

## Literature Review

# Tax and Informality

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## Introduction

Recent years have seen expanding academic interest in informal taxation and informal revenue generation, alongside the wider fiscal relationships between states and informal economies. This annotated bibliography aims to provide readers with an overview of key works in these literatures. It is divided into three parts. The first part presents broader introductory literatures on defining informality, its scope, characteristics, and linkages with formal institutions. Part II focuses on informal taxation and informal revenue generation, while part III tackles the taxation of the informal economy. The contributions discussed in all three sections naturally don't cover all scholarship in these expanding discussions, but have been selected in order to provide introductions to key perspectives, questions and case studies.

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## Part I: Defining informality

**Hart, Keith. "Informal income opportunities and urban employment in Ghana." *The journal of modern African studies* 11, no. 1 (1973): 61–89.**

The term "informal sector," though contested and revised over the years, was first used by economic anthropologist Keith Hart in the early 1970s in his research project on the informal sector in Ghana. It later became more accepted after being used by the ILO in 1972 in an expert report on employment and economic activities in Kenya.

In this report, Hart provides a thorough evaluation of the state of the informal economy in the 1960s and 1970s in Ghana by studying the case of the employment integration of internal migrants from northern regions in southern urban areas. The objective of Hart's study was to determine whether informal workers had any autonomous capacity in creating growth or if they are merely an exploited collective. Hart provides in his analysis the first-ever categorization of formal and informal work (which he refers to as "formal/informal income opportunities") and distinguishes between legitimate and illegitimate informal income opportunities (i.e., informal but legal, informal, and illegal activities).

This paper constituted a trailblazing approach to analyzing and conceptualizing the informal economy as we know it today.

**Portes, A., Castells, M. and Benton, L.. eds. (1989) The Informal Economy: Studies in Advanced and Less Developed Countries, Chapter 1: World Underneath: The Origins, Dynamics, and Effects of the Informal Economy Baltimore, Johns Hopkins**

The first chapter of this volume is a seminal text within the informal economy literature. Its definition of the informal economy as “income-generating activities outside the regulatory framework of the state” is one of the most widely cited definitions in the informal economy scholarship. In this chapter, Castells and Portes engage with the work of scholars all while presenting their perspective on what constitutes the informal economy, its structure, its linkages to institutional regulations, and its ever-changing “boundaries”. This empirical work is heavily based in theory and is mostly targeted at academic audiences. It is a foundational text of the structuralist perspective of scholarship on informal economies.

**Maloney, William F. “Informality Revisited.” World Development 32, no. 7 (2004): 1159–78. <https://doi.org/10.1016/j.worlddev.2004.01.008>.**

In this paper, Maloney analyses the informal sector in developing countries based on evidence from Latin America and relying on economic, sociological, and anthropological approaches. He argues that the informal economy should be perceived -and consequently studied and regulated- as an ‘unregulated micro-entrepreneurial sector’ and objects to viewing it as a ‘disadvantaged residual of segmented labor markets’.

He further advocates for a voluntarist approach, arguing that informality is a decision of informal workers that reflects their preferred optimal degree of participation in formal institutions and is enabled by the laxity of enforcement of labor and other codes. This perception, in turn, reflects in the policy recommendations he supports, which mostly call for improving education systems and restructuring social security and protection.

**Chen, Martha Alter. 2006. “Rethinking the Informal Economy: Linkages with the Formal Economy and the Formal Regulatory Environment.”**

In this paper, Martha Chen provides an effective introduction into studying the informal economy by exploring its linkages with the formal economy and the formal regulatory environment. Chen first identifies and defines the new terms that emerged from the rethinking of the informal economy such as microentrepreneurs, and own account operators. With these new terms included, the newly defined informal economy captured the diversity of its features, the segmentation of its structure, and its permanence more faithfully than the simplistic -and previously standard- framing of the “informal sector.” This expansion of the definition of the informal economy and synthesis of key conceptual issues is also covered in the ILO policy guide (2013) on the informal economy. This new understanding called for a more nuanced and less dualistic

study of informality and its linkages with the formal economy and the formal regulatory environment. Further, Chen elaborates on the dynamic and intrinsic link of informal ecosystems to the formal economy in what she conceptualises as a continuum of economic relations -of production, distribution, and employment- between pure formal and pure informal relations. She also suggests a new segmentation and of informal employments, distinguishing between self-employment and wage employment in informal enterprises and jobs. The paper also includes an assessment of the costs and benefits to both formality and informality by taking into accounts various factors such as the cost of entry into the formal economy and labour costs, among others. As a result of this perspective shift, Chen argues that informal economies should be central to policymaking and social policies pertaining to poverty, employment, urban service provision, and in a larger sense, state-society relations.

This paper is an essential contribution to the conceptual debate on the informal economy and constitutes a mandatory read for audiences from academia or a policy space likewise.

