



**Midlands State University**

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**FACULTY OF COMMERCE**

**DEPARTMENT OF ACCOUNTING**

**CAUSES OF SOCIAL SECURITY CONTRIBUTION EVASION IN  
ZIMBABWE**

**BY**

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## **DEDICATION**

This research is dedicated to my wife Molleen and daughter Ellah.

## **ABSTRACT**

This study sought to investigate the causes of social security contribution evasion in Zimbabwe.

In this study 228 social security contributors were used. The researcher used questionnaires as research instruments.

The study showed that the main causes of social security contribution evasion in Zimbabwe are the negative macroeconomic fundamentals, planned behaviour and poor compliance culture. The study revealed that Economic deterrents do not influence the social security contribution evasion behaviour.

This study recommends that to reduce social security contribution evasion, social security administrators should engage defaulting employers to come up with workable payment plans. Incentives for compliance such as penalties amnesty can be put in place to improve on compliance. The respondents rated social security contributions as very low and an increase in these can enforce a compliance culture.

Finally it is also recommended that further research be undertaken in order to assess the causes of social security contribution evasion when the economic environment normalises as this research was done when Zimbabwe was facing difficult macro-economic conditions.

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# CHAPTER 1

## 1.1 Background to the study

Studies on social security contribution have been carried out in many countries particularly developed countries. This include the work of Bailey and Turner who cited in their findings that contribution evasion is a serious problem for social security financing in many countries. Social security contributions is mandatory in most countries which have such schemes in place. Employers and employees are made to make contributions to such schemes for the benefit of employees when they retire or when they are injured at the workplace.

The research concentrated on the causes of social security contribution evasion in developing countries with Zimbabwe being chosen as the case study. The research was conducted in a country with contributors that are experiencing the effects of negative macro-economic fundamentals. These have affected the industry's capacity utilization which was reported to be at 34, 4% as at October 2015 (Newsday, October 29, 2015). The effects of the negative macro-economic fundamentals back date to the hyper inflationary period which ended in January 2009, through the transitional stage which saw the adoption of the multi-currency system. The transitional phase faced challenges in terms of the conversion process and exchange rates that were to be adopted. The challenges were even accelerated by the current liquidity crisis. Chances are that these negative macro-economic fundamentals might have an influence on evasion of payment of social security contributions as employers will be facing liquidity challenges.

Manchester (1999) defines social security contribution evasion as the act by employers and employees of avoiding to pay social security contributions in full or under declaring earnings so as to pay less contributions or colluding with employees to classify them under the categories that are exempted by different social security Acts from paying social security contributions.

Social security contribution evasion is a cause for concern as such schemes are usually administered on a 'pay as you go' basis. Bruinig, (2014) defines a pay as you go social security scheme as a social security system in which the current employee contributions are used to pay the currently retired beneficiaries. Evasion thus has a negative impact to the scheme as was

highlighted by Manchester, (1999) who said that evasion may give pressure for contributions to be increased on those who pay religiously or for benefits to be lowered to protect the scheme from collapsing. Enoff and Mckinniri, 2014 added that social security contribution evasion may deprive insured persons and pensioners their rights to receive the minimum benefits. Earlier on, McGillivray, (2001) had highlighted that social security contribution evasion affects the financial sustainability of social security programmes and adequacy of prescribed cash benefits. This is because there will be a mismatch between the projected expenditures on benefits and related cost, and projected revenue from contributions.

Researchers who worked on the causes of social security contribution evasion produced varying results. Some were concurring while others had diverging views. Perotti, (2012) concluded that social security contributions evasion in Bulgaria is purely a function of contributor's perception on the link between contributions and benefits. It follows thus perceived low benefits results in high contribution evasion.

Nyland 'et al', (2006) on the other hand concluded that in China, social security contribution evasion is caused by; informal ownership structure, smaller size of the firm, non-effective compliance mechanism and employer attitude.

Enoff and Mckinniri, 2014 also concluded that social security contribution evasion in Switzerland is solely influenced by the governance system in place. Bad corporate governance results in contribution evasion.

Bailey and Turner, (2001) highlighted that contributors in the United States could evade paying their contributions if the social security schemes are being inefficiently managed or when there are harsh economic conditions. He also added that employer, employee and Government attitude have a bearing on compliance culture.

These differences in conclusions made by other researchers motivated this researcher to carry out the research. The researchers above did their studies in developed countries and this researcher has decided to do the research in Zimbabwe, a developing country which is also faced with negative macro-economic fundamentals. New knowledge is expected to be contributed as readers will be able to appreciate the causes of social security contribution evasion in developing countries more over experiencing negative macro-economic fundamentals and also to make a

comparison between the causes of social security contribution evasion in developed countries and in developing countries using findings from this research.

The researcher invoked the following theories in investigating the causes of social security contribution evasion in developing countries using the case study of Zimbabwe.

- The theory of reasoned action and theory of planned behavior by Fishbein (1975) and Ajzen (1991). The theory says that people act in response to their intentions and perceptions of control over their behavior. These intentions are influenced by attitudes towards the behavior, subjective norms and behavior control. Social Security contributions evasion can be viewed as planned behavior which is influenced by peoples' intention and perception.
- The extended economic deterrence model- this is a model that was developed in military and was later applied to other forms of dealing with unwanted behavior. It emphasizes on instituting some form of punishments such as penalties to deter someone from engaging in unwanted behavior such as evasion of payment of statutory obligations. It looks at how a number of variables can be used to deter the culture and behavior of evasion. These include penalties, contribution rates, income levels, complexity of payment procedures and probability of detection (Devos 2013)
- The liquidity preference theory- this is a model that was developed by Keynes where he explained that people and business tend to hold on to their cash in tough economic times. They will not be willing to part with their depleted cash reserves including payment of statutory obligations (Blanchard, 2011)

## **1.2 Statement of the problem**

Despite social security contributions being mandatory for employers and employees, a number of them particularly in developing countries continue to evade and thus threatening the life of social security schemes. Zimbabwe among the developing countries is not spared from the social security contributions evasion problem as evidenced in the National Social Security Authority Annual Performance report for 2015. It highlighted that the Zimbabwean Social

Security compliance rate hovers at around 50% and thus translating to similar percentage of contribution evasion.

### 1.3. Purpose of the study

The study investigated the causes of social security contribution evasion by employers of labour in Harare, Zimbabwe

### 1.4. Research objectives and hypothesis

**Table 1.1**

| <b>RESEARCH OBJECTIVE</b>  | <b>HYPOTHESIS</b>  |
|--|--|
| To establish the relationship between macro-economic fundamentals and social security contribution evasion.  | <ul style="list-style-type: none"> <li>• Negative macro economic Fundamentals cause Social security contribution evasion</li> </ul>  |
| To establish the relationship between planned behavior and ethics, and social security contribution evasion. | <ul style="list-style-type: none"> <li>• Planned behaviour and ethics causes Social Security Contribution evasion</li> </ul>         |
| To establish the relationship between economic deterrents and social security contribution evasion.          | <ul style="list-style-type: none"> <li>• Absence of or low economic deterrents cause social security contribution evasion</li> </ul> |
| To establish the relationship between poor compliance culture and social security contribution evasion.      | <ul style="list-style-type: none"> <li>• Poor compliance culture causes social security contribution evasion</li> </ul>              |
| To establish the relationship between the intention for evasion and social security contribution evasion.    | <ul style="list-style-type: none"> <li>• Intention for evasion causes social security contribution evasion</li> </ul>                |



### **1.5. Research questions**

- What is the relationship between negative macro-economic fundamentals and social security contribution evasion?
- What is the relationship between planned behavior and ethics, and social security contribution evasion?
- What is the relationship between the level of economic deterrents and social security contribution evasion?
- What is the relationship between poor compliance culture and social security contribution evasion?
- What is the relationship between intention to evade and social security contribution evasion?

### **1.6 Scope of the study**

#### **Subject scope**

The research looked at the causes of social security contribution evasion. These causes were taken as the independent or predictor variables and the evasion being the dependent variables.

#### **Geographical scope**

The research focused on contributors who employ labour in the willow vale industrial site, Harare province.

### **1.7. Significance of the Study**

This study can be used by policy makers to establish the causes of Social security contribution evasion in Zimbabwe and to provide a sound policy on reducing such evasion.

The research can also be used as reference by other researchers who may need to further investigations in this area.

## **1.8. Limitations of the study**

The study has some limitations

Firstly, the list of causes of social security contribution evasion may be endless depending on different scenarios and location of contributors but only a few common questions were chosen and used on the questionnaires. This was mainly to keep the questionnaire short enough not to be a burden to the respondents but at the same time capturing key metrics.

Secondly, the research also focused on Harare employers only and the factors causing them to evade paying social security contribution evasion may not be very identical with other regions or locations.

## **1.9 Research Methodology**

The study utilised the quantitative research approach to investigate the causes of Social security contribution evasion in Zimbabwe. The survey method was used to collect data. A total of 200 employers contributors were used as respondents. The sample included employers of different sizes. Questionnaires were used to collect the data.

## **1.10. The conceptual framework**

Ragoniel (2015) defines a conceptual framework as the researcher's synthesis of literature on how to explain a phenomenon. It is adopted from existing literature. The conceptual framework in this research was used to give a synopsis of the relationship between; the negative macro-economic fundamentals, economic deterrence and planned behavior, all being predictor or independent variables and social security contribution evasion on the other side being the dependent variable. Poor compliance culture and benefits that accrue to the contributor when they evade were used as the mediating variables.

