EFFECTS OF TAXATION ON FINANCIAL PERFORMANCE OF SMALL AND MEDIUM ENTERPRISES IN THE DEMOCRATIC REPUBLIC OF CONGO, BUNIA CITY

by

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In accordance with Daystar University policies, this thesis is accepted in partial fulfilment of the requirements for the Master of Business Administration degree.

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DECLARATION

EFFECTS OF TAXATION ON FINANCIAL PERFORMANCE OF SMALL AND MEDIUM ENTREPRISES IN THE DEMOCRATIC REPUBLIC OF CONGO, BUNIA CITY

I declare that this thesis is my original work and has not been submitted to any other college or university for academic credit.

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LIST OF ABBREVIATIONS AND ACRONYMS

AST  Allingham and Sandmo Theory
CDF  Congolese Franc
DRC  Democratic Republic of Congo
KPI  Key Performance Indicator
M&M  Modigliani and Miller (M&M) Theory
SME  Small and Medium Enterprises
UNIDO  United Nations Industrial Development Organization
VAT  Value Added Tax
ABSTRACT

Small and medium enterprises (SMEs) play a significant role in income generation, job creation, poverty reduction and reduction of income inequality. This study assessed the effects of taxation on the financial performance of selected SMEs in the Republic Democratic of Congo (DRC), and particularly in Bunia City. It specifically aimed to establish the types of taxes levied on SMEs in Bunia City, determine the effects of taxes on the financial performance of selected SMEs in Bunia City, determine the taxation challenges faced by SMEs in Bunia City, and determine measures that can be used to curb the taxation challenges. The study used mixed research design and targeted formal SMEs in Bunia City estimated to be 41 in total. Simple random sampling technique was used to select a sample size of 82 respondents comprising SMEs’ owners and finance managers. Questionnaires were used in data collection, and descriptive statistics were used in data analysis with the help of the Statistical Package for the Social Sciences (SPSS) version 20.0. The study found that VAT (34%), income tax (31%), presumptive tax (15%), and customs duty tax (20%) were the types of taxes levied on SMEs in Bunia City. It was further established that the complicated nature of taxation (53.6%), high taxation, unique qualities of SMEs (64.3%), taxation policies (50.0%), and high taxation penalties (57.1%) affected the performance of SMEs in Bunia City. Also, the SMEs in Bunia City faced challenges such as poor taxation procedures (55.4%), application of similar cost for the tax rate for both small and large enterprises (48.2%), multiple taxes (46.4%), difficult importation and exportation procedures (48.2%), and inadequate taxation education (76.8%). It was concluded that taxation measures and challenges affected the financial performance of SMEs in Bunia City. The study recommends the need for taxation authorities to subject SMEs to taxes that resonate with their (SMEs) ability to pay promptly.
DEDICATION

I dedicate this study to my heavenly Father for giving me life, thus enabling me to accomplish this study. This study is also dedicated to my father, Mr. Bachuza Basara Musa, and my mother, Mrs. Nzana Bamuhiga Chantal, for helping me realize my educational dreams. Similarly, I dedicate this study to my beloved sisters: Sarah Bachuza and Prisca Bachuza; and my brothers: Sammy, Erick, and David for their unconditional love and continuous words of encouragement during the period I worked on this thesis.
CHAPTER ONE

INTRODUCTION AND BACKGROUND TO THE STUDY

Introduction

The Democratic Republic of Congo (DRC) has an integral part to play in as far as national development is concerned. This is so because it is only through economic development that the livelihood of the Congolese people is guaranteed. One of the methods the DRC uses to spur economic development is taxation (Marine, 2012). Therefore, the public participates in this kind of development through paying taxes. As such, public tax is the major public revenue source that the Congolese government depends on for its economic development purposes.

Small and Medium Enterprises (SMEs) play an integral part in economic development, particularly regarding tax awareness creation to uplift the people’s standard of living (Acciari & Mocetti, 2013). However, the financial performance of SMEs is afflicted by such challenges as lack of financial resources to pay tax and unfavorable taxation policies (Mária & Murillo, 2013). The financial performance of SMEs has, therefore, been affected by the high taxes that are required of them. Consequently, the SMEs’ financial performance has been greatly affected. Coupled with the ever-unpredictable business environment due to unstable politics and economy, SMEs have been hit hard as a result of the high tax regime (Kamar, 2015).

Background to the Study

The use of taxes for economic development begun several years ago. In Egypt, it started as early as 2000 BC. The authorities collected taxes, particularly from cooking oil and other commodities. The taxation from various products was meant to help in the financing of government activities such as economic-related developments.
(Deshpande, 2012). Among European countries, with specific attention to ancient Greece, all citizens had to pay taxes that helped in the settlement of wartime expenses. Further, Rome initiated taxes from sales of products and services, on land, polls, and on exports and imports.

The Roman Empire first imposed taxes on England (Dowell, 2013). Furthermore, taxation measures were used in England during the reigns of Charles I between the years 1625 to 1649, after the fall of Roman rule. The taxation was on land, in addition to excise. Taxation was also introduced by the British to finance the war between the British and France in the year 1800 (Prasad, 2011).

In Africa, taxation started before colonialism when the chiefs used to demand people’s submission of their harvest in the form of collecting tax from their subjects. However, it was made more formal in the colonial period when Africa used direct taxation on cash crops produced by Africans (Forstater, 2005). The requirement that taxes be paid in colonial currency was very important because it helped in producing the required results and also in monetizing African countries. The justification for taxation was that it helped in the promotion of civilization in Africa (Nagel & Murphy, 20). In this regard, tax can be defined as a non-refundable payment that is compulsorily introduced by governments on the public as part of finances that fund economic development.

Taxes can be widely grouped into indirect and direct taxes (Olawale & Garvwe, 2010). Taxes such as corporation and income form part of direct taxes. Meanwhile, indirect taxes are generally based on services and goods produced (Keen, 2013). According to Adebisi and Gbegi (2013), despite the fact that taxation is burdensome, the public must continuously conform to payment of taxes to sustain the development initiated by a particular government for their own benefit. Therefore, taxation is key in
helping governments to raise revenue, regardless of the government’s power to impose taxes. On the one hand, taxation promotes the fair distribution of income. On the other hand, it cannot help to solve the problem that small enterprises face in their efforts to grow economically.

In the DRC, taxes are levied on both local public and private companies on a territorial basis of taxation (Klaver, 2015). Further, the non-resident firms or individualized privately owned firms, whether SMEs or any other company that conducts businesses in the DRC are taxable on profits obtained utilizing fixed establishments located in the country. In the DRC, a minimum of 1% tax on annual firms’ turnover is mandatory for all firms except micro-SMEs. Moreover, firms that operate businesses but do not have annual turnover are subjected to income tax at a minimum of 2.5 million CDF for big firms, CDF 750,000 for medium-sized firms, while small-sized enterprises pay up to CDF 30,000 (Wren & Storey, 2002).

Consequently, as long as taxation systems are not properly designed, the taxation measures could be burdensome to SMEs. The burden can be witnessed mostly among several payers, and this could ultimately affect the growth of the enterprises. The end consumers could also be adversely affected as a result of taxation systems. According to Mnewa and Maliti (2008), the majority of the SMEs are not able to maintain profitability due to the elements of the taxation structure. This implies that the tax regulators and the taxation policymakers should take into consideration the effect that taxation can raise.

Small and Medium Enterprises in the DRC

In the DRC, the population is about 87,784,475 people (Worldometer, 2019) and the country is situated in Central Africa. The country is known for its vast natural resources and mineral wealth, and it is a country that has been experiencing political
instability which has led to an unstable economy in the country. Given that small enterprises are considered part and parcel contributors to economic development, they should be supported to smoothly run businesses through friendly taxation measures. In the DRC, SMEs account for over 35% of the total country’s employment. Small-sized firms in the country are those whose annual turnovers are less than USD 10000, and medium-sized firms are those with an annual turnover ranging from USD10000 to USD 80000. SMEs are also believed to be the largest employment creators as opposed to big firms (Lubeshi, 2017). However, despite this knowledge, SMEs are still uncared for in as far as the taxation system is concerned, and this negatively affects job opening for young skilled workers (World Bank, 2014).

**SMEs in Bunia City Context**

The DRC has 25 provinces. Bunia City, being the capital city of Ituri Province, is located in the Eastern part of the country. A focus on the business climate in Bunia shows that the climate is lacking in almost all dimensions. The major businesses in Bunia are the SMEs. However, these SMEs are affected by regulatory requirements gaps. Uncertainty created by this gap due to unbalanced regulatory systems has greatly exposed SMEs to serious business risks. Coupled with the fact that SMEs have little support financially, their performance is greatly affected; consequently, the overall country development is affected (World Bank, 2018).

The SMEs in Bunia City lack adequate resources to develop and expand to large firms, and this hampers the DRC’s national development. Among the factors restraining these SMEs from entering into business are market and government failures, including high barriers to entry; lack of vision and opportunism from entrepreneurs; lack of capacity and skills in the overall SMEs sector; absence of national, provincial, and local strategies and mechanisms to support entry into or access to these sectors; lack of
specialized SME support institutions; lack of business development services (BDS); and lack of specialized financial institutions and/or financial instruments.

The SME sector in Bunia City remains the biggest employer in the city as the sector constitutes the bulk of economic activities (Adoho & Doumbia, 2017). Furthermore, Bunia City is the most common workplace among entrepreneurs and family-owned businesses that work from a fixed place. Top performers that are growth-oriented firms that have access to capital and growth entrepreneurs who operate with less capital tend to operate from fixed locations. Such locations include streets, markets, shops, while survivalists tend to operate from home and mobile selling points. Access to basic infrastructure and a fixed workplace is more challenging among women than men entrepreneurs (Wenxuan, 2012).

In most countries in Africa, SMEs are deemed as the backbone of economic growth (Prasad, 2011). As such, SMEs account for about 90% of privately owned businesses and also form about 50% of jobs, as well as GDP growth in Africa (Adoho & Doumbia, 2018). SMEs in the DRC are said to be one of the key backbones of the overall economic growth in the country (Aryeetey, 2011). Therefore, based on the above assertions, SMEs have an integral part to play insofar as overall economic development in the DRC is concerned. This implies that the SMEs should be accorded good business ground so that their business activities may be fruitful.

SMEs Financial Performance

Performance measurement among SMEs is a huge challenge yet vital to ensure enterprise survival. Performance measures can be categorized into process and outcome measurements. These form key performance indicators (KPI) of any business entity by further classifying the indicators into financial and non-financial measures. KPIs have majorly leaned towards measures of finance that include growth of sales, profitability,
the flow of cash, and investment returns, among others (Afrifa, 2016). This could be because maintaining tracking of nonfinancial measures is a bit hard.

Therefore, the performance of SME is dependent on if and when a firm can embrace right strategic measures so align key objectives with the overall business environment (Wanjohi, 2013). Therefore, internal environmental factors, such as resources, strategy formulation, innovation and management performance, should be addressed. On the other hand, the external environmental factors, such as customers, competitors, and partners, should be enhanced. All these factors help in informing the performance of SMEs (Barbera & Hasso, 2013). Otherwise, if good taxation systems are not put in place, their contribution to the overall economic growth could be hampered.

According to Kothari (2004), financial performance can be defined as the act of performing any financial activity or the degree to which financial goals and objectives are accomplished. It generally indicates how viable strategies laid down help the company to get better results or outcome. This, therefore, helps the company in meeting daily business objectives (Antwi & Hamza, 2015). Further, Santos and Brito (2016) defined financial performance as the assessment of how well organizations generate income using their assets by employing many different methods. Based on the above definition, poor performance adversely affects the overall organizational growth plans since the said organization may not be able to meet daily operations. This, therefore, shows the reason for the need for good financial performance so that the organizational objective regarding improved financial performance. Therefore, this study focused on sales, profit, cash flows, and return on investment as the parameters of financial performance.
Statement of the Problem

The growth of SMEs has been declining, leading to many of the SMEs shutting down their businesses (Kamba-Kibatshi, 2016). In Bunia City, the main reasons for SMEs closure are that of taxation problems. The taxation problems emanate from high taxation rate coupled with multiple taxations. Further, the regulation and taxation policy that governs the system is inadequate, thereby resulting in the unsustainability of enterprises (Haufroid & Hoet, 2012). In the DRC, SMEs create employment for approximately 35% of workers in the country, while construction, retail, and agricultural sectors have employed about 75% of people (Gharakhani & Mousakhani, 2012). These statistics indicate how valuable SMEs can be - in overall economic development. However, stringent taxation policies are said to be one of the factors that have hampered the performance of SMEs in the DRC. The tax burden further hinders the financial performance of the SMEs through confining operations to only small activities; as a result of little capital and equipment.

According to Tan and Liu (2014), other challenges include inadequate skills, inaccessibility to markets, competitive and unregulated markets, and the existence of informal credits, insufficient education, and training. Further, it has been found that burdens of regulations lie squarely on SMEs. The nature of SMEs, as well as their sizes, makes tax compliance a significant problem (Atawodi & Ojeka, 2012). This is because many SMEs do not have accessibility to resources and also have insufficient expertise. Further, measures such as tax frauds can make SMEs avoid tax payment hence getting into troubles with the authorities, and this poses a great challenge to the SMEs. The high taxation has exposed most of the SMEs to a decline in growth and to, a worse extent, some end up closing down. Further, no study has been done in the DRC,
especially Bunia City focusing on taxation effect on the financial performance of SMEs; thus, a study gap.

