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The tax systems in Mozambique, Tanzania and Zambia: Capacity and constraints

Odd-Helge Fjeldstad and Kari K. Heggstad



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The *Norwegian Agency for Development Cooperation* (Norad) commissioned *Chr. Michelsen Institute* (CMI) to undertake a study to systematise and analyse existing knowledge on taxation and tax administration in selected African countries, and to advise Norwegian authorities on how this knowledge can be translated into practical, effective and concrete development policies. This study focuses on Mozambique, Tanzania and Zambia, and examines current work to strengthening the tax systems in these countries.

The *Terms of Reference* defined the assignment as a desk study with shorter fieldworks in each of the three countries during autumn 2010. A substantial part of the work involved reviewing and synthesising existing material both published studies and grey literature provided by the revenue authorities in Mozambique (ATM), Tanzania (TRA) and Zambia (ZRA), by the Norwegian embassies in the three countries, by Norad and other development agencies, including the IMF, DFID and GIZ, as well as from research institutions and civil society organisations. The study has also benefited from the CMI Library's large collection of tax literature.

The fieldwork included interviews with senior managers in the ATM, TRA and ZRA, staff of the Ministries of Finance in Mozambique, Tanzania and Zambia, donor officials, local NGOs and researchers involved in tax related work. The purpose of the fieldwork was to give the study a necessary 'reality check' as well as updated and new inputs to the report.

The study team consisted of Dr *Odd-Helge Fjeldstad* (economist, project leader) and Kari Heggstad (political scientist).

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Odd-Helge Fjeldstad and Kari K. Heggstad

Chr. Michelsen Institute and the International Centre for Tax and Development

Acronyms

AEO	African Economic Outlook
AERC	African Economic Research Consortium
AfDB	African Development Bank
AFRITACs	African Regional Technical Assistance Centres
ATAF	African tax Administration Forum
ATI	African Tax Institute
ATM	Tributária de Moçambique (Mozambique Tax Authority)
BTC	Belgian Technical Cooperation
CIDA	Canadian Development Agency
CIP	Centro de Integridade Pública (Center for Public Integrity)
CIT	Corporate Income tax
CREDAF	Centre de Rencontres et D'études des Dirigeants des Administration Fiscal
CSO	Civil Society Organisation
Danida	Danish International Development Agency
DFID	Department for International Development
EAC	East African Community
EAZ	Economics Association of Zambia
ECOWAS	Economic Community of West African States
EC	European Commission
EITI	Extractive Industries Transparency Initiative
FY	Fiscal Year
GDP	Gross Domestic Product
GFI	Global Financial Integrity
GIZ	Gesellschaft für Internationale Zusammenarbeit (German Agency for International Cooperation)
GOT	Government of Tanzania
GRZ	Government of the Republic of Zambia
GTZ	Deutsche Gesellschaft für Technische Zusammenarbeit (German Organisation for Technical Cooperation)
ICMM	International Council on Mining & Metals
ICTD	International Centre for Tax and Development
ITC	International Tax Compact
IDA	International Development Association
IMF	International Monetary Fund
IANRA	International Alliance on Natural Resources in Africa
IPAD	Portuguese Institute for Development Assistance
ISAP	Mozambique's Higher Institute of Public Administration
ITC	International Tax Dialogue
JASZ	Joint Assistance Strategy for Zambia
KfW	The German Development Bank
MoF	Ministry of Finance
MoU	Memorandum of Understanding
MZM	Mozambique Metical
NCA	Norwegian Church Aid
NGO	Non-governmental organisation
Norad	Norwegian Agency for Development Cooperation
NTA	Norwegian Tax Administration
ODA	Official Development Assistance
OECD	Organisation for Economic Cooperation and Development
OECD DAC	OECD Development Assistance Committee
OECD CTPA	OECD Centre for Taxation Policy and Administration
OFU	Oil for Development

PARPA	Poverty reduction strategy paper in Mozambique
PAYE	Pay as You Earn (tax)
PIT	Personal Income Tax
PSAf	PANOS Southern Africa
PwC	PricewaterhouseCoopers
PWYP	Publish What You Pay
RA	Revenue Authority
RWI	Revenue Watch Institute
SARAs	Semi-Autonomous Revenue Authorities
SECO	Swiss State Secretariat for Economic Affairs
SSA	Sub-Saharan Africa
SULGO	Support to Local Governance Processes (German cooperation programme)
SWAPs	Sector-wide approaches
TIN	Taxpayer Identification Number
TJN	Tax Justice Network
TMAA	Tanzania Minerals Audit Agency
TMP	Tax modernisation project
TRA	Tanzania Revenue Authority
TZS	Tanzanian Shilling
USAID	United States Agency for International Development
USD	United States Dollar
VAT	Value Added Tax
WAEMU	West African Economic and Monetary Union
ZBC	Zambia Business Council
ZBF	Zambia Business Forum
ZMK	Zambian Kwacha
ZRA	Zambia Revenue Authority

Fact sheet: Country profiles (2009)

Issue	Mozambique	Tanzania	Zambia	Sub-Saharan Africa
Population (million)	22.9	43.7	12.9	839.6
Size of territory (surface area)	799,380 km ²	947,300 km ²	752,610 km ²	24,242,130 km ²
Exchange rate (1 USD)	30.9 MZM	1496 TZS	4671 ZMK	
GDP (billion current USD)	10	21	13	946
GDP per capita (current USD)	428	503	990	1,127
Tax revenue of GDP (%)	15.4	14.2 (FY2009/10)	15.0	17.9
Agriculture (share of GDP)	31	29	22	13
Urban population (% of total)	38	26	36	37
Life expectancy	48	56	46	53
Literacy rate (% of people above 15)	55	73	71	62
Infant mortality (per 1000 live births)	96	68	86	81

Source: All numbers from World Bank (2011c,d,e,f) except tax revenue of GDP (see table 1 for sources) and exchange rates from Quanda Currency Converter (<http://www.oanda.com/currency/converter>) [accessed 3 March 2011]

Summary

This study was commissioned by the *Norwegian Agency for Development Cooperation* (Norad) for the purpose of systematising and analysing existing knowledge on taxation and tax administration in selected African countries, and to advise Norwegian authorities on how this knowledge can be translated into practical, effective and concrete development policies. The report focuses on Mozambique, Tanzania and Zambia. It examines current work to strengthening the tax systems in these countries, identifies gaps and provides recommendations for Norwegian support for effective and accountable taxation.

The study is a desk study, supported by shorter fieldworks in each of the three case countries.

1. Introduction

1.1 Effective tax systems are central for a sustainable development because they can (i) mobilise the domestic tax base as a key mechanism for developing countries to escape aid or single resource dependency; (ii) reinforce government legitimacy through promoting accountability of the government to taxpaying citizens and good public financial management; and (iii) achieve a fairer sharing of the costs and benefits of globalization.

1.2 If taxation is undertaken in a way that promotes greater responsiveness and accountability, alongside improvements in the state's institutional capacity, then the tax system can become a catalyst for broader improvements in government performance.

2. Revenues and tax structures

2.1 For Mozambique and Tanzania the tax-to-GDP ratio was 14.2% and 14.8%, respectively, in 2007, i.e. below the average (14.9%) for lower African income countries, while Zambia generated a tax ratio of 17.7%. However, the tax share in Zambia declined to 15% of GDP in 2009. A similar decline took place in Tanzania from 15.1% in 2008 to 14.2% in 2009, possibly due to the global recession.

Mozambique, on the other hand, saw a substantial increase in the tax ratio from 14.3% of GDP in 2008 to 15.4% in 2009, which is linked to improved tax administrative procedures and enforcement.

2.2 Official Development Assistance (ODA) as share of total of public revenues has declined from 2004 to 2008 in all three countries. Zambia has experienced the largest reduction in aid dependency, from 53% of total public revenues in 2004 to 28% in 2008. The corresponding figures for Tanzania are 54% in 2004 and 41% in 2008, and for Mozambique 62% and 56%, respectively.

2.3 Mozambique is the most aid dependent of the three countries also compared to the African average, with USD 66 per capita in tax revenues and USD 93 in ODA per capita in 2008. In Tanzania tax revenue per capita in 2008 was USD 71 compared to ODA per capita of USD 58. The corresponding figures for Zambia are USD 219 (tax revenues per capita) and USD 93 (ODA per capita).

2.4 Does aid substitute for domestic tax mobilisation? There is *no* robust evidence to support the claim that aid crowd-out domestic tax effort. Recent econometric studies actually find evidence of a positive association between aid inflows and tax revenue. This positive correlation lends some support to the interpretation that development aid since the 1990s, through its stronger focus on institutions may have led to an improvement in the tax administration and revenue collection in recipient countries.

2.5 Value Added Tax is a major tax base in all three countries. In 2009 VAT generated revenues equal to 5.4% of GDP in Mozambique, which was more than the revenues from personal and corporate income taxes combined. This was also the case in Tanzania where the VAT-to-GDP ratio was 4.6%, compared to 4.1% for Personal Income Tax (PIT) and Corporate Income Tax (CIT) combined. Special for Zambia is the importance of Personal Income Tax, which in 2007 and 2008 generated more revenues than VAT.

- 2.6 In spite of the laws' intention, the opportunity of using the personal income tax (PIT) to improve vertical and horizontal equity is in practice more limited in Mozambique, Tanzania and Zambia than it is in developed countries. There are two main reasons for this. First, the tax base is typically non-comprehensive due to the large untaxed informal sectors in the three countries. Second, there are challenges in properly administering the tax.
- 2.7 A recurring problem with PIT is the non-compliance of employers to register their employees and to remit such taxes to the relevant authorities. Further, capital income, predominantly earned by relatively wealthy individuals, either faces low effective rates or escapes taxation altogether. In Zambia, for instance, there is no tax on capital gains, while in Mozambique the gross capital gain or loss is halved in real estate or business assets. In Tanzania, capital gain or loss is included in business or investment income and taxed in principle at 30%, but in practice it is easy to avoid.
- 2.8 The corporate income tax regime is challenged in all three countries due to substantially tax-base narrowing, mainly through tax exemptions and the provision of tax holidays in Investment Codes and Free Zones. For instance, in Mozambique, special tax regimes are established for certain investment projects where incentives are granted, e.g. in Rapid Development Zones, Industrial Free Zones, and in the agriculture, mining, oil, and tourism sectors.
- 2.9 The presence of tax holidays has enabled a number of firms, notably extractive industries, manufacturing and processing firms, but also hotels and tourist lodges, to effectively escape taxation altogether for a large subsequent number of years.
- 2.10 The question remains open whether countries that do have proper anti-abuse legislation are in the position to apply it in an effective way. Tanzania, for instance, has a catch-all anti-avoidance clause in its CIT legislation, but it is not clear how this is applied in practice.
- 2.11 Mining is a revenue generating activity in all three countries. Historical data on mining tax revenues are limited, and the tax regime in the sector is relatively complex. Extensive tax incentives are common. Changes in the regime and renegotiation of mining contracts are controversial and a source of both national and international debate.
- 2.12 All three countries are candidate countries for the Extractive Industries Transparency Initiative (EITI). The first EITI reports that disclosed payments made by the major mining companies to the government in each of the three countries were launched in February 2011. For all three countries, the reports show substantial discrepancies between what mining companies reported having paid and what government entities reported having received.
- 2.13 Mining could potentially contribute with substantial revenues since the activity, in principle, is relatively easy to tax compared to many other economic activities. However, considering the extent of natural resource rents in many sectors and especially in mining, the current tax-to-GDP ratios are significantly below what they could have been if the resource rents were differently shared between the country and the investors. This is particularly so for Zambia, where the level of foregone rent is significant, but also for Tanzania and Mozambique albeit at a lower level relatively due to less developed mining sectors.
- 2.14 Revenues from renewable natural resources, mainly from fisheries, forestry, and wildlife, are commonly collected by the respective line ministries and some by local government authorities (e.g. forest levies). Only limited revenues from renewable resources reach the Treasury in the three countries. The revenue potential, however, is substantial. Revenue enhancement from renewable resources requires policy changes and better administration.

3. Revenue administration

- 3.1 Mozambique, Tanzania and Zambia have all established semi-autonomous revenue

authorities, in line with 14 other African countries. Zambia Revenue Authority (ZRA) was established in 1994, Tanzania Revenue Authority (TRA) in 1996, and Mozambique Tax Authority (Autoridade Tributária de Moçambique ATM) in 2006.

- 3.2 The choice of a revenue authority model aimed partly to limit direct political interference by the Ministry of Finance, and partly to free the tax administration from the constraints of the civil service system with respect to recruitment, promotion of staff, and dismissals. Moreover, it was believed that a single purpose agency could integrate tax operations and focus its efforts on collecting revenues better than what was possible under civil service rules.
- 3.3 In 2010, ATM had 3010 staff members of whom 1776 were in Customs; TRA employed a staff of 3727 people (1236 in Customs); and ZRA had 1380 staff members (about 450 in Customs). While TRA and ZRA have offices in all districts in their respective countries, ATM – the newest of the three RAs - is currently present with offices in 43 of Mozambique's 128 districts. Salary and related expenditures account for the largest portion of the RAs' budgets (up to 80%).
- 3.4 The number of tax staff available for every 1000 citizens differs between the countries, from 0.131 in Mozambique, 0.087 in Tanzania and 0.099 in Zambia in 2010 (including Customs officers). These 'tax staff per population ratios' are very low compared to the world average of 0.82, but higher than the average of 0.037 for sub-Saharan Africa.
- 3.5 Funding of the three RAs comes from the annual Parliamentary budget appropriation process and in the form of grants from donors. According to the Tax Authority Act in Mozambique, ATM shall retain 1% of the revenues collection for its operation (which is in line with OECD countries' limit of 1%). However, due to the substantial investments required to develop and expand the tax administration, ATM at present receives 4-4.5% of the revenues collected through the general Government

budget. Further, a group of donors (UK, Switzerland, Belgium, Germany and Norway) coordinates their support to ATM through the Tax Common Fund.

- 3.6 In Tanzania, the budget allocated to TRA through the Government budget in 2008/09 constituted about 2.8% of the revenue collections (net of VAT refunds). This amount, however, is insufficient to cover infrastructure, software, hardware, training needs etc. Thus, a substantial share of non-current expenditures are currently funded through the Tax Modernisation Programme – a basket funding arrangement signed in 2006 and supported by the World Bank, DFID, Danida and the Government of Tanzania.
- 3.7 In 2008, the costs of running ZRA accounted for 2.3% of the total domestic revenues collected (down from 2.7% in 2006), while the initial target agreed by the Government of Zambia and DFID was 1.9%. DFID has been the main external funder of ZRA since the revenue authority was established in 1994.
- 3.8 A relative small number of large enterprises account for the majority of tax revenue (60-70% of total tax revenue). These enterprises engage in large-scale, specialised, and often global operations. Hence, due to their unique characteristics and needs, ATM, TRA and ZRA have all set up Large Taxpayer Offices (or units) to manage the tax affairs of the large taxpayers. By end 2010, there were approximately 600 large taxpayers in Mozambique of which about 350 were located in Maputo. In addition, there were six mega-projects of which 5 were multinational companies covering multiple sectors (construction, mineral extraction, energy, aluminium production and the financial services) and one domestic (energy).
- 3.9 In Tanzania, 400 large taxpayers were registered in November 2010 (0.08% of total taxpayers) whereof 18 were dormant. The large taxpayers contribute about 70% of total domestic revenue collections in Tanzania. The number of large taxpayers

registered in Zambia is about 420 (4.1% of total taxpayers).

3.10 The establishment of revenue authorities has improved tax administration in Mozambique, Tanzania and Zambia through the introduction of new information and communication technologies, and by moving from a system organized around different taxes to one organized around localities and tax segments so that individual taxpayers have to deal with fewer tax officers. Further, it has comprised the introduction of unique taxpayer identification numbers (TIN) for each individual taxpaying unit.

3.11 According to the World Bank's *Doing Business 2011* survey, the countries are far better performers in terms of the 'paying taxes ranking' than in the 'ease of doing business ranking'. Zambia, for example, ranks as 37 of 183 countries in the world on the ease of paying tax, while the overall Doing Business rank is 76 of 183. This is also the case for Tanzania and Mozambique. Consequently, although tax rates and tax administration are considered to be a constraint by businesses there are other factors that seem to be more important constraints. Thus, it is unlikely that the provision of generous tax incentives will have significant impacts on foreign direct investments.

4. The political economy of tax policy and revenue collection

4.1 High-level, political support is needed to build a strong revenue authority. In Mozambique, for instance, ATM has benefitted from the support of the President of the Republic. This support has facilitated ATM's campaigns to change public attitudes towards paying taxes.

4.2 Establishment of a semi-autonomous authority, however, has not protected the tax administration completely from political interference in the day-to-day operations. To the contrary, in some respects it might have made it a more attractive target because the revenue authority offers considerable rent-seeking opportunities, including relatively well paid jobs. Experiences from Tanzania and

Zambia show that a revenue authority can also be vulnerable to political interference, in particular with respect to tax exemptions.

4.3 Good working relations between the Ministry of Finance and the revenue authorities, particularly in Mozambique and Tanzania, have facilitated the design and implementation of significant tax reforms.

4.4 Providing timely and well-argued tax policy advice should be a core responsibility of the Ministry of Finance. Although the capacity of the MoF to fulfil this function has improved in recent years, in particular in Tanzania and Zambia, the Ministry's capacity for formulating tax policy and realistic revenue budgeting needs to be strengthened.

4.5 Consultation and cooperation between the central government revenue administration and other public agencies are generally limited in the three countries. Firms often have to negotiate and provide similar information on their operations to several government bodies, imposing high compliance costs on the private sector. Furthermore, the duplication of databases implies higher administrative costs on the public sector.

4.6 Local government taxation is still a major constraint on the commercialization of smallholder agriculture and formalisation of small and micro enterprises. Specifically, multiple taxes (including fees and charges) make it difficult to enter new businesses and markets. Levies are perceived as exorbitant, often charged up-front irrespective of the size and type of business. Sometimes local and central taxes duplicate.

4.7 A general lesson from the country studies is that there is need to build local government capacity in tax design and modern revenue administration. In Tanzania there is an on-going pilot project on property tax collection where TRA is collecting the tax on behalf of municipalities in Dar es Salaam. This pilot may provide relevant lessons with respect to how the collaboration between the central government tax administration and

local government treasuries can be designed and implemented.

- 4.8 Various stakeholder forums have been established in the three countries where the tax administration and taxpayers (business people) meet, exchange information and discuss tax policy changes. These forums have the potential to improve the relations between taxpayers and the revenue authorities. However, it is uncertain whether they have had any impacts on tax policy. An effective public-private dialogue has yet to develop.
- 4.9 Consultations between the tax administration and business associations may contribute to improve tax compliance by creating a more cooperative and less conflictual relationship. Revenue officials should therefore view consultations as an important entry point to learn about deficiencies of the tax system, to educating a major constituency, and to strengthening the coalition in favour of good tax policy. Government officials, however, do need to be cautious about distinguishing between special pleading of the business lobby and important insights from the business community for improving the tax system.
- 4.10 Although the tax administrations in the three countries have made significant progress in recent years, and the private sector acknowledges this to some extent, problems in taxpayer and tax administration relations remain. In spite of tax laws which in general are well formulated and ‘business friendly’, tax officers in practice have discretion over important decisions, such as those related to the determination of tax liabilities (assessments), selection of audits, litigation, delays in VAT refunds, etc. Many administrative procedures, including those reporting tax revenues, could be more transparent.
- 4.11 All three revenue authorities address corruption risk with a wide range of approaches. For example, ZRA’s annual reports regularly list the number of corruption cases, their completion rate, and the time required for their processing. In Tanzania, the TRA-management has recently invested substantially in awareness raising and anti-corruption

training of its staff. Still, according to studies done on perceived levels of integrity the results show that further efforts have to be made both to fight corruption and to improve the public’s perception of the administration.

- 4.12 There is also a need for striking a balance between revenue and service targets. The uncompromising revenue target focus of the tax administrations implies that achieving the collective target becomes not ‘everything’, but the ‘only thing’ - sometimes also at ‘any cost’, to the detriment of other responsibilities of the tax administration. This may legitimise extortion and harassment of taxpayers, and transparency, accountability and customer friendliness are likely to suffer.
- 4.13 Civil Society Organisations (CSOs) can be an important channel for improving awareness and education on tax issues. In Zambia during the last decade and more recently also in Tanzania CSOs have played an important role in generating public debates about tax policies, and their role has not been limited to the commercial interests of the private sector. NGOs in the social sectors with a pro-poor agenda have contributed to the public discussion of these issues, in particular with respect to taxation of natural resources.
- 4.14 CSOs have become increasingly involved in issues related to the mining sector and natural resource taxation in Zambia, Tanzania and other countries in the region. Caritas Zambia and Revenue Watch Institute Tanzania (RWI) have also initiated dialogue meetings and training workshops for policy and law makers on mining sector reforms. CSOs in Mozambique, Tanzania and Zambia, including Caritas, Center for Public Integrity, RWI and the Norwegian Church Aid have published several reports which have led to widespread public debate on the role of the mining sector for the development of the country

5. Broadening the revenue base

- 5.1 Addressing the informal sector, cutting down on tax exemptions and hindering illicit financial flows out of the country are complex, challenging but potentially

rewarding areas to focus efforts to broadening the revenue base.

- 5.2 A large share of the economic activity in the three countries is located within the informal sector. Much of the anger about tax evaders in the informal sector centres on competition from enterprises that operate well above the margin of subsistence. However, the sector is hard to tax. Generally, tax administrations tend to give it little priority, because, in cash terms, returns to effort may be low and attempts of collecting the tax is likely to be unpleasant, difficult, or even dangerous.
- 5.3 Yet, finding better ways of taxing the informal sector is receiving increasing attention by the tax administrations in the three countries. For instance, TRA has introduced a 'Block Management System' (BMS) that aims to promote compliance by registering all eligible small and medium scale enterprises within a particular business, sector or geographical area, and to gather relevant tax information on the level of economic activities to fight tax evasion. The BMS has simplified the registration of traders, and has brought non-filers and non-payers into the tax net through closer monitoring and collaboration with local government authorities. Thus, it is expected to widen the tax base.
- 5.4 Tax exemptions are widespread in all three countries. In Tanzania, for instance, tax exemptions in Fiscal Year 2009/10 are estimated by TRA to represent 2.3% of GDP. A recent study by the African Development Bank suggests that exemptions and tax incentives combined in Tanzania could account for up to 6% of GDP. According to official data, about 40% of the exemptions in FY 2009/10 were granted by the Tanzanian Investment Centre (TIC) and the Zanzibar Investment Promotion Authority (ZIPA). Exemptions granted to mining and donor funded projects represented 7.1% and 10.4%, respectively, of total exemptions although these sectors may have enjoyed additional tax exemptions through the TIC.
- 5.5 The mining sector enjoys generous tax incentives in all three countries. One argument is that a favourable tax regime

will attract more foreign direct investment and thus contribute to economic growth. The World Bank has been a strong advocate for this policy. This happens in spite of the fact that research shows that the tax regime is only one of many factors that impacts on investment decisions and the general business environment. For poor countries the 'competition to grant tax exemptions' could become a race to the bottom.

- 5.6 New tax exemption rules were introduced in Mozambique in 2009. The General Tax Law ends the special low-rate regime for large projects, and taxation of mining and petroleum companies will increase. However, tax exemptions already granted to previous major projects will not be revised. These foreign-owned projects account for up to 12% of GDP but less than 3% of tax revenues and 3% of employment.
- 5.7 The mining laws in Tanzania were revised in July 2010 after a national debate on the government's management of the mineral sector that followed the publication of the report of the *Presidential Mining Review Committee* from 2008. The Committee recommended a major review of the tax regime for natural resources, and to modify the existing legislation to enable the government to acquire a pre-set minimum revenue from mining companies.
- 5.8 In Zambia mining tax exemptions have caused serious domestic debate in recent years. In April 2008 a new mining tax regime was introduced, but only a year later many of the new incentives that most likely would have ensured larger government revenue from the mining sector were reversed.
- 5.9 Estimates of illicit financial flows suggest that the amount of money leaving Africa illegally in 2008 was substantially higher than the amount received in the form of official development assistance. Of the three countries, Zambia has the estimated highest degree of illicit flows. The difference is largely due to the systematically higher estimated trade-mispricing in Zambia than in the other two countries.

6. External support to strengthening the tax systems

- 6.1 Multilaterals, regional development banks, donors, think tanks and NGOs have different approaches to domestic and international tax issues in Africa. While some focus on tax administration, others focus on broader issues of fiscal policy. To promote tax administration, for instance, the African Tax Administration Forum (ATAF) has enrolled the support of the African Development Bank, OECD, IMF, DFID, the German Agency for International Cooperation (GIZ), Irish Aid and Norad.
- 6.2 At the global level, fiscal issues are traditionally part of the International Monetary Fund's domain of intervention, rather than the World Bank's. The Fiscal Affairs Department of the IMF provides technical cooperation via assistance, missions and training in collaboration with several donors. The IMF Regional Technical assistance centres for technical cooperation initiatives are used on the country level. Other collaboration is with the International Tax Dialogue and the International Tax Compact.
- 6.3 The European Commission (EC) has expertise in supporting tax administration reforms as a means of financing development from Central and Eastern Europe, and the EC has now turned to Africa, for instance, by supporting reform in Tanzania and financing a fiscal transition programme with the West African Economic and Monetary Union (WAEMU). The EC channels funding through the Extractive Industries Transparency Initiative (EITI) by using the World Bank's Multi-Donor Trust fund with only few donations going directly to the EITI International Secretariat.
- 6.4 Donor countries with strong fiscal capacities are currently the most involved in supporting public resource mobilization in Africa through their development agencies. The International Tax Compact (ITC), an initiative of the German Federal Ministry for Economic Cooperation and Development (BMZ), aims to strengthen international cooperation with developing

and transition countries to fight tax evasion and avoidance. The United Kingdom's DFID has provided technical assistance to a range of tax reform and tax administrative issues in several African countries. DFID has also funded research programmes on taxation and governance, as well as projects enabling African governments to broaden their tax base.

- 6.5 The large number of donors present in Mozambique makes it difficult to get a full overview of efforts targeting the tax system. But at least ten different development partners and multilateral organisations support the development of the tax system. Thus, there is need for strict donor coordination to avoid overlapping efforts. The Tax Common Fund is a group of donors that has coordinated their support to the tax administration in the country. It consists of UK, Switzerland, Belgium and Germany, with IMF as an observing partner. In December 2010 Norway signed a MoU to join the fund. The German Development Bank (KfW) has led the tax basket and refers to it as 'international best practice' in donor coordination on tax reform.
- 6.6 In December 2010, ATM and the Norwegian Tax Administration (NTA) signed a MoU for technical assistance to the taxation of international companies operating in the oil and gas sectors in Mozambique. This work will involve the Petroleum Tax Office which is part of NTA.
- 6.7 In Zambia, the number of donors involved on tax issues is currently limited with Norway and the United Kingdom as the main development partners. IMF provides technical assistance to the Government on tax policies and tax administration. While Norway will continue the support to ZRA, DFID has expressed plans on leaning more towards governance than taxation in the years to come. Strengthening the management of the mining sector, however, is one of the priorities of several development partners in Zambia, with IMF, DFID, the World Bank the EU Commission and Norway as key partners.

- 6.8 Norway's engagement on taxation in Zambia dates back to 2006. Norwegian consultants and lawyers have provided advice to the Zambian government on a new tax regime for the mining sector and on the possibilities to renegotiate the contracts with the private mining companies. This support also included the development of a mining tax model and training of ZRA staff in applying the model. Furthermore, Norway has supported specialised tax audits of three mining companies, and the establishment of a new Financial Intelligence Centre located in the Bank of Zambia. For the period 2010-2014, Norway will fund a programme that aims to build large taxpayer administrative capacity in ZRA, in particular through improved specialised mining tax administrative assessment, auditing and enforcement capacity. The programme will involve institutional cooperation between ZRA, NTA and IMF.
- 6.9 In Tanzania, the MoU for the basket funding arrangement of the *Tax Modernisation Programme* (TMP) was signed in 2006. It is supported by the World Bank through IDA, DFID, Danida and the Government of Tanzania. The objectives of the TMP were aligned to the strategic goals of TRA's Second Corporate Plan (2003/04 – 2007/08). The five core elements of the TMP are: (a) to increase revenue collection in a cost effective way; (b) to integrate TRA operations; (c) to provide high quality and responsive customer services; (d) to promote tax compliance through a fair, equitable and transparent application of tax laws; and (e) to improve staff competence, motivation, integrity and accountability.
- 6.10 From 1998 until 2007 GTZ (GIZ) assisted TRA specifically in computerisation of the then Income Tax Department and in developing the TIN and the income tax system mainly for employment taxes. With the integration of the Income Tax and the VAT Departments into the Domestic Tax Department, the income tax system supported by GTZ was improved in 2004 to support the integrated operations with the necessary modules of audit, registration (TIN) and debt management. A key element of the project was the introduction of the electronic iTAX-system in 2004. GIZ currently supports a regional programme for the East African Community (EAC) that also includes Tanzania. The project duration is from 2008 to 2011. Tax harmonization of laws and procedures in the EAC region is a main component.
- 6.11 Norway has supported the development of a mining tax model in Tanzania. Furthermore, Norway has funded the review of mining contracts and relevant acts, as well as the analysis and revision of hedging agreements in the mining sector. Recently, preparation for long term institutional collaboration between TRA and NTA has been initiated, with a possible agreement in place in 2011. This work is likely to focus on specialised audit of large taxpayers in various sectors, possibly including the finance and banking sectors, telecommunications, tourism and mining.

7. Conclusions and recommendations

- 7.1 Mozambique, Tanzania and Zambia have come a long way in reforming their tax systems. There are a large number of good things to report, in particular with respect to simplification of the tax system, including rates and procedures, and improved tax administration at the central government level.
- 7.2 A major challenge for building effective, transparent and accountable tax systems in the three case countries are the current tax policies, particularly in relation to exemptions and tax incentives.
- 7.3 There is still scope to build administrative capacity, especially specialised audit and legal expertise for taxation of key and growing sectors such as natural resources, telecommunications, bank and financing, and tourism. Further, there is a need to strengthen the demand side of tax accountability, i.e. to encourage broader citizen engagement around taxation (civil society, including business and taxpayer associations).
- 7.4 Broadening the tax base is important, both for the sake of increasing tax revenue and for good tax governance. This includes finding more effective ways to taxing the

informal sector and hindering illicit capital flows out of the country. Further, the overall benefits of special treatment of large multinational corporations are questionable. Research shows that tax incentives play only a marginal role in influencing investment decisions. Policymakers in all three countries should here recognise the potential for raising substantial revenues and also to establish a more fair and transparent tax system. This scenario will require further capacity building to strengthening the tax administrations and sensitive amendments to the current fiscal benefit laws.

- 7.5 Due to the reliance on trade taxes, the countries must cope with the fiscal challenges posed by trade liberalisation. In order to reduce the exposure to volatility or shortfalls in revenue, diversification of tax sources seems a correct policy strategy to follow. The development of a rigorous regime for taxation of natural resources – both renewable and extractive – should be part of this strategy. Capitalising on many of the tax policy opportunities available could make a great deal of difference to the potency of the social fiscal contract, and ultimately to the improvements in public policy and development planning.
- 7.6 Addressing the gaps identified by this study will also require long-term commitment by the international community. It takes time to build institutions and change peoples' behaviour, whether they are policymakers, tax officers or ordinary citizens. Norwegian support to strengthen the tax systems in Mozambique, Tanzania and Zambia should aim to build effective tax systems through revenue enhancement, capacity building of the tax administration and improved accountability. It is of course essential that Norway's engagement within the tax area is based on demand from the partner countries.
- 7.7 Several international partners support the development of the tax systems in the three countries. It is important to secure

complementarity and avoid duplication. Norway should aim to build a coherent, though flexible, programme on 'tax for development', based on (a) demand from the host countries; (b) relevant experiences from the development of the Norwegian tax system; (c) experiences from Norwegian and other support to institution building in developing countries; (d) support to civil society organisations; and (e) support to regional and international bodies involved in tax policy and tax administration reform.

- 7.8 To secure sufficient flexibility, and with reference to gaps identified above, the research team recommends that Norway's engagement should aim to cover the following tasks: (i) Support to tax policy reform; (ii) Capacity building of the revenue authorities; (iii) Support to civil society organisations; and (iv) Building domestic research capacity on taxation.
- 7.9 Within these broad categories, and to secure coherence, the research team suggests that (a) *Capital flight*, (b) *Natural resource taxation*, and (c) *Accountability* should be core thematic areas for the Norwegian engagement. The proposed areas are also among those prioritised by the governments of Mozambique, Tanzania and Zambia, and by the African Tax Administration Forum (ATAF).
- 7.10 To address the core areas (a) *capital flight*, (b) *natural resource taxation*, and (c) *accountability*, Norwegian support may include one or more of the following measures: (i) tax policy reform, (ii) capacity building of the revenue authorities, (iii) support to civil based organisations, and (iv) building domestic research capacity on taxation. This adds up to 12 specific recommendations. Not all the areas will be covered in each country. And the areas covered may differ based on dialogue between domestic stakeholders and Norwegian authorities.

1. Introduction

African governments and international development agencies increasingly acknowledge that more effective tax systems are central for a sustainable development because they can (a) mobilise the domestic tax base as a key mechanism for developing countries to escape aid or single resource dependency; (b) reinforce government legitimacy through promoting accountability of the government to taxpaying citizens and good public financial management; and (c) achieve a fairer sharing of the costs and benefits of globalisation (Pretoria Communiqué 2008).

There is also a growing realisation in Africa that taxation and state-building are linked (Ayee et al 2010). The way domestic revenue is raised significantly influences both economic growth and democratic consolidation (Braütigam et al 2008; Moore 1998, 2004; OECD-DAC 2006).¹ Bargaining over taxes is central to building relations of accountability between the state and citizens based on mutual rights and obligations, rather than on patronage and coercion. Taxpayers' mobilization around common interests has potentially positive outcomes for governance. This idea of bargaining and negotiation over taxes is central to the concept of a *social fiscal contract*: a pattern of regular and routine accountability based on the principle of reciprocity and mutual obligations. This is essentially about stimulating good governance at the interface between state and society, in response to the demands of citizens. There is a strong argument that a substantial governance 'dividend' can be gained from mobilising domestic financial resources through the tax system. A 'virtuous circle' may be generated whereby the generation of government tax revenues leads to improved service provision, which in turn increases citizens' willingness to pay their taxes. Seen in this light, taxation is not just an administrative task for governments and citizens. It is also about politics and power - the way that authority is exercised in a country through its formal and informal institutions.

In this perspective, the tax system may contribute to improved governance through three main channels (Moore 2008; Fjeldstad and Moore 2008):

- (i) Common interest processes which ensure that governments have stronger incentives to promote economic growth since they are dependent on taxes and therefore on the prosperity of taxpayers.
- (ii) State capacity processes which require states to develop a bureaucratic apparatus for tax collection because of their dependence on taxes, particularly, direct ones. This is likely also to lead to broader improvements in public administration.
- (iii) Taxation may engage taxpayer-citizens collectively in politics and lead them to make claims on the government for reciprocity and accountability, either through short-term conflicts or long-term increases in political engagement. Governments are therefore compelled to respond to these citizen demands in order to enhance tax compliance and sustain state revenues.

Increased domestic revenue generation will, however, only lead to improved development outcomes if the revenue is translated into productive public expenditure. While governments and donors generally have treated the dual goals of revenue generation and improved public spending separately, a governance-focused tax reform agenda is based on the conviction that the two goals are fundamentally interconnected, and should be addressed in tandem (Prichard 2010). In more practical terms, if tax reform is undertaken in a way that promotes greater responsiveness and accountability, alongside

¹ As Mick Moore (2004: 312) has noted: If one starts from the assumption that a core governance problem lies in the dearth of bargained exchange relationships between the state and any organized societal group, then any collective action on the part of business to negotiate with the state over taxation might be considered to be potentially positive, even if it takes place entirely outside any representative or legislative institutional framework.

improvements in the state's institutional capacity, then tax reform can become a catalyst for broader improvements in government performance.

How can Norwegian aid assist in building effective tax systems in Africa? This study focuses on the tax systems in Mozambique, Tanzania and Zambia. The purpose of the study is to systematise and analyse existing knowledge on taxation and tax administration in these three countries, and to advice Norwegian authorities on how this knowledge can be translated into practical, effective and concrete development policies.

The report is organised as follows: Chapter 2 gives an overview of the tax structure in Mozambique, Tanzania and Zambia. The institutional set-up of the central government revenue administrations in the three countries is discussed in Chapter 3. Thereafter, in Chapter 4 follows an analysis of the political-economy of taxation and tax policy. Chapter 5 extends the political economy discussion with a focus on how to broaden the revenue base by targeting the informal sector, tax exemptions and illicit financial flows to foreign banks and secrecy jurisdictions. Chapter 6 provides an overview of external actors involved in strengthening the revenue systems in Mozambique, Tanzania and Zambia. On the basis of the abovementioned mapping and analysis, Chapter 7 discusses opportunities and challenges for Norwegian support to strengthening the tax systems in the three partner countries.

Three sections are annexed to the report: Annex I gives an overview of useful links and web resources on the topic of taxation and development in Africa. Annex II is an introduction to the nuts and bolts of technical assistance, a topic which is central to all development partners engaged in partnership with the public sector in developing countries. Annex III provides a statistical overview of the basic tax data for the three countries.

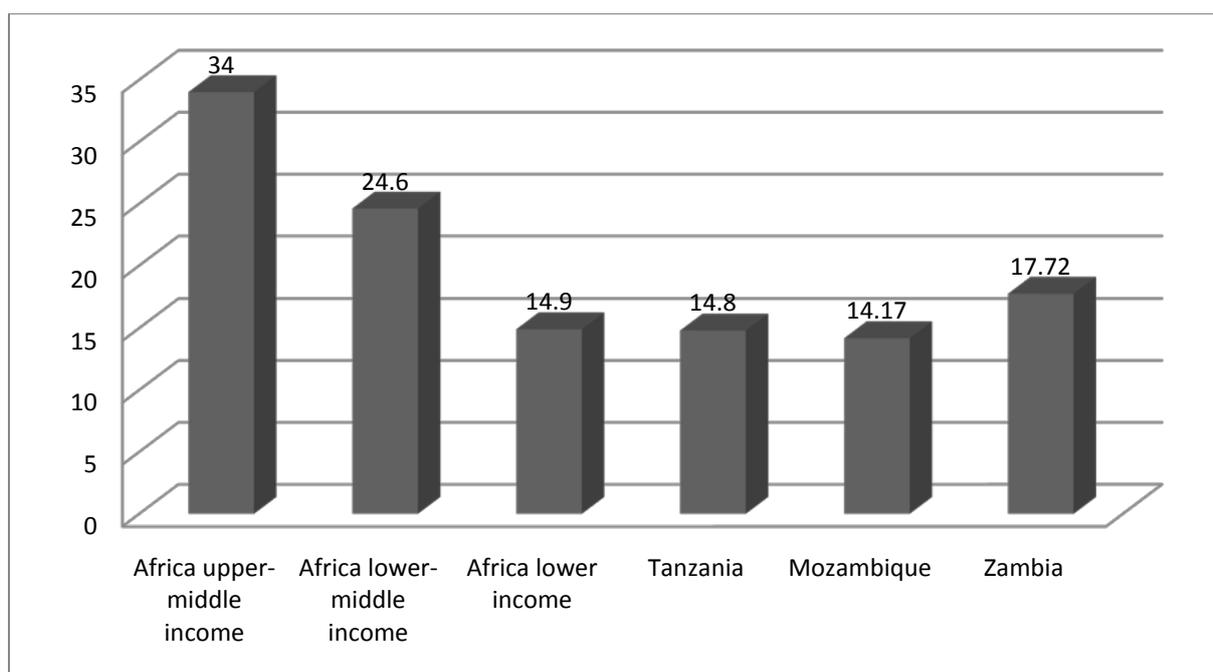
2. Tax revenues and tax structures in Mozambique, Tanzania and Zambia

This chapter gives an overview of the tax structure in the three countries. Statistical data is largely based on information provided by the revenue authorities, ministries of finance and the national statistical offices in Mozambique, Tanzania and Zambia; the African Economic Outlook (AEO) Database on African Fiscal Performance which is a database on revenue flows for 50 African countries; IMF, OECD and World Bank databases; and research reports and evaluations.

2.1 Tax revenues in per cent of GDP

Public revenues from domestic sources have gradually increased as a percentage of GDP over the past two decades across Africa (AEO 2010a). In 2007, the average tax-to-GDP ratio was 34% for African middle income countries; almost 25% for lower middle income countries; and about 15% for lower income countries (Figure 1). In comparison, the average tax-to-GDP ratio in OECD-countries was around 35% in 2007 (Marshall 2009). Although tax revenues per capita have increased on average in Africa during the last two decades, the increase has been modest in lower income countries (AEO 2010c).

Figure 1: Tax revenues in % of GDP (2007)



Source: Africa averages (AEO 2010d); Tanzania (TRA 2011b:81); Mozambique 2005-2009 (Lemgruber et al 2010:9); Zambia from authors' calculations based on ZRA Tax Statistics (ZRA 2011).

For Mozambique and Tanzania, the tax-to-GDP ratio was 14.2% and 14.8%, respectively, in 2007, i.e. below the average for lower income African countries (Figure 1), while Zambia generated a tax share of about 17.7%, which is above the average. However, as reflected in Table 1 the tax-to-GDP ratio in Zambia declined to 15% in 2009. A similar decline took place in Tanzania from 15.1% in 2008 to 14.2% in 2009. These observations correspond with the African Economic Outlook's (2010b) estimates of a decline in tax revenues in many African countries in 2009 due to the global recession. Mozambique, in contrast, saw a substantial increase in the tax-to-GDP ratio from 14.3% in 2008 to 15.4% in 2009, linked to improved tax administrative procedures and enforcement (see section 3.3.7).

