Optimization of local taxation and sustainability of micro-enterprises in Benin: Proposal of an innovative analytical model based on a systematic review of the literature, ADEROMOU, B. R. 1

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Date of submission: 17/04/2020  date of acceptance: 23/07/2020

Summary:

The contribution of the microenterprises to the local economic development in developing countries like Benin is significant and known. But a rigid local taxation regime contributing to the increasing of local government revenue, in terms of mobilization system, place added limits on the growth potential of these enterprises.

By employing a systematic review of the literature, the study attempts to build a model that illuminates to what extent is the relationship between local tax and the sustainability of the microenterprises on the one hand and the local government self-development capacity on the other hand is moderated by the benefits in exchange for local fiscal constraints faced by microenterprises?

The summary of critical points of current knowledge about the optimization of local taxation shows that some benefits (Training for microentrepreneurs, credit facilitation, documentation...) in exchange for local fiscal constraints faced by microenterprises can moderate the effect of the local tax (TPS) on the survival and the performance of the microenterprises in the one hand and the local financial capacity and self-development of the municipality in the other hand.

Key words: Microenterprises; Local taxation; Microenterprises sustainability; Local financial capacity; self-development of the municipality.
Optimisation de la fiscalité locale et pérennité des microentreprises au Bénin : Proposition d'un modèle analytique innovant basé sur une revue systématique de la littérature

Résumé :

La contribution des microentreprises au développement économique local dans les pays en développement comme le Bénin est importante et connue. Mais un régime fiscal local rigide contribuant à l'augmentation des recettes des collectivités locales, en termes de système de mobilisation, impose des limites supplémentaires au potentiel de croissance de ces entreprises.

En utilisant une revue systématique de la littérature, l'étude tente de construire un modèle qui montre dans quelle mesure la relation entre la fiscalité locale et la durabilité des microentreprises d'une part et la capacité d'auto-développement des collectivités locales d'autre part est modérée par les bénéfices en échange des contraintes fiscales locales auxquelles sont confrontées les micro-entreprises ?

Le résumé des points critiques des connaissances actuelles sur l'optimisation de la fiscalité locale montre que certains avantages (formation des micro-entrepreneurs, facilitation de crédit, documentation...) en échange des contraintes fiscales locales auxquelles sont confrontées les microentreprises, peuvent modérer l'effet de la taxe locale (TPS) sur la survie et la performance des microentreprises d'une part et la capacité financière locale et l'auto-développement de la commune d'autre part.

Mots-clés : Microentreprises ; fiscalité locale ; durabilité des microentreprises ; capacité financière locale ; auto-développement de la commune.
Introduction

The benefits in exchange for local fiscal constraints faced by microenterprises can play an important role in addressing both the issue of microenterprises sustainability and local development. The association between the development level and the fiscal structure is based on economic theory (Easterly & Rebelo, 1993).

Local governments need access to funds to discharge their functions and to meet evolving expectations of their constituents. The corporate tax rate is insulated from a country’s or local government’s revenue needs (Slemrod, 2004). Existing research recognizes the critical role played by local taxation on microenterprises. Property taxation exerts a negative impact on firms' employment, capital, and sales to such an extent as to significantly affect total factor productivity (Belotti et al. 2016). The negative effect of tax on firms will cause the tax avoidance (Drake et al., 2020; Thomsen & Watrin, 2018). The tax avoidance will negatively affect the government or local government revenue. The main challenge is how to build an optimal local tax collection model to increase both microenterprises sustainability and local government revenue.

Models of local public finance predominantly assume local governments set taxes while expenditures are residually determined via the budget constraint. Previous literature predominantly assumes taxes to be optimized and expenditures to adjust residually (Koethenbuerger, 2011). Research to date has not yet clearly determined factors that can help local governments to optimize the tax collection from microenterprises in order to guaranty their sustainability and to limit the local budget constraint.

The commune in Benin is a territorial entity to which the central state has transferred a number of powers. According to the law n° 97-028 of January 15, 1999 on the organization of the territorial administration in the Republic of Benin, "the municipality is a territorial collectivity endowed with the legal personality and the financial autonomy ..." in order to allow the municipality fully assume its prerogatives, in particular that relating to financial autonomy, without which it cannot achieve the main objective of decentralization which is local development, the Beninese legislator, through Law No. 98-007 on the Financial Regime of municipalities in the Republic of Benin, has provided legal mechanisms through which local elected officials can mobilize and manage local financial resources.

