employment have an effect on economic development (economic development in this case limited to the propensity of the informal enterprise to grow and to participate in the national economic system through accessing banking services and paying taxes)

5 Review of related literature
5.1 Voluntary/Involuntary informal employment and development
Voluntary informal employment is described by Fields (1990) as a form of informal (outside government regulation) employment that one decides to have in the midst of other employment options. The same definition is also employed by Maloney (2004) and involuntary informal employment then becomes the form of informal employment that one chooses when there are no other employment options available.
While Fields (1990) situates voluntary informal employment in the context of dualism within the informal urban labour market, Maloney (2004) goes further, writing that “as a first approximation we should think of the informal sector as the unregulated, developing country analogue of the voluntary entrepreneurial small-firm sector found in advanced countries” (p. 1159). Maloney does not, however, develop a formal model and so strict parsimony considerations do not come into play, calling into question the usefulness of such a “first approximation”. It seems more fruitful to pursue Fields’ line of inquiry and consider the relative importance of voluntary versus involuntary informal employment and the implications and determinants of this relationship.
Fields argues that studies that do not account for such dualism within informal employment are “rendered dubious, if not downright invalid” (1990, p. 50). He criticizes the ILO’s and other definitions of informal employment in this regard: “One is hardpressed to see how these working definitions of the informal sector conform to earlier notions based on free-entry” (1990, p. 64). Yet measuring voluntary informal employment is intrinsically thorny, for it requires knowing not just the characteristics of the informal job in question (as per existing definitions), but the characteristics and availability of the formal jobs the worker is qualified
for as well as the worker’s qualifications themselves. We will return to this point.

Much of the evidence on voluntary informal employment comes from Latin America; in Maloney’s case, from Argentina, Brazil and especially Mexico. These three countries have micro panel data, enabling one to trace the movement of workers between formal and informal employment. Yet these are among the most developed of developing countries, raising the question of how meaningful their findings are for poorer developing countries and regions. Fields (2005a) makes this point in reference to Maloney’s work: “Perhaps most informal entrepreneurs are in the upper-tier in Mexico, but I doubt this is the case in India, Bolivia and Kenya” (p. 25). Supporting this view, for example, are the findings of a study on Côte d’Ivoire, estimating that about twice as many urban workers want to work in formal employment than actually do, and that about three times as many urban workers are in the lower tier of informal employment than want to be (Günther and Launov, 2006).

Indeed there are several reasons to suspect that there might be a generally positive relationship between the ratio of voluntary to involuntary informal employment and levels of economic development. More developed countries generally have stronger unemployment insurance systems, and thus open unemployment can more readily provide an alternative to involuntary informal employment in the face of job loss.

Consider too that the share of informal employment is highest in the poorest developing regions, particularly in South Asia and sub-Saharan Africa (with informal employment approximated by self-employed and unpaid family workers in urban and rural areas, for want of better regional estimates). In India, for example, the share of informal employment was 76.7 per cent in urban areas and 94.8 per cent in rural areas in 1999–2000 (Sakthivel and Joddar, 2006, p. 2110). In South Asia and sub-Saharan Africa, there are lower propensities for a family member to be in formal employment and so more limited possibilities for other members to opt out of formal employment while receiving formal social protection (in cases of extension to family members). More fundamentally, voluntary informal employment implies a choice: that purportedly voluntary informal workers could work in formal employment if they so wished. Clearly the possibilities for this are exceedingly limited when the share of formal employment is very low.

Poorer developing countries and regions also have such high shares of informal employment and rates of poverty that there is necessarily much overlap between the two. In 2004, the two-dollar-a-day poverty ratio was 22.2 per cent in Latin America and the Caribbean, compared to 72.0 per cent in sub-Saharan Africa and 77.1 per cent in South Asia (World Bank, 2008). Our view is that informal workers in poverty cannot be voluntary in any meaningful sense of the word. From these considerations it follows that the concept of voluntary informal employment is least relevant where informal employment is most pervasive.

