

STREET MARKETS AND THE CHALLENGE OF TAXATION

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Abstract

Street markets play a vital role in the economic and social fabric of communities worldwide, providing livelihoods for millions and offering affordable goods to consumers. However, their informal nature poses significant challenges for taxation authorities. This review paper examines the complex relationship between street markets and taxation, exploring the difficulties faced by governments in revenue collection and the potential solutions to address these challenges. By analysing current approaches, innovative strategies, and case studies from both developing and developed economies, this paper aims to provide a comprehensive overview of the issue and offer policy recommendations for effective and equitable taxation of street markets.

1. Introduction

1.1 Background

Street markets have historically been an embodiment of the urban space more specifically and the city life in more general sense, as places of business, socialization and exchange. They these lively markets that are made of temporary structures and mobile traders in selling a variety of products ranging from fruits and other farm produce, handmade and locally designed products, second-hand products and fast foods among others. This paper highlights that in many countries especially the developing ones, street market is partly an essential component of the informal economy generating employment for the jobless.

This paper examines the case of street markets which are essential in the economic and social aspects yet remain a headache to tax administrators. The exchanges mainly entail informal business, and are largely characterized by cash transactions, while the vendors themselves are normally either itinerant or transient, which makes it hard for governments to collect revenue in the form of taxes from such economic activities. This results to significant losses of revenues to the local and national governments, hence perpetuating the social impartialities between the formal and the informal sectors of the economy.

1.2 Objectives of the Review

This review paper aims to:

1. Evaluate the role and importance of street markets in different perspectives.
2. Discuss the possible problems that arise while levying taxes on the trading activities in street markets.
3. Assess existing trends of street market taxation and the efficiency of the current strategies.
4. Some Ideas and Experience in the Sphere of Tax Compliance in Street Markets.
5. Evaluate the factors that taxation affects street market and survival of the vendors.
6. Give policy suggestions to have proper and efficient taxation policies in the existing political environment.

1.3 Scope and Limitations

Overall this review includes both the literature and cases from the developing and developed economy while particularly concentrating on the USIM and street markets. Although it recognises that there is tremendous variation in street vending activities, the core target is the sellers who are either fixed or can move around a limited central market vicinity. The paper does not describe in great detail the mobile traders or those trading in unauthorized areas of operation. Also, in terms of validity and reliability, the review addresses the general informal economy, but the focus is made on the taxation problems that can be observed in street markets.

2. Methodology

2.1 Search Strategy

A literature review of the academic databases that were accessible through JSTOR, Google Scholar, and EconLit was also undertaken. A search strategy involved the use of keywords such as “street markets”, “informal economy taxation”, “vendor taxation” and “urban informal sector” as well as screening through policy documents from international institutions such as the World Bank, ILO and related government departments.

2.2 Inclusion and Exclusion Criteria

To capture dynamics of current economic characteristics and policy contexts, the focus was on the articles that were published between the year 2000 and 2024. The papers analysed ranged from empirical ones to the theoretical ones. Nevertheless, the emphasis was made on the English publications only, while the translated works in other languages were considered, if only available. If the report or paper published is in the grey literature such as government publications or working papers, then it was considered provided they give us valuable additional information or data not given in the formally published studies.

2.3 Data Extraction and Analysis

From these sources, quantitative data involving market sizes, tax revenue, and compliance rates was obtained as well as qualitative evaluation of policies’ effectiveness and socio-economic implications. The data was also examined thematically in order to pinpoint trends, patterns and knowledge and practice deficits that exist now.