This was adopted from the work of Fishbein (1975) and Ajzen (1991) in the theory of reasoned behavior, Devos 2013, in the theory of the extended economic deterrence model and in the work of Bailey and Turner (2001)

**The Conceptual framework**

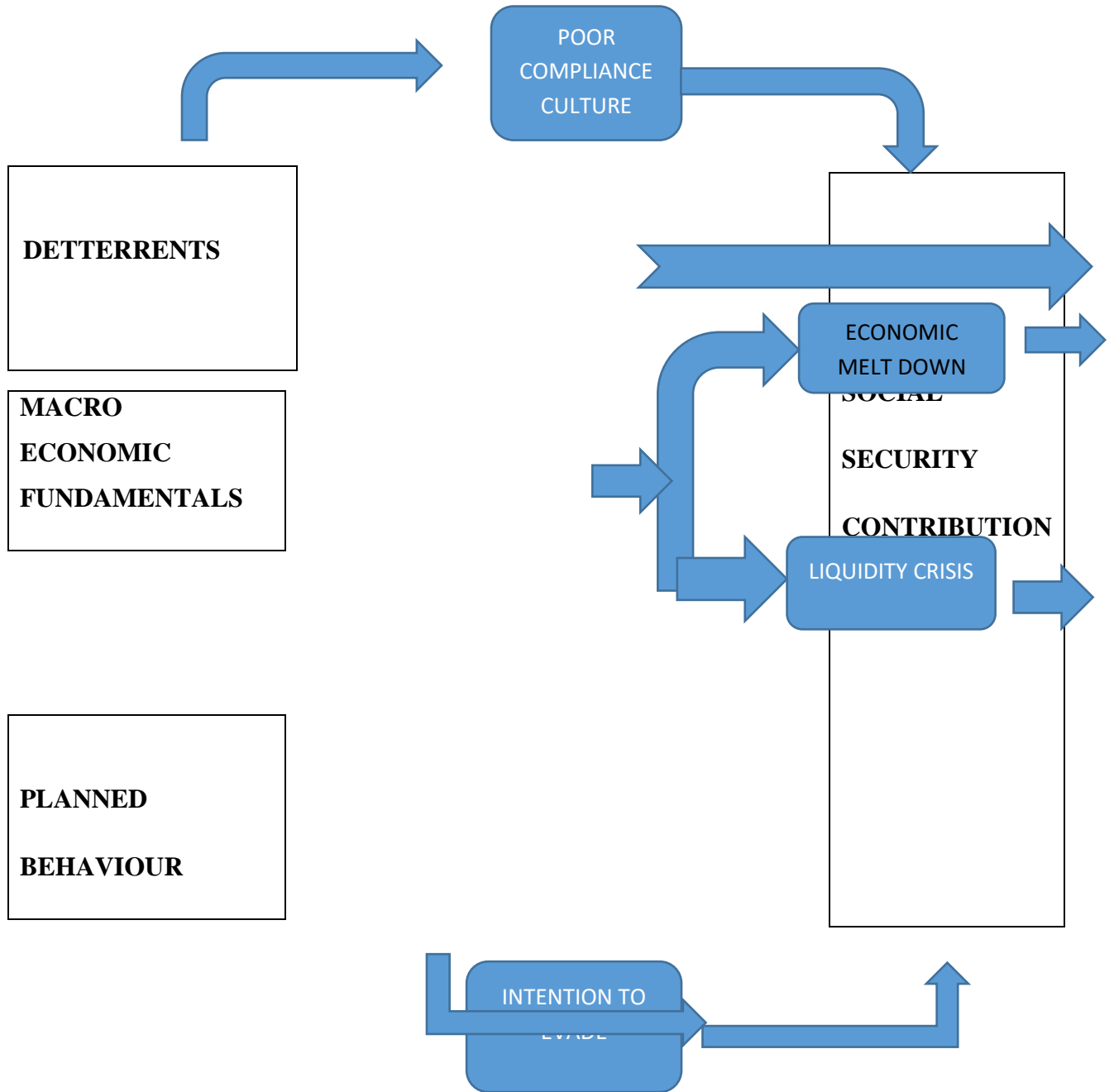


Fig 1.1

Source; based on the works of Fishbein, 1975 and Ajzein, 1991, Bailey and Turner 2001 and Devos, 2013

As indicated on the conceptual framework fig 1.1, a contributor can have negative attitude towards payment of social security contribution and this manifest itself through a planned behavior which directly caused by the formulation of an intention to evade and this eventually leads to evasion.

Macro-economic fundamentals may also directly cause contributors to evade as they may be incapacitated to pay. This may be come in the form of economic meltdown or liquidity crisis which then eventually force contributors to evade. (Bailey and Turner, 2001)

Deterrents levels such as penalties may directly lead to evasion. It can also cultivate a poor compliance culture which leads to evasion (Devos 2013)

### **1.11. Chapter summary**

The chapter looked at the background to the study, a statement of the problem, purpose of the study, research objectives and corresponding hypothesis and research questions. It also looked at the limitations, delimitations and significance of the study as well as giving an insight to the research methodology. Lastly, the chapter gives a synopsis of the research area in the form of a conceptual framework.

The next chapter looks at literature review, where any related literature is discussed.

## **CHAPTER 2**

### **LITERATURE REVIEW**

#### **2.0 Introduction**

The purpose of this chapter is to review already existing literature that explains the causes of social security contribution evasion. Literature review is thus the process of objectively evaluating a research problem using existing literature (Dawidowicz, 2010). This helps in giving a guide to the study.

The chapter has three sections namely; the theoretical review on the causes of social security contribution evasion, empirical results review and lastly the conclusion.

#### **2.1. Theoretical review**

This section presents the simplified concepts of causes of social security contribution evasion. It further brings in the different theories that try to explain contributions evasion behavior

Social security contribution evasion is defined as a practice by contributors, of underpaying or non-payment of mandatory social security contributions. (Bailey and Turner, 2001). Such evasion may either be intentional or unintentional. Intentional evasion is a planned behavior while unintentional evasion is a result of external macro-economic factors which cannot be controlled by the contributor (Devos, 2008). It is however not easy to measure the magnitude of intentional and unintentional evasion.

Social security contribution evasion impact negatively on the viability and survival of social security schemes. It is therefore important to identify the causes of social security contribution evasion and look for mitigatory measures (McGillivray, 2001). Failure by contributors to meet their contribution obligations lead to the social security schemes failing to achieve their key objective of providing adequate social security benefits. This may have an impact on the benefits paid out as the actuary valuation report that is used in determining the benefits to be paid is hinged on the level of payments made to the fund. (Bailey and Turner, 2001).

Social security contribution evasion is not only limited to non-payment of contributions but it also involves non-compliance with timeous filing of returns that contributors are mandated to file as per relevant statutes.

## **2.2 Social security contribution evasion**

### **2.2.0. Principal ways of statutory obligations evasion by employers.**

James and Alley (2004) highlighted that there are a number of forms of statutory obligations evasion and these are explained below;

#### **2.2.1. Evasion by employers**

Firstly, Under-reporting number of employees – this is whereby employers understate the number of their labour force so as to keep their contributions as low as possible. Furthermore Holzmann ‘et al’ (2009) added that employers can evade paying contributions by under stating the number of employees as well as understating their earnings which are used as the basis for calculation of contributions due.

Secondly, Failure or delay to remit contributions by employers. - Despite having collected Social security contributions from employees, some employers evade remitting these to the entities that are mandated to collect such contributions.

### **2.2.2. Evasion due to inefficiencies of institutions administering statutory obligation schemes.**

According to James and Alley (2004) the inefficiencies that are exhibited by some entities that are tasked with administering statutory contributions can promote evasion by contributors.

These factors include:

- In efficient administration
- Poor debt collection techniques.
- Tolerance for evasion
- Lack of resources to enforce compliance.
- Poor design of statutory obligations schemes such as social security schemes.
- Poor working morale for staff.

### **2.3. Possible causes of social security contribution evasion**

There are a number of variables which may cause contributors to evade when it comes to payment of their statutory obligations. These are reviewed below;

#### **2.3.1. Macro-economic fundamentals**

This is a group of variables that are part of the so called the ‘untouchable’ part of the environment. They are not directly influenced by a single firm. These may include shrinking market size, stiff competition, economic meltdown and the liquidity crunch. These may incapacitate the contributor from paying their obligations. These are discussed below;

#### **2.3.2. Financial distress and liquidity crunch**

Financial constraints are believed to have an impact on contribution evasion. People and corporates that are financially distressed are more prone to evading payment of statutory obligations when compared to those in less financial distress (Mohan and Sheeham, 2004). In some instances many companies are under financial distress and most of them at the verge of collapsing. This is a possible cause for their evasion in terms of paying social security contributions.

Other schools of thought However argue that entities that are liquid and not facing any financial distress may also evade (Vogel,1974 and Warneryd and Walerude, 1982). This may also be evidenced by some entities that post good financial results but still continue to evade and only pay when they are caught.

The shortage of cash seem to have an effect on evasion of social security obligations as firms may be incapacitated from meeting their obligations.. Firms profit making capacity is also affected as demand is reduced as a result of failure by customers to access their funds.

### **2.3.3. High contribution rates**

When contributors perceive statutory obligations contribution rates as being high, they may be motivated not to pay. The obligations will thus be chewing a big chunk of their financial resources (Kirchler, 2014). Contrary to this view, James and Alley (2002) saw that some defaulters maintain the same evasion attitude whether contribution rates are high or low.