### **[ILO, \(2013\) The Informal Economy and Decent Work: A Policy Resource Guide supporting transitions to formality, Geneva.](#)**

This policy guide published by the International Labor Organization in 2013 summarizes the evolution of the literature on the informal economy, synthesizes the core principles of the four main schools of thought, and provides further conceptual clarifications on the different terms used to refer to the informal economy (informal sector, informal employment, and informal economy). Further, this guide elaborates on the complexity of measuring the informal economy by exploring the methodological issues that come in the way of an accurate estimation of the informal economy. It also explores different data collection strategies adopted by the international statistical community in its effort to capture the reality of informality in data. Moreover, the policy guide also tackles the linkages of the informal economy and the larger regulatory framework, the innovations in improving the regulatory environment worldwide, and the bases of good governance principles in policymaking on the informal economy. While this policy guide provides a comprehensive synthesis of the state of the literature in the first two chapters, it has a strong emphasis on labor and employment policy. A complementary suggested read would be the ILO's [Women and men in the informal economy: A statistical picture \(2018\)](#) which provides a first-time comparable estimate on the size of the informal economy globally and at regional levels.

### **[Meagher, K. and Lindell, I. \(2013\) 'Engaging with African Informal Economies: Social Inclusion or Adverse Incorporation? Introduction' African Studies Review, 56:3:57-76.](#)**

Meagher and Lindell's chapter, which emerged from an African Studies Review forum held in 2011, provides a comprehensive engagement with various perspectives of the literature on the informal economy in Africa. It examines literature spanning across four main themes, which are: informal economic inclusion, economic and social restructuring, governance transformation, and

the politics of informal economic inclusion. The starting point of the discussion in the article is the substantial intersectionality of informality with poverty, employment, inequality, and growth, and the policy imperatives that result from this intersectionality. Throughout the analysis of the articles, Meagher and Lindell explore trends in ‘normalizing’ rather than ‘formalizing’ the informal economy – so attempts at integrating Africa’s vast informal economies into mainstream development processes socially, fiscally, and politically. Further, they consider the governance models through which the informal economy can be incorporated into mainstream economic development.

**Chen, Martha Alter. 2016. “The Informal Economy: Recent Trends, Future Directions.” *NEW SOLUTIONS: A Journal of Environmental and Occupational Health Policy* 26 (2): 155–72. <https://doi.org/10.1177/1048291116652613>.**

In this paper, Chen presents the perspectives of the four main schools of thought regarding the informal economy (dualist, structuralist, legalist, voluntarist). These schools of thought differ distinctly in their definition of the informal economy, its composition, causes, and links to the formal economy and regulatory environment, which in turn also affects the policy interventions and recommendations they would later encourage or discourage. In terms of policy recommendations, the paper sets four main targets in its proposed new paradigm that aim at creating a hybrid economy in which formal and informal interact congruously. Chen envisions a social model with more opportunities for the workforce in the formal economy, social protection and legal rights for informal workers; an enabling ecosystem that encourages formalization, and an improved “wider institutional environment” that could boost the productivity of informal enterprises.

This paper is accessible to academic and policy audiences from all backgrounds. It provides a comprehensive framing of the state of the literature on the informal economy and outlines different policy frameworks in imagining the future of informality.

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## **Part II: On informal taxation and informal revenue generation**

In low-income countries, research increasingly suggests that individuals, households, and businesses frequently contribute to public goods and services through informal taxes and fees that are levied and enforced outside of the formal tax system. At times, these payments can far surpass formal tax payments. Therefore, understanding informal taxation and revenue generation is essential to understand how taxation affects everyday citizens, while efforts to broaden formal revenue collection without an understanding of the real tax burdens already faced by taxpayers risk being inequitable and inefficient. This section aims to provide an overview of the literature on informal taxation and informal revenue generation.

**Prud'homme, R. 1992. "Informal Local Taxation in Developing Countries." Environment and Planning C: Government and Policy 10 (1): 1-17.**

The term Informal taxation was first used in the literature by Remy Prud'homme in 1992 in a study of the Democratic Republic of the Congo (then Zaïre). He defined informal taxation as "non-formal means utilized to finance the provision of public goods and services." In this article, Prud'homme developed a typology of informal taxes that distinguished six categories of informal taxation: pinch (misappropriation of money by authorised tax collectors), extortion (payments made by citizens to employees of semi local governments), requisition (contributions from households and enterprises to semi-local government officials after solicitation), contributions (services provided by enterprises that have a public-good nature), gifts (gifts by individuals to private bodies that provide valued public services or infrastructure) and donations (e.g. to schools in order to improve teaching environments). These forms of informal taxes also fall into two main categories: public informal taxes (as operated by government officials) and private informal taxes (operated by individuals and which substitute to the formal system).

In this seminal paper, he captured the reality of resource mobilization in sub-Saharan Africa, which paved the way for more scholarly work on this topic in the decades that followed.