In Benin, since 2016, a single tax contribution called synthetic business tax (TPS in French is like GST reform) including the income tax, the contribution of patents, the contribution of licenses, has been applied to microenterprises. TPS is a meant to bring every indirect form of tax under
one roof. With the implementation of TPS, the entrepreneurs must pay a much lower tax of around. Moreover, they do not have to pay different taxes to various departments. It makes the job very much easier for every business owner.

TPS companies are those with annual sales of less than fifty million (50,000,000) CFA francs regardless of the nature of their activity. The synthetic business tax is applicable to micro and small enterprises under the fixed price regime, in the turnover limit applications provided above.

In the some cities of Benin Republic, it is common to find, especially in September, October, November, and December of each year, the systematic closure of microenterprises by their owners as soon as the agents of the Small Business Tax Center (CIPE) are announced since the TPS reform. Micro entrepreneurs use to resist in paying taxes by temporary closing their enterprises. This leads to losses for both micro-entrepreneurs who can no longer sell their products or services and the municipality that cannot mobilize the resources needed to finance the activities contained in the communal development plan (PDC). This phenomenon raises the problem of the tax collection model adapted to microenterprises in Benin.

This research contributes to explain: To what extent is the relationship between local tax and the sustainability of the microenterprises on the one hand and the local government self-development capacity on the other hand moderated by the benefits in exchange for local fiscal constraints for local taxation optimization?

In this paper, we used the review that systematically searches, identifies, selects, appraises, and synthesizes research evidence relevant local taxation optimization. Systematic reviews are regarded as the best source of research evidence.

This paper first gives a brief overview of the Theoretical framework of the research.

1. Theoretical framework of the research

Research on the effect of taxation on businesses is essentially Anglo-Saxon. After Modigliani and Miller (1958, 1963) who introduced the profit tax as part of their study on the existence of an optimal capital structure, many Anglo-Saxon authors followed them on different themes regarding taxation and investment decision, taxation and financing decision, taxation and capital structure, dividend taxation, etc.

The design of the tax regime has a number of weaknesses that reduce its fairness, damage the efficiency of resource allocation, and limit microenterprises viability.
1.1. Mobilizing tax resources and social equity: A puzzle for African municipalities

It is generally assumed by advocates of democratic decentralization that maximizing locally-raised revenue sources will help to enhance accountability through a closer and more legitimate relationship between the local government authority and citizens (Crook, 2017). Many studies examine African electioneering through a framework that distinguishes between programmatic, clientelist and charismatic appeals.

Crook (2017) demonstrated that research on Ghana and other African countries shows that the dominance of clientelist forms of politics undermines the legitimacy of local taxation; where voters expect their representatives to provide specific pay-backs to themselves or their communities in return for support and payment of tax; it is extremely difficult to establish a “collective interest” for the local government area. Citizens tend to interpret decisions allocation over expenditure of revenues as products of patronage relations rather than as a collective public good. Municipalities that pay more attention to environmental sustainability and social equity use higher levels of community economic development tools and lower levels of business incentives (Zhang, Warner, & Homsy, 2017).

Thus, the source of puzzle is related to the agency relationship between elected officials and voters; the characteristics of the political market. This approach proceeds from a double hypothesis. The first highlighted by Brennan and Buchanan (1980) makes public decision makers of potential Leviathans. According to them, "governments maximize their income from any source of taxation that the Constitution allowed. If there is no constraint on the allocation of these tax revenues, they become equivalent to a private income for decision-makers ". However, these predatory behaviors can be regulated through the electoral system and the resulting political sanction. This is the mechanism of the "Political Voice" formulated especially by Hirschman (1970).