### **2.3.4. Penalties**

Some researchers concluded that penalties can be used as a deterrent to contributions evasion. Charging low penalties or charging less penalties leads to evasion (James and Alley, 2002), Torgler (2007) also concurred with James and Alley as he said that low penalties motivate contributors to evade as they will not increase their contribution arrears by a big margin. Nyland 'et al' (2011) however contributed that human beings are very complex and they may not all be deterred by penalties. The institution of huge penalties may thus leave the contributor in a worse off scenario and force them to evade

### **2.3.5. Perceived benefits for evading.**

Evaders usually do a cost benefit analysis on the expected results from evading. Hasseldine (1993), Song and Yarbrough (1978) and Torgler and Schneider (2005) assumed that payers of statutory obligations are rational economic evaders who would assess the costs and/or benefits of evasion. They try by all means to minimize their contribution liability. On the other hand, they would be willing to pay more, including a penalty, if they were caught (Song and Yarbrough, 1978; Somasundram 2005; Torgler 2007).

### **2.3.6. Complexity of payment procedures**

The complexity of payment procedures include variables such as use of complex formulas that are used in determining the contributions due, time spent when a contributor is trying to comply or the time required to file returns that are required when one chose to comply (Holzmann 'et



al',2009). They concluded that contributors may evade when they perceive the payment procedures as being complex.

Allingham and Sandmo (2007) however contradicted with the above view and they said that contributors may evade even if they are aware of the amounts that they are supposed to pay and this is evidenced when a contributor who is audited and given an amount to pay still continue to evade after being given a due date.

Some employers may not have an appreciation of formulas used in calculating social security obligations hence they are likely to comply only when they are visited by the compliance inspectors who will help them with the necessary calculations. Compliance costs refer to costs that have to be met by contributors in terms of time, inconvenience and filing necessary returns complying with the contribution requirements. Some contributors for example may have to travel long distances to make their payments and this may force them to start evading.

#### **2.3.7. Probability of not being detected**

Allingham and Sandmo (1972) highlighted that high chances of detection may force contributors to comply. These chances may be increased for example by the increased visibility of the inspectorate team especially when they are carrying out do to do audits. The same sentiments were supported by Slemrod, Blumenthal and Christian (1998). Contributors who perceive their chances of being caught as low like those who operate in rural areas and backyards building may evade on the same basis.

Song and Yardbrough (2006) however argued that contributors who can perceive their chances of detection as high can still go ahead and evade thus showing that other factors other than probability of detection may be in place.

### **2.4. The empirical evidence approach**

This section considers the research that was done by other researchers in different countries.

Most developing countries have got similar statutory obligations compliance rates. Their monthly individual compliance rates on most statutory obligations hover around 50% as the case with Social security schemes.

The case study of Kenya (African journal of business and management April 2010) established that Kenya is ranked among low income countries or low compliance countries. There is hostility between statutory obligation payers and revenue collectors on issues relating to compliance. Employers generally do not want to comply.

#### **2.4.1. Causes of evasion on statutory obligations contributions in Kenya.**

The research identified the following as causes of contribution evasion in Kenya:

- statutory obligation laws that are not easy to understand
- influence from neighbors
- no rewards to voluntary contributors
- high chances of not being detected for non-compliance
- corruption

#### **Recommendations to reduce evasion from the Kenyan study**

- use of fines on evaders and late payers
- aggressive inspectorate teams
- Awarding rewards to voluntary payers.
- educating contributors on how to calculate their monthly obligations

The researchers concluded that most Kenyans view their statutory obligations system as unfair since there are feelings that contributors do not pay a fair share of the obligations as others pay more or less or totally evade without being noticed. The fines charged for late payment are viewed as brutal. Some of the recommendations made in Kenya to reduce evasion are; use of fines, aggressive inspectorate teams and educating employers on how to calculate their obligations.

#### **2.4.2. Case study of Chile and Argentina (Penn state University press journal) of July 2006.**

The findings were also related to the Kenyan one. Nobody wants to pay statutory obligations voluntarily and the compliance rate was found to be around 52%.

#### **Causes of contribution evasion in Chile and Argentina**

- People always avoid being exploited by statutory obligations authorities hence they try by all means to evade. There is a high number of statutory obligations.
- High contribution rates.

## **Recommendations**

- Charge fair rates on statutory obligations
- Government should reduce the number of statutory obligations.

### **2.4.3. Case of study of Malawi (Malawi college of Accountants)**

#### **Causes of contribution evasion**

Most of the causes already cited also applied to Malawi but the main cause was said to be cash flow problems that was being faced by contributors.

### **2.4.4. Case study of Uganda (international journal of business and social science September 2013)**

#### **Causes of contribution evasion**

- Complexity of laws that were not understood by the contributors. person.(Oberholzer 2008)
- Liquidity pressure- leads to the shortage of resources to commit towards meeting statutory obligations. (Tereper 2003)

### **2.4.5. The case study of Zambia (Lawrence Mukuka, Webby Kalikiti and Dann k. Musenge-Journal of social development in Africa vol 17 of July 2002)**

#### **Causes of contribution evasion**

- Low fines charged by statutory obligations enforcers.
- Economic hardships
- Compliance costs

## **2.5 Chapter summary**

The chapter looked at literature review regarding the research topic with a view to establishing the cause's social security contribution evasion. The principal ways of statutory obligations

evasion by employers, theoretical reviews on the same subject and empirical evidence from researches that were done in other countries. The next chapter dealt with the research methodology to be applied in collecting data.

## **CHAPTER 3**

### **RESEARCH METHODOLOGY**

#### **3.0. Introduction**

This chapter focuses on research methodology. Nachias and Nachchmia, (2002) defined research methodology as the set of rules and procedures adopted by the researcher in collecting data, analyzing it and processing it in a manner that ensures that the data becomes reliable enough to be used as a basis for providing recommendations. The chapter gives a discussion on the research philosophy, how data was collected, the research design that was adopted as well as the target population that was used. The sample and sampling techniques that were used, research instruments, validity and reliability of data and data presentation and analysis are also explained. Lastly a summary of the chapter is given.

#### **3.1 Research philosophy**

A research philosophy is the trusted way of gathering, analyzing and using data in a research. It is based on the 'epistemology' (what is known to be true) and doxology (what is believed to be true). Scientific research has the objective of transforming things believed into things known.

Two main research philosophies can be utilized in research namely positivist (scientific) and interpretivist (antipositivist or non-scientific)(Galliers, 1991).

### **3.1.1 Positivism**

Positivists believe that reality is stable and can be observed and described from an objective viewpoint (Levin, 1988), i.e. without interfering with the phenomena being studied. They give trust to knowledge that the researcher collected through observation. They utilize data collection and interpretation using the objective approach that gives quantifiable results (Quantitative research). They believe that phenomena can be isolated and that observations should be repeatable. They can vary a single independent variable so as to identify regularities in, and to form relationships between, some of the constituent elements of the social world. Data is collected and analyzed statistically from a large sample (Polonsky 2011). Positivists remain independent from the study that is maintain minimum interaction with the research participants when carrying out the research (Crowther and Lancaster, 2008). Positivists believe that the research should explain the current situation and predict the future. It should also utilize hypothesis ion explaining behaviour.

This is the method that was adopted in this research as respondents were given self-administered questionnaires to complete on their own and hypothesis testing was done to test relationships and data was analyzed statistically. The option to use the positivism or quantitative research philosophy was based on the fact that it is a quicker method of gathering precise data from a large population and is suitable for gathering data that can be used to make quantitative predictions regarding the causes of social security contribution evasion.

### **3.1.2 Interpretivism**

Interpretivists believe that knowledge is socially constructed rather than objectively constructed (Carlson et al, 2001). They believe in dealing with small samples but gathering qualitative in-depth information. Interpretivists are not independent of the research but are instead part of the research. The goal of interpretivists in research is to gain an understanding and interpretation of meanings in human behavior rather that to generalize and predict causes and effects (Neuman, 2000). They say that to give the best results, any phenomena should be studied in their natural environment. The philosophy was not used in this research because it is time consuming and it uses a very small sample which may not be a true representative of the population.

### **3.2. Research design**

A research design sometimes referred to as research methodology is a plan that acts as a road map to the study and it makes the research understandable to others. It is thus used in making a choice in relation to sampling, data collection and analysis (Lapan, 2011). A research design also acts as the research strategy and spells out how the strategy is to be executed. The researcher should choose a research design that provide results which have credibility and are representative of reality (Blumberg et al 2011). There should be a link between the research design and the research philosophy. The research design should be chosen after deciding the research philosophy that is to be adopted for example the case study research design holds that the researcher should be an observer in the study without interfering with it. This therefore means that such a research design only becomes congruent with the quantitative or positivism research philosophy which holds that reality can only be observed and described from an objective point of view. It can be said that the research design to be utilized depends on the preference towards either the positivism or interpretivism.

The researcher in this study utilized the descriptive research design. It has the advantage of gathering both qualitative and quantitative data and this was considered essential in investigating the causes of social security contribution evasion.

#### **3.2.1 Descriptive Research Design**

Welman (2011) defined a descriptive research design as a type of conclusive research that is aimed at describing a situation or characteristics. It does not rush to give conclusions but gives a number of facts that can be used for decision making. Leady (2007) clearly states that a sample survey is usually preferable than a population survey because it is cost effective and deals with less respondents (sample) but has capability of being used as a replica of the whole population.