Table 1: Tax revenue in % of GDP (2005-2009)

Tax revenue % GDP	2005	2006	2007	2008	2009
Tanzania*	11.6	13.2	14.8	15.1	14.2
Mozambique	12.2	13.41	14.17	14.28	15.38
Zambia	17.22	16.40	17.72	17.33	15.02

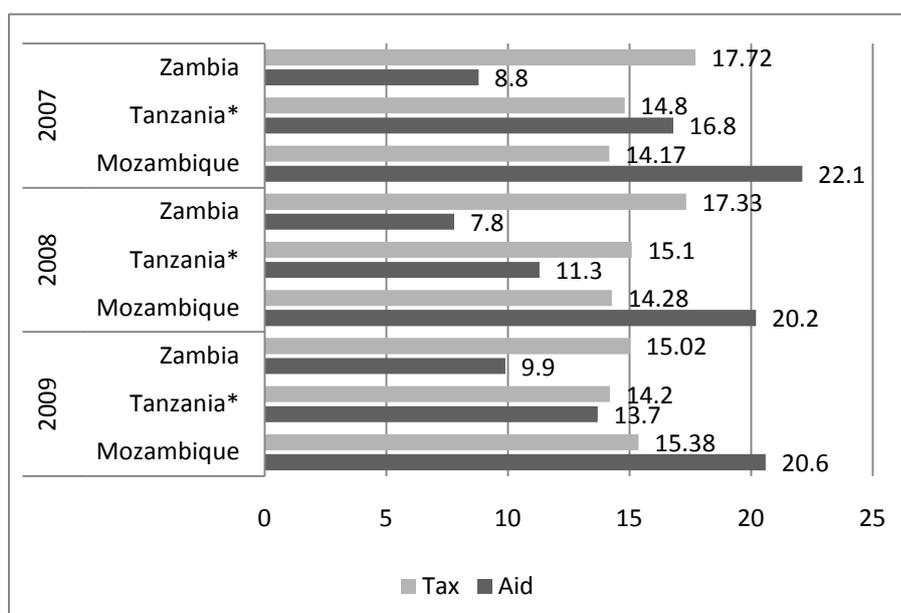
Source: Tanzania (TRA 2011b:81); Mozambique 2005-2009 (Lemgruber et al 2010:9); Zambia from authors' calculations based on ZRA Tax Statistics and ZRA GDP at market prices (ZRA 2011). Note: The 2009-figure for Zambia refers to the revised revenue target and not actual numbers.

Note: *Figures for Tanzania showing fiscal years 2005/06-2009/10

Both estimates and actual figures for tax revenues and GDP in Mozambique, Zambia and Tanzania vary substantially between different sources. The general trend for all three case countries is nevertheless positive with respect to increased tax revenues in nominal terms over time. The revenue potential is most likely underestimated in all three countries due to underestimation of the GDP, large untaxed informal sectors (see section 5.1) and extensive tax exemptions (section 5.2). Zambia's Central Statistical Office, for instance, indicates that the underestimation of the GDP may be as large as 30-40% for some sectors (ZRA 2010c).

2.1.1 Foreign aid and tax revenues compared

The tax-to-GDP and aid-to-GDP ratios are illustrated in Figure 2. For the period 2007-2009 Zambia is the least aid dependent of the three countries with an aid-to-GDP ratio of 9.9% in 2009 and a tax share of 15%. Tanzania experienced a drop in aid dependency from 16.8% of GDP in 2007 to 13.7% in 2009, while the tax-to-GDP ratio increased from 14.8% in 2007/08 to 15.1% in 2008/09 and thereafter dropped to 14.2% in 2009/10. Mozambique remains more aid dependent than the other two countries, but tax revenues are becoming increasingly important relative to aid; the aid-to-GDP ratio dropped from 22.1% in 2007 to 20.6% in 2009, while the tax-to-GDP ratio increased from 14.2% to 15.4% during the same period.

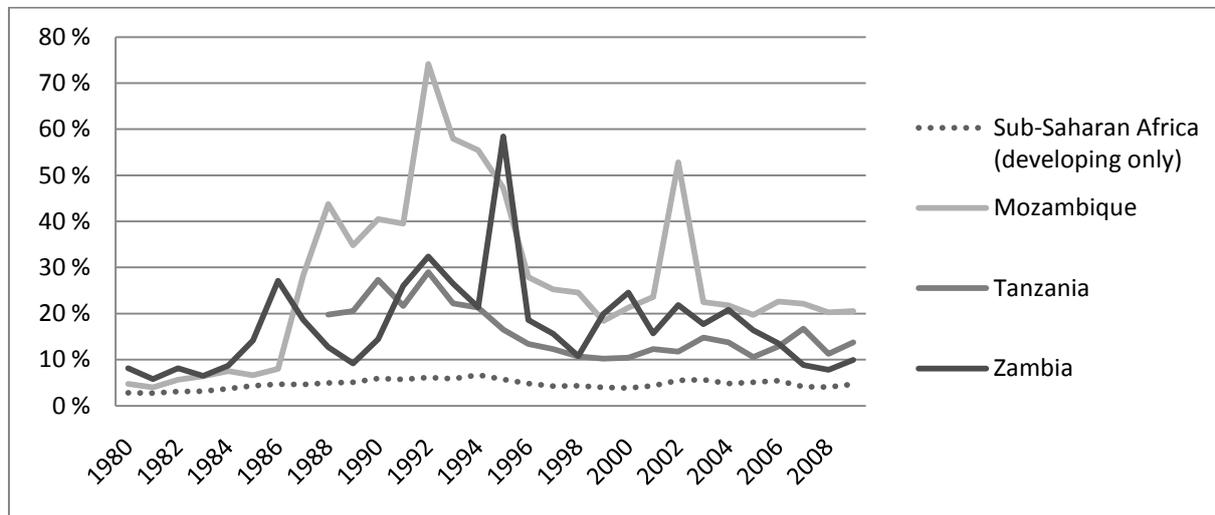
Figure 2: Tax revenues and foreign aid in % of GDP (2007-2009)

Source: Tax-to-GDP ratio see Table 1, Aid-to-GDP ratio estimated by the authors based on World Bank data on Official Development Aid in current USD (World Bank 2011b) and GDP Current USD from the World Bank (2011a).

Note: *Figures for Tanzania refer to fiscal years 2006/07-2008/09.

Aid as a share of GDP for the period 1980-2009 is reported in Figure 3. The large fluctuations of foreign aid allocations during this period are noticeable for each of the three, reflecting the volatility of aid revenues. For sub-Saharan Africa on average, however, ODA as a share of GDP has been relatively stable over time.

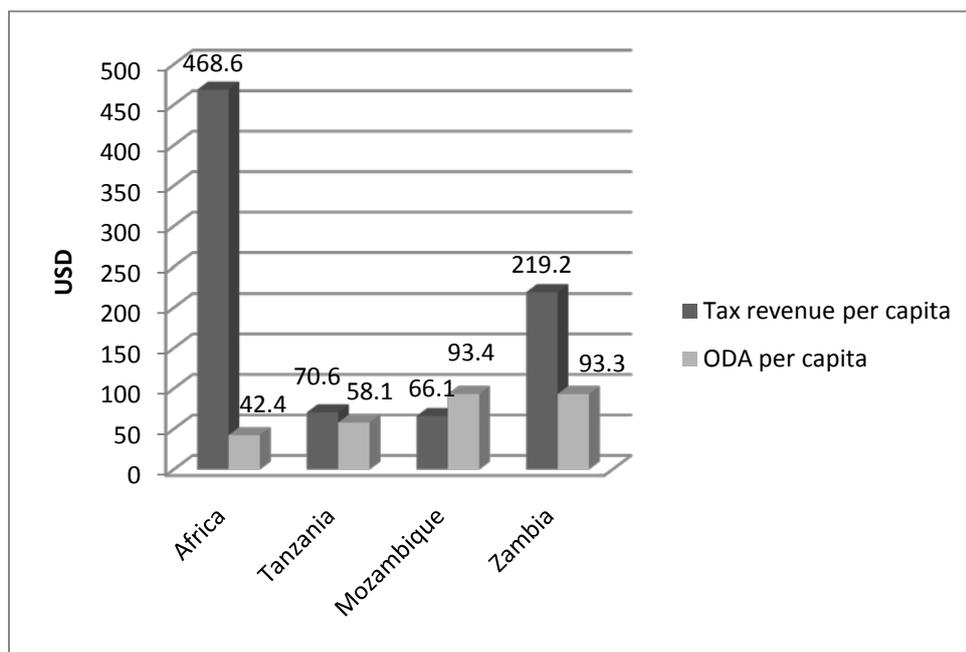
Figure 3: Aid as share of GDP (1980-2009)



Source: Official Development Aid in Current USD (World Bank 2011b)

Figure 4 shows the relationship between official development assistance (ODA) per capita and tax revenue per capita in 2008. On average, tax revenue per capita in Africa was USD 469 while ODA represented USD 42 per capita. Tax revenue per capita in Zambia was USD 219 compared to ODA of USD 93 per capita. The corresponding figures for Mozambique are USD 66 and USD 93, and for Tanzania USD 71 and USD 58. Aid per capita is higher per capita in all three countries compared to the African average of USD 42.

Figure 4: Aid and tax revenue per capita (2008)



Source: African Economic Outlook 2010h

Official Development Assistance (ODA) as share of total public revenues shows a decline from 2004 to 2008 in all the three countries (Table 2). For Tanzania, ODA as share of total public revenues increased from 2005 to 2007, and thereafter declined. The substantial drop in aid dependency from 2007 (53% of total government revenues) to 2008 (41%) is mainly due to ODA levelling out combined with increased domestic revenue enhancement. Still, Tanzania is highly aid dependent with foreign aid contributing more than 40% of total government revenues in 2008. The decline in Mozambique's aid dependency from 2003 to 2008 is less spectacular, with an ODA level around 60% of total government revenues during the period. The slight reduction in ODA as share of total government revenues from 2006 onwards is mainly due to increased domestic revenue collection after the establishment of the ATM.

Table 2: Official Development Aid as share of total government revenues (2003-2008)

	2003	2004	2005	2006	2007	2008
Tanzania	57 %	54 %	46 %	48 %	53 %	41 %
Mozambique	63 %	62 %	58 %	60 %	58 %	56 %
Zambia	49 %	53 %	48 %	44 %	32 %	28 %

Source: African Economic Outlook and OECD Development Assistance Committee 2010 (AEO 2010e,f)

What is the relationship between foreign aid and taxation? Does aid substitute for domestic tax mobilisation? The rentier-state model argues that the scaling-up of aid will crowd out domestic tax efforts and thus generate patterns similar to what occurs in natural resource rich countries ('petro-states') (Gupta *et al.* 2003; Remmer 2004). However, there is *no* robust evidence to support the claim that aid crowd-out domestic tax effort (di John 2009: 26). For instance, some recent econometric studies have reached the opposite conclusion and identifies an overall positive effect of aid on tax effort (Brun *et al.* 2007; Moss *et al.* 2006). Gambaro *et al.* (2007) find evidence that there is a positive association between aid inflows and tax revenue, which is primarily driven by the positive relationship between grants and tax revenue over the period 1990-2000. The authors emphasise that their conclusions only hold for the period 1990-2000, which is both a more recent and shorter time frame than the study by Gupta *et al.* (2003). Although the results of these statistical studies should be considered with caution because of lack of reliable fiscal data for lower income aid dependent countries, the positive correlation between aid and tax revenue lends some support to the interpretation that development aid since the 1990s, through its stronger focus on institutions may have led to an improvement in the tax administration and revenue collection in recipient countries (di John 2009). An important conclusion highlighted by Gambaro *et al.* (2007) is that 'both donors and recipient countries should try to identify the pivotal set of policies that influenced the response of tax revenue to the inflow of aid after 1990'. Nevertheless, research suggests that sustained aid dependence tend to have negative impacts on governance by limiting the scope for domestic accountability (Bräutigam and Knack 2004). According to Bräutigam (2000), aid dependence creates incentives for governments to be accountable to donors rather than to their own citizens. Thus, when governments respond to these incentives and donors exercise a degree of control over policy and spending decisions, domestic accountability institutions such as parliaments are likely to be marginalised (Eberlei and Henn 2003; Langdon and Draman 2005; CABRI/SPA 2008).

2.2 Composition of tax revenues in Africa

There is no optimal tax mix. The way tax systems are designed, both in developed and developing countries, is the result of what is feasible given the need for revenue to finance expenditures, administrative and fairness considerations, historical developments and broader political economy considerations (Volkerink 2009). Many African countries inherited the tax system that was in place under the colonial period. Historically, taxes have been levied on the 'tax handles', which were available and administratively feasible (see Box 1). At the turn of the last century, typically excises were levied on imports and on agricultural produce as these goods could easily be traced physically.

Over time, as the need for revenue increased and countries developed, taxing of broader bases (income and later consumption in a broad sense) became more common.

Box 1: Tax handles

Tax handles, i.e. structural features of economy that make tax collection feasible at low administrative costs, typically comprise of the following:

Concentrated trade: if major trade flows pass through a limited number of points (international airports, harbours, a limited number of land crossings) tax collection is typically easier than for countries with more porous borders.

Openness of the economy: As imports are easier to tax, countries that are open to trade generally are in a better position to tax than more closed economies.

Character of the agricultural sector: Small scale agriculture is generally hard to tax, whereas large corporate cash-crop farming is often easier to tax.

Presence of large corporate sectors: Large companies are typically easier to tax than smaller ones, though widespread tax exemptions and transfer pricing by multi-national companies may lead to limited tax revenues.

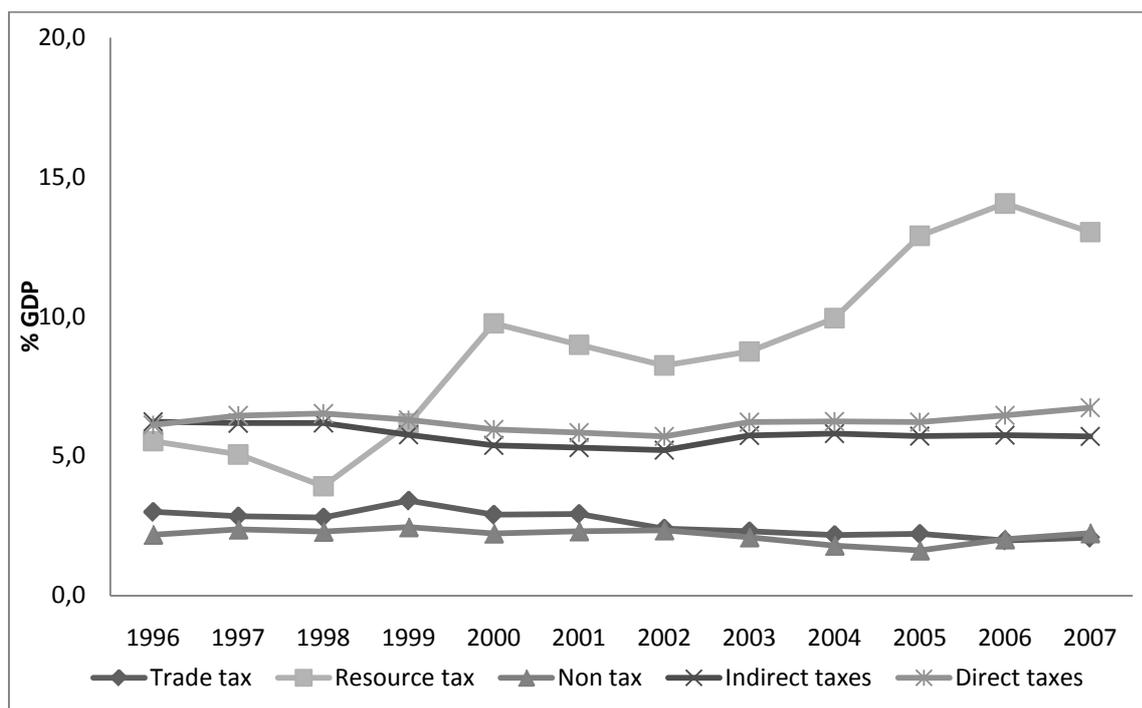
Informal sector: The nature of the informal sector is such that these activities escape most taxes.

Administrative capacity: The availability of qualified accountants and auditors, as well as general high literacy and education levels in the society, increases the possibility to levy more comprehensive (less presumptive) forms of taxation that often raise more revenue.

Per capita income: More developed countries typically are able to levy higher taxes than less developed countries.

Source: Volkerink (2009:17).

Central government tax bases across Africa can be categorised into: (i) Direct taxes on individuals and companies; (ii) Indirect taxes imposed on goods and services; (iii) Trade taxes; and (iv) Natural resource related taxes. Figure 5 illustrates the average tax mix in Africa since 1996, weighted by the size of the economy, and measured by collected revenues as a share of GDP. Since 1999, there has been a substantial increase in revenues from natural resources in per cent of GDP on the African continent. Revenue from trade taxes, however, has steadily decreased since the end of the 1990s due to economic liberalisation and reduction of trade barriers (AEO 2010c). On average there has been a very modest increase in direct taxes, while revenues from indirect taxes have stagnated in percent of GDP. With respect to direct taxes, personal income tax revenues have subsided while corporate income tax revenues have grown during the period 1996-2007. Thus, total revenue from direct taxes has remained relatively stable over time although there have been structural changes in the revenue base (Marshall 2009).

Figure 5: The tax mix in Africa in % of GDP (1996-2007)

Source: *African Economic Outlook (AEO, 2010b)*

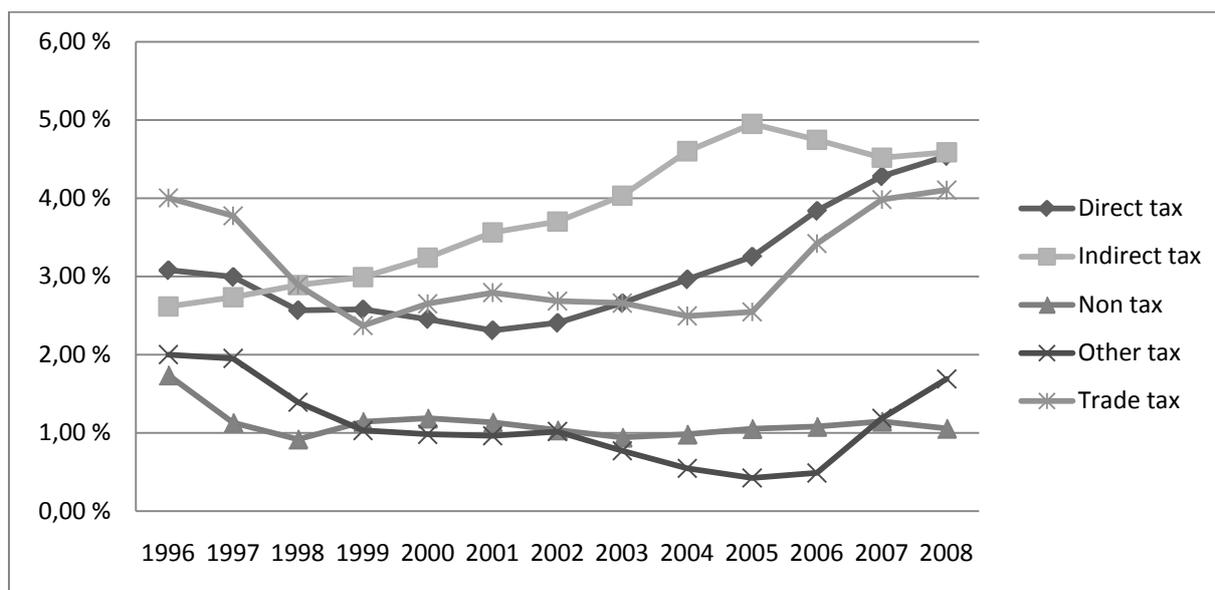
Natural resource rich countries have experienced a revenue growth of about 7.7% of GDP from 1980 to 2005 (Keen and Mansour 2010: 556). The growth has, however, largely been within the main oil-exporting countries, including Angola, Equatorial Guinea, Gabon, Cameroon, and Nigeria. In contrast, revenues from the mining sector have lagged behind. According to Sol (2010:5), “African governments have not been able to optimize the mining tax revenue and anticipate windfalls during the price boom from 2003 to 2008”. The reasons are due to too many concessions and subsidies granted to mining companies operating in Africa and a high incidence of tax avoidance facilitated by secret mining contracts and ‘creative’ accounting mechanisms. Further, mining companies generally have a strong negotiation position vis-à-vis many African governments and claim they have to be compensated for the unique risks they face through special tax exemptions and concessions (see section 5.2).

It is important to understand the composition of the tax revenue when planning policy design. Evidence from Western countries suggest that countries relying more on consumption taxes rather than taxes on labour and capital income tend to save more and grow faster. On the other hand, personal income taxes provide a better-targeted way of structuring an equitable tax system. Further, IMF (2005) finds that in principle there are clear gains to be made in moving from reliance on customs revenues and towards domestic consumption taxes.

2.3 The tax mix in Tanzania, Mozambique, and Zambia

Figures 6-8 present the composition of central government tax revenues in the three case countries. Comparable data specifying natural resource tax revenues were not available for the research team. However, a discussion of natural resource revenues in each of the case countries is included in section 2.4.4.

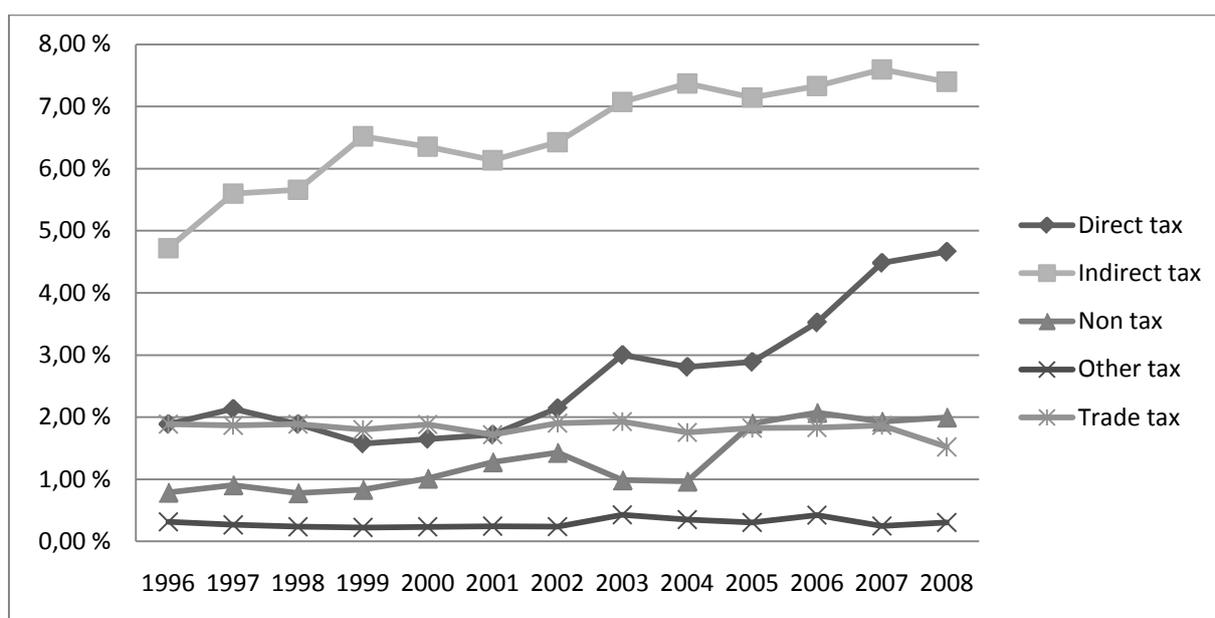
Figure 6: Tanzania tax mix in % of GDP (1996-2008)



Source: Compiled by the authors based on World Bank (2011a) and AEO (2010a).

Indirect taxes (mainly VAT and excises) were the largest tax base in Tanzania during the period 1999 until 2008 (Figure 6). From 2001, however, revenues from direct taxes (personal and corporate) in percent of GDP have gradually increased. From 2005, onwards, the same applies for trade taxes (import duties). Thus, by 2008, indirect taxes (4.6%), direct taxes (4.5%) and trade taxes (4.1%) contributed with almost the same tax share of GDP. Trade tax revenues declined from 4% of GDP in 1996 to 2.6% in 2005, before increasing to 4.1% in 2008. Non-tax revenues are mainly fees and charges from various ministries and have been kept relatively stable as a share of GDP throughout the period.

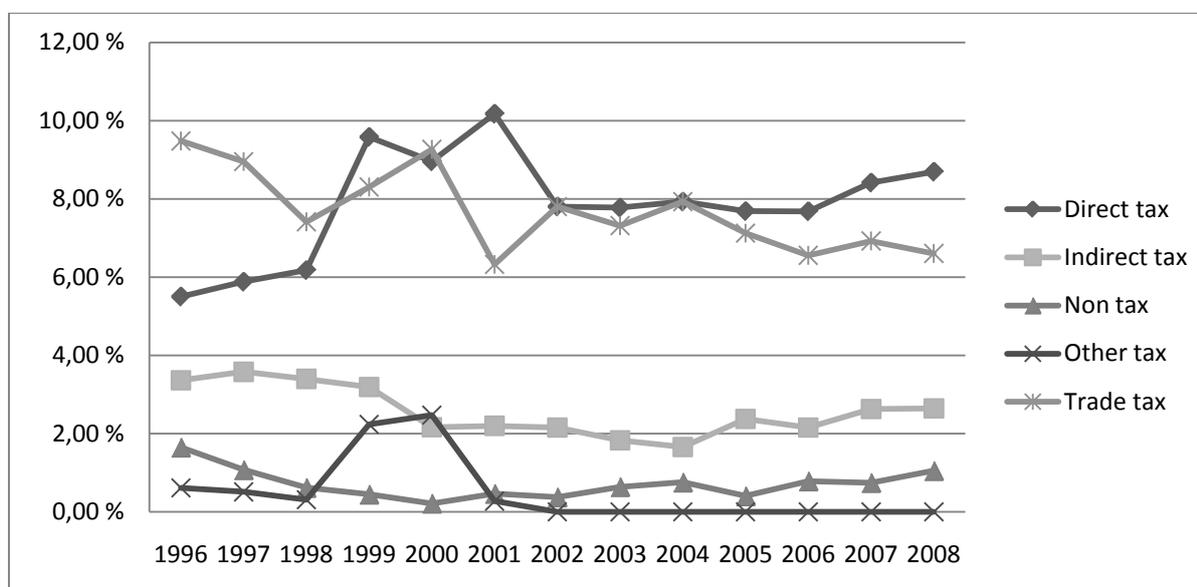
Figure 7: Mozambique tax mix in % of GDP (1996-2008)



Source: Compiled by the authors based on World Bank (2011a) and AEO (2010a).

Mozambique is much more dependent on indirect taxes (as a share of GDP) than Tanzania. In 2008, indirect tax revenues represented 7.4% of GDP compared to 4.7% for direct taxes and 1.5% for trade taxes. Indirect, direct and non-tax revenues have all increased as share of GDP between 1996 and 2008, while trade taxes in percent of GDP have remained relatively stable, representing 1.9% of GDP in 2003, and 1.5% in 2008, which is in line with the overall trend of decreased importance of trade tax throughout Africa (Figure 7).

Figure 8: Zambia tax mix in % of GDP (1996-2008)



Source: Compiled by the authors based on World Bank (2011a) and AEO (2010a).

In Zambia, revenues from direct taxes and trade taxes have constituted the largest GDP shares of tax revenue during the period 1996 to 2008, with a gradual decrease in the importance of trade taxes from 2003 (7.3% of GDP) to 2008 (6.6%). Indirect taxes hit a low in 2004 with 1.7% of GDP compared to 3.4% in 1996 and 2.6% in 2008 (Figure 8). The importance of indirect taxes has decreased over the last decade and that both trade and direct taxes contribute more to Zambia's GDP than indirect taxes. Compared to Tanzania and Mozambique, Zambia is less dependent on indirect taxes, and more in line with the African average with respect to indirect and direct taxes.

2.4 Features of the major taxes in Mozambique, Tanzania and Zambia

The four major tax bases in Mozambique, Tanzania and Zambia are: (i) Direct taxes on individuals and companies; (ii) Indirect taxes imposed on goods and services; (iii) Trade taxes, in particular customs duties; and (iv) Natural resource-related taxes. This section briefly examines key features of these revenue bases.

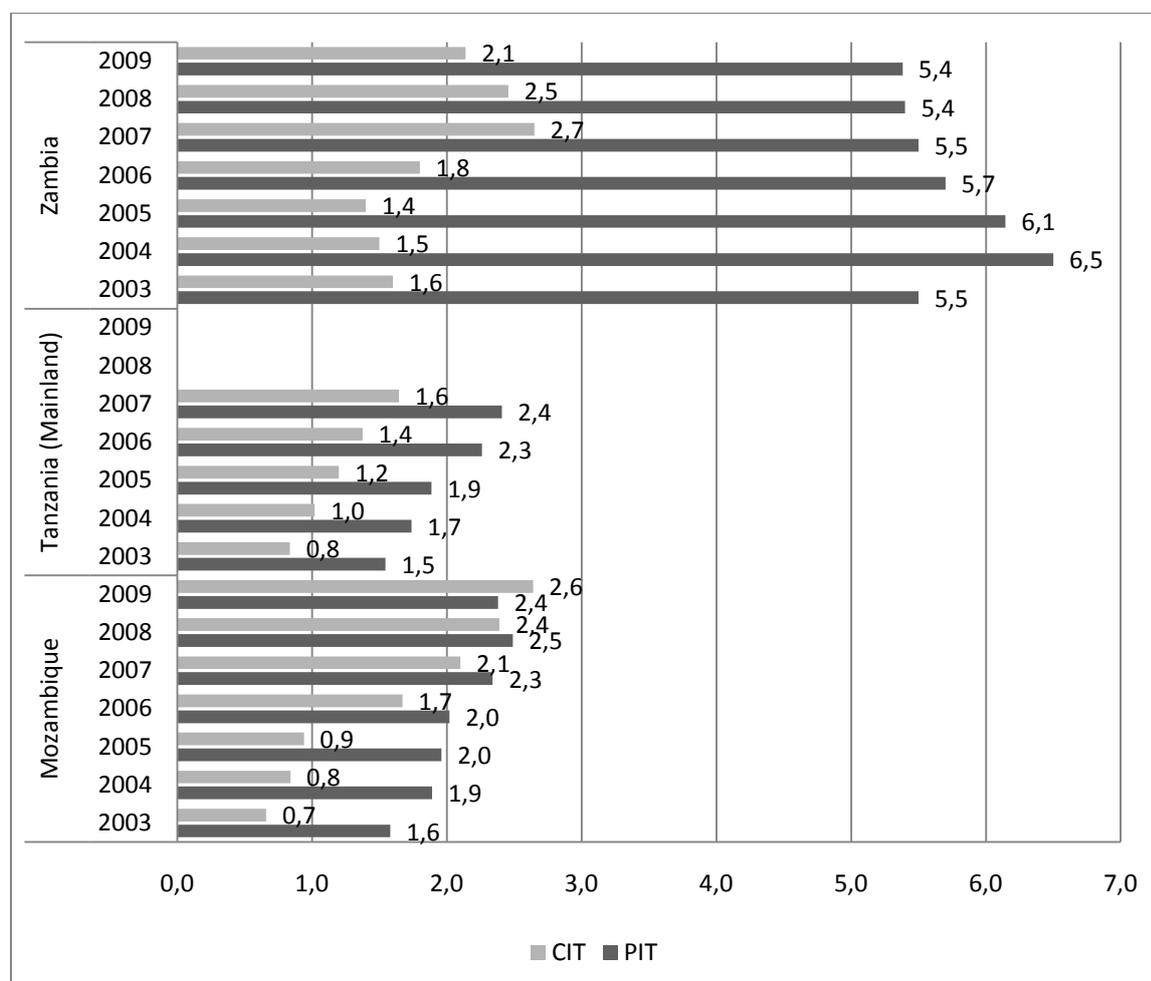
2.4.1 Direct taxes

Direct taxes consist of taxes levied on the income of individuals and on corporate profits. During the period 2002-2008, direct taxation as a share of GDP has experienced a small increase in Zambia, while both Mozambique and Tanzania have seen a gradual increase (Figure 6-8).

Figure 9 illustrates the importance of Personal Income Tax (PIT) for Zambia, while there has also been an increase in Corporate Income Tax (CIT) from 2003 to 2009. In Mozambique the contributions of PIT and CIT have gradually evened over time with 2009 being the first year where a larger share of

direct taxes came from corporate taxes than from personal income tax. Tanzania has seen a gradual increase of direct taxes during the period with no apparent change in the proportion of taxes coming from individuals and corporations, respectively. Mozambique is in line with the African average as reflected in the fast growth of CIT and the subsiding importance of PIT relative to CIT. A similar trend is also observed in Zambia, although PIT is still more important measured as a share of GDP than CIT.

Figure 9: Direct taxes as share of GDP (2003-2009)



Source: Mozambique 2000-2006 based on Castro et al (2009: Table 2) and 2007-2009 based on Lemgruber et al (2010:9); Tanzania TRA (2011c,d) and for FY 2008/09 Bank of Tanzania; Zambia based on Bank of Zambia (2004-2009) and ZRA(2011).

Note: Tanzania refers to FY 2003/04- 2007/08; Zambia PIT 2005-2009 includes PAYE and withholding tax.

(i) Personal Income Tax (PIT)

PIT on salaried employment is based on 'Pay as You Earn' (PAYE). All three countries have lowered their overall personal income tax rates during the last decade in an attempt to broaden their tax base. The countries apply a progressive rate ranging from 0% to 30-35%.²

² The exchange rates applied in the following paragraphs refer to the *Quanda Currency Converter* (<http://www.oanda.com/currency/converter/>): (a) 1 USD = 30.9 MZM; (b) 1 USD = 1,496 TZS; (c) 1 USD = 4,671 ZMK [accessed 3 March 2011].

In Mozambique, the employment income is taxed under the PAYE system at rates up to 32% (Sal & Caldeira 2010:39). The maximum rate applies to an annual income above MZM 1,512,000 (approximately USD 48,900), while a 25% rate applies between MZM 504,000 (USD 16,300) and MZM 1,512,000 (USD 48,900). The 10% rate applies to income less than MZM 42,000 (USD 1,360). Employment income is widely defined and includes benefits received from the employer (Deloitte 2010).

Tanzania and Zambia also impose PIT on a graduated scale. In Tanzania, TZS 120,000 (USD 80) is charged on the first TZS 720,000 (USD 480) per month, and 30% of the excess (Deloitte 2010). Taxable income includes both cash and non-cash benefits. Income derived by an individual in conducting business is taxed in the same way as a company, though special rates apply if the turnover is less than TZS 20 million (approximately USD 13,400).

In Zambia, the first ZMK 8.4 million (approximately USD 1,800) per year is not taxed (Deloitte 2010). The next band up to ZMK 16.02 million (USD 3,430) is taxed at 25%, followed by the band up to ZMK 49.2 million (approximately USD 10,500) at 30%. Any excess is taxed at 35%. Local government authorities are allowed to add a 2% levy on income of resident individuals, up to ZMK 15,000 (USD 3.2) annually.

In spite of the laws' intention, the opportunity of using the PIT to improve vertical and horizontal equity is in practice more limited in Mozambique, Tanzania and Zambia than it is in developed countries. There are two main reasons for this. First, the tax base is typically non-comprehensive due to the large untaxed informal sector in the three countries (see section 5.1).³ Second, there are challenges in properly administering the tax. A recurring problem with PIT is the non-compliance of employers to register their employees and to remit such taxes to the relevant authorities (Ayee et al 2010). Further, capital income, predominantly earned by relatively wealthy individuals, either faces low effective rates or escapes taxation altogether. In Zambia, for instance, there is no tax on capital gains, while in Mozambique the gross capital gain or loss is halved in real estate or business assets (Deloitte 2010). In Tanzania, capital gain or loss is included in business or investment income and taxed in principle at 30%, but in practice it is easy to avoid.

Thus, although the personal income tax bases in a legal sense may be quite comprehensive, in practice the majority of those actually paying PIT are people employed by the government and those formally employed in a VAT and/or corporate income tax (CIT) liable company (Volkerink 2009:42). These are taxed through PAYE. For the tax administrations this is a simple way to ensure that revenues come in without creating too many taxpayers.

It is clear that the collection of PIT needs to be improved to make it a more potent factor in the tax system of the three countries, both with respect to revenue enhancement and from an accountability perspective. Some of the recommendations that should be considered for improvement include: (i) lowering overall income tax rates in an attempt to broaden the tax base; (ii) enforcing compliance of employers to register their employees and to remit such taxes to tax authorities; (iii) making room for increased reliance on presumptive taxation for self-employed (lawyers, medical doctors, dentists, consultants etc); and (iv) ensuring equity through conscious and coordinated efforts to taxing the informal sector. Mozambique Tax Authority (ATM) has made important efforts recently to incorporate formal sector operators in the tax base (see section 3.3.5). In Tanzania, the Block Management System (BMS) is highly potent for widening the tax base and capturing tax evaders (section 3.4.5).

³ In Zambia for instance, 83% of the labour force is engaged in some form of economic activity in the informal economy (Mulenga 2006: 120).

(ii) Corporate Income Tax (CIT)

Statutory corporate income tax rates in the three countries do not differ much from other lower income countries. In Zambia the standard rate is 35%, in Mozambique 32%, and in Tanzania 30% (Table 3). These rates are higher compared to many OECD-countries, whose average CIT rates are below 30%. Some upper middle income Africa countries also have lower CIT rates. For instance, the standard rate in Mauritius is 15%. For some sectors, however, notably mining and oil exploration, higher standard rates make sense, as location specific profits can easily be taxed at a higher rate without affecting decisions to invest or not.

Table 3: General CIT rates and rates on domestic withholding taxes

	<i>CIT rate (general)</i>	<i>Top marginal PIT rate</i>	<i>Withholding taxes (general) (dividends/interest/royalties)</i>
Mozambique	32	32	20/20/20
Tanzania	30	30	10/10/15
Zambia	35	37.5	15/15/15

Sources: Volkerink (2009) and Deloitte (2010a; 2010b; 2010c).

In Mozambique and Tanzania, capital gains and losses are included in ordinary income and taxed at company rate. For land and buildings in Tanzania, a single instalment is payable at 10% for residents and 20% for non-residents at the time of transfer, which is creditable against the final corporate income tax liability (Deloitte 2010ab). However, it is not clear whether the countries actually are able to tax capital gains. This reality is reflected in Zambia which has no tax on capital gains. However, in Zambia a balancing charge on the disposal of assets is included in taxable income, based on the proceeds less the tax written-down value, up to the total capital allowances claimed (Deloitte 2010c).

None of the three countries tax interest payments at the corporate level (Volkerink 2009: 38). The return to equity is, however, in all instances taxed, at least on paper. Interest income is typically assumed to be taxed at the recipient level. Although this distorts the form of finance, it is in line with international practice. All three countries tax interest income at the personal level though at different rates. In Mozambique interest paid to residents and non-residents is subject to a 20% withholding tax unless the rate is reduced under a tax treaty. A 0% rate applies to interest paid to a registered Mozambique financial institution. In Tanzania, the general rate on interest paid to residents and non-residents is 10%, but exemptions are available for interest earned by non-residents on deposits in banks registered by the Bank of Tanzania and on interest paid to resident financial institutions. In Zambia, interest paid to resident and non-residents is subject to a 15% withholding tax, unless the rate is reduced under a tax treaty.

Corporate income tax revenues have not been robust, partly due to a reduction in rates and base-narrowing, but mainly through tax exemptions and the provision of tax holidays in Investment Codes and Free Zones (Keen and Mansour 2010). For instance, in Mozambique, special tax regimes are established for certain investment projects where incentives are granted, e.g. in Rapid Development Zones, Industrial Free Zones, and in the agriculture, mining, oil, and tourism sectors. Correspondingly, in Tanzania, companies in export processing zones are exempt from income tax and withholding tax on dividends, interest and rent for the first 10 years. In Zambia, there are special rates for mining companies (30%) and for exporters of non-traditional products and farming and fertilizer producing companies (15%). Further, special tax incentives apply for companies in a priority sector or under the Zambia Development Policy Act.

Accordingly, one problem with the current CIT-system in the case countries is the prevalence of generous tax incentives. Tax holidays are present in all the three case countries (see Box 15). This leads to firms not being taxed in the first years of existence, when typically profits are negative. The presence of tax holidays has enabled a number of firms, notably extractive industries, manufacturing

and processing firms, but also hotels and tourist lodges, to effectively escape taxation altogether for a large subsequent number of years. Tax holidays are often granted for five years, but sometimes this extends to 15 years. The triggers for tax holidays in some sectors are quite explicit, whereas in others there is more room for discretion (e.g. as experienced in the mining sectors in Tanzania and Zambia).

Anti-avoidance or anti-abuse legislation is also a challenge in all the three countries. It contains two elements, namely, the arm's length principle for pricing transactions between related parties and thin capitalisation rules (both between related, international parties and for domestic tax payers). In Zambia the legislation for thin capitalization specifies a maximum debt-equity ratio of 3:1 for mining companies. In Mozambique, the deduction of intercompany interest is limited where the indebtedness to a non-resident related party is more than twice the equity. The legislation in Tanzania specifies that an interest deduction for payments made by an exempt controlled resident is limited to the sum of interest income plus 70% of total income, excluding interest income and interest expenses. Non-deductible amounts may be carried forward (Deloitte 2010).

While tax losses may be carried forward for 5 years in Mozambique, losses may be carried forward indefinitely in Tanzania. The carry back of losses is allowed neither in Mozambique nor in Tanzania. In Zambia losses may generally be offset against future income from the same source for the next 5 years of account. However, special rules apply for copper and cobalt mining companies where losses may be offset against future income for the next 10 years of account. Further, for mining companies losses may be indexed to the ZMK exchange rate against the US dollar (ibid).

The question remains open whether countries that do have proper anti-abuse legislation are in the position to apply it in an effective way. Tanzania, for instance, has a catch-all anti-avoidance clause in its CIT legislation, but is not clear how this is applied in practice (Volkerink 2009).

Ayee et al (2010) argue that there is substantial room for improvement in the existing CIT systems in many African countries, including Mozambique, Tanzania and Zambia. Some of the recommendations for improvement comprise: (i) uniformity of rates with the exception of national resource taxation; (ii) reconsideration of depreciation schedules; (iii) reform, harmonization and scaling back of tax incentive schemes to prevent the harmful effects of tax competition; (iv) withholding taxes on interest should be at least positive and high to prevent distortion of the debt-equity ratio; and (v) enforcement of anti-avoidance legislation.

Box 2 discusses what role corporate income tax might play and Box 3 examines which tax rate matters for investors.

Box 2: What role should corporate income tax play?