There is also the existence of complementarity between the rates local taxes of neighboring communities of the same level which can create puzzle. With regard to the strategic fiscal interaction, the results converge towards the demonstration of fiscal mimicry behavior between local authorities of the same rank (at all levels, regional, departmental and communal) (Madiès, Paty, & Rocaboy, 2005). The existence of these interdependencies may then call into question the relevance of the decentralization theorem because they carry greater or lesser losses of well-being for the community.
Different solutions aim at overcoming the economic inefficiencies associated with these interactions. These include the development of inter-municipal cooperation and tax specialization. According to Navarre (2017), the expected success of inter-communality is based on a dual premise: the dynamics of territorial development to ensure a sustained increase in local taxes, jointly, the elected officials will make use of their fiscal autonomy to provide the required complements.

1.2. Local tax mobilization in Benin: Historical approach

Local authorities in rural Benin have undergone several reforms and transformations, from the colonial state to the present day. The current decentralization, characterized by a strong sedimentation of power authorities, is the last of these major reforms (Bierschenk & Olivier de Sardan, 1998). The establishment of communal and municipal councils followed by the election of mayors, ie decentralization, has become a reality in Benin. By making the option of decentralization, two essential values are expected: grass-roots democracy and local development. Any failure in the second value can mortgage the first and vice versa. According to Bako-Arifari (1995), despite the discourse on the containment of regionalism, Benin is witnessing the triumph of the logic of the terroir, which acts as a political strategy of territorial anchoring for the candidates to the elections, and for the voters as a strategy to have elected officials who are truly responsible to them.

As early as 1979, we can observe the beginnings of this logic through one of the forms of legitimization of the Kerekou regime, notably the fight against regionalism, through the direct representation of rural districts in the former ANR (National Revolutionary Assembly). The current decentralization creates a context of confrontation, and also of difficult transition, between, on the one hand the forms of financing of the policy and the functions of local notables (from the informal receipts and the levies on the natural resources) and of on the other hand, the new rules for financing communal development which imply a certain formalization and budgeting of these "taxes" (Bako-Arifari et al., 2004). The success of decentralization and development actions at the local level strongly depends on the compromises to be found on how to share the various "recipes" between the different actors who share the influence in local political arenas and who all emit claims about access to and control over these resources.

In the communes of Benin, especially those of the borders, it is easy to note the erection of the seasonal toll barriers by the autochthones intended to collect the funds from the conveyors of the imported bags of rice, the drivers of the vehicles "Venus de France" in transit, quarry operators, etc. These funds are often not controlled by local authorities and remain a tax leak.
Most often, these funds are often diverted by informal collectors, which makes these barriers temporary or seasonal. It is based on this; Bako-Arifari et al. (2004) said that the local elected bodies, if they have political legitimacy, do not seem to have fiscal legitimacy in general for the population. In most localities, there is a relative separation between local political power and local fiscal power.

Currently, according to Bako-Arifari et al. (2004), Benin's rural environment is characterized by:
- a coexistence of several local authorities with different sources of legitimacy;
- a mode of local financing of the policy which proceeds from the all-out puncture on the various local resources in a certain annuity perspective;
- a strong tax demobilization of the populations since the abolition of the civic tax (capitation tax in 1993);
- a fluid institutional field (different forms of institutions with operating standards that are not always stable and sometimes opportunistic) concerning the control of the management of natural resources, either because of the applied indigenous norms or because of the participative discourse of development agencies that have promoted new local structures alongside the relevant state services for the management of these same resources.

The TPS was introduced in the 2015 Finance Management Act, the legislative framework for the reform of micro and small enterprises; but the financial impact started in January 2016. The micro and small businesses involved in the TPS system are those with sales between zero and fifty million. Specifically, it's Zero to twenty million for microenterprises and between twenty and to fifty millions F CFA for small businesses. These micro and small enterprises are now subject to a “Synthetic Professional Tax” (TPS) which groups together four categories of taxes, namely: Income Tax, Payroll Patronage (VPS), Patent and License. So, the TPS corrects a situation of injustice that was noted in the past with respect to this class of taxpayer because before, there was the classical package that was considered for certain companies.

According to Bako-Arifari et al. (2004), in West Africa, tax collection at the local level has generally been low due to the lack of willingness of the population to pay. Coercion is often the main means used to constrain them. The creation of local authorities under the management of an elected council made it possible to hope that the mobilization of financial, human resources, etc., would be easier, that decentralization would bring the government closer to the population and allow it to influence the choice priorities and local management. In general, however, even after the start
of decentralization, the tax collection rate has remained low. But all hope has not disappeared. Thus, in some communes of Mali, the sensitization of the mayor resulted in a better recovery.