Descriptive research usually involves the description, recording, analysis and interpretation of data gathered during the study and uses visual aids such as graphs and charts to express a relationship that exist between the variables under study (Daniel et al, 2011). The researcher used the descriptive research method in this study as data was gathered, analyzed and then relationships were presented in the form of charts and graphs in Chapter IV

### **3.3. Sources of Data**

In collecting data during the research, the researcher utilized both primary and secondary sources.

#### **3.3.1 Primary Data**

Primary data is defined as those facts that are collected and assembled specifically to solve the research problem on hand (Gratton and Jones, 2010). Saunders 'et al' (2009) also concurred that primary data is data that is gathered to suit the requirements of the study being done. Remler (2011) further added that Primary data is data gathered from the field or target population, using questionnaires and interviews. For the purposes of this research, data was collected from the targeted population, through self-administered questionnaires.

The researcher opted to use primary data as it is related to the problem under study. It gives data that is current problem specific and the data was original and reliable as it was collected from the contributors who are the subjects of evading or complying in terms of social security contributions payment. In as far as it is very important and useful to use primary data in research for quality purposes, this researcher faced some challenges that are usually associated with the gathering of primary data in the form of costs of data collection and the fact that collecting primary data is time consuming. The researcher mitigated such shortcomings by adopting current related secondary data where it was necessary and appropriate.

#### **3.3.2 Secondary Data**

The researcher also used secondary data during the study and this was mainly taken from the reports and policies of the institution as well as journals, textbooks and the internet. Secondary data is usually used as it provides a basic foundation for the research. It also helps in saving time and costs as the data is readily available.

### **3.4. Population**

A population is the total number of elements from which the researcher wishes to use in his study and base conclusions from (Blumberg, et al 2011). A population can also be seen as the entire group of elements where the researcher wants to collect data from (Wegner 2001). The target population for the survey is the actual registered social security employer contributors in Zimbabwe. The target total population is 28,739 employer contributors as at December 2016. (NSSA annual performance report, 2015).

### 3.5. Research Sample

A sample is the actual people or things that were included in the study and from which data is collected. (Churchill 2002). It is a part of the target population that was carefully selected to represent that population. (Blumberg, B et al 2011)

In this research, 230 employers were randomly selected and used as a sample and these were drawn from Willowvale industrial sites with a total number of 551 contributors site. The sample was decided on using the survey sample size calculator (Fluid surveys team, 2014). This model assumes that a good sample should be based on a standard confidence level of 95% and a margin of error of 5%.

The survey calculator is based on the two formulas given below:

- Sample size calculation:

$$\text{Sample size} = (\text{Distribution of } 50\%) / [(\text{Margin of Error/Confidence level score})^2]$$

- Finite Population Correction

$$\text{True Sample} = (\text{Sample Size} \times \text{population}) / (\text{Sample Size} + \text{population} - 1)$$

Applying the above formulas on the population of 551 social security contribution, the sample size was calculated as below;

- Simple size =  $(0.5 \times (1-0.05)) / ((0.05/1.96)^2)$

$$\text{Sample size} = .25 / ((0.02551\dots)^2)$$

$$\text{Sample size} = 0.25 / 0.00065077\dots$$

$$\text{Sample size} = 384.16\dots$$

- True sample =  $384.16\dots \times 551 / 384.16\dots + 551 - 1$

$$\text{True sample} = 211672.16 / 934.16$$

$$\text{True Sample} = 226.59$$

The ideal sample size for a population of 551 is 227. The researcher used 230 as the sample size basing on the results of the survey calculator formulas.

### 3.6. Stratified random sampling

Sampling is a process that is used to select some representative elements from the entire population (Wegner , 2001) Stratified random sampling is a sampling technique that starts by dividing the target population into different groups known as strata, on a basis of shared



characteristics. Random sampling is then applied in each strata giving each member in the strata an equal chance of being selected. (Saunders et al 2009).

The researcher employed stratified random sampling in choosing respondents in a bid to cut on cost and time. Zimbabwe is divided into six regions interterms of payment of social security contributions. These are Harare, Bulawayo, Masvingo, Gweru, Mutare and Chinhoyi. The total population as at December 2015 was 28,739 (NSSA Annual report, 2015) and Harare accounted for 15,014 contributors. Harare was further dissected into different zones and Willowvale industrial site was chosen for proximity purposes and it was easy to locate respondents as the area is not too squashed with a lot of companies sharing the same premises as the case with the central business district.

### **3.7. Research instruments**

Questionnaires were used to gather the required data. These were distributed to 230 employer contributors in Willow vale, Harare province.

#### **3.7.1. Questionnaires**

A questionnaire is an instrument that a researcher can use to gather data from a chosen sample. It contains some laid down questions requesting responses on the area of study (Chisaka, 2000).

Blumberg 'et al', 2011 added that it is a survey instrument that the researcher delivers to the respondent through personal or non-personal means with the aim of getting it completed by the respondent without necessarily having any additional contact with the researcher. Each respondent is thus asked to respond to the same set of questions in a predetermined order and thus providing an efficient method of collecting data from a large sample before quantitative analyses commences (Saunders, et al 2009).

The researcher can make use of both open ended and closed questions. Open ended questions give respondents room to provide answers in their own way and is usually used when an in-depth answer is required. Closed questions however give a number of choices of answers from which the respondent is instructed to choose from. They are usually adopted due to their time saving nature. (Saunders et al 2009). This research used closed questions in the study.

The Likert scale was adopted in constructing the questionnaires. Respondents were asked to select an answer that expresses their agreement or disagreement to a question on a scale as

shown below; (Saunders et al 2009; Kaplan and Saccuzzo, 2012)

|   |                   |
|---|-------------------|
| 5 | Strongly agree    |
| 4 | Agree             |
| 3 | Uncertain         |
| 2 | Disagree          |
| 1 | Strongly disagree |

The researcher delivered the questionnaires to the sampled targets in person for completion. Questionnaires were used in this study to ensure cost effectiveness and reduction of biasedness.

### **3.8. Measurement of variables**

The variables in this study were measured with reference to scales that were developed by previous researchers as indicated below;

Dependent variable- Social security contributions evasion was measured with reference to non-payment of contributions by the due date and non-filing of mandatory social security returns as well as failure to voluntarily register with social security schemes. Independent variable which are the causes of social security contribution evasion; economic deterrents were measured in terms of contributor perceptions towards the four deterrents of contribution rates, penalties, compliance procedures and probability of detection (Devos.2013)

Negative macro-economic fundamentals- these were measured in terms of evasion emanating from liquidity crisis, industry capacity underutilization and business losses and were scaled using the Likert scale.

(Bailey and Turner, 2001)

Planned behavior was measured in terms contributors attitude and ethical conduct towards social security contribution evasion (fishbein1975 and Ajzen, 1991) the researcher utilized the Likert scale as a basis for measurement of variables

### **3.9. Reliability**

Reliability is the consistency in which something is measured. It influences the validity of information (Robson, 2011) Reliability can also be defined as the extent to which a certain procedure yields a consistent observation of the same facts from one time to another (Seamen et al, 2000).Reliability exist where data collection and analysis will generate the same results with similar studies on the same topic and data (Saunders et al 2009). This study utilized the retest reliability method in order to ensure the reliability of questionnaires. The Cronbach's alpha coefficient was also used to measure the reliability of the variables under study.(Cronbach, 1951). Cronbach provide that an alpha coefficient of above 0.5 for each variable makes the research instrument to be valid and thus acceptable.

### **3.10. Validity**

Validity refers to the extent to which a test measures what it purports to measure and it gives a high level of confidence in using the research results. (Saunders et al 2009)

The study utilized the two types of validity checks to ensure validity in the research instrument. Firstly a pretest survey was done where four research consultants/lecturers were asked to rate the appropriateness of the items that are contained in each scale as well as the format and length of the research instrument and relevant changes were effected there after receiving their contributions. Secondly the study also utilized construct validity which represents the extent to which a measure adequately assesses the theoretical concept it purports to assess. A measure of construct was correlated to a number of other measures that should theoretically be associated with it (Nullity and Berstein, 1994). As per the requirement of construct validity testing, the research adapted a scale from the measures that were used in previous researches on social security contribution evasion.

### **3.11. Research ethics.**

A research should have some ethical principles that govern the behavior of researchers and guide them towards doing what is morally acceptable in a society. These include among other things, principles of; honesty, objectivity, integrity, openness, confidentiality and non-discrimination (Resinink, 2015)

In a bid to conform to research ethics, the researcher highlighted to the respondents that the

purpose of the research was purely for academic purposes as it was required in partial fulfillment of the Midlands state university Master of Commerce accounting degree. Assurance was also given to the respondents that their responses was to be treated with strict confidentiality and also that they were free to participate in the survey. Anonymity was also observed as the respondents were not allowed to write their names on the questionnaires.

### **3.12. Data Presentation and Analysis**

The next step after gathering data was to analyze it so as to\* transform it into information. The researcher used SPSS in analyzing the data and coming up with graphs and charts. This gave a visual picture on the views of respondents on what is causing contributors to evade payment of social security contributions and thus providing a basis for conclusions and recommendations.

### **3.13 Chapter Summary**

The chapter focused on the research methodology, research philosophy, population used, research design, sampling procedures research instruments, data collection procedures and data analysis techniques. The next chapter focuses on the data presentation and analysis.

## CHAPTER 4

### DATA PRESENTATION, ANALYSIS AND INTERPRETATION

#### 4.0. Introduction

This chapter covered the presentation and analysis of data findings from the survey. The chapter is presented in four sections. Questionnaire response rate was covered in the first section followed by presentation of results and analysis in the second section. The third section looked at correlation and lastly a summary of the chapter in the fourth section.