Purpose of the Study

The study assessed the effect of taxation on the financial performance of SMEs in the DRC, Bunia City.

Objectives of the Study

1. To identify how the different types of taxes are applied by SMEs in Bunia City.
2. To determine how the financial performance is measured by SMEs in Bunia City.
3. To determine the effect of taxation on the financial performance of SMEs in Bunia City.
4. To find out the taxation challenges that selected SMEs in Bunia City could be facing.
5. To identify the measures that can be used to curb taxation challenges of SMEs in Bunia City.

Research Questions

1. How were the different types of taxes applied by SMEs in Bunia City?
2. What were the measures of financial performance by SMEs in Bunia City?
3. What were the effects of taxation on the financial performance of selected SMEs in Bunia City?
4. What taxation challenges were the SMEs in Bunia City facing?
5. What measures could be used to curb taxation challenges of SMEs in Bunia City?
Justification for the Study

In the DRC, SMEs always face discrimination in regard to taxes, since taxation measures are generally unfriendly to them. This, therefore, means that minimization of tax compliance costs could improve the SMEs financial performance. By such measures, SMEs would be able to easily comply with taxation measures because taxation will be deemed affordable. However, in the DRC, taxation systems are unbearable, and most SMEs view such systems as a hindrance to their overall growth and development, and consequently performance. Therefore, the imposition of high taxation rate to SMEs could prevent many potential investors from investing and at the same time could lead to the death of several SMEs in the country.

This study, hence, aimed at assessing how taxation measures in the DRC affect the performance of SMEs. The study was also motivated by the fact that taxation measures in the DRC have been long deemed to be friendly to those businesses that have a connection with taxation authorities. In contrast, businesses that have no connection with the government tend to be treated unfairly during the implementation of taxation procedures, resulting in their poor performance.

Significance of the Study

First, the Direction Générale des Impôts (DGI) which is the taxation authority in the DRC, would find the research important in helping in its making decisions on viable taxation measures needed for improved performance of SMEs. The DGI in the country would also be able to determine appropriate measures that can be embraced to protect SMEs from high taxation.

Further, this study would form a basis for further research for individuals such as scholars, researchers, and academicians who would be interested in the subject of tax compliance in the DRC and elsewhere. Also, to the policymakers, the study findings 9
might guide in the process of coming up with tax policies that could provide a helpful environment for SMEs to prosper. Similarly, the study provides insightful recommendations to policymakers on areas that need readjustment to make the taxation program friendly to entrepreneurs.

Assumptions of the Study

The study assumed that if its recommendations are put into practice by the relevant authorities, the country would stand to benefit a great deal from improved tax reforms in terms of instituting better reforms for better revenue performance. The study also assumed that the taxation policies in the DRC were extremely unfriendly to the performance of SMEs, thus hampering the SMEs’ survival, and consequently their growth.

Scope of the Study

In this research, Bunia City was selected due to its supportive provincial government, availability of infrastructure to support businesses, and a pool of existing SMEs. The study assessed taxation effect on the financial performance of SMEs in the DRC with specific attention on selected SMEs in Bunia City. The choice for DRC and particularly Bunia City, was urged by the fact that the DRC government has been exposing SMEs to a high rate of taxation and this has immensely affected the SMEs’ growth in the country. The high rate of taxation has seen the downfall of many businesses in Bunia, and this, therefore, informs the need for the current study, with a specific focus on Bunia City. The study collected both secondary and primary data.

Limitations and Delimitations of the Study

1. Due to the confidentiality of taxation information, some respondents were unwilling to divulge key information needed for the current study. However, the
researcher assured them that the information they would give would be treated with the utmost confidentiality and was only to be used for academic purposes.

2. The DRC is a French-speaking country; hence some participants had difficulty in understanding English, therefore, the researcher translated the questionnaire from English to French.

Definition of Terms

Tax: Refers to the compulsory and non-refundable contribution executed by the government for the public purpose whose payment is not followed by concurrent benefit in return (Maseko & Manyani, 2011).

Financial performance: This is defined as the act of performing any financial activity or the degree to which financial goals and objectives are accomplished (Waweru, 2014). The financial performance was operationalized using cash flow which was measured by profitability, investment and sales growth.

Enterprises: This can be described as a business, an organization or a company or any purposeful endeavors that generate income (Wei & Wen, 2019).

Small and medium enterprises: The small-sized entities in DRC are those whose annual turnovers are less than USD 10000, and medium-sized firms are those with annual turnover ranging from USD10000 to USD 80000 (World Bank, 2018).

Taxation: This refers to the mandatory levying of taxes on businesses in the form of a certain percentage as per their sizes.

Effects: In the current study, effects referred to a positive or a negative change that taxation measures can bring to business performance.
Summary

The chapter has highlighted the study background based on taxation, specifically in DRC Bunia City. It has also given an overview of SMEs in the DRC and financial performance of SMEs. The statement of the problem, research objectives and questions, study justification, study significance, the study scope, study limitations and delimitations, and definition of important terms have been presented.
CHAPTER TWO

LITERATURE REVIEW

Introduction

The chapter presents the literature reviewed on the effects of taxation on the financial performance of SMEs in the DRC. It consists of relevant empirical studies reviewed based on the research objectives. The areas discussed include forms of taxation, taxation effects on financial performance, and the taxation challenges SMEs in Bunia City could be facing. Theories guiding the study are also included.

Theoretical Framework

The theories that guided the study are presented in this section. The theories used were the tax morale theory, ability-to-pay theory, and the Allingham and Sandmo theory (A-S Theory), and the Modigliani and Miller (M&M) capital structure relevance theory. The theories’ applicability and weaknesses are presented.

Taxation Morale Theory

The theory was initially put forth by German scholar Schmölders in 1976. The theory states that some organizations prefer compliance while a good number demonstrate noncompliance (Horodnic, 2018). Tax morale theory elaborates on the behavior of taxpayers on taxation. Researchers point to the fact that tax morale can influence the commitment to pay taxes as indicated by Doerrenberg and Peichl (2013). The theory argues that SMEs entrepreneurs can evade tax as long as other business members do the same and vice versa. It assumes that organizations or business can be motivated into paying taxes based on the taxation policies available that are friendly to them. Again the theory assumes that SMEs’ owners will abide by taxation measures if
and when they feel that the authorities enact policies that spur business growth (Collier, 2010).

However, several critics have argued that human beings are sometimes irrational when it comes to compliance with taxation rules, hence the notion by tax morale theory that a motivated person can abide with tax requirement is wrong (Torgler & Schaltegger, 2005). According to Molero and Pujol (2012), even when businesses are motivated and their morale boosted regarding a friendly business environment, many taxpayers could still and are likely to fail to pay taxes just because they feel not obliged to do so despite the good financial income of their businesses. Some may still exercise ignorance of the need to be tax compliant; hence the theory is not realistic.

The relevance of the theory is based on the fact SMEs are businesses that should be part of taxpayers in the DRC, especially in Bunia City. However, the SMEs’ urge to pay tax is based on whether they feel motivated to pay or to evade. Therefore, to pay tax or to avoid taxation depends on the morale they possess in doing business. If the business environment is unfriendly, they lack morale in doing business and are then likely to avoid paying taxes and vice versa. Consequently, avoidance of tax payment means that their business operation will be restricted.

Ability-to-Pay Theory of Taxation

This theory was put forth in the 16th century. It was promoted by Jean Jacques Rousseau between 1712 and 1778, Jean- Baptiste Say in the years 1767 to 1832, and John Stuart and Mill between 1806 and 1873 (Kendrick, 1939). According to Seto and Buhai (2005), the theory argues that levying of taxes should be based on one’s ability to pay. Basically, the theory argues that taxation threshold should be affordable and that taxation is seen as ‘stealing’ from taxpayers due to the fact they surrender money to authorities rather than fully utilize it (Fleurbaey & Maniquet, 2018). The theory's
proponents argue that it is very relevant to businesses because of compliance results in cases of business disruptions.

The critics of ability-to-pay theory argue that taxation that is progressive does reduce incentives and that it only penalizes taxpayers who as a result of good work, deserve to enjoy all income (Benoit & Smythe, 2003). They claim that theory is unfair to wealthy payers and that the taxation threshold should be based on benefits incurred on compliance. The relevance of the theory to the current study was based on the fact it suggests that taxation policies on SMEs should be able to guarantee the SMEs’ financial performance and consequently, compliance. By evaluating the taxation effect on SMEs’ financial performance, the research proposed correct tax policies that could provide a conducive environment for enterprises in the DRC.

Allingham and Sandmo (A-S) Theory

The A-S theory was put forth by Allingham and Sandmo (1972). It argues that authorities deter evasion of tax by way of sanctions. Taxpayers could opt to avoid tax compliance in the assumption that they will be better off without paying, and this could be attributed to high and unfavorable taxation regime, as maintained by Gahramanov (2009). According to the theory, taxpayers would also evade tax when they perceive that the cost of compliance is high. The theory assumes that a tax regime that seems costly and expensive tends to promote evasion of tax among the payers (Dhami & Al-Nowaihi, 2007). As observed by Allingham and Sandmo, the higher the taxes, the high the possibility that many potential taxpayers will evade; the opposite is true (Sandmo, 2005).

In support of the A-S theory, Yitzhaki (2003) argued that a higher business income should lead to a higher taxation threshold; consequently, the taxation produced from such entities should be able to help in the funding of government expenses.
Therefore, according to Yitzhaki, taxation measures should be based on income but not on the benefits obtained by taxpayers. In disagreement with the theory, Alm (2012) contended that once the evasion cost has been determined, it is generally linked with black market earnings and more so many evade paying of taxes. Still, others fail to reveal the correct financial status of their businesses.

The A-S theory’s relevance to this study is that owing to the hardships they face in terms of taxation regulations, stringent deadlines, and proper bookkeeping requirements, SMEs are vulnerable to evasion of taxes. This indicates that taxation may have an adverse effect on SMEs’ financial performance, especially when tax policies are unfavorable to the SMEs and this may result in the sanctioning of their (SMEs) businesses by the authorities, as a result affecting their (SMEs) businesses. Therefore, the link between the A-S theory with taxation is on deterring tax evasion through a financial audit and promotes the financial health of SMEs; consequently, good performance could be obtained.

Modigliani and Miller (M&M) Capital Structure Relevance Theory

This study was underpinned by Modigliani and Miller (M&M) capital structure relevance theory (1958). According to the theory, a firm’s financial performance is independent of the capital structure of the firm (Modigliani & Miller, 1963). The theory argues that despite changing the firm’s capital structure mix, the firm financial performance remains identical. Further, the theory posits that a firm’s financial performance grows with the firm’s capital structure, meaning that the greater the firm’s cash flows, investments, and profitability, the better the anticipated firm’s financial performance. The capital structures do not change the firm’s financial performance, but only change the mix of debt and equity in the firm financing to enhance the financial performance of the firm.

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In summary, the M&M capital structure relevance theory contends that SMEs’ financial performance is attached to their cash flows and sales growth. This, therefore, implies that the firm’s financial performance grows in line with its sales growth, profitability, investment opportunities, and consequently, the presence of improved firm financial performance of SMEs. The relevance of the theory was based on its postulation that the financial performance of an organization can be determined or measured through, for instance, profitability, investments, cash flows, and growth of sales. These are some of the sub-variables that were used in the current study to measure financial performance. The theory is mostly criticized for the simple reason that it ignores corporate and personal taxation and the personal aspect of financing through retained earnings. Again, the assumption of the theory is over-theoretical and cannot be achieved in the actual world of improved business performance.

General Literature Review

Types of Taxation Levied on SMEs in the DRC

In the DRC, there are many forms of taxation, including mineral taxes, property taxes, export duty tax, VAT, presumptive tax, corporate income tax, and income tax policy. This study assessed the types of taxes to help in determining how the same are used in the DRC on SMEs and how they are applied to improve the SMEs’ performance (Machogu & Amayi, 2016). The various taxes employed in the DRC are discussed hereafter. The study specifically relied on income tax, corporate tax, presumptive tax, VAT, and customs duty, since these are the taxes most commonly applied to SMEs in the DRC.
Direct taxes

Direct taxes can be termed as non-transferable taxes paid by the businesses to the government or to relevant authorities (Devereux & Maffini, 2012). The various types of direct taxes are discussed below.

Income tax

This is the tax imposed on taxpayers (individuals and companies), and it varies in relation to respective income or profits. In the DRC, taxation thresholds on income on SMEs are inaccurate (Patricoff & Sunderland, 2015). For instance, taxes are applied without adequate evaluation of SMEs’ financial status. Further, the coming in of devolved governments has strained the taxation of SMEs in the sense that the SMEs have to do with double taxation as a result of two-tier governments. In this regard, many SMEs suffer and are hence unable to maximize profits, and this has led to the downfall of many of them.

Further, in an attempt for authorities to enhance taxation input, the SMEs are increasingly faced with taxation burden. The taxation management in the DRC is poor and always anchored on the mere assumption of financial status, thereby exposing SMEs to burdens in their attempt to comply with taxes (Lubua, 2014). Consequently, the survival of these businesses and their overall performance are affected. Given that the SMEs income taxes also contribute to their (SMEs) growth in the DRC, the stringent measures adversely their performance.