Regarding poverty, Maloney (2004) takes a different view: “Arguing that workers are voluntarily informal does not, of course, imply that they are not living in poverty, only that they would not obviously be better off in the formal jobs for which they are qualified … many are simply making the best choices they can given their low level of education” (pp. 1160 and 1164). This returns us to the issue of the “constrained voluntary nature” of purportedly voluntary informal employment.

For voluntary informal employment to be a meaningful notion, it is important to consider the quality of this employment as well as formal employment alternatives in an absolute, not just a relative, sense – for there are good and bad jobs within the formal sector, dualism within both the formal and the informal sectors. Indeed, it was concern about the growth of marginal employment within formal establishments that motivated the ILO’s new definition of informal employment, adopted in 2003, which adds to employment in informal establishments (that is, employment in the informal sector) informal employment in formal establishments (Hussmanns, 2005).

The contingent nature of voluntary informal employment creates serious conceptual and measurement problems. Less-educated workers have more limited formal employment prospects, so consider what would happen if the level of educational attainment were to increase in a country. In such a case, more workers would be qualified for good jobs in the formal sector and so fewer would contentedly settle for informal employment. That is, the ratio of voluntary to involuntary informal employment would be lower, even though the ratio of good to bad jobs would remain the same. Or consider what would happen if the quality of formal jobs were to worsen. Previously involuntary informal workers might now prefer to remain informal rather than seek formal employment. In this case, the ratio of voluntary to involuntary informal employment would be higher, even though the ratio of good to bad jobs would be lower. In short, the ratio of voluntary to involuntary informal employment does not necessarily tell us anything about what we most want to know: the quality of jobs in an economy. Indeed these examples show how it can be downright misleading.

The notion of informal workers voluntarily opting out of formal social protection also raises concerns. This point is raised by Maloney, who writes:

> What I am suggesting is that those contemplating opening their own firms may survey the array of available social protection mechanisms, both formal and informal and then, comparing the utility of the portfolio they can cobble together in the two sectors, make the decision to open an informal business and leave formal protections (2004, p. 1167).

Social protection policies can indeed have unintended negative consequences. For example, if workers’ and employers’ contributions to social protection schemes are too high, both parties have an incentive to keep
their relationship off the books, whether within or outside of formal establishments. This provides a sense of the challenges of policy design, involving the extent to which social protection is financed from contributions versus government tax revenues.

Yet there are other fundamental issues at stake in considering formal and informal social protection as alternatives. Two forms of social protection that have received much attention are pensions and health care (e.g., Mesa-Lago, 1992). There can be informal alternatives to formal pensions, of which traditional family support has been most important historically. But there has been a breakdown of such support in developing countries as a result of migration (internal and international) and the decline of the extended family household (Cassirer and Addati, 2007). And for formal health care, there are no viable informal alternatives. More generally, though it is true that poorer workers have less incentive to participate in formal social protection when service delivery is poor, this also applies to better-off workers. Poorer workers can less readily afford to waste or risk their money. Still, that poorer rather than better-off workers are more likely to forgo formal social protection seems more a reflection of constraints - of poverty itself - rather than a meaningful expression of choice.

It is therefore important to note at this juncture that voluntarism in the informal sector is a critical aspect and variable of concern whose impact cannot be ignored. This paper looks into the relationship between this voluntarism and economic development (measured by the propensity to grow the informal business enterprise and participate in national economic system through paying taxes and accessing banking services).

5.2 General views of the informal sector

There are two viewpoints with respect to the informal sector. The traditional view considers the informal sector as a source of income for the poor, and also associates it with unproductive and excluded workers (Masebula, 1996; Tokman, 1978). This notion is normally associated with involuntary informal employment supposing that these poor people do not have access to education and therefore do not have access to formal means of employment.