1.3. Microenterprises and welfare

It is recognized that, for livelihood enterprises, access to finance can play an important role in their development. In this regard micro-finance institutions can play an important role. In the case of growth-oriented enterprises, access to finance can also be important as well as the need to gain access to skills upgrading as well as technology. According to Vial and Hanoteau (2015), micro-entrepreneurship primarily provides returns in the form of income, translating into higher relative consumption, but more importantly, into a greater relative asset accumulation. But, for the most part, microenterprises are recognized to not to be part of a logic of reproduction and not of accumulation or growth. They are characterized by a low capitalist behavior that results in a low reinvestment rate after the initial investment (Savoye, 1996).

In the neoclassical model, the goal of profit maximization under positive profit constraint is shared by all entrepreneurs. In fact, many entrepreneurs start their businesses just to earn a minimum income. It is for this reason Marniesse (2000) said that in developing countries, the place of the company is often reduced to the benefit of the domestic sphere, which compels microentrepreneurs to reconcile sometimes contradictory objectives.

Microenterprise contribute a large percentage of GDP to its economy (Ayandibu and Houghton, 2017); special interests should be given to them so as to make them perform well and affect the economy positively. SMEs contribution to employment reduces poverty etc. makes an economy to grow well. It reduces crime rate, since it has provided job for those that are unemployed. However, African municipalities have difficulties to mobilize resources from the microenterprises.

2. Analysis method: literature review as a research methodology

The method used in this research is a systematic review of the literature. Literature reviews play an important role as a foundation for all types of research. They can serve as a basis for knowledge development, create guidelines for policy and practice, provide evidence of an effect, and, if well conducted, have the capacity to engender new ideas and directions for a particular field. As such, they serve as the grounds for future research and theory (Snyder, 2019).

Systematic reviews is used to aggregate, appraise, and synthesize in a single source all empirical evidence that meet a set of previously specified eligibility criteria (Liberati et al., 2009) in order to provide response to the extent in which the relationship between local tax and the sustainability
of the microenterprises on the one hand and the local government self-development capacity on the other hand can be moderated by the benefits in exchange for local fiscal constraints.

3. Results and discussion:

As stated, this section is based on the aggregation and the synthetisation in a single source the empirical evidence noted in the literature.

3.1. Local taxation optimization: Proposition of an innovative model for a double performance

The proposed model is based on three types of variables: independent variable, moderator variable and dependant variable.

3.1.1. Independent variable: TPS as local tax

According to the surveys conducted by Morrisson (1995), the first reason for a negative image of the state by microenterprise is taxation. It is often the regulations that the state applies the most seriously; it is the one that is the most expensive for the company. This explains the attitude of micro-entrepreneurs: the first regulation they wish to see disappeared is taxation.

In most cases, these microenterprises are known to the administration, either because they are registered or because they pay one or more taxes. This last case can be likened to a registration since it also corresponds to an inscription, that on the fiscal registers.

Tax registration leads to significantly higher profits for the firms that the instrument affects. However, there is also evidence of heterogeneous effects of tax formality on profits. Tax registration is found to increase profits for the mid-size firms in the sample, but to lower profits for both the smaller and larger firms, in contrast to the standard view that formality increases profits (McKenzie & Sakho, 2010).

3.1.2. Dependent variable

Microenterprise Sustainability and local financial capacity and self-development of the municipality are the dimensions of the dependents Variable.

• Microenterprise Sustainability: 
The sustainability of the microenterprises is of paramount importance for the sustainability of jobs as well as for the overall competitiveness of the economy. A microenterprise is sustainable when it survives and when it is successful (Helen Samujh, 2011). Sustainability is a cross-cutting theme that refine reflections on the success, performance and long-term profitability of companies (Wamba & Hikkerova, 2014). Thus, it is important to conceive of sustainability as long-term survival.