In addition, taxation authorities in the DRC have agreed that SMEs enlisting costs override the benefits the produce (Lesser & Moisé-Leeman, 2019). In the DRC, income taxes are paid discriminatively, and this affects the SMEs’ performance. Some SMEs are given a grace period to make payments while others are forced to comply within the set time frame. Nevertheless, good balance on taxation administration should
be actualized so that the financial performance of the SMEs can be ascertained (Oladipupo & Obazee, 2016). Improved financial performance of SMEs means good livelihood and improved economic growth.

Corporate tax

In the DRC, this is a tax from organizations. Corporate tax revenues are very essential because they help the government meet its public organization. Corporate tax thresholds in DRC are at about 35% for organizations. In 2010 it was averagely about 36.67% all the way to 2018. However, in 2011 it was 40% and rose to 35% in the year 2013 (Lough & Harvey, 2013). In the DRC, registered companies such as SMEs are territorially taxed. However, the DRC firms in other countries are not subjected to this type of tax (Kambale, 2012).

Additionally, companies including SMEs in the agricultural, agro-pastoral, and poultry or fishing are exempt from corporate income tax. Further, a corporate tax of 25% is applicable to all microfinance firms and privately owned schools. Again, a 30% rate is applicable to firms in the mining and real estate sectors (Gberegbe & Umoren, 2017).

Presumptive tax

This type of tax is applicable to small firms such as SMEs in the DRC. Its measure has been put forth with the intention of tapping payment of taxes from SMEs who are deemed to be noncompliant. Some SMEs pay fixed rates, while others are entitled to 1% of gross turnover rates (Rugemintwari & Tacneng, 2016). This, therefore, means that there is lack of equality in the payment of taxes, thus unpredictable taxation measures which then disadvantage some SMEs. The unpredictability nature of the presumptive taxation thresholds negatively affects their implementation by SMEs. In the DRC and with specific attention to Bunia City, this type of tax has negatively
affected the financial performance of SMEs. This, therefore, means that DRC taxation measures disadvantage them. This high taxation rates threaten the SMEs’ growth even though the SMEs account for over 35% of total employment.

Indirect taxes

Indirect taxes can be referred as the transferable taxes where the liability to pay can be shifted to others who are able to pay agreed taxation amount to the authorities (Ibadin & Oladipupo, 2015). The various types of taxes under indirect tax are discussed hereafter.

Value-added tax (VAT)

Value-added tax is levied in all stages of production and distribution all the way to stage of retailing. Therefore, it is chargeable on any services or goods supply in the DRC (DRC VAT Act, 2012). Basically, it is anchored on consumption rather than on income-related levies. Therefore, VAT relates to goods or services value added at each individual stage and amounts to the dissimilarities between input and output tax.

Output tax is the VAT that is chargeable at the appropriate rate on the sale of taxable commodities by a taxable person. An entrepreneur has to be registered for VAT and calculate the output tax when the taxable turnover has exceeded the threshold for compulsory VAT registration. Meanwhile, the input tax is the VAT added to the price of commodities liable to VAT, which are purchased by the entrepreneur. In the DRC, VAT is generally levied on all consumptions at a rate of 16% (Abrie & Doussy, 2006).

Given the taxation system of DRC, the administration of VAT is tedious, and this has made many organizations to remain noncompliance (Mapurita, 2015). Additionally, the DRC being largely populated and also lacking infrastructural development makes the collection of such taxes difficult. Again, many SMEs lack records such as accounting records, and this means that information on such SMEs
becomes hard; hence rendering taxation services difficult (Glenday & Hollinrake, 2015). Furthermore, most SMEs faces complications during their operationalization. Further, Lesser and Moisé-Leeman (2019) have indicated that these complications ranged from provisional tax payment before production. Again, SMEs are compelled to pay sales, stamp, regional, and municipal taxes, as well as corporate taxes among others (Di John, 2019).

It is a common theme in the DRC that taxation authorities are “feared” by formal and informal firms due to their informal and autocratic implementation of government orders. Further, perceptions, inadequate knowledge of taxation, and bad decisions are among some of the issues that affect the growth of SMEs. However, VAT has been deemed as the major concern that hampers the performance of SMEs in the DRC due to the fact it is expensive, and as a result, SMEs earnings cannot support their (SMEs) filing of returns (Ndekwa, 2014). The processes for payment are also complicated, and this leads some SMEs to try to “hide” from the taxation authorities, which in turn affects the smooth running of SMEs.

Customs duty

This can refer to import and export taxes. Authorities can resort to the harmonization of the systems so as to carry quantification rate of taxes. In this type of indirect tax, when goods are imported, the owner pays importation declaration fee and then authority’s advice on payable tax. However, imported goods are always subjected to a standardized rate of VAT. The tax rate, in this case, could be about 25%, and to some extent at a lower level of 0%, or as high as 100% depending on regions ratifying the taxes (Ardic & Soydan, 2010). Taxation levied on imports and exports are important in any given country’s overall economic growth. Therefore, this type of tax can also be initiated to cushion domestic markets from external competitions.
Effects on Taxation

Effects in this study is described as the short- or long-term change that the available taxation measures can cause or bring on the performance of business - be it small or medium businesses. Taxation can have both favorable and unfavorable effects on businesses. Taxation effect that implies reduced and constrained business performance, is said to be unfavorable taxation effect (Everest-Phillips, 2010).

On the other hand, when taxation effect that entails improved and supported business growth, is deemed as favorable or positive taxation on business performance and growth. Therefore, progressive taxation measures have a positive effect on business performance while unprogressive taxation measures have negative effects on business performance. In this study, the effects of taxation were looked at in the aspects of a fall in business performance by SMEs and a fall in revenue generated by the government as a result of poor taxation policies and vice versa.

Financial Performance

Several scholars have explained financial performance variedly. According to Galy and Saucedo (2014), financial performance is the subjective measure of how well a firm can use its asset to generate revenue. Simply put, it is a measure of how a particular firm meets its financial obligations within a certain time frame. This study used measures of financial performance such as cash flow that possess certain elements, including the growth of sales, profitability, and investments. These are among some of the financial measures being used by SMEs in the DRC. Cash flow and its elements are discussed in the subsequent sections.
Cash flow

In essence, SMEs are viewed as a tool for poverty reduction in both developed and developing nations. Therefore, such firms should be well oiled with resources by increasing their financial cash flow. By this, the SMEs in the DRC will be able to remain operational and consequently alleviate poverty. Deterioration in growth, as well as failures in SMEs in DRC, have been linked to poor cash flow. In agreement, Klofsten (2010) associated SMEs growth or otherwise with low cash flow hence laying down better policies, especially on taxation measures can help in improving the growth of SMEs and consequently their performance.

Therefore, due to lack of enough circulating cash, many SMEs end up closing down their businesses. In agreement, Olawale and Garvwer (2010) stated that about 90% SMEs end up failing as a result of insufficient cash flow. This is because traditionally, SMEs are known to experience cash crunches, and this negatively affects their daily operations and resultantly their performance. Additionally, it is prudent to note that cash flow has been a continuous concern to SMEs in all countries, especially the developing nations. The elements of cash flows, such as sales growth, investments, and profitability are discussed hereafter.

Sales growth

The study uses sales growth as a performance measure. Sales growth has been used as a financial measure before, hence, its usage in this study was justified (Watson & Robinson, 2003). Moreover, literature points out that the growth of sales is suitable as a measure of SMEs’ performance not only in the DRC but beyond. This is because sales growth can accurately indicate performance better than other measures of accounting. According to Sulaiman and Yusoff (2010), there should be a positive link among the growth of sales and financial performance of SMEs. Therefore, determining
sales growth in as far as SMEs is concerned is significant because it indicates whether the SMEs are performing or not. Furthermore, to improve sales growth, many SMEs have resorted to external financial advisors’ input (Uhlaner & Zhou, 2013). This is because it is believed that external experts’ involvement plays an essential role in SMEs’ growth.

Profitability

In order for SMEs to survive, there is a need for good profit-making. However, SMEs’ growth could be hampered by the existing policies regarding taxation. SMEs that make small profits experience inadequate resources for any meaningful expansion. Conversely, the SMEs that make good profit may witness an improved financial performance. Today’s profitability among SMEs may be traded off against their tomorrow’s profitability (Margaretha & Supartika, 2016). Therefore, good mechanisms regarding taxation can be beneficial to SMEs growth. Thus, the capital employed by businesses should be productively utilized. Return on asset is one of the measures that can be used to assess the efficiency of SMEs in relation to whether they are making profits or not. Further, the rate of return on equity can provide useful information about the profit-making of SMEs.

Investment opportunities

The relationship between investment and consequent financial performance is vital in assessing the effectiveness of a firm’s investment decisions (Belghitar & Khan, 2013). Investing is crucial to financial performance due to the fact it (investing) helps in pooling resources together, thus helping in improving the overall organizational operations and accordingly performance. In consequence, putting in place measures that can attract investors and at the same time improve their (investors) confidence is
necessary. Investing provides sources of funds that an organization can use to meet its operational obligations.

According to Abor (2007), the level of liquidity is one of those factors that influence investment decisions. Therefore, the amount and financing of capital investment by SMEs is in part a function of the fund available after proceeding down a hierarchy of prior claims on corporate cash flow. The starting point is the total cash flow generated by the firm, which does provide the base amount for distribution to various investment opportunities. Preference for relatively cheap internal financing for SMEs results in them (SMEs) opting to use residual funds to pay for sustaining the investments whenever possible. The cost of capital that the firm attracts also influences the investment decisions that it makes (Ashhari & Nassir, 2010). Therefore, investment decisions mainly depend on the optimal cost of capital that the firm requires so as to boost its capacity in line with the objective of satisfying the demand for its goods and services.

Effect of Taxation on Financial Performance of SMEs

Although SMEs have low financial muscles, they form a key segment in as far as the creation of employment opportunities is concerned. This, therefore, implies that their impact on a country’s overall economic growth should not be underestimated. In a rejoinder, Tee and Opoku (2016) viewed SMEs’ as employment sources for most people, indicating that taxation measures attributed to them (SMEs) should be friendlier. Therefore, with favorable taxation policies, SMEs would play an integral part in the promotion of income distribution in a country.

Across the globe, SMEs are avenues for employment opportunities. As a matter of fact, SMEs have in the recent past promoted living standards for many, particularly in many developing countries (Aluonzi & Sumil, 2013). However, the
survival of these small firms is very low. In many government policies, SMEs are compared to the large organization. Thus, most policies are made to both in equal measure, thereby disadvantaging SMEs. Such measures do not promote the SMEs financial performance. Therefore, the DRC government should make sure that any related taxation policies it initiates are friendly and favorable to SMEs so that their (SMEs) performance and growth can be ascertained (Shahrodi, 2010).

Since SMEs uphold the greatest contribution towards economic growth, correct and rightful policies should at all times be enacted so as to promote their growth. This is because SMEs have a big role in the transformation of economies through improved financial performance. Essentially, funds obtained due to taxation help in the daily operation of government businesses. This, therefore, means that taxation authorities should cushion SMEs against extreme taxation policies. Furthermore, Sukumar and Grant (2011) argued that friendly taxation on SMEs nurtures their growth and performance. Hence, taxation should be one that is conducive and promotes the SMEs’ financial performance. Although the government must remain operational, policies on taxation should be able to enable the performance of SMEs so that their economic contribution is not hampered.

The SMEs should be subjected to taxation rules and regulations that motivate the entrepreneurs’ intention to invest without fearing to lose their funding. They can thus be offered breathing space so that they can save as much profit as possible for future operational activities so as to realize improved performance. Therefore, imposing friendly taxes to the SMEs helps in their growth and improved financial performance. However, in the DRC, unfriendly taxes that are beyond the SMEs business survival could lead to their (SMEs) downfall and consequently reduced financial performance and economic growth.
Taxation Challenges on SMEs’ Financial Performance

Scholars such as Quader and Hassan (2016) have opined that SMEs can be excluded from taxation so that all their resources are channelled towards improving performance. Through this, their expansion will increase and as a result, they will be able to create more employment opportunities. Taxation subjects small firms to financial torture, thus, negatively affecting their financial performance. Draconian taxation policies have been found to make most SMEs fail to exhibit good financial performance due to stringent over-taxation thresholds. In addition, the subjection of SMEs to double taxation significantly affects their financial performance.

Many SMEs also have to go through tedious processes and procedures during their registration as well as during their operation. They are also normally subjected to difficult processes in the same manner as larger organizations. Such measures lock out potential investors. According to Poutziouris and Oakey (2000), complicated regulatory measures excessively discriminate SMEs, thus affecting their development and growth. Thus, in turn, affects their SMEs financial performance. Therefore, an excessive taxation regime on SMEs could prove to be deathbed for most SMEs in developing countries, DRC included. Further, double taxation measures, inadequate planning, and high cost of taxation, among other measures have proven to be unfavorable to SMEs; undoubtedly affecting the SMEs’ financial performance.

One of the responsibilities of governments is to provide an enabling ground for the growth of SMEs. This implies that the climate for business in the DRC should be accommodative not only to SMEs but to all organizations (Mucai & James, 2014). Such a climate would enable the SMEs’ growth, thereby creating more employment opportunities and consequently positively impacting overall economic development.
Therefore, SMEs should be given more attention in regard to taxation measures

Measures Used to Curb Taxation Challenges

Tax has an integral part to play in the performance of SMEs, especially in developing nations such as the DRC. This is so because the sector helps in promoting the general economic growth in a country. It is, therefore, important that taxation measures be streamlined towards SMEs’ performance (Smith & Smith, 2007). As such, various governments should come up with strategies that create an enabling environment is as far as taxation measures are concerned. Issues such as reduction of cost of operation and lowering thresholds for taxations are important.