**Juul, Kristine. 2006. "Decentralization, Local Taxation and Citizenship in Senegal." Development and Change 37 (4): 821-46.**

Juul's article tackles the topic of fiscal decentralization in the context of democratization in Senegal. Through her study conducted in the village of Barkedji, she demonstrated the limitations of the doctrine of "good governance" which called on developing countries to engage in decentralization policies to bring service delivery closer "to the people" and reinforcing democracy and accountability. In the case of the village studied by Juul, as in the rest of Senegal, the transfer of responsibility to local and rural structures (here local councillors) did not strengthen the democratic structures, but instead, tax-compliance hit rock-bottom following the implementation of the reform. In contrast, other types of local institutions with less clear state affiliation, such as borehole committees were able to engage in large revenue mobilization outside of the formal taxation mechanisms for the provision of goods and services such as watering facilities and borehole pumps (in Prud'homme's categorisation, watering fees are a form of private informal taxation utilized to finance public goods and services). In her discussion, Juul then explores linkages between parallel tax collection mechanisms and the exercise of public authority at the grassroots level, accounting for the implications of these linkages for representation, democratization, and citizenry. She explains that tax policy is rarely discussed in the public arena as it does not serve electoral agendas of local leaders. As a result, taxpayers end up relying on indirect taxes for a large proportion of state revenue, and taxpayers are not able to hold them accountable for such practices. She further explores the various reasons motivating non-compliance, such as the lack of service provision, distrust of councillors, and the factors motivating

compliance such as asserting community belonging or rights over land and resources. Juul's analysis underlines the importance of studying informal taxation mechanisms for a better understanding of state-society relations.

**Olken, Benjamin and Singhal, Monica (2011) "Informal Taxation," American Economic Journal: Applied Economics 3, p. 1-28**

This article by Olken and Singhal constitutes a central piece in the informal taxation literature, as it provides the first systematic, cross-country evidence frameworks on the prevalence, magnitude, distributional implications, and forms of informal taxation. Using microdata from ten countries, the researchers present their empirical findings in the format of stylized facts, which are (a) the informal economy being a widespread phenomenon that can represent a substantial share of local revenue, (b) informal taxation being redistributive but regressive, and (c) the form of payment in informal taxation differing from a traditional tax, as it includes in-kind labor for instance. From these stylized facts, they determine four possible explanations for informal taxation, ranging from it being a response to legal constraints on formal taxes to informal taxation being more akin to altruistic voluntary contributions than taxes.

Olken and Singhal conclude their article by discussing the implications of their findings for public finance in developing countries and development policy to a larger extent.

**van den Boogaard, Vanessa and Wilson Prichard. 2016. "What have we learned about informal taxation in sub-Saharan Africa?" Summary Brief Number 2, International Centre for Tax and Development**

In this summary brief, Prichard and van den Boogaard provide an overview of the state of informal taxation in sub-Saharan Africa. Drawing on evidence from a study they conducted in Sierra Leone and broader literature, they warn against analyses of local taxation and development that focus on formal taxation systems only and overlook informal taxation systems. They argue that a better understanding of the systems of informal taxation - which are more extensive and elaborate than often assumed- not only allows for a better assessment of the burden that informal taxes represent for taxpayers but could also have potentially important implications for policy approaches to reforming public finance, the processes of fiscal decentralization, and the contributions of taxation to local level state-building and accountability. These insights can better inform stakeholders on the complex social and political dynamics around taxation and trust.

**Mallett, R., Acharya, G., & Sturge, G. (2016). Taxation, livelihoods, governance evidence from Nepal (SLRC Report No. 8). Secure Livelihoods Research Consortium.**

This report investigates formal and informal taxation processes in Nepal, with a focus on the weight of the tax burden on households across two districts. Through a mixed-methods empirical analysis of taxation, Mallett et al. found that government taxes absorb less than 1% of annual household income, while

almost 50% of households paid taxes to non-governmental actors for public goods and service provision. This report provides a good insight into the state of formal and informal taxation practices in a post-conflict recovery situation as is the case in Nepal, along with an engaging discussion on the perception of state capacity, state legitimacy. Through their research, the authors reveal that Nepalese citizens have a positive perception of formal taxation mechanisms and a will for more civil engagement, and further explore the relationship between taxation and state legitimacy. The report also draws on the informal taxation literature when discussing taxation and its linkages with the concepts of fairness and trust. This report is of relevance to all researchers studying informal taxation and state capacity in a post-conflict context.