#### 4.1. Questionnaire response

The researcher distributed a set of questionnaires to the employer social security contributors. The response rate was as given below:

**Table 4.1** Questionnaire response

| Participants | Questionnaires | Questionnaires returned | Valid responses | Valid response rate |
|--------------|----------------|-------------------------|-----------------|---------------------|
|              |                |                         |                 |                     |

|                                       |      |     |     |     |
|---------------------------------------|------|-----|-----|-----|
|                                       | Sent |     |     |     |
| Social security employer contributors | 230  | 228 | 228 | 99% |

Source: primary data

Table 4.1 shows that 228/230 (99%) of the questionnaires sent were correctly completed and returned back and this improved the validity of the study as the survey calculator established that a sample of 227 respondents would give a true representation of the population.. Only two questionnaires were not sent back and this constitute 1% only. The satisfactory response rate was partly as a result of the follow ups made on the respondents by the researcher.

**4.2. Results**

**4.2.1. Background of respondents**

This section gives an insight in to the respondents demographic back ground. These include gender, age, highest level of education, business sector that they fall under and their workforce size.

The respondents were made up of 171 (75%) males and 57(25%) females as shown in figure 4.1. This shows that a greater percentage of people who are responsible for paying social security contributions come from males category. In terms of the age of respondents, the 31 to 50 years category was the majority posting a score of 147(64.5%), followed by over 50 years who were 50(21.9%) and lastly 31(13.6%) on those below 30 as per figure 4.2. This means that the majority of decisions on payment of social security contributions decisions are made by people in the 31 to 50 years category.

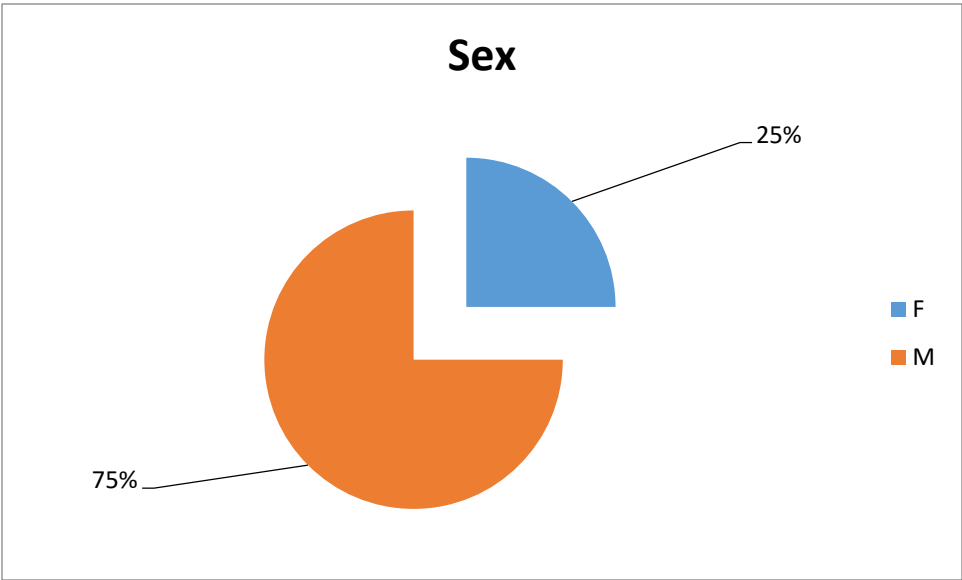


Figure 4.1. Source primary data

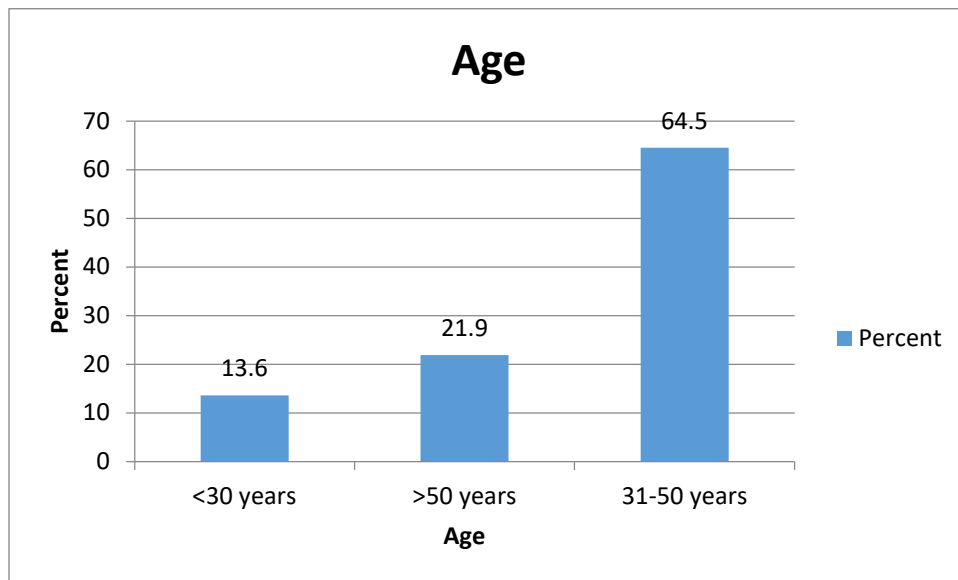


Figure 4.2 Source: Primary data

The respondent's level of education was a relevant demographic variable as it tries to measure the depth and validity of responses from the respondents. The research showed that 97(42.5%) had diplomas, 69(30.3%) had degrees and 11(4.8%) had post graduate qualifications. The least level of qualifications was secondary education with 51(22.4%) respondents having attained that level as shown in table 4.2. **Table 4.2 level of education**

|       |          | Frequency | Percent |
|-------|----------|-----------|---------|
| Valid | DEGREE   | 69        | 30.3    |
|       | DIPLOMA  | 97        | 42.5    |
|       | POST GRA | 11        | 4.8     |

|  |              |     |       |
|--|--------------|-----|-------|
|  | SECONDA<br>R | 51  | 22.4  |
|  | Total        | 228 | 100.0 |

**Source: primary data**

The researcher also tried to put the respondents into their respective business sector at least to establish if there is any behavioral pattern that is associated with respondents that fall under one business sector in terms of their social security contribution compliance or evasion. The study revealed that most of the respondents came from the Engineering and construction sector with 103(45, 2%). The distribution then follows the order; Retail 91(39, 9%), transport 16(7%), Mining 8(3, 5%), farming 5 (2.2%), education 3(1.3%) quasi government 1 (0.4%) and security services 1 (0.4%) as per table 4.3

**Table 4.3 Business sector**

|       |                            | Frequency | Percent |
|-------|----------------------------|-----------|---------|
| Valid | Education                  | 3         | 1.3     |
|       | Engineering & Construction | 103       | 45.2    |
|       | Farming                    | 5         | 2.2     |
|       | Mining                     | 8         | 3.5     |
|       | Quasi Government           | 1         | .4      |
|       | Retail                     | 91        | 39.9    |
|       | Security                   | 1         | .4      |
|       | Transport                  | 16        | 7.0     |
|       | Total                      | 228       | 100.0   |

**Source: primary data**



Table 4.4 shows the different level of workforce size. Respondents were made to show their workforce size to establish if there is any behavioural pattern that is associated with respondent's workforce size in terms of evading payment of social security contributions. The findings were that 124 ( 54.4%), employers from the respondents employ between 1 to 20 employees, 61(26.8%) employ 21 to 50 employees, 29(12.7%) employ 51 to 100 workers, 11(4.8%) employ 101 to 500 employees and 3(1.3%)employ over 500 workers.

**Table 4.4 Workforce size**

|       |          | Frequency | Percent | Valid Percent | Cumulative Percent |
|-------|----------|-----------|---------|---------------|--------------------|
| Valid | >500     | 3         | 1.3     | 1.3           | 1.3                |
|       | 1 to 20  | 124       | 54.4    | 54.4          | 55.7               |
|       | 101 to 5 | 11        | 4.8     | 4.8           | 60.5               |
|       | 21 to 50 | 60        | 26.3    | 26.3          | 86.8               |
|       | 21-50    | 1         | .4      | .4            | 87.3               |
|       | 51-100   | 29        | 12.7    | 12.7          | 100.0              |
|       | Total    | 228       | 100.0   | 100.0         |                    |

**Source: primary data**

#### **4.2.2. Compliance with social security contributions**

Social security contributions are supposed to be paid on a monthly basis by the 10<sup>th</sup> of every month. This section was meant to establish the contributor's compliance behavior where a set of 5 questions were asked the respondents to that effect. Their responses are shown in table 4.

**I pay Social Security contributions monthly by due date**

**Table 4.5**

|       |                   | Frequency | Percent | Valid Percent | Cumulative Percent |
|-------|-------------------|-----------|---------|---------------|--------------------|
| Valid | Strongly disagree | 182       | 79.8    | 79.8          | 79.8               |
|       | Disagree          | 5         | 2.2     | 2.2           | 82.0               |
|       | Agree             | 10        | 4.4     | 4.4           | 86.4               |
|       | Strongly Agree    | 31        | 13.6    | 13.6          | 100.0              |
|       | Total             | 228       | 100.0   | 100.0         |                    |

**Source: primary data**

As shown in table 4.5 above, 182/228 (79,8%) strongly disagreed, 5/228(2.2%) disagreed whereas 10/228 (4.4%) Agreed and 31/228(13.6%) strongly agreed. No respondents were no sure. In aggregate 187/228(82%) disagreed while 41/228(18%) agreed. This shows that 82% of the respondents are evading payment of social security contributions and only 18% agreed that they comply with social security contributions payment on a monthly basis. Such a position was confirmed by Livingstone (2008) when he argued that voluntary compliance rate in terms of social security schemes in most developing countries is too low as it hoovers below 50%.

