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PRESS STATEMENT

Government Must Provide Incentives to Formalize the Informal Sector

Lusaka, 25th June 2021: Informality plays an integral role in defining the landscapes of labor markets around the world especially in developing countries where larger shares of the workforce is in the informal sector. In the case of Zambia's employment structure, this comprises of about 68.6 percent of employed persons in the informal sector (Zambia Statistical Agency, 2019). The informal economy, as a driver of growth and development continues to prove effective in job creation, income generation and sustaining the needed aggregate output for the economy. However, it is faced with a myriad of challenges including the burden of high tax rates, low levels of skills and insufficient support to access to credit among others. These challenges act as a disincentive to formalize.

To address these challenges, one viable option is to analyze the existing social security mechanisms which mainly apply to formal employment with the predictability in monthly earnings, insurance schemes and have stable and clear employment relationships. The extension however, to informal employment, remains low with gaps in legal frameworks and representation due to the absence of workers' organizations. The right to social security is a human right, set out in the Universal Declaration of Human's Rights (articles 22 and 25) and the International Covenant on Economic, Social and Cultural Rights (articles 9 and 11). Social security along with promoting employment is an economic and social necessity for development and progress, and an important tool to prevent and reduce poverty, inequality, social exclusion, and social insecurity. It is equally cardinal to promote equal opportunities and as an incentive, support the transition from informal to formal employment.

Secondly, providing reforms in the public procurement sphere to encompass the informal sector is key to enhance transparency and national security. This will reduce the adverse risks of corruption which provoke unfair competition among business entities. Public procurement offers the best opportunities for local suppliers to increase their sales through government contracts. It is therefore essential to address the bottlenecks that limit the informal sector such as access to finance, lack of managerial skills, equipment and technology, and regulatory issues that affect their ability to realize their potential. Although the process of procurement is seen as bureaucratic, legally complex, and competitive, ensuring that it is accessible to all businesses including informal firms will encourage dynamism if appropriately managed. This can help stimulate local markets and drive innovation and ultimately productivity across sectors.

When such incentives are effectively implemented, this will make it more attractive to transition and formalize while providing room for the Government to broaden the tax base. The Zambia Revenue Authority (ZRA) has over the years attempted to capture the informal sector in the tax bracket but there has been little progress made due to high administration costs. Tax compliance can be eased by introducing more transparent and simplified tax reporting requirements, improving tax inspections, and differentiating tax schemes for the informal sector. This can be done in such a way that reduces the complexity of procedures and provides information and technical assistance on tax obligations that will ensure informal enterprises are tax compliant. This in essence will increase the likelihood of formalization and overall, enhance efforts of domestic resource mobilization.



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