In offering solutions to taxation challenges, SMEs faces incentives on taxation such as taxes rebates. For instance, the need for the use of localized raw materials should be given an upper hand. Therefore, the burden of taxation on SMEs should be made simple so that issues such as operational cost, cost of administration, and other business-related costs are reduced (Maseko, 2014). To promote performance and minimize challenges faced by SMEs, the DRC government has mobilized revenues for SMEs by bringing to the correct tax threshold. This is done through the introduction of turnover tax (TOT). In order to promote taxation compliance and mitigate challenges faced by SMEs, obligations of wide categories such as timely filing with the required information, registration in the system, and accurate and timely dissemination of financial activities are necessary.

Further, many governments have introduced a tax compliance cost survey that helps in providing accurate information that promotes compliance with taxation measures (Collis & Hussey, 2013). Again, measures have been put in place to improve taxpayers’ attitude towards compliance with taxations. This is because taxpayers’ attitude can also be an indicator of tax compliance. Such attitudes promote compliance
of tax and equally affect compliance with the tax requirements (Maseko & Manyani, 2011). It is, therefore, essential to enlighten taxpayers on the need to comply with tax payments as this enables them (taxpayers) to conduct business without interference, thereby improving their growth and ultimately, their financial performance.

Moreover, educating and creating awareness among SMEs is critical in making sure that the SMEs comply with taxation measures so that they do not appear to be at loggerheads with the tax implementing authorities. Agan and Borodin (2013) found out that the SMEs that are exposed to education through seminars and workshops get to understand their role in so far as compliance with tax is concerned. This helps them in raising pertinent questions or issues that need redress so that tax policies can be favorable to their businesses. Therefore, awareness creation assists in broadening the knowledge of entrepreneurs on taxation measures; hence compliance rate increases.

Empirical Literature Review

Bolboros (2016) sought to determine the impact of tax on the financial performance of an organization. The focus of the study was Vintila. The study used survey research design with a questionnaire as the data gathering tool. Secondary data was collected between the years 2009 and 2013. Both chi-square and correlation analysis were used to determine linkages among tax rates’ variables. It was established that rates of taxation were influenced by the operational demand of governments. The study concluded that taxation influenced the performance of young firms in Vintila (Bolboros, 2016).

A study by Toader and Dragoti (2014) assessed taxation’s effect on Australian firms’ net profit. The study used a mixed research design and obtained data from 26 companies between the years 2009 and 2013. Census sampling method was used, and both descriptive statistics and Pearson product correlation were utilized to show
Linkages among study variables. It was found that profitability influenced taxation rates, and the conclusion drawn was that financial performance is influenced by corporate tax rates (Toader & Dragoti, 2014).

Another study by Ali, Fjeldstad, and Sjursen (2013) focused on the determinants of the behaviour of citizens in regard to compliance with tax. The study, which was descriptive in design focused on South Africa, Kenya, Uganda, and Tanzania. Data was collected via a questionnaire, with descriptive statistics and factor analysis being utilized for analysis of the data. The study findings indicated that factors such as high administrative costs and high taxation rates influenced the attitudinal behavior of taxpayers. The study established that certain factors, for instance, lack of awareness, complex tax policies, and double taxing, affect tax compliance in Africa (Ali et al., 2013).

Aguolu (2014) sought to establish the link between Nigeria’s administration of tax and its (Nigeria) financial performance. Quantitative research design was employed, and a self-administered questionnaire, researcher-developed, was utilized for data collection. The target population was 212 respondents from selected SMEs. By use of descriptive statistics, the study found that the government of Nigeria had fully modernized and automated its systems of taxation so that the collection of taxes could be enhanced. The study concluded that taxation had a negative association with SMEs’ performance in Nigeria (Aguolu, 2014).

In a research undertaken in Accra, Ghana, Otumba (2015) looked at the connection incentives on tax have with SMEs’ financial performance. The study was descriptive in nature, and the author sampled 145 SMEs in Accra. Both primary and secondary data were obtained by use of a questionnaire. It was established that incentive measures on taxes were used to promote the performance of SMEs and the study
concluded that tax incentives had an inverse relationship with the financial performance of SMEs (Otumba, 2015).

Focusing on registered small-scale industries in Nigeria’s Rivers State, Chukwumerije and Akinyomi (2011) assessed the effect taxation had on the general performance of such industries. The study randomly targeted 11 from 22 small-scale beverages and food manufacturing firms from Rivers State. A questionnaire was administered to 260 participants, and frequency distribution, as well as chi-square tests, were used. The study established that usage of a variety of taxation-related incentives among the selected firms promoted the firms’ performance. The conclusion of the study was that SMEs’ performance is significantly impacted by taxation measures (Akinyomi, 2011).

Twesige and Gasheja (2019) sought to determine taxation’s effect on SMEs’ growth. The study utilized both quantitative and qualitative approaches, with a target of 49000 SMEs selected from various sectors in Nyarugenge district of Rwanda. A total of 136 SMEs, identified via purposive and simple random sampling, formed the sample of the study. For data analysis, descriptive statistics and multiple regression were employed. A linkage was determined between SMEs’ growth and tax incentives. The study concluded that incentives on taxes to SMEs contribute positively to the SMEs’ growth (Twesige & Gasheja, 2019).

In a study premised on the ‘ability to pay theory’ taxation’, Levin and Widell (2007) estimated the level of evasion of tax in Tanzania and Kenya. The study employed a correlation analysis and found that the regression coefficient on taxation was high in Tanzania and low in Kenya. The implication was that more Tanzanians evaded taxes. The United Kingdom was introduced in the study, and it was concluded that evasion of taxes between Kenya and the United Kingdom was lower than that of
the latter versus Tanzania. The “ability-to-pay theory” of taxation was found to be more adopted in the United Kingdom than in the two African nations (Levin & Widell, 2007).

Further, ‘taxation morale theory’ was used by Desai and Dharmapala (2009) in their examination of taxation’s influence on organizations’ financial performance. The study, whose study area was Turkey, used a qualitative research design and obtained data through a questionnaire and interview guide. The research data was analyzed descriptively. It was found that ‘taxation morale theory’ can be used to explain the tax avoidance behavior among large corporations (Desai & Dharmapala, 2009). This is the main theory that this study reviewed. The theory argues that agency issues may motivate managers to avoid paying taxes, thus pointing out the role of governance structures in tax avoidance. Studies on this theory dominate the tax avoidance literature, and the results are mixed; hence the need for an investigation of taxation effects on SMEs’ performance in the DRC.

Conceptual Framework

A conceptual framework can be defined as a diagrammatical representation of the presumed relationships among variables. The main aim of a conceptual framework is to show the association among variables.

The conceptual framework for this study is demonstrated in Figure 2.1.
Summary

In this chapter, relevant general and empirical literature has been reviewed as per the research objectives. Various theories that have a relationship with the study have been addressed, with their relevance to the study indicated. Further, the limitations of each of the theories have been presented. The review of relevant empirical studies entailed the studies’ methodologies, findings, and conclusions. The study’s conceptual framework, showing the association between the dependent and independent variables of the study, has been presented as well. The following chapter will address the methodology that guided the study.

Figure 2.1: Conceptual Framework
Source: Author (2020)
CHAPTER THREE

RESEARCH METHODOLOGY

Introduction

This chapter captures the research methodologies employed by the study. It entails the study design, population, sample and the methods used to determine the sample, and the data gathering procedures. The data gathering tools’ validity and reliability, pretesting, the plan employed in the analysis of data, and the ethics observed in the study are also included.

Research Design

Research design can be defined as a plan of investigation that helps in obtaining answers to research questions, as indicated by Bell and Harley (2018). The study utilized a mixed research design (Schoonenboom & Johnson, 2017). Mixed design is a technique of inquiry that consists of qualitative and quantitative forms of data (Sharma, 2017). This kind of design was used because it helps in obtaining more in-depth knowledge and information about the problem as well as provides rich data sets. The design can also assist in improving findings’ credibility by way of triangulation of results. By this design, generalization of the study findings is possible.

Population

In Bunia City there are two types of SMEs: formal and informal. Formal SMEs are those that keep records and are registered by the city council of the city. According to Walliman (2017), a population is part of participants the study sets to look at. In Bunia City, formal SMEs are 41 SMEs (Woldie, Laurence, & Thomas, 2018). Therefore, study employees and owners of the 41 SMEs registered in Bunia presented the population of the study (See Appendix C). The study grouped the SMEs into four
categories due to the fact the registered SMEs in Bunia are only identified by the five categories. Other SMEs that fall outside these brackets are not registered or have become dormant hence may not provide reliable information, especially in the financial aspects.

Target Population

A target population is defined as a group of individuals or items to which the researcher would like to generalize his/her results (Creswell & Creswell, 2017). The target population for this study was 159 staff in the finance departments and 41 SMEs, which summed up 200 as estimated by the Bunia City council (Appendix C). The target population was chosen to help to assess the effect of taxation on the financial performance of SMEs in Bunia City. The target population was as captured in Table 3.1.

<table>
<thead>
<tr>
<th>Categories</th>
<th>SMEs</th>
<th>Finance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Service (Hotel and Restaurant)</td>
<td>20</td>
<td>81</td>
</tr>
<tr>
<td>Fuel station</td>
<td>7</td>
<td>31</td>
</tr>
<tr>
<td>Agri-processing</td>
<td>8</td>
<td>27</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>6</td>
<td>20</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>41</strong></td>
<td><strong>159</strong></td>
</tr>
</tbody>
</table>

Source: Woldie et al. (2018)

Sample Size

Sample size can be defined as the number of participants included in a study drawn from the target population. The current study sampled the owners (one for each SME) and one employee from each of the SMEs, which translated to a sample size of 82. The sample size was justified because according to the researcher, two respondents (one owner and staff from the finance office) were selected due to their substantial knowledge of the effect of taxation on financial performance. The two respondents were the SMEs’ finance officers and owners, as shown in Table 3.2.
Table 3.2: Sample Size

<table>
<thead>
<tr>
<th>Categories</th>
<th>Owners/Managers</th>
<th>Finance staff</th>
</tr>
</thead>
<tbody>
<tr>
<td>Service (hotel and restaurant)</td>
<td>20</td>
<td>20</td>
</tr>
<tr>
<td>Fuel station</td>
<td>7</td>
<td>7</td>
</tr>
<tr>
<td>Agri-processing</td>
<td>8</td>
<td>8</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>6</td>
<td>6</td>
</tr>
<tr>
<td>Total</td>
<td>41</td>
<td>41</td>
</tr>
</tbody>
</table>

Sampling Techniques

Sampling is about the choosing of a portion of the population from within a target population to assess responses from the entire population. This set of the population is always considered to be able to provide information on behalf of the entire population. According to Sharma (2017), a sample is the representation of the study population from which conclusions are made.

It is important to note that when the sample size is large, the error of sampling is smaller, with a 95% level of confidence. In this study, non-random sampling was used (Draugalis & Plaza, 2009). This is because non-random sampling such as purposive sampling does help in providing studies with high theoretical reasons for the choice of units as opposed to the simple random sampling method that permits each participant to be part of the sampling frame. To achieve this, the researcher first acquired a list of the SMEs.

Data Collection Instruments

The major instrument used was a questionnaire. This is because the study was mainly interested in opinionated views on taxation of the SMEs in DRC. The instrument was preferred because it helped in saving time and also gathering of data within a short period of time. The questionnaire was hence considered economical.
The study also obtained secondary data through a review of SMEs’ financial statements for the years 2015 to 2018. Items focused on were the measures of financial performance, which included sales growth, profit, cash flow, and SMEs’ investments on an annual basis. The collection instrument used was a data capture form in MS Excel format for all the measures of SMEs performance.

Data Collection Procedures

A questionnaire was filled by the study participants who comprised the selected SMEs’ owners and financial officers. The questionnaire was filled during the participants’ convenient time. The researcher dropped the questionnaire copies at the respective enterprises, thus allowing the respondents to fill them (questionnaires) at their most convenient time. For the secondary data, the researcher enquired from the city council of Bunia City, through a covering letter from Daystar University to aid data collection.

Reliability and Validity

Cronbach’s alpha was employed to test questionnaire reliability (Bain, 2017). It was computed to determine how items correlate. Cronbach’s alpha is the major form of Kuder-Richardson (K-R) 20. Any score over 0.65 is agreed as indicated by Bonett and Wright (2015). The responses were fed into the Statistical Package for the Social Science (SPSS) version 22. Basically, the more the Cronbach’s alpha score is near 1, the high the reliability (Heale & Twycross, 2015). Upon reliability test, scores of 0.723 were found; hence the data was deemed reliable.

According to Yin (2013), the data collection instruments validity should be suitable for the real collection of data. Validity helps in providing the required results (Yin, 2013). The content validity fir this study was realized by subjecting the
instruments to competent judgement by the researcher’s study supervisors. The supervisors helped in correcting the instrument so that errors and statements that were not clear were removed and adjusted for clarity purposes. This process enhanced the validity of the research instruments.

Pretesting

Pretesting is to be done outside the scope of the study. In the case of this study, pretesting was done on SMEs outside Bunia City. Pretesting of research tools is meant to help in improving information quality so that accurate results for the actual study are obtained. Lakshmi and Mohideen (2013) asserted that a Cronbach result of more than 0.5 is deemed reliable. The researcher conducted a pretesting on instruments before main data gathering and the results showed a 0.723 Cronbach scores, which was found to be above the threshold of 0.5.