3. Street Markets: An Overview

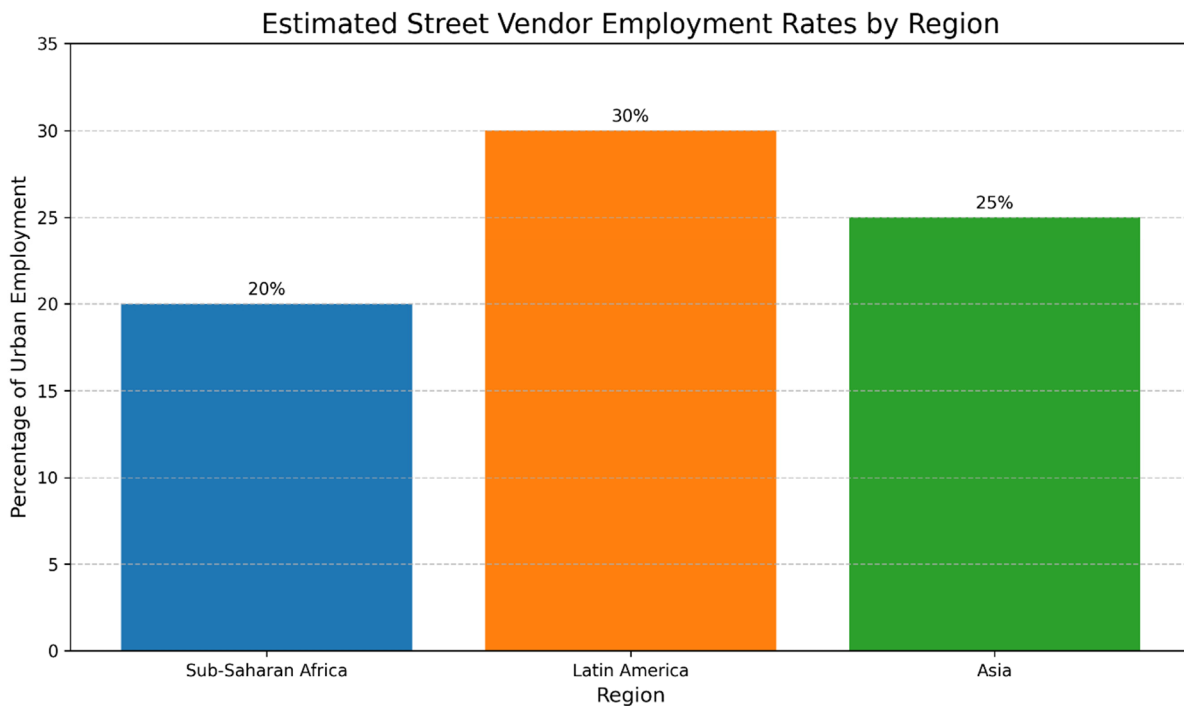
3.1 Historical Context

Since the time immemorial urban retail trading and vendor markets have been a part of global commercial interface and application which includes those that have developed from the ancient Greek agora and the medieval bazaars to the contemporary street markets. It is important to understand that in medieval Europe the market square had its roles in the town planning and economic activities. Development of modernisation and urbanisation brought into existence more of street vendors within booming centres mostly within wage earning districts. In a number of the developing countries, economic colonialism and post-colonial economic effects was the reason for emergence of the street markets since there were few formal employment opportunities as well there was high rate of migration from rural to urban areas.

3.2 Economic Significance

These investigations therefore attested that street markets are economically crucial more especially to growing economies. Estimations by the International Labour Organization (ILO) show that more than sixty % of the global employment is in the informal economy, including street vending and higher percentages of informal employees are found in some regions (ILO, 2018). For example, in sub-Saharan Africa, street vending employed the population in urban areas and the rates estimated are 15-25% of

overall employment in the urban region of the countries (Skinner, 2008).



A study by WIEGO (Women in Informal Employment: In his article titled this we Street vending (Globalizing and Organizing) Chen identified that in African cities street vending contributed up to 30 percent of the urban Gross Domestic Product (GDP). In Asia for instance, the only sale of food from street vending is said to be earning more than multi-billion dollars, and its supplying cheap meals to numerous city inhabitants on daily bases (FAO, 2019).