Cheriet et al. (2012) state that the survival determinants of newly created firms are different from the determinants of sustainability of existing firms in the market. Although several authors (Douzounet & Yogo, 2012; Dumez, 2009; Mignon, 2000) suggest that a company can be sustainable without being performant because performance is only one of many determinants of sustainability. The family control method allows some companies to pursue sustainability goals without being cost-effective. On the other hand, some underperforming firms may persist when supported by a coalition of actors, while others collapse in seemingly unexpected ways after long periods of success.

According to the SME / SMI Charter in Benin, the microenterprise is a company that meets the following conditions:
- have a staff of less than five (05) employees;
- keep a very light bookkeeping;
- be registered in the trade register and the furniture credit;
- not be bound by the tax return;
- have an annual turnover less than or equal to five (05) million CFA francs.

In the SME / SMI, the employees are often members of the family and contacts with the world of modern management are devoid of formalities (DPPME, Bénin, 2010). This article goes beyond this definition to consider the traditional character of microenterprises in Benin. The traditional model is that of the small boss, artisan or trader whose strategy is guided by this founding element: "to be master of his work, his working time".

As mentioned by Gerbaux (1991), a series of elements are attached to the concept of microenterprise sustainability: the profession and the heritage are the vectors on which strategies of self-creation of employment are based. In this context, family work and the role of spouses are fundamental. In addition, the determination of the entrepreneur and his ability to form partnership relationships have a positive impact on the sustainability of microenterprises (Wamba & Hikkerova, 2014).
For Villa and Poussielgues (2012), the higher the initial investment, the higher the survival chances of the microenterprise and the more the creator is precarious and the less ambitious he is with regard to the development of his business. The results obtained by Sylla (2013) reveal that, in the context of Benin, the motivation to create, the gender of the leader, the taking into account of the interests of the family and the complexity of the environment positively influence the stagnation of microenterprises; primitive accumulation and strategic attitude negatively influence stagnation; the level of education, the age of the enterprise, the entrepreneurial family origin and the concentration of the market do not significantly influence stagnation.

Lin, Picot, and Yates (1999) also found that a stable family income from paid spousal employment increases the financial viability of the self-employed worker (the other spouse) by allowing him to continue his business, which reduces possibility of leaving his business. Thus, any policy of local authorities to support microentrepreneurs for the sustainability of their business is an opportunity to legally and legitimately raise taxes. The next point is devoted to possible benefits in exchange for fiscal constraints.

- **Local financial capacity and self-development of the municipality:**

  Decentralization therefore implies a budget for each municipality. Even if it appears that the Beninese communes cannot from their own resources finance their development (Dedehouanou, 2014), the local taxes and taxes represent an important means for the financing of the expenses of the municipality.

  Pechenskaya and Uskova (2016) suggested ways of improving tax policy, which could ease the imbalance of the interests of the different levels of power regarding the economic efficiency, social justice, and macroeconomic stability, which would allow to strengthen the financial self-sustainability and to increase the number of developing regions and local governments. According to them, alongside with creation of a favorable treatment of searching and mobilizing internal sources of additional revenues, the responsibility of territorial authorities for the results of their own managerial decisions is also going to rise.

**3.1.3. Moderator variable: Benefits in exchange for TPS constraints**

Structured local institutions administered by local government and non-government bodies have received attention regarding their role in assisting micro-entrepreneurship, but there are numerous and varied non-structured institutions that influence the lives of local people who are existing and potential entrepreneurs (Uddin, Umnia, & Alam, 2011). The communities need to be
managed in the perspective of creativity. This creativity also leads the local governments to manage paradoxical configurations (Andriopoulos, 2003).

Indeed, supporting the entrepreneurial capacity of citizens while achieving financial objectives through the mobilization of fiscal resources or encouraging initiatives for household income-generating activities while maintaining a common vision can contribute to the mobilization of local tax resources without going through the path of repression. According to Helen Samujh (2011), microenterprises are the dominant form of business organization and have an important role in maintaining a stable and sustainable global environment. He is supporting that such businesses owners tend not to have a formal education in business or engage with external support agencies, they need support from community-based networks.