**Paler, L., Prichard, W., Sanchez de la Sierra, R., & Samii, C. (2017). Survey on total tax burden in the DRC. Department for International Development.**

In this survey, Parler et al seek to evaluate the total tax burden on households and businesses in the Democratic Republic of the Congo (DRC), understand its character, and attempt to estimate the share of tax payments reaching the government treasury as well as the potential revenue losses to governments. The objective of the survey was to capture all formal and informal tax payments, to both state and non - state actors, while adopting relatively broad definitions of both concepts (incorporating not only pure taxes, but also a range of user fees, licenses, fines, charges, and contribution). The survey results suggest that there is an important lack of understanding of the tax system, which in turn makes citizens more vulnerable to extraction by state agents.

This report provided the first comprehensive study of the total burden of payments in the DRC. It relies on a strong methodological framework and suggests actional policy avenues for reform.

**Lust, E., & Rakner, L. (2018). The other side of taxation: Extraction and social institutions in the developing world. Annual Review of Political Science, 21(15), 1-15.**

This paper explores the concept of “social extraction” in studying the mechanisms of informal taxation. Lust and Rakner re-conceptualize social extraction as the collective provision of monetary and in-kind resources and contributions to supply public goods. They explore the mechanisms of informal taxation by shifting the focus from state-centric perspectives, which are prevalent in the literature, to perspectives that are rather focused on non-state actors and social institutions defined by lineage, ethnicity, religion, occupation, location, or an overlap of these factors. They consider that these conceptualizations of the mechanisms of nonstate provision are overlooked by the fiscal governance literature and aim for their analysis to complement the broader cross-disciplinary literature on this topic. The researchers analyze linkages of taxation and state-building, service provision, and accountability in their conceptualizations of social extraction. In discussing the literature, the authors rely on a wide literature stemming from anthropology and sociology to economics and political science and provides key pathways for new

research agendas, such as (a) exploring the link between rules governing leader selection and social extraction, and (b) exploring further the extent to which social institutions may affect the balance of power among community members.

**Van den Boogaard, Vanessa. Gender and the formal and informal systems of local public finance in Sierra Leone / Genre et systèmes formels et informels de finances publiques locales en Sierra Leone, Politique Africaine (2018) 3, 151: 61-86.**

This article fills a gap in the literature by investigating the linkages between gender and informal revenue in a low-income context – in this case, in Sierra Leone. Based on two household surveys, focus groups, and qualitative data analysis, the study reveals that while it is true that a low proportion of taxpayers engages with formal taxation in low-income contexts, it is even more so the case for women. Female-led households pay fewer formal taxes and user fees but pay more informal taxes to access local public goods, all while paying a larger proportion of their income in both formal and informal taxes. This gendered tax incidence and burden reinforces gender inequalities and poses various challenges for women, notably in intra-household power dynamics as well as in terms of political representation. In fact, even the payment of more formal taxes by women might not result in more political representation for them as these gendered biases appear to be embedded within chieftdom administrations, politics, and within the prevailing social norms. This paper is relevant to all researchers and stakeholders from the larger policy space interested in the theorizations of the links between gender and informal taxation.

**Nkuku, Albert Malukisa and Kristof Titeca. 2018. “Market governance in Kinshasa: The competition for informal revenue through ‘connections’ (branchement)”. IOB Working Paper 3.**

In this article, Nkuku and Titeca unpack the complex power relations that drive informal revenue accumulation through branchements in four urban markets in Kinshasa, Democratic Republic of the Congo (DRC). Branchements refer to the connections with high-level authorities in order to provide them with access to lucrative positions. After explaining the context of urban governance and urban market control in Kinshasa, the researchers explore the dynamics of rent-seeking and patronage relations. In studying the linkages affecting the complex relations of power between high-level authorities and vendors, Nkuku and Titeca reveal that family, ethnicity, and clan (but most particularly family) seem to be the linkages that provide the most solid commitment to protection for the vendors. Their findings confirm the salience of the phenomenon of branchements or connections in all markets. The data also confirms that the closed network of high-level state actors (individuals with connections to the presidency), not the municipalities, controls, and benefits from the revenue generation structures. Beyond its obvious relevance for scholars and policy audiences working in the informal economy and taxation space, this paper is also relevant to anyone studying urban governance in low-income countries.



**van den Boogaard, Vanessa, Wilson Prichard, and Samuel Jibao. 2019. "Informal Taxation in Sierra Leone: Magnitudes, Perceptions and Implications." *African Affairs* 118 (471): 259–84.**

This article studies the incidence of informal taxation in Sierra Leone. It provides essential insights on taxpayer perspectives on these payments, chief of which is that taxpayers have a positive perception of the fairness of informal taxes compared to formal taxes despite informal taxes being regressive. Van den Boogaard et al. explain this positive perception by taxpayers by (a) the larger context of weak formal statehood and (b) the service provision from non-state actors levying these payments and which ultimately benefits the community. The methodology adopted is a mixed-methods research design involving a household survey, in-depth interviews with key stakeholders, and focus group discussions with citizens and community leaders. The survey used by the researchers in this article is a first of its kind as it captures, through its definition of what constitutes an informal tax, a broad range of informal payments. This broad scope allows for a better grasp of the local fiscal realities and supplements the literature on local fiscal perspectives. It is a highly recommended read for tax researchers exploring informal taxation in its largest scope and policymakers evaluating the consolidation of formal authorities through taxation or studying the prevalence of informal taxation in weak state governance contexts.

