

THE EFFICIENT TAXATION OF THE INFORMAL SECTOR IN AFRICA

ATAF GUIDEBOOK

An ATAF Publication



This publication was made possible by the support of the African Development Bank.



AFRICAN DEVELOPMENT BANK GROUP

COPYRIGHT NOTICE

Copyright subsisting in this publication and in every part thereof.

This publication or any part thereof may not be reproduced, transmitted, transcribed or otherwise stored or translated into any language or computer language, in any form or by any means, without the prior written permission of the African Tax Administration Forum (ATAF), an international organisation with full legal standing and established, in terms of the Vienna Convention on the Law of Treaties, on 8 October, 2012. Any unauthorised reproduction or adaptation of this publication will constitute a copyright infringement and render the doer liable under both civil and criminal law.

RESTRICTIONS ON USE

The information contained in this publication is privileged and belongs to the ATAF, any member country of the ATAF, and its subsidiaries. This information is furnished in confidence with the understanding that it will not, without prior written permission from the ATAF, be used for purposes other than for what is intended.

Series: *ATAF's Research Publications*.

ISBN 978-0-620-93770-2 (Print)

ISBN 978-0-620-93524-1 (PDF)

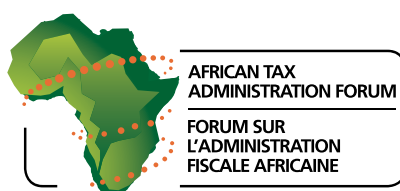
ABOUT ATAF

The African Tax Administration Forum is an organisation which was established by African revenue authorities in 2009, in order to improve the performance of tax administrations in Africa. The tax administrations of 40 countries in Africa are members of ATAF, i.e., 74% of tax administrations on the continent, making it the premier body on tax matters on the continent. Two countries, Mali and Somalia, were the latest to join the organisation in 2020. ATAF believes that better tax administration will enhance economic growth, increase accountability of the state to its citizens, and more effectively mobilise domestic resources. Now in its 11th year of existence, ATAF has positioned itself as Africa's home-grown solution to improving revenue collection, advancing the role of taxation in governance and state-building and providing a voice for the continent on international tax issues.

The Efficient Taxation of the Informal Sector in Africa

ATAF Guidebook

June 2021



For more information:

ATAF Secretariat

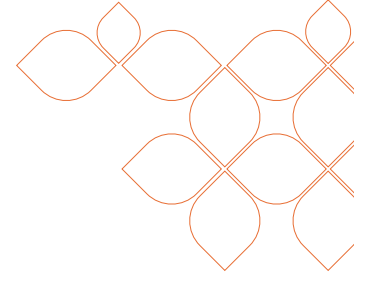
Research Directorate

Hatfield Gardens, Block G, 2nd Floor
Hatfield, Pretoria, South Africa, 0181

Tel: +27 12 451 8800

E-Mail: Research@ataftax.org

www.ataftax.org



CONTENTS

Contents.....	i
Abbreviations.....	iv
Acknowledgements	v
Foreword	vi
Executive Summary.....	vii
1. INTRODUCTION	2
1.1 Definition of the Informal sector	3
1.2 Rationale of the Guidebook	4
1.3 Objective and target audience of the Guidebook	6
2. MEASUREMENT AND CHARACTERISTICS OF THE INFORMAL SECTOR IN AFRICA.....	8
2.1 Size of informal economy in Africa	8
2.2 Approaches to measuring the size of the informal economy	8
2.3 Informal sector contribution to GDP as a measure of size	8
2.4 Most common business activities in the informal sector.....	11
2.5 Informal economy contribution to employment as a measure of size	12
2.6 The magnitude of informal sector employment	13
2.7 Distribution of informal sector units by demographics.....	13
2.8 Identification of the type of organisation and coordination mechanism of the players	14
3. LITERATURE REVIEW	16
3.1 Views on the continued existence of the informal sector	16
3.2 Empirical literature review	17
4. METHODOLOGY	20
4.1 Primary data collection.....	20
4.2 Secondary data collection	20
4.3 Data analysis	20
5. SITUATIONAL ANALYSIS OF INFORMAL SECTOR TAXATION IN AFRICA	22
5.1 Characteristics and reasons for operating in the informal sector	22
5.1.1 Main characteristics of enterprises and individuals operating in the informal sector	22
5.1.2 Reasons and motivation for operating in the informal sector.....	23
5.2 Constraints and challenges faced when trying to formalise a business enterprise.....	24
5.3 Identification/assessment of existing tax programs implemented to tackle the informal sector	24
5.3.1 Identification of implemented programs	25
5.3.2 The impact of the tax regimes implemented for the informal sector	26
5.4 Weaknesses of the legal system and Informal sector tax management.....	27
5.4.1 Weakness of the legal system	27
5.4.2 Weakness in the fiscal management of the informal sector	28
5.5 Impact of implemented policies on revenue collection, taxpayers registered and tax compliance	31