3.3 Social and Cultural Importance

The research on multicultural London approaches will show that street markets are not only an important part of people’s consuming lives; they are also essential to their social and cultural lives. It turns out that they are used as centers for interactions and cultural interchange, as well as for the maintenance of those forms of folklore crafts and meals. Generally, the street markets are considered as local sights for tourists as they bring the traditional atmosphere into the cities and became a part of urban life.

Morales (2009) studying the United States showed the sense of community cohesion, public markets create with the relevant economic opportunities for immigrants. In the same vein, researches in Latin American region reveal that street markets provides essentials food items security especially for the groups of population with low purchasing powers (Aliaga Linares, 2018).

4. Taxation Challenges in Street Markets

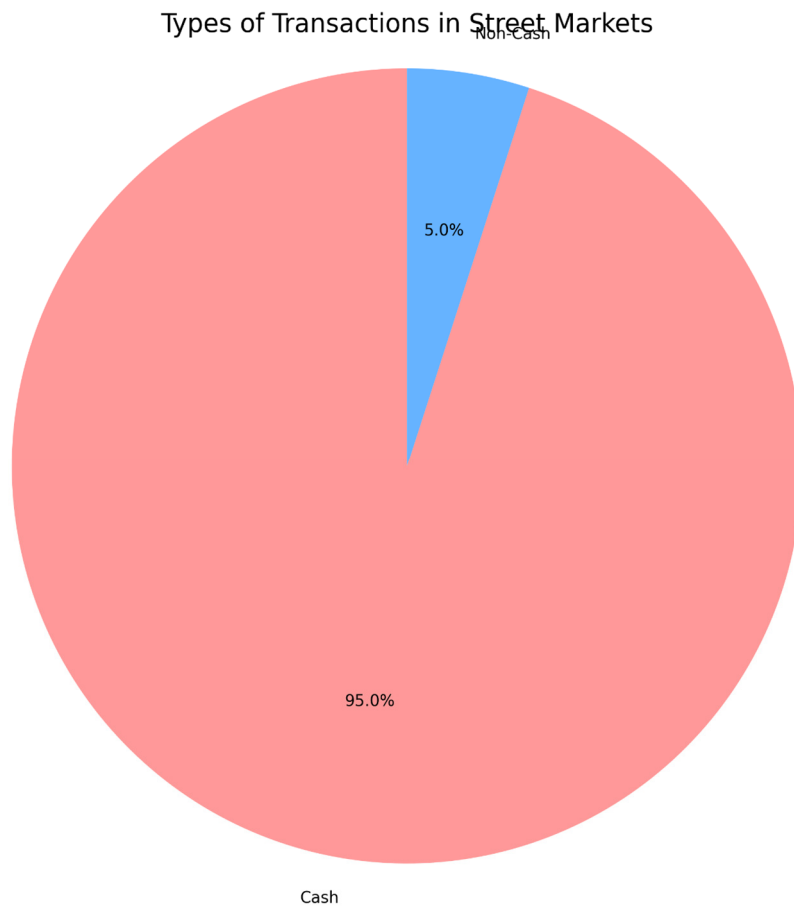
4.1 Informal Nature of Transactions

The problem that can be associated with taxing street markets mainly pertains to their structure. Business is usually done inform of barter, where there are no proper receipts or records of the transactions thus complicating the tax departments in assessing the turnover or income realized. Several researchers have done a study on West African countries where it was revealed that more than 90% of the transactions that occurred in the street market did not have any form of documentation (Benjamin et al. , 2014).

4.2 Cash-Based Economy

These settings make taxation a more difficult task due to extensive use of cash based transactions especially when conducting business in street markets. Cash payments do not contain any proof of documentation or record, and thus, they are relatively hard to hide from the respective government departments. A cross-sectional study by Joshi and colleagues, of several developing countries showed

that as high as ninety five percent of all sales made by urban street vendors were done in cash, thus complicating tax efficiency.