What role should corporate income tax (CIT) be playing in Mozambique, Tanzania and Zambia? Why should these countries – relatively small and increasingly open to capital movements - tax corporate income at all? There are several reasons:

1. *Foreign direct investment and tax competition:* When a country hosting an investment offers a lower corporate income tax rate than does that in which the investor (personal or corporate) resides, the benefit may flow not to the investor but to the treasury of the residence country. This is because countries that have residence-based income-tax systems (such as the UK and US) tax income on a worldwide basis, giving a foreign tax credit for taxes paid in the host country; the total tax ultimately paid by the investor is thus determined by the residence country, not the source country. In such cases it is in the interest of the source country to set its tax rate no lower than that of the residence country, since otherwise it simply forgoes revenue that then accrues to the residence country - with no impact on the total tax paid by the investor (and the investment decisions).
2. *Location-specific rents:* Pure profits that are tied to some geographical location, such as those deriving from natural resources (e.g. oil and minerals), can, in principle, be taxed at up to 100% without causing investors to look elsewhere. Taxing such rents can be especially attractive since doing so is in principle non-distortionary, and the rents may otherwise accrue largely to foreigners. In practice, however, capturing even resource rents is by no means straightforward. Apart from the scope for multinational resource companies to disguise these rents, countries may have to compete to attract scarce managerial and technical skills and can risk discouraging exploration if they over-tax resource investments once they have been made.
3. *Back-up to the personal income tax:* If corporations were not taxed (and in the absence of fully effective taxation of capital gains), capital and to some extent labour income might go largely untaxed as rewards would be taken in the form of undistributed corporate earnings. Thus, CIT should be seen as a back-up to the PIT.
4. *Attractive tax handle:* Perhaps most important for developing countries, with limited administrative capacity, is that corporations provide an attractive tax handle (see Box 1). Since investment is typically concentrated in a relatively small number of large corporations, the CIT is – in principle - relatively easy to collect. The establishment of a Large Taxpayer Office in the tax administrations intends to facilitate this further.

All this leaves a more important role for the CIT in the case countries. Any prospect of its erosion through international tax competition would be a significant cause for concern.

Source: Keen and Mansour (2010)

Box 3: Corporation tax: which tax rate matters for investors?

Three tax-rate concepts are frequently used in analysing the effect of taxes on corporate decisions. They are interconnected, but have an impact on different aspects of business decisions.

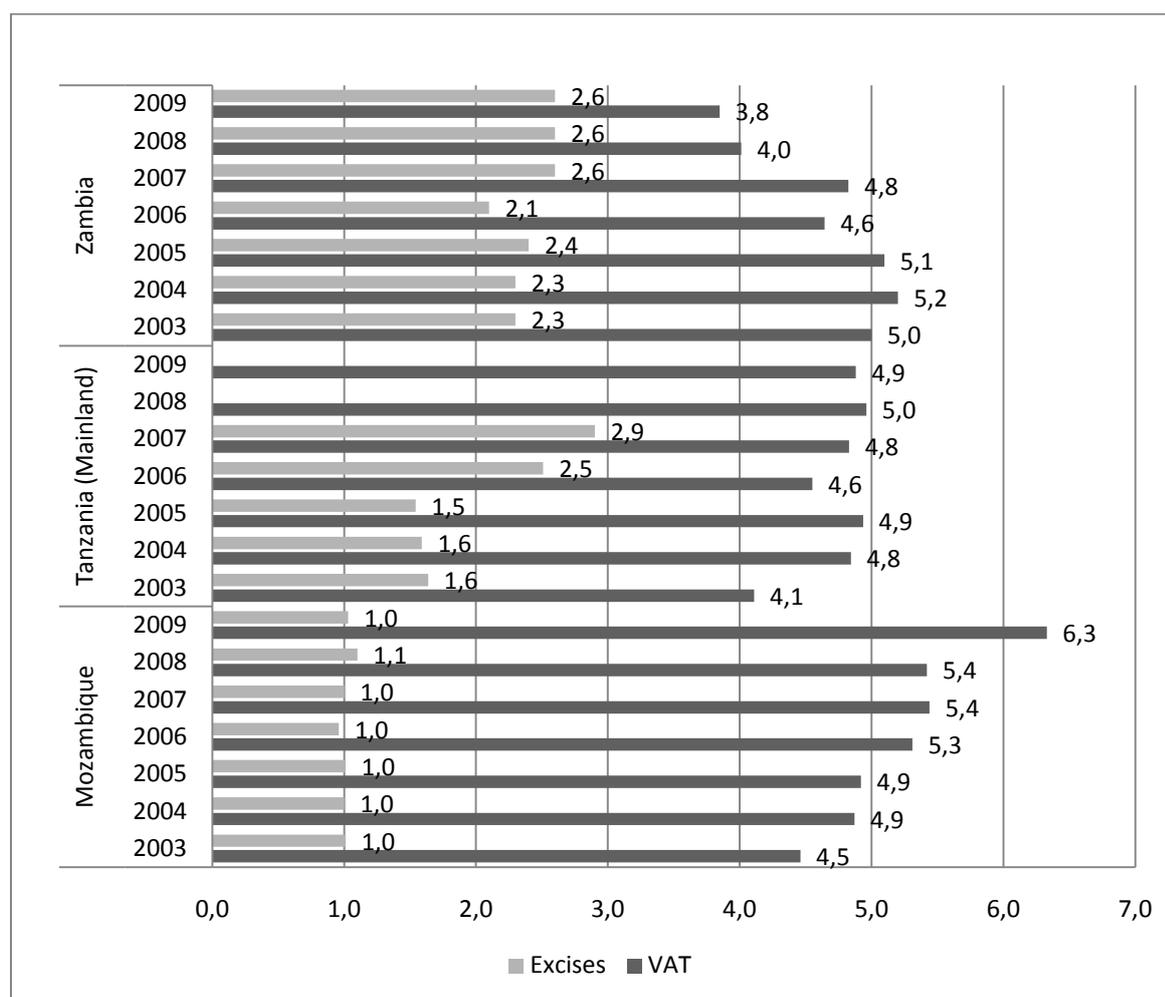
- *The statutory tax rate:* The headline CIT rate is visible, readily understood, and easy to compare across countries. But since the final tax liability on an investment is determined by the product of this rate and the tax base (reflecting, *inter alia*, the tax treatment of depreciation and financing costs) and since other taxes could also apply to investments (tariffs, cascading sales taxes, stamp duties, and so on), the statutory rate is of limited use in assessing the impact of the tax system on real investment decisions. It is the statutory rate, however, that is most relevant for tax-planning by shifting income across tax jurisdictions: this is because the values of the deductions and liabilities involved depend simply on this rate.
- *The marginal effective tax rate:* This measure, which combines the effects of the statutory tax rate and key features of the CIT base, indicates by how much the corporate tax increases the rate of return that an investment must earn before tax in order to yield the minimum after-tax return required by investors. It thus summarises the impact of the CIT on *how much* to invest in a given country.
- *The average effective tax rate:* This measures the present value of taxes on a project relative to the present value of the pre-tax revenue stream it generates. All else being equal, a project will be located in whichever country offers the lowest average effective rate, which thus shapes *where* to invest. It can be shown that this average effective rate is a weighted average of the other two rates.

Source: Keen and Mansour (2010)

2.4.2 Indirect taxes

These taxes include VAT and excise duties. During the last decade, indirect taxation as a share of GDP has increased in Mozambique and Tanzania, while they have decreased (marginally) in Zambia (Figure 6-8).

Value Added Tax is a major tax base in all three countries (Figure 10). In 2009, VAT generated revenues equal to 6.3% of GDP in Mozambique, which was more than the revenues from personal and corporate income taxes combined. This was also the case in Tanzania where the VAT-to-GDP ratio was 4.8% compared to 4.1% for PIT and CIT combined in 2007/08. In Zambia, however, personal income tax generated more revenues than VAT in both 2008 and 2009 (Figures 9 and 10). Excises have been stable in Mozambique from 2003 to 2009, while Tanzania saw an increase in 2006 and Zambia in 2007.

Figure 10: Indirect taxes as share of GDP (2003-2009)

Source: Tanzania GDP based on TRA (2011d); VAT Tanzania 2008/09-2009/10 based on official government statistics (Tanzania 2010:82); Mozambique from 2000-2006 based on Castro et al (2009: Table 2) and from 2007-2009 based on Lemgruber et al (2010:9); Bank of Zambia (2004-2009); and ZRA (2011).

Note: Tanzania shows FY 2003/04-2009/10

(i) Value-added-tax (VAT)

VAT is levied on the taxable supply of goods and services, and on imports. The standard VAT-rate in Mozambique is 17%, in Tanzania 18%, and in Zambia 16%.⁴ These rates are in line with the typical VAT-rates in other African countries between 15-20%, but higher than in other developing regions. In most Asian countries, for instance, the VAT-rates are around 10%, whereas in the Americas, the average is around 14% (Volkerink 2009). Exports of goods and services are zero-rated in Mozambique, Tanzania and Zambia, which is common practice in many countries.

In Tanzania, the VAT-registration **threshold for businesses** is an annual turnover in excess of TZS 40 million (approximately USD 26,700) over a period of 12 consecutive months. In Zambia, the registration threshold for businesses is an annual turnover in excess of ZMK 200 million (approx.

⁴ In all the three countries the VAT-rate on some goods and services are lower than the standard rate and some are exempted.

USD 42,800). Commonly, the monthly VAT must be filed by the last (business) day of the following month. The countries apply a credit-invoice type of VAT.

Although there is a wide variation in the level of thresholds for VAT-registration, the trend in Mozambique, Tanzania and Zambia, similarly to other African countries, has been to increase the threshold. The argument has been that a higher threshold around USD 40,000 will reduce the administrative costs by removing from the tax net those taxpayers who generate little net revenue and to 'ensure that the tax administration can focus on those firms that 'matter' (Cnossen 1998; Ebrill et al 2001). For this reason, the threshold in Tanzania, for instance, was doubled in 2007. In addition, it is argued, a higher threshold will reduce the compliance costs, which fall disproportionately on small firms (Volkerink 2009: 35).

In general, the threshold would ensure taxation of those above and leave those under the threshold untaxed – save for non-creditable VAT paid on inputs. This may ensure that substantial revenue is raised at relatively low administrative and compliance costs (ibid). However, this approach is contrary to the emphasis in principle within the global tax reform program on broadening the tax net (see Chapter 4). Thus, some countries in Africa, including Mozambique and Zambia apply **presumptive taxation** for firms below this threshold. If the presumptive regime is kept simple this may keep the compliance costs low and avoid excessive administrative costs.

According to Bodin and Koukpaizan (2008), generally 70% of VAT revenue comes from only 1% of the enterprises, while only 5-10% of the VAT revenue comes from 80-90% of the firms (i.e. the smallest ones). There are several arguments in favour for taxing these smaller firms, most of which are informal sector operators (Volkerink 2009:36). First, it increases gross revenues. Second, the sheer size of the **informal sector** is so large in Mozambique, Tanzania and Zambia that non-taxation would be a substantial bonus to the informal sector, relatively to the taxed formal sector. Third, participation and constructive state-society engagement around taxes are encouraged by having as many taxpayers as possible in the tax net. The main arguments against a presumptive regime are that little revenues are raised and that this comes at the expense of costs for the administration.

A more fundamental question is whether a **presumptive regime** for small enterprises should apply inside the VAT-system or inside the PIT. The main argument for taxing them presumptively under the PIT is that, following the logic of the VAT, those below the threshold are already paying VAT on their inputs. Thus, those traders already 'participate' in the VAT, and they should pay both income tax and VAT. Therefore, the presumptive regime should be in the income tax and not in the VAT (ibid).

If properly administered, VAT leaves an audit trail (the invoices) and does not distort production decisions as ideally no cascading results. Nor does it distort the inter-temporal consumption decision. Consequently, essential pre-conditions for a well-functioning VAT are sufficient **administrative capacity** and a limited cash-based economy. Unfortunately, this is not the case in most African countries, including Mozambique, Tanzania and Zambia (Ayee et al 2010).

Tax policy is another problem with VAT in the three case countries. Like in many other African countries, numerous **exemptions** are granted by the Governments. Generally, health care, education, financial and insurance services, basic foodstuffs, small-scale agriculture, sale of buildings and land, and philanthropic services are exempted from VAT. Tax exemptions are discussed further in chapter 4.

(ii) *Excises*

Excise duty is an *ad valorem* tax on the output of manufactured goods. Excise duties are levied on what often are referred to as "sin goods" (alcoholic beverages and tobacco products) and fuel. Excise duty on fuel (petrol, diesel, kerosene and more mundane fuels such as wood) is difficult to calculate because of the interplay of volatile world oil prices, frequent changes in excises and the prevalence of subsidies. In some countries in Africa, including Mozambique, there have often been public outcry

and furore over fuel price increase as it affects not only transport, but also the price of goods, including foodstuffs. In contrast, excises on tobacco and alcoholic beverage are in general relatively easy to collect due to the often few and large companies importing, producing and/or marketing the products in the individual country. However, because of the relatively small tax base, one should not expect that excises will raise a significant amount of revenue (Volkerink 2009). Still, excise duties matter. In Tanzania, for instance, 19% of the total tax revenues came from excises in 2007/08, compared to 14% in Zambia and 8% in Mozambique (Table 4).

Table 4: Excise duties in percent of total tax revenues

	2005	2006	2007	2008	2009	2010
Mozambique	-	8.21	7.42	8.13	6.98	8.01
Tanzania	14.2	13	18.6	19.1	-	-
Zambia	14	13.08	14.75	14.33	10.59	-

Sources and notes: Compiled by the authors based on statistics from the Government of Mozambique, Zambia Revenue Authority (ZRA 2011) and Tanzania Revenue Authority. Tanzania shows fiscal years 2004/05-2007/08 with excise duties on domestic and import goods combined as a share of total tax income from Mainland Tanzania (excluding Zanzibar) (TRA 2011c). Mozambique refers to domestic and import excises as a share of total tax income with real numbers 2006-2009, while 2010 refers to budget numbers (Republic of Mozambique 2009; 2011 and unpublished material).

In Tanzania (Mainland) excise duties have become an increasingly important revenue source during the period 2004/05-2007/08, but the data from Tanzania do not reflect the change in the composition of excise revenues over time. Revenues from excise duties on domestic goods decreased from 12.2 % of total tax revenue in 1996/97 to about 6.4 % in 2007/08. In contrast, excises on imported goods increased from 3.1% of total tax revenue (mainland) in 1999/00 to 12.7% in 2007/08. Thus, revenue from excise duties on import has become increasingly more important for total government revenue than excises on domestic goods in Tanzania (TRA 2011c).

2.4.3 Trade taxes

Trade taxes refer to customs duties levied at the border. These are mainly import tariffs since export duties have been abolished in most African countries, including the three case countries. Import duties are charged as a percentage of the value of imports or as a fixed amount contingent on quantity.

On average, trade tax revenues in Africa have declined substantially as share of GDP during the last decade. The decline has taken place in upper middle income and lower middle income countries, while revenues from trade taxes in most lower income countries have remained stable as share of GDP. In Mozambique revenues from trade taxes as share of GDP have remained relatively stable during the period 1996 to 2008 (Table 5). Still, trade taxes in Mozambique represent less than 2% of GDP. In Tanzania the GDP share of trade taxes decreased during the period 1997-2005 and thereafter increased to the same level in 2008 as in 1996 (4%). For Zambia the importance of trade taxes has dropped as share of GDP from about 9.5% in 1996 to 6.6% in 2008. Still, trade taxes are a major revenue base in Zambia.

Table 5: Trade tax as share of GDP (1996-2008)

Trade tax	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Mozambique	1.89	1.87	1.89	1.80	1.88	1.72	1.90	1.93	1.76	1.82	1.83	1.87	1.52
Tanzania	4.00	3.77	2.89	2.37	2.65	2.79	2.68	2.66	2.49	2.55	3.42	3.98	4.10
Zambia	9.48	8.95	7.41	8.30	9.27	6.32	7.80	7.32	7.93	7.13	6.56	6.92	6.61

Source: Based on African Economic Outlook on trade tax estimates (AEO 2010a), and World Bank Data on GDP Current USD (World Bank 2011a).

Major problems with trade taxes include under-declaration of goods, tardiness in the clearing of goods due to the cumbersome clearing procedures in many African countries (Doing Business 2011a) and corruption in customs (Fjeldstad 2009). The World Bank's *Doing Business Index* measures the ease of trading across borders. Table 6 reports the score from *Doing Business 2011* (based on data collected in 2009 and 2010). It shows that the ease of trading across borders is considered best in Tanzania of the three countries. According to these data, Zambia is the weakest performer, also compared to the Sub-Saharan average. Although Zambia requires fewer documents to export and import goods, the time required for the transfer is considerably longer in Zambia than in Tanzania and Mozambique. With 44 days needed to export and 56 days to import goods combined with a much higher cost per container, Zambia has a challenge to make the procedures at the borders more efficient and cost effective.

Table 6: The ease of trading across borders

	Export procedures			Import procedures		
	Documents to export (number)	Time to export (days)	Cost to export (US\$ per container)	Documents to import (number)	Time to import (days)	Cost to import (US\$ per container)
Sub-Saharan Africa	8	32	1 962	9	38	2 492
Tanzania	5	24	1 262	7	31	1 475
Mozambique	7	23	1 100	10	30	1 475
Zambia	6	44	2 664	8	56	3 315

Source: *Doing Business 2011a*.

2.4.4. Natural resource-related taxes

Natural resource-related taxes are levied on both renewable and non-renewable resources. Revenues from renewable natural resources, mainly from fisheries, forestry, and wildlife, are commonly collected by the respective line ministries and in some cases by local government authorities (e.g. forest levies). Only limited revenues from renewable resources reach the Treasury in the three case countries. The revenue potential, however, is substantial. Revenue enhancement from renewable resources requires policy changes and better administration.

Taxes on non-renewable resources include mainly revenues from upstream exploration-to-processing activities in oil, gas and mining. It is principally royalties and corporate income taxes on resource extraction activities. On average resource-related tax revenues nearly tripled in Africa as a share of national income between the late 1990s and 2007. Since then, they have retreated slightly back to around 15% of GDP on average (Ayee et al 2010).

Mining is a revenue generating activity in all three case countries. Historical data on mining tax revenues are limited, and the tax regime in the sector is relatively complex. Extensive tax incentives are common. Changes in the regime and renegotiation of mining contracts are controversial and a source of both national and international debate. All three countries are candidate countries for the Extractive Industries Transparency Initiative (EITI) and have until mid-May 2011 to complete the validation process (EITI 2011a; www.eiti.org). Mining could potentially contribute with substantial revenues since the activity - in principle - is relatively easy to tax compared to many other economic activities (Roe and Essex 2009).

The mining tax regime in Mozambique

The mining sector is poorly developed, due to the long civil war during which the country was in effect closed to foreign investment-and the resulting lack of investment and available geological data (MEITI 2011). Consequently, the sector operates well below potential. In 2006, for example, the sector contributed only 1.6% of GDP. A number of large investments are now transforming the sector. The sector is projected to increase to 5% of GDP in 2011.

Minerals that are currently being exploited include titanium, tantalum, marble, gold, coal, bauxite, granite, limestone and gemstones (ibid). There are also known deposits of pegmatite, platinoids, uranium, bentonite, iron, cobalt, chromium, nickel, copper, granite, fluorite, diatomite, emeralds, tourmaline and apatite. The country's key areas for export growth are believed to be in base rather than precious minerals. Reserves of natural gas in commercially exploitable quantities have been identified, and further exploration is under way. There are also ongoing offshore oil explorations.

Since 2002, the Code of Fiscal Benefits (CFB) is applied to all large investment projects in Mozambique, and not only to the mining industries (see Chapter 4 Tax exemptions for mining). The following specifics count for natural resources in Mozambique:

- *Customs duties and VAT*: exempt for temporary import of necessary equipment.
- *Personal income tax*: exemptions for non-residents expatriate personnel.
- *Corporate income tax*: 32% on income derived from petroleum operations. If the field where development is undertaken before the end of 2010 the rate was reduced one quarter in the rate of CIT for the first eight years of commercial production.
- *Income tax by withholding*: standard rate 20% upon payment to non-residents with a few exceptions.
- *Depreciation for income tax*: exploration costs 100% in the year when commercial production starts. Development and production capital costs 25% each year from the year commercial production begins.
- *Carry forward of losses and deferral of depreciation*: up to six years from when the loss incurred.

Specific taxes on mining activities include (MEITI 2011):⁵

- Mineral royalty (Impostos/Produção/Royalties).
- Surface tax (Impostos de superfície).
- Tax/licence on concessions (Taxa de Concessão/Assinatura):
 - Reconnaissance licence.
 - Prospecting and exploration licence.
 - Mining concession.
 - Mining certificate.
- Taxation on profit (IPRC).
- Dividends from government shareholdings.

From a revenue perspective, royalties and profit tax are the most important ones. Mineral royalty is a production based tax which is captured in the Law no. 11/2007 (MEITI 2011). The production royalty is imposed on the value of the quantity of minerals extracted (the product of price and quantity) from the land. Royalty payment is based on the gross value (the product of price and quantity) of minerals mined on monthly basis. For mineral products sold, the value is based on the sale value declared by the extractive entity. In relation to mineral products left unsold at the end of the month, the valuation is based on the price of the last sale made by the extractive entity. If no sales are made in the month, the valuation is based on the market price of the mineral product. The law allows for the correction of the valuation figures of minerals if:

- i) documentation on sales does not allow the direct verification and accurate quantification of essential elements in determining the value of minerals; and
- ii) sales or other disposition were made at a value less than that of the market or without commercial considerations.

Although the law specifies that royalty payment is dependent on minerals extracted from the land and independent of sales, in practice most companies have negotiated with the government to pay royalties after sales have been made. For instance, some companies have negotiated, due to cash flow challenges to pay royalties on quarterly basis (i.e. on a 3 months cycle). The quantity of mineral products is checked by the Customs Department of the ATM.

The royalty rates are fixed according to the mineral type. Activity and surface fees apply from the moment the mining product is extracted. The rates are: Diamonds 15%; Precious stones and metals 10%; Semi-precious stones 6%; Basic minerals 5%; coal and other mineral products 3%.

For profit tax the following considerations are involved as part of the new mining fiscal regime (ibid):

- Capitalization of initial exploration and development cost in the first year of production.
- Standard straight line depreciation.
- Indefinite carry forward of capital allowances.
- Carry forward of operational losses for 3 years.

⁵ This section draws on MEITI (2011).

- Exemption of import duties taxes and other charges on goods imported for the purposes of exploration, development and mining. Goods must be unavailable in Mozambique to qualify for the exemptions.

Most of Mozambique's extractive sector industries are at the exploration and feasibility phases. Thus, extractive sector payments to the Government, particularly royalty is expected to increase substantially with time, as companies begin production (MEITI 2011). Tax on profit is also likely to increase in the near future with companies going beyond the initial investment period, and utilizing all the capitalized pre-production costs.

The first report by the Mozambique EITI multi-stakeholder group was launched in February 2011 (<http://eiti.org/Mozambique>). The EITI-report discloses payments made by the major mining and oil and gas operating companies to government for calendar year 2008. A discrepancy of MZM 111,675,556 (approx. USD 3,614,100) was recorded between extractive company payments and government receipts (MEITI 2011). This amount represents over 50% of total payments by the extractive companies.

The mining tax regime in Tanzania

The mining laws in Tanzania (see Box 4) were revised in July 2010 after having remained fairly unchanged since 1998 (TEITI 2011).

Mining accounted for 3.8% of Tanzania's GDP in 2006, and gold represented 90% of mineral exports (www.revenuewatch.org/our-work/countries/tanzania). Tanzania ranks fourth in Sub-Saharan Africa in gold production, and is also richly endowed with other minerals, including cobalt, copper, nickel, platinum group metals, and silver, as well as diamonds and a variety of gemstones. The petroleum sector is dominated by natural gas, of which there are currently two producing fields. Offshore oil exploration has increased in recent years on expectations of promising opportunities. Currently, more than a dozen international oil and gas concerns are in operation in Tanzania, including companies from the UK, Australia, Canada, Norway, Brazil, Holland, France and the United Arab Emirates (UAE).

The mining industry in Tanzania has grown considerably during the last decade. Large scale gold mining increased the production of gold from 323 kg in 1997 to 46,219 kg in 2004 (Roe and Essex 2009). A mining project gives highly variable income in the different phases due to the nature of investment, risk taking and the time it takes to start operating. Consequently, mining companies typically pay very modest amounts during the first years of operation, but there are expectations of increased tax revenues after the mine has been in operation for some years. According to IMF, mining tax revenue in FY 2007/08 amounted to approximately USD 90m, corresponding to 3.6% of total government revenues (ibid.). Consequently, despite the relatively large value of exports, the general opinion is that Tanzania has not been able to get a fair deal in the mining sector. It is likely that this view will be strengthened after the launch of the first report by the Tanzania EITI multi-stakeholder group in February 2011 (eiti.org/news-events/tanzania-discloses-mining-revenues-first-eiti-report). The EITI-report discloses payments made by the major mining and gas operating companies to government for the period of 1 July 2008 to 30 June 2009. The report showed that mining companies reported having paid USD 84.4m in 2008/09. However, government entities reported having received only USD 48.3m, i.e. unresolved discrepancies of USD 36.5m (TEITI 2011).

With the current mining tax regime in Tanzania, the International Council on Mining & Metals (Roe and Essex 2009) estimates that tax contribution of the existing gold mines will rise significantly until 2017, before a decline is expected to start if no new mining activity is initiated (ibid: 34). Assuming a nominal growth rate of total government tax revenues in dollar terms of 5% per annum through 2017, then total tax revenues would rise to USD 3.87bn. Mining revenues would then account for 7.3% of the total government revenues from domestic sources.

Box 4: Tanzania mining tax legislation

- Corporate income tax in mining 30%.
- Fuel tax levied on gasoline and gas oil (limit of USD 200,000 for companies with Mining Development Agreement).
- No tax, duty, fee or other fiscal impost on dividends for companies with MDA.
- No capital gains tax for companies with MDA.
- Losses carried forward for unrestricted period.
- VAT 18% on limited goods and services in the mining industry.
- Royalties – charged at the netback value of minerals sold: 3% for gold and minerals; 5% for diamonds and gemstones; 5% for uranium; 12.5% for petroleum and gas; 0% for cut and polished gemstones.
- License and permit fees, annual rental fees and other charges paid by mining and gas companies at different rates to LGAs and the Ministry of Energy and Minerals.
- Annual local government levy of USD 200,000 to be paid by mining companies to the local governments where the mines are located.
- Withholding tax on technical services to mining companies (5% for residents and for 15% non-residents). 10% withholding tax of the liable interest income for both residents and non-residents (except where it is stated otherwise in the respective MDA).
- Import duties levied on CIF value of goods imported to the country. Rates for goods imported from countries outside the EAC are 0% for raw materials, 10% for intermediate goods and 25% for finished goods. No customs duty on all equipment and materials for the period prior to first anniversary, thereafter maximum 5%.
- Ad-valorem excise duty rates of 7%, 10%, 20%, 30% and 120% depending on the product.

Source: FIAS (2006:24-27); Lange (2006:10); TEITI (2011:17)

A specialised agency - Tanzania Minerals Audit Agency (TMAA) - is established to conduct financial and environmental audits as well as auditing of quality and quantity of minerals produced and exported by mining companies (Box 5). It has taken over the functions previously undertaken by the Minerals Auditing Section in the Minerals Department under the Ministry of Energy and Minerals. TMAA is a unique institutional set-up for Tanzania. Similar entities are not in place in other mineral rich countries in the Region. However, according to people interviewed as part of this study, TRA does not receive sufficient information and data from TMAA which could have helped to strengthening the mining tax regime.

Box 5: Tanzania Minerals Audit Agency (TMAA)

TMAA is a semi-autonomous institution established through Government Notice No. 362 of 6th November, 2009 under the Executive Agencies Act, Cap. 245.

Roles and functions:

1. To monitor and audit quality and quantity of minerals produced and exported by large, medium and small scale miners; to determine revenue generated to facilitate collection of payable royalty.
2. To audit capital investment and operating expenditure of the large and medium scale mines for the purpose of gathering taxable information and providing the same to the Tanzania Revenue Authority (TRA) and other relevant authorities.
3. To monitor and audit environmental management, environmental budget and expenditure for progressive rehabilitation and mine closure.
4. To collect, analyse, interpret and disseminate minerals production and exports data for projecting Government revenue, planning purposes and decision making in the administration of the mining industry.
5. To counteract minerals smuggling and minerals royalty evasion in collaboration with relevant Government authorities.
6. To assess values of minerals produced by large, medium and small scale miners to facilitate collection of payable royalty.
7. To advise the Government on all matters relating to the administration of the mineral sector with main focus on monitoring and auditing of mining operations to maximize Government revenue.
8. To promote and conduct research and development in the mineral sector that will lead to increased Government revenue.
9. To examine and monitor implementation of feasibility reports; mining programs and plans; annual mining performance reports; and environmental management plans and reports of mining companies.

Source: TMAA (2011)

The mining tax regime in Zambia

The copper mining industry in Zambia is large. The Lumwana Greenfield project in the North Western province is the largest new copper mine in Africa. The mines were largely privatised in the years between 1997 and 2003, but the Zambia Consolidated Copper Mining Investment Holding Company (ZCCM) still has a minority shareholding interest in most of the mines. Gemstones also contribute to resource income for Zambia, although the gemstone industry is much more difficult to regulate than the large mines. How much is actually extracted from the mining sector in Zambia is unclear, because Zambia is also a transit country for natural resources from neighbouring Democratic Republic of Congo (Osvik et al., 2008). See Box 6: Zambia mining tax legislation in Zambia (April 2009) for the mining tax legislation in Zambia per April 2009.

The different types of revenue collected from mining are VAT; customs duties, excise duties; income taxes; property transfer tax; mineral royalty; medical levy; motor vehicle fee; and carbon tax (Osvik et al., 2008).

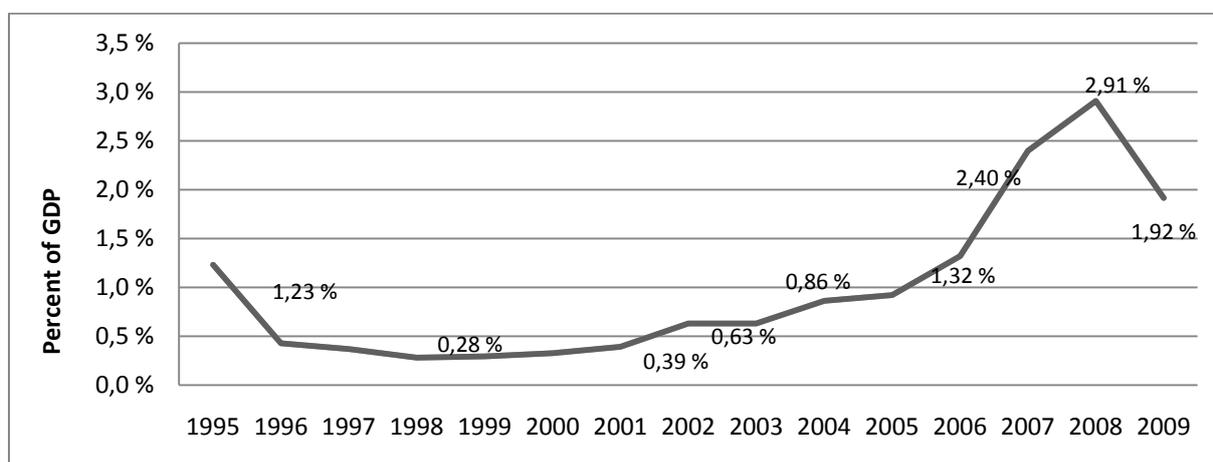
Box 6: Zambia mining tax legislation in Zambia (April 2009)

- Royalty on gross sales value of copper 3%
- Income tax 30%
- Variable income tax 15% (when profits are more than 8%)
- Export levy on concentrate copper ore export 15%
- Capital allowance 100%
- Losses carry forward 10 years
- Introduction of reference price to limit transfer pricing
- Ring-fencing of new mining investments and operations

Source: ZRA (2010c)

According to Zambia Revenue Authority, tax revenue from the mining sector represented 1.23% of GDP in 1995 (Figure 11). Thereafter, mining tax revenues dropped for several years (0.28% of GDP in 1998) before starting to increase in 2002 and reached 2.9% of GDP in 2008 (equivalent to approximately 17% of total tax revenues in 2008). However, in 2009 the mining tax revenues as share of GDP dropped to 1.9%, which represented 12.7% of the total tax revenues that year.

Figure 11: Zambia mining tax (2005-2009)



Source: Compiled by the authors based on data from the Zambian Revenue Authority (ZRA 2011)

Zambia's first EITI report was published 23 February 2011 (ZEITI 2011). The report discloses payments made by the major mining companies to government for 2008. It shows that mining companies reported having paid USD 463 million in 2008. Although the government entities report having received almost as much, the detailed figures reveal significant discrepancies in either direction among the different payment components. The reconciliation effort reduced these discrepancies to a net total of unresolved discrepancies of about USD 66 million. The unresolved discrepancies relate mainly to VAT and customs duties, but also to corporate income tax.

2.4.5 Other taxes

These include property tax, land tax, user charges (toll roads, levies on university education) and environmental levies. Most of these have not been explored in the three case countries, partly because of their highly sensitive and political nature. This notwithstanding, Tanzania is currently piloting a new system of property tax collection which implies that the Tanzania Revenue Authority (TRA) collects property tax on behalf of the municipalities in Dar es Salaam. These taxes do not yield substantial revenue, though property tax has the potential to become a major revenue source for municipalities.

2.5 Concluding remarks

This chapter has presented main features of the revenue structures in Mozambique, Tanzania and Zambia, and changes in these over time. There has been a substantial increase in domestic revenue generation measured in nominal monetary terms in all three countries during the last five years. Measured in tax-to-GDP terms, however, the tax share in Zambia has stagnated in recent years and saw a decline from 2008 to 2009. Mozambique and Tanzania, on the other side, have both seen a substantial increase in the tax share in recent years, although Tanzania experienced a decline in FY 2008/09, possibly due to the global financial crisis. Official Development Assistance (ODA) as share of total public revenues declined from 2004 to 2008 in all three countries. Yet, the countries are severely aid dependent. Aid contributed 56% of total public revenues in Mozambique in 2008, compared to 41% in Tanzania and 28% in Zambia.

Value Added Tax is a major tax base in all three countries. In 2009 VAT generated more revenues in Mozambique and Tanzania than the revenues from personal (PIT) and corporate income taxes (CIT) combined. Special for Zambia is the importance of Personal Income Tax, which in 2007 and 2008 generated more revenues than VAT. A recurring problem with PIT is the non-compliance of employers to register their employees and to remit such taxes to the relevant authorities. Further, capital income, predominantly earned by relatively wealthy individuals, either faces low effective rates or escapes taxation altogether. The corporate income tax regime is challenged in all three countries due to substantially tax-base narrowing, mainly through tax exemptions and the provision of tax holidays in Investment Codes and Free Zones (see section 5.2). The presence of tax holidays has enabled a number of firms, notably extractive industries, manufacturing and processing firms, but also hotels and tourist lodges, to effectively escape taxation altogether for a large subsequent number of years.

Mining is a revenue generating activity in all three countries. The tax regime in the sector is relatively complex. Extensive tax incentives are common. Changes in the regime and renegotiation of mining contracts are controversial and a source of both national and international debate. Mining could potentially contribute with substantial revenues since the activity, in principle, is relatively easy to tax compared to many other economic activities. However, considering the extent of natural resource rents in many sectors and in particular in mining, the current tax-to-GDP ratios are significantly below what they could have been if the resource rents were differently shared between the country and the investors. This is particularly so for Zambia, where the level of foregone rent is significant, but also for Tanzania and Mozambique albeit at a lower level relatively due to less developed mining sectors. Revenues from renewable natural resources, mainly from fisheries, forestry, and wildlife, are commonly collected by the respective line ministries and in some cases by local government authorities. Only limited revenues from renewable resources reach the Treasury in the three countries. The revenue potential, however, is substantial. Revenue enhancement from renewable resources requires policy changes and better administration.

3. Revenue administration

No developing country has the manpower resources or the money to create a high-grade civil service overnight. But it is not sufficiently recognized that the revenue service is the 'point of entry'; if they concentrated on this, they would secure the means for the rest. Nicolas Kaldor (1963)

3.1 Introduction

The literature on taxation and development often refers to ineffective tax administration as one of the main constraint to the ability of states to collect revenues in general and direct taxes in particular (Bird 2008). Hadler (2000:10) estimates that better administration of existing tax legislation may increase revenue by 30% or more in many countries in sub-Saharan Africa. Hence, strengthening of the tax administration has been an important part of technical donor support to public sector reform in Africa during the last two decades (von Soest 2007:1). The proliferation of semi-autonomous revenue authorities (SARAs) constitutes its most visible expression. As of May 2011, there were 17 autonomous revenue authorities in Africa (see Table 7). Zambia Revenue Authority (ZRA) was established in 1994, Tanzania Revenue Authority (TRA) in 1996, and Mozambique Tax Authority (Autoridade Tributária de Moçambique – ATM) in 2006.

Table 7: Semi-autonomous revenue authorities in Africa

Country	Year of Creation
Ghana	1985 (initially 3 agencies; integrated in 2010)
Uganda	1991
Zambia	1994
Kenya	1995
Malawi	1995
Tanzania	1996
South Africa	1997
Rwanda	1998
Zimbabwe	2001
Ethiopia	2002
Sierra Leone	2002
Lesotho	2003
Gambia	2005
Mauritius	2005
Mozambique	2006
Burundi	2010
Swaziland	2011

Source: Updated by the authors based on Fjeldstad and Moore (2009: 2).

Five aspects have characterized the reform of tax administrations in Africa (Ayee et al 2010):

- (i) General improvements in the capacity of the tax administration.
- (ii) Changing the tax agency from organization by tax type, to organization by core functions, and more recently, organization by tax segments (or clients) through the creation of Large Taxpayers' Units (LTUs), which are functionally organized and deal with a single tax segment.

- (iii) Upgrading and expansion of information communication technology (ICT) with the objective of improving data management and analysis, lowering compliance costs, reducing the scope of corruption and collusion and improving monitoring. Even though there have been successes, many of the ICT projects have not achieved their objectives because of delays, poor integration with existing processes, weak implementation and taxpayer ICT illiteracy.
- (iv) Improving taxpayer services with a focus on taxpayer education and awareness, reducing compliance costs and adopting a customer orientation. While some changes in attitudes have occurred, the lack of detailed assessments suggests that actual progress has been limited.
- (v) Managerial autonomy of the tax administration from civil service regulations with the aim of reducing political interference, increasing flexibility with respect to hiring and firing of staff, and improving wages and conditions of work. This is reflected in the creation of semi-autonomous revenue authorities. It is clear from the literature that even though RAs had often achieved short term improvements in performance, those gains have been frequently proven difficult to sustain once the initial urgency of reform has subsided as experienced in Tanzania and Zambia (Devas et al 2001; Fjeldstad 2001, 2006; Mann 2004; Taliercio 2004; von Soest 2007).

This chapter briefly discusses the main characteristics of the revenue authority model, including objectives and functions, followed by a presentation of the tax administrations in Mozambique, Tanzania and Zambia, including organisational structures, achievements and challenges.

3.2 Semi-autonomous revenue authorities

The choice of a revenue authority model aimed partly to limit direct political interference by the Ministry of Finance, and partly to free the tax administration from the constraints of the civil service system (see Box 7 for an overview of revenue authority models). Firstly, it was assumed that the revenue authority model would be less vulnerable to political interventions in its operations. Secondly, a semi-autonomous revenue authority can, in principle, recruit, retain and promote quality staff by paying salaries above the civil service regulations, and also easier dismiss staff. It was assumed that such steps would provide incentives for greater job motivation and less corruption. Moreover, it was believed that a single purpose agency could integrate tax operations and focus its efforts on collecting revenues better than what was possible under civil service rules. A shift to a semi-autonomous revenue authority model was also attractive to donors and senior politicians because it opens opportunities for more widespread reforms of tax administration (Therkildsen 2004). To this should be added an additional concern: the chronic inefficiencies of the existing tax administration arrangements placed in Ministries of Finance.

Box 7: Revenue authority models

There are three main types of models for the organisation of revenue authorities:

1. *Product-based*, relating to the type of tax (income tax, VAT, customs duties etc) administered by the RA
2. *Functional*, relating to the different administrative functions performed by RAs such as processing tax returns, or auditing, or collecting taxes
3. *Client-based*, relating to the different segments or types of taxpayer according to criteria such as scale of operation (large, small etc), form of ownership or industrial/economic sector

– Sometimes, revenue agencies adopt an approach involving some combination of the three models

3.2.1 Objectives and key functions

The principal objectives of the revenue authorities refer to:

Raise domestic revenues by establishing a sustained revenue base to enable the country to finance its recurrent and development expenditure needs.

Develop a tax regime that is transparent, effective and conducive to economic growth led by private investment and international trade.

The key functions of the revenue authorities are to:

1. Assess, collect & account for central government revenue.
2. Administer tax laws.
3. Advise the Government on fiscal policy.
4. Promote (quasi-)voluntary tax compliance.
5. Improve the quality of tax services.
6. Counteract tax fraud and tax evasion.
7. Produce and publish revenue and trade statistics.

The establishment of revenue authorities in Mozambique, Tanzania and Zambia has improved tax administration through the introduction of new information and communication technologies, and by moving from a system organized around different taxes to one organized around localities and tax segments so that individual taxpayers have to deal with fewer tax officers. Further, it has comprised the introduction of unique taxpayer identification numbers (TIN) for each individual taxpaying unit. It has also included the establishment of different offices and procedures for different categories of taxpayer, starting with the creation of a Large Taxpayer Unit focusing on big companies. A general aim has also been to make the tax collection process more 'user friendly', though some taxpayers perceive this as 'window-dressing' (Fjeldstad and Moore 2009).

3.2.2. The ease of paying tax

How easy it is to pay tax in a country is measured by the World Bank as a part of the *Doing Business* project. Regulations relevant for a small to medium sized business are identified and ranked in 183 countries providing an overall score of the ease of doing business in a country. The ease of paying tax is one of the indicators from *Doing Business*, and it is found by examining the number of payments needed each year; hours spent on tax issues per year; the total tax rate as percentage of profit. Table 8 is based on *Doing Business 2011* and reports the scores of the three case countries compared with the world ranking and the regional ranking of Sub-Saharan Africa, where 1 is the best and 183 and 46 are the weakest for the World and Sub-Saharan ranking, respectively.