**Ligomeka, W. (2019). *Expensive to be a Female Trader: The Reality of Taxation of Flea Market Traders in Zimbabwe (Working Paper No. 93; p. 23)*. International Centre for Tax and Development.**

In this paper, Ligomeka investigates the realities of the taxation of small-scale traders in Zimbabwe, with particular attention to female traders. Besides the presumptive tax to which the traders are subjected, the paper sheds light on the high tax burden posed by the tax-like payments faced by the vendors. The study shows that female traders have to pay up to \$1 each time they use the toilet, when most make less than \$15 per day. Because they are regressive, the current market taxation practices are more burdensome to female traders who generally earn less than men. Ligomeka then assesses the policy implications of these findings, and suggests for the introduction of presumptive taxes in flea markets to be accompanied by the requirement that market owners ensure they have toilets and storage facilities available to women. Further, Ligomeka considers that the threshold for exemption of presumptive tax should be high enough to ensure that low-income traders are not adversely affected.

In terms of methodology and data collection, this study relied on a mixed-methods design (in-person survey interview, qualitative interviews, and focus group discussions). The data collection took place in 48 different flea markets in Harare and Bulawayo. This paper would be relevant to anyone investigating small-scale trade taxation, gendered tax burdens, and policy consequences of institutional efforts to widen the tax base.

**Evans, M., Harkness, S., & Salomon, H. (2020). Informal taxes and transfers in sub-Saharan Africa (ODI Working Paper No. 598; p. 35). Overseas Development Institute.**

This paper investigates the incidence, scale, and distributional effects of informal taxes and transfers in Rwanda. Through this case study, the authors aim to make a case for the inclusion of informal taxes and transfers in the analysis of fiscal incidence to improve the understanding of taxpayers' realities regarding household income distribution and the redistributive effects of taxation. From their data analysis of a household survey, Evans and Solomon establish the regressive nature of informal taxes and transfers in Rwanda. This paper also provides readers with a synthesis of the state of the literature on informal taxation and the literature on income distribution, along with a case study analysis of household monetary welfare in Rwanda.

**Revkin 2020, What Explains Taxation by Resource-Rich Rebels? Evidence from the Islamic State in Syria**

This article explores taxation by rebels in a resource-rich area, using ISIS in al-Mayadin -the most oil-rich district governed by ISIS in Syria- as a case study. In her analysis, Revkin disproves the predictions of the greed-based theories of the political economy of taxation about ISIS rebel behavior according to which armed groups only engage in taxation in areas where they lack exploitable resources such as oil. Based on an original data mapping of tax policies adopted by ISIS, Revkin observed that, unlike what theory predicts, ISIS implemented the same types of taxes and revenue-raising mechanisms across all its districts likewise. She theorizes that the main motives for such efforts are rooted in ideological considerations (belief-driven policies) along with economic ones (in the cost of warfare). This paper provides an interesting outlook into the political economy of rebellion and the linkages between taxation, ideology, governance, and state formation. It should enable anyone interested in these topics to generate additional questions.

**van den Boogaard, Vanessa and Fabrizio Santoro. 2021. Explaining informal taxation and revenue generation: Evidence from south-central Somalia, International Centre for Tax and Development Working Paper 118**

This paper investigates the magnitude and regressivity of informal revenue generation (IRG) in Somalia. It also explores the linkages of informal revenue raising and public good financing in a fragile state context. Based on a mixed-methods approach (original household survey and qualitative research), the paper confirms and dispels common hypotheses of the informal taxation literature. van den Boogaard and Santoro establish the regressivity of IRG and its unequal community-level consequences, while showing that payments are embedded within social and political structures and are widely perceived as compulsory (in contrast to ideas that they are voluntary contributions). This paper contributes in a novel way to the literature through its broad conceptualizations and original data collection and analysis strategy. Moreover, its key findings could have policy implications in fragile contexts. Finally, the paper also raises several questions for future research on the relationship

between informal taxation, public good provision, and state legitimacy, among other questions.

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### **Part III: On taxation of the informal economy**

Increasing attention has been directed at the informal sector's taxation in developing and emerging economies over the last few decades. One main challenge in understanding the relationship between taxation and the informal sector is its diversity in terms of actors and in terms of employment. Policy makers and revenue authorities have developed a range of attempts aimed at bringing the informal sector workers "into" the tax net, ranging from new taxpayer registration exercises to presumptively taxing unregistered, "informal" businesses. The following literature explores some of these so-called "formalisation" policies, assesses their equity and redistribution outcomes, and tries to examine the relationship between taxation and the informal economy more broadly.