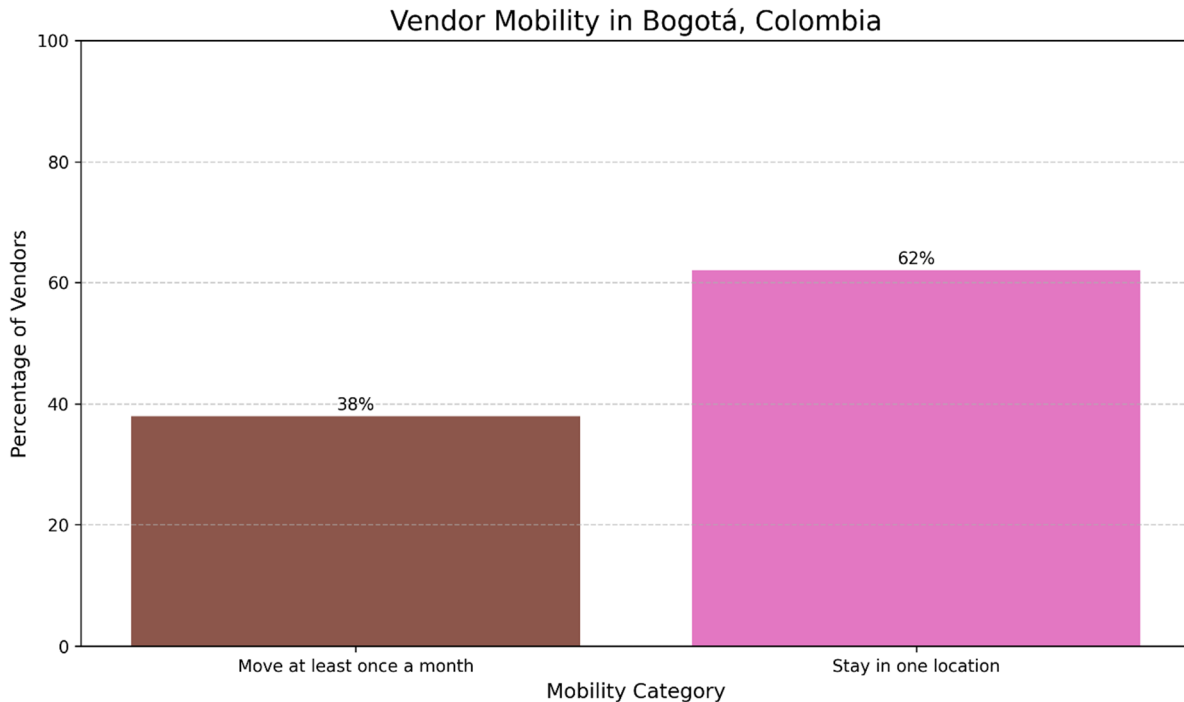
4.3 Lack of Proper Record-Keeping

Most of the street vendors have low academic back grounds or basic business knowledge and skills on accounting. Since such documentation is missing, it remains difficult to determine accurate levels of personal income, at least in the of case the vendors are willing to report according to tax laws. The study that was carried out in India by Kumar and Singh (2019) also revealed that a meager 17% of the identified street vendors kept financial records in their business activities.

4.4 Mobility and Temporary Nature of Vendors

The fact that many vendors operate in streets and have a mobile or temporary business adds to the problem faced by the tax authorities. Businessmen may move their stands frequently or work periodically and this makes assessment difficult in terms of taxes.

Martínez et al. (2017) in their study conducted in Bogotá, Colombia, established that about 38% of the respondent's move their selling spots at least once a month making it difficult to harmonize taxation.



5. Current Taxation Approaches

5.1 Flat-Rate Taxes

In a bid to ensure that street vendors pay taxes, the government has applied the policy of pro-fair tax regimes to them which entail flat rates of taxation being charged to the street vendors. . For instance, in Ghana, the “Informal Sector Tax” implemented in 2015, levies a flat rate fees base on the category and carder of the informal business such as street vendors (Prichard, 2018). The above strategy makes tax collection easier on one end, but on the other hand, does not consider the different income levels of vendors and can go as far as being regressive to small vendors.