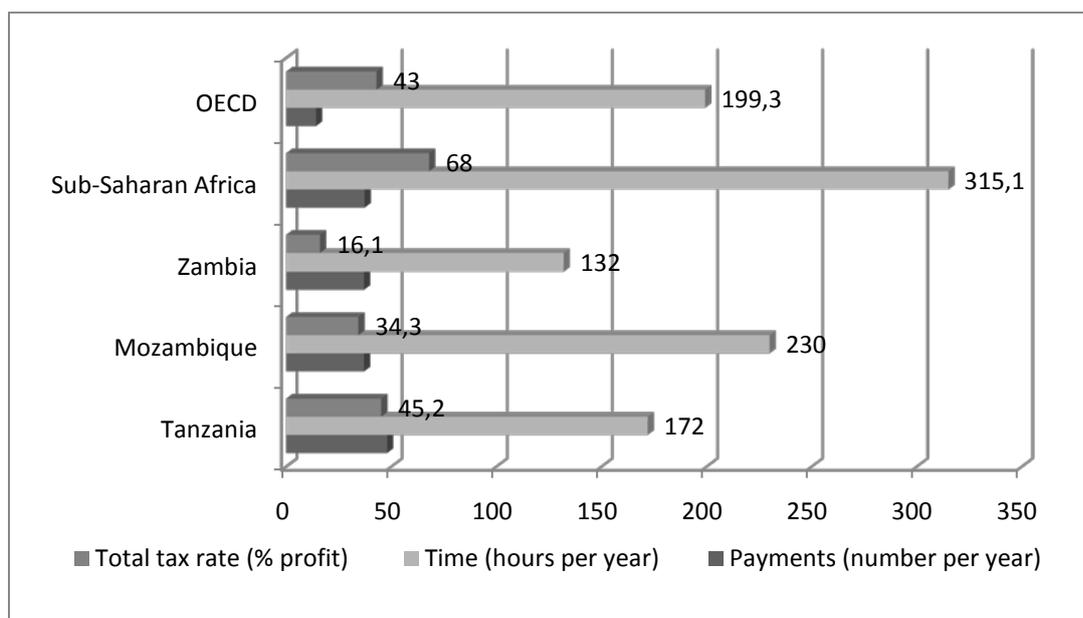
Table 8: The ease of doing business and paying taxes (2009/10)

DB 2011 rank	Doing business		Paying tax	
	World (183)	SSA (46)	World (183)	SSA (46)
Tanzania	128	14	120	21
Mozambique	126	13	101	19
Zambia	76	7	37	5

Source: *Doing Business 2011b* (based on data collected in 2009-2010)

As reflected in table 8, the three countries are far better performers in terms of the ‘paying taxes ranking’ than in the ‘ease of doing business ranking’. Zambia, for example, ranks as 37 of the 183 countries in the world on the ease of paying tax, while the overall Doing Business rank is 76 of 183. This implies that even if tax rates and tax administration are considered to be a constraint in the region there are other issues that should be considered as well for the ease of doing business. For example, in negotiation with mining companies tax incentives will thus not be the only bargaining card, because there are other issues that are important for the ease of doing business beside taxation.

Figure 12: The ease of paying taxes



Source: Prepared by the authors based on *Doing Business 2011*

Figure 12 shows the hours spent per year by enterprises and the number of tax payments done per year together with the total tax rate as percentage of profit. Regarding the efficiency of the tax administration the figure suggests that Mozambique has considerable challenges compared to Zambia. The corporate taxpayer in Mozambique needs to spend 98 more hours than an equivalent taxpayer in Zambia in order to do the same number of payments.

The total tax rate on profits is lower in all three countries than the Sub-Saharan average of 68%, while Zambia and Mozambique also has a lower percentage than the OECD average of 43%. Tanzania is closest to the OECD average with a total tax rate on profit of 45.2%.

Figure 12 indicates that Zambia has the least administrative burden and lowest level of tax of the three case countries ranking 5th best of 46 countries in Sub-Saharan Africa and number 37 of 183 countries in the world. In total a Zambian taxpayer has to do a total of 37 tax payments a year, a task that would take the estimated time of 132 hours.

3.3 Mozambique Tax Authority (ATM)

Vision of the Autoridade Tributária de Moçambique (ATM):

To promote efficiency and fairness in the application of tax policy, including customs, ensuring greater convenience for taxpayers in fulfilling their obligations (ATM, 2010).

The Mozambique Tax Authority (Autoridade Tributária de Moçambique) was established by law in March 2006 after the merging of the customs and the domestic tax administrations (ATM 2010). The creation of the ATM laid the foundation for efficiency gains of the public administration in Mozambique (Nathan Associates Inc 2009:26).

3.3.1 Background

Between 2006 and 2009 Mozambique has initiated and implemented some major tax reforms, beginning with the establishment of the Tax Authority (ATM) by law 1/2006 and continuing with the General Tax Code from Law n.2/2006, March 22. The second law includes all general principles and laws regarding the tax system and administration in Mozambique. If applied as intended, the rights of the taxpayers are guaranteed. Tax courts have existed since January 2004, i.e. before the establishment of the ATM. The courts are situated in the main cities of Mozambique and are working as independent institutions from the ATM. According to Dourado (2010:54), the courts have contributed to enhance the credibility of and confidence in the tax system among taxpayers and foreign investors.

In the document PARPA II the Government set out their reform goals for the period 2006-2009 for poverty reduction in the country (see Box 8).

Box 8: Tax policy vision as spelled out in PARPA II

The government will work to reform and increase the efficiency of the tax administration with a view to gradually increasing the mobilization of domestic funds as a percentage of GDP, with the idea of reducing external dependency. To that end, the following steps will be taken:

- (a) Domestic revenues will gradually be increased.
- (b) The tax system will be simplified and refined, and the tax base broadened.
- (c) Reforms made in direct and indirect taxes will be consolidated.
- (d) Simplified taxation regimes will be reviewed, the effectiveness of tax and investment incentives will be evaluated, and the process of establishing tax courts will be continued.
- (e) Work on modernizing the tax administration will be continued, to make it an efficient tax-collection system and to curb fraud and tax evasion.
- (f) Legislation will be approved that simplifies the relationship between the tax administration and the taxpayers, making it easier for them to exercise their rights and receive the protection assured them.
- (g) Tax and customs courts will be effectively implemented.
- (h) Legislation on local government finances will be refined and the conditions of the agencies responsible for collection and control of local government taxes will be improved.

Source: PARPA II 2006-2009 (Republic of Mozambique, 2006:120)

3.3.2 Organisational structure

ATM is a state organ with administrative (managerial) autonomy. The activity is supervised by the Ministry of Finance. The top hierarchy levels of the ATM are composed of the Superior Tax Council, the President of the Tax Authority and the Executive Council. Further the organisation is divided into General Departments (Direccões-Gerai) that cover, among other tasks, technical operational services, strategic planning, inspection and internal audits, administration and finance. A simplified administrative structure of the ATM is outlined in Figure 13. Currently, ATM is present with offices in 43 of Mozambique's 128 districts, including the largest cities of Beira, Nampula, Ihmabane, Queliman and Tete (Dourado, 2010:53).

There are three Large Taxpayers Units (LTU) in ATM, one in each region (North, Centre and South). A separate section within the LTUs gives advice on mega projects to the staff of the LTU. The distinction between mega-projects and large-projects is that mega-projects are more complex from a tax perspective, and require specialised tax expertise within the tax administration.

3.3.3 Human resources

In November 2010 ATM had 3010 employees, of whom 1776 were employed in the Customs Directorate and 1234 in the Domestic Tax Directorate. The number of tax staff available for every 1,000 persons is 0.131. This 'tax staff per population ratio' is very low compared to the World average of 0.82, but higher than the Sub-Saharan (SSA) average of 0.037 (AfDB 2010b). ATM expects to increase its staff to about 4900 employees within the next three years, as part of the strategy to establish tax offices in new districts across the country.

The creation of the revenue authority has given the tax administration a higher degree of managerial autonomy and flexibility in human relation issues. Remunerations, decisions on hiring, promotions and retention of staff have become more flexible under the new system (Nathan Associates Inc, 2009). For instance, ATM pays higher salaries than equivalent positions in the Ministry of Finance. The tax authority is generally perceived to be an attractive employer.

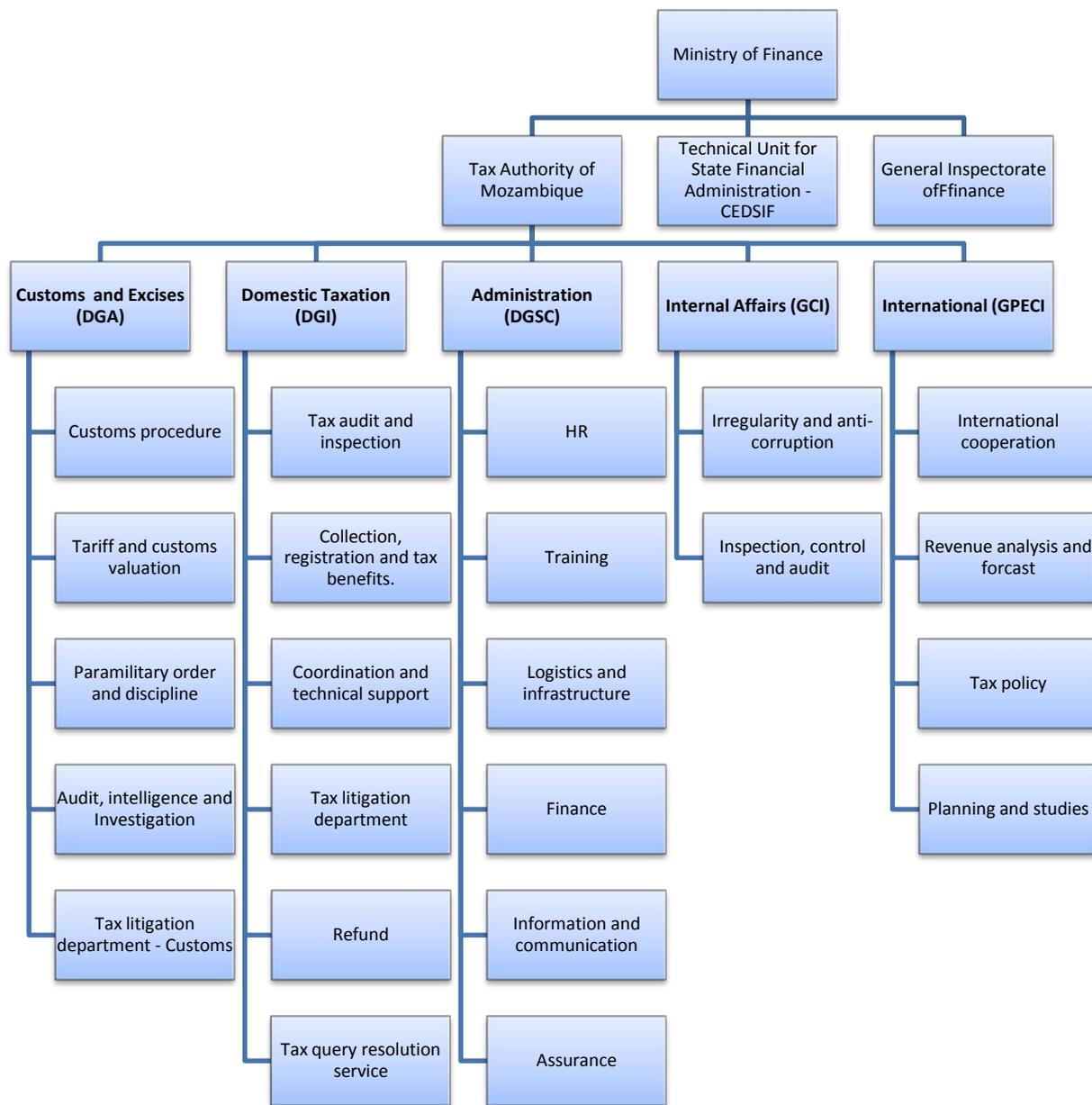
ATM has made substantial progress in upgrading the skill levels of the staff with educational credentials and training programmes. Nathan Associates Inc (2009:28) suggests that a more strategic approach for the human resource management would strengthen ATM's use of staff for generating revenue and improving taxpayer compliance. For example, the e-tax systems and the new training needs connected to the modernization of ATM will create challenges for training and organisation (ibid). In particular, this applies to the need for qualified tax auditors (e.g. for specialised tax audits on extractive industries) and IT-expertise, as well as for shorter, specialised training of staff for taxing extractive industries and mega-projects in general (e.g. on transfer pricing).

3.3.4 Funding

According to the Tax Authority Act 1/2006, ATM shall retain 1% of the revenues collection for its operation. However, due to the substantial investments required to develop and expand the tax administration, ATM at present receives 4-4.5% of the revenues collected through the annual Parliamentary budget appropriation process. The management expects, however, that the financial needs will be reduced to 2.5% of the collection by FY 2012/13.

ATM also receives donor funding via the Common Fund, from Belgium, Germany, Switzerland and the United Kingdom.⁶ Norway joined the Common Fund in late 2010. In FY 2010/11 this donor support amounted to USD 3-4 million, out of ATM’s total annual budget of USD 61 million.

Figure 13: Simplified organisational structure of Mozambique Tax Authority*



Source: Developed by the authors based on information from official government web pages and various literature (see among others AT 2011). *The chart is meant as an illustration only and do not portray the official English names of departments and offices.⁷

⁶ The Common Fund is provided by a group of donors that coordinate their support to ATM. See chapter 6.5 for further details.

⁷ The full organizational chart in Portuguese <http://www.at.gov.mz/organogramaat/orggeral.pdf> [Last accessed 23.02.2011]

3.3.5. Taxpayers

Unique Taxpayer Identification Numbers (TINs) were introduced in 1998 in connection with the introduction of VAT. Increasingly, TIN is also required when applying for car insurance, passport, personal identification cards etc. The total number of registered taxpayers was 960,000 in 2009, compared to 382,000 in 2006 (Nathan Associates Inc 2009). For FY 2010/11 the target for the Domestic Tax Directorate is to increase the number of registered taxpayers with 200,000, of whom 20,000 should be small-taxpayers. ATM has made substantial efforts to broadening the tax base by including informal sector operators. Between June 2009 and November 2010, 35,000 small taxpayers have been registered. This has been achieved by (a) simplification of the taxing procedures for small and micro enterprises, including mobile collection points (currently, there are about 30 of these operating across the country); (b) through taxpayer education and outreach programmes using local languages; and (c) collaboration between the ATM and informal sector/micro-enterprise associations.

By end 2010, there were approximately 600 large taxpayers in the country of which about 350 were located in Maputo. In comparison there were six mega-projects of which 5 were multinational companies covering multiple sectors (construction, mineral extraction, energy, aluminium production and financial services) and one domestic (energy).

3.3.6 Information collection and processing

The focus on simplifying tax systems is in general strong. Implementation of ICT systems has been a prioritized area. Electronic tax registers are up and running, and there is ongoing efforts to integrate the various systems to secure efficiency through a better flow of information. However, the electronic tax system is not connected between various factions of the public sector. Ideally the FMIS system, e-Sistafe, should be connected so that the registered tax revenues could be registered directly into the Treasury.

3.3.7 Achievements and challenges

By end 2009, USAID commissioned a review of the achievements of the PARPA II. The review found that “By and large, the reforms have aligned well with the PARPA II objectives and targets for tax policy” (Nathan Associates Inc 2009:7). Although the gradual increase in domestic revenues did not reach the goal of 17.3% of GDP in FY 2008/9, the difference between the target and the actual collection of 16.4% of GDP may be due to the global financial crisis. However, in FY 2009/10 revenue collection reached 17.7% of GDP and increased to more than 18% in 2010/11, which is substantially higher than the average tax-to-GDP ratio of 15% for lower income African countries.

The tax base has been broadened as reflected in the increased number of registered taxpayers. In the beginning of 2006 there were 382,000 registered taxpayers and in 2009 960,000. However, not all the registered are actually paying tax, because the registers also list people who, for example, import tax free goods.

Improved tax legislation was achieved by the new tax laws of 2006 (1/2006 and 2/2006) which laid the foundation for the revenue authority and which set clearer rules for the tax administration. Simplified rules were implemented with the New Simplified Tax (ISPC) in 2009 (ibid.). The new arrangement replaces the arrangement with simplified VAT and income tax with a new simplified tax that has a flat rate of 3% of turnover, up to a maximum liability of MZM 75,000 (approx. USD 2,400). Still, there are challenges, in particular with respect to the withholding tax systems.

Perceptions among private sector operators and donor staff interviewed as part of this study are that ATM has managed to create a more professional and efficient tax collection. On the other hand the same interviewees also reflected the view that tax fraud and evasion were still happening at a large scale. In 2009 there was a large backlog of tax disputes (Nathan Associates Inc 2009). The

implementation of customs courts is underway with some in operation and some getting ready to start. The legal framework is in place with trained staff.

The reconciliation of taxes by the central government and the checking of imports and exports at the borders are still done manually (AEO 2010a). New technology will be implemented to modernize the daily routines of the tax administration with an e-tax system (e-tributação) that is planned to be linked directly with the FMIS system e-Sistafe. Tax data will then be channelled directly to the Treasury and manual control of taxes by the ATM will then not be required anymore. The changes are expected to be implemented not earlier than 2012. The government is currently working to speed up the cross-border exchanges with electronic payments and the establishment of one-stop control points on some border posts (AEO 2010a).

One of the main challenges ATM faces is to build one organisation from two initially very different entities. Before the establishment of the ATM, the Customs and the Domestic Tax Directorates had different approaches to human resource management. For instance, customs officers went through paramilitary training. Customs also had a higher degree of autonomy than the domestic tax directorate with respect to staffing. Capacity building and training of staff, both at the managerial and the operational levels, is considered by the top management as essential to better harmonise the work of the Customs and Domestic Tax Directorates and to build a unitary culture within ATM. Building research capacity within ATM is seen as an important element to better aligning the work of the two directorates and to strengthening strategic planning.

3.4 Tanzania Revenue Authority (TRA)

Mission statement of Tanzania Revenue Authority:

To be an effective and efficient Tax administration, which promotes Voluntary tax compliance by providing high quality Customer service with fairness and Integrity through competent and motivated staff (TRA, 2010c).

3.4.1 Background

Tanzania Revenue Authority was established in 1995 and became operative in 1996. The TRA's main functions are to administer, assess, collect and account for all revenues due under Tanzania's tax laws, and to advise the Government both on changes to those laws and fiscal policy in general.

TRA is organised under the general supervision of the Minister of Finance (URT 2006). The President appoints the chief executive of the TRA with advice from the Finance Minister. This way of appointing the Commissioner General is meant to secure that the TRA can be run independently of the political sphere (Fjeldstad 2003:165 cited in von Soest, 2008:13-14).

3.4.2 Organisational structure

The TRA consists of a Board and four revenue departments (Figure 14):

- Tax Investigation Department.
- Large Taxpayers Department (LTD).
- Domestic Revenue Department (DRD).
- Customs and Excise Department.

The President appoints the Commissioner General of the TRA, who is also the chief executive. The Deputy Commissioner-General is under the supervision of the Commissioner-General and is responsible for the day-to-day management of the business and affairs of TRA.

The Minister of Finance is entitled to give directives to the Board about the performance and function, and the Board is obliged to comply. TRA's Board of Directors consists of ten members, including the Secretary to the Board. The Chair is appointed by the President on the recommendation of the Minister of Finance. There are five ex-officio members: Permanent Secretary of Finance, the Union Government; the Principal Secretary of Finance, the Zanzibar Government; the Principal Secretary of the Planning and Privatization Commission; the Governor of the Bank of Tanzania and the Commissioner General of TRA. In addition, the Minister of Finance appoints four other Board members on the basis of their relevant experience and qualifications. Since the TRA was established in 1996, several economists from academic institutions have been members of the Board, and also chairpersons.⁸ Currently one Member of Parliament is member of the TRA Board (see Chapter 4). The tenure of office for the members is three years and non-ex-officio members can be re-appointed only once. The Board of Directors is required, according to the TRA Act, to meet at least once every month to review the main aspects of the operations and performance of the revenue authority, and to provide required advice and guidance about changes in direction and practical issues of implementation.

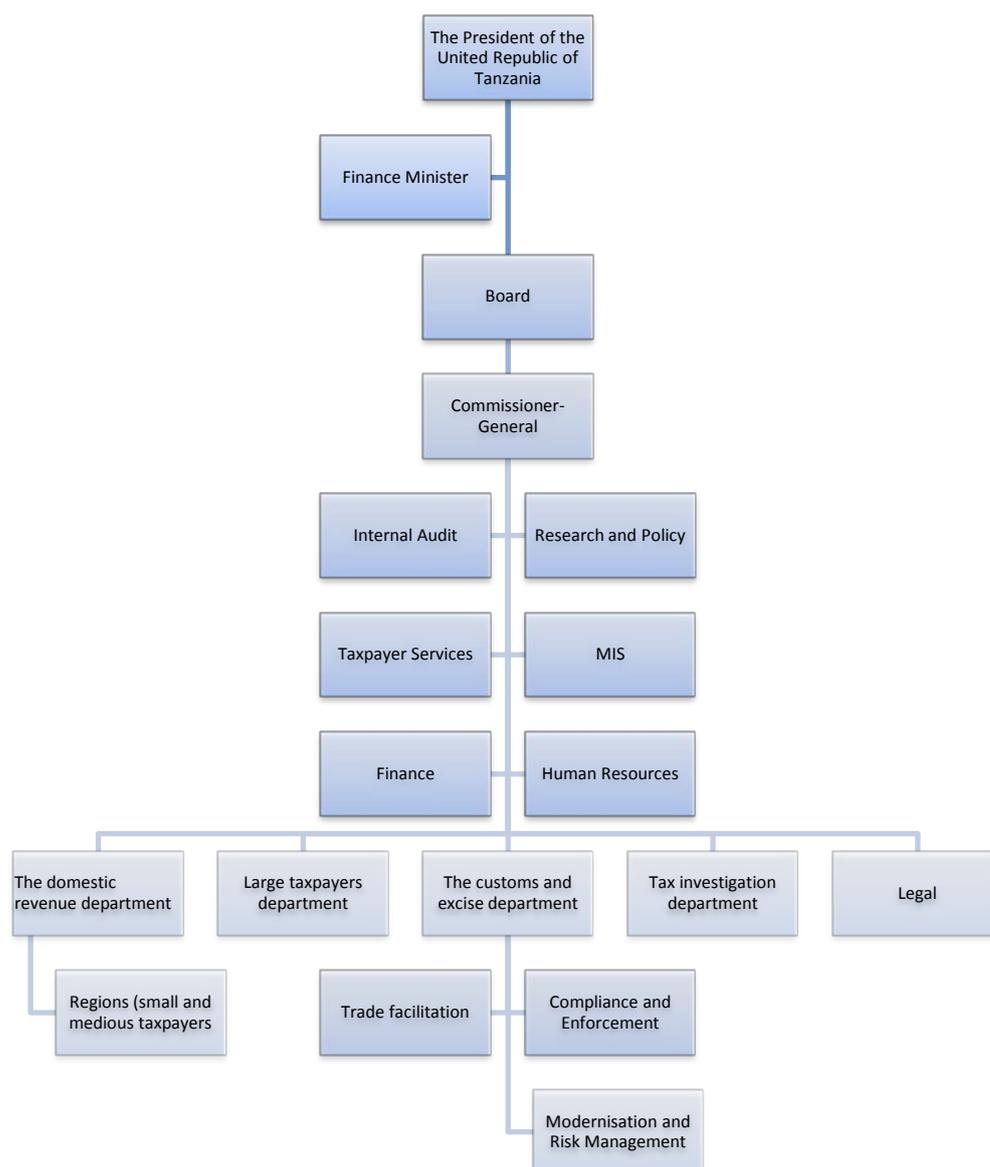
The Tax Investigation Department started out as a Tax Audit and Investigations in 1996, but after the Large Taxpayer Department was established the core activity was limited to counteract fraud and other forms of fiscal evasion. The Large Taxpayers Department (LTD) was established as a step in a reform for integration of domestic tax operations and taxpayer segmentation. The main aim of the LTD has been "to provide consistent and quality service to large taxpayers, to secure revenue, to improve audit programs, to improve collections and management of tax debts, and also to act as models or pilots for testing new processes, procedures, structures and systems" (TRA 2010b).

The Domestic Revenue Department (DRD) became operational from 2005 after the integration of the former Value Added Tax (VAT) Department and the Income Tax Departments. Its tasks are similar to the LTD except that it has a broader target group for taxation. The Customs and Excise Department has existed in various forms since 1977 when it was under management of the East African Community. When the TRA was established in 1996, the Customs Department became an integrated part of the revenue authority. The department collects import duties, excises and VAT on imports, and Fuel Levy (TRA 2010a).

Each of TRA's revenue functions (i.e. domestic revenue, large taxpayers, customs and excise and tax investigations) are headed by a Commissioner. Its support functions (internal audit, legal services, taxpayer services and education, ICT, finance and human resources and administration) are headed by Directors.

TRA has a presence in all the 23 administrative regions of Tanzania mainland and in Zanzibar (AfDB 2010b). The tax revenue collected is compared with the target and published online per region annually. TRA also has a tax training centre, the Institute of Tax Administration (ITA), which offers both short and long term courses. ITA operates as a semi-autonomous cost centre.

⁸ The current chairperson is Senior lecturer and Head of the Department of Finance, University of Dar es Salaam. The first chair of the Board (1996-98) was Executive Director of the African Economic Research Consortium, and is currently serving as Governor of the Bank of Tanzania.

Figure 14: Simplified organisational structure of Tanzania Revenue Authority

Source: Figure developed by the authors based on information from the TRA webpage and ITD (2011)

3.4.3 Human resources

In 2010, TRA employed 3727 staff of whom were 1776 (48%) in the Customs and Excise Department. The number of tax staff available for every 1,000 persons is 0.087. This 'tax staff per population ratio' is higher than the Sub-Saharan (SSA) average of 0.037, but very low compared to the World average of 0.82 (AfDB 2010b).

In contrast to many other revenue authorities in the Region, board and executive management positions in the TRA have been filled with Tanzanians since its establishment. Persons recognized for their integrity and past performance have been appointed as Chairperson of the Board and Commissioner General. With few exceptions, the executive management has been recruited from outside the system, predominantly from jobs in state-owned enterprises.

To strengthen the integrity of the staff in the tax administration a major change of personnel was carried out at the introduction of the TRA in 1996 (Fjeldstad 2003). All employees had to re-apply for

their jobs, and almost 1200 earlier staff members were let go in the process. About one third was not reemployed due to earlier misconduct. TRA follows a private business model for hiring, and thus the job security is weaker than in the traditional public services.

Initially the salaries were highly competitive to both private and public sector jobs and well-qualified professionals were attracted. However, this has not been sustained due to inflation, limited funding and demand from other public sector agencies for wage increases. In recent years, TRA has implemented the recommendations of independent salary surveys undertaken in 2004/05 and 2007/08 (TRA 2008).

3.4.4 Funding

Annual TRA operations are financed via the general government budget through the annual Parliamentary budget appropriation process. TRA prepares a budget based upon its annual action plan and on revenue targets that are negotiated with the Ministry of Finance (see Mann 2004:20). Since the revenue target constitutes an annually moving target, it does not provide a solid base from which TRA can carry out multi-year planning of its operations. In FY 2008/09, for instance, the budget allocated constituted about 2.8% of the revenue collections (net of VAT refunds). This amount, however, merely covered current expenditures and was insufficient to cover infrastructure, software, hardware, training needs etc. Thus, most of the non-current expenditures are funded by external donor sources through the Tax Modernisation Programme (TMP).

The TMP is a basket funding arrangement signed in 2006 and supported by the World Bank, Danida, DFID, and the Government of Tanzania. The objectives of the TMP were aligned to the TRA second Corporate Plan (2003/04 – 2007/08) strategic goals and focused on:

- (i) To increase revenue collection in a cost effective way.
- (ii) To integrate TRA operations.
- (iii) To provide high quality and responsive customer service
- (iv) To promote tax compliance through a fair, equitable and transparent application of tax laws.
- (v) To improve staff competence, motivation, integrity and accountability.

The common basket approach has helped to facilitating donor coordination as well as being more responsive to TRA demands. Donor support is expected to continue through the current third corporate planning period (2008/09 – 2012/13). Since a continuation of the external donor support is not likely to be continued at current levels after 2013, it is essential to secure TRA with reliable funding from domestic resources.

3.4.5. Taxpayers

The TRA is divided into departments, as discussed in 3.4.2, according to categories of taxpayers with the distinction between domestic revenue, large taxpayers and customs and excises.

Table 9: Registered taxpayers in Tanzania (2002-2008)

Total number	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	% increase (2002/03 to 2007/08)
TIN	190 000	259 794	318 033	288 680	334 724	398 080	110%
VAT	13 634	15 320	8 010	6 154	7 342	9 036	-34%

Source: African Development Bank (AfDB 2010b, Table C13)

Table 9 shows that the number of taxpayers registered in the Taxpayer Identification System (TIN) went up from 190000 in 2002 to almost 400000 in 2008 – an increase of about 110%. VAT registered taxpayers on the other hand, decreased in the period from 13634 in 2002 to 9036 in 2008 due to an increase in the threshold for VAT-registration from TZS 20m (approx. USD 13,400) to TZS 40m with effect from July 2004.

In order to expand the tax base and optimise tax revenue collection, TRA has introduced the Block Management System (BMS). The objectives of the BMS are (a) to promote compliance by registering all eligible small and medium scale enterprises within a particular business, sector or geographical area, and (b) to gather relevant tax information on the level of economic activities to fight tax evasion (TRA 2011b). The BMS has simplified the registration of traders, and has brought non-filers and non-payers into the tax net through closer monitoring and collaboration with local government authorities. Thus, it is expected to widen the tax base (see Box 9: The Block Management System of the Tanzania Revenue Authority).

Box 9: The Block Management System of the Tanzania Revenue Authority

The Block Management System (BMS) consists of areas of trading concentrations that are mapped up in small territories/segments, defined on the basis of geographical or administrative set up, or a combination of a few streets to form a block. Each Block is mandated to operate all the tax functions of registering, assessing, collecting and accounting for revenue collected. Each Block is allocated staff to carry out those functions, subject to rotation after a certain length of stay in one Block. To measure performance, each Block is allocated targets, including revenue collection targets, measured against set time frames and benchmarks. To enable smooth functioning, each Block has a leader who is answerable to an Assistant Manager and assisted by a number of subordinates.

The advantages of BMS are evident. The system is highly potent for widening the tax base by capturing new taxpayers and evaders. However, a survey of the informal sector conducted by TRA and the National Bureau of Statistics in 2010 found that the BMS has yet to be fully adopted as evidenced by the absence of records for registered presumptive traders. Moreover, tax officers are not stationed to the Block as the operational system originally assumed due to scarce human resources. According to TRA's own assessment, this shows the importance of streamlining the TRA tax administration regimes by better linking human resource development and the use of manpower at the operational levels.

Source: Tanzania Revenue Authority (2011b)

In November 2010, 400 large taxpayers were registered (0.08% of total taxpayers) whereof 18 were dormant. The large taxpayers contribute about 70% of total domestic revenue collections in Tanzania.

3.4.6 Information collection and processing

The Information and Communication Technology Department (ICTD) has the responsibility for all ICT activities in the TRA (TRA 2010e). The revenue departments are supported by ICT systems with the most central being the Integrated Tax Administration System (ITAX) with Taxpayer Identification System (TIN), Computerized Motor Vehicle Registration System (CMVRS), Customs Administration System (ASYCUDA++) and preparations for the Computerized Drivers' License System (CDLS) (TRA 2010e).

Other support systems for the TRA departments are Integrated Financial Management System (EPICOR), Integrated Payroll, Human Resources System (PEODESY), TRA Messaging System (e-Mail) and other legacy applications (TRA, 2010e).

Box 10 below summarises TRA's responsibilities with information gathering, identification of taxpayers and sharing of information, according to the law. Taxpayer identification numbers is registered so that the public administration and management of the laws may exchange information and documents about taxpayers for the purpose of following the law. For example, the Taxpayer Identification System (TIN) is also used by a range of other public institutions such as the Ministry of Industry and Commerce, Ministry of Energy and Minerals and the Registrar of motor vehicles (TRA 2011e).

Box 10: Taxpayer identification and exchange of information Act No.9 of 2000

- 1) The Authority shall, after consultation with the Minister by Notice published in the Gazette, provide for the establishment, maintenance and application of a system for the convenient and effectual identification of taxpayers for the purposes of coordinated administration of the revenue laws of the United Republic.
- 2) Notwithstanding subsection (1), the taxpayer identification number registered in accordance with the provisions of part II of the Income Tax Act, shall apply in relation to the administration and management of the laws set out in the First Schedule to this Act or any other written law administrable under the Act.
- 3) Without prejudice to the provisions of subsection (1), it shall be lawful for officers in the revenue departments to exchange or furnish each other with information or documents concerning any taxpayer and for the purposes of the discharge of functions under this Act.

Source: The Tanzania Revenue Authority Act (URT 2006:6).

3.4.7 Achievements and challenges

Since its establishment, TRA has undergone three phases of reforms centring on: (1) institution building; (2) improving services delivery; and (3) deepening the authority's specialisation (AfDB 2010b). Under phase 1, besides increased levels of revenue collection, TRA reports the following results: (a) the Board of Directors and Management Team were appointed; (b) a taxpayer identification number (TIN) system was established; (c) ASYCUDA++ system was implemented; (d) the Large Taxpayers' Department (LTD) was established in 2001; and (e) the tax appeals system was unified. Phase 2 reforms contributed to the following key results: (a) increased revenue collections; (b) a growth in the large taxpayer population to about 400; (c) systems improvements; and (d) electronic tax payments and refunds.

The implementation of phase 3 reforms is still on-going (ibid.). Some of the main achievements so far include the: (a) institutionalisation of risk management tax based operations; (b) attainment of the

International Standards Organisation 9001:2000 certification in October 2008; (c) implementation of a compliant traders scheme for importers; (d) opening of seven Tax Centres in Dar es Salaam to register taxpayers, assess and examine returns and collect revenue; and (e) completion of a second time release study in 2009/10.

The Tanzania Revenue Authority has received the African Association for Public Administration and Management AAPAM Award from the United Nations Public Administration Network (UNPAN) for its reform and modernization efforts. Using the OECD's Principles of Good Tax Administration as a benchmark the following achievements of the TRA can be highlighted:

- a) Revenue collection increased 555.6% measured in nominal USD during the first 12 years of TRA's operations.
- b) Almost all the money transactions (tax payments and VAT-refunds) are handled through the banking system.
- c) Tax laws are updated, harmonised, consolidated and simplified. The new Income Tax Act in 2004 and East Africa Community Customs Management Act 2005 were adapted.
 - a. Integration of TRA operations - with a focus on integration of VAT and income tax operations - has been achieved by creating the administration of large taxpayers under the Large Taxpayers Department (LTD) and administration of small and medium taxpayers under the Domestic Revenue Department (DRD). Within the LTD training has been emphasised to strengthen the auditing skills and understanding of the law.
- d) Implementation of the ICT strategy:
 - a. *Integrated Tax Administration System (ITax)* and the TIN for identification of taxpayers.
 - b. *Tanzania Interbank Settlement System (TISS)*. TSS has modernised the payment system in the country based on electronic transfers and made way for a new arrangement of tax collection through banks. TRA has been able to reduce operational costs, security and efficiency due to the new system.
 - c. *Central Motor Vehicle Registration System* established in 2003 and is operating in 19 centres to improve control of vehicles and reducing the number of fraudulent registrations and substandard documents.
- e) Customs modernisation
 - a. ASYCUDA++ – software to better monitor customs.
 - b. Destination Inspection Scheme Implementation (DIS) – to identify risk and inspect goods upon arrival.
- f) TRA Employees and Management Controls – with result based training and anti-corruption.
- g) Reform of the tax refund system has improved dialogue between TRA and major stakeholders through the Taxpayers Charter and the annual Taxpayers' Day.
- h) Establishment of the Stakeholders Forum (see section 4.3.1).
- i) Quality Management System – the TRA departments are becoming Standard 9001:2000 ISO certified, with LTD as the pilot in 2006.

As a general conclusion TRA has achieved well both measured against good practices in tax administration and measured against internal performance criteria. Yet, TRA still faces a number of constraints, including (i) limited audit capacity in specialised sectors such as extractive industries, finance and banking, telecommunications and tourism; (ii) poor integration of ICT-systems between various government bodies; (iii) staff integrity is a challenge, especially at the operational levels (see section 4.3.4); and (iv) sub-optimal communication and exchange of information (data mining, data analysis and investigation techniques) both within TRA and with other public agencies such as the

ministry responsible for mining, the Tanzania Mining Audit Agency (see section 2.4.4), and local government authorities. For instance, local government authorities (LGAs) levy a large number of taxes, fees, licenses and charges. The coordination between TRA and LGAs, including sharing of information, is a challenge (FIAS 2006). Taxpayers have to deal with a system many find difficult to understand. Since 2008, several initiatives to improve the working relations between the TRA and local government authorities have been initiated. These include tailor-made training of LGA staff at the Institute of Tax Administration. Further, on a pilot basis TRA collects property tax on behalf of municipalities in Dar es Salaam.

3.5 Zambia Revenue Authority (ZRA)

Mission statement of Zambia Revenue Authority:

“To maximise and sustain revenue collections through the integrated, efficient, cost effective and transparent systems, professionally managed to meet expectations of all stakeholders” (ZRA, 2010b)

3.5.1 Background

ZRA was established in April 1994, and is, thus, one of the oldest integrated revenue authorities in Africa. The authority functions as a corporate body with the responsibility to collect revenue on behalf of the government (ZRA 2010b).

3.5.2 Organisational structure

ZRA consists of a Board and two divisions with tax collection as core focus. These are the Domestic Revenue Division in charge of the various taxpayer offices, and the Customs Division (Figure 15):

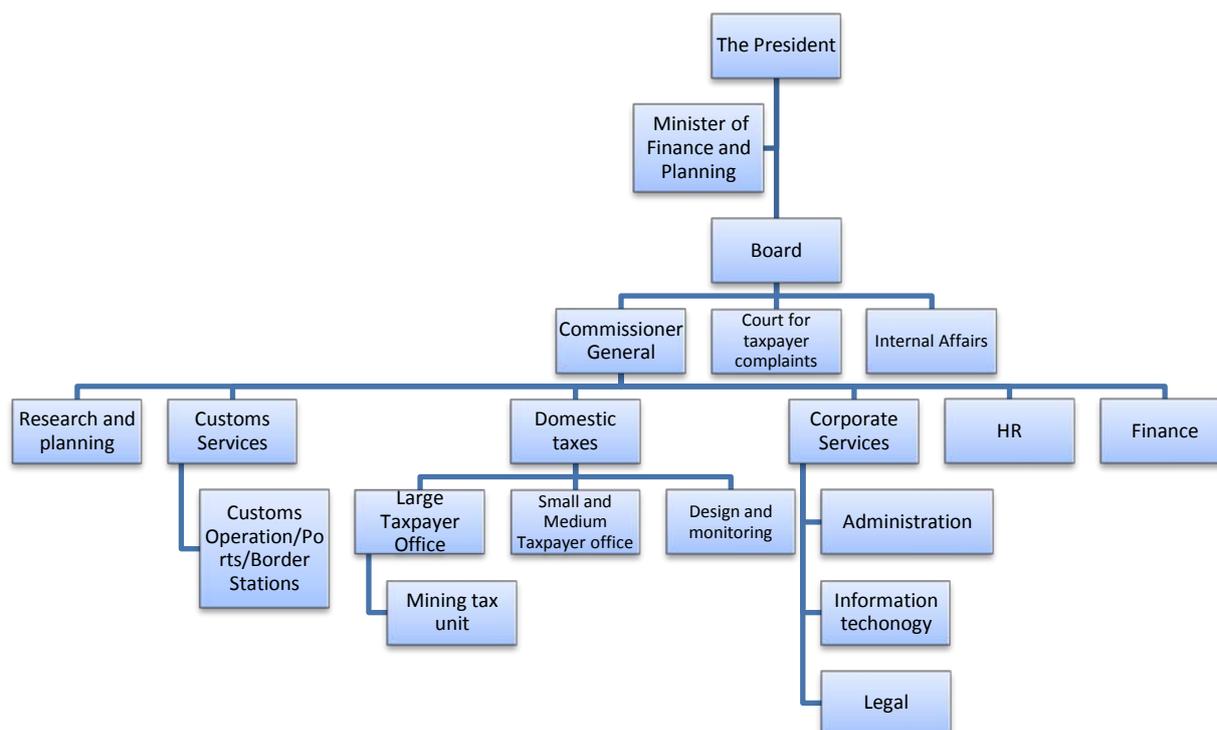
- Customs Division.
- Domestic Revenue Division:
 - Large Taxpayer Office (LTO)
 - Mining Tax Unit
 - Mega projects
 - Small and Medium Taxpayer Office.

All taxes imposed on large taxpayers are handled from one office within the Domestic Revenue Division, which has thorough knowledge of the industry and business of the large taxpayer. Thus, the service level is improved and the relationship between the revenue authority and the corporate taxpayers enhanced. To qualify as a large taxpayer in Zambia the client has to meet one of the following criteria: i) have a turnover of ZMK 20 billion (approx. USD 4,159,910) and above; ii) be a specialised industry or business operating in mining, finance or insurance sectors; or iii) be a multinational company. According to senior ZRA-staff interviewed, after the establishment of the LTO, ZRA has experienced an increase in the level of voluntary disclosures by taxpayers on tax underpayments, reduced enforcement costs for the revenue authorities and reduced compliance costs for taxpayers.

The Mining Tax Unit (MTU) within the Large Taxpayer Office (LTO) of ZRA was established in 2008, with an initial establishment of 12 officers drawn from within the LTO. The creation of the MTU reflects the need for special focus on effective ways to improve and increase tax compliance and

revenue collection from the mining sector, and is an important step in the process of mining tax reform.

Figure 15: Simplified organisational chart of the Zambia Revenue Authority



Source: Developed by the authors based on the Zambia Revenue Authority Act (Republic of Zambia, 1993), ZRA's Interim Corporate Plan 2010 (ZRA, 2010a) and ITD (2011).

The President appoints the Commissioner General of the ZRA, who serves as the chief executive. With the approval of the Board the Commissioner-General decides the organisational structure of revenue authority. The Commissioner General reports directly to the Board and not to the Ministry of Finance and National Planning. The Board is responsible to appoint the Secretary and other necessary staff. The Secretary is responsible for the day-to-day affairs of the Board and is supervised by the Commissioner-General (Republic of Zambia 1993).

The Board consists of:

- The Secretary to the Treasury.
- The Permanent Secretary in the Ministry responsible for legal affairs.
- The Governor of the Bank of Zambia.

- A representative of the Law Association of Zambia.
- One representative from each of the Zambia Confederation of Chambers of Commerce and Industry; the Zambia Institute of Certified Accountants; and The Bankers' Association of Zambia.
- Two members appointed by the Minister of Finance.