**Joshi, Anuradha, Wilson Prichard, and Christopher Heady. 2014. "Taxing the Informal Economy: The Current State of Knowledge and Agendas for Future Research." *The Journal of Development Studies* 50 (10): 1325–47.**

In this paper, Joshi et al. review the existing debates on informal sector taxation and summarize the arguments on the costs and benefits of taxing the informal sector while also studying the implications of informal sector taxation relative to economic growth and broader tax compliance and governance. The paper also proposes a solid conceptual framing specific to enterprise informality. It provides a set of policy options for taxing small and medium-sized informal enterprises (i.e., small and micro-businesses that generate enough income to warrant taxation but find it easy to escape the attention of the tax administration or to conceal a substantial part of their tax liability). The conceptual framing of the paper also includes a helpful typology of enterprise informality, namely subsistence enterprises, micro-enterprises and small businesses, and small and medium enterprises. An important section of the paper is dedicated to discussing policy options for taxing informal sector firms. Drawing on a literature review and theoretical models, Joshi et al. identify and review three broad categories of policy options: taxing indirectly through trade taxes, expanding the reach of major formal sector taxes, and developing a specialized presumptive tax regime. The authors also study the political implications and barriers to more effective taxation by tackling matters such as shifting incentives for small firms, collective action, and state-society interaction, and the political and administrative incentives for implementing reforms on the taxation of the informal economy. The last section draws on the previous analysis to explore a set of recent, though under-studied-administrative innovations aimed at strengthening informal sector taxation. The article closes with a discussion of the main avenues for future research tackling the taxation of the informal sector.

This paper is central to the literature on taxation of the informal economy. Consequently, it constitutes an essential read for academics and non-academics interested in informal sector taxation and citizen-state bargaining over taxation.

**Tendler, Judith. (2002) Small Firms, the Informal Sector, and the Devil's Deal. IDS Bulletin 33(3): 1-15**

In this paper, Tendler explores the power dynamics between the state and the informal sector through a study of electoral competition, collective action, and tax resistance and compliance. Tendler theorizes a concept she coined as “the devil’s deal,” which refers to an unspoken arrangement between politicians and informal sector operators that implies electoral support in exchange for the waiving of tax, labour, and environmental regulations. The author based her arguments on observations from a study she conducted in Brazil and drew more examples from the literature. Tendler argues that a devil’s deal is hard to break once it is in place and suggests policy interventions to help break it down, such as promoting models of formality that lead to a positive outcome on small firms’ competitiveness and economic performance. Tendler further denounces the approach of development actors (donors, agencies) to view small firms as a special category that is unable to bear the cost of conforming to fiscal, environmental, and labour standards. She further explains how such considerations can impede social welfare and poverty-reduction efforts. This paper contributes to the literature exploring why governments might not put much effort into raising revenue directly from the informal sector. Alisha Holland has recently expanded on this work in her book “Forbearance as Redistribution: The Politics of Informal Welfare in Latin America.” She discusses electoral strategy and theory and social policy inadequacies enabling forbearance.

**Joshi, A. and Ayee, J. 2008 ‘Associational taxation: A pathway into the informal sector?’ in Deborah Brautigam, Odd-Helge Fjeldstad and Mick Moore eds. Taxation and state-building in developing countries: capacity and consent Cambridge University Press.**

In this chapter, Joshi and Ayee discuss the complexity of the taxation -or lack thereof- of the urban informal sector. Unlike the standard literature that focuses on tax policy, they examine a more political approach referred to as associational taxation, which involves negotiations between the state and informal sector representatives to inspire the sector’s tax policy and implementation. The authors first provide an overview of the literature on informal taxation, explain the rationale of direct taxation, and suggest four main reasons for which the informal sector is undertaxed (high collection costs, capacity constraints, incentivization issue, and the “devil’s deal”). Joshi and Ayee’s central hypothesis is that two main sets of environmental factors can influence the effective taxation of the informal sector: (a) strong fiscal pressures to increase revenue, and (b) the existence of collective actors (such as unions or civil society organizations) with institutionalized channels of negotiation with the state. They then discuss the potential and limitations of associational taxation and test their hypothesis by drawing on evidence from policies -with varying degrees of success- that were adopted in Ghana, Senegal, and Peru. They conclude that two factors strongly affect the outcomes of associational taxation: fiscal pressure and the nature of associationalism. In Ghana, both factors were met and associational taxation was more successful than in Senegal and Peru, where only one factor was

came into play every time. Lastly, the authors briefly discuss the politics of the informal sector, its connection to local and centralized tax administration, and the implications of these dynamics on associationism.