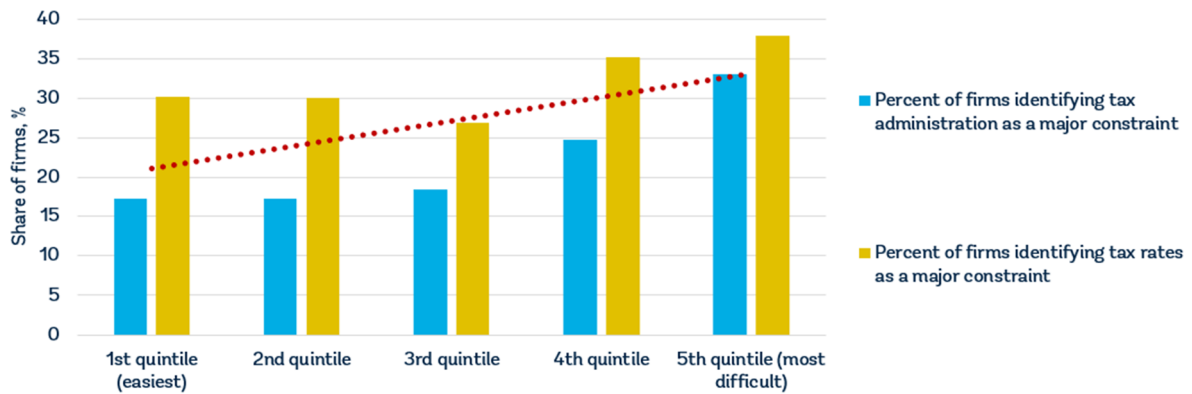
5.2 Presumptive Taxation

Another is the presumptive taxation whereby taxation is based on estimated amounts that can be inferred from factors associated with the economic capacity of the taxpayers. In India there is “Presumptive Taxation Scheme” where smaller traders like some of the street vendors can pay taxes as a percentage of turnover (Government of India, 2020). As suggested below, this method seeks to lower the regulation costs while promoting participation in the tax regime.

5.3 Voluntary Compliance Programs

Some governments have put in place measures of voluntary compliance through which the street vendors can be legally and formally registered and legally required to pay taxes. In Peru, case of the “Régimen Único Simplificado” (RUS) where it has the essence of reduced tax rates and easy procedures for businesspeople, especially street vendors (SUNAT, 2021). SME support programs typically use

incentives for the clients to adopt formalization, together with simplified taxation regimes.



5.4 Licensing and Permit Fees

Most of the local governments relied on licensing and permit fees as the means of collecting taxes from the street vendors. Although not actually a tax, these fees are meant for revenue purposes and it is easier to administer at the sub-national level. Roever (2014) study on eleven cities of Africa, Asia and Latin America determined that the amount agreed and paid by street vendors to local authorities mostly went to licensing fees.

6. Innovative Solutions for Street Market Taxation

6.1 Mobile Payment Integration

The rise of mobile payment technologies offers new opportunities for formalizing transactions in street markets. In Kenya, the widespread adoption of M-Pesa, a mobile money transfer service, has enabled some local governments to collect taxes and fees from street vendors electronically (Ndung'u, 2018). This approach increases transparency and reduces the challenges associated with cash-based transactions.

6.2 Simplified Tax Regimes

Many countries have embarked on implementing easy tax systems targeted at MSE which include street vendors. The “Simples Nacional” implemented in 2006 in Brazil has a smooth structure at the same time marked by low tax rates for the small firms (Fajnzylber et al. , 2011). Such systems can cause formalization by decreasing compliance costs and “ federalisation. ”

6.3 Education and Outreach Programs

Because of the significance of enforcing optimum financial literacy and tax consciousness, some governments and NGOs have introduced educational programs for the street vendors. The “Ayo Pajak” (Let’s Tax) campaign in Indonesia delivers basic information about taxes in addition to easy-to-fill registration forms for paid workers in the informal sector (Directorate General of Taxes, Indonesia, 2019). These are targeted at enhancing voluntary compliance known to build trust.