A more recent view is that the informal sector has the potential to achieve high levels of productivity through the dynamic, entrepreneurial character of the microenterprises which compose this sector (Masebula, 1996; Portes and Schauffler, 1992). Associated with this view are the studies that suggest that the informal sector is not just a survival mechanism for the poor, but a means by which educated and skilled individuals evade income taxes and earn an extra income. For instance, in his examination of the informal sector in Poland, Bedi (1998) finds that workers in the public sector, who are highly educated, are more prone to participate in the informal sector. This view can be associated to voluntary informal employment where the individuals have other options outside the informal employment but choose to become informal in search of better income levels.

While the recent view gives credit to the informal sector as a viable means of economic development, proponents of the traditional view like ILO argue that the informal sector is an illegal means for survival for the poor, cannot be productive and therefore governments should aim to extinguish the sector by providing options for the poor employed in the sector such as job creation strategies. This sees the informal sector as illegal and unwanted. This argument continues in the following section which looks at various theories surrounding the informal sector.

5.3 Theories

Our view of the informal sector is usually based on the theory that we use to define or describe the informal sector. In this section four major theories are discussed;

5.3.1 Evolutionary approach

In terms of the basic evolutionary approach, the urban informal sector is visualized as some kind of hotbed for industrial expansion (Masebula, 1990). The sector can play a role similar to that of cottage industries that eventually gave rise to industrial expansion in pre-industrial revolution Europe. As such, it can be visualized as containing embryonic business units that can grow over time into fully fledged mainstream production units. In this case there is a potential for business units to graduate from the informal into the formal sector. This theory suggests that the informal sector is not only productive but a means through which industrial expansion can be realized. The available literature however, does not link this to voluntarism. Using basic reasoning, we can deduce that this theory means there are opportunities in the sector and therefore one may voluntarily become informal.

5.3.2 Involutionary approach

In terms of the involutionary approach, the urban informal sector is visualized as largely independent of the rest of the economy. It is also static in the sense that business units entering it may grow in number, but the markets for disposing outputs may not grow in step. In the words of Sandbrook (1982: 63), “more people share stagnant markets among themselves”. A similar view is shared by ILO (1990a: 2) where it is stated that “the swelling of the number of units year after year has caused much concern among policy makers, not only because of its impact on the physical environment (increasing congestion and pollution), but it has also raised fears of involutary development in which a growing number of individuals share a limited and stagnant market, resulting in declining markets and productivity”. The crowding within the urban informal sector is a result of its separate, distinct and largely self-contained existence. The crowding is not relieved by progression of business units into the formal sector nor by any stimulus from elsewhere in the rest of the economy.
5.3.3 Residuary approach
In terms of the residuary approach, the urban formal sector is in a dominant position whereas the urban informal sector is in a dependant position (Matebula, 1996). The approach is residuary in the sense that the urban informal sector ends up with whatever remains after the formal sector has taken what it wants and needs. In the words of Seturaman (1981: 38), the formal sector “not only retains the surplus generated within itself and creates fewer jobs by choosing capital intensive techniques, but it also appropriates the surplus generated in the informal sector by restricting access to morden input and product markets on the one hand and by flooding their own products on the informal sector participants on the other”.

5.3.4 The institutionalist perspective of informal sector
A third research perspective, which can be described as institutionalist, is concerned with the effect of the institutional environment on business operators—institutional constraints are a source of business transaction costs (North, 1990) and government institutions (represented by legislation, regulations and administrative culture) tend to increase transaction costs (Ferrand, 1999). In Tanzania for example, the capacity of government to impose regulatory constraints on informal sector activity has been observed to be limited (Trip, 1997; Heilman, 1998) and the primary effect of government is to place legal status beyond the reach of large numbers of small-scale enterprises, thus confining them to the informal sector (This could also be the case for Zimbabwe).

Institutionalists have shown that whilst being a low-cost refuge, the informal sector denies operators the benefit of growth opportunities; formal institutions do not recognise the forms in which informal operators accumulate capital and may not even recognise their existence officially, thereby denying them access to factors such as capital, technology, training and opportunities (De Soto, 2000). As a result, those operators who enter the informal sector tend to be trapped there, if not by their personal lack of growth orientation or entrepreneurship then because of institutional barriers and the costs of leaving. Some do succeed in overcoming the barriers, but there is little if any antecedent research focused on them (Harrison, 2000, pp. 139–148).