Data Analysis Plan

Analysis of the collected data was done via the SPSS, version 22, and the results were presented statistically in the form of tables, charts, and bar graphs. To achieve this, descriptive statistics in the form of frequencies and percentages were utilized. The descriptive statistics helped in displaying central tendencies among variables.

Descriptive Statistics

Descriptive statistics consisted of percentages and frequencies which were analyzed and presented to enhance the understanding of the study results. The results were presented in figures, tables, and pie charts. Descriptive statistics were used because they helped in the presentation of the collected data in a way that was meaningful and easy to understand. The easiness by which data was presented,
therefore, permitted simpler interpretation of the gathered primary and secondary data. Further, the descriptive statistics gave results in the form of graphics and tables and this assisted in understanding the presented data that was quantitative in nature.

Ethical Considerations

According to Creswell and Creswell (2017), ethics means various conduct norms is either acceptable or not acceptable behavior. In this study, ethical matters such as confidentiality during the gathering of data were considered. To enhance participation, respondents were informed in advance about the main data collection period so that they would not feel unprepared.

The respondents were also assured of confidentiality in regard to the information they would provide. In this regard, their names were not mentioned whatsoever in the research documents.

Manipulation of data is also against ethical standards; hence data for this study was not manipulated. Further as part of the ethical considerations, the respondents in this study were not compelled to take part in the study. That is, the respondents who might have felt unwilling to take part in the study were clearly informed of their freedom to opt out of the exercise whenever they felt like.

The collected data was safely protected by the researcher; hence no third party apart from the researcher’s school supervisors were allowed to access the data. The researcher also made sure that the materials used in the study were free from plagiarism.

The researcher obtained a letter from Daystar University that enabled her in the data collection exercise. The letter helped the researcher to get a data collection authorization letter from the ministry of finance in the DRC. This was in conformity to research ethics.
Summary

Chapter three has presented the research methodology that the study utilized, consisting of the study population, sampling techniques, and research instruments. The reliability and validity of data collection instruments and the ethical standards observed in the study have also been presented. The chapter that follows entails the presentation of the collected data as well as the analysis and interpretation of the same.
CHAPTER FOUR

DATA ANALYSIS AND INTERPRETATION

Introduction

This chapter covers the presentation of the collected data as well as the analysis and interpretation of the same. This is done according to the demographic information, types of taxes, taxation effects on SMEs’ financial performance, and taxation challenges facing SMEs. The summary of key findings is also presented in this chapter.

Analysis and Interpretation

Response Rate

Response rate can be defined as the successful feedback obtained from research respondents or participants. In this study, 82 questionnaires were distributed to the respondents out of which 56 were fully filled and returned. This gave a return rate of 68.29%, which was satisfactory, as per Yin’s (2013) argument that any percentage return rate above 50% is acceptable for data analysis.

Demographic Information

In this part, the category of enterprises, types of taxes, and profession or position of the respondents in the SMEs are presented.

Distribution of enterprises by categories

The respondents were asked to indicate the categories their enterprises fall in. This was meant to help in establishing whether the questionnaire was evenly distributed across various enterprises. The results are presented in Figure 4.1
The findings presented in Figure 4.1 show that hotel enterprises had the highest representation (27%). This was followed by restaurants categories (24%). Petrol stations was found to be the sector with the third-highest category (21%). Further, the agri-processing sector was rated at 16% while 12% of the enterprises were in the manufacturing sector. The findings imply that the services sector, such as hotels, petrol stations, and restaurant were the most dominant SMEs in Bunia City.

Types of tax the enterprise complies with

The study also sought to establish the types of taxes the enterprise complies with in Bunia City, the DRC. The findings are shown in Figure 4.2.
Figure 4.2: Types of Tax the Enterprise Complies with

As illustrated in Figure 4.2, the study found that most of SMEs in Bunia City were subjected to VAT as indicated by 34% while 31% indicated that all SMEs in Bunia City have to comply with income taxes. The third most type of tax charged to SMEs was custom duty at 20% while presumptive income tax (15%) was rated as the least tax that the SMEs were subjected to. This implied that VAT was the most used taxation type in Bunia City.

Distribution of respondents by profession or position

Regarding the distribution of respondents by profession or position, the results are presented in Figure 4.3.
The results in Figure 4.3 indicate that most of those who responded to the questions were financial officers as reported by 63%. The owners of the enterprises who participated in the study were 37%. This could be attributed to the fact that finance managers are always available at their place of work as opposed to owners who have several duties to perform (including external functions), hence in some cases may not be permanently stationed at the offices.

Types of Taxation Levied on SMEs

In Table 4.1, the statements regarding forms of taxation levied on SMEs are indicated. The respondents gave their responses on a Likert scale of 1 to 5; whereby 1=strongly disagree, 2=strongly disagree, 3=neutrally agree or disagree, 4= agree, and 5=strongly agree.
Table 4.1: Types of Taxation Levied on SMEs

<table>
<thead>
<tr>
<th>Statements</th>
<th>Strongly disagree</th>
<th>Disagree</th>
<th>Neutral</th>
<th>Agree</th>
<th>Strongly agree</th>
</tr>
</thead>
<tbody>
<tr>
<td>The VAT registration threshold is expensive for most SMEs</td>
<td>5</td>
<td>8.9</td>
<td>7</td>
<td>12.5</td>
<td>3</td>
</tr>
<tr>
<td>VAT charges are always perceived to be a major problem for both young and old SMEs</td>
<td>3</td>
<td>5.4</td>
<td>6</td>
<td>10.7</td>
<td>7</td>
</tr>
<tr>
<td>The high corporate taxation rates in the DRC has greatly reduced the profit obtained by SMEs</td>
<td>1</td>
<td>1.8</td>
<td>1</td>
<td>1.8</td>
<td>3</td>
</tr>
<tr>
<td>SMEs remain non-compliance to presumptive tax requirements due to unbearable charges</td>
<td>4</td>
<td>7.1</td>
<td>5</td>
<td>8.9</td>
<td>4</td>
</tr>
<tr>
<td>The presumptive income tax system is deemed by many SMEs as inequitable</td>
<td>2</td>
<td>3.6</td>
<td>0</td>
<td>0.0</td>
<td>7</td>
</tr>
<tr>
<td>Income tax rates are normally computed with lack of assessment of the actual revenue of SMEs</td>
<td>0</td>
<td>0.0</td>
<td>4</td>
<td>7.1</td>
<td>8</td>
</tr>
<tr>
<td>Presence of income tax overcharge and penalties are high due to lack of taxation knowledge</td>
<td>7</td>
<td>12.5</td>
<td>2</td>
<td>3.6</td>
<td>10</td>
</tr>
</tbody>
</table>

As indicated in Table 4.1, 42.9% (24) of the respondents agreed that the VAT registration threshold was expensive for most SMEs, while 30.4% (17) strongly agreed with the statement. Only 12.5% (7) and 8.9% (5) of the respondents disagreed and strongly disagreed with the statement, respectively. The findings were supported by Uzor (2014) who found that the major constraints for SMEs were perceived to be VAT registration requirements. The results showed that 44.6% (25) of the respondents strongly agreed that the VAT charges was always perceived to be a major problem for both young and old SMEs in Bunia City whereas 26.8% (15) agreed with the statement. In another study, Dhami and Al-Nowaihi (2007) found that both small and large companies in developing countries are faced with VAT costs that are always deemed to be expensive.
Regarding whether high corporate taxation rates in the DRC had greatly reduced the profits obtained by SMEs, 57.1% (32) of the respondents strongly agreed with the statement while 33.9% (19) agreed. In support, Kamba-Kibatshi (2016) stated that the high rate of corporate taxes interferes with the financial aspects of SMEs, and this could lead to business failure. Further, the study revealed that most SMEs in Bunia remained noncompliance to presumptive tax requirements due to unbearable charges as reported by 48.2% (27) of the respondents who strongly agreed with the statement while 28.6% (16) agreed with it.

According to Desai and Dharmapala (2009), expensive presumptive taxation deprives SMEs of the benefits that could enhance their financial performance. The presumptive income tax system was also found to be inequitable by many SMEs as supported by 42.9% (24) and 41.1% (23) strong agreement and agreeable levels, respectively.

Further, it was established that income tax rates are normally computed with lack of assessment of the actual revenue of SMEs, and this affected the performance of SMEs. This position was supported by 41.1% (23) and 37.5% (21) of the respondents who strongly agreed and agreed, respectively. However, 14.3% (8) had a neutral response. In agreement, Klaver (2015) revealed that income tax rates in the DRC are computed with a lack of assessment of the actual revenue of an entity, despite these entities making losses.

According to the results, income tax overcharge and penalties were found to be high due to lack of taxation knowledge, as reported by 35.7% (20) of the respondents who strongly agreed and 30.4% (17) who agreed. 17.9% (10) of the respondents were neutral. Correspondingly, a study by Nagel and Murphy (2012) established that income tax overcharge and unreasonable penalties in many instances demotivate potential
entrepreneurs, possibly leading to the closing down of some enterprises or failure to invest in the sector.

Effect of Taxation on the Financial Performance of SMEs

The results in Table 4.2 show the responses of participants regarding the effect of taxation on the financial performance of SMEs, on a Likert of 1 to 5.

**Table 4.2: Effect of Taxation on Financial Performance of SMEs**

<table>
<thead>
<tr>
<th>Statements</th>
<th>Strongly disagree</th>
<th>Disagree</th>
<th>Neutral</th>
<th>Agree</th>
<th>Strongly agree</th>
</tr>
</thead>
<tbody>
<tr>
<td>The complex and complicated nature of taxation of SMEs in the DRC affects their performance</td>
<td>3  5.4%</td>
<td>6  10.7%</td>
<td>4  7.1%</td>
<td>30  53.6%</td>
<td>13  23.2%</td>
</tr>
<tr>
<td>The high failure rates of SMEs has been attributed to high taxation</td>
<td>4  7.1%</td>
<td>1  1.8%</td>
<td>5  8.9%</td>
<td>21  37.5%</td>
<td>25  44.6%</td>
</tr>
<tr>
<td>Unique qualities of SMEs are not normally considered by authorities hence affecting performance</td>
<td>0  0%</td>
<td>0  0%</td>
<td>3  5.4%</td>
<td>17  30.4%</td>
<td>36  64.3%</td>
</tr>
<tr>
<td>The taxation policies are not designed to bolster the growth and performance of SMEs</td>
<td>2  3.6%</td>
<td>5  8.9%</td>
<td>2  3.6%</td>
<td>19  33.9%</td>
<td>28  50.0%</td>
</tr>
<tr>
<td>Bearable taxation policies can contribute to improved financial performance of SMEs in Bunia City</td>
<td>2  3.6%</td>
<td>0  0%</td>
<td>6  10.7%</td>
<td>15  26.8%</td>
<td>33  58.9%</td>
</tr>
<tr>
<td>The high taxation penalties due to noncompliance adversely affect performance of SMEs in Bunia City</td>
<td>0  0%</td>
<td>1  1.8%</td>
<td>2  3.6%</td>
<td>21  37.5%</td>
<td>32  57.1%</td>
</tr>
</tbody>
</table>

The results (see Table 4.2) indicate that 53.6% (30) and 23.2% (13) of the respondents agreed and strongly agreed, respectively that the complex and complicated nature of taxation of SMEs in the DRC greatly affects the SMEs performance. However, 10.7% (6) of the respondents disagreed with the statement. In line with these findings, a study by Di John (2019) found that tedious taxation procedures hinder the performance of SMEs.

The results further revealed that the high failure rates of SMEs have been attributed to high taxation as reported by 44.6% (25) and 37.5% (21) of the respondents who strongly agreed and agreed, respectively. A study by Deshpande (2012) revealed
that SMEs’ growth is always threatened by high rates of taxation policies that do not consider the SMEs’ financial muscles. In the case of SMEs, tax must be imposed in such a way that puts the SMEs income and need for survival into consideration.

Furthermore, it was established that the unique qualities of SMEs are not normally considered by taxation authorities and this affects their (SMEs) performance as was indicated by 64.3% (36) and 30.4% (17) of the respondents who strongly agreed and agreed, respectively. The results concur with a study by Keen (2013) that found that most developing countries tax both small and large enterprises uniformly without considering the uniqueness of SMEs.

The study also found that the taxation policies in Bunia City are not designed to bolster the growth and performance of SMEs and this finding was supported by 50.0% (28) of the respondents who strongly agreed while 33.9% (19) agreed with it. The results are supported by Smith and Smith (2007) who found that taxation rules and regulation are always skewed, and as such many SMEs feel discriminated. As a result, most of them struggle to meet their growth objectives.

As shown in the results, 58.9% (33) and 26.8% (15) of the respondents strongly agreed and agreed, respectively that bearable taxation policies can contribute to improved financial performance of SMEs in Bunia City. Finally, the high taxation penalties due to noncompliance adversely affected the performance of SMEs in Bunia City as reported by 57.1% (32) and 37.5% (21) of the respondents who strongly agreed and agreed, respectively. In agreement, Mària and Murillo (2013) argued that in order to realize SMEs’ growth, friendlier taxation costs and lesser taxation penalties should be embraced by the taxation authorities.
Taxation Challenges Faced by SMEs

This study endeavored to establish the responses of the respondents regarding taxation challenges on the performance of SMEs on a Likert of 1 to 5. The results are presented in Table 4.3.