The members have to be nominated by their respective organisations and the Finance Minister will formally appoint them to the Board. The members of the board are selected for three years with the possibility to be re-appointed for three more years when the first period is over. The Finance Minister may give general directives to the Governing Board, but only ZRA have the power to give effect to the directives (Republic of Zambia 1993).

The Central Investigation Unit deals with serious cases of tax evasion and is working as a support unit for the three main divisions in the ZRA (von Soest 2007).

3.5.3 Human resources

The staff from the former tax administration within the Ministry of Finance and National Planning had to reapply for their jobs when ZRA was established in 1994. The new positions were well paid and attractive, although job security was weaker than in traditional civil service positions. ZRA introduced a minimum qualification policy which requires that all staff from the mid-level and up to have at least a diploma or a degree from a university. Currently, ZRA has about 1380 staff members of whom about 450 (33%) in the Customs Division. The number of staff available for every 1000 citizens is 0.099, which is higher than the average of 0.037 for sub-Saharan Africa, but lower than the World average of 0.82.

Initially, only foreigners were recruited to the top four positions in ZRA, on the assumption that these were less likely to be compromised by national politics and pressure from local networks. The reform project was evaluated to be a success by observers, especially against political pressure and the ability to sanction corruption strictly. In 2003, a Zambian, who had served as Deputy Commissioner General, took over as Commissioner General. The first period was also seen as successful in preparing local staff for the management positions (von Soest, 2008:28).

ZRA's staff remuneration from the start was significantly higher than the civil service pay scale in Zambia, including the Ministry of Finance (Hill 2004:144). From the outset in 1994, the ZRA paid its employees on average two-three times higher salary than in the former tax administration. In addition, staff receives substantial allowances and other benefits. Today, the difference between the ZRA-staff remuneration and the norm has increased even further (von Soest 2006:108). For instance, a young graduate in the Tax Policy Unit of the Ministry of Finance and National Planning earns ZMK 890,000 per month (in 2004-prices) while his or her counterpart in the ZRA's Executive Support Unit is paid around ZMK 7,000,000 per month, i.e. eight times higher (ibid).

However, in several cases the real value of the tax officers' salaries have been eroded over time by inflation and/or by reduction of additional benefits. It appears that it often is difficult for the Government to maintain the relatively generous remuneration packages for the tax administration amidst an often unfavourable budget situation and increasing pressure from other segments of the public sector for pay increases in accordance with those paid to the tax officers. ZRA-staff also complains that their employment conditions have worsened in recent years. Hence, in 2003 tax

officers in the ZRA for the first time went on a go-slow in order to pressurise for pay advances, overtime benefits, housing allowances and study loans (von Soest 2006:109).⁹

This erosion of salary differentials is likely to contribute to erode staff motivation. It is therefore likely that the initial wage reform might have had only limited lasting impacts on staff motivation and integrity. But, irrespective of the wage rates, ZRA remains an attractive workplace, as reflected in relatively low staff turnover. However, those turnover losses are often concentrated in key areas and can have a major operational impact on tax administration, for instance auditors, tax lawyers and IT-staff, who are attracted to the private sector. Such movements may of course have some positive aspects. For instance, one might expect that these former revenue officers would be able to assist the private sector to improve tax compliance. However, one should also acknowledge a possible negative aspect; the former tax officers have intimate knowledge of the tax administration, of loopholes and other weaknesses for tax evasion, which can be exploited.

3.5.4 Funding

According to the ZRA Act, funding of ZRA may come from the Parliament through the annual budget appropriation process or in the form of grants or donations (Republic of Zambia 1993). In 2008, the costs of running ZRA accounted for 2.3% of the total public expenditures, down from 2.7% in 2006 (AEO 2010b). The administrative costs of tax collection has represented 3-4% of the total tax revenues collected, while the initial target agreed by the Government of Zambia and DFID was 1.9%.

3.5.5. Taxpayers

As in Tanzania and Mozambique, the largest share of tax revenues in Zambia derive from a very small segment of taxpayers. According to Kloeden et al (2006:38), less than 5 % of the registered taxpayers contribute to more than 70 % of the total tax revenues, followed by another segment that constitutes 5-25 % of the registered taxpayers and who contribute 10-25%. A large segment of small taxpayers makes up 70-90% of the registered taxpaying population, but only contribute 0-10 % of total tax revenues. In 2005, for instance, 8 % of the 454 registered VAT taxpayers accounted for 79 % of all the VAT revenues collected that year. Pay-as-you-earn (PAYE) increased from 19% to 31% between 1995 and 2005. One explanation can be that there has been a reduction in taxable income from the mining sector and from the company income tax overall, and that this has increased the tax burden of the personal income tax (ZRA 2010c). Geographically Lusaka and the Copperbelt are contributing most direct tax and VAT revenues compared to the other regions in the country (Kloeden et al 2006).

Informal sector compliance has been facilitated by trade organisations' and unions' membership registrations. Such organisations have an incentive for a large membership base (partly due to membership fees) and thus work to recruit non-registered taxpayers. ZRA has MoUs with parts of the agricultural sector to collect tax on behalf of the tax administration. Further, ZRA collects presumptive income tax on transporters (owners of mini-buses) which are collected by contracted agents.

3.5.6 Information collection and processing

Computerisation of the ZRA has been a priority, and since 2000 the customs clearance process got computerised, and VAT processing is streamlined with the 'Integrated Tax Administration System'.

⁹ The Uganda Revenue Authority provides another illustrative example. Between 1991 and 1998 nominal wages remained unchanged. In 1991, the URA staff on average received salaries 8-9 times higher than salaries for corresponding positions in the civil service. This factor had shrunk to a factor of 4-5 in 2000. Furthermore, compared to the salaries in other autonomous authorities in Uganda, for example the Wildlife Authority and the Human Rights Commission, the URA paid less (see Fjeldstad 2006).

The coordination of data is expected to be favourable to detect tax evasion (von Soest, 2007). The ASYCUDA++ programme is used as the electronic customs management system, similar to the system used in Tanzania (www.asycuda.org).

Information and services to taxpayers are done through an Advice Centre opened in 2000. This has been well received by taxpayers considering the high number of contacts to taxpayers. Taxpayer information is also provided through the ZRA homepage, radio adverts and leaflets (von Soest, 2007).

With the creation of ZRA the number of auditors increased considerably. Close supervision of large companies is a priority. There are two Flexible Anti-Smuggling Teams (FAST) created to catch smugglers and serve as a visible warning to those who may consider smuggling. The Central Investigation Unit (CIU) supports the investigative units in the three tax divisions in ZRA. CIU covers the more serious cases of tax evasion (von Soest 2008). ZRA's Integrity Committee has the mandate to promote transparency, arrange trainings, monitor as well as receiving, considering and addressing complaints (ZRAIC, 2010).

3.5.7 Achievements and challenges

Achievements of ZRA are documented in the literature and in discussions with stakeholders. They include:

- a) Zambia was highlighted as the *best reformer* by *Doing Business* in 2009 because of tax reforms. The Income Tax Act and Value Added Tax Act were introduced to strengthen the effectiveness of the tax administration and to remove ambiguities in the laws. Furthermore, the withholding tax on savings and deposit accounts was reduced from 25% to 15% (Doing Business 2009). Tax reforms have been geared towards expanding the tax base, removing tax exemptions and giving tax relief to the low-income earners and the disabled (AEO 2010b).
- b) During 2008-2009, ZRA and the Bank of Zambia agreed to collaborate on a project to create a technology solution to eliminate manual processing of tax payments and improve service delivery particularly at border points (Bank of Zambia 2008-2009).
- c) The African Economic Outlook (AEO 2010b) considers ZRA as a success story in combating tax evasion. Tax education campaigns have created awareness and increased (quasi-)voluntary compliance. To link company registration to the ZRA is another improvement, which has made the identification of tax liable entities easier.
- d) According to von Soest (2008:29), one of ZRA's biggest achievements has been the hiring strategy that has reduced some of the political pressure on mid and high-level staff, for instance by introducing formal requirements for higher education for all staff at mid-level and over.

Between 2006 and 2009 the *Millennium Challenge Corporation* (MCC) observed a range of specific achievements relating to ZRA anti-corruption work and efficiency in administration for business and investment as quoted below (Weiser and Balasundaram 2009:2):

- Significantly reduced processing time for business registration and VAT registration.
- Perceptions regarding demands for informal payments at Patents and Companies Registration Offices have improved, but data for ZRA was inconclusive.
- Improved access to business registration services for companies outside of Lusaka (specifically in the Copper Belt and Southern Province).
- Increased efficiency of bond repayment for transshipment of goods through the centralization of ASYCUDA.

- Piloting of a risk-based Accredited Customs Client Program following the World Customs Organization guidelines, which has reduced processing time at the border for enrolled clients.

As for ATM and TRA, taxation of small taxpayers in Zambia is a challenge and requires substantial resources. However, the Commissioner General of ZRA argues that it is important to facilitate that people start paying taxes even though the system is not optimal from the beginning. The process itself educates the taxpayer (for instance on how to register income and expenses) and creates a relationship between the taxpayer and the tax administration.

Taxing multinational companies, particularly extractive industries, is a major challenge. This is reflected by transfer pricing, thin capitalisation, hedging transactions, intra-group services and treaty shopping. In order to deal with these challenges, the legislation has been strengthened. ZRA has also organised capacity building of staff through training and workshops. Moreover, ZRA has developed a Transfer Pricing Practice note and cooperates with other tax jurisdictions. However, specialised auditing expertise is in short supply in ZRA. There is also scarcity of research capacity in the tax administration to assist in identifying key challenges and to providing policy recommendations.

3.6 Autonomy and its challenges

A number of autonomy-enhancing elements form a key part of the reforms of the tax administrations in Mozambique, Tanzania and Zambia, including legislated standing, oversight through a board of directors with broad representation, and personnel systems independent of the civil service. The logic is that these autonomy-enhancing elements offer revenue authorities the freedom to manage their staff, to increase financial efficiency by controlling their budgets, and to improve performance by limiting the possibilities of political interference. However, the revenue authorities are less autonomous than Central Banks, though more autonomous than the normal civil service, in particular with respect to human resources management. Thus, they are often referred to as semi-autonomous.

The RA-model has the great merit of facilitating the degree of managerial autonomy that many tax administrations need.¹⁰ However, the ways in which the RAs have been introduced and promoted in some countries have led to problems which should have been foreseen. Above all, fascination with the potential of a single new ‘super-agency’ has distracted attention from the fact that, in tax raising as elsewhere in the public sector, good organisational performance often depends on the nature of the relationships among agencies. In particular (Fjeldstad and Moore 2009):

- (i) Tax administrations need to cooperate with the Ministry of Finance, especially over tax and budgetary policy. If a revenue authority is established in ways that stimulate rivalry and jealousy with the Ministry of Finance, cooperation might be severely jeopardised.¹¹
- (ii) If RAs are not to be abused by powerful Presidents, and used as a private source of income or an instrument to intimidate political opponents, then their high status and managerial autonomy needs to be offset by pluralistic governance arrangements. Political autonomy, in the positive sense of the term, is likely to be maximised to the extent that: (a) a RA has a guaranteed budget that cannot be changed by the government in power; (b) its status, responsibilities and powers are enshrined in law and can be protected through the police and the courts; (c) appointments to the supervisory board are made by a variety of public agents (e.g. different ministries) and non-state agents (e.g. business or lawyers associations); (d)

¹⁰ Not least because they are often competing for staff with private lawyers and tax advisers. If the revenue authority is unable to provide levels of remuneration and job satisfaction to attract high quality staff, it can easily find itself out-witted by the private sector.

¹¹ Therkildsen (2004) argues that the Uganda Revenue Authority became a target for rivalry, jealousy and political interference, especially over personnel matters, because it offered well-paid jobs and considerable rent-seeking opportunities.

appointments to the supervisory board are of long-term and fixed duration; and (e) managerial and operational staff are answerable only to the supervisory board (Taliercio 2004).

- (iii) As organisation theorists have long argued, sustainable organisational autonomy cannot be granted, but has to be continually earned by proving valuable to the political regime. It is always under threat. The organisation has continually to demonstrate the value of its autonomy to those who could terminate it.

One can understand why autonomous agencies were introduced. In environments characterised by large scale corruption and politicisation of the taxation process, radical institutional reform is very appealing. Three potential problems with the creation of RAs relevant for Mozambique, Tanzania and Zambia should, however, be noted (Fjeldstad and Moore 2009):

- a) First, because contemporary tax collection always involves some exercise of discretion, the creation of a powerful, autonomous RA not subject to adequate external constraints could expose the taxpayer to extortion. The tax relationship will only work well if the taxpayer has some kind of protection against extortion, notably substantive taxpayers' rights. However, pressure to meet unrealistic revenue targets set by the Ministry of Finance and donors have led RAs to using a combination of tighter squeeze on registered taxpayers and coercion, which has sometimes contributed to undermining the reputation and credibility of the revenue authority in the eyes of the public (Fjeldstad 2003, 2006; von Soest 2006).
- b) Second, if the autonomy of the RA from the Ministry of Finance is established in conditions that create ill-feeling between the two, or provide few incentives to cooperation, then tax and budgetary policy may be compromised.
- c) A third problem is embedded in the application of the concept of *autonomy* to an organisation that handles large sums of money. Managerial autonomy - to run a tax agency on a day to day basis in ways that make sense from a perspective of its special functions - seems very sensible. The problems lie at the level of political control. The top managers of a tax agency cannot be left free to dispose of its income as they wish. They should be responsible to someone or, preferably, to some institution. The problem with RAs in some countries is that the label *autonomy* has in practice disguised the fact that they have been answerable to only one person, often the President.

3.7 Concluding remarks

This chapter has examined main features of the tax administrations in Mozambique, Tanzania and Zambia, including organisational structures, achievements and challenges. The establishment of revenue authorities has led to substantial improvements of the tax administrations in the three countries. Better integration of tax departments - with a focus on integration of VAT and income tax operations - has been achieved by the creation of the Large Taxpayers Offices. Various approaches to taxing small enterprises, including informal sector operators, have been implemented in all the three countries. Generally, the effectiveness of Customs in the case countries has improved through the use of modern technology and specialised software for better monitoring, including destination inspection schemes to identify risks and inspect goods upon arrival. In Mozambique, the study finds that there is a need for technical assistance to better integrate and harmonise the work of Customs and the Domestic Tax Department.

As part of modernisation, ICT-systems are being implemented in the three revenue authorities with the aim to reducing operational costs, and improve security and efficiency. In Tanzania, this has made way for a new arrangement of tax collection through banks. In Zambia, the ICT-strategy includes collaboration between ZRA and the Bank of Zambia aiming to eliminate manual processing of tax payments and improving service delivery particularly at border points. The implementation and effective use of ICT, however, is a long-term process that requires patience and substantial human and financial resources.

Although the staff compensation system of the revenue authorities is delinked from that of the ordinary civil service, the management of the RAs acknowledges the challenge to recruit, retain and motivate high level professionals. In particular, the recruitment, development and retention of specialists in areas such as ICT, accounting and finance, audit and legal issues, which are critical for the effective implementation and maintenance of the revenue regime, remain a challenge. Thus, for the three revenue authorities the need for further technical assistance is related to the development of expertise within areas such as specialised audit functions of large taxpayers in growing sectors, including extractive industries, telecommunications, the banking and finance sectors, and tourism.

4. The political economy of tax policy and revenue collection

4.1 Introduction

This chapter examines the political and institutional dimensions of tax policy and its administration in Mozambique, Tanzania and Zambia. There is a strong argument that substantial governance ‘dividend’ can be gained from mobilizing domestic financial resources through the tax system (Bräutigam et al 2008). A ‘virtuous circle’ may be generated whereby the generation of government tax revenues leads to improved service provision, which in turn increases citizens’ willingness to pay their taxes. Seen in this light, taxation is not just an administrative task for citizens and governments. It is also about politics and power - the way that authority is exercised in a country through its formal and informal institutions (Moore 2004).

The chapter is organized as follows: Section 4.2 examines the political accountability of the revenue administrations in Mozambique, Tanzania and Zambia, including the working relations between the tax administration and the Ministry of Finance in tax policy formulation. The relations between the revenue administration and other parts of the public sector are also examined, particularly local government authorities, which is the government body that interacts most frequently with taxpayers countrywide. Section 4.3 examines taxpayer-tax administration relations, and to what extent a social fiscal contract between the private sector and government is established. Do citizens have a ‘voice’ in tax policy formulation? What mechanisms are in place for public-private dialogue on taxation? Thereafter, section 4.4 synthesizes experiences from the case countries with respect to efforts by civil society organisations to encourage broader citizen engagement around taxation.

4.2 The politics of tax policy

It should be recognised that tax administrative reforms are often highly political processes that will inevitably pose a threat to important domestic stakeholders (Tanzi and Pellechio 1997). They take time to achieve and are often contested, high profile measures. The successful implementation of such reforms requires political will and support from the highest level of government. The reforms are unlikely to succeed if the main source of energy and leadership comes from outside. The importance of political support is expressed by a former ZRA top manager (von Soest 2006:97-98):

“You need a lot of sturdiness, you must be able to brief Cabinet and you need support from the Minister. Any [revenue] authority can’t survive without political support.”

How does political support to the revenue administration materialise in practice, and what lessons of broader relevance do the experiences from the case countries provide in this respect? Moreover, what is the political accountability of the revenue administration, including its relations to the Ministry of Finance and other spheres of government? These issues are explored in this section, which also examines commonalities and differences between the case countries.

4.2.1 Political support

A reflection of the importance of political support is the positive development of the Mozambique Tax Authority (ATM). From the outset the ATM has been able to count on the support of the President of the Republic. This support has facilitated the ATM’s campaigns to change public attitudes towards paying taxes. In addition, the principle of ‘fiscal contract’ is well understood by the ATM’s leadership. This has laid the foundation for ATM’s ongoing work to develop a taxpaying culture based upon participation and citizenship.

On the other side, experiences from Zambia show that the establishment of a semi-autonomous authority with comparatively generous remuneration packages and substantial budgets has not protected it from political interference in the day-to-day operations. To the contrary, in some respects it might have made the revenue authority a more attractive target because the authority offers both considerable rent-seeking opportunities. Although President Chiluba (1991-2001) supported the ZRA's autonomous operation as exemplified by the authority's merit orientation, there are indications that it was difficult for the ZRA management to maintain the autonomy of operation and to prevent political interference. According to von Soest (2006:98), '[i]t appears as if there have been some instances of preferential treatment on the one hand and tax harassment on the other'. For instance, the Chiluba-government sometimes singled out 'special cases' which the ZRA was told not to tax. This included businesses owned by ruling party politicians, which allegedly had not been subject to a tax assessment and had never paid tax (ibid.) On the other hand, opposition politicians and former government members were subject to frequent tax audits and harassment from the tax authorities (Afronet 2002:27). However, according to von Soest (2006:98), there is a widely shared perception that the late President Mwanawasa's administration managed to restrict these incidents and that the ZRA has gained more autonomy since 2001. Experiences from the Tanzania Revenue Authority (TRA) also show that a revenue authority can be vulnerable to political interference, in particular with respect to discretionary tax exemptions (Fjeldstad et al 2003). The arguments supporting this observation can be summarised as follows:

Politics dominates over law: Legal provisions for organisational autonomy of revenue authorities have limited importance in contexts where political elites do not respect them.

Autonomy may also contain seeds of its own destruction: Revenue authorities may become attractive targets of political interference due to comparatively favourable remuneration packages and to rent-seeking opportunities.

Success may help to protect autonomy: Respect for organisational autonomy established by law depends to some extent on the success of the tax administration. Political support to the Mozambique Tax Authority seems to have been sustained partly since it has met its revenue collection targets (and over performed during the last two years).

Inflated expectations may help undermine autonomy: Donors and the Ministry of Finance, by pushing for high revenue targets help to undermine the SARA's credibility in the eyes of state elites and the public, because such targets create expectations that often cannot be met.

4.2.2 Political accountability of the revenue authorities

Accountability and political control of the revenue authority revolves around what authority is delegated to the revenue authority, the depth and detail of monitoring conducted by Parliament and the Ministry of Finance (MoF), and the methods of recourse for those affected by the revenue authority's activities, i.e. the taxpayers (Gloppen and Rakner 2002). A number of arrangements are in place to ensure that the revenue authority does what it is designated to do. These include:

- Monthly and quarterly revenue reports detailed on revenue sources and regional offices, as well as changes over time.
- Annual reports and audited accounts.
- The Commissioner Generals of TRA and ZRA report to the Permanent Secretary of the Ministry of Finance, and also interacts with the PS frequently, including briefings and monthly statements of revenue performance. Equivalently, the President of the ATM reports to and interacts with the Ministry of Finance and the Council of Ministers.
- Main stakeholders are represented in the Board of Directors of TRA and ZRA, and in the Fiscal Council of ATM.

None of these arrangements can, however, guarantee that the Ministry of Finance will not lose control of the revenue authority, but they contribute to increase the visibility of the tax administration's activities, its performance over time with respect to revenue collection, and also provide the potential for regulation and control to be exercised more effectively. Our impression from the case countries is that when it comes to accountability and attention to issues like delegation, monitoring and control by the MoF, measures are in place that to a large extent gives attention to these factors.

ZRA should be commended for its Annual Reports, which also include information on corruption cases within the revenue administration. The Annual Reports of the ATM are filled with tables and figures providing valuable data on many facets of revenue collection and tax administration (USAID 2009). TRA's annual reports are also informative. Yet, the annual reports lack some types of indicators that would provide management with better information for monitoring operational efficiency (*indicadores de desempenho*). For instance, information that would have been relevant to include are: Survey findings on taxpayer satisfaction; Number of taxpayer service requests handled, by function and location; Quality of information provided to taxpayers; Number of declarations processed, by type of tax; Processing time per declaration; Processing time for refund requests; Number of audits per audit staff and type of contributor; Average time per audit; Percent of audits finalized and accepted by taxpayer without contest; Percent of challenged audits settled in favour of the government; Average time for contacting taxpayers about overdue payments, and initiating action; and Average time for customs inspections.

TRA should be acknowledged for the quality and prompt regularity of its revenue reports. The websites of the ATM (www.at.gov.mz/), the TRA (www.tra.go.tz/) and the ZRA (www.zra.org.zm/) contain a wealth of information to taxpayers. The TRA-website also contains revenue statistics that can be downloaded in Excel-spreadsheet from fiscal year (FY) 1997/98 to FY 2008/09. Monthly tax revenues specify details on Domestic Revenues, Customs and Excise and Large Taxpayers, while the yearly accounts break the numbers down to tax items such as CIT, PIT and VAT. The latest available data on the TRA website refer to the last quarter of the current year. However, in addition to the hard copies of the reports submitted to some of the main stakeholders, including the development partners, TRA's accountability vis-à-vis the general public is likely to increase if the reports were also published on TRA's website. This also applies to the other revenue authorities that are part of this study. Furthermore, detailed information on how the revenue authority is funded should be incorporated in the Annual Reports and Corporate Plans. For instance, TRA's Corporate Plan for 2008/09-2012/2013 does not contain budget information for the authority (TRA, 2008). For the purpose of improving transparency and accountability it would be helpful for the next Corporate Plan or future annual reports to contain such budgetary information for the benefit of stakeholders, employees and interested parties.

In Tanzania, Members of Parliament have over many years been members of the TRA Board. This may add positively to the political accountability to the revenue administration. At present there is one Parliamentarian in the TRA Board. The MPs are appointed as Board members due to their personal qualifications, and not due to their position as members of Parliament. Since TRA is involved in tax policy making, this implies that the Parliament is indirectly involved in tax policy making (see section 4.2.3). However, the general parliamentary oversight of the revenue authorities in the case countries is weak.

This observation is not unique to the revenue administration, but applies to budgetary and public finance issues in general. According to recent studies examining the accountability relations between political and administrative power holders in lower income African countries, the majority of the Members of Parliament interviewed said they felt that the budget process was weak or less than satisfactory and that it needed to be strengthened. The extent of understanding of complex budgetary issues, including taxation, amongst MPs is often relatively limited. This is worsened by the weak research support, limited resources and information. According to MPs interviewed in Tanzania, there is also limited transparency over how and why decisions are made. Moreover, tax policy is given less attention by MPs who, in general, are more focused on the expenditure side of the budget: MPs are

largely judged by voters according to their ability to ‘bring the goods home.’ This does not necessarily imply that the Executive and the Cabinet intend to hide information or to deceive Parliament, but it reflects how little attention is given to Parliament in the tax policy-making process. Recently, however, Members of Parliament in Tanzania have become sensitive to the country’s high dependency on aid and the excessive influence of the donors. In this regard, in the debate of the 2008/09 budget, partly in response to growing donor pressure for government to curb corruption in public expenditure, many Parliamentarians agitated for the goal of weaning Tanzania out of its aid dependency. In response, the Minister of Finance pledged to accelerate growth in domestic resources.

These experiences suggest that there is a need in the case countries for greater advisory, training and research support to improve the technical capacity and basic skills of MPs in public finance and tax policy, including how to read and understand government budgets. Priority should be given to members of the Finance and/or Economic Affairs Committee and the Public Accounts Committee. There is also a need to increase the time available for MPs to scrutinise the budget proposals. Further, more user-friendly information on tax reforms should be provided at an earlier stage of the budget cycle. In Zambia and Tanzania civil society organisations have taken a lead to build capacity in Parliament on public finance management and budgetary processes. In Zambia, *Caritas* has played an important role in educating MPs on budgetary and tax issues, including mining taxation, and *Revenue Watch* has provided training on taxation for Tanzanian Parliamentarians (see section 4.4). Tanzania Revenue Authority also conducts training seminars to the Finance, Economics and Public Accounts committees of the Parliament when the committee members are appointed, which provide an overview of TRA operations, current challenges and expectations for support from the Parliament. These efforts should be encouraged and expanded.

4.2.3 Tax policy formulation

Key institutions involved in tax policy formulation are commonly the policy analysis department in the Ministry of Finance (preparation of the budget with revenue policy measures), and the revenue authority’s planning and research department. Some line ministries, for instance the Ministry of Industry and the ministry responsible for energy and minerals, may also have notable influence on tax policy formulation. In Mozambique, the Ministry of Planning plays a significant role. Moreover, the IMF and the World Bank are involved in policy debates, in particular with respect to revenue targets (tax-to-GDP-ratio), policy proposals and technical details (Fjeldstad and Moore 2009).

In Mozambique, ATM is directly involved in tax policy in collaboration with the Ministry of Finance and the Ministry of Planning. The Analysis Department (Cabinet de Estudos) in the Ministry of Finance is, in principle, responsible for developing tax policy, but the strategic considerations are taken by the Ministry of Planning. The Research, Planning and International Cooperation Department of the ATM develops and submits background analysis to the MoF. Thereafter, tax policy proposals are presented by the Ministry of Finance to the Council of Ministers (CM). When approved by the CM, the proposals are submitted to the Parliament.

Revenue targets in Tanzania are set on the basis of negotiations between TRA and the Ministry of Finance and Economic Affairs (MOFEA). TRA’s Department of Research and Policy (RPD) prepares revenue forecasts using the Revenue Forecasting Model based on macroeconomic parameters as agreed by the key Government agencies, which include the Planning Commission, the Bureau of Statistics and the Ministry of Finance and Economic Affairs. The revenue forecasts are prepared by type of tax. Discussions between the RPD and TRA’s revenue departments on the targets are formally carried out prior to the finalisation of the revenue targets for the respective department. This arrangement reflects the strong role played by the tax bureaucracy in tax policy formulation. It also amplifies the moral hazard problems when the tax collection agency becomes involved in the process where its own performance targets are set.

The Tax Policy Unit in the Ministry of Finance and National Planning (MOFNP) in Zambia was established in 2001 and has made significant contributions to the formulation and implementation of tax policy in each of the budgets since then, as well as the Fifth National Development Plan (FNDP) and rolling MTEFs since 2004. In 2002, the Tax Policy Unit and the Revenue Unit merged (administratively) under the Budget Office of the Ministry, charged with the responsibility of both tax and non-tax revenue policy and was re-named the Revenue Mobilization Unit (RMU). Yet, according to von Soest (2007:33), the MFNP has poor capacity to evaluating revenue performance and determining revenue targets on its own. Thus, with its Executive Support Unit, the ZRA is not only able to analysing tax policy and forecasting the revenue impacts of policy changes, but also plays a major role in formulating tax policy. According to von Soest (2006:109), there is a major imbalance in the ability of the MoF and the ZRA, in favour of the latter. Further, the relatively high remuneration and better equipment of the ZRA have created resentment within the Ministry of Finance. Tax officers, on the other side, have expressed disregard for the capability of the Ministry to perform its responsibilities. Thus, the relationship between the MoF and the ZRA has occasionally been characterised by some frictions. Support from DFID to strengthen the tax Policy Unit in the Ministry of Finance and National Planning have shown mixed results, partly because the ZRA sometimes recruit officers from this unit.

The roles ATM, TRA and ZRA are playing as both tax policy formulation and tax policy implementation bodies must be seen in the light of the capacity constraints facing both the revenue authority and the Ministry of Finance in the case countries. By joining forces, good working relations between the two institutions, particularly in Mozambique and Tanzania, have facilitated the design and implementation of significant tax reforms. However, over time measures are required to secure an unambiguous demarcation of the policy formulating and the policy implementing roles of the Ministry of Finance and the revenue administration, respectively.

4.2.4 Relations between the revenue authority and the Ministry of Finance

A strong and well-placed leadership of the revenue administration is essential for overcoming the political and bureaucratic obstacles that often confront it. The role of the Ministry of Finance in formulating and designing tax policy, and the responsibility of the revenue administration to implement this policy, must be unambiguous and mutually respected. In contrast, a Minister of Finance acting as the chief executive and involved in day-to-day operations, is certainly not the recipe for a strong and effective daily leadership which the revenue administration needs. Experiences from other African countries, e.g. Uganda, show how micro-management by the MoF will undermine the authority and effectiveness of the revenue administration's top management (Fjeldstad 2006).

In all the three countries the revenue authority has provided the Ministry of Finance with fiscal policy and management experts. As a result, at the technical level, a close working relationship has grown between the tax administration and the MoF. In Tanzania, for instance, TRA has been an important source of technocrats to spearhead the consolidation of macro-economic and fiscal reforms in the Ministry of Finance and Economic Affairs (AfDB 2010). Yet, in all three countries a better demarcation of management authority between the top manager of the revenue administration and the Ministry of Finance is required. For instance, providing timely and well-argued tax policy advice should be a core responsibility of the Ministry of Finance. Although the capacity of the MoF to fulfil this function has improved in recent years, in particular in Tanzania and Zambia, there is a need to strengthen the Ministry's capacity for formulating tax policy and realistic revenue budgeting. Such measures should aim to maintain constructive cooperation between the revenue administration and the Ministry of Finance. The revenue administration possesses unique datasets on taxpayers and revenue bases, and this information is essential for improving tax policy and legislation.

4.2.5 Relations between revenue authority and other government agencies

Establishing a sound system of taxation requires co-operation and ongoing linkages between different parts of government, so that overall economic policy, with its tax and expenditure implications, is coherent and well managed. Checks and balances create demands for transparency and accountability across government. Commonly, the revenue authority works with the Central Bank on overseas investments and financial activities, while the revenue authorities in the case countries often have only limited interaction with other ministries, including the ministries responsible for managing (revenues from) natural resources. In Tanzania, for instance, the study team was informed that TRA did not get the required information and data from the Tanzania Mining Audit Agency (TMAA) which could have helped to strengthening the mining tax regime (see section 2.4.4). Likewise, Bigsten et al (2010: 17) report that in Zambia the Ministry of Mines is short in resources to monitor the mines effectively. The ministry is understaffed and has been one of the least prioritised ministries in terms of funding from the government budget (ibid). In theory, the ministry responsible for mining and the revenue authority in the case countries should have a potential for making a strong impact on the mining industry given their responsibilities for monitoring and taxing the sector. However, due to limited capacity, political interventions and vested interests, reflected in poor exchange of information and extensive tax exemptions (see section 5.2), this potential is not satisfactory fulfilled.

Consultation and cooperation between the central government revenue administration and local government authorities are also generally limited in the case countries. This also applies to compliance enhancing initiatives such as community outreach and taxpayer education. Firms often have to negotiate and provide similar information on their operations to several government bodies, imposing high compliance costs on the private sector. Furthermore, the duplication of databases implies higher administrative costs on the public sector. For instance, in Tanzania the City Service Levy, which is the major local tax in urban councils, is levied as a fixed percentage on the firm's turnover (0.1% of turnover for the bank/financial sector, and 0.3% for the other sectors.), requires the same data for tax assessment that the TRA requires for income tax.

Poor coordination between the central and local government levels leads to an increasing number of local taxes, which are difficult for taxpayers to understand. In Tanzania, the TRA's Taxpayer Information Centre receives numerous requests regarding local taxes and fees. According to stakeholders interviewed, including government officials, local taxation is still a major constraint on the commercialization of smallholder agriculture and formalization of the small and micro enterprises. Specifically, multiple taxes (including fees and charges) make it difficult to enter new businesses and markets. Levies are perceived as exorbitant, often charged up-front irrespective of the size and type of business. Sometimes local and central taxes duplicate. We have also been informed by business people and senior civil servants that new taxes, fees and charges are introduced replacing nuisance taxes abolished by the government in recent years. This contributes to undermining the legitimacy of the tax system, encourages tax evasion and delays the formalization of micro- and small scale enterprises.

A general lesson from the country studies is that there is an urgent need to build local government capacity in tax design and modern revenue administration. This can be done in collaboration between the local government authorities and the central government body responsible for training revenue officers, by offering a local government finance curriculum. In Tanzania there is an on-going pilot project on property tax collection where the TRA is collecting the tax on behalf of municipalities in Dar es Salaam. The pilot started in 2008. This pilot may provide relevant lessons with respect to how the collaboration between a revenue authority and local government treasuries could be designed, what works and not, and whether this experiment may provide lessons for other countries. Further efforts are also required to harmonize local and central government taxes and fees, and to avoid duplication. Moreover, there is a need for the central government revenue administration and the local government authorities to share databases. In particular, this applies to data on firm's income and turnover which is required for estimating revenues from bases which are shared by the central and local government revenue administrations. Finally, the revenue authority's 'taxpayer information centre' should be

developed into a service centre for all taxpayers, which covers requests on all types of local and central government taxes, fees and licenses.

4.3 Taxpayer – tax administration relations

This section first examines how consultations between the private and public sectors are institutionalised in the case countries. Thereafter follows an exploration of taxpayer-tax administration relations. Taxpayers' mobilization around common interests has potentially positive outcomes for governance (Braütigam et al 2008). This idea of bargaining and negotiation over taxes is central to the concept of a *social fiscal contract*: a pattern of regular and routine accountability based on the principle of reciprocity and mutual obligations. This is essentially about stimulating good governance at the interface between state and society, in response to the demands of citizens. Thus, there is a strong argument that a substantial governance 'dividend' can be gained from mobilising domestic financial resources through the tax system. A 'virtuous circle' may be generated whereby the generation of government tax revenues leads to improved service provision, which in turn increases citizens' willingness to pay their taxes.

4.3.1 Public-private dialogue: consultations in tax policy formulations

The relations between the revenue administration and parts of the business community in the case countries are characterised by a constructive dialogue through various formal and/or informal forums. In Mozambique, for instance, tax policy is in principle made through a continuous consultative process which involves the private sector. Representatives of the major business associations (CTA and ACIS) have monthly meetings with ATM where issues related to the simplification of the tax system, tax rates and taxpayer education are discussed. Every quarter private sector representatives from business associations meet the Minister of Finance, and twice a year with the Prime Minister. Taxation is among the topics discussed at these meetings. There are also occasional meetings between ATM and large corporations. In Tanzania, consultations between the private sector and government take place in both formal and informal forums, including the *Taskforce for Tax Policy Reform*; TRA's *Stakeholder Forum*; the *International Roundtable*; the *CEO Group*; and the *Tanzania National Business Council* (TNBC). In addition, a range of business association, as well as individual businesses lobby the government on tax issues. Among the institutionalised mechanisms in Tanzania, the *Taskforce for Tax Policy Reform* provides an important forum for dialogue between the private and public sector on tax issues. Although the membership of the Taskforce is significantly skewed towards the public sector, it functions as an arena for trust building between the private and government sector on fiscal issues. The influence of the Taskforce on Tax Policy Reform has fluctuated over time, but seems to have increased recently, possibly reflecting the impacts of long term trust building between the Ministry of Finance, TRA and segments of the private sector.

As part of the national budget formulation process, the Government of Zambia, through the Ministry of Finance and National Planning (MoFNP), has put in place mechanisms through which non-state actors can submit tax and expenditure proposals to be considered in the national budget (Bwalya et al 2009:6). This opportunity is increasingly being utilised by individuals, businesses, professional associations and civil society to lobby for tax concessions and exemptions, changes in tax administration and public expenditures, and thereby influencing budget outcomes. In addition to lobbying through the formal budgetary process and structures, interest groups also use informal means to channel their lobbying effort to influence policy decision making.

During the last decade the Zambia Government and the private sector have initiated a more formalised consultative process through the *Zambia Business Council* (ZBC) where key government institutions and the private sector engage in a dialogue on key policy issues (ibid:10). The objective of the private consultation is to generate ideas and dialogue with government on institutional, regulatory and policy reforms that need to be undertaken to promote private sector development. The ZBC comprises four

key Cabinet Ministers responsible for Commerce Trade and Industry, Finance and National Planning, Transport and Communication, and Agriculture; Zambia Development Agency (ZDA), Business Associations, and the Zambia International Advisory Council (ZIBAC) that is comprised of well-established international business experts. The Zambia Business Council is chaired by the President and in his absence by his Economic Advisor and meet quarterly. Bwalya et al (2009:11), however, questions how effective the ZBC has been and argues that its future relevance is still questionable since its establishment and credibility was strongly linked to late President Mwanawasa.

The *Zambia Business Forum* (ZBF) comprises seven business associations. The business forum was formed as a common intermediary organisation to spearhead constructive and formal engagement with the Government on cross-cutting issues of interest to all its members, as well as a platform for exchanging information and lobbying Government and other stakeholders such as the bilateral and multilateral agencies on matters of business interest of its membership (ibid: 11). The seven members of the ZBF are represented by their Chairpersons on the ZBF Board, from whom the Chairperson of the board is appointed normally on a rotation basis, and the Chief Executive Officer of ZBF serves as the Secretary of the Board. The *Zambia Chamber of Commerce and Industry* (ZACCI), which was one of the core founder members, has pulled off the ZBF perceiving it as simply duplicating the core functions and mandate of the ZACCI. However, with its current seven member associations, the ZBF still represents business sectors that account for approximately 50% of Zambia's GDP.

While the Zambia Business Forum (ZBF) and other private sector associations are generally perceived to advance the interests of the business community, civil society organizations are seen to advance broader public interests and especially the interest of the poor (see section 4.4). Consequently, it has not been uncommon to find policy positions and interests of the business associations and those of civil society organizations at variance and in competition (Bwalya et al 2009: 12).

The experiences from Mozambique, Tanzania and Zambia provide important lessons on measures and approaches to improving the relations between the private sector and the revenue administration. Still, it is uncertain what impact such consultations have had on the actual implementation of tax policy. The general picture derived from the country studies is that although there is no lack of contact, the formalised public-private interaction in the tax arena often occurs after tax policy has been adopted by the government. For instance, various 'stakeholder forums' are potentially important entry points to improve the dialogue and communication between the revenue administration and taxpayers. In Mozambique, the annual *Private Sector Conference* provides a regular venue for discussing constraints to business development, including tax issues. The last of these conferences took place in November 2010 (www.cta.org.mz/?lang=en).

According to business people interviewed in Mozambique, the private sector has had impacts on recent Customs reforms. Still, they argue that government representatives are not always receptive to their views about problems with the tax system. They claim that the government has sought comments on drafts of recent tax reform decrees on a very short notice, and only after major decisions already had been made. Similar critique has been raised in Tanzania against the TRA's *Stakeholder Forum*, which is perceived by taxpayers as a mechanism for the TRA to inform on tax policy changes (FIAS 2006). Consequently, the potential important role such forums could have for dialogue, and thereby to clarify misunderstandings between the administration and taxpayers, is not working.

Business leaders in Mozambique also complain about problems to get information from the Government/ATM on specific tax issues, for instance data on VAT-collection and reimbursements. They also argue that public information and dialogue on the tax system are still inadequate, though consultations with Customs are reported to have improved after the establishment of the ATM. In all the three countries, however, small businesses, which compose the largest number of enterprises, seem to be left out of the tax consultative processes. Small businesses, in general, are not well organized and do not have a particularly strong political voice. This makes it difficult to harness the views of business when tax changes are being designed. Recently, however, ATM has signed Memorandums of

Understanding (MOUs) with informal sector and microenterprise associations, which have laid the foundation for reforms that simplify the procedures for business registration and taxation of SMEs.

Although the forums *within* Government in the case countries that consider tax changes generally work quite well, an effective public-private dialogue has yet to develop. By considering the views of the various segments of the business sector as well as the revenue administration, it is likely to be easier to establish consensus on vital fiscal policy issues. Such consultations may also contribute to improve tax compliance by creating a more cooperative and less conflictual relationship. Revenue officials should therefore view consultations as an important mechanism for learning about problems with the tax system, educating a major constituency, and strengthening the coalition in favour of good tax policy. Government officials, however, do need to be cautious about distinguishing between special pleading of the business lobby and important insights from the business community for improving the tax system.

4.3.2 Customer friendliness

The current corporate plans of the revenue authorities in the case countries include generally a set of objectives which address challenges facing the tax administration with respect to taxpayers' compliance, including measures to enhance the administration's responsiveness, and to address integrity problems and accountability. As such, they have incorporated a key element of modern tax administration, which emphasizes 'customer service' as a major measure to enhance compliance. Hence, in principle the tax administrations' approach to address non-compliance has moved away from deterrence (stick) toward positive encouragement for compliance (carrot). This is, for instance, reflected in the TRA's Taxpayer's Charter of 2005, which sets out the rights and obligations of the taxpayer, and the duties and service standards of the TRA in dealing with the taxpayer. However, it is evident from the country studies that the new 'customer friendliness' of the tax administrations is so far mainly window dressing: taxpayers continue to experience harassment, extortion, and obstructiveness rather than willing, responsive service (Fjeldstad and Moore 2009). It is also clear that 'customer friendliness' is most widely practiced to the relations between tax administrations and their larger corporate clients, often handled by 'client-oriented' *Large Taxpayer Units*.