6 Research Methodology
(i) In this paper, the researcher presents and discusses the methodology and design of the study. The topics covered under this section include research paradigm, research design, research process, data collection instruments and procedures, data presentation analysis and interpretation procedures, validity and reliability and ethical issues. The methodology and methods used in this study sought to create new knowledge in the phenomenon of tax evasion in the informal sector as the study itself looked at factors associated with tax evasion in the informal sector of Zimbabwe, with focus on the Mbare Magaba Informal Trading Centre or Market Place. In other words, the study asked the question “Why is there tax evasion in the informal sector at such high levels of 98% as cited by the Finmark Trust?” and went further to also look into the characteristics of the informal sector in relation to tax evasion. This way the study sought to add more knowledge to the existing body of knowledge about tax evasion.

(ii) Major Aim of the Study
As discussed in the introductory sections, this study was both investigative and descriptive as it looked at the factors associated with the phenomenon of tax evasion in the informal sector with focus on the Mbare Magaba Informal Trading Centre in Harare. According to Dane (1990), descriptive research involves examining a phenomenon to more fully define it or describe it. In this case, the phenomenon of tax evasion has been defined by previous studies and this study sought to bring more knowledge about it by investigating the factors associated with it. According to O’Leary (2005) descriptive research, also known as statistical research, describes data and characteristics about the population or phenomenon being studied. This was exactly the researcher’s pursuit.

The simple definition of tax evasion is the behaviour of escaping taxation or illegal practices to avoid taxation. To this end, taxable income, profits liable to taxation or other taxable activities are concealed, the amount and/or the source of income are misrepresented, or tax reducing factors such as deductions, exemptions or credits are deliberately overstated (Alm and Vazquez, 2001 and Chiumya, 2006). Tax evasion can occur as an isolated incident within activities that are – in other aspects – legal or tax evasion occurs in the informal economy where the whole activity takes place in an informal manner – in most cases, this means the business is not only evading tax payments but is also not registered as a formal enterprise.

The researcher takes the view of the informal sector tax evasion since the focus of the study was on tax evasion in the informal sector. The general belief is that the characteristics of the informal sector themselves promote tax evasion and by choosing to enter the informal sector, the chances of one evading tax are high. Hence, the focus of the study was not to prove whether tax evasion existed in the informal sector but it focused on factors associated with tax evasion, including voluntarism at the startup stage.

Previous studies have defined tax evasion in general terms and those that looked at the causes of tax evasion took a general perspective and looked at tax evasion as a whole, combining both tax evasion in the formal sector perspective and that of the informal sector perspective. This study focused on tax evasion from an informal sector perspective and sought to define fully the factors associated with tax evasion and then characterising the informal traders and examining
how each of the major characteristics of informal traders was related to tax evasion behaviour.

The above discussion means that the study was scientific in nature and therefore made use of scientific methods which are explained in this section of the paper.

6.1 Study population

The study population was the 1500 informal traders housed in makeshift structures in Mbare Magaba Informal Marketplace. These have designated places of operation and not mobile and they are registered under the Mbare Magaba Association of Informal Traders which has a secretariat housed in the same area.

6.2 Sampling procedure

Systematic sampling was used in this study. According to Dane (1990), systematic sampling is accomplished by choosing elements from a randomly arranged sampling frame according to ordered criteria, choosing the nth element in the sampling frame. In this case, N was calculated in the following manner;

\[
\text{Sample size} = 150 \\
\text{Population size} = 1500 \\
N = \text{Inverse of } \frac{150}{1500} = 10
\]

Hence, the researcher selected the first sampling unit and then selected every 10th unit from the first going on until a sample of 150 informal traders was selected. However, the first unit selected had to be random and this was done by randomly picking a number from a hat between 1 and 10 inclusive.