Table 4.3: Taxation Challenges Faced by SMEs

<table>
<thead>
<tr>
<th>Statements</th>
<th>Strongly disagree</th>
<th>Disagree</th>
<th>Neutral</th>
<th>Agree</th>
<th>Strongly agree</th>
</tr>
</thead>
<tbody>
<tr>
<td>The taxation procedures of SMEs under the regular system of taxation are discriminative</td>
<td>2 3.6 2 3.6 0 0.0 21 37.5 31 55.4</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Same application of cost of compliance and tax rate for small and large enterprises hinders performance</td>
<td>3 5.4 4 7.1 6 10.7 16 28.6 27 48.2</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Existence of overbearing regulatory environment with multiple taxes offer challenges to SMEs performance</td>
<td>1 1.8 5 8.9 2 3.6 19 33.9 29 51.8</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Difficult importation and exportation procedures has led to dismal financial performance of SMEs</td>
<td>0 0.0 7 12.5 3 5.4 27 48.2 19 33.9</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Complex regulatory system has a negative effect on SMEs performance</td>
<td>3 5.4 4 7.1 2 3.6 21 37.5 26 46.4</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Double taxation of SMEs has also led to the poor financial performance of SMEs in Bunia City</td>
<td>2 3.6 1 1.8 4 7.1 26 46.4 23 41.1</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Inadequate taxation plans and education has also led to the downfall of many SMEs in Bunia City</td>
<td>3 5.4 3 5.4 7 12.5 22 39.3 21 37.5</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Lack of awareness of taxation policies and procedures affects free operation of SMEs and performance</td>
<td>4 7.1 2 3.6 1 1.8 19 33.9 30 53.6</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

As illustrated in Table 4.3, 55.4% (31) of the respondents strongly agreed that the taxation procedures of SMEs under the regular system of taxation are discriminative while 37.5% (21) agreed with the statement. The findings are supported by Adebisi and Gbegi (2013) who found that SMEs were always overlooked when enacting taxation policies and this affect their performance. It was found that 48.2% (27) of the respondents strongly agreed that the application of similar cost for compliance and tax rate for both small and large enterprises hinders SMEs performance whereas 28.6% (16) of the respondents agreed with the findings. The results are supported by Everest-
Phillips (2010) who established that small taxpayers under the regular system of taxation are discriminated against, since the cost of compliance and taxation rate are the same for both small and large enterprises.

Again, 51.8% (29) of the respondents strongly agreed that the existence of overbearing regulatory environment with multiple taxes offer challenges to SMEs performance while 33.9% (19) of the respondents were in agreement. Results conform by another study by Desai and Dharmapala (2009) that showed that SMEs in developing countries often operate in an overbearing business environment accompanied with multiple taxes that hinders their performance.

The study showed that difficult importation and exportation procedures have led to dismal financial performance of SMEs in Bunia City as explained by 48.2% (27) and 33.9% (19) of the respondents who agreed and strongly agreed, respectively. In agreement, a study by Alm (2012) found that complicated importation procedures are constant burden on SMEs’ financial performance.

Further, complex regulatory system was found to have a negative effect on SMEs’ financial performance as indicated by a strong agreement and agreement levels of 46.4% (26) and 37.5% (21) respectively. According to Forstater (2005), a complex regulatory system makes tax compliance excessively burdensome hence does have negative effect on the development of SMEs. Based on the findings, it is clear that double taxation has also led to the poor financial performance of SMEs in Bunia City and in support of this, 41.1% (23) and 46.4% (26) strongly agreed and agreed respectively since there is “multiple” taxes in Bunia. The results are against the position of Fleurbaey and Maniquet (2018) who argued that double taxation hampers the growth of SMEs.
Inadequate taxation plans and education was also found to have led to the downfall of many SMEs in Bunia City as reported by 39.3% (22) and 37.5% (21) of the respondents who agreed and strongly agreed, respectively. Researchers such as Lubeshi (2017) believe that the role of the taxation authorities is to provide an enabling environment through education that supports enterprises. Finally, lack of awareness of taxation policies and procedures was found to have verily affected the free operation of SMEs and consequently their financial performance as supported by 53.6% (30) and 33.9% (19) of the respondents who strongly agreed and agreed respectively. According to Otumba (2015), it is important to note that the awareness of the taxation policies greatly leads to compliance and smooth operation of SMEs.

Based on the open-ended question, the respondents were required to provide some challenges they experience with the taxation policies in Bunia City, DRC. The respondents mentioned that one of the challenges they faced was taxation discrimination. This is because the compliance requirements and cost of compliance as well as tax rate are the same for both small and large enterprises. Reducing the compliance costs and tax rate increases the small enterprises profit margin. The respondents also said that they are normally operating in an overbearing regulatory environment with multiple and double taxes as well as complicated importation procedures that constantly exert serious burden on their financial performance.

Some respondents argued that the taxation authorities in Bunia City poorly execute taxation systems which have ultimately led to low efficiency, high collection charges, waste of time for taxpayers and the staff, and the low amounts of received taxes. Others also indicated that lack of professional tax consultancy, high taxation costs and weak taxation plans affected their financial performance. Further lack of knowledge was also introduced as one of the challenges facing SMEs and their owners.
This is because a good number of SMEs officials are not exposed to sufficient information regarding taxation policies in the country and the end result is poor financial performance of their businesses.

Based on the aforementioned challenges, the taxation procedures of SMEs under the regular system of taxation that were discriminative was found to be the most mentioned challenges. This, therefore, meant that the taxation policies disadvantaged SMEs since similar taxation threshold was applied across all organization whether small or large. This again affected their financial performance and also their expansion hence many possible employment opportunities in Bunia City were lacking due these discriminative taxation policies.

Measures used to Curb Taxation Challenges of SMEs in Bunia City

The respondents were asked to mention some measures that could be used to solve taxation challenges in the DRC with specific attention to Bunia City. The question put forth to the respondents was an open-ended one. The results are presented in Table 4.4.

Table 4.4: Measures Used to Curb Taxation Challenges of SMEs in Bunia City

<table>
<thead>
<tr>
<th>Measure</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Minimize taxation administrative burden while also ensuring compliance</td>
<td>18</td>
<td>32</td>
</tr>
<tr>
<td>Taxation policies should be simplified continuously to lower compliance and administrative costs</td>
<td>8</td>
<td>14</td>
</tr>
<tr>
<td>Mobilize revenue by bringing more SMEs to the tax bracket by introducing Turnover tax (TOT) that motivate investment on SMEs</td>
<td>7</td>
<td>12</td>
</tr>
<tr>
<td>Fill in required information on timely basis and make sure they report complete, accurate business information</td>
<td>5</td>
<td>9</td>
</tr>
<tr>
<td>Introduce tax compliance cost survey that helps in providing useful information for the design of reforms on SMEs taxation</td>
<td>3</td>
<td>5</td>
</tr>
<tr>
<td>Create taxation awareness among SMEs through education</td>
<td>15</td>
<td>27</td>
</tr>
<tr>
<td>Total</td>
<td>56</td>
<td>100</td>
</tr>
</tbody>
</table>
As shown in Table 4.4, 56 respondents indicated that the authorities should be able to minimize taxation administrative burden while also ensuring compliance as supported by 32% of the respondents and this was the most mentioned taxation solution. This they argued could help in improving their financial performance. A good number also indicated that taxation related policies should be simplified continuously so as to lower both compliance costs and administrative costs as supported by 14%. The simplification of taxation laws was also argued to have the ability to reduce uncertainty faced by taxpayers; and also improve the levels of voluntary compliance.

Further, the respondents argued that the taxation authorities should be able to mobilize revenue by bringing more SMEs to the tax bracket by introducing Turnover tax (TOT) that will motivate entrepreneurial investment on SMEs as mentioned by 12%. Others respondents also indicated that there is need for SMEs to fill in the required information on timely basis as supported by 9% and that all should abide to register in the system and also make sure they report complete and accurate business information.

Moreover, the respondents suggested that taxation authorities should be able to introduce a tax compliance cost survey as supported by 5% and this was the least rated solution to challenges. This helps in providing useful information for the design of reforms to reduce compliance costs and risks for small businesses. These surveys they argued helped in fine-tuning the design of reforms to lower costs for SMEs and consequently improve their competitiveness. The respondents proposed that there is need to create taxation awareness among SMEs through education as stated by 27% and this was rated as second most preferred measure. This they say is key and can help in making sure that SMEs comply to taxation measures so that they do not appear to be at loggerheads with the tax implementing authorities. Therefore, awareness creation
verily assists in broadening the knowledge of entrepreneurs on taxation measures hence compliance rate increases.

Financial Performance of SMEs in Bunia City

So as to establish the trend of financial performance of SMEs in Bunia City, measures such as sales growth, profit, cash flow, and investments were used. The results for a four-year period, 2015 to 2018 are shown in Table 4.5.

<table>
<thead>
<tr>
<th></th>
<th>N</th>
<th>Minimum</th>
<th>Maximum</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profit</td>
<td>164</td>
<td>-0.03</td>
<td>1.40</td>
<td>0.3598</td>
<td>0.13012</td>
</tr>
<tr>
<td>Investment</td>
<td>164</td>
<td>122,338.01</td>
<td>49,231,112.65</td>
<td>12,134,623.14</td>
<td>9023181.716089</td>
</tr>
</tbody>
</table>

The results displayed in Table 4.5 show that the maximum values for sales growth for 41 SMEs in Bunia City for the four-year period was 25.65 percent. However, it was found that some SMEs had performed poorly financially with a negative growth sale in the four-year period as indicated by -3.34 percent. The poor sales growth of the SMEs was attributed to discriminatory taxation measures that are put in place by the taxation authorities in the DRC. The types of taxes and thresholds for taxation also affected performance of SMEs in Bunia city.

The mean average for the sales growth 4.5 percent with a standard deviation of 4.221459. The study also found that maximum profitability scores for SMEs was 1.4 while the minimum value for the SMEs in then four-year period was -0.03 an indicator that some SMEs made losses. The negative profitability values found imply that many SMEs in Bunia were experiencing dismal performance, and this was partly attributed to complicated taxation measures and high taxation charges among other factors. The
mean value for the profitability for the SMEs was 0.36 with a standard deviation of 0.13012.

On investment, the study established that some SMEs had very low total investments as shown by 122,338.01 CDF equivalent to 72.34 US dollars. This is a pointer that some SMEs performed poorly, and this could be due to biased taxation procedures and measures that are forced on most SMEs. The maximum investment value for some SMEs was 49,231,112.65 CDF equivalent to 29,111.29 US dollars with an average score of 12,134,623.14 CDF equivalent to 7,175.43 US dollars.

The results for maximum total investment value can be interpreted to mean that some SMEs experienced good financial performance however, the double taxation and tedious taxation processes affected the potential of SMEs to invest more. Based on the results, it is clear that the poor financial of most of the SMEs in Bunia City was as a result of types of taxes applied for the SMEs as well as the several challenges that faced SMEs thereby leading to their poor financial performance. This is an indication that there existed a negative relationship between taxation measures and financial performance of SMEs.

Trend of Financial Performance

The study sought to establish the trend of financial performance measures such as profitability, cash flows, growth sales, and investment. This was meant to establish whether the SMEs in Bunia City were experiencing improved performance or otherwise in the wake of taxation measures that were in place. The results are presented in Figure 4.4.
The results presented in Figure 4.4 demonstrate the trend of cash flow elements (profitability, growth sales, and investments) in the year 2015. Regarding growth of sales, the year 2015 had flat curve; an indication that there was no increase of decrease in the growth of sales. Increased sales growth was then witnessed in 2016 but marginally declined between the years 2017 and 2018. As shown, profitability was high in the year 2015 but dropped drastically in the following years.

Figure 4.4: Trend of Financial Performance
On investment opportunities, the study found that investment was high at the beginning of 2015 but dropped drastically in 2016 while the year 2018 also experienced another low investment level. The graphs show a worrying in as far as the financial performance of SMEs is concerned. The poor performance could be attributed to the existing taxation measures, types of taxation, and double taxation applied by the taxation authorities in Bunia City.

Summary of Key Findings

1. The study found that taxes such as VAT, income tax, custom duty, presumptive, and corporate income tax were levied without considering the nature of enterprises and their financial strength and this affected the financial performance of most SMEs

2. The study revealed that complicated nature of taxation, high taxation, unique qualities of SMEs, taxation policies, and high taxation penalties affected the performance of SMEs in Bunia City

3. It was also established that taxation procedures of SMEs, application of similar cost for tax rate for both small and large enterprises, existence of multiple taxes, difficult importation and exportation procedures, and inadequate taxation education were some of the taxation challenges SMEs faced.

4. The study found that there was poor financial performance of many SMEs in Bunia City as witnessed by negative sales growth and profitability. Very low investments by most SMEs were also witnessed and this was an indicator to poor performance.
Summary

The chapter has presented the questionnaire return rate based on the distributed questionnaires. Personal information for the respondents has also been analysed. The analysed data - through descriptive statistics, and as per the research objectives - has been presented in the form of frequencies and percentages. Finally, a summary of the key findings based on the study objectives has been provided.
CHAPTER FIVE

DISCUSSIONS, CONCLUSIONS, AND RECOMMENDATIONS

Introduction

This chapter gives discussions of the study’s key findings, conclusion, and recommendations. Suggestions for further research study are also presented. The subsections are detailed hereafter.