Related to evasion of social security payment contributions is evasion of filing of returns that are mandatory for contributors. Most employers who do not pay social security contributions also evade filing of mandatory social security contributions.

**I always file social security contributions returns**

**Table 4.6**

|       |                   | Frequency | Percent | Valid Percent | Cumulative Percent |
|-------|-------------------|-----------|---------|---------------|--------------------|
| Valid | Strongly disagree | 154       | 67.5    | 67.5          | 67.5               |
|       | Disagree          | 31        | 13.6    | 13.6          | 81.1               |
|       | I am not sure     | 2         | .9      | .9            | 82.0               |
|       | Agree             | 19        | 8.3     | 8.3           | 90.4               |
|       | Strongly Agree    | 22        | 9.6     | 9.6           | 100.0              |
|       | Total             | 228       | 100.0   | 100.0         |                    |

**Source: primary data**

As shown above, 154/228(67.5%) strongly disagreed that they file social security returns on a monthly basis, 31/228 (13.6%) disagreed while 2/228(0.9%) were not sure. A total of 19/228(8.3%) agreed and 22/228(9.6%) strongly agreed. This shows that in aggregate 185/228(81%) disagreed that they file returns on a monthly basis and 41/228(17.9%) agreed that they file such returns on a monthly basis. This corresponds well with Shuzo who argues that employers who evade payment of social security contributions are likely also to evade when it comes to filing of social security contributions returns.

**4.2.3. Causes of social security contribution evasion**

This section was meant to establish the relationship between social security contribution and a set of independent and mediating variables. These independent and mediating variables included their macroeconomic fundamentals, planned behavior, intention to evade, economic deterrents and poor compliance culture.

**4.2.3.1. Macro-economic fundamentals**

| <b>Cash or liquidity crisis</b> |                   |           |         |               |                    |
|---------------------------------|-------------------|-----------|---------|---------------|--------------------|
| <b>Table 4.7</b>                |                   |           |         |               |                    |
|                                 |                   | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid                           | Strongly disagree | 15        | 6.6     | 6.6           | 6.6                |
|                                 | Disagree          | 4         | 1.8     | 1.8           | 8.3                |
|                                 | Not sure          | 3         | 1.3     | 1.3           | 9.6                |
|                                 | Agree             | 14        | 6.1     | 6.1           | 15.8               |
|                                 | Strongly Agree    | 192       | 84.2    | 84.2          | 100.0              |
|                                 | Total             | 228       | 100.0   | 100.0         |                    |

**Source: primary data**

Table 4.7 above shows that 192/228(84.2%) strongly agreed that liquidity crisis causes social security contribution evasion. The other 14/228 (6.1%) agreed while 3/228(1.3%) were not sure. A total of 4/8(1.8%) disagreed and 15/228(6.6%) strongly disagreed. In aggregate 206/228(90%) agreed that social security contribution evasion in Zimbabwe is as a result of liquidity crisis.

The problems of liquidity challenges as a cause of social security contribution evasion were also raised in the findings presented from the Uganda research as documented in the international journal of business social science in September 2013.

**Economic meltdown**

Table 4.8 shows that 211/228(92.5%) strongly agreed that the economic meltdown is causing employers to evade payment of social security contributions while 9/228(3.9%) agreed to that

effect. No respondents were not sure and 1/228(0.4) disagreed and 7/228(3.1%) strongly disagreed. When aggregated, 220/228(96.5%) respondents were of the view that the economic meltdown is responsible for social security contribution evasion in Zimbabwe while only 8/228(3.5%) opposed this.

Mohan and Sheeham (2004) supported the view that economic meltdown causes social security contribution evasion as he highlighted that it incapacitate the financially distressed companies from paying their statutory obligations.

On the other hand the few respondents who disagreed that the economic meltdown was causing employers to evade social security obligations go in line with the arguments that were brought about by Vogel (1974) that some entities whether distressed or not still continue to evade.

| <b>Economic meltdown</b> |                   | Frequency | Percent | Valid Percent | Cumulative Percent |
|--------------------------|-------------------|-----------|---------|---------------|--------------------|
| Valid                    | Strongly disagree | 7         | 3.1     | 3.1           | 3.1                |
|                          | Disagree          | 1         | .4      | .4            | 3.5                |
|                          | Agree             | 9         | 3.9     | 3.9           | 7.5                |
|                          | Strongly Agree    | 211       | 92.5    | 92.5          | 100.0              |
|                          | Total             | 228       | 100.0   | 100.0         |                    |

Source: primary data

**Negative profits due to low demand**

The results shown in table 4.9 Shows that 169/228(74.1%) of the respondents strongly agreed that negative profits are a contributing factor to social security contribution evasion while 46/228(20.2%) agreed. No respondents were neither uncertain nor disagreed. Only 13/228 (5.7%) strongly disagreed. In aggregate, 215/228(94.3%) agreed whilst 13/228 (5.7%) disagreed. It shows that 94.3% are of the view that Negative profits is another factor that is causing social security contribution evasion.

| <b>Table 4.9 Negative profits due to low demand</b> |                   |           |         |               |                    |
|---|-------------------|-----------|---------|---------------|--------------------|
|   |                   | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid   | Strongly disagree | 13        | 5.7     | 5.7           | 5.7                |
|   | Agree             | 46        | 20.2    | 20.2          | 25.9               |
|   | Strongly Agree    | 169       | 74.1    | 74.1          | 100.0              |
|   | Total             | 228       | 100.0   | 100.0         |                    |

**Source: primary data**

In a nutshell, the high scores of 90%, 96.5% and 94.3% show that macro-economic fundamentals are causing social security contribution evasion in Zimbabwe

#### **4.2.3.2. Planned behavior and intention to evade**

This section presents the findings on planned behaviour and intention to evade as a cause for social security contribution evasion in Zimbabwe. Three questions were analyzed in the tables below,

|   |
|---|
| <b>I actually make a plan to evade social security contributions.</b> |
| <b>Table 4.10</b>   |

|       |                   | Frequency | Percent | Valid Percent | Cumulative Percent |
|-------|-------------------|-----------|---------|---------------|--------------------|
| Valid | Strongly disagree | 31        | 13.6    | 13.6          | 13.6               |
|       | Disagree          | 74        | 32.5    | 32.5          | 46.1               |
|       | Not sure          | 3         | 1.3     | 1.3           | 47.4               |
|       | Agree             | 28        | 12.3    | 12.3          | 59.6               |
|       | Strongly Agree    | 92        | 40.4    | 40.4          | 100.0              |
|       | Total             | 228       | 100.0   | 100.0         |                    |

As shown in table 4.10 above, 92/228(40.4%) strongly agreed that they make a plan to evade social security contributions obligations, 28/228(12.3%) agreed while 3/228(1.3%) were not sure. On the disagreement side, 74/100(32.5%) disagreed while 3(13.6%) strongly disagreed. In aggregate, 120/228 (52.6%) agreed whilst 105/228(46.1%) disagreed and 3/228(1.3%) were not sure. The mode of 52.6% shows that contributors plan to evade before the actual evasion takes place and thus showing that there is a positive relationship between planned behavior and social security contribution evasion although the relationship is not that strong.

| <b>I am satisfied with the benefits that are paid by Social security schemes in Zimbabwe</b> |  |           |         |               |                    |
|--|--|-----------|---------|---------------|--------------------|
| <b>Table 4.11</b>  |  |           |         |               |                    |
|  |  | Frequency | Percent | Valid Percent | Cumulative Percent |

|       |                   |     |       |       |       |
|-------|-------------------|-----|-------|-------|-------|
| Valid | Strongly disagree | 133 | 58.3  | 58.3  | 58.3  |
|       | Disagree          | 36  | 15.8  | 15.8  | 74.1  |
|       | Agree             | 47  | 20.6  | 20.6  | 94.7  |
|       | Strongly Agree    | 12  | 5.3   | 5.3   | 100.0 |
|       | Total             | 228 | 100.0 | 100.0 |       |

**Source: primary data**

The table above shows that only 12/228(5.3%) strongly agreed, 47/228(20.6%) agreed, while 36/228(15.8%) disagreed and 133/228(58.3%) strongly disagreed. No respondents were not sure. In aggregate terms, only 59/228(25.9%) agreed that they are satisfied with the social security benefits being paid Zimbabwe with a total of 169/228(74.1%) in disagreement. The 74.1% that is not happy with benefits paid actually plan to evade due to that fact.