The major assumption made in this regard was that all the informal traders were arranged or designated in a random manner and that there was no pattern or trend in their order of arrangement. This assumption was made to make sure the sampling frame was in a random order in order for random sampling to be applicable and valid.

6.3 Research instruments and data collection procedures

A survey questionnaire was used as the primary data collection tool and these were administered on the 150 sampled informal traders at Mbare Magaba. The questionnaires were distributed to the informal traders, completed and collected. These were designed to answer the research questions under study and had open and closed ended questions.

The questionnaires were pretested for ease of completion, understanding and clarity among other issues. After the pretesting, they were edited by incorporating the raised concerns from the pretest.

All the necessary procedures for approval were followed and the researcher got approval to conduct the research through the secretariat of Mbare Magaba Informal Traders Association. Consent was also sought from the respondents before they completed the questionnaires and no one was forced or paid to complete the instrument.

6.4 Data presentation, analysis and interpretation procedures

After data collection, the collected data was cleaned (by discarding questionnaires which were not successfully completed or which were inconsistent with the objectives of the study) and entered into a computer using a statistical package called Epidemiological Information Version 3.5 (Epi-Info 3.5). This made it easy to capture the data and maintaining the format of the questions on the questionnaire. It also made it easy for data analysis. The software serves data in MS Access format and this was helpful in exporting the data to the analysis package.

Data analysis was done using another statistical package called Statistical Package for Social Scientists (SPSS version 12). The data was imported from Epi-Info and standardised and re-coded. Data coding was done in order to prepare the data for analysis. Data checks were also done to make sure the data was recorded (in SPSS) using the correct scale before analysis.

The data analysis made use of statistical methods which included the chi-square test and some descriptive statistics such as frequencies and percentages.

After data analysis, the results were presented and discussed in this paper through the use of graphs, tables and charts. Statistical tests were done using hypotheses and these were either accepted or rejected. Due to the large size of the sample, the Student-t test was not used.

7 Results

7.1 History of formal employment before becoming informal

From figure 1 it is seen that 75% of the respondents had been formally employed before while 25% had never been formally employed. This alone does not mean much. The following figure (2) will provide more useful evidence regarding formal employment history of the informal traders.
7.2 Major reason for joining informal employment

Figure 2: Major reason for becoming informal

Figure 2 shows that 17% said they were not qualified enough to get a job in the formal sector, hence their only option was informal employment. In this case unemployment can be sighted as a major reason to be informal. From the same figure 27% of the respondents said they were retrenched or they lost their jobs and could not find another formal job and this made them become informal. Again, unemployment can be sighted as a major reason to become informal. Twenty percent (20%) of the respondents said they were fired and could not find another job in the formal sector, 19% said their former job was not paying them enough to meet their basic needs and 12% said informal employment offered them better opportunities than formal employment. Based on these results the researcher can make two observations at this point; unemployment and loss of employment were the major reasons cited for becoming informally employed by the informal traders and that informal employment was involuntary for the majority of the informal traders.

7.3 Preference between formal and informal employment

In order to further validate that informal employment was not voluntary for most of the informal traders, the researcher asked the respondents what they would prefer between formal employment and informal employment and figure 3 shows the results.

Figure 3: Preference between formal and informal employment

Figure 3 shows that 56% of the respondents said they would prefer formal employment to informal employment while 44% said they would prefer to remain in informal employment. This shows that for the majority of the respondents, informal employment is not voluntary but a way to survive.

7.4 Growth and participation in national economic system

Table 1: Propensity to grow and participate in national economic system

<table>
<thead>
<tr>
<th>Statement</th>
<th>Agree</th>
<th>Somewhat Agree/Not Sure/Used to</th>
<th>Disagree</th>
</tr>
</thead>
<tbody>
<tr>
<td>I believe my business will grow to become a fully fledged large scale businesses</td>
<td>42%</td>
<td>26%</td>
<td>32%</td>
</tr>
<tr>
<td>I would like to formalize my business at one point in the future</td>
<td>28%</td>
<td>19%</td>
<td>53%</td>
</tr>
<tr>
<td>I always pay taxes to ZIMRA in my business</td>
<td>10%</td>
<td>8%</td>
<td>82%</td>
</tr>
<tr>
<td>My business utilizes banking services</td>
<td>8%</td>
<td>10%</td>
<td>82%</td>
</tr>
</tbody>
</table>

Table shows that 42% of the respondents said that their business will grow to become fully fledged large scale businesses while 26% said to some extent and 32% said they did not think their businesses could grow to become fully fledged large scale businesses.

