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# Reducing the regulatory burden on small firms

SMALL businesses and the informal economy play a vital role in Zimbabwe's economy, driving innovation, creating employment opportunities, and contributing to economic growth.

However, burdensome regulations often hinder their development and deter formalisation. This article highlights the importance of reducing the regulatory burden for small businesses in Zimbabwe, emphasising how such measures can promote growth, encourage formalisation, and unleash the sector's full potential.

The Employers Confederation of Zimbabwe conducted studies that shed light on the reasons why individuals in the informal economy hesitate to transition towards formalisation.

Among the findings, two key issues stood out; excessive bureaucracy involved in the registration process and high taxes.

Presently, the cost of registering a business as a private limited liability is approximately US\$100, which is beyond the means of most informal businesses.

Additionally, entrepreneurs are required to register with the city council, and the associated fees vary depending on the nature of the business.

Once registered, businesses must also comply with the requirements of the National Social Security Authority (Nssa) and the Zimbabwe Revenue Authority (Zimra).

These obligations include maintaining accurate accounting records to avoid penalties and undergoing regular audits, among other stipulations.

Furthermore, depending on the sector, businesses may face additional licencing fees and requirements. For instance, the transport sector necessitates operational licences, route permits, association memberships, vehicle clearances, and various other fees. Given the diverse range of players in this sector, it is crucial to recognise that many lack the capacity to fulfil the formalisation requirements, thereby, remaining in the informal sector.

Conversely, enterprises that do not keep formal accounts and are not registered at the national level are classified as informal.

It is worth noting that enterprises exist along a continuum, ranging from fully formal entities that adhere to national laws and regulations, to those entirely operating outside the purview of authorities.

Many businesses fall somewhere in between. For instance, an enterprise might be listed in the national business registry but not registered for tax purposes. Similarly, it may have formal employment contracts and make social security contributions for some workers while keeping others (or a portion of its formal employees' work hours) off the record.

Taxation barriers: Taxation plays a crucial role in any country's economic landscape, but in Zimbabwe, small businesses face significant barriers that hinder their growth and formalisation.

Below are the major obstacles related to taxation that impede the development of small businesses in the country:

- **High tax rates:** Zimbabwe has been ranked fifth in Africa for having high tax rates. This discourages both capital investment and labour productivity. The absence of incentives for informal businesses to formalise, such as regressive tax systems like the presumptive tax, further exacerbates the issue.
- **Compliance costs:** The complexity of the tax system, lengthy registration processes, and high legal and audit fees pose significant challenges for informal sector players. These costs burden small businesses and deter them from entering the formal sector.
- **Limited tax education:** Compared to other countries in the region, Zimbabwe has limited tax education programmes. This lack of comprehensive tax education inhibits small businesses from fully understanding their tax obligations and rights.
- **Low taxpayer services:** Slow adoption of technology and challenges related to multi-currency regimes contribute to



*Small-to-medium traders have a daunting task of regularising their business.*

limited taxpayer services. This hampers efficient and convenient tax administration, making compliance more burdensome for small businesses.

- **Inadequate tax administration:** Poor value for money provided to taxpayers, coupled with high levels of corruption, creates a negative perception among business owners. The lack of trust in the system discourages tax compliance as individuals fear their contributions will not be utilised effectively.
- **Loopholes and porous ports of entry:** Weak enforcement at ports of entry creates opportunities for tax evasion, incentivising individuals to remain in the informal sector. These loopholes undermine formalization efforts and contribute to revenue losses for the government.
- **Uncertainty:** The ever-changing economic environment and inconsistent tax policies create uncertainty for small businesses. This unpredictability makes it challenging for entrepreneurs to plan and comply with tax regulations effectively.
- **Political interference:** Instances of political interference, where individuals with political connections avoid tax obligations, erode confidence in the fairness and integrity of the tax system. This perception deters other taxpayers from fulfilling their responsibilities.
- **Lack of flexibility:** The Zimbabwean tax system has not adequately adapted to the changing economic landscape. The rigidity of the system fails to accommodate emerging sectors and evolving business models, further impeding formalization.
- **Limited consultations:** Insufficient consultations with affected sectors and stakeholders contribute to a lack of inclusivity in tax policy development. Engaging with small business owners and relevant stakeholders can help shape tax policies that consider their unique challenges and foster compliance.

Addressing these barriers require a comprehensive approach that involves simplifying tax processes, reducing compliance costs, enhancing tax education initiatives, improving taxpayer services,

strengthening tax administration, and promoting transparency and accountability in the system.

By addressing these challenges, Zimbabwe can create an enabling environment that supports the growth and formalisation of small businesses, ultimately driving economic development in the country.

The following are some of the benefits of reducing the regulatory burden and simplifying taxation for small businesses and the informal economy

- **Promoting formalisation:** By simplifying regulations and reducing administrative complexities, small businesses are more likely to transition from the informal to the formal sector. Formalisation offers numerous advantages, including access to formal financing, protection of workers' rights, and increased consumer confidence in their products and services.
- **Stimulating economic growth:** When small businesses thrive, they contribute significantly to economic growth. By reducing the regulatory burden, the government can unlock the potential of these enterprises, leading to increased productivity, job creation, and innovation. This, in turn, fuels economic expansion and drives overall development in Zimbabwe.

## Reforms

To reduce the regulatory burden on small businesses and encourage formalization, the Zimbabwean government can consider implementing the following reforms:

- **Streamlined registration processes:** The government may simplify and expedite the business registration process by eliminating unnecessary paperwork, reducing bureaucratic red tape, and establishing user-friendly online platforms. Creating a one-stop-shop for registration services can significantly facilitate and expedite the process.
- **Clear and transparent compliance guidelines:** The government can provide clear, concise, and easily accessible information about regulatory requirements, compliance procedures, and licencing obligations. This will enable small businesses to navigate the

regulatory landscape with confidence, reducing ambiguity and promoting compliance.

- **Regulatory harmonisation:** Government should review and streamline regulations across different government agencies to eliminate duplications and inconsistencies. Harmonizing regulations will simplify compliance efforts for small businesses, saving them time and resources.
- **Proportional regulations:** Tailor regulations to the size and nature of small businesses. Implementing a risk-based approach ensures that regulatory requirements are proportionate to the scale and complexity of operations. This approach minimises the burden on small businesses while still safeguarding public interests.
- **Digital solutions:** Regulatory bodies should leverage digital technologies to simplify compliance processes, automate reporting requirements, and facilitate online interactions with regulatory authorities. Embracing e-government solutions can significantly reduce administrative burdens for small businesses. Reducing the regulatory burden for small businesses in Zimbabwe is paramount to unlock their potential, drive economic growth, and promote formalisation.

Streamlining registration processes, providing clear compliance guidelines, and embracing digital solutions are key steps towards achieving this objective. By implementing these reforms, the government can foster an enabling environment that empowers small businesses, encourages formalisation, and paves the way for sustainable economic development in Zimbabwe.

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