Discussions of Key Findings

Types of Taxes Levied on SMEs

In relation to the type of taxes, the study found that 73.3\% (41) of the respondents agreed that the VAT registration threshold is expensive for most SMEs. The findings are in agreement with another study by Maseko (2014) who found that challenges facing SMEs are the perceived VAT registration thresholds. The results show that 71.4\% (40) of the respondents agreed that the VAT charges are always perceived to be a major problem for both young and old SMEs in Bunia.

In another study, Prasad (2011) found that both small and large companies in developing countries are faced with VAT costs that are always deemed to be expensive. Regarding whether high corporate taxation rates in the DRC have greatly reduced the profit obtained by SMEs, 91.1\% (51) that agreed with the statement. In support, Kamba-Kibatshi (2016) agreed that high rate of corporate taxes interfere with the financial aspects of SMEs and this could lead to business failure. The results are supported by Allingham and Sandmo (1972) who argued that authorities deter evasion of tax by way of sanctions while on the other hand taxpayers could opt to avoid tax compliance due to high taxation fees that is unfavorable to their businesses.
Further, the study revealed that most SMEs in Bunia remained noncompliance to presumptive tax requirements due to unbearable charges as reported by 76.8% (43) who agreed. According to Cuvelier (2010), expensive presumptive taxation deprives SMEs of the benefits that could enhance their financial performance. The presumptive income tax system was also found to be inequitable by many SMEs as supported by 84.0% (47) agreeable levels.

It was further established that income tax rates are normally computed with lack of assessment of the actual revenue of SMEs and this affected the performance of SMEs as reported by 78.6% (44) of the respondents who agreed. In agreement, Klaver (2015) revealed that income tax rates in the DRC are computed with lack of assessment of the actual revenue of an entity, despite these entities making losses. According to the results, presence of income tax overcharge and penalties were also found to be high due to lack of taxation knowledge and this finding was supported by 66.1% (37) who agreed. In support, another study by Nagel and Murphy (2012) found that income tax overcharge and unreasonable penalties in many instances demotivates potential entrepreneurs and this could lead to closing down of some enterprises or failure to invest in the sector.

Measures of Financial Performance of SMEs

The study indicated that the graphs for elements of cash flows (investment, profitability, and growth sales) showed a worrying element in as far as the financial performance of SMEs are concerned. The line graphs showed a steady decline in investment, sales growth and profitability which was an indication of poor financial performance and this could be attributed to the existing taxation measures, types of taxation and double taxation applied by the taxation authorities in Bunia City. The several challenges that faced SMEs thereby leading to their poor financial performance
could also be a factor to this poor financial performance. This is an indication that there existed a negative relationship between taxation measures and financial performance of SMEs in Bunia City.

Effect of Taxation on Financial Performance of SMEs

Concerning the effect of taxation on financial performance, it was established that 76.8% (43) agreed that the complex and complicated nature of taxation of SMEs in the DRC greatly affects the SMEs’ performance. In support of these findings, a study by Di John (2019) found that tedious taxation procedures hinder the performance of SMEs. The study found that the high failure rates of SMEs have been attributed to high taxation as reported by 82.1% (46) that agreed with the statement. In a study by Aryeetey (2011), SMEs’ growth is always threatened by high rates of taxation policies that do not consider their financial muscles.

Furthermore, it was established that the unique qualities of SMEs are not normally considered by taxation authorities hence affecting performance as supported by 95.1% (53) of the respondents who agreed. The results concur with a study by Keen (2013) that found that most developing countries tax both small and large enterprises uniformly without considering the uniqueness of SMEs. The results concur with the ability-to-pay taxation theory that argues that levying of taxes should be based on one’s ability to pay rather than generalization of taxation thresholds. Basically, the theory argues that taxation threshold should be affordable.

The study also determined that the taxation policies in Bunia City are not designed to bolster the growth and performance of as indicated by 83.9% (47) of respondents who agreed. The results are supported by Stem and Barbour (2005) who found that taxation rules and regulation are always skewed and as such many SMEs feel discriminated hence most of them struggle meet their growth objectives. As shown

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in the results, 85.7% (48) who agreed that bearable taxation policies can contribute to improved financial performance of SMEs in Bunia City. Finally, the high taxation penalties due to noncompliance adversely affected the performance of SMEs in Bunia city as reported by 94.6% (53) who and agreed. In agreement, Mària and Murillo (2013) argued that taxation for SMEs’ growth to be realized friendlier taxation costs and lesser taxation penalties should be embraced by the taxation authorities.

Taxation Challenges Faced by SMEs

On taxation challenges faced by SMEs, 92.9% (52) agreed that the taxation procedures of SMEs under the regular system of taxation are discriminative. The findings are supported by Adebisi and Gbegi (2013) who found that SMEs are always overlooked when enacting taxation policies and this affects their performance. According to 76.8% (43) of the respondents, the application of similar cost for compliance and tax rate for both small and large enterprises hinders SMEs performance. The results are supported by Keen (2013) who established that small taxpayers under the regular system of taxation are discriminated against, since the cost of compliance and taxation rate are the same for both small and large enterprises.

Further, 85.7% (48) of the respondents agreed that the existence of an overbearing regulatory environment with multiple taxes offer challenges to SMEs’ performance. These results concur with Daffa (2015) who established that SMEs in developing countries often operate in an overbearing business environment accompanied with multiple taxes that hinder their (SMEs) performance.

The study revealed that difficult importation and exportation procedures have led to dismal financial performance of SMEs in Bunia City as explained by 82.1% (46) respondents who agreed. In agreement, a study by Alm (2012) found that complicated importation procedures are a constant burden on SMEs’ financial performance.
Additionally, complex regulatory system was found to have a negative effect on SMEs’ financial performance as indicated by agreement levels of 83.9% (47). According to Garrett and Lintzer (2010), a complex regulatory system makes tax compliance excessively burdensome hence does have a negative effect on the development of SMEs.

Based on the findings, it is clear that double taxation has also led to the poor financial performance of SMEs in Bunia City and in support of this, 87.5% (49) respondents agreed. The results are against the position of Waweru (2014) who argued that double taxation hampers the growth of SMEs.

Inadequate taxation plans and education were also found to have led to the downfall of many SMEs in Bunia City as reported by 76.8% (43) who agreed. Researchers such as Lubeshi (2017) stated that the role of the taxation authorities is to provide an enabling environment through education that supports enterprises. Finally, lack of awareness of taxation policies and procedures was found to have affected the free operation of SMEs and consequently their (SMEs) financial performance as supported by 87.5% (49) who agreed with it. Meanwhile Gberegbe and Umoren (2017) found that the awareness of the taxation policies greatly leads to compliance and smooth operation of SMEs.

Measures Used to Mitigate Taxation Challenges of SMEs in Bunia City

The respondents were thus asked to propose some measures that can be used to curb the taxation challenges facing SMEs in Bunia City, DRC. Respondents indicated that the authorities should be able to minimize taxation administrative burden while also ensuring compliance. This they argued could help in improving their financial performance. A good number also indicated that taxation related policies should be simplified continuously so as to lower both compliance costs and administrative costs.
The simplification of taxation laws was also argued to have the ability to reduce uncertainty faced by taxpayers; and also improve the levels of voluntary compliance. Further, the respondents argued that the taxation authorities should be able to mobilize revenue by bringing more SMEs to the tax bracket by introducing Turnover tax (TOT) that will motivate entrepreneurial investment on SMEs. Other respondents also indicated that there is need for SMEs to fill in the required information on timely basis, and that all should abide to register in the system and also make sure they report complete and accurate business information.

Moreover, the respondents suggested that taxation authorities should be able to introduce a tax compliance cost survey that helps in providing useful information for the design of reforms to reduce compliance costs and risks for small businesses. These surveys, they argued helped in fine-tuning the design of reforms to lower costs for SMEs and consequently improve their competitiveness. Again, the respondents proposed that there is need to create taxation awareness among SMEs through education. This they say is key and can help in making sure that SMEs comply to taxation measures so that they do not appear to be at loggerheads with the tax implementing authorities. Therefore, awareness creation assists in broadening the knowledge of entrepreneurs on taxation measures hence compliance rate increases.

Conclusion

The study concluded that taxes levied on SMEs in Bunia City range from VAT, income tax, corporate income tax, custom duty tax, and presumptive tax. Based on the findings VAT and income were the commonly applied tax by the taxation authorities. The study again concluded that high taxation, unrealistic taxation policies, unique qualities of SMEs, complicated nature of taxation, and high taxation penalties negatively affected the financial performance of SMEs in Bunia City, DRC.
Further, the study concluded that SMEs in Bunia City faces taxation challenges such as unfriendly taxation procedures of SMEs, existence of multiple taxes, and application of similar cost for tax rate for both small and large enterprises. Difficulty in importation and exportation procedures was also indicated as a taxation challenge for the SMEs. Based on the descriptive results, the study also concluded that a negative sales growth and profitability indicated poor financial performance among SMEs in Bunia City.

Also, poor financial performance was demonstrated by low cash flow and investments among the SMEs. In summary the study concludes that types of taxes applied by the authorities and taxation challenges affected the overall financial performance of SMEs in Bunia City.

Recommendations

1. The study recommends that the taxation authorities need to subject SMEs to taxes that resonate with their (SMEs) ability to pay. This is because blanket subjection of SMEs to all manner of taxes may hamper their performance.

2. The study recommends that the government of the DRC, through policymakers should be able to align the tax systems or policies in order to conform to the environment specific production, importation, exportation, and performance needs for the SMEs. Through such measures, the taxation threshold will be bearable to the SMEs and this is likely to improve their financial performance.

3. Additionally, the study recommends the need for taxation authorities to abolish double taxations and also streamline taxation measures and make sure that small enterprises have different taxation thresholds that are not uniform to those of the already large and established enterprises. This is
because having uniform taxation measures for both large and small enterprises discriminates SMEs; hence affecting their (SMEs) growth and performance affected.

4. Further, the study recommends the need to create elaborate taxation awareness among SMEs through education, seminars, trainings, and workshops. This recommendation is based on the fact that awareness creation will help the SMEs to understand the need to comply with taxation measures so that they do not appear to be at loggerheads with the tax implementing authorities. Through such education forums, the SMES will be able to air their views in as far as their desire on the taxation adjustments they require is concerned.

Recommendations for Further Research

The purpose of this study was to assess the effect of taxation on financial performance of small and medium enterprises in the DRC, particularly in Bunia city. A future research can be conducted with the intention of assessing the contribution of adoption of digital taxation systems on the performance of SMEs in Bunia City, DRC. Such a study can provide information on ways of eliminating some of the challenges encountered by SMEs, especially on tax discrimination and bureaucracy by taxation authorities.
REFERENCES


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Dear Respondent:

I am a post graduate student at Daystar University Nairobi Kenya pursuing my master’s in Business administration in finance, as part of my academic achievement I’m expected to submit a complete research study that will be conducted on EFFECT OF TAXATION ON FINANCIAL PERFORMANCE OF SMALL AND MEDIUM ENTREPRISES IN DRC BUNIA CITY. I am therefore requesting your participation in assisting me achieve my academic aspirations by honestly responding to the formulated questionnaires.

I humbly request for your assistance in gathering data for this study which will only take a few minutes of your time. Your participation should be voluntary I guarantee with the confidentiality of all information. Your responses will be of great importance. This study is purely for academic purpose.

The questionnaire should be filled and returned. I am grateful for your participation.

Thank you

Yours sincerely,

Anita Bachuza
Section A: Demographic Information

1. Enterprise category
   - Hotel [ ]
   - Petro station [ ]
   - Manufacturing [ ]
   - Restaurant [ ]
   - Agri-processing [ ]

2. Types of tax the enterprise complies with
   - VAT [ ]
   - Income tax [ ]
   - Presumptive income [ ]
   - Custom duty [ ]

3. Profession or position
   - The owner [ ]
   - Financial officer [ ]

Section B: Types of Taxation Levied on SMEs in Bunia City

3. The respondents were required to respond to the following statements regarding forms of taxation levied on SMEs on a likert of 1 to 5. Whereby 1 mean strongly disagree, 2 means strongly disagree, 3 means neutrally agree or disagree, 4 means agree and 5 means strongly agree.
The VAT registration threshold is expensive for most SMEs

VAT charges are always perceived to be a major problem for both young and old SMEs

The high corporate taxation rates in the DRC has greatly reduced the profit obtained by SMEs

Many SMEs remain non-compliance to the presumptive tax requirements in Bunia due to unbearable charges

The presumptive income tax system is deemed by many SMEs as inequitable

Income tax rates are normally computed with lack of assessment of the actual revenue of SMEs

Presence of income tax overcharge and penalties are high due to lack of taxation knowledge

Section C: Effect of Taxation on Financial Performance of SMEs in Bunia City

4. The respondents were required to respond to the following statements regarding effect of on the financial performance of SMEs on a likert of 1 to 5. Whereby 1 mean strongly disagree, 2 means strongly disagree, 3 means neutrally agree or disagree, 4 means agree and 5 means strongly agree.
The complex and complicated nature of taxation of SMEs in the DRC affects their financial performance

The high failure rates of SMEs in Bunia has been attributed to high taxation

The unique qualities of SMEs are not normally considered by taxation authorities hence affects performance

The taxation policies are not designed to bolster the growth and performance of SMEs

Bearable taxation policies can contribute to improved financial performance of SMEs in Bunia City

The high taxation penalties due to noncompliance adversely affect performance of SMEs in Bunia City

Section D: Taxation Challenges Facing SMEs in Bunia City

5. The respondents were required to respond to the following statements regarding taxation challenges on performance of SMEs on a likert of 1 to 5. Whereby 1 mean strongly disagree, 2 means strongly disagree, 3 means neutrally agree or disagree, 4 means agree and 5 means strongly agree.
The taxation procedures of SMEs under the regular system of taxation are discriminative.