From 1 it is also seen that only 28% said they had plans to become formal while 53% had no plans to become formal and 19% had doubts. This provides a few insights. First and most important regarding this study, that only a few of the informal traders have an intention to comply with the tax law; second, that there are significant prospects of business progression from the informal sector to the formal sector and thirdly that the majority of the informal traders do not want to become formal.

Table 1 shows that only 10% said their businesses always pay tax, 8% said they used to pay tax and 82% said they never paid any taxes in their business. This means that the tax non-compliance rate is very high at Mbare Magaba informal trading center. However, there is hope since some already pay tax.

From table 1 it is also observed that only 8% of the informal traders are utilizing banking services while 10% used to and 82% are not utilizing banking services.
7.5 Chi-square tests of association between voluntarism and propensity to grow and to participate in national economic system

7.5.1 Voluntarism and propensity to grow

\( H_0: \) There is no significant difference in propensity to grow business enterprise on the basis of voluntarism (that is voluntary or involuntary informal employment has no significant effect on propensity of informal trader to grow business enterprise)

\( H_1: \) There is a significant difference in propensity to grow business enterprise on the basis of voluntarism

**Rejection criteria:** Reject \( H_0 \) if the \( p \) value is less than \( 0.05 \) or equal to \( 82\% \ a \) (0.05 in this case since confidence level used was 95%).

**Table 2: Chi-Square Test (voluntarism*propensity to grow business)**

<table>
<thead>
<tr>
<th></th>
<th>Value</th>
<th>df</th>
<th>Asymp. Sig. (2-sided)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pearson Chi-Square</td>
<td>10.531</td>
<td>8</td>
<td>.230</td>
</tr>
<tr>
<td>Likelihood Ratio</td>
<td>13.535</td>
<td>8</td>
<td>.095</td>
</tr>
<tr>
<td>N of Valid Cases</td>
<td>74</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

a. 11 cells have expected count less than 5. The minimum expected count is .23.

**Test conclusion:** Based on table 2 the \( p \)-value (0.230) is greater than 0.05 hence we fail to reject \( H_0 \) and conclude that voluntarism has no effect on one’s propensity to grow business enterprise.

7.5.2 Voluntarism and tax payment

\( H_0: \) There is no significant difference in tax payment behaviour on the basis of voluntarism (that is voluntary or involuntary informal employment has no significant effect on tax payment/compliance behaviour)

\( H_1: \) There is a significant difference in tax payment/compliance behaviour on the basis of voluntarism

**Rejection criteria:** Reject \( H_0 \) if the \( p \) value is less than or equal to \( \alpha \) (0.05 in this case since confidence level used was 95%).

**Table 3: Crosstabulation (voluntarism*tax payment)**

<table>
<thead>
<tr>
<th></th>
<th>Always pay tax</th>
<th>Never paid tax</th>
<th>Used to pay tax</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Involuntary</td>
<td>2</td>
<td>71</td>
<td>3</td>
<td>76</td>
</tr>
<tr>
<td>Voluntary</td>
<td>10</td>
<td>27</td>
<td>7</td>
<td>44</td>
</tr>
<tr>
<td>Total</td>
<td>12</td>
<td>98</td>
<td>10</td>
<td>120</td>
</tr>
</tbody>
</table>

7.5.3 Voluntarism and utilization of banking services

\( H_0: \) There is no significant difference in one’s utilisation of banking services on the basis of voluntarism

\( H_1: \) There is a significant difference in one’s utilisation of banking services on the basis of voluntarism

**Rejection criteria:** Reject \( H_0 \) if the \( p \) value is less than or equal to \( \alpha \) (0.05 in this case since confidence level used was 95%).