6.4 Technology-Driven Compliance Tools

Tax compliance in such a setting as the street markets is now being provided by innovative technologies. In India, The Goods and Services Tax (GST) system comprises a mobile application which helps small traders to prepare the invoice and file the tax return (Goods and Services Tax Network, India, 2021). Better still, use of these instruments has points that could if applied to the needs of the street vendors increase compliance ratings.

7. Case Studies

7.1 Developing Countries

7.1.1 Case Study 1: Dakar, Senegal

In Dakar, for example, it is possible to note the experience of providing cooperation between the local administration and vendors ‘associations’. The “PACTE” (Programme d’Appui aux Communes et aux Territoires pour l’Emploi) through an action launched in 2016, includes the representatives of the street vendors within the decision-making power relating to taxation and market organization. According to UNDP (2019), this communities’ participation has enhanced compliance besides increasing street markets taxes collection by 30%.

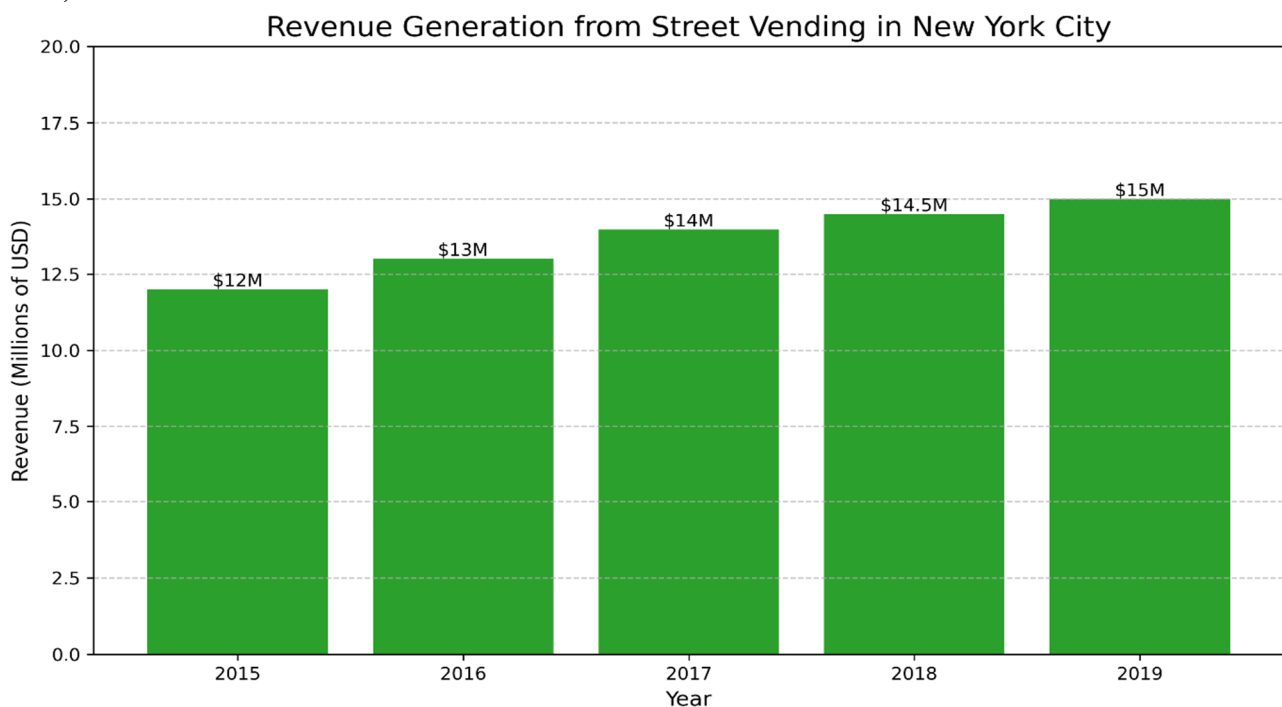
7.1.2 Case Study 2: Ahmedabad, India

The ‘Street Vendors’ Policy of the Ahmedabad Municipal Corporation includes the system of vender’s accreditation, the system of the defined areas for vending and reasonable system of fees depending on the location and type of goods. Launched in 2010 this policy has seen 60000 Plus street vendors formalized and a tripling of municipal revenues (Mahadevia et al. , 2018).

7.2 Developed Economies

7.2.1 Case Study 3: New York City, USA

The measures of regulating and taxing the street vending activities in New York City are through licenses, permits and health department inspections. As much as it has been accused of having high entry barriers to the B-BBEE, the system has however made it possible for the city to generate high revenues from street vending practices. The above use of license and permit fees by the city shows that in2019, it earned more than \$15 million from street vending activities (New York City Department of Health and Mental Hygiene, 2020).



7.2.2 Case Study 4: Barcelona, Spain

Barcelona has a more recent “Plan for Street Vending” that was launched in 2015, which mainly involves taxation complemented with social assistance as well as opportunities for formalization. The measures are key policy initiatives such as the simplified tax regime for the vendors together with capacity building programs and support for their formalization. It has helped to cut down unauthorised vending by 40% besides increasing compliance to tax by the accredited vendors (Barcelona City Council, 2019).

8. Impact of Taxation on Street Markets

8.1 Economic Effects

As we have observed, the application of taxation in the street markets has some general economic implications. Though it strengthens government's revenue, excessive taxation could push the vendors deeper into the informal sector or out of operations. Some research by Joshi et al. (2017), done on various African countries, discovered that moderate extent of taxation, accompanied by enhancements in services and infrastructure for the sellers, may enhance formalization as well as economy in the sector.