Same application of cost of compliance and tax rate for both small and large enterprises hinders SMEs' performance.

Existence of overbearing regulatory environment with multiple taxes offers great challenge to the performance of SMEs.

Difficult importation procedure and exportation procedures has led to dismal financial performance.

Complex regulatory system has a negative effect on the performance of SMEs.

Double taxation among SMEs has also led to the poor financial performance of SMEs in Bunia City.

Inadequate taxation plans and education has also led to the downfall of many SMEs in Bunia City.

Lack of awareness of taxation policies and procedures verily affects the free operation of SMEs and consequently financial performance.

7. In your opinion, what are some challenges you experience with the taxation policies in Bunia City, DRC?

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8. As an entrepreneur, kindly provide some possible taxation strategies or mechanisms/measures that the government can borrow or enact so as to improve the performance of SMEs in Bunia City.

END

THANK YOU FOR YOUR TIME!
Appendix B: Study Questionnaire in French

Cher participant
Je m’appelle ANITA BACHUZA une étudiante de troisième cycle à l'Université DAYSTAR de Nairobi au Kenya, poursuivant ma maîtrise en administration des affaires en finance, dans le cadre de ma réussite académique, je suis censé soumettre une étude de recherche complète qui sera menée sur les EFFETS DE L’IMPOSITION SUR LA PERFORMANCE FINANCIÈRE DES PETITS ET MOYENNES ENTREPRISES EN RDC VILLE DE BUNIA Je sollicite donc votre participation pour m’aider à réaliser mes aspirations académiques en répondant honnêtement aux questionnaires formulés.

Je demande humblement votre aide pour recueillir des données pour cette étude qui ne prendra que quelques minutes de votre temps. Votre participation doit être volontaire, je vous garantis la confidentialité de toutes les informations. Vos réponses seront d'une grande importance. Cette étude est purement à des fins académiques.
Cela étant, je vous supplie de répondre très honnêtement aux questions ci-dessous. Je m'engage à garder vos réponses strictement confidentielles et anonymes. Merci beaucoup pour votre temps et votre coopération.
Le questionnaire doit être rempli et retourné. Je vous remercie de votre participation

Cordialement,

Anita Bachuza

SECTION A : INFORMATIONS DÉMOGRAPHIQUES

1. Catégorie de l’entreprise
   - Hôtel et restaurant [ ]
   - Petro station [ ]
   - Fabrication [ ]
   - Agroalimentaire [ ]

2. Types de taxes auxquelles l'entreprise se conforme
   - TVA [ ]
   - Impôt sur le revenu [ ]
   - Revenu présumé [ ]
   - Droits de douane [ ]

3. Profession ou poste
SECTION B : TYPES DE TAXES PRELEVÉES SUR LES PME DE LA VILLE BUNIA

4. Pour chacune des propositions suivantes, relatives aux formes d'imposition prélevées sur les PME indiquez (en cochant dans la case appropriée) votre opinion en vous servant de l’échelle ci-après. Désaccord total (1), Désaccord (2), Neutre (3), Accord (4), Accord total (5).
<table>
<thead>
<tr>
<th>Numéro</th>
<th>Declaration</th>
<th>Désaccord total</th>
<th>Désaccord</th>
<th>Neutre</th>
<th>Accord</th>
<th>Accord total</th>
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</thead>
<tbody>
<tr>
<td>A</td>
<td>L'immatriculation à la TVA coûte cher pour la plupart des PME</td>
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<tr>
<td>B</td>
<td>Les taxes sur la TVA sont toujours perçues comme un problème majeur pour les jeunes et les petites PME</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>C</td>
<td>Les taux élevés d'imposition des sociétés en RDC ont considérablement réduit les bénéfices obtenus par les PME</td>
<td></td>
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<tr>
<td>E</td>
<td>De nombreuses PME ne respectent pas les exigences fiscales présumées de Bunia en raison de charges insupportables</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>F</td>
<td>Le système présumé d'impôt sur le revenu est considéré par de</td>
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</table>
nombreuses PME comme inéquitable

| G | Les taux d'imposition sont normalement calculés en l'absence d'une évaluation des revenus réels des PME |

| H | Présence de surtaxes et de pénalités fiscales élevées en raison du manque de connaissances fiscales |

SECTION C : LES EFFET DE LA FISCALITE SUR LA PERFORMANCE FINANCIERE DES PME DE LA VILLE BUNIA

5. Pour chacune des assertions suivantes relatives aux effet de la fiscalité sur la performance financière de PME, indiquez (en cochant dans la case appropriée) votre opinion en vous servant de l’échelle ci-après. Désaccord total (1), Désaccord (2), Neutre (3), Accord (4), Accord total (5).

<table>
<thead>
<tr>
<th>Numéro</th>
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<tr>
<td></td>
<td>Désaccord total</td>
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<table>
<thead>
<tr>
<th></th>
<th>La nature complexe et compliquée de la fiscalité des PME en RDC affecte leur performance financière</th>
</tr>
</thead>
<tbody>
<tr>
<td>B</td>
<td>Le taux d'échec élevé des PME à Bunia a été attribué à une fiscalité élevée</td>
</tr>
<tr>
<td>C</td>
<td>Les qualités uniques des PME ne sont normalement pas prises en compte par les autorités fiscales, ce qui affecte les performances</td>
</tr>
<tr>
<td>D</td>
<td>Les politiques fiscales ne sont pas conçues pour soutenir la croissance et la performance des PME</td>
</tr>
<tr>
<td>E</td>
<td>Des politiques fiscales supportables peuvent contribuer à l'amélioration des performances financières des PME de la ville de Bunia</td>
</tr>
</tbody>
</table>
Les pénalités fiscales élevées dues au non-respect affectent négativement les performances des PME de Bunia City

SECTION D : DEFIS FISCAUX AUXQUELS SONT CONFRONTEES LES PME DE LA VILLE BUNIA

<table>
<thead>
<tr>
<th>Numéro</th>
<th>Déclaration</th>
<th>Désaccord total</th>
<th>Désaccord</th>
<th>Neutre</th>
<th>Accord</th>
<th>Accord total</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>Les procédures fiscales des PME dans le cadre du régime fiscal normal sont discriminatoires</td>
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<td></td>
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<tr>
<td>B</td>
<td>La même application du coût de conformité et du taux d'imposition pour les petites et les grandes entreprises entrave la performance des PME</td>
<td></td>
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<td></td>
<td>L'existence d'un environnement réglementaire dominateur avec de multiples taxes représente un défi majeur pour la performance des PME</td>
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<tr>
<td>D</td>
<td>Des procédures d'importation et d'exportation difficiles ont conduit à des performances financières médiocres</td>
<td></td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>E</td>
<td>Un système de réglementation complexe a un effet négatif sur la performance des PME</td>
<td></td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>F</td>
<td>La double imposition des PME a également conduit à la mauvaise performance financière des PME de la ville de Bunia</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>G</td>
<td>Des plans fiscaux et une éducation inadéquate ont</td>
<td></td>
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<td></td>
</tr>
</tbody>
</table>
Également entraîné la chute de nombreuses PME à Bunia

| H | La méconnaissance des politiques et procédures fiscales affecte véritablement le libre fonctionnement des PME et par conséquent la performance financière |   |   |   |
7. À votre avis, quels sont les défis que vous rencontrez avec les politiques fiscales à Bunia, en RDC?
................................................................................................................................................
................................................................................................................................................
................................................................................................................................................
................................................................................................................................................

8. En tant qu'entrepreneur, veuillez fournir quelques stratégies fiscales ou mécanismes mesures possibles que le gouvernement peut emprunter ou adopter afin d'améliorer la performance des PME de Bunia City.
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FIN

MERCI POUR VOTRE TEMPS!
Appendix C: List of Formal Selected SMEs in Bunia City.

<table>
<thead>
<tr>
<th>Selected SME’s</th>
<th>Sector</th>
<th>Staff in the finance department</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Hotel karibuni</td>
<td>Hotel</td>
<td>5</td>
</tr>
<tr>
<td>2 Golden star</td>
<td>Hotel</td>
<td>4</td>
</tr>
<tr>
<td>3 De la province</td>
<td>Hotel</td>
<td>5</td>
</tr>
<tr>
<td>4 Monaco</td>
<td>Hotel</td>
<td>4</td>
</tr>
<tr>
<td>5 Shalom</td>
<td>Hotel</td>
<td>5</td>
</tr>
<tr>
<td>6 Hotel a cote</td>
<td>Hotel</td>
<td>5</td>
</tr>
<tr>
<td>7 Musco</td>
<td>Hotel</td>
<td>6</td>
</tr>
<tr>
<td>8 Okapi</td>
<td>Hotel</td>
<td>5</td>
</tr>
<tr>
<td>9 LCH</td>
<td>restaurant</td>
<td>3</td>
</tr>
<tr>
<td>10 Garden</td>
<td>restaurant</td>
<td>3</td>
</tr>
<tr>
<td>11 Executive restaurant</td>
<td>restaurant</td>
<td>4</td>
</tr>
<tr>
<td>12 RECH house</td>
<td>Restaurant</td>
<td>3</td>
</tr>
<tr>
<td>13 Casa la maman</td>
<td>Restaurant</td>
<td>3</td>
</tr>
<tr>
<td>14 Hellenique</td>
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### Appendix D: Secondary Data for Registered SMEs in Bunia for 2015 to 2018

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<th>Growth sales (current year total sales minus previous year's total sales. The results divided by previous year's sales x 100)</th>
<th>Profit (ROA)= profit after tax divided by total assets</th>
<th>Cas flow (operating income+depreciation - taxes+change in working capital (current year minus previous year) x100)</th>
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Appendix E: Ethical Clearance

VERDICT – APPROVAL WITH COMMENTS
Daystar University Ethics Review Board

Our Ref: DU-ERB/06/05/2020/000417

Date: 6th May 2020

To: Anita K. Bachuza

Dear Anita,

RE: EFFECTS OF TAXATION ON FINANCIAL PERFORMANCE OF SMALL AND MEDIUM ENTREPRISES IN THE DEMOCRATIC REPUBLIC OF CONGO (BUNIA CITY)

Reference is made to your ERB application reference no. 030320-01 dated 3rd March 2020 in which you requested for ethical approval of your proposal by Daystar University Ethics Review Board.

We are pleased to inform you that ethical review has been done and the verdict is to revise to the satisfaction of your Supervisors and Head of Department before proceeding to the next stage. As guidance, ensure that the attached comments are addressed. Please be advised that it is an offence to proceed to collect data without addressing the concerns of Ethics Review board. Your application approval number is DU-ERB-000417. The approval period for the research is between 6th May 2020 to 5th May 2021 after which the ethical approval lapses. Should you wish to continue with the research after the lapse you will be required to apply for an extension from DU-ERB at half the review charges.

This approval is subject to compliance with the following requirements:

i. Only approved documents including (informed consents, study instruments, MTA) will be used.

ii. All changes including (amendments, deviations, and violations) are submitted for review and approval by Daystar University Ethics Review Board.

iii. Death and life threatening problems and serious adverse events or unexpected adverse events whether related or unrelated to the study must be reported to Daystar University Ethics Review Board within 72 hours of notification.

iv. Any changes anticipated or otherwise that may increase the risks or affected safety or welfare of study participants and others or affect the integrity of the research must be reported to Daystar University Ethics Review Board within 72 hours.

v. Clearance for export of biological specimens must be obtained from relevant institutions.

vi. Submission of a request for renewal of approval at least 60 days prior to expiry of the approval period. Attach a comprehensive progress report to support the renewal.

vii. Submission of a signed one page executive summary report and a closure report within 90 days upon completion of the study to Daystar University Ethics Review Board via email [duerb@daystar.ac.ke].

Prior to commencing your study, you will be expected to obtain a research license from National Commission for Science, Technology and Innovation (NACOSTI) [https://cris.nacosti.go.KE] and other clearances needed.

Yours sincerely,

Mrs. Purity Kiambi,
Secretary, Daystar University Ethics Review Board

Encl. Review Report

"...until the day dawn and the daystar arise in your heart" 2 Peter 1.19 KJV
Appendix F: Research Permit

La présente note à vous informer qu’Anita Kamunya Bahuza est étudiante à l’Université de Daystar, au Kenya, dans le cadre d’une étude universitaire sur les «EFFETS DE LA FISCALITÉ SUR LA PERFORMANCE FINANCIÈRE DES PETITES ET MOYENNES ENTREPRISES DE LA RÉPUBLIQUE DÉMOCRATIQUE DU CONGO (VILLE DE BUNIA). Dans le cadre de la procédure lui permettant de finaliser son étude, elle a été invitée à faire sa recherche sur le sujet mentionné ci-dessus sur toutes les PME enregistrées à Bunia. La recherche portera à la fin sur les aspects financiers des PME et sur les questions liées à la fiscalité pour une durée de quatre mois du janvier à avril 2020. À cet égard, le bureau du ministère des Finances de la RDC (BUNIA) vous demande donc de lui fournir les informations pertinentes nécessaires pour lui permettre d’atteindre ses objectifs éducatifs.

Cordialement,

Paqal Kakaraki

Contrôleur financier en chef.
Appendix G: Plagiarism Report.

Anita bachuza thesis - 21.09.2020

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21.09.2020
by Anita Bachuza