**Caroll, Erica. 2011. Taxing Ghana's Informal Sector: The Experience of Women. Christian Aid Occasional Paper Number 7.**

This paper addressed informality in Ghana through a gender lens by focusing on the experiences of women working in the informal sector with tax collection. The findings suggest that the tax system is neither fair nor inclusive towards women. The author reveals that 95% of the women interviewed paid a tax of some sort, and more than 50% of them do not “enjoy” the benefits of paying taxes. Following the analysis of the data collected, Caroll provides practical recommendations for tax officials, civil society organisations and women in the informal sector, such as providing taxpayer education and reviewing tax payment calendar, among others. This paper provides a context-specific case study and fleshes out concrete advice and call for action from the findings of the data analysis.

**Keen, Michael. Taxation and Development - Again. Washington, D.C.: International Monetary Fund, 2012.**

In this paper, Keen explores the taxation and development nexus by reflecting on the different narratives that dominated this conversation. As such, he considers that developing countries have been given over-simplified and sometimes ill advice on tax matters over the last decades, and he identifies three wider issues that he discusses thoroughly. The three issues discussed are: (a) the mixed history of “big ideas” that guided tax reform in developing countries. More specifically, Keen addresses the importance of taking geographic and institutional differences into account when providing advice or replicating “good” tax design practices”; He further discusses here the successes and failures of introducing direct taxation mechanisms (income tax, VAT), and the effectiveness of reforming tax authorities and administration, and lessons that can be drawn from the various experiences with such reforms. (b) the conceptual limitation of the focus on informality: He weights on how problematic it is to stress the gross activity rather than the value added of the informal sector. Keen then discusses the key issues of compliance, addresses the simplifications and generalizations to which informality is subjected, and suggests different explanations for successes and failures of the different tax policies aimed at regulating the informal economy; (c) the emphasis on the link between taxation and state-building, and the practical advice deriving from current literature on this dynamic. He mostly discusses the benefits of fostering taxpayer trust through a more purposive use of earmarking, as well as the importance of taxing small and micro-enterprises and broadening the tax net, and its implications for trust and accountability.

This is a very insightful read that provides a critical assessment of the discussions on taxation in developing countries. The section on informality is particularly important as it outlines the limitations of the emphasis on the weight of informality on the economy of developing countries in the wider

development literature. The arguments are accessible to academic and policy audiences from all backgrounds likewise.

**Dube, G., & Casale, D. (2017). Informal sector taxes and equity: Evidence from presumptive taxation in Zimbabwe. *Development Policy Review*, 37(1), 47–66. <https://doi.org/10.1111/dpr.12316>**

This paper addresses informal taxation through a study on the use of presumptive taxes in Zimbabwe and its implications on equity. Dube and Casale find that the presumptive tax system undermines both horizontal equity (meaning individuals at the same economic level incurring a similar tax burden) and vertical equity (individuals with greater ability contributing more) due to the weak enforcement of the regulations and the politicization of legislation application, which leaves the informal sector bearing the weight of the tax burden. In terms of methodology, the paper relies on a mixed-methods approach; the authors conducted a quantitative study using representative taxpayer methods, and a quantitative analysis by conducting interviews with informal workers as well as key informants from the revenue authority, academia, and civil society organizations. Following the analysis of the data and the implications of those on collection, compliance and perceptions of fairness, the authors provide key lessons that may be relevant to low-income countries considering the use or already using presumptive taxes. This study fills a gap in the literature by addressing the equity dimension of presumptive taxes empirically.

**Meagher, Kate. 2018. "Taxing Times: Taxation, Divided Societies and the Informal Economy in Northern Nigeria." *The Journal of Development Studies* 54 (1): 1–17.**

In this paper, Meagher discusses the nexus of taxation of the informal economy and state-society relations by exploring the role, potential, and limitations of taxation in state-building and contemporary development processes. More specifically, based on evidence from fieldwork conducted in Northern Nigeria (in the cities of Kado and Kaduna), the author challenges the notion that taxing the informal economy constitutes a mechanism for increasing popular political voice and rebuilding the social contract. Meagher further challenges the universality of the prevailing model of the relationship between taxation and the social contract, which she considers to be Eurocentric and highlights the importance of addressing historical legacies of trust and mistrust in the context of conversations on fiscal relations, as well as the patterns of poverty and social disadvantage that may affect disempowered groups.

An important section of the paper is dedicated to discussing formal and informal taxation in Nigeria and the impact of gender, wealth, and ethno-religious identity on the governance outcomes of taxing the informal economy. Based on the evidence she collected (interviews and survey), Meagher warns that new efforts to tax the informal economy risk exacerbating existing social and political divisions and tensions rather than rebuilding the social contract and fostering accountability. The author suggests that more attention should be directed towards the mechanisms through which taxation is translated into

a political voice for informal actors to progress on effectively rebuilding the social contract.

This paper contributes to enriching the conversation on improving accountability between state and society through the taxation of the informal economy.