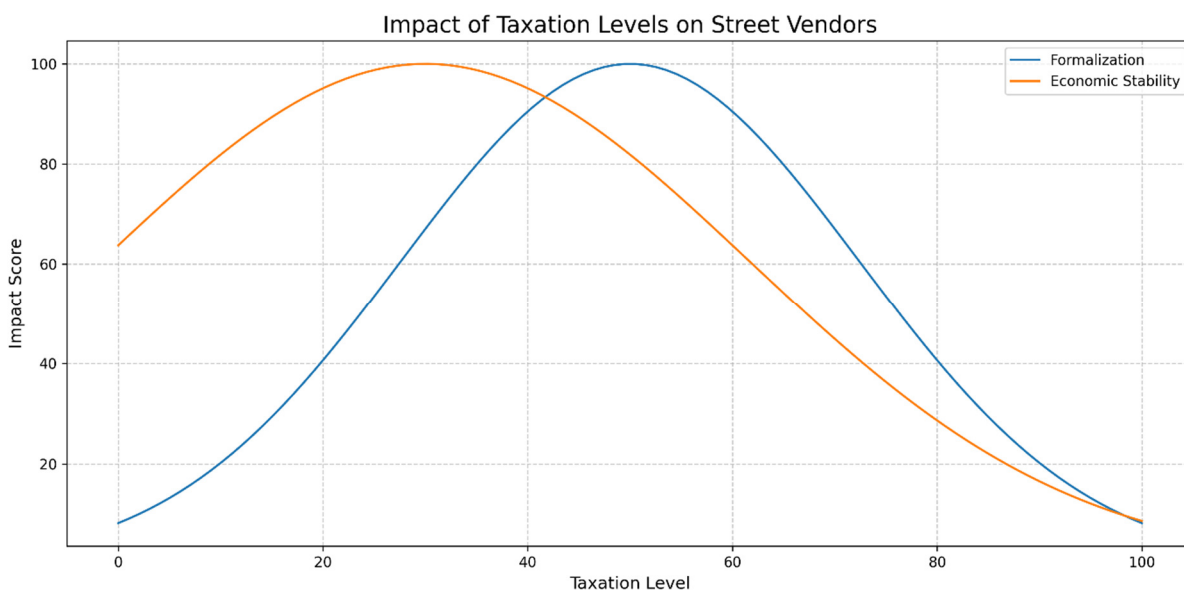
8.2 Social Consequences

Taxation policies can have significant social impacts on street vendors and their communities. Research by Chen and Skinner (2014) highlighted that poorly designed tax systems could exacerbate poverty among low-income vendors. Conversely, well-implemented policies that link taxation to social protections and formalization pathways can improve vendors' social and economic security.

This social issue therefore indicates that taxation policies pose a great social effect on street vendors and their societies. Chen and Skinner (2014) also found out that poorly designed tax policies could further worsen poverty levels among the low-income vendors. On the other hand, good policies that are implemented and which generally connects taxation with social protections and regularization mechanisms enhances vendors' social and economic stability.

8.3 Formalization and Growth

Lax taxation policies are a possible way through which street vendors can be formalised. A similar study by Rand and Torm (2012) on Vietnam discovered that the businesses that were flexible, especially those that once operated on the streets, recorded better growth levels and better credit accessibility as compared to the other informal flexible businesses. But some transition needs to be done carefully so that the vulnerable vendors are not locked out of their means of sustenance.



9. Policy Recommendations

9.1 Short-Term Strategies

1. There is need to introduce low progressive taxation structures that should take into consideration the various income earning abilities of the street vendors.
2. Ensure mobile payment system is implemented to ensure that all the transactions made are accountable and traceable.
3. Sensitization campaigns should be conducted based on financial literacy and tax compliance among the vendors.

9.2 Long-Term Reforms

1. Come up with good policies and legal instruments embrace the issue of street vending to allow a proper channel of formalization.
2. The taxation of street vendors should form part of the overall of polices formulated on urbanization and economic development.
3. Provide for the development of technology-based communication systems that will effectively address the concerns of the street sellers while at the same time being within their reach.

9.3 Balancing Revenue Generation and Market Viability