The high figure (74.4%) of respondents who said that they are not satisfied by social security schemes benefits in Zimbabwe conforms to the contributions made by Sundali “et al” 2005 and Chitambira (2010). They said that most social security contributors in developing countries perceive the benefits that are paid as low and thus resorting to evasion.

|   |                   |           |         |               |                    |
|---|-------------------|-----------|---------|---------------|--------------------|
| <b>I fear to be looked negatively by the society for social security contribution evasion</b> |                   |           |         |               |                    |
| <b>Table 4.12</b>   |                   |           |         |               |                    |
|   |                   | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid   | Strongly disagree | 127       | 55.7    | 55.7          | 55.7               |



|  |                |     |       |       |       |
|--|----------------|-----|-------|-------|-------|
|  | Disagree       | 40  | 17.5  | 17.5  | 73.2  |
|  | I am not sure  | 2   | .9    | .9    | 74.1  |
|  | Agree          | 56  | 24.6  | 24.6  | 98.7  |
|  | Strongly Agree | 3   | 1.3   | 1.3   | 100.0 |
|  | Total          | 228 | 100.0 | 100.0 |       |

**Source: primary data**

Table 4.12 above shows that 3/228(1.3%) strongly agreed, 56/228(24.6%) agreed whilst 2/228(0.9%) were not sure. On the disagreement side, 40/228(17.5%) disagreed and 127/228(55.7%) strongly disagreed. In aggregate 59/228(25.9%) agreed while 167/228(73.2%) disagreed. The 73.2% shows that contributors are not evasion shy.

#### **4.2.3.2 Economic deterrents**

This section was meant to establish whether contributors are aware of the economic deterrents that are put in place in trying to mitigate statutory contribution evasion in Zimbabwe and to investigate the relationship between economic deterrents and social security contribution evasion.

| <b>I am aware of the penalties that are charged for late payment</b> |                   |           |         |               |                    |
|--|-------------------|-----------|---------|---------------|--------------------|
| <b>Table 4.13</b>  |                   |           |         |               |                    |
|  |                   | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid  | Strongly disagree | 4         | 1.8     | 1.8           | 1.8                |
|  | Disagree          | 3         | 1.3     | 1.3           | 3.1                |

|  |                |     |       |       |       |
|--|----------------|-----|-------|-------|-------|
|  | Strongly Agree | 221 | 96.9  | 96.9  | 100.0 |
|  | Total          | 228 | 100.0 | 100.0 |       |

**Source: primary data**

This was used to establish whether the contributors were aware of the deterrents in place such as penalties for evasion. Table 4.13 above shows that 221/228(96.9%) strongly agreed while 3/228(1.3%) disagreed and 4/228(1.8) strongly disagreed. No respondents were not certain nor agreed. When aggregated, 221/228(96.9%) agreed and 7/228(3.1%) disagreed. The mode of 96.9% shows agreement that most respondents were aware of the economic deterrents in place.

| <b>The penalties for evasion are too low</b> |                   |           |         |               |                    |
|--|-------------------|-----------|---------|---------------|--------------------|
| <b>Table 4.14</b>                            |                   |           |         |               |                    |
|  |                   | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid  | Strongly disagree | 159       | 69.7    | 69.7          | 69.7               |
|  | Disagree          | 65        | 28.5    | 28.5          | 98.2               |
|  | Not sure          | 2         | .9      | .9            | 99.1               |
|  | Agree             | 2         | .9      | .9            | 100.0              |
|  | Total             | 228       | 100.0   | 100.0         |                    |

**Source: primary data**

This was meant to establish whether contributors are evading paying social security evasion due to the fact that the penalties charged for late payment are too low. Table 4.14 shows that no

respondent strongly agreed that penalties are too low, 2/228(0.9%) agreed while 2/228(0.9%) were not sure. On the other hand 65/228(28.5%) disagreed and 159/228(69.7) strongly disagreed.

When aggregated, 2/228(0.9%) agreed while 224/228(98.2%) disagreed. The mode of 98.2% shows that respondents agreed that economic deterrents are not causing any evasion and thus there is no positive relationship between economic deterrents and social security contribution evasion in Zimbabwe.

The majority of respondents highlighted that the penalties charged are not low. They do not see a link between penalties charged and evasion. The trend concurs with Holzmann ‘et al’(2009) who said that there is no link between penalties charged and evasion.

#### 4.2.3.3 *Poor compliance culture*

This was meant to investigate whether contributors are evading payment of social security contributions because a culture of evasion has been cultivated into them.

#### **I am used to paying contributions only when audited**

**Table 4.15**

|                         | Frequency | Percent | Valid Percent | Cumulative Percent |
|-------------------------|-----------|---------|---------------|--------------------|
| Valid Strongly disagree | 33        | 14.5    | 14.5          | 14.5               |
| Disagree                | 15        | 6.6     | 6.6           | 21.1               |
| Agree                   | 17        | 7.5     | 7.5           | 28.5               |
| Strongly Agree          | 163       | 71.5    | 71.5          | 100.0              |
| Total                   | 228       | 100.0   | 100.0         |                    |

**Source: primary data**

As shown in Table 4. 163/228(71.5%) strongly agreed, 17/228(7.5%) agreed while 15/228(5.6%) disagreed and 33/228(strongly disagreed). Aggregated, 180/228(78.9%) agreed while 48/228(21.1%) disagreed. The majority 78.9% shows that contributors now have a poor compliance culture.

**4.3 Correlation analysis and hypothesis testing**

The objectives of the study were to establish the relationship between 5 predictor and mediating variables namely macroeconomic fundamentals, planned behavior, economic deterrents, poor compliance culture and intention to evade against the dependent variable social security contribution evasion

To analyze this relationships, the researcher adopted the Pearson correlation coefficient in order to test the direction and strength of relationships that exist amongst the variables. This is presented in table 4.15

Table 4.15 Correlation

|                |   |        |       |
|----------------|---|--------|-------|
| Spearman's rho | Macro-economic fundamentals             |        | 1.000 |
|                |   |        | .     |
|                |   |        |       |
|                | Planned behavior and intention to evade |        | .561* |
|                |   |        |       |
|                |   |        |       |
| Economic       |   | -.107* |       |

|  |                         |  |      |
|--|-------------------------|--|------|
|  | deterrents              |  | .    |
|  |                         |  |      |
|  | Poor compliance culture |  | .733 |
|  |                         |  |      |

Source primary data (SPSS report)

**4.3.1 Relationship between macro-economic fundamentals (negative) and social security contribution evasion.**

This was the first objective. The spearman’s correlation coefficient of 1.00 shows that there is a strong positive relationship between the two variable and thus an increase in the negative macro-economic fundamentals lead to a huge increase in the level of social security contribution evasion.

**4.3.2 Relationship between planned behavior and intention to evade and social security contribution evasion.**

These two objectives were combined as they are closely related. A correlation coefficient of .561 shows that there is just above average positive relationship between the two variables such that changes in terms of the planned behavior will lead to a positively related movement in the positive way.

**4.3.3 Relationship between economic deterrents and social security contribution evasion**

This was the fourth objective. A correlation efficient of -.107 shows that there is a very weak negative correlation between increasing deterrents and social security contributions evasion.

**4.3.3 Relationship between poor compliance culture and social security contribution evasion**

This was the last objective. A score of .733 shows that there is a stronger positive relationship between the two variables

#### **4.4. Chapter summary**

The chapter looked at the presentation of primary data that was gathered through the use of questionnaires. The next chapter looks at the conclusions and recommendations based on the findings established in this chapter

## **CHAPTER 5**

### **SUMMARY, CONCLUSIONS AND RECOMMENDATIONS**

#### **5.0. Introduction**

This chapter summarized the major study findings on the causes of social security contribution evasion in Zimbabwe so as to come up with conclusions and recommendations for the study. Suggestions for future studies related to the subject matter are also given at the end of this chapter.

#### **5.1. Summary of chapters**

The study set out to investigate the causes of social security contribution evasion in Zimbabwe. The study focused on the relationship between macro-economic fundamentals, planned

behaviour, economic deterrents, and perceived benefits for evasion, poor compliance culture and social security contribution evasion in Zimbabwe. Research objectives and hypothesis were constructed using these variables with social security contribution evasion being the dependent variable and the other variables that cause it being the independent and mediating variables. These were presented in tabular format and a conceptual framework which summarizes the relationship between these variables was drawn in chapter one.

The next stage was then to gather as much theoretical and empirical evidence as possible at least to explore what exist already on the area of study and to establish if new knowledge can be added when the research is carried out. This was covered in chapter two. In Chapter 3, the researcher adopted the quantitative research methodology. The researcher also utilized the descriptive research design whose aim was to describe a situation using gathered statistical data. Both primary and secondary data was used in this study. Primary data was complemented by secondary data so as to save on time and costs of carrying out the research. The researcher used questionnaires as the research instruments. Stratified random sampling was used where a sample of 230 employers from Harare region' Willow vale zone were used as samples. In chapter four The researcher went on to present and analyze the gathered data using SPSS to come up with charts, tables and presentation of the data. Explanations were then made comparing the results and what already existed in the form of secondary data.

## **5.2. Major Findings**

The study investigated the causes of social security contribution evasion. The major findings after the analysis of the primary and secondary data are given below;

### **5.2.1. Relationship between macro-economic fundamentals and social security contribution evasion**

The study showed that there is a positive relationship between negative macro-economic fundamentals and social security contribution evasion. This was supported by the high percentage scores of respondents who alluded that such a relationship exist. The mediating variables that were tested included liquidity crisis with 90% agreement, economic meltdown with 96.5% and negative profits due to low demand with 94.3%

### **5.2.2. The relationship between planned behavior and ethics, and social security contribution evasion.**

The research established that there is a positive relationship between planned behavior, ethics and intention to evade and social security contribution evasion in Zimbabwe. This was shown by the score of 52.6% of respondents who said that they actually make a plan and intention to evade before actually evading. It was further explained by the bigger number of respondents (74.1%) who said that they are not satisfied by the quantum of social security benefits that are paid in Zimbabwe. This can influence their planned behavior to evade. This positive relationship is however not as strong as exhibited by macro-economic fundamentals.