This observation highlights a wider problem, common in the case countries - the extent to which improvements in revenue performance results from a high degree of focus by the revenue administrations on larger, formal sector corporations, at the potential expense of genuinely broadening the tax base. Thus, the increase in revenue collection in recent years, does not reflect the development of a broad based fiscal contract between the state and society, but the fact that the tax authority is now targeting its efforts towards the most revenue productive, though very few in number, taxpayers.

4.3.3. Balancing the performance indicators

The uncompromising revenue target focus of the tax administrations implies that achieving the collective target becomes not 'everything', but the 'only thing' - sometimes also at 'any cost', to the detriment of other goals of the tax administration. This may lead to extortion and harassment of taxpayers, and transparency, accountability and customer friendliness are likely to suffer. In interviews, representatives of the business community in Mozambique and Tanzania were critical to the manner and approach of some tax officers whom they perceived to be driven by pressures to meet revenue targets. Hence, there is a need for striking a balance between revenue and service targets. For instance, relevant service targets for consideration may include (Nathan Associates 2009):

- Taxpayer satisfaction with the tax administration (based on survey data).
- Number of taxpayer service requests handled, by function and location.
- Quality of information provided to taxpayers.

- Number of declarations processed, by type of tax.
- Processing time per declaration.
- Processing time for refund requests.
- Number of audits per audit staff and type of contributor.
- Average time per audit.
- Percent of audits finalized and accepted by taxpayer without contest.
- Percent of challenged audits settled in favour of the government.
- Average time for contacting taxpayers about overdue payments and initiating action.
- Average time for customs inspections.

In addition, performance criteria should be linked to the number of taxpayers enrolled in the tax bases. If such a balance between revenue targets and other performance indicators is incorporated in the revenue administration's Strategic and/or Corporate Plans, it is likely that this over time will impact on staff attitudes towards taxpayers. Accordingly, the performance system should be modified to incorporate service measures, i.e. marry together quantitative revenue targets with various other quantitative and qualitative measures.

4.3.4 Discretion, extortion and corruption

Although the tax administrations in the case countries have made significant progress in recent years on both tax policy and tax administration, and the private sector acknowledges this (to some extent), problems in taxpayer and tax administration relations remain. In spite of tax laws which in general are well formulated and 'business friendly'¹², tax officers in practice have discretion over important decisions, such as those related to the determination of tax liabilities (assessments), selection of audits, litigation, delays in VAT refunds, etc. Many administrative procedures, including those reporting tax revenues, could be more transparent. Firms in the case countries report that over-assessment of tax liabilities is common, followed by 'negotiations' between the tax officer(s).

For instance, businesses people interviewed in Tanzania report 'harassment' by TRA staff. The examples quoted include inflated estimated assessments and auditors identifying 'underpayments' that were subsequently withdrawn on appeal. But conversely, from discussions within the TRA, it was evident that the full range of debt recovery legal powers is invoked only infrequently – wherever possible a 'light touch' approach is used to secure the outstanding tax. However, the availability of such discretion in the tax codes is potentially problematic and can result in unequal treatment. It should, however, be acknowledged that TRA has demonstrated a willingness to put into place innovative procedures designed to help businesses comply with their legal obligations.

Discretion leads to unpredictable tax bills, arbitrary fines, and corrupt practices. A survey of 100 businesses in Inhambane, Mozambique, in 2003 found that unofficial payments cost the median firm an average of 5% of gross revenue, which represented a much higher share of the firm's net profit (Nathan Associates 2004:36). The respondents identified customs and tax officials, together with traffic police, as the most corrupt public officials. However, after ATM was established in 2006, business people report that there have been significant improvements in Customs.

¹² Business leaders interviewed in Mozambique and Tanzania, however, argue that some of the current tax laws lack clarity and are too complex for local conditions. This applies, for instance to the tax withholding system. Further, in all the three case countries VAT-refunding is seen as a major problem.

For large and middle sized formal sector businesses aggressive tax enforcement strategies applied by the revenue officers are perceived to be a major problem. Some foreign owned enterprises also report such tax administrative practices. Tax practitioners refer to the discrimination of large, already compliant businesses as ‘hunting within the zoo’ in order improve revenue performance. Businesspeople in Mozambique, Tanzania and Zambia complain in interviews that the revenue administration concentrates on the formal sector of the economy which is registered and visible. Frequent and uncoordinated tax audits are considered to be harassment and intimidation tactics to force taxpayers into extra-legal compliance. In a study from Zambia, von Soest (2006:113) refers to a member of ZRA’s Governing Board who conceded that ‘large companies tend to be soft targets’, and that ‘there are genuine concerns that some [tax] officers’ approach is very heavy-handed’. Moreover, he quotes (ibid.) the manager of a foreign supermarket chain: ‘We’ve got nothing to hide but they come here three to four times a year.’ The research team received similar statements from businesspeople in Tanzania. In a study on tax reform and business environment in Mozambique, Nathan Associates (2004:36) report ‘...rampant negotiations with tax officers; companies driven out of business by competitors who pay bribes in lieu of taxes; a company that sought clarification from one tax official only to be fined by another; a foreign enterprise that was hit with an enormous fine for a violation that did not exist, according to his attorney, and businesses that encountered unexplained re-assessments and penalties’.

What is the rationale behind the discretionary implementation of the tax code? Business people interviewed believe that tax officers levy arbitrary assessments in order to meet revenue targets. Moreover, structural and administrative features of the tax system add to the problem. As reflected in the previous chapter, tax compliance can be a costly and time consuming affair. Moreover, many small, but also many middle sized enterprises, lack the skills required to provide minimally acceptable accounts and accurate information on total sales. This is an open invitation for discretion and negotiation by tax officers dealing with vulnerable small and medium sized enterprises. In particular, frontline staff in the customs and the domestic revenue departments are exposed to and involved in corruption. This situation is partly compounded by the fact that in spite of comprehensive tax reforms over the last decade, the tax structures and administrative procedures are still complex and time consuming for businesses. This facilitates discretion, corruption, and extortion, and contributes to retard the process of building a tax culture based on transparency and accountability.

4.3.5 Addressing discretion, extortion and corruption

It goes without saying that fiscal corruption, as an integral part of tax collection, does not contribute to establish productive state-society relations. Survey research from a number of countries concludes that citizens’ in general view corruption negatively even in countries where it is widespread. For instance, the *Afrobarometer* surveys that cover 20 African countries, including Mozambique, Tanzania and Zambia, find that public opinion in all countries is against corruption (www.afrobarometer.org/). The morality of public office holders is therefore most likely an important source of government trustworthiness.

ZRA has pursued a commendable stance against petty corruption (von Soest 2006:111). The ZRA’s annual reports regularly list the number of corruption cases, their completion rate, and the time required for their processing. Accordingly, the number of corruption cases in ZRA investigated by the Internal Affairs Unit was 32 in 2003 and 28 in 2004 (ibid, p. 112). Moreover, in Tanzania, the TRA-management has recently invested substantially in awareness raising and anti-corruption training of its staff. Still, the East Africa Bribery Index from 2010 shows discouraging scores for TRA (2010:28), and rank the authority as the fifth of 32 public institutions in Tanzania when it comes to perceived corruption (see Box 11). According to the scores of the Bribery Index, TRA has a challenge to fighting corruption and to change perceptions of the Authority. The score that places TRA among the ‘worst ten institutions’ in the country is likely to have negative impacts on efforts to enhance voluntary compliance. In another index, the *Global Integrity Index*, both Mozambique and Tanzania scored 75 (1

best and 100 weakest) on the question if the tax collection agency was perceived to be effective. According to this index, ATM is perceived to be operating with the same level of integrity as TRA (see <http://www.nationsencyclopedia.com/WorldStats/GII-tax-collection-agency-effective.html>). In the *World Economic Forum* 'Investment Climate Profile', Mozambique scores better than Tanzania on the percentage of firms visiting the tax authorities perceiving they are expected to bring gifts (9.8 in Mozambique against 14.7 in Tanzania). The score for Zambia was 5.4 (Nathan 2009:33).

Box 11: Tanzania Revenue Authority in the East Africa Bribery Index 2010

The ranking measures Tanzanian citizens' experiences within four categories (Score 1 is worst performer and 32 is best performer):

- Likelihood of having to offer a bribe in the meeting with a public institution: TRA ranks as number 8.
- Proportion of citizens who actually paid the bribe reported which institution they paid: TRA ranks as number 7.
- Impact of the bribery which indicates on how necessary it was to pay a bribe to get the required service: TRA ranks 7.
- Average size of bribe: TRA ranks 3.
- Share of bribe paid to TRA as a proportion of all bribes paid by respondents: TRA ranks 6

Source: East Africa Bribery Index 2010

The legitimacy of the tax system is dependent on a credible system for enforcement. At present, few systematic studies have been conducted in the case countries to examine how the current system works, including its main bottlenecks, whether these are located within the tax administration and/or in the judicial system. Moreover, in Tanzania, the *Taxpayer Charter* is not a legally binding document. Currently, it is common in Africa that the document is a performance standard only. Both the taxpayer and the revenue authority must ultimately invoke the relevant laws in acting on or seeking to prevent action which is inconsistent with the Charter and the laws. Box 12 gives an overview of the revised Arusha Declaration on Integrity in Customs.

Box 12: The revised Arusha Declaration on Integrity in Customs

The customs administration is often cited as one of the most corrupt sectors of government. The international customs community - through the World Customs Organization (WCO) - commenced work in the mid to late 1980s to formulate a comprehensive integrity/anti-corruption strategy. In 1992 this work resulted in the unanimous adoption by WTO members of the Arusha Declaration on Integrity in Customs. Since that time, this declaration has become the principal anti-corruption framework for the WCO's 162 Member Customs administrations. However, progress with stemming corruption in Customs was slow. In reaction, the WCO called for a comprehensive review of the Declaration and its practical implementation in Member administrations, which led to the preparation of the Revised Arusha Declaration - unanimously endorsed by the WCO Council in June 2003.

The Revised Arusha Declaration on Integrity in Customs consists of ten distinct but interrelated elements considered essential for the development and implementation of a comprehensive and sustainable anti-corruption and integrity enhancement program. It is designed to strike an appropriate balance between the positive strategies (reform and modernisation, leadership, progressive human resources management policies, etc.) and the repressive strategies (sanctions, controls, investigation and prosecution etc) - i.e. the carrot and stick approach. The ten elements of the Revised Declaration are as follows:

- | | |
|-------------------------------|---|
| 1. Leadership and commitment. | 6. Audit and investigation. |
| 2. Regulatory framework. | 7. Code of conduct. |
| 3. Transparency. | 8. Human resources management. |
| 4. Automation. | 9. Morale and organisational culture. |
| 5. Reform and modernisation. | 10. Relationship with the private sector. |

Collectively, the ten key elements are designed to reduce monopoly power and the inappropriate use of official discretion, while at the same time increasing the level of practical accountability. In developing the Revised Arusha Declaration the WCO was conscious of the different social, political, and economic circumstances faced by its Member administrations. It therefore deliberately designed the Declaration to be non-prescriptive in nature. In other words, the Declaration provides a comprehensive conceptual framework - but the actual implementation of each key element is up to individual customs administrations.

Source: World Customs Organization (2011) and U4 (2011)

4.4 Civil society – encouraging broader citizen engagement on tax issues

Civil Society Organisations (CSOs) can be an important channel for improving awareness and education on tax issues. In Zambia during the last decade and more recently also in Tanzania CSOs have played an important role in debates about tax policies, and their role has not been limited to the commercial interests of the private sector (see section 4.3.1). NGOs in the social sectors with a pro-poor agenda have contributed to the public discussion of these issues, in particular with respect to taxation of natural resources.

Donors have provided funding to CSOs to help them play an effective role in scrutinizing and commenting on fiscal policies. For instance, in 2002 DFID initiated work with the *Economics Association of Zambia* (EAZ) to identify activities on the theme of promoting civil society involvement (Hadler 2007: 18). A Project Steering Committee (PSC) was formed in March 2003 with representatives from professional bodies, research institutions, private sector associations, non-Governmental organizations (NGOs) and civil society at large from the following institutions:

- Catholic Centre for Justice, Development and Peace (CCJDP), now Caritas Zambia.

- Centre for Policy and Research Analysis (CEPRA).
- Civil Society for Poverty Reduction (CSPR).
- Economics Association of Zambia (EAZ).
- Ministry of Finance and National Planning (MFNP).
- Non-Governmental Organizations Coordinating Committee (NGOCC).
- Transparency International Zambia.
- University of Zambia (UNZA).
- Zambia Business Forum.
- Zambia Congress of Trade Unions (ZCTU).
- Zambia Council for Social Development.
- Zambia Federation of Employers (ZFE).
- Zambia National Farmers Union (ZNFU).
- Zambia Revenue Authority.

A long-term contract with the EAZ to facilitate the CSO-project began in September 2003. Under these arrangements, the following key component activities were carried out (ibid.):

- The initial stakeholders' workshop in April 2003 on civil society and business community involvement in the national budget process and review of tax policies.
- A workshop to define the CSO-project strategy and outputs was held in January 2004.
- Three studies were commissioned to address:
 - Assessment of the efficiency of Government spending.
 - Analysis of non-tax revenues and earmarked taxes collected by Government.
- Review of previous budget submissions by non-state actors.
- Public meetings were held to disseminate research findings and discuss the Government's budget policies.
- Participation in the stakeholders' workshop on the 2004-2006 MTEF and the 2004 budget hosted by the MFNP in September 2004.
- A 2005 National Budget analysis workshop in Lusaka.

According to Hadler (2007: 21), the quality of the studies contracted was problematic and one resulted in litigation, absorbing unnecessary and lengthy involvement of DFID advisors and project management. Simultaneously, EAZ as a professional and academic body was probably not the appropriate organization to spearhead this activity (ibid). Yet, some competent submissions have been presented and have influenced the Ministry of Finance and National Planning (MFNP) policy. This includes the study on broadening the tax base to the informal sector undertaken on behalf of the *Zambia Congress of Trade Unions*. Also, workshops and seminars on budget and revenue policy issues have contributed to broader citizen engagement on tax issues. For instance, Caritas Zambia and the *International Alliance on Natural Resources in Africa* (IANRA) organised a conference on 'Mining and Taxation' in September 2010, where civil society organisations from the Netherlands and eight African countries (Angola, DRC, Kenya, Malawi, RSA, Zambia, Zimbabwe, and Mozambique) were represented. The conference led to the *Lusaka Declaration on Mining Taxation* (www.ianra.org/news/71-ianra-presents-qlusaka-declarationq).

CSOs have also published several reports on the mining sector in Zambia, some of which have led to widespread public debate on the role of the mining sector for the development of the country. Among these is the study *'Undermining development? Copper mining in Zambia'*, which also has received substantial international attention (www.actsa.org/Pictures/UpImages/pdf/Undermining%20development%20report.pdf).¹³ The report is critical towards the contracts that had been negotiated between the mining companies and the government. It also criticises the World Bank and the IMF for "pushing the Government to accept the contracts". The report is presented in a form that makes it easily accessible for a wide part of civil society and to policy makers (Dymond et al. 2007). Other reports on mining include *Caritas Zambia's* annual 'State of the Nation report'. The 2009 report addressed, among other issues, tax challenges facing Zambia in general, and mining taxation in particular (www.caritazambia.org.zm/images/stories/downloadables/FINAL%20STATE%20NATION%20DOC.pdf).

Zambia has signed up to the *Extractive Industry Transparency Initiative* (EITI) with the intention of helping Zambia achieve more transparency and accountability through appropriate disclosures of revenue received from these industries and accounting for its prudent use. Similarly, initiatives of *Publish What You Pay* have been initiated. *Caritas Zambia* (www.caritazambia.org.zm) coordinates this initiative on behalf of the civil society (www.pywpzambia.org).

Caritas Zambia has also initiated dialogue meetings and sensitisation workshops for policy and law makers on issues of natural resources. Furthermore, the Caritas programme conducts research leading to advocacy aimed to change policies or institutional frames. The *Parliamentary Liaison Program* (PLP) was established in 2001 with the purpose of enhancing the democratic right of civil society in members in exercising their democratic right of contributing to the parliamentary policy and legislative making process in Zambia (www.caritazambia.org.zm/index.php/governance-a-human-rights/paliarmentary-liaison). The PLP aims to inform the public of particular proceedings and bills being passed in the Parliament. Furthermore, it is involved in civic education and advocacy work, including training in Public Policy Analysis. Basic training in public finance management and budgeting has also been provided to Members of Parliament.

Mining and the potential revenues from the sector has engaged a wide range of civil society groups in Tanzania. The report *'A golden opportunity'* by Curtis and Lissu (2008) published by a consortium of non-governmental organisations, sparked a heated debate in the country (www.kirkensnodhjelp.no/Documents/Kirkens%20N%c3%b8dhjelp/Publikasjoner/Temahefter/A%20Golden%20Opportunity%202ndEd.pdf). The *Christian Council of Tanzania* (CCT), the *National Council of Muslims in Tanzania* (BAKWATA), and the *Tanzania Episcopal Conference* (TEC) published the report, while the *Norwegian Church Aid* and *Christian Aid* were behind the financing. The broad support from leading religious groupings, made the arguments put forward in the report harder to dismiss by politicians, mining companies and others with private interests in the sector. The result was a public debate where a wide range of Tanzanians and also some of the international mining companies were involved in the exchange of opinions (www.business-humanrights.org/Links/Repository/608500).

The *Revenue Watch Institute* has been actively engaged in Tanzania and Zambia to build multi-stakeholder collaboration for promoting transparency in the mining industry. Several publications on the mining sector in Zambia have been supported by RWI, including a study, published in 2008, on the history and political evolution of Zambia's mining tax regime

¹³ This was a joint report by Action for Southern Africa (ACTSA), Christian Aid, Scotland's aid agency SCIAF which was officially endorsed by several members of the Zambian civil society, including the *Catholic Commission for Justice, Development and Peace* (CCJDP), *Civil Society Trade Network Zambia* (CSTNZ), *Federation of Free Trade Unions - Zambia* (FFTUZ), the *Jesuit Centre for Theological Reflection* (JCTR), the *National Union of Miners and Allied Workers* (NUMAW), the *Zambian Congress of Trade Unions* (ZCTU).

(<http://resources.revenuewatch.org/en/official-document/politics-reforming-zambia%E2%80%99s-mining-tax-regime>), and a paper that examines the macroeconomic management of Zambia's natural resource endowment over the past century (<http://resources.revenuewatch.org/en/official-document/harnessing-resource-revenues-prosperity-zambia>). In 2007, *Revenue Watch Institute* (RWI) provided financial support to the *Agency for Cooperation and Research in Development* (ACORD) in Tanzania for a project that addressed concerns about oversight of local revenue receipts and expenditures for social services and development projects (www.revenuewatch.org/our-work/countries/tanzania). The project's main goals included the establishment of a multi-stakeholder network to spread awareness about transparency in mining operations and revenue management, including mapping of partners, meetings with sub-national and local government, and monitoring; developing a communication strategy to facilitate EITI information dissemination. The Revenue Watch Institute has also conducted several training workshops for Tanzanian legislators on mining sector reforms. In March 2010, for instance, RWI conducted a one-day training session on the *Extractive Industries Transparency Initiative* (EITI) with members of the Tanzanian Parliamentary Standing Committee for Energy and Minerals. The training was organized at the request of the committee after the country joined EITI in February 2009 (<http://caspiarevenuewatch.org/news/042010.php>).

In Mozambique the *Center for Public Integrity* (CIP) has undertaken research on the corporate social responsibility of extractive sector companies. CIP is also actively engaged in advocacy relating to transparency of the financial flows between companies and government in the sector. The *Institute of Social Economic Studies* (IESE) has conducted research that focus on the link between finances generated from the extractive sector, local governance and development (www.iese.ac.mz/). Both CIP and IESE are members of the Extractive Industries Transparency Initiative (EITI) Coordinating Committee in Mozambique.

The *Norwegian Church Aid* (NCA) (www.kirkensnodhjelp.no/en/) has become increasingly involved in issues related to the mining sector and natural resource taxation in Zambia, Tanzania and other countries in the region, as well as at the global level. In February 2011, NCA and its partners Economic Justice Network (EJN) and Benchmarks Foundation organised the 2nd 'Alternative Mining Indaba'. The event took place at the same time and close to the official Mining Indaba which is held annually at the Cape Town International Convention Centre (see Box 14 and Box 13).

Box 13: Alternative Mining Indaba

The Alternative Mining Indaba (AMI) takes place at the same time and close to the official Mining Indaba. It is coordinated by the Economic Justice Network and Benchmarks in collaboration with the Norwegian Church Aid. The AMI comprises faith based organisations, NGOs and community based organisations from Africa (including Mozambique, Tanzania and Zambia), Latin-America and Europe. The AMI aims to challenge the official Mining Indaba by bringing to the fore issues faced by communities in mining areas and explores ways through which these communities can be supported. Further, it aims to share information on the lessons, challenges and achievements of various stakeholders' initiatives on promoting governance and transparency in the sector of extractive industries.

Source: Norwegian Church Aid 2011

Box 14: African Mining Indaba

Investing in African Mining Indaba is the world's largest gathering of mining's most influential stakeholders and decision-makers vested in African mining. Each year the event is attended with more than 4,000 individuals representing more than 800 international companies and approximately 40 government and quasi-government delegations. Global professionals including key mining analysts, fund managers, investment specialists, and governments clearly define Mining Indaba as their preferred venue for obtaining the most current economic and mining developments from the world's leading experts on African mining. It is held annually at the Cape Town International Convention Centre in Cape Town, South Africa and is organised by Mining Indaba LLC.

Source: <http://www.miningindaba.com/>

4.5 Concluding remarks

Political and institutional dimensions of tax policy and its administration in Mozambique, Tanzania and Zambia are discussed in this chapter. Good working relations between the Ministry of Finance and the revenue authorities, particularly in Mozambique and Tanzania, have facilitated the design and implementation of significant tax reforms. Although the capacity of the Ministry of Finance to provide timely and well-founded tax policy advice has improved in recent years, in particular in Tanzania and Zambia, the Ministry's capacity for formulating tax policy and realistic revenue budgeting needs to be strengthened. Consultations and exchange of information between the revenue authorities and other government agencies, including the ministries responsible for natural resources and with local government authorities, need to be improved to build an efficient tax system.

Although the tax administrations in the three countries have made significant progress in recent years, and the private sector acknowledges this to some extent, problems in taxpayer and tax administration relations remain. In spite of tax laws which in general are well formulated and 'business friendly', tax officers in practice have discretion over important decisions, such as those related to the determination of tax liabilities (assessments), selection of audits, litigation, delays in VAT refunds, etc. Many administrative procedures, including those reporting tax revenues, could be more transparent.

Various stakeholder forums have been established in the three countries where the tax administration and taxpayers (business people) meet, exchange information and discuss tax policy changes. Consultations between the tax administration and business associations may contribute to improve tax compliance by creating a more cooperative and less conflictual relationship. Revenue officials should therefore view consultations as an important tool to learning about problems with the tax system, to educating a major constituency, and to strengthening the coalition in favour of good tax policy. However, it is uncertain whether these forums have had any impacts on tax policy. An effective public-private dialogue has yet to develop in Mozambique, Tanzania and Zambia.

Civil Society Organisations (CSOs) can be an important channel for improving awareness and education on tax issues. In Zambia during the last decade and more recently also in Tanzania CSOs have played an important role in generating public debates about tax policies, and their role has not been limited to the commercial interests of the private sector. CSOs have become increasingly involved in issues related to the mining sector and natural resource taxation in Zambia, Tanzania and other countries in the region. Caritas Zambia and Revenue Watch Institute Tanzania (RWI) have also initiated dialogue meetings and training workshops for policy and law makers on mining sector reforms. CSOs in Mozambique, Tanzania and Zambia, including Caritas, Center for Public Integrity, Revenue Watch Institute and the Norwegian Church Aid have published several studies which have led to widespread public debate in the countries on the role of the mining sector for development. These efforts should be supported and expanded.

5. Broadening the revenue base

Broadening the revenue base and thus increasing public income without raising the tax levels is central to creating an equitable tax regime. Expansion of the revenue base has both a domestic and an international component. Domestically the size of the informal economy and the extent of tax exemptions may make both tax evasion and avoidance an easy option. Internationally the global financial system offers possibilities to hide assets abroad in secrecy jurisdictions and dishonest banks. Some of the illicit financial flows could be liable for taxation, if the assets had been registered in the country of origin. Thus, capital flight should not be excluded in discussions on how to broaden the revenue base. This chapter examines arguments for taxing the informal economy and discusses measures to address tax exemptions, tax evasion and capital flight.

In the standard economic model of taxpayer behaviour, the basic assumption is that people are free-riders: no one will voluntarily contribute to the government coffers unless the threat of punishment makes it sensible (Allingham and Sandmo 1972; Andreoni *et al* 1998; Tanzi 2000). However, an increasing amount of evidence reveals that the rate of contribution to a public good is affected by factors such as citizens' trust in each other, and perceptions of the trustworthiness of government (Levi 1997; Slemrod 2003). Why should the taxpayer not take advantage of the opportunity for a free ride? Government trustworthiness, coupled with the perception that fellow taxpayers are doing their share, can induce people to become 'contingent consenters' who cooperate even when their short-term interest would make free-riding the individual's best option. Accordingly, citizens' willingness to pay taxes voluntarily rests on the government's capacity to provide services, as well as its demonstrated readiness to also secure the compliance of everyone else (Fjeldstad and Semboja 2001; Slemrod 2003).

In this context, efforts to broaden the tax base are intimately connected to the quality of government expenditure. If taxpayers feel that their tax payments are wasted or misdirected then compliance will be low, and tax reforms will be far less effective. Programmes to improve public expenditure management and increase efficiency in the delivery of public services go hand in hand with tax reform. Furthermore, the credibility or trustworthiness of the revenue administration's sanctions against defaulters is important. Compliant behaviour and attitudes towards the tax system are often influenced by the behaviour of an individual's reference group - relatives, business partners, and political associates. If taxpayers know that many of those important to them do not pay taxes, their commitment to comply will be weakened. Consequently, tax exemptions granted to individual businesses or sectors may therefore contribute to legitimise widespread tax evasion.

5.1 Taxing the informal sector

A large share of the economic activity in the case countries is located within the informal sector.¹⁴ That sector is hard to tax (Tendler 2002; Bird and Wallace 2003; Kloeden 2006). Tax administrations tend to give it little priority, because, in cash terms, returns to effort may be low. Tax officers will avoid it if they can, because it is certainly unrewarding in terms of income supplementation, and likely to be unpleasant, difficult, or even dangerous (Fjeldstad and Moore 2008). From an economic and administrative perspective, it makes a great deal of sense *not* to tax multitudes of poor people. Thus, the VAT system generally exempts basic goods consumed heavily by the poor, and the income tax code generally excludes individuals earning less than a certain amount per year (see section 2.4). As a matter of administrative reality, informal entities with incomes below this threshold are not in the tax

¹⁴ The size of the informal economy is hard to estimate. The most cited estimates for our case countries are from the 1990s showing the size of the informal sector in percent of non-agricultural GDP to be 20.2% in Zambia (1998); 43.1% in Tanzania (1993); 44.8% in Mozambique (1994); with a sub-Saharan average of 39.6% (Charmes 2000:3).

net. Further, one should not expect that large amounts of revenue can be raised by taxing micro enterprises (Nathan Associates 2004:27).

Therefore, Terkper (2003) and others argue that the tax system can be improved by having tax officers concentrate on handling a few thousand files efficiently, rather than trying to cover tens of thousands of very small taxpayers. For instance, a study by Ernst & Young notes that more than 13,000 enterprises were registered for the normal VAT regime in Mozambique in 2004, and more than 10,000 were registered for the simplified regime, while nearly 12,000 were recorded in the exempt regime (Nathan Associates 2004:27-28). Yet, those filing under the simplified regime accounted for just 0.4% of the revenue. Thus, it is argued, there is a strong case for raising the thresholds for tax coverage, which would actually narrow the coverage of the tax base, but with little effect on revenue. Further, it is claimed, the revenue effect of this policy is likely to be positive, because administrative resources could be deployed more effectively.

Nevertheless, there are good public policy reasons for paying more attention to taxing informal urban economic activity, both in terms of governance concerns about the spread of the tax net and in order to explore alternative ways of building the capacity to tax the sector more effectively in the long term (Fjeldstad and Moore 2008). Much of the anger about tax evaders in the informal sector centres on competition from enterprises that operate well above the margin of subsistence. Finding better ways of taxing the informal sector, however, is in practice not high on the tax reform agenda in most African revenue authorities. There are frequent mentions of the need to 'broaden the tax base', but this seems to refer more to reducing exemptions and closing loopholes than to any notion that the informal sector needs to be tackled as a generic issue. Implicitly, it is hoped that the informal sector will be brought into the tax net through the gradual expansion of the scope of VAT, which has a very 'thin' coverage in the case countries, as well as in many other African countries.

The removal from the tax net of those taxpayers who generate little net revenue is contrary to the emphasis in principle within the tax reform programme on broadening the tax net. We have no figures on the number of active taxpayers in the case countries. Although the number of registered taxpayers has increased in Tanzania from 2002 to 2008 (see section 3.4.5), the number of VAT registered taxpayers has decreased. In Mozambique there has also been a substantial increase in the number of registered taxpayers since 2006 (see section 3.3.5). Further, both ATM and TRA have focused on bringing informal sector operators into the tax net though many of these newly registered taxpayers are likely to be dormant. A wider tax net is not always a good thing, but our concern is that tax reform has been driven by a clear economic calculus that emphasizes the advantages of excluding marginal payers from the tax net. The political arguments for inclusion have not been made or heard (ibid). This would be less of a problem if the actual tax burdens in poor countries were fairly and effectively distributed. But they are not. In particular, they often fall heavily on a small number of registered, formal sector companies.

We know from a wide variety of sources that this heavy concentration on a few larger taxpayers can have perverse results.¹⁵ Tax collectors, both institutionally and personally, have stronger incentives to concentrate on trying to extract more revenue from this existing, registered base than to go about broadening the base by bringing more, smaller enterprises and individuals into the net. Identifying, locating and registering new taxpayers can be difficult. And concentrating on the existing base can be more rewarding: larger taxpayers are more likely to be willing to pay larger bribes. Those processes in turn help to keep issues of taxation and extortion off the public political agenda: smaller enterprises may be little affected by tax at all, and larger enterprises may continue to solve their problems through bribery. This simple causal model does of course not tell anything like the full story. The point is that it is sufficiently valid that it makes sense to question the dominance of economic arguments for

¹⁵ In his comparative study of Argentina and Chile, Bergman demonstrates the long term damage to collection capacity that resulted from repeated 'emergency' revenue raising campaigns in Argentina (Bergman 2003:623).

excluding smaller taxpayers from the tax net on pure efficiency grounds, and to explore the potential political advantages of widening that net.

The argument made above is all the more pointed in situations where national governments are under strong pressure from the IMF to meet revenue targets, and their tax administrations respond with some combination of (i) an even tighter squeeze on registered taxpayers; and (ii) quasi-military 'raids' on other businesses on which they do not have detailed information. By pushing for unrealistically high revenue targets, the Ministry of Finance, the IMF and donor agencies may contribute to undermine the reputation and credibility of the revenue authorities in the eyes of the public. Attempts to meet externally set tax-to-GDP targets may undermine democratic accountability if legal processes and taxpayers' rights are set aside in response (Luoga 2002). Therefore, efforts to bring informal entities into the tax net are important.

5.2 Tax exemptions

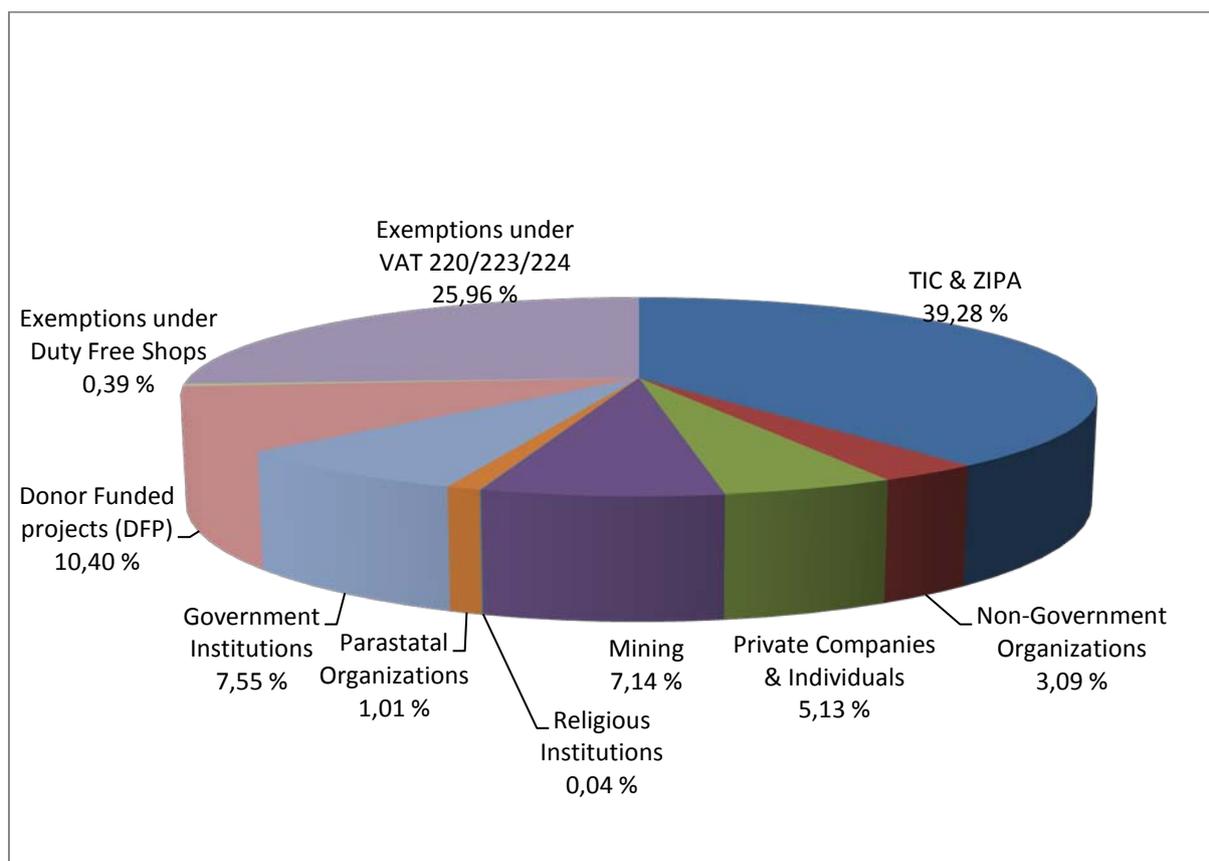
Experience shows that a high occurrence of tax exemptions reduces the tax base, creates room for bribery and corruption, and increases the appearance of loopholes for tax evasion. Hence, the extent of tax exemptions can be seen as an indication of a government's political will to fight fiscal corruption and tax evasion. Below follows an overview of the size of tax exemptions in Tanzania during the two last years. It shows that the number and value of tax exemptions are high, also compared with neighbouring countries (Uwasi 2010). The discussion is thereafter narrowed down to tax exemptions in mining and development assistance, because those two sectors benefit from tax exemptions. Thus, there are potential to increase revenues by changing the exemption regime.

5.2.1 Tax exemptions in Tanzania

Between FY 2005/06 and FY 2007/08 tax exemptions averaged 3.9% of GDP (Uwasi 2010). Thereafter, exemptions dropped to 2.8% of GDP in FY 2008/09 and 2.3% in FY 2009/10. In comparison, in Kenya and Uganda exemptions amounted to 1.1% and 0.4%, respectively (Maliyamkono et al 2009). According to recent TRA-estimates, exemptions in per cent of TRA net revenue collection were 23.6% in FY 2007/08, 18% in FY 2008/09 and 14.7% in FY 2009/10 (TRA 2011a).

Figure 16 illustrates the size of exemptions by the customs and domestic departments 2009/2010. It shows that about 40% of the exemptions were granted by the Tanzanian Investment Centre (TIC) and the Zanzibar Investment Promotion Authority (ZIPA), 26% were VAT exemptions, and more than 10% were statutory exemptions granted to donor funded projects. Exemptions granted to mining and donor funded projects represented 7.1% and 10.4%, respectively, of total exemptions.

That the share of VAT exemptions is so extensive is problematic, because a proliferation of VAT exemptions exacerbates the problems with an already narrow VAT-base due to non-compliance. A high occurrence of exemptions reduces the tax base, increases the appearance of loopholes for tax evasion, and generates demand for yet more exemptions and loopholes.

Figure 16: Tax exemptions by customs and domestic revenue departments in Tanzania (2009/10)

Source: Developed by the authors based on data from Uwasi (2010)

5.2.2. Exemptions for the mining sector

Mining is a sector enjoying substantial tax exemptions in all the three countries. One of the arguments that are frequently cited to support the policy is that a favourable tax regime will attract more foreign direct investment and thus contribute to economic growth. National investment promotion agencies, like the Tanzania Investment Centre, are established to attract and facilitate foreign investments. The incentives granted are largely in the form of tax holidays to foreign investors. In Mozambique, generous investment incentives to specific industries have led to large revenue losses and distorted competition. In particular, wealthy corporations and individuals ‘constantly seek ways to take advantage of special tax breaks to shelter income that should be fully taxed’ (Nathan Associates 2004:30). The World Bank has been a strong advocate for this policy and praises countries that adopt investor-friendly reforms in its annual *Doing Business* reports. However, rather than uniting to demand fair deals with investors, many African countries find themselves competing with each other to see who has the best business climate, the most generous tax holidays (see Box 15), the best investor protection and other fiscal incentives. For poor countries the ‘competition to grant tax exemptions’ could become a race to the bottom. This happens in spite of the fact that research shows that the tax regime is only one of many factors that impacts on investment decisions and the general business environment.

Box 15: The dangers of tax holidays

- Tax holidays are time-limited exemptions from the corporate income tax, which may or may not be renewable. They are widely regarded as a particularly ill-designed form of investment incentive, and one that poses considerable dangers to the wider tax system:
- Unless offered for periods so long that investors are likely to doubt their credibility, they are most attractive to the most footloose firms, which are those likely to bring the least benefit to the wider economy (such as textiles and assembly of light manufacturing goods).
- They are open to abuse, undermining tax revenue by providing enterprises with a strong incentive to use transfer pricing and financial arrangements to shift taxable profits into ‘tax holiday enterprises’. This can be arranged, for example, for taxpaying companies (able to deduct the interest payments) to borrow from holiday companies (not taxable on interest received). Such devices can operate across national borders, and also between domestic firms. However clever the legal provisions crafted to address this risk, experience suggests that companies will prove adept in finding ways to avoid them. Even the most developed tax administrations have difficulties dealing with such abuse.
- For foreign investors resident in countries operating a foreign tax credit system, the benefits of the holiday will be undone when profits are repatriated. All the holiday then achieves is a transfer of tax revenues to the residence country. It may well be, however, that multinationals have enough ways of deferring repatriation for this not to be a major consideration in practice.
- Unless depreciation allowances can be carried forward out of the holiday period, the incentive to invest towards the end of a holiday may actually be lower than it would be under the regular corporate tax system, as investors defer investment in order to take full advantage of such allowances.
- By offering tax holidays, a government is to some degree signalling its own untrustworthiness in tax matters: otherwise, a firm that intends to stay beyond the holiday period would find even more attractive the promise of a low, constant rate of tax implying a present value of payments below that implied by the holiday.
- Many companies apparently find holidays attractive because they spare them the necessity of dealing with corrupt or inefficient tax administrations. Therefore, offering a holiday can itself signal a corrupt or inefficient tax administration, and distract from the need to address such underlying problems.

Source: Keen and Mansour (2010)

In 2009 new tax exemption rules were introduced in Mozambique. The General Tax Law ends the special low-rate regime for large projects, and taxation of mining and petroleum companies will increase. A 25% tax break over eight years for mining investment was also eliminated. New large mining projects could eventually allow Mozambique to increase tax revenues so as to replace aid flows, which by 2009 accounted for around 80% of on- and off-budget expenditures. However, tax exemptions already granted to previous major projects will not be revised. These foreign-owned projects account for up to 12% of GDP but less than 3% of tax revenues and 3% of employment. It is estimated that a 30% tax on profits on the three ‘mega-projects’ in Mozambique would be sufficient to offset donor budget support (AEO 2010).

In Tanzania the same pattern is found as in Mozambique. In the report ‘A golden opportunity’, Curtis and Lissu (2008) argue that the tax incentives given to large foreign companies in Tanzania are so generous that they amount to hidden subsidies for the large mining companies. One common way to avoid paying full corporate tax of 30% is to declare losses and then getting a tax reduction. The public

debate has been active in Tanzania involving both government officials and mining company officials. The *Mining Sector Presidential Committee* has recommended a major review of the tax regime for natural resources. The plan is to modify the existing legislation to enable the government to acquire a pre-set minimum revenue from mining companies.

In Zambia, there are special tax incentives for agriculture, manufacturing, mining, and tourism, but it is the exemptions granted to mining companies that have caused the most serious domestic debate in recent years (Box 16).

Box 16: Tax incentives in Zambia for the mining sector

1. Guaranteed input tax claim for five years on pre-production expenditure for exploration companies in the mining sector.
2. Any mining company holding a large-scale mining license carrying on the mining of base metals is taxed at 30%.
3. Other mining companies are taxed at 35%.
4. Dividend paid by a mining company holding a large-scale mining license and carrying on the mining of base metals is taxed at 0%.
5. 100% deduction on capital expenditure on buildings, railway lines, equipment, shaft sinking or any similar works.
6. The debt equity ratio has been reduced from 2:1 to 3:1 to encourage further investment in the Mining Sector.

Source: Zambia Revenue Authority (ZRA 2011b)

During Chiluba's presidency, tax exemptions were granted as a favour to political supporters, while tax audits and harassment were used against opponents (von Soest 2006). In April 2008 a new mining tax regime was introduced, which made the previous development agreements between the government and the mining corporations invalid. The change meant a higher tax for the companies and especially the new windfall tax was an issue of intense debate. The windfall tax was based on the world copper prices and could not be manipulated by, for example, tax planning. Turbulent times with a change of president and an ongoing global financial crisis led to intense pressure from the mining companies to reverse the new law. Only a year later in 2009 many of the new incentives that would ensure larger government revenue from the mining sector were reversed. Although the law was changed and the result was a substantial negative effect on government revenues, the law from 2009 is still more preferential than the tax regime that was in place prior to April 2008.