**Table 4: Chi-Square Test (voluntarism*propensity to grow business)**

<table>
<thead>
<tr>
<th></th>
<th>Value</th>
<th>df</th>
<th>Asymp. Sig. (2-sided)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pearson Chi-Square</td>
<td>1.430E2</td>
<td>6</td>
<td>.000</td>
</tr>
<tr>
<td>Likelihood Ratio</td>
<td>47.517</td>
<td>6</td>
<td>.000</td>
</tr>
<tr>
<td>N of Valid Cases</td>
<td>120</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

a. 8 cells (66.7%) have expected count less than 5. The minimum expected count is .07.

**Test conclusion:** Based on table 4 the \( p \)-value (less than 0.000) is less than 0.05 hence we reject \( H_0 \) and conclude that one’s tax payment behavior is affected by his/her voluntarism (voluntary/involuntary informal employment). Based on table 3 those who voluntarily became informally employed had more propensity to pay taxes than those who involuntarily became informally employed.

8 Conclusion

Based on the findings presented in the preceding sections, it can be concluded that the majority of the informal traders at Mbare Magaba informal market place (around 63%) involuntarily became informally employed. The major reasons cited for becoming informally employed include loss of employment and lack of qualifications to get formal jobs. The study also established that the majority of the informal traders preferred formal employment to informal employment and if they could get a job in the formal sector they would take it. These jobs were found not to be available in the formal sector leaving the informal traders with no other option but to be informal.
From the chi-square tests of association, the study concludes that voluntary/involuntary informal employment has no effect on one’s propensity to grow his/her business and also has no effect on his/her propensity to utilize banking services. However, the study concludes that voluntary and involuntary informal employment affects one’s tax payment/compliance behavior. That is, those who voluntarily become informally employed are more likely to pay tax than those who involuntarily become informally employed.

9 Recommendations

According to the findings of the study, the following recommendations are provided:

• Dealing with the informal sector needs a differentiation between those who voluntarily became informally employed and those who involuntarily became informally employed. Issues concerning tax compliance should then be dealt with along these lines with the understanding that those who voluntarily became informally employed are more likely to comply with tax payment than those who involuntarily became informally employed. Programmes aimed at increasing tax revenues from the informal sector can now be sustainable based on this finding and they should be crafted along the same lines for them to achieve results. By targeting the whole sector although putting more effort and investment towards those who voluntarily became informally employed, this reduces the cost of tax collection to the tax administrators.

• Since utilization of banking services and the propensity to grow his/her business enterprise is not affected by voluntarism, more research needs to be carried out in order to find better ways to solve this problem of shunning banking services and business growth in the informal sector.

• More research needs to be done on the informal sector towards unlocking value from the informal sector. It is also true that with the number of people and enterprises involved in the informal sector, the sector supports a significantly large population in Zimbabwe just like other sectors. Sustainable socio-economic development programmes need to target the informal sector and these must make sure to train the informal traders and help them gain confidence in their business ventures. This is so because there are limited options in the formal sector hence, the majority of new and future graduates will continue to flock into the informal sector.

• For a long time the informal sector has been treated as a black economy and unwanted. The government has paid a blind eye to the informal sector for a long time and therefore government has to make efforts in doing the opposite. It is true that the informal sector will never be depleted in this country and therefore government needs to accept this reality and start making efforts towards supporting informal sector businesses. This means there has to be a budget allocation for the informal sector. The informal traders need to be made to believe that government is working with them and not against them for them to finally comply to the tax laws. Currently, the majority of the informal traders do not want to hear anything to do with ZIMRA or tax simply because they think that tax is for the government and not for them since government is not doing anything to the advantage of the informal traders.
References
Schneider, Friedrich (2005), Shadow Economies of 145 countries all over the world: What do we really know? Mimeo: University of Linz.
Zimbabwe Independent, 28 June 2013. Bloch column BY Eric Bloch