1. Embrace an inclusive framework of policy involvement of vendor associations especially in the formulation and implementation processes.
2. Ensure that link between taxation and positive repercussions as far as the vendors are concerned, for instance fixed structures to support the market and enhanced social security systems.
3. Policies concerning taxes should be checked and altered on a consistent basis to make sure they are well fitted for the market and do not hamper its development or creativity.

10. Future Research Directions

10.1 Gaps in Current Literature

Future studies should be conducted to estimate the relationship between assortment and types of taxation and long-term economic effects on the formation of the street market and the viability of vendors. Besides, it seems that systematic and more detailed information on the size and economic impact of the street markets in different areas would be useful for the policy-makers.

10.2 Emerging Trends and Technologies

The potential of blockchain technology and digital currencies in formalizing street market transactions and facilitating taxation deserves further exploration. Research into the applicability of these technologies in low-resource settings is particularly important.

10.3 Interdisciplinary Approaches

Future studies should adopt more interdisciplinary approaches, combining economic analysis with insights from urban planning, sociology, and public health to develop holistic strategies for street market governance and taxation.

11. Conclusion

The issue of taxing Street Markets is an enormous task because the nature of markets vi has many aspects that have to be addressed when setting up relevant taxing policies that should capture enough government revenues for economic development and for the formalization of the market while at the same time recognizing the socio-economic boon that the street markets are to the various economies. Specificity of the strategies is a key that implies the use of the latest technological advancements and the use of the participation in the development of fair taxation systems. Given the increasing LSBs and increasing informal economy in cities, adopting efficient and fair means of taxing street markets shall remain a critical policy agenda in many countries.

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