5.2.3. Exemptions for development assistance

Another factor that has tended to reduce revenues and created profound distortions in the resource allocation mechanism of the market system is the tax exemption on transactions associated with foreign development assistance in the three case countries. In addition to exemptions granted to donor agencies, these exemptions often include foreign companies engaged by donors (e.g. construction companies). This has contributed to eroding the tax base not only for import duties, but also for corporate and personal income taxes and taxes on domestic transactions.

It is reported that tax exemptions on donor funded imports have similar distorting effects. Tax-free status of government imports has provided an incentive to leak construction materials and capital

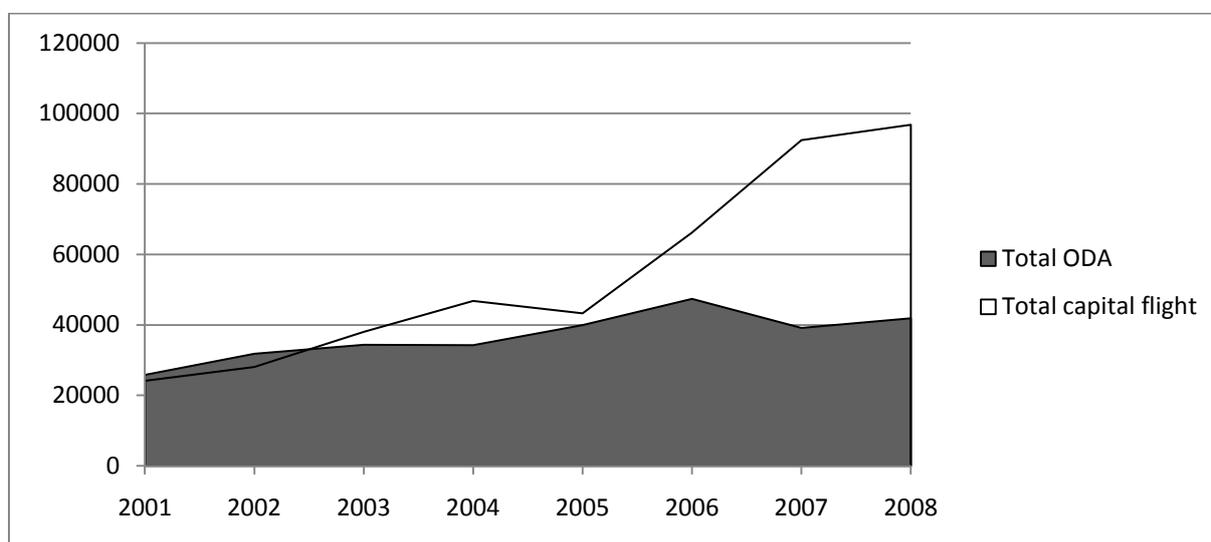
equipment - which exceeded project requirements - into the domestic market. Imports of capital intensive technologies characterising many donor funded projects are indications of the distortions created by the tax free status. Anecdotal evidence also suggests that foreign companies have ousted local companies through this kind of unfair competition.

Governments receiving foreign aid should therefore consider imposing tax on imports of goods to bilaterally and multilaterally funded projects. At least two African countries (Senegal and Togo) took steps in the 1990s to eliminate tax exemptions related to bilateral and multilateral assistance by fully taxing capital imports financed from abroad and crediting donor accounts for the taxes paid (Fjeldstad and Rakner 2003). While these procedures do not directly add any revenue to the budget, it introduces a system of controls that may reduce fraud, and thereby contributes to raise government revenues. It may further improve both budgetary transparency and resource allocation by fully accounting for public investment costs. It may also contribute to a more fair competition between local and foreign companies competing for donor contracts.

5.3. Tax evasion and capital flight

Tax is evaded when income and assets are consciously hidden from the state institutions in order for it not to be taxed. To illicitly channel money out of a country and into a financial centre with high level of discretion and secrecy is a common way to evade tax and hide large amounts from the national revenue authorities. Global Financial Integrity has estimated the flow of illicit finances out of African countries, showing that the money flowing out is of considerable size compared to official development aid going in to the countries in Africa (Kar et al 2010). Figure 17 illustrates that if the estimates of illicit financial flows are correct, the amount of money that left Africa illegally in 2008 was substantially higher than the amount received in the form of official development assistance. Of the three case countries, Zambia has the estimated highest degree of illicit flows (Table 10).

Figure 17: Illicit financial flows from and development aid to Africa (2001-2008; mill USD)



Source: Created by the authors based on CED+GER: 1970-2008; \$US millions 2004 deflated in Kar et al (2010) and Net ODA Disbursements to Africa in constant 2007 USD in AEO (2010i)

Table 10 and Figure 17 show the combined score of estimates of export under-invoicing and import over-invoicing (GER method) and the World Bank Residual model (CED) that captures the channel through which illicit capital leaves a country through its external accounts.

Table 10: Estimated capital flight from Tanzania, Mozambique and Zambia (1970-2008)

Units: mill USD ¹⁶	2001	2002	2003	2004	2005	2006	2007	2008	2000-2008	1970-2008
Tanzania	-	597	106	1 146	85	-	277	334	2 545	7 356
Mozambique	3	178	67	369	-	362	143	-	1 121	5 450
Zambia	91	72	374	1 095	1 336	496	1 502	155	5 120	9 348
Sub-Saharan Africa	20 190	21 808	27 245	37 114	3 771	50 575	74 773	88 102	323 577	532 926

Source: Compiled by the authors based on Kar and Cartwright-Smith (2010)

The difference between the level of illicit flows out of Zambia compared to Tanzania and Mozambique is largely due to the systematically higher estimated trade-mispricing in Zambia than in the other two countries.

The revenue authorities in Mozambique, Tanzania and Zambia have all taken actions against tax evasion. TRA, for instance, has taken important measures in recent years by plugging tax loopholes and to improve the enforcement of legal sanctions against tax fraud. Until 2003, all tax investigations - including 'criminal' ones (fraud and evasion) - were settled internally, which was seen as contributing to lack of transparency of private deal-making. Since then, all fraud and tax evasion cases are referred to the Legal Services Department. Of the 259 investigations made in 2005, 36 cases were referred and of those, 32 went to the regional magistrate's court (i.e. criminal investigations are handled via the regular criminal justice system). However, since the magistrates have imposed only fines and no prison sentences, the rewards of tax evasion outweigh the perceived risks. Thus, the existing judicial system seems to be a major bottleneck for establishing a credible penalty system for fraud and tax evasion.

Revenue authorities occasionally use one time 'tax amnesties' as a way of encouraging compliance and raising revenue. In 1998, Zambia introduced a tax amnesty which provided amnesty from prosecution, fines and other penalties, but not for unpaid tax or interest. Empirical studies show that the overall revenue effects of amnesty programmes have been small relative to aggregate income tax revenues, with estimated effects frequently turning out to be statistically insignificant (Mookherjee and Das-Gupta 1995; Hasseldine 1998; Das-Gupta and Mookherjee 1998). Overall, amnesties may have certain short-term benefits, but a number of potential long-term costs in terms of revenue, compliance and respect for the tax system in general. The resultant balance after these inherent trade-offs have been taken into account should be the major influence on the decision whether or not to offer a tax amnesty. If a decision is taken to offer a tax amnesty, a number of design issues need to be taken into account. These include issues relating to coverage, length, any media campaign, personnel etc. After the amnesty, assessments of the success of the amnesty in terms of revenue, voluntary compliance levels and public attitudes towards taxpaying should be made. However, generally there is a need to caution against the use of tax amnesties.

5.4 Concluding remarks

In this chapter we have argued that addressing the informal sector, cutting down on tax exemptions and hindering illicit financial flows out of the country are complex, challenging but potentially rewarding areas to focus efforts to broadening the revenue base. A large proportion of the economic active citizens in Mozambique, Tanzania and Zambia belong to the informal sector, both in rural and urban areas. This affects the general 'tax literacy' in the countries as many people are not able to comprehend the technical issues involved in tax administration and reform. Recently, ATM, TRA and ZRA have made commendable efforts to bring informal sector operators into the tax net. This has

¹⁶ USD million 2004 deflated. For information on the methodology see Kar and Cartwright-Smith (2010:18) and Fontana (2010).

involved measures to educate taxpayers, simplify the registration of traders, and to bring non-filers and non-payers into the tax net through closer monitoring and collaboration with informal sector associations. Still, considerable and sustained efforts are required before the tax bases in the three countries will be significantly broadened. During this process it is also important to strike the right balance between the expansion of the tax base, compliance and enforcement.

Generous investment incentives to specific industries have led to large revenue losses and distorted competition in the three countries. Extractive industries enjoy generous tax incentives. One argument is that a favourable tax regime will attract more foreign direct investment and thus contribute to economic growth. This happens in spite of the fact that research shows that the tax regime is only one of many factors that impacts on investment decisions and the general business environment. Rather than uniting to demand fair deals with investors, many African countries, including the three case countries, find themselves competing with each other to see who has the best business climate, the most generous tax holidays, the best investor protection and other fiscal incentives. Experience also shows that a high occurrence of tax exemptions reduces the tax base, creates room for bribery and corruption, and increases the appearance of loopholes for tax evasion. Hence, the extent of tax exemptions is often an indication of a government's political will to strengthen the fiscal contract and fight fiscal corruption and tax evasion. However, due to resistance from the benefiting elite, political leaders and businesses it is likely that the exemption regime will continue to be a major challenge in all the three countries.

It is well documented by research that illicit capital flows from Africa – mainly to tax havens and Western financial institutions - are huge. The proceeds of commercial tax evasion, mainly through trade mispricing, are found to be by far the largest component. Of the three case countries, Zambia has the estimated highest degree of illicit flows largely due to the systematically higher estimated trade-mispricing in Zambia than in the two other countries. Erosion of the tax base through transfer pricing is a challenge that has adversely affected domestic resource mobilisation. Most extractive industries companies operate internationally and have extended dealings with affiliated companies, thus increasing the opportunities for transfer pricing and thus lowering the tax liability. The tax laws in the case countries have legal provisions to address the issue, but evidently, that is not sufficient. The tax administrations in Mozambique, Tanzania and Zambia need better training on how to recognize the transfer pricing opportunities in key sectors, including mining, and stronger capacity to detect and respond to this problem. There is also a need for more in-depth knowledge of the extent and impacts of capital flight at the country levels. The issue of transfer pricing is sophisticated and complex in nature. International collaboration and treaties are required to make inroads against the problem.

6. External support to strengthening the tax systems in Africa

This chapter provides an overview of organisations supporting the development of tax systems in Africa (see Box 17), followed by a summary of relevant donor initiatives in Zambia, Mozambique and Tanzania.

The renewed interest in taxation and development in Africa is the result not only of increasing awareness of the nexus between taxation, state building and accountability, but also due to the drivers of tax reform. They include (i) international agencies such as the International Monetary Fund, the World Bank, bilateral development agencies, international tax consultants and NGOs; (ii) African organisations, in particular the African Tax Administration Forum (ATAF) and the African Development Bank (AfDB); (iii) international conventions, accords and declarations; and (iv) the World Taxpayers Association, which has branches in four African countries. The work of these organisations has also been complemented by legislation passed by African countries on taxation. This renewed interest on tax issues is likely to be sustained because of the realization by many African governments that fiscal self-reliance requires improved tax systems, which entails a culture of trust between the state and citizens, and enhanced government accountability and transparency.

6.1 International organisations

A number of institutions can be included as global drivers of tax reform. However, the political and intellectual impetus behind the global tax reform has largely been provided by the International Monetary Fund (IMF), which comes to policy makers in developing countries in a ‘rather authoritative way’ (Fjeldstad and Moore 2008). Stimulus has also come from the World Bank and the community of tax professionals, which includes employees of national tax administrations, international organizations, economists, accountants, academia, lawyers specializing in taxation and local and international consultancy firms. Three of these institutions deserve some attention given their role in putting tax on the agenda in African countries. They are the *Tax Justice Network*, the *Commonwealth Association of Tax Administrators* (CATA) and the *Global Financial Integrity* (GFI).

The International Tax Justice Network (TJN) is a coalition of researchers and activists with a shared concern about what they argue are the harmful impacts of tax avoidance, tax competition and tax havens, which are corrupting national tax regimes and onshore regulation and distort markets by rewarding economic free-riders and misdirecting investment (www.taxjustice.net). The key ideals it promotes are tax cooperation, level playing fields, democratic taxation and transparency. Through its declarations, publications and other activities, the Network has been able to draw attention to abusive tax policies and the harmful effects of tax havens. There is a branch of the Network in Africa (www.taxjusticeafrica.net).

The Global Financial Integrity (GFI) was launched in September 2006 following the publication of the book, *Capitalism's Achilles Heel: Dirty Money and How to Renew the Free-Market System* by Raymond Baker. The book demonstrates that the problem of illicit financial flows and the financial infrastructure supporting it is enormous (see section 5.3). The GFI promotes national and multilateral policies, safeguards and agreements aimed at curtailing the cross-border flow of illegal money. Its mission stems from the estimate that USD1 trillion in funds which are illegally earned transferred or utilized are spirited across borders annually. Of this, USD500 billion a year comes out of developing and transitional economies into western accounts (www.globalfinancialintegrity.org).

The Commonwealth Association of Tax Administrators (CATA) was established as a result of a decision taken at the meeting of the Commonwealth Finance Ministers in Barbados in 1977. Initially 27 Commonwealth countries were enrolled as CATA members. The number has since grown to 46

countries. CATA's activities include annual technical workshops, high quality training programmes for tax officials, in country training programmes tailored to meet the specific needs of members, publication of a quarterly Newsletter and provision of consultancy services and research facilities for members upon request (www.catatax.org).

6.2 African organisations

The African 'tax family' consists of the African Tax Administration Forum (ATAF), the African Development Bank (AfDB), and the Tax Justice Network for Africa.¹⁷

The African Tax Administration Forum (ATAF) was formally launched in November 2009 in Kampala, Uganda. Currently, 30 African countries are members. ATAF brings together the heads of Africa's tax administrations to discuss common challenges and key priorities for effective domestic resource mobilization. Further, it builds the capacity of staff through organizing technical workshops. ATAF's objective is to become a platform for articulating African tax priorities and building the institutional capacity of the continent's fiscal administrations through peer learning and the sharing of good practices. It is setting up an African Tax Centre to foster experience-sharing, benchmarking and peer-reviewing. ATAF is engaged in regional and international dialogue on taxation (<http://www.sars.gov.za/home.asp?pid=10421>).

The African Development Bank (AfDB) serves as a strategic partner of ATAF since its inception by providing both financial and technical support (www.afdb.org). Together with ATAF and the Korean African Economic Cooperation Fund, the AfDB has established the East Africa Tax Initiative, which focuses on sharing good practices in revenue governance in East Africa, including Burundi, Kenya, Rwanda, Tanzania and Uganda. The AfDB also facilitates deeper dialogue with other pan-African platforms that deal with different aspects of public finances such as the Collaborative Africa Budget Reform Initiative (CABRI) and the African Organization of Supreme Audit Institutions (AFROSAI).

The Tax Justice Network for Africa (TJN-A) is a pan-African initiative and part of the International Tax Justice Network. It was launched at the World Social Forum in January 2007. Its aim is to mainstream tax justice in the economic discourse in Africa and promote socially just, democratic and progressive tax systems. It organized a Pan-African Conference on Taxation and Development that took place in Nairobi, Kenya, 25-26 March 2010. The conference made declarations on domestic taxation, revenues from natural resource extraction and international taxation. These included calling on African governments to commit full transparency on tax revenues and tax expenditures, remove tax exemptions for multinational corporations and wealthy individuals and elites, simplify tax codes and reduce the compliance burden, particularly for small businesses, and sign on to the Extractive Industries Transparency Initiative.

6.3 International treaties, conventions and declarations

A range of international treaties, conventions and declarations provide the legal and institutional framework for driving the global agenda on taxation. They include:

- United Nations Model Double Taxation Convention.
- Manual for negotiation of bilateral tax treaties between developed and developing countries.
- The Organization for Economic Cooperation and Development (OECD) Declaration on International Investment and Multinational Enterprises of 1976, which covers areas on taxation.

¹⁷ This and the two following sections draw on Ayee, Fjeldstad, Marais and Keanly (2010).

- The CARICOM Double Taxation Agreement of 1994, which replaced the 1973 Tax Treaty that provides for the removal of barriers which previously existed mainly because of the high effective rate of tax levied on income derived.
- The Convention on the Elimination of Double Taxation in Connection with the Adjustment of Profits of Associated Enterprises of 2002.
- The UN International Convention on the Protection of the Rights of all Migrant Workers and Members of the Family of 1990, which relates to avoid double taxation of the earnings of migrant workers and members of their families.
- The UN Convention Against Corruption (UNCAC).
- The OECD Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrations of 2009 and its Arm's Length Principle (which stipulates that the pricing and other conditions of cross-border transactions between associated enterprises should not differ from those that would be made between independent enterprises in comparable circumstances).
- The Nairobi Declaration on Taxation and Development of March 2010.

In addition, individual African countries have passed various legislations to provide for both the legal and institutional framework of taxation.

6.4 World Taxpayer Association

The World Taxpayers Association (WTA) was established in the United States of America in 1988. Its motto is “a united front for lower taxes, less waste, accountable government and taxpayers rights all over the world”. It has an anti-tax stance. WTA has 65 member associations from 45 countries, four of which are in Africa, i.e. Cameroon, Kenya, Tanzania and Uganda (www.worldtaxpayers.org).

Box 17: Recent initiatives in support of domestic revenue mobilisation in Africa

Multilaterals, regional development banks, donors, think tanks and NGOs have different approaches to domestic and international tax issues. While some focus on tax administration, others focus on broader issues of fiscal policy. To promote tax administration, for instance, the African Tax Administration Forum (ATAF) has enrolled the support of the African Development Bank, OECD, IMF, DFID, Irish Aid, Norad, and the German Agency for International Development (GIZ). The AfDB has also supported the African Regional Technical Assistance Centres (AFRITACs) since 2006.

At the global level, fiscal issues are traditionally part of the International Monetary Fund's (IMF) domain of intervention, rather than the World Bank's. The Fiscal Affairs Department of the IMF provides technical cooperation via assistance, missions and training. IMF also collaborates with the European Commission (EC), the Inter-American Development Bank (DB), OECD, the Department for International Development (DFID) and the World Bank in the International Tax Dialogue (ITD), a multilateral coordination effort among tax administrations and bilateral donors to encourage and facilitate discussion of tax matters among national tax officials, international organizations and a range of other key stakeholders. The ITD organizes global conferences, one of which took place in Africa in 2009 (www.itdweb.org).

Continued

Box 18: Continued

In April 2010, the EC has given new prominence to its cooperation in the field of taxation for development by issuing a Communication on ‘Tax and Development’ (EC 2010). Having developed expertise in supporting tax administration reforms in Central and Eastern Europe as a means of financing development, the EC has turned to Africa, for instance, by supporting tax reform in Tanzania and financing a fiscal transition programme with the West African Economic and Monetary Union (WAEMU). The Extractive Industries Transparency Initiative (EITI) is part of the EU-Africa

Governance Partnership and supported by 10 EU Member States and the EC. It encourages the verification and full publication of company payments and government revenues from oil, gas and mining. All EU Member States that support the EITI provide financial assistance, with most using the World Bank’s Multi-Donor Trust Fund, and a few giving grants to the EITI International Secretariat. The EC is also a member of the International Tax Dialogue. It uses IMF Regional Technical Assistance Centres for technical cooperation initiatives at country level, and collaborates with the International Tax Compact (www.taxcompact.net/).

The International Tax Compact (ITC), an initiative of the German Federal Ministry for Economic Cooperation and Development (BMZ), aims to strengthen international cooperation with developing and transition countries to fight tax evasion and avoidance. The United Kingdom’s DFID has provided technical assistance to a range of tax reform and tax administrative issues in several African countries. DFID has also funded research programmes on taxation and governance, including the International Centre for Tax and Development (ICTD), co-funded with Norwegian Agency for Development Cooperation (Norad). Norway and Denmark have also funded a research programme examining the links between taxation, aid and democracy in Africa (www.cmi.no/research/tax/).

Norway, via the Oil for Development Programme, Norad and some embassies, provide support to strengthening natural resource management and taxation, for instance in Ghana, Mozambique, Tanzania, Uganda and Zambia. Germany (GIZ) has included tax administration components in its projects in Burkina Faso, Ghana, Mali, DRC, Mozambique, Rwanda, and Senegal. It also cooperates with regional institutions such as the East African Community (EAC) and the Economic Community of West African States (ECOWAS).

The Swiss State Secretariat for Economic Affairs (SECO) supports a multi-donor common fund that facilitates tax administration reform in Mozambique, and provides technical assistance to the Ministry of Finance in Burkina Faso to support tax policy reform.

Sweden, Denmark, the Netherlands, the United States and Italy also have projects in the tax policy area. France’s Ministry of Finance has been funding technical cooperation, and participates in the Centre de rencontres et d’études des dirigeants des administrations fiscales (CREDAF), a dialogue and study centre for Francophone fiscal administrations, most of which are African. The North-South Institute (Canada) carried out case studies on domestic resource mobilization in Africa along with the Canadian Development Agency (CIDA), the AfDB and the African Economic Research Consortium (AERC). A ‘Collecting Taxes’ database is available online in the USAID fiscal reform section, presenting information on revenue performance, tax structure and tax administration.

Several civil society organizations are active in the area. For instance, the Tax Justice Network for Africa (TJN-A) advocates for socially just, progressive taxation systems. Think tanks such as the Global Financial Integrity have been documenting tax losses in Africa due to tax evasion. Organizations and networks lobbying against tax evasion and fraud include the Extractive Industries Transparency Initiative (EITI), Transparency International and Publish What You Pay.

Source: Ayee et al (2010) based on African Economic Outlook

6.5 Agencies supporting work on taxation in Mozambique, Tanzania and Zambia

Table 11 gives an overview of major development partners engaged in tax related projects in the three countries.

Table 11: Donors engaged in tax related work in Tanzania, Zambia and Mozambique

Country	Organisations
Mozambique	BTC (Belgium), CIDA (Canada), DFID, GIZ, IPAD (Portugal), Norway, SECO (Switzerland), Schweizerische Eidgenossenschaft, Spain, AfDB, IMF, World Bank
Tanzania	BTC, Danida, DFID, GIZ, Norway, United States, AfDB, IMF, World Bank
Zambia	DFID, Norway, IMF

Source: Compiled by the authors based on interviews and development partner websites

6.5.1 Mozambique

The general budget support mechanism has 19 full members, known as the G19 or the Programme Aid Partners (PAPs), with two associated members. In addition, several other donors are present. The large number of involved donors makes it difficult to get a full overview of efforts targeting the tax system. Some public reporting on aid projects on the web pages of development partners may have project names targeting 'public finances' and other broad categories that may or may not contain a tax component. But at least ten different development partners and multilateral organisations support the development of the tax system. Thus, there is need for strict donor coordination to avoid overlapping efforts. We are only aware of one case, referring to the US Treasury *Office of Technical Assistance* (OTA), where the Government of Mozambique has terminated the partnership with a donor on taxation. The poverty reduction strategy paper (PARPA II) provides a guiding tool for all partners involved, also on taxation (Box 18).

The European Commission supports the initiative 'odamoz' which is an electronic database with quantitative information on Official Development Assistance (ODA) to Mozambique (Figure 18). The initiative was started to enhance donor coordination (<http://mozambique.odadata.ampdev.net>). The reported size of the total donor contributions differs between Odamoz and the African Economic Overview database, which suggests that there are some inconsistencies between the various sources. Table 12 illustrates the share of ODA used on tax reform compared to the total amount of ODA to Mozambique. Less than 1% of all ODA were allocated to tax issues in 2007 – 2010, illustrating that even though taxation is referred to as a priority area, this is not yet reflected in donor allocations.

Box 19: PARPA II - poverty reduction strategy paper in Mozambique

The Poverty Reduction Strategy Papers (PRSPs or PARPA in Portuguese) in Mozambique are prepared by the government in broad consultation with stakeholders and development partners. Tax issues are incorporated in the main sections in PARPA II. On tax policy the main priorities are:

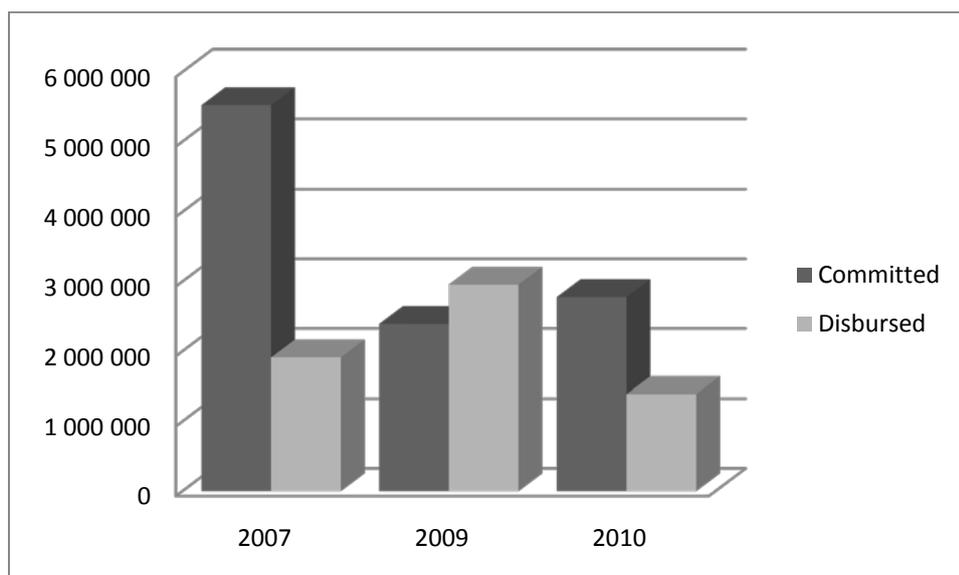
Tax Policy

“In this area, the government will work to reform and increase the efficiency of the tax administration with a view to gradually increasing the mobilization of domestic funds as a percentage of GDP, with the idea of reducing external dependency. To that end, the following steps will be taken:

- (i) Domestic revenues will gradually be increased.*
- (ii) The tax system will be simplified and refined, and the tax base broadened.*
- (iii) Reforms made in direct and indirect taxes will be consolidated.*
- (iv) Simplified taxation regimes will be reviewed, the effectiveness of tax and investment incentives will be evaluated, and the process of establishing tax courts will be continued.*
- (v) Work on modernizing the tax administration will be continued, to make it an efficient tax-collection system and to curb fraud and tax evasion.*
- (vi) Legislation will be approved that simplifies the relationship between the tax administration and the taxpayers, making it easier for them to exercise their rights and receive the protection assured them.*
- (vii) Tax and customs courts will be effectively implemented.*
- (viii) Legislation on local government finances will be refined and the conditions of the agencies responsible for collection and control of local government taxes will be improved.”*

Source: PARPA II English version (Republic of Mozambique 2006)

Figure 18: Donor support for tax reform in Mozambique (in USD)



Source: Developed by the authors based on data from Odamoz (2010)

Table 12: Donor support for tax reform in Mozambique (2007-2010)

USD Mill	Committed	Disbursed	Committed	Disbursed	Committed	Disbursed	Committed	Disbursed
	2007		2008		2009		2010	
Tax Reform	5.5	1.9	-	-	2.4	3	2.8	1.4
Total ODA	6483.3	3858.2	3656.4	4039.5	6035.6	5404.4	6647.7	4661
Tax share of ODA	0.09	0.05	-	-	0.04	0.05	0.04	0.03

Source: Developed by the authors based on Odamoz (2010)

The **Public Sector Reform Donor Group (PSRDG)** consists of the World Bank, UNDP, DFID, Danida, Norad and Irish Aid, with the PARPA as their focal point. The PARPA II agreement on needed tax policy improvements is cited in Box 18. The document shows that there is broad agreement about taxation as an important instrument for poverty reduction. In 2005 the African Development Fund joined with a grant to support two components:

- The establishment of One Stop Shops to simplify procedures and reduce compliance and administration costs.
- The financing of training courses at Mozambique's Higher Institute of Public Administration (ISAP) (AfDB, 2010).

Budget support has been considerable in Mozambique since 2002. The tax basket resulted in the **Tax Common Fund**. The fund is a group of donors that coordinate their support to the tax administration in the country. It consists of UK, Switzerland, Belgium and Germany, with IMF as an observing partner. In December 2010 Norway signed a Memorandum of Understanding to join the fund with a contribution of NOK 12 million for 2010-2011 (Royal Norwegian Embassy Maputo 2010b). The German Development Bank (KfW) has led the tax basket and refers to it as 'international best practice' in donor coordination on tax reform. The funding mechanism complies with the Paris Declarations five criteria on ownership, harmonization, alignment, mutual accountability and managing for results (KfW 2009).

The United States also contributed with a tax component through the U.S. Government Country Assistance Strategy for Mozambique. The tax component covers the period 2009-2014 with an additional tax component in their Trade and Investment Project 2005-2010. **Canadian CIDA** focuses on building economic foundations, but a tax component is not explicitly described in their official profile (CIDA 2010). Similarly, Portugal offers assistance to Mozambique with support for state administration, sustainable development and combating poverty, including a tax component (IPAD 2007-2009). In December 2010, ATM and the **Norwegian Tax Administration (NTA)** signed a MoU for technical assistance to the taxation of international companies operating in the oil and gas sectors in Mozambique. This work will involve the Norwegian Petroleum Tax Office which is part of NTA. The main function of the Petroleum Tax Office is to ensure correct assessment and collection of the taxes and fees that have been determined by the political authorities. The partnership will be funded by the Norwegian Embassy in Maputo, initially for the period 2011-12.

6.5.2 Tanzania

The *Tax Modernisation Programme (TMP)* is supported by the World Bank through IDA, DFID, Danida and the Government of Tanzania (see section 3.4.4). The multi-donor basket funding

agreement was signed in 2006 and succeeded the Tax Administration Project (TAP), which was implemented from 1996/97 to 2002/03 (TRA 2010g). Through the Tax Modernisation Programme, the revenue authority adopted a more integrated approach to project design and implementation. The five core elements of the TMP are: (a) to increase revenue collection in a cost effective way; (b) to integrate TRA operations; (c) to provide high quality and responsive customer services; (d) to promote tax compliance through a fair, equitable and transparent application of tax laws; and (e) to improve staff competence, motivation, integrity and accountability. The implementation of the TMP within TRA is coordinated by the *Planning and Modernisation Programme Unit*.

From 1998 until 2007 GTZ (GIZ) assisted TRA specifically in computerisation of the then Income Tax Department and in developing the TIN and the Income Tax system mainly for employment taxes. With the integration of the Income Tax and the VAT Departments into the Domestic Tax Department, the income tax system supported by GTZ was improved in 2004 to support the integrated operations with the necessary modules of audit, registration (TIN) and debt management. A key element of the project was the introduction of the electronic iTAX-system in 2004. GIZ (GTZ) is currently supporting a regional programme for the East African Community (EAC) that also includes Tanzania. The project duration is from 2008 to 2011. Tax harmonization of laws and procedures in the EAC region is a main component.

GIZ (GTZ) currently supports a regional programme for the East African Community (EAC) that also includes Tanzania. The project duration is from 2008 to 2011. Tax harmonization of laws and procedures in the EAC region is a main component (GTZ 2008).

The German-assisted *Support to Local Governance Processes* (SULGO) supports PMO-RALG via the Property Tax Reform Task Force (GTZ 2010). Short-term technical expertise is provided to assist with the development of on-site testing instruments and procedures such as a cadastre system and the respective computer modules and valuation procedures. Further, an international tax administration and IT expert supported by the Centre for International Migration and Development (CIM) assists TRA in enhancing administrative skills for property tax rates collection in Dar es Salaam.

The International Monetary Fund has a *Regional Technical Assistance Training Centre* (RTAC) in Dar es Salaam, Tanzania, the East AFRITAC which was opened in 2002. The centre offers training in implementing policies that promote growth and reduce poverty through courses, seminars and workshops for officials. East AFRITAC covers Eritrea, Ethiopia, Kenya, Malawi, Rwanda, Tanzania, and Uganda. Current donors include the African Development Bank, Brazil, the European Investment Bank, France, Finland, Germany, Kuwait, Luxembourg, the Netherlands, Italy, Switzerland, and the United Kingdom (IMF, 2010).

The Fiscal Department of the IMF has provided technical advice and recommendations to Tanzania on various issues connected to strengthening the tax administration. The assistance has been a response to requests from the Commissioner General (CG) of TRA. For example in the report '*An integrated and taxpayer segmented tax administration*' advice on taxpayer registration, payment processing, returns processing, filing and debt management, taxpayer audits and VAT refunds was given (Kloeden et al. 2005). Furthermore, the African Development Bank gave a Poverty Reduction Support Loan III to Tanzania with a tax component in 2009.

Norway, via the Norwegian Embassy in Dar es Salaam, has supported the development of a mining tax model and training in applying the model (Econ Pöry 2009). Furthermore, Norway has funded the review of mining contracts and relevant acts, as well as the analysis and revision of hedging agreements in the mining sector. Recently, preparation for long term institutional collaboration between TRA and the Norwegian Tax Administration has been made, with a possible agreement in place 2011. This work is likely to focus on specialised audits of large taxpayers in various sectors, possibly including the finance and banking sectors, telecommunications, tourism and mining. Furthermore, substantial support has been granted to the Norwegian Church Aid's work on the mining sector, focusing on taxation, environmental and social aspects (see section 4.4).

Other donors, including CIDA and some multilateral organisations have also showed substantial interest in the mining sector and public resource allocation. One example is the grouping of the *World Bank*, *UNCTAD* and the *International Council of Mining & Metals (ICMM)*. In 2009 this grouping held a workshop with key government figures in Dar es Salaam presenting findings that later were published in the report '*Mining in Tanzania – what future can we expect? The challenge of mineral wealth: using resource endowments to foster sustainable development*' (Roe & Essex 2009). According to the authors, the report and their advice 'generated a healthy debate about the future of mining in Tanzania'.

6.5.3 Zambia

Like in most other SSA countries, aid has been delivered through various instruments in Zambia. Aid coordination and even harmonization has been strengthened in the last decade. Budget support was introduced in the early 1990s in Zambia. In 1993, sector-wide approaches (SWAPs) for the health sector was developed (Chansa 2008; Chansa et al., 2008). It was then expanded to the Agricultural Sector Investment Program (ASIP) in 1996, the Road Sector Investment Program (ROADSIP) in 1998 and to the Basic Education Sub-Sector Investment Program (BESSIP) in 1999. Budget support represents approximately 30% of total aid in Zambia according to data from 2008 and 2009, while project support accounts for the rest (70%). The logical framework for the Poverty Reduction Budget Support (PRBS) describes the purpose of budget support as the reduction of poverty and the realization of the MDGs through a contribution to the improvement of the effectiveness of the budget as GRZ's key policy instrument for poverty reduction. The document stresses the central role of the National Development Plan as the national strategy and action plan for poverty reduction.

Nine donors are currently part of the budget support group in Zambia (EC, World Bank, AfDB, DFID, Netherlands, Norway, Sweden, Germany and Finland). They signed a joint Memorandum of Understanding (MoU) with the Government of Zambia in 2005 setting out common arrangements for the provision of budget support. The MoU describes the high-level areas of commitment on which PRBS is based known as the 'underlying principles':

- a) commitment to sound macroeconomic management;
- b) commitment to good governance; and
- c) commitment to public financial management reforms; and (iv) commitment to fight poverty.

A donor harmonization process began to take shape in 2002. In 2003, the Government of the Republic of Zambia (GRZ) and its cooperating partners signed the Harmonization in Practice (HIP) Memorandum of Understanding. With other cooperating parties becoming signatories, this was progressively developed in the Wider Harmonization in Practice (WHIP). In October 2005, a Joint Assistance Strategy for Zambia (JASZ) was agreed by the GRZ and cooperating partners, and in May 2007, the JASZ 2007-2010 was signed by the bilateral and multilateral agencies in Zambia. This includes a country context analysis as well as a strategy to enhance ownership, alignment and improve donor coordination. The objective of the JASZ is to better organize development assistance and reduce transaction costs for the GRZ, by creating more balanced sector coverage of the assistance (as several sectors such as education and health received a lot of support, while other sectors did not), and to make development assistance more efficient.

IMF has provided some technical assistance to the Government in Zambia on tax policies and tax administration. A review of the tax policy and administration in 2006 (Kloeden et al. 2006) led to the approval of the IMF project 2008-2010 aiming to modernising the revenue administration. The following strategies are described in the Project Charter Approval:

- i) Separate the design of operational policy and procedures from their implementation.
- ii) Establish a separate and distinct function within the Domestic Taxes Division that will monitor the business processes delivery and strategies and advice accordingly.
- iii) Segment taxpayers into Large, Medium and Small taxpayers and establish distinct functions to manage the attendant domestic taxes.
- iv) Propose amendments to legislation that will support integration of the domestic taxes.
- v) Implement business processes and systems that will support the integration of domestic taxes.

Strengthening the management of the mining sector is one of the priorities of the development partners in Zambia, with IMF, DFID, the World Bank the EU Commission and Norway as key partners.

Norway's engagement on taxation in Zambia dates back to 2006 when the Norwegian Embassy in Lusaka together with the Zambian Government initiated work on mining taxation. In 2007 a Zambian delegation visited Norway for knowledge sharing and to learn about the Norwegian experiences with taxation of oil and gas. Norwegian consultants and lawyers provided advice to the Zambian Government on a new tax regime for the mining sector and on the possibilities to renegotiate the contracts with the private mining companies (Speed 2010). This support also included the development of a mining tax model for Zambia and training of ZRA staff in applying the model. Furthermore, Norway has supported specialised tax audits of three mining companies, and the establishment of a new Financial Intelligence Centre within the Bank of Zambia. For the period 2010-2014, the Norwegian Embassy in Lusaka will fund a programme that aims to build large taxpayer administrative capacity in ZRA, in particular through improved specialised mining tax administrative assessment, auditing and enforcement capacity. The programme will involve institutional cooperation between ZRA, the Norwegian Tax Administration and the International Monetary Fund (IMF).

The number of donors currently supporting ZRA is limited with Norway and the United Kingdom as the main development partners. While Norway, as noted above, will continue to support to the tax administration, DFID has expressed plans on leaning more towards governance, including support to civil society to enhance 'domestic accountability'. Norway will also continue its support to Caritas and the Norwegian Church Aid (see section 4.4).

6.6 Regional programmes of relevance for Mozambique, Zambia and Tanzania

Some donor supported programmes address regions rather than individual countries. Relevant regional support initiatives are listed in Table 13.

Table 13: Regional programmes

Regional programmes	
Germany	<ul style="list-style-type: none"> • International Tax Compact (ITC) Initiative against tax avoidance and tax fraud. Explicit tax project 2009-2012 • East African Community, South African Development Community "Global Trade – New Challenges for Custom Policy and Administration“ Tax component 2005-2012 • East African Community (EAC): Regional Promotion of Tax Administrations in the EAC Explicit tax project 2008-2011 Economic Community of West African States (ECOWAS) Strengthening of the ECOWAS (Economic Community of West African States) Secretariat; Tax component 2006-2011 • Sub-Saharan Africa: Budget management in Sub-Sahara Africa Tax component 2007-2009
United Kingdom	<ul style="list-style-type: none"> • Africa Tax Reform Project in Africa Explicit tax project 2007-2010, Africa Engaging Stakeholders on Domestic Resource Mobilisation in Sub-Saharan Africa, Tax component 2009-2010
United States	<ul style="list-style-type: none"> • Southern Africa, Global Competitiveness Hub Tax Component 2004-2010

Main source: Mapping survey. Tax and development (Köhnen et al. 2010)

An overview of organisations working on tax issues in Africa is presented in Table 14.