These networks could reduce the sense of isolation, whilst at the same time providing an opportunity for sharing experiences, about problems encountered. Many empirical studies on the growth of the informal economy show that taxes and social contributions are the main factors discouraging micro and small enterprises from operating in the formal sector. This is the case for both developed and developing countries (IFC, 2007). There are also market and credit constraints which can affect the microenterprises. Participating in meeting these needs of microentrepreneurs can facilitate the mobilization of the resources needed by the City Council to finance local development.

Benefits in exchange for TPS constraints are a mean to increase participation of the community in the budget of the local government. Scholars and practitioners of public management have a growing interest in innovative public services that consist of the collaboration between public organizations and external actors (Crosby et al., 2017; Sørensen & Torfing, 2018; Wegrich, 2019). Heinle et al. (2014) showed that top-down budgeting incurs fewer agency costs than bottom-up budgeting whenever the level of information asymmetry is relatively low. Although the choice between top-down and bottom-up budgeting ultimately determines who receives private information. The participative budgeting, budget goal clarity and implementation of internal control each has a positive influence on managerial performance (Kewo, 2014). Participative budgeting combines exploration and refinement strategies to create processes that foster information exchange between citizens and public officials (Kim & Schachter, 2013).

Supporting the entrepreneurial capacity of citizens and participative budgeting adoption can help local governments to guaranty double performance: microenterprise Sustainability and local financial capacity and self-development of the municipality.
3.2. The proposed model

The relevance of the impact of tax complexity on tax noncompliance justifies the study of tax complexity in the scope of several taxpayers, including local authorities. Borrego, Lopes et Ferreira (2018) suggest that a high degree of perception of tax complexity and uncertainty as well as a lack of transparency are associated with the tax framework of the activities of local authorities. The collection of the tax is necessary for the financing of the communal development plan. This same tax represents a constraint for the sustainability of microenterprises.

If there are any microenterprise’s sustainability benefits associated with paying the tax, local governments and micro entrepreneurs could establish a win-win partnership around this tax. In fact, to design an innovative model for TPS mobilization, the following variables are considered (see figure below):

- The TPS;
- The benefits associated with the tax mobilization for the microenterprise;
- The financial capacity of the local community;
- The sustainability of microenterprise.
- The proposed tax mobilization model is as follows:
Conclusion and prospects

The association between the development level and the fiscal structure is based on economic theory (Easterly & Rebelo, 1993). The corporate tax rate is insulated from a country’s or local government’s revenue needs (Slemrod, 2004). The negative effect of tax on firms cause the tax avoidance (Drake et al., 2020; Thomsen & Watrin, 2018). The tax avoidance negatively affects the government or local government revenue. The main challenge is how to build an optimal local tax collection model to increase both microenterprises sustainability and local government revenue. The objective of this paper is to explain to what extent is the relationship between local tax and the sustainability of the microenterprises on the one hand and the local government self-development capacity on the other hand can be moderated by the benefits in exchange for local fiscal constraints faced by microenterprises for local taxation optimization.

The literature review has shown that supporting the entrepreneurial capacity of citizens and participative budgeting adoption can help strengthen the sustainability of microenterprises and
increase the financial autonomy of municipalities. These practices would reduce the negative effect of local tax on the sustainability of microenterprises and strengthen the mobilization of resources. Entrepreneurial support and the promotion of participation in the budget prove to be the means to optimize the local tax collection.

Benefits in exchange for tax constraints can be understood as supporting the population in the process of establishing acts such as the national identity card, the supplementary birth certificate, the facilitation of obtaining microcredits, improving participation in budget, etc.

This paper would appear to be over-ambitious in its claims. The proposed model deserves to be tested by using a mixed method to validate it. According to Creswell (2013), an exploratory sequential mixed method is a design in which the researcher first begins by exploring with qualitative data and analysis and then uses the findings in a second quantitative phase. The second database builds on the results of the initial database. The intent of the strategy is to develop better measurements with specific samples of populations and to see if data from a few individuals (in qualitative phase) can be generalized to a large sample of a population (in quantitative phase). Future study would first collect interview data, analyze the results, develop an instrument based on the results, and then administer it to a sample of a population of actors in relation with the question.

These initial results open up a large untapped field of research on the collection of TPS, the efficiency of microenterprises and the performance of municipalities. In future work, we will focus on testing the model.
Bibliography