**Rogan, M. (2019). Tax justice and the informal economy: A review of the debates (WIEGO Working Paper No. 41). WIEGO.**

This paper addresses the taxation of the informal economy from an equity perspective. To do so, Rogan provides a set of definitions and conceptual clarifications, defining concepts such as the taxation of the informal sector, and explaining some concepts specific to the tax literature to describe the different segments of the informal economy, such as 'shadow economy', 'hard-to-tax', 'icebergs' and 'ghosts'. He further explains that the paper focuses on the taxation of the informal workers who are self-employed in the informal sector (i.e., firms and individuals that are small and are potentially but not necessarily, taxable), which happen to be the group most often targeted for larger tax contributions in several developing countries, either through direct or indirect taxation mechanisms.

In addition to examining informal workers' taxation mechanisms, Rogan discusses the context and motives for the growing interest in taxing informal workers and their enterprises, which include mobilizing local revenue, increasing tax morale, promoting growth, and strengthening/building the social contract.

He then addresses the equity dimension of the taxation of informal workers by linking the discussion to (a) the trade-offs associated with taxing the informal sector (evaluating the costs associated with enforcing taxation in contrast with the potential revenue to be raised), (b) the risks of overburdening of informal workers, and (c) the regressive nature of the taxes imposed on informal workers and (d) the question of tax harassment. The paper then presents empirical findings from WIEGO's work on taxation in Accra, Ghana (findings based on a survey, n=214), which established that informal workers in markets and streets are subjected to local fees and levies (daily tax, license fee) that amount to regressive tax rates.

Rogan concludes his paper by identifying key areas and priorities for future research, mainly highlighting the need for more and better data to guide policy-making and stressing the importance of more engagement with informal workers and civil society stakeholders to ensure equity in taxation systems.

**Moore, Mick. 2020. What is Wrong with African Tax Administration? Working Paper 111. International Centre for Tax and Development.**

In this paper, Moore investigates African tax administrations and identifies factors that explain their somehow limited performance. The author first recognizes the considerable progress that African tax administrations achieved on several fronts, such as the introduction of VAT, the improved

training and specialization of tax administrators, and the promotion of more gender parity within these administrations. He then proceeds to present a collection of evidence pointing to the lack of performance of African tax administrations based on the benchmarking evaluations organized by TADAT (Tax Administration Diagnostic Assessment Tool). He identifies two sets of issues where there is scope for considerable improvement, requiring more attention from policymakers: the underuse and misuse of digital technologies and IT systems and the taxation of small-scale businesses. The paper presents several case studies and examples of limitations of IT system reforms undertaken by African tax administrations. As for the taxation of small-scale businesses, Moore approaches it in a discussion centered around the registration of taxpayers and continuous efforts of administration aimed at broadening the tax net. He warns against “registration obsession,” a term he coined to refer to “the continuous efforts to register new taxpayers, despite the indication that few will actually end up paying tax” and despite high tax collection costs. Moore also alludes to the role of international organizations and donors in pushing for tax net broadening initiatives targeting the informal economy and calls for better use of administrative resources, such as removing large-scale, unjustified tax exemptions to investors.

**Gallien, Max, and van den Boogaard Vanessa. 2021. Rethinking Formalisation: A Conceptual Critique and Research Agenda. ICTD Working Paper 127. International Centre for Tax and Development.**

In this paper, Gallien and van den Boogaard argue for a rethinking of the conceptualisation of formalisation in dominant development discourses in the 21st century. They support their arguments with case studies of two formalisation processes: tax registration and property titling.

Gallien and van den Boogaard consider that the term formalization has, over the last decades, become an umbrella term used to capture a broad and diverse set of institutional linkages between formal economic structures and individuals or businesses, which impedes simple comparative analysis and can lead to spurious assumptions, conclusions, and connotations. They also dispute the dichotomous and binary formal-informal view of informality which reinforces the perception that “formalisation” involves a switch-like change, overlooks the diversity of the linkages of formal and informal institutions and the diversity that is inherent to the informal economy. The paper suggests that some of these fallacies are rooted in the practices of policy advocacy and research in international development. These often involve structures and institutions that exclude local and contextual knowledge in favour of technocratic and global ‘expertise’, which results in a decontextualized and apolitical conception of informality, and perpetuates an unfounded enthusiasm for formalisation policies as well as an elusiveness of conceptual foundations of the term. These decontextualized conceptions of formalisation, which international organisations and donors often favor, are in turn mirrored in the policy agendas of aid-dependent low-income countries.

Gallien and van den Boogaard suggest a re-conceptualization of the concept altogether and recommend that formalization be conceptualised as conditional,



relational, and political, arguing that it would allow for stronger comparative analysis and lead to better-grounded policy recommendations. The authors acknowledge the limitations of the conceptual and empirical foundations of formalisation and conclude with an emphasis on the idea that formalization needs to be understood as one of the many institutional linkages of states and informal economies, rather than as a silver bullet.