### **5.2.3. The relationship between economic deterrents and social security contribution evasion.**

It was established from the study that in Zimbabwe, there is no relationship between economic deterrents and social security contribution evasion as contributors may evade whether penalties, for example are high or low. This was reinforced by the response of 98.2% who disagreed that penalties for social security contribution evasion are too low and thus causing social security contributors to evade.

### **5.2.4. The relationship between poor compliance culture and social security contribution evasion.**

The research established that there is a positive relationship between poor compliance culture and social security contribution evasion in Zimbabwe. It was established from the study that 78.9% are used to paying social security contributions only after they have been audited thus exhibiting a poor compliance culture.

### **5.2.5 The relationship between the intention for evasion and social security contribution evasion.**

The research also established that there was a positive relationship between the intention to evade and actual social security contribution evasion.

## **5.3. Conclusions**

Conclusions for the study were as follows:



**5.3.1** The study concluded that social security contribution evasion in Zimbabwe was largely caused by the negative macro-economic fundamentals namely liquidity constraints, economic meltdown and negative profits due to low demand.

**5.3.2** The research concluded that planned behavior is very influential in social security contribution evasion.

**5.3.3** The study concluded that economic deterrents plays no part in affecting social security contribution evasion in Zimbabwe.

The study was success because it has managed to bring out the main causes of social security contribution evasion in Zimbabwe especially considering the current economic situation. The current economic situation cannot be viewed in the same manner as other nations that have healthier economies. Policy makers thus cannot rely on researches on the causes of social security contributions evasion that were done in nations with healthier economies. Factors like economic deterrents which can be used to address social security contribution evasion in healthier nations for example have proved not to work for Zimbabwe under the current economic environment. This can be viewed as new knowledge that has been added to existing knowledge thus labelling this study a success.

## **5.4 Recommendations**

The following recommendations were made:

### **5.4.1 Negative macro-economic environment.**

Social security administrators should engage defaulting contributors and come up with lengthy payment plans. This will also help to cultivate a culture of compliance.

### **5.4.2 Incentives for compliance.**

The social security contributors should be incentivized so as to cultivate a compliance culture

### **5.4.3 Increasing benefits pay out**

This will go a long way in mitigating the planned behavior to evade as a result of low benefit payouts.

**5.4.4** Increasing the visibility of the compliance inspectorate team to cater for the bulk of the contributors who are used to paying only after audits.

**5.4.5** Reducing penalties as these keep on loading on to the cumulative debts of clients.

This can be used as an incentive in the form of penalties amnesty for those who want to settle their debts.

## **5.5 Suggestions for Future Research**

Further research can be done on the causes of social security contributions in Zimbabwe when the economic conditions normalize as this study was conducted at a time when Zimbabwe had adopted multi-currency that exhibited difficult extraordinary macro-economic fundamentals. Secondly, the same study can be done using the experiment method as this researcher used the survey method so that findings can be compared.

Further research can also be done to determine the relationship between marketing social security contribution products to contributors and their social security contribution evasion behavior.

## **5.6 Summary**

This chapter gave a synopsis of all the chapters namely introduction, literature review, research methodology, the major research findings, and conclusions from the study and recommendations. The research looked into the causes of social security contribution evasion in Zimbabwe.

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**APPENDIX A**



**FACULTY OF COMMERCE**

**MASTER OF COMMERCE IN ACCOUNTING DEGREE**

**Date 17 October 2016**

Dear Sir/Madam

Letter of introduction

This letter serves to introduce Livingstone T. Rwafa (Reg no R0825846C) who is a student at the Midlands State University and is currently doing the dissertation as partial requirement for the Master of Commerce in Accounting degree.

The purpose of this study in general and this questionnaire in particular is to study on “**The causes of social security contributions evasion in Zimbabwe**” as a partial requirement for the Master of Commerce in accounting degree. The outcome of this study will help policy makers, business community and the general public appreciate the reasons behind non-compliance with payment of social security contributions despite it being a statutory obligation. Such information can be used by policy makers to try and institute mitigatory measures to deal with such evasion. The research is only intended for academic purpose authorized by the Midlands State University. Your input, comments and ideas are highly honoured and kept confidential.

It is our hope that you will assist by responding to the questions raised in an objective manner as this is key to the success of the study. The reliability and validity of this study is premised on the quantity and quality of your responses. In a bid to ensure anonymity throughout the survey, you are not required to write your name on the questionnaire.

If you have any questions or concerns about completing the questionnaire or about being in this study you may contact the researcher on the following contact details:

Livingstone T. Rwafa :- 0773 452 823 or you can email me at

[rwafalivingstone@gmail.com](mailto:rwafalivingstone@gmail.com)

**Confidentiality:** all the responses will be confidentially treated.

Yours Sincerely

Midlands State University

## GENERAL INSTRUCTIONS

1. Please kindly attempt all questions by ticking your selected choice
- 

### SECTION A PERSONAL BACKGROUND

#### 1. GENDER

Male  Female

#### 2. AGE

Under 30 years  31-50  years Over 50 years

**3. HIGHEST LEVEL OF EDUCATION**

Primary level and below

Secondary level

Certificate / diploma

Degree

Post Graduate Degree

**4. WHAT BUSINESS SECTOR DO YOU FALL UNDER?**

Mining

Farming

Engineering and construction

Education, Health, Churches, banking and insurance

Quasi Government/Parastatals

Transport

Retail

Other (please specify)

**5. WORKFORCE SIZE**

1 to 20

21 to 50

51 to 100

101 to 500

Over 500

*Please tick in the box as appropriate, your response.*

|                     |            |               |         |                  |
|---------------------|------------|---------------|---------|------------------|
| I strongly disagree | I disagree | I am not sure | I agree | I strongly agree |
| 1                   | 2          | 3             | 4       | 5                |

**SECTION B COMPLIANCE WITH SOCIAL SECURITY OBLIGATIONS**

|    |   |   |   |   |   |   |
|----|---|---|---|---|---|---|
| 6  | I pay social security contributions monthly by due date.    | 1 | 2 | 3 | 4 | 5 |
| 7  | I pay social security contributions only when audited.      | 1 | 2 | 3 | 4 | 5 |
| 8  | I always file social security contribution returns on time. | 1 | 2 | 3 | 4 | 5 |
| 9  | I always declare the correct number of employees            | 1 | 2 | 3 | 4 | 5 |
| 10 | I always declare the correct earnings                       | 1 | 2 | 3 | 4 | 5 |

**CAUSES OF SOCIAL SECURITY CONTRIBUTIONS EVASION**

**SECTION C      MACRO ECONOMIC FUNDAMENTALS**

*Contributors do not pay social security contributions due to:*

|    |   |   |   |   |   |   |
|----|---|---|---|---|---|---|
| 11 | Cash or liquidity crisis                      | 1 | 2 | 3 | 4 | 5 |
| 12 | Economic melt down                            | 1 | 2 | 3 | 4 | 5 |
| 13 | Negative profits due to low demand.           | 1 | 2 | 3 | 4 | 5 |
| 14 | Huge accumulated statutory obligations debts. | 1 | 2 | 3 | 4 | 5 |

**SECTION D    PLANNED BEHAVIOUR AND ETHICS AND INTENTION TO EVADE**

|    |  |   |   |   |   |   |
|----|--|---|---|---|---|---|
| 15 | I actually make a plan to evade Social security contributions. | 1 | 2 | 3 | 4 | 5 |
| 16 | I am satisfied with the benefits that are paid by N SSA        | 1 | 2 | 3 | 4 | 5 |
| 17 | I fear to be looked negatively by the society for evasion      | 1 | 2 | 3 | 4 | 5 |

**SECTION E              ECONOMIC DETERRENTS**

*Contributor appreciation of the economic deterrents in place*

|    |  |   |   |   |   |   |
|----|--|---|---|---|---|---|
| 18 | I am aware of the current social security contribution rates     | 1 | 2 | 3 | 4 | 5 |
| 19 | I am aware of the penalties that are charged for late payment    | 1 | 2 | 3 | 4 | 5 |
| 20 | I am able to calculate our social security monthly contributions | 1 | 2 | 3 | 4 | 5 |

|    |  |   |   |   |   |   |
|----|--|---|---|---|---|---|
| 21 | The inspectorate team regularly visit our location | 1 | 2 | 3 | 4 | 5 |
|----|--|---|---|---|---|---|

*Contributors do not pay social security contributions because:*

|    |   |   |   |   |   |   |
|----|---|---|---|---|---|---|
| 22 | Social Security contributions rates are too high                    | 1 | 2 | 3 | 4 | 5 |
| 23 | The penalties for evasion are too low                               | 1 | 2 | 3 | 4 | 5 |
| 24 | The Social Security compliance procedures are complex               | 1 | 2 | 3 | 4 | 5 |
| 25 | I have never been audited by social security inspectorate           | 1 | 2 | 3 | 4 | 5 |
| 26 | I view not paying social security as a substitute for borrowing     | 1 | 2 | 3 | 4 | 5 |
| 27 | I get high business profit by evading Social security contributions | 1 | 2 | 3 | 4 | 5 |

## **SECTION F POOR COMPLIANCE CULTURE**

|    |  |   |   |   |   |   |
|----|--|---|---|---|---|---|
| 28 | I feel paying social security contributions is a material loss | 1 | 2 | 3 | 4 | 5 |
| 29 | I am used to paying contributions only when audited            | 1 | 2 | 3 | 4 | 5 |
| 30 | My neighbours and friends pay social security contributions    | 1 | 2 | 3 | 4 | 5 |

***End of questionnaire***

*Thank you for your time*