Table 14: Organisations engaged on tax issues in Africa

Bilateral agencies	Description	Web address
Canadian International Development Agency	One of CIDA's priority themes is to strengthening public financial management at national, regional and local levels in partner countries. This has included assistance to the Directorate General of Taxation in the Ministry of Finance of Indonesia to develop and implement reforms designed to increase the accountability, transparency, effectiveness, and efficiency of the tax administration system. CIDA has also provided support the institutions responsible for monitoring and regulating the oil and gas sector, including tax collection, in Bolivia.	www.cida.gc.ca
Germany - KfW Entwicklungs Bank	KfW Entwicklungsbank provides budget support and policy dialogue for tax related work and plans to strengthen the focus of taxation in budget support.	www.kfw-entwicklungsbank.de
German Agency for International Development (GIZ)	Long-term technical cooperation complemented by short-term technical assistance, secondments of staff, trainings and financial project support (through the former GTZ). GIZ also organises seminars as well as conferences and produces more analytical studies.	www.giz.de
	GIZ (through the former German Development Service) is engaged in technical cooperation projects. In the area of taxation and development the aim is to improve revenue enhancement of local government authorities.	http://www.ded.de

Continued

<p>Norway – Ministry of Foreign Affairs and Norwegian Agency for Development Cooperation</p>	<p>The Norwegian ‘Tax for Development’ programme focuses on four areas: (i) capacity building of tax administrations; (ii) knowledge generation and dissemination; (iii) international cooperation (e.g. within OECD); and (iv) support to civil society.</p>	<p>http://www.norad.no http://www.mfa.no</p>
<p>Swedish International Development Cooperation Agency</p>	<p>Sida supports capacity building through twinning of Swedish institutions and institutions in developing countries. The Swedish National Audit Office and the Swedish Tax Agency are engaged in development assistance efforts.</p>	<p>http://www.sida.se/English/</p>
<p>United Kingdom – Department for International Development</p>	<p>DFID has a long record of support for tax reform in developing countries focusing initially on tax and customs administration, with the emphasis on better organisational governance, human resource development and tax efficiency. More recently, the emphasis is on tax policy and tax systems that can contribute to growth, state-building and the ‘fiscal social contract’. Support to research and dissemination is part of these efforts.</p>	<p>http://www.dfid.gov.uk</p>

Multilateral organisations

<p>European Commission</p>	<p>The European Commission supports regional tax administration networks and initiatives. The EC also channels support through other multilateral donors such as the World Bank and IMF to work on tax and development.</p>	<p>http://ec.europa.eu/taxation_customs/index_en.htm</p>
<p>OECD Centre for Tax Policy and Administration</p>	<p>The centre mainly focuses on OECD countries. In their work outside of the member countries the intention is to facilitate dialogue and exchange of experiences in tax matters with non-members.</p>	<p>http://www.oecd.org/departement/0,3355,en_2649_34897_1_1_1_1_1_00.html</p>
<p>UN Department of Social and Economic Affairs</p>	<p>UN DESA supports the UN Committee of Experts on International Cooperation in Tax Matters that has 25 tax experts with a mandate to front international cooperation for the benefit of developing countries.</p>	<p>http://www.un.org/esa/ffd/</p>
<p>World Bank Group</p>	<p>The World Bank Group is active in the area of taxation and development, implementing projects in a variety of countries worldwide. WBG-financed operations have components involving tax systems which include tax policy and both tax administration and customs reform. In some cases, tax administration or customs reform is the sole focus of the projects while in the majority of projects, technical assistance (TA) is provided in the broader context of a public sector reform or as a part of public finance management project.</p>	<p>http://www.worldbank.org</p>

International financial institutions

African Development Bank	AfDB provides technical and financial support to member countries in Africa.	http://www.afdb.org
International Monetary Fund (IMF)	The Fiscal Affairs Department handles tax issues. Technical assistance is the main focus. Technical Assistance Centres (RTAC) handles regional projects. The centre covering East Africa is located in Dar es Salaam.	www.imf.org

Regional organisations

African Tax Administration Forum	ATAF was formally launched in November 2009. Currently, 31 African countries are members. It brings together the heads of Africa's tax administrations to discuss common challenges and key priorities for effective domestic resource mobilization. Further, it builds the capacity of staff through organizing technical workshops. ATAF's objective is to become a platform for articulating African tax priorities and building the institutional capacity of the continent's fiscal administrations through peer learning and the sharing of good practices.	http://www.sars.gov.za/home.asp?pid=10421
Commonwealth Association of Tax Administrators	CATA runs training programmes, technical conferences and other knowledge sharing to make tax administrations more effective. Zambia and Tanzania are among the 48 member countries.	http://www.catatax.org/

Global networks and organisations

Tax Justice Network	TJN is dedicated to high-level research, analysis and advocacy in the field of tax and regulation. It analyses and explains the role of taxation and the harmful impacts of tax evasion, tax avoidance, tax competition and tax havens. The objective is to encourage reform at the global and national levels.	http://www.taxjustice.net
International Tax and Investment Centre	ITIC serves as a clearinghouse for information on best practices in taxation and investment policy, and as a training center to transfer such know how to improve the investment climate of transition and developing countries. It has offices in Russia, Azerbaijan, Kazakhstan, the Philippines, Ukraine, the United Kingdom and the United States.	http://www.iticnet.org/
Global Financial Integrity	GFI promotes national and multilateral policies, safeguards, and agreements aimed at curtailing the cross-border flow of illegal money. It is located in Washington D.C.	http://www.gfip.org/
Task Force on Financial Integrity and Economic Development	The Task Force is a consortium of governments, research and advocacy organisations that focuses on achieving greater transparency in the global financial system for the benefit of developing countries.	http://www.financialtaskforce.org/
International Tax Dialogue	ITD is a collaborative arrangement involving the EC, IDB, IMF, OECD, UK-DFID and the World Bank Group to encourage and facilitate discussion of tax matters among national tax officials, international organisations, and a range of other key stakeholders.	http://www.itdweb.org/Pages/Home.aspx
ODAMoz	EC funded electronic data base that provides information on Official Development Assistance (ODA) to Mozambique	http://mozambique.oda.data.ampdev.net/

Research centres

African Tax Institute	ATI is located in the Department of Economics, University of Pretoria. It is devoted to training, research, and technical assistance in the areas of tax policy and tax administration on the African continent.	http://www.ati.up.ac.za
Centre for Taxation and Public Governance	CTPG is a knowledge center for tax governance. Its mission is to contribute to the strengthening of governments in the fields of tax policy, tax administration, tax management and legal drafting. CTPG is located in Amsterdam, Holland.	http://www.center4taxation.org
International Alliance on Natural Resources in Africa	IANRA aims to promote, support and further community-centred, sustainable and equitable management of natural resources in Africa. African members are Angola, DRC, Kenya, Malawi, RSA, Zambia, Zimbabwe and Mozambique.	http://ianra.org/
International Centre for Tax and Development	ICTD aims to translate research on taxation and development into practical, effective and concrete programmes and policies. The operational objective is to mobilise knowledge in ways that will widen and deepen public debate about tax issues within poorer countries, especially in Africa south of the Sahara.	Currently no web page. See individual donor and contributor pages at www.ids.ac.uk ; www.dfid.gov.uk ; www.norad.no

Main source: Mapping by the authors

6.7 Concluding remarks

This chapter has presented an overview of organisations and initiatives engaged in strengthening the tax systems in Africa in general, and in Mozambique, Tanzania and Zambia in particular. Donor countries with strong fiscal capacities are currently the most involved in supporting public resource mobilisation in Africa through their development agencies. The International Tax Compact (ITC), an initiative of the German Federal Ministry for Economic Cooperation and Development (BMZ), aims to strengthen international cooperation with developing and transition countries to fight tax evasion and avoidance. The United Kingdom's DFID has provided technical assistance to a range of tax reform and tax administrative issues in several African countries. DFID has also funded research programmes on taxation and governance, as well as projects enabling African governments to broaden their tax base.

A large number of donors are present in Mozambique. This makes it difficult to get a full overview of efforts targeting the tax system. But at least ten different bilateral agencies and multilateral organisations support the development of the tax system. The *Tax Common Fund* is a group of donors that has coordinated their support to the tax administration in the country. It consists of UK, Switzerland, Belgium and Germany, with IMF as an observing partner. Norway signed a MoU to join the fund in late 2010. The German Development Bank (KfW) has led the tax basket and refers to it as 'international best practice' in donor coordination on tax reform. ATM and the Norwegian Tax Administration (NTA) have signed a MoU for technical assistance to the taxation of international companies operating in the oil and gas sectors in Mozambique. This work will involve the Norwegian Petroleum Tax Office which is part of NTA.

The number of donors involved on tax issues in Zambia is currently limited with Norway and the United Kingdom as the main development partners. IMF provides technical assistance to the Government on tax policies and tax administration. DFID has expressed plans to leaning more towards governance than taxation in the years to come. Strengthening the management of the mining sector,

however, is a priority of several development partners in Zambia, with IMF, DFID, the World Bank, the EU Commission and Norway as key partners.

In Tanzania, basket funding arrangement of the *Tax Modernisation Programme* (TMP) is supported by the World Bank through IDA, DFID, and Danida. Norway has supported the development of a mining tax model. Furthermore, Norway has funded the review of mining contracts and relevant acts, as well as the analysis and revision of hedging agreements in the mining sector. Recently, preparation for long term institutional collaboration between TRA and NTA has been initiated, with a possible agreement in place in 2011. This work is likely to focus on specialised audits of large taxpayers in various sectors, possibly including the finance and banking sectors, telecommunications, tourism and mining.

7. Conclusions and recommendations

Mozambique, Tanzania and Zambia have come a long way in reforming their tax systems. There are a large number of good things to report, in particular with respect to simplification of the tax system, including rates and procedures, and improved tax administration at the central government level. Still, there is scope to build administrative capacity, especially specialised audit and legal expertise for taxation of key and growing sectors such as natural resources, telecommunications, bank and financing, and tourism. Further, there is a need to strengthen the demand side of tax accountability, i.e. to encourage broader citizen engagement around taxation (civil society, including business and taxpayer associations). However, a major challenge for building effective, transparent and accountable tax systems in the case countries are the current tax policies, particularly in relation to exemptions and tax incentives. This chapter summarises the current status of the tax systems in Mozambique, Tanzania and Zambia. Major achievements are acknowledged and current challenges identified. Thereafter, on the basis of the gap analysis, we present a set of recommendations to Norwegian authorities on how this knowledge can be translated into practical, effective and concrete development policies.

7.1 Achievements

The achievements can broadly be categorised in four main categories: (i) revenue enhancement; (ii) improved tax legislation and simplification of procedures; (iii) modernisation of the tax administration; and (iv) improved taxpayer-tax administration dialogue.

7.1.1 Revenue enhancement

There has been a substantial increase in domestic revenue generation measured in nominal USD in all three countries during the last five years. Measured in tax-to-GDP terms, Mozambique (ATM) and Tanzania (TRA) have both seen a substantial increase in the tax share in recent years, although Tanzania experienced a decline in FY 2008/09. In Zambia (ZRA) the tax share has stagnated in recent years and saw a decline in 2009. However, for all the three countries - considering the extent of natural resource rents in many sectors and in particular in mining - the current tax-to-GDP ratios are significantly below what they could have been if the resource rents were properly shared between the country and the investors. This is particularly so for Zambia, where the level of foregone rent is very significant, but also for Tanzania and Mozambique albeit at a lower level relatively due to less developed mining sectors.

7.1.2 Improved tax legislation and simplification of procedures

Tax laws are updated, consolidated and simplified. New tax laws have established clearer rules and a more transparent and predictable tax system. However, there are still some ambiguities in various tax laws that open up for discretion and negotiations between taxpayers and tax officers. Further, in all three countries there is a need to review the legislation for taxation and licensing of natural resources, both renewable resources (fisheries, forestry, and wildlife) and non-renewable (oil and minerals).

Simplification of administrative procedures has significantly reduced processing time for business registration and VAT registration. In Zambia, company registration is linked to the ZRA, which has made the identification of tax liable entities easier. The VAT-refund system, however, is still time-consuming and has raised concern and complaints from the business community. The governments are working to speed up the cross-border exchanges with electronic payments and one-stop control points on some border posts.

7.1.3 Modernisation of the tax administration

Better integration of tax departments - with a focus on integration of VAT and income tax operations - has been achieved by the creation of the Large Taxpayers Units (or Departments). In Tanzania, the bloc collection system has contributed to strengthen the administration of small and medium taxpayers. Generally, the effectiveness of Customs in all the case countries is improving through the use of modern technology and specialised software for better monitoring and the implementation of destination inspection schemes to identify risk and inspect goods upon arrival. In Mozambique, ATM, however, still needs technical assistance to better integrate and harmonise the work of Customs and the Domestic Tax Department.

As part of modernisation, ICT-systems are being implemented in all the three countries with the aim to reducing operational costs, and improve security and efficiency. In Tanzania, this has made way for a new arrangement of tax collection through banks. In Zambia, the ICT-strategy includes collaboration between ZRA and the Bank of Zambia aiming to eliminate manual processing of tax payments and improving service delivery particularly at border points. Still, the implementation and effective use of ICT is a long-term process which requires patience and substantial human and financial resources.

Strategies and procedures for human resource management have been implemented. Training has been emphasised to strengthen auditing skills and understanding of the tax laws. Recruitment strategy has to some extent reduced the political pressure on mid and high-level staff by introducing formal requirements for higher education for all staff at mid-level and over. The tax administrations in all three countries are seen as attractive employers.

The tax administrations have made some inroads against tax evasion and corruption through the reduction of opportunities, better enforcement and taxpayer education. However, perceptions among citizens, especially parts of the business community, reflect that corruption, tax fraud and evasion are still pervasive. Thus, the importance of strong integrity measures within the revenue authorities needs to be emphasised.

7.1.4 Improved tax administration – taxpayer dialogue

Various forums have been established in the case countries where the tax administration and taxpayers (business people) meet, exchange information and discuss tax policy changes. These forums have the potential to improve the relations between taxpayers and the revenue authorities. However, it is uncertain whether they have had any impacts on tax policy.

7.2 Challenges

In spite of advances in many respects, substantial deficiencies remain with respect to (a) realisation of the revenue potential from natural resources in general; (b) administrative capacity to taxing growing sectors; and (c) accountability. A range of factors contributes to the deficiencies of the tax systems in the case countries. They include a legacy of coercive and centralised systems of taxation; weak tax compliance by elites; large, untaxed informal sectors; outdated legislation for taxing and licensing of natural resources, both renewable and extractive; inconsistent patterns of business taxation, varying from tax exploitation of some enterprises to tax exemption for others, reflecting politicised relations between government and business; and limited administrative experience and expertise to effectively taxing growing sectors such as extractive industries, tourism, telecommunication, banks and finance institutions.

Current challenges can be grouped in three main categories: (i) Tax policy; (ii) tax administrative capacity; and (iii) accountability.

7.2.1 Tax policy

Tax policy represents the main obstacle for the development of effective tax systems in Mozambique, Tanzania and Zambia. Without substantial reforms of the tax exemption regime and the tax system for natural resources it is unlikely that fiscal self-reliance is in reach in the foreseeable future. Tax policy challenges include:

Exemptions and tax incentives: In all the three case countries generous *investment incentives* to specific industries have led to large revenue losses and distorted competition. A recent study suggests that exemptions and tax incentives in Tanzania could account for up to 6% of GDP (AfDB 2010). In particular, influential corporations and wealthy individuals constantly seek ways to take advantage of special tax breaks to shelter income that should be fully taxed. However, rather than uniting to demand fair deals with investors, many African countries, including the three case countries, find themselves competing with each other to see who has the best business climate, the most generous tax holidays, the best investor protection and other fiscal incentives.

Tax holidays, which are time-limited exemptions from corporate income tax, are open to abuse, undermining tax revenue by providing corporations with a strong incentive to use transfer pricing and financial arrangements to shift costs and taxable profits between domestic and tax havens (secrecy jurisdictions). Whatever clever the legal provisions crafted to address this risk, experience suggests that companies will prove adept in finding ways to avoid them. Even the most developed tax administrations have difficulties dealing with such abuse.

Experience shows that a high occurrence of tax exemptions reduces the tax base, creates room for bribery and corruption, and increases the appearance of loopholes for tax evasion. Hence, the extent of tax exemptions is often an indication of a government's political will to strengthen the fiscal contract and fight fiscal corruption and tax evasion. Strong will and commitment by the political leadership is a pre-requisite to achieving this shift in culture. However, due to resistance from the benefiting elite, political leaders and businesses it is likely that the exemption regime will remain a major challenge in the short to medium term.

Taxing the informal sector: A large share of the economic activity in the case countries is located within the informal sector. Naturally this part of the economy is hard to tax. Tax administrations generally tend to give it little priority, because, in cash terms, returns to effort may be low. Often tax officers will avoid it if they can, because it is certainly unrewarding in terms of income supplementation, and likely to be unpleasant, difficult, or even dangerous. From an economic and administrative perspective, it makes a great deal of sense *not* to tax multitudes of poor people and small companies.

Yet, there are good public policy reasons for paying more attention to taxing informal urban economic activity, both in terms of governance concerns about the spread of the tax net and in order to explore alternative ways of building the capacity to tax the sector more effectively in the long term (Fjeldstad and Moore 2008). Much of the anger about tax evaders in the informal sector centres on competition from enterprises that operate well above the margin of subsistence. Nevertheless, finding better ways of taxing the informal sector has in practice not been high on the tax reform agenda in the case countries until recently. Implicitly, it is hoped that the informal sector will be brought into the tax net through the gradual expansion of the scope of VAT, which has a very 'thin' coverage in all the three countries. The removal from the tax net of those taxpayers who generate little net revenue is also contrary to the emphasis in principle within the tax reform programme on broadening the tax net. Recently, ATM, TRA and ZRA have all made commendable efforts to bringing informal sector operators into the tax net. Still, considerable and sustained efforts are required before the tax bases in the three countries will be significantly broadened. During this process it is also important to strike the right balance between the expansion of the tax base, compliance, and enforcement.

Weak links between tax reforms and other public sector reforms: Several public sector reforms are on-going in the case countries. They include political, electoral, civil service, legal, judicial, local government, budgetary and tax reforms. The problem is that there often is a weak link between tax reforms and other public sector reforms (Ayee et al 2010). Such a link is necessary to ensure a holistic approach which is needed for coordination, information sharing and good practices. One of the principal reasons for the limited success of many reforms is the implicit presumption that the weakness of public administration as managerial and could be remedied in a straightforward technocratic manner through a combination of organizational overhaul and financial support to procure the requisite specialist technical advice, training and hardware. By contrast, a central lesson is that public administrations are embedded in a complex, interdependent system. This system incorporates not only the bureaucratic apparatus as a whole, but also political institutions and social, economic, and political interests more broadly (Levy 2004).

Better understanding of the political nature of taxation is required: While the technical aspects of tax reform are crucial, a better understanding of the sustainability of tax reforms is not possible without a better understanding of how reforms become legitimate. Because taxation affects incentives and distribution simultaneously, tax reform requires either a degree of social consensus that taxation is in the collective interest and/or it requires a state with the ability to coerce those who challenge its allocations. The focus therefore on institutional designs and other technical issues is incomplete since it ignores the political nature of taxation. More emphasis on the political economy of taxation is required for designing and implementing effective tax systems.

7.2.2 Tax administration

The establishment of revenue authorities has led to substantial improvements of the tax administrations in the case countries. Donor support has contributed to build capacity in a range of areas, including human resource development, internal audits, integration of tax departments etc. At present, the need for further technical assistance is related to the development of expertise within areas such as specialised audit functions of large taxpayers in growing sectors, such as extractive industries, telecommunications, the banking and finance sectors, and tourism. Further, there is a need to strengthen measures that aim to improve voluntary compliance, including taxpayer education, dialogue forums between taxpayers and the tax administration, e-taxation, as well as measures to improving the integrity of tax officers.

Transfer pricing and capital flows: Illicit capital flows from Africa – mainly to tax havens and Western financial institutions - are enormous. According to Global Financial Integrity (Kar et al 2010); total illicit flows from Africa over the period 1970-2008 represent USD1.8 trillion. From the case countries the estimates from the same period (1970-2008) are USD 7.4 billion from Tanzania, USD 5.5 billion from Mozambique and USD 9.3 billion from Zambia. The proceeds of commercial tax evasion, mainly through trade mispricing, are found to be by far the largest component. Interviews with senior civil servants in the Revenue Authorities, the Central Banks and Financial Integrity Units in Mozambique, Tanzania and Zambia, suggest that capital flight is seriously eroding the tax bases in the countries.

Transfer pricing is a challenge that has adversely affected domestic resource mobilization. Most extractive industries companies operate internationally and have extended dealings with affiliated companies increasing the opportunities for transfer pricing and thus lowering the tax liability. This further complicates the task of tax administration and creates a challenge that needs specific skills to deal with. The tax laws in the case countries have legal provisions to address the issue, but evidently, that is not sufficient (Ayee et al 2010). The tax administration needs better training on how to recognize the transfer pricing opportunities in mining operations and stronger capacity to detect and respond to this problem. There is also a need for more in-depth knowledge of the extent and impacts of capital flight at the country levels. The issue of transfer pricing is sophisticated and complex in nature. International collaboration and treaties are required to make inroads against the problem.

Building and sustaining administrative capacity: The revenue authorities in Mozambique, Tanzania and Zambia are perceived by people interviewed as part of this study to be among the best performing and most professional public sector institutions in their respective countries. There is no doubt that the revenue authorities over time have achieved positive results in recruiting, training and retaining particularly well qualified technical and professional personnel. Some revenue authority staff has also been seconded to key central government institutions, in particular, the Ministry of Finance, and have contributed to build capacity there. Although the revenue authority's staff compensation system is delinked from that of the ordinary civil service, the management of the revenue authorities acknowledges the challenge to recruit, retain and motivate high level professionals. In particular, the recruitment, development and retention of specialists in areas such as ICT, accounting and finance, audit, and legal issues, which are critical for the effective implementation and maintenance of the revenue regime, remain a challenge.

ICT to enhance administrative efficiency: The revenue authorities in the case countries have initiated an array of initiatives to exploit ICT with a view to enhancing efficiency in tax administration. These include, for instance, the ASYCUDA++ for customs; ITAX and eFiling for domestic revenue; the computerised registration of motor vehicles and drivers; and the introduction of electronic cash registers for VAT, among others. These initiatives are at different stages of implementation. However, the effectiveness of these systems will depend on building and maintaining technical and professional capacity to operate and maintain the systems. Moreover, at present these systems are not being implemented using an integrated framework, because of the technical and managerial challenges this approach poses. Yet, in the absence of integration, the use of the systems will remain sub-optimal. In particular, it is difficult to have a single view of the taxpayer outside an integrated system.

'Balancing' the performance indicators: The uncompromising revenue target focus of the tax administrations implies that achieving the collective target becomes not 'everything', but the 'only thing' - sometimes also at 'any cost', to the detriment of other goals of the tax administration. This legitimizes extortion and harassment of taxpayers, and transparency, accountability and customer friendliness are likely to suffer. Hence, there is a need for striking a balance between revenue and service targets. Performance criteria should be linked to taxpayers' satisfaction with the revenue administration, processing time for declarations, processing time for refund, the number of taxpayers enrolled in the tax bases, etc. If such a balance between revenue targets and other performance indicators is incorporated in the revenue administration's strategic and/or corporate plans, it is likely that this over time will impact on staff attitudes towards taxpayers.

Minimising corruption in tax collection: Although the issue of integrity is high on the agenda in all the three revenue authorities and institutional mechanisms are established to prevent, reveal and curb corruption, the critical tasks for the authorities are to ensure that the systems, policies, regulations and procedures are not only established but filter down throughout the organisation to be fully functional and effective (PwC 2007). There also seem to be an endemic tax avoidance culture in all the three countries, and some tax officers seem to encourage or fall victim to this culture. Therefore, continuous vigilance on the part of revenue authority's leadership will be crucial to minimising corruption in tax collection.

7.2.3 Accountability

A key challenge is to strengthen accountability between government and taxpayers. The channels through which governments hold themselves accountable to citizens, and citizens communicate their demands for better government, are still highly dysfunctional in the case countries.

Strengthening taxpayers' rights: An important element of administrative accountability is the rights of taxpayers vis-à-vis the tax authority. Though still in their infancy in the countries which are part of this study, tax appeals boards and tax tribunals are important institutions to securing taxpayers' rights and to establishing fair and transparent procedures to addressing tax disputes. However, to make these

institutions accessible for a wider segment of taxpayers, there is in general a need to simplify the procedures for instituting appeals, and to disseminate more accessible information to the general public on the roles and functions of the appeals board.

Poor taxpaying culture: The tax-paying culture in the case countries is generally weak. Some of the reasons for this attitude are the legacy of taxation being seen as coercive and extractive, the inability of taxpayers to see the relationship between benefits in the form of services being provided by the state from taxes paid and inadequate public education programmes by the tax administrations. There seems to have been a general lack of concern for the historical evidence about the connection between taxation and state-building, notably the need to construct tax systems that engage citizens in politics in a positive way, and contribute to the legitimacy of the state (Fjeldstad and Moore 2008: 259).

A large proportion of the economic active citizens in Mozambique, Tanzania and Zambia belong to the informal sector, both in rural and urban areas. This has affected 'tax literacy' as many people are not able to comprehend the technical issues involved in tax administration and reform (Ayee et al 2010). The revenue authorities have undertaken vigorous taxpayer education interventions, but they have had a limited outreach since most of them have been concentrated in the urban centres. Similarly, some elites are tax illiterate because they are not interested in tax issues. They regard taxation as a form of coercion and one that will erode their privileges. They therefore turn a deaf ear to the taxpayer education campaigns of tax administrations. How to establish a constructive dialogue with elites on taxation and development remains an unsettled challenge.

Securing better links between taxes paid and public service provision: This involves asking the question: Why should people pay taxes? For taxpayers, paying taxes to the state is a quid pro quo, that is, they expect public services to be provided. It is basically 'tax for services'. People are more likely to pay for local service charges if they felt that the government was providing services equitably, collecting revenue fairly and using the revenue to provide services (Fjeldstad 2004). Unfortunately, however, in the countries covered by this study, as well as in most other lower income African states, the provision of public services is generally unreliable and regarded to be of poor quality. The weak link between taxes paid and services provided is likely to erode citizens' trust in government. In this perspective, the use of revenues from natural resources to build essential infrastructure and finance the provision of basic public services may enhance citizen trust in government and over-time enhance tax compliance.

7.3 Recommendations for Norwegian support

The challenge for the states covered by this study is to increase their ability to collect more revenue with greater efficiency and less public resistance. This is simply not realistic to achieve in the short run. Efforts and priorities must be tailored to the economic, political and institutional factors in each country. There is no single 'package' that fits the requirements of any individual country. The government of each country must take the lead and define the needs. The revenue authority will have a prominent role by providing analysis and data to the domestic policymakers, and to implementing tax policy. Strong engagement on tax issues by domestic civil society organisations, including business associations and taxpayer associations, is essential to enhance the legitimacy and accountability of the tax system. Addressing the gaps identified by this study will also require long-term commitment by the international community. It takes time to build institutions and change peoples' behaviour, whether they are policymakers, tax officers or ordinary citizen.

Norwegian support to the strengthening the tax systems in Mozambique, Tanzania and Zambia should aim to build effective tax systems through revenue enhancement, capacity building of the tax administration and improved accountability. Norway has credibility and international standing when it comes to promoting taxation as a key element on the development agenda. Few can match the Norwegian expertise and experiences when it comes to petroleum taxation. The Norwegian Tax Administration (NTA) is world leading when it comes to e-taxation and compliance enhancing

measures. It is, however, important not to ‘over-stretch’ the capacity of the NTA, which has limited experience with capacity building in Africa. Norway’s engagement should in our view not be restricted to capacity building of the tax administrations, but should also support tax policy reform and measures to enhance accountability by creating a broader citizen engagement around taxation. It is of course essential that Norway’s engagement within the tax area is based on demand from the partner countries.

Norway is one of several international partners supporting the development of the tax systems of Mozambique, Tanzania and Zambia. It is important for all the involved parties to *secure complementarity and avoid duplication*. Norway should aim to build a coherent, though flexible, programme on ‘tax for development’, based on (a) demand from the host countries; (b) relevant experiences from the development of the Norwegian tax system; (c) experiences from Norwegian support to institution building in other sectors in developing countries; (d) support to civil society organisations; and (e) support to regional and international bodies involved in tax policy and tax administration reform.

To secure sufficient flexibility, and with reference to the gaps identified above, the research team recommends that Norway’s engagement should aim to cover the following tasks:

- Support to tax policy reform.
- Capacity building of the revenue authorities.
- Support to civil based organisations.
- Building domestic research capacity on taxation.

Within these broad categories, what should be the focus of Norwegian support to strengthening the tax systems in Mozambique, Tanzania and Zambia? To secure *coherency*, the research team suggests (a) *capital flight*, (b) *natural resource taxation*, and (c) *accountability* as core thematic areas for the Norwegian engagement. The matrix in Table 15 gives an overview of possible areas for Norwegian engagement. It is partly shaped on the basis of current and past experiences, and partly reflects new initiatives. Further, it derives from information gathered by this study, including discussions with a range of stakeholders in Mozambique, Tanzania and Zambia (revenue authorities and ministries of finance officials, businesspeople, researchers, civil society representatives and donors), as well discussions with representatives from Norad, the Norwegian embassies and the Norwegian Tax Administration. The proposed areas are also among those prioritised by the governments of Mozambique, Tanzania and Zambia, and by the African Tax Administration Forum (ATAF).

To addressing the core areas (a) *capital flight*, (b) *natural resource taxation*, and (c) *accountability*, Norwegian support may include one or more of the following measures: (i) tax policy reform, (ii) capacity building of the revenue authorities, (iii) support to civil based organisations, and (iv) building domestic research capacity on taxation. Not all the areas included in the matrix will be covered in each country. And the areas covered may differ between the countries based on dialogue between domestic stakeholders and Norwegian authorities.

Table 15: Recommendations for Norwegian support; what and who

	(i) Support to tax policy reform	(ii) Capacity building of ATM, TRA, ZRA	(iii) Support to civil society	(iv) Building domestic research capacity on taxation
(a) Capital flight	IMF, Central Banks, ATAF, AfDB, OECD	NTA (specialised capacity building on transfer pricing; ATAF; IMF)	International and domestic NGOs; TJN-Africa; media	Domestic research institutes; Research depts. in ATM, TRA, ZRA, and MoF (policy analysis); partnerships internat. & domestic researchers
(b) Natural resource taxation	IMF, ATAF, EITI, OfD, NGOs (training of MPs)	NTA (specialised tax audits/on-the-job training); ATAF; EITI; IMF; OfD	Caritas, NCA (Zambia); RWI, NCA (Tanzania); CIP (Moz); media	ICTD in coll. with ATM, TRA, ZRA, ATAF, AERC
(c) Accountability	Business associations, Taxpayers ass, CBOs, EITI	NTA ('soft' measures to enhance compliance); ATAF (compliance/enforcement) (taxpayer education; taxpayers' rights)	Caritas, NCA (Zambia); RWI, NCA (Tanzania); CIP (Moz); media, business associations; taxpayer ass ; media	ATM, TRA, ZRA in coll. with domestic research inst.; ICTD, ATAF, AERC (research on enforcement/compliance; how to establish links between tax payment and public expenditures; tax evasion/fiscal corruption)

Source: Developed by the authors

7.3.1 Capital flight

It is an increasingly well documented fact that many large international firms make significant use of international tax havens to reduce their tax liabilities. In broadest terms, this is achieved by shifting reported profits into low tax jurisdictions in order to avoid paying taxes in the countries in which profits are actually made. Interviews with senior civil servants in the revenue authorities, central banks and financial intelligence units in Mozambique, Tanzania and Zambia, suggest that capital flight is seriously eroding the tax bases in the case countries - through trade mispricing, thin capitalization and fraudulent use of capital allowances, among other strategies. But generally they have little capacity to address the problem given limited local expertise, scarce international cooperation and an international legal system that continues to condone the existence of tax havens. These activities reduce revenue, but are also likely to undermine the perceived legitimacy of the tax system. Norway has an opportunity to explicitly support efforts for policy reform and also to support the tax administrations to address these issues, as there is an existing demand for capacity building.

Recommendation 1: Support to conduct in-depth country specific studies on the extent and impacts of capital flight

The design of appropriate policy-measures requires in-depth knowledge of the scale and main characteristics of capital flight from the individual country. The Central Bank is likely to be best positioned to acquire, systematize and analyse these data, in collaboration with the revenue authority and local and external researchers. In Tanzania, the Norwegian Embassy is in dialogue with the Central Bank to conduct an in-depth study on the extent and impacts of capital flight from Tanzania. Depending on the outcome, this study may lay the foundation for similar studies in Mozambique and Zambia.

Recommendation 2: Capacity building on transfer pricing

Transfer pricing complicates the task of tax administration and creates a challenge that needs specific skills to deal with. The tax laws in the countries covered by this study have legal provisions to address the issue, but evidently, that is not sufficient. The tax administration needs better training on how to recognize the transfer pricing opportunities in key sectors and stronger capacity to detect and respond to this problem. Depending on demand, ATAF may offer short term courses and NTA on-the-job training for ATM, TRA and ZRA.

Recommendation 3: Encourage civil society engagement on capital flight

Norway supports several ongoing initiatives at the international level on capital flight, including the Task Force on Financial Integrity & Economic Development (www.financialtaskforce.org), Global Financial Integrity, Christian Aid and Tax Justice Network. These international partnerships are important and required to make inroads against the problem of tax havens and capital flight. It is also important to mobilise civil society in developing countries. At the domestic level in Mozambique, Tanzania and Zambia, the voice of local CBOs is generally absent or very low with respect to capital flight though the Norwegian Church Aid currently plans to initiate studies on the extent and characteristics of capital flight from Tanzania and Zambia. Norway should aim to encourage broader engagement by civil society organisations on the impacts capital flight have on their respective countries. It is, however, important to caution against possible rent-seeking by CBOs 'jumping the band-wagon'.

Recommendation 4: Building domestic research capacity on capital flight

The Norwegian Government, through the Ministry of Foreign Affairs, has committed funding to a five-year (2011-2015) multidisciplinary research programme on the challenges posed by tax havens in relation to financial flows from developing countries. The research programme, entitled *Tax Havens, Capital Flows and the Developing Countries*, is part of the follow up of the recommendations of the Independent Government Commission Report *Development and Tax Havens* (NOU 2009:19). The programme is administered by the Research Council of Norway. The goal of the programme is to create new knowledge on the challenges that tax havens and capital flows represent for developing countries, and strengthen the multidisciplinary competence in this field. In particular in relation to (1) tax avoidance, tax evasion, and money laundering; (2) secrecy jurisdictions and illicit and unrecorded financial flows; and (3) international entities use of tax havens. The programme goals are to contribute to building research capacity in Norway and in developing countries, as well as to stimulate closer cooperation and exchange of knowledge between authorities and researchers in Norway and in the South. The deadline for applications was in April 2011. Thus, at this stage we do not know whether the programme will include research that covers Mozambique and/or Tanzania and/or Zambia. However, if the Tanzanian study on capital flight materialises (mentioned above, planned to be coordinated by the Bank of Tanzania with funding from the Norwegian Embassy), it will be important to secure that local researchers are involved.

7.3.2 Natural resource taxation

Norway should continue to support resource-rich countries like Mozambique, Tanzania and Zambia in establishing the building blocks for effective and transparent management of natural resources. These building blocks include broad institutional reforms and support to initiatives like the *Oil for Development* (OFU) programme and the *Extractive Industries Transparency Initiative* (EITI). OFU has been present in Mozambique and Tanzania since 1980 focusing on establishing the legal framework for gas and oil extraction, regulation of contracts, and in Mozambique support to the development of the *Petroleum Institute*. OFU also provided short term support to Zambia during the period 2006-10. The EITI seeks to promote accountability for governments and private bodies that work in the sector. This is particularly through encouraging transparency of payments made by

companies to governments and entities linked to governments. Mozambique, Tanzania and Zambia have all signed up to the initiative's principles. The first EITI reports that disclosed payments made by the major mining companies to the governments in Mozambique, Tanzania and Zambia were launched in February 2011.

Recommendation 5: Support to developing the natural resources tax regime

Norway should seek to influence the new Norwegian trust fund to the IMF *Managing Natural Resource Wealth* to include measures to improving the implementation of legal frameworks for effective environmental, social and fiscal regimes, the provision of training and capacity building in relevant ministries and agencies, and the promotion of an accountable and social responsible private sector within natural resource extraction in Mozambique, Tanzania and Zambia. Natural resource extraction, in particular mining, may have substantial negative externalities in the form of pollution and damages on the environment. Norway should therefore also consider supporting the development of environmental tax regimes in the case countries (aiming to make the polluter pay), either through direct consultations with the host government or in partnership with the IMF.

Recommendation 6: Capacity building on specialised tax audits in extractive industries

The establishment of ATM, TRA and ZRA has led to substantial improvements of the tax administrations. Donor support has contributed to build capacity in a range of areas, including human resource development, internal audits, integration of tax departments etc. At present, the need for further technical assistance is related to building expertise on specialised audit functions in growing sectors, such as extractive industries, telecommunications, the banking and finance sectors, and tourism. In Zambia, NTA and ZRA signed in 2010 a MoU for a five-year capacity building programme, with funding from the Norwegian Embassy in Lusaka. NTA in cooperation with IMF will assist ZRA in developing in-house expertise on specialised tax audits of the mining sector, mainly based on on-the-job training. In Tanzania, a similar agreement is in the pipeline, though the capacity building is likely also to focus on other sectors (e.g. telecommunications or finance) based on request from TRA. In Mozambique, capacity building will most likely focus on developing the new petroleum tax regime with technical support from the Norwegian Petroleum Tax Office. NTA has limited experience from capacity building in developing countries. To succeed, it is important that NTA does not take on board too many tasks, but focuses its efforts.

Recommendation 7: Support to civil society engagement on natural resource taxation

Non-governmental organisations in Mozambique, Tanzania and Zambia have been actively engaged in the public debate on natural resource extraction, including environmental impacts, mining contracts etc. In Tanzania and Zambia they have also focused on challenges referring to limited public revenues for extractive industries. Some of these NGOs have received funding from Norway for programmes they are running and/or to conducting special studies, e.g. Center for Public Integrity (CIP) in Mozambique, the Norwegian Church Aid (NCA) and Revenue Watch in Tanzania, and Caritas and NCA in Zambia. The work of these NGOs has contributed to shed light on shortfalls of the natural resource management systems and also to create broader citizen engagement around natural resource extraction. Norwegian support to NGOs working in this area should be continued and more work on the revenue aspects of resource extraction encouraged. Moreover, improving both the level and the quality of public debate about issues of natural resource extraction and taxation will require strong engagement by the media. Norway should consider providing assistance to journalists working in print media and for radio stations to run well-informed stories about tax and tax policy. The Panos-network is well positioned to conduct this task (www.panos.org/). For 20 years Panos has been working with the media and other communicators in many countries to foster debate on under-reported, misrepresented or misunderstood development issues. Panos Southern Africa (PSAf) is located in Lusaka, Zambia (www.panos.org.zm/).

Recommendation 8: Build domestic research capacity on natural resource taxation.

Norway is already funding research on mineral taxation through the International Centre for Tax and Development (ICTD). Comparative work on the mining tax regimes in Tanzania and Zambia is under preparation by the ICTD, coordinated by the Research and Planning Department of the ZRA. In particular, there is a need to build capacity for comparative studies of the mining tax regimes in different countries. There is also a need to strengthen the more general analytical capacity within ATM. ATAF, which also is supported by Norway, in partnership with the ICTD, may be a productive way to strengthen the research capacity of the revenue authorities. In the short term this will require the involvement of external/international researchers since only few researchers in the countries covered by this study at present are specialised on taxation. A natural extension of this would be to build regional and in some cases national academic courses or degrees on natural resource management and taxation. This could be done by ICTD in partnership with the African Tax Institute (ATI) at the University of Pretoria (www.ati.up.ac.za/), national and regional research institutions like the African Economic Research Consortium (AERC) in Nairobi (www.aercafrica.org) and ATAF.

7.3.3 Accountability

Norwegian support should contribute to encouraging broader citizen engagement around taxes (support to civil society, taxpayer associations, business communities, and research institutions).

Recommendation 9: Support to Parliament and Ministry of Finance on tax policy design

What should be taxed and at what rate are questions determined by politicians and bureaucrats in the Ministry of Finance. Even though the legislature in Mozambique, Tanzania and Zambia plays a role in designing tax policies through debating budget statements and tax bills, the disturbing aftermath of passing the bills has raised questions as to whether legislators really understand tax policies and the implications of tax reforms for their constituents. Norway should consider providing advisory, training and research support to improve the technical capacity and basic skills of MPs in public finance and tax policy, including how to read and understand government budgets. Priority should be given to members of the Finance and Economic Affairs Committee and the Public Accounts Committee. Second, there is a need to increase the time available for scrutiny of the budget proposals. Third, more user-friendly information on tax reforms should be provided at an earlier stage of the budget cycle. In Tanzania, Revenue Watch has organized training seminars for Parliamentarians on the ‘basics of taxation’, how to read and understand budgets etc. This model could be extended to include a range of tax related issues.

Providing timely and well-argued tax policy advice to the revenue administration should be a core responsibility of the Ministry of Finance. Although the capacity of the MoF to fulfil this function has improved in recent years, in particular in Tanzania and Zambia, the Ministry’s capacity for formulating tax policy and realistic revenue budgeting needs to be strengthened. In Tanzania, Norway has over many years provided technical assistance to the Policy Analysis Department in the Ministry of Finance and Economic Affairs, including support to the development of a mining tax model (see section 6.5.4). The Norwegian Embassies in the three countries covered by this study should consider exploring the MoF’s needs for further technical assistance, possibly in collaboration with the IMF’s Regional Technical Assistance Training Centre (RTAC).

Recommendation 10: Capacity building in the revenue authorities to strengthen taxpayers’ rights and improving taxpayer outreach

The revenue authorities in Mozambique, Tanzania and Zambia have made significant progress in recent years. The private sector acknowledges this. However, problems remain. In spite of tax laws which in general are well formulated and in general ‘business friendly’, tax officers have discretion over important decisions: tax liability assessments, selection of audits, litigation, etc). Many

administrative procedures, including for reporting tax revenues, could be more transparent. Business people report that over-assessment of tax liabilities is common, followed by ‘negotiations’ with the tax officer(s).

An important element of administrative accountability is the rights of taxpayers vis-à-vis the tax authority. Though still in their infancy in the countries which are part of this study, tax appeals boards and tax tribunals are important institutions to securing taxpayers’ rights and to establishing fair and transparent procedures to addressing tax disputes. However, to make these institutions accessible for a wider segment of taxpayers, there is in general a need to simplify the procedures for instituting appeals, and to disseminate more accessible information to the general public on the roles and functions of the appeals board. Norway should consider supporting measures to strengthening taxpayers’ rights.

A large proportion of the economic active citizens in Mozambique, Tanzania and Zambia belong to the informal sector. ‘Tax literacy’ is generally poor and many people are not able to comprehend the technical issues of paying taxes. The revenue authorities have undertaken vigorous taxpayer education interventions, but they have had a limited outreach since most of them have been concentrated in the urban centres. NTA has extensive experience in designing and implementing so-called ‘soft compliance’ methods. ATAF is also engaged in taxpayer education programmes. Norway should consider supporting taxpayer education campaigns and measures that aim to improving taxpayer-tax administration dialogue, for instance via NTA and/or ATAF.

Recommendation 11: Support to civil based organisations to create a broader citizen engagement around taxation

Debates on tax policy and administrative reforms in Mozambique, Tanzania and Zambia generally focus on technical issues and are often dominated by experts, donors and business people. The majority of citizens perceive tax issues to be technical and very complex. Yet it is vital for the legitimacy of the tax system to secure a broad based citizen engagement around taxation. Civil based organisations, including NGOs, businesses associations, taxpayer associations etc., can help broaden the debate and bring a new focus to the discussion of tax policy, for instance on fairness, and thus influence the policy decisions that are being made.

Norway should consider supporting initiatives that aim to broaden the public’s interest on tax issues. For instance, basic training could be provided on revenue issues. The target group for such training could be CBOs, including business associations and taxpayer associations in individual countries. It could also be extended to legislators and the media, for instance involving the Panos-network (www.panos.org/). Training could also be tailored to specific tax policies that the CBOs want to advocate for, or provide specific analytical techniques. Tax Justice Network, for instance, has projects in Asia and Latin-America that aim to raise awareness about important tax themes, including tax havens, tax avoidance, tax evasion and capital flight in these regions. In addition, TJN engages in capacity building activities (training workshops and conferences), lobby activities, research, dialogue with policymakers, companies and other stakeholders, and contributes in international events. TJN-Africa aims to take on board such activities. In Mozambique, Tanzania and Zambia NGOs are also involved in or have expressed an interest to get involved in tax issues.

Recommendation 12: Building domestic research capacity on taxation and governance

It is now widely believed that tax policies and practices contribute directly to the legitimacy, responsiveness and accountability of government and indirectly to long term development outcomes. There is a need for research that produces concrete, contextualised and policy-relevant insights on how taxation can contribute to broader state building goals. In addition to generate and disseminate knowledge to policymakers, there is a need to mobilise knowledge in ways that will widen and deepen public debate about taxation issues in Mozambique, Tanzania and Zambia. Addressing this challenge requires research that points to feasible reform goals and strategies and, more importantly, informs

stakeholders so that reform strategies emerge – with a high degree of societal ownership – from processes of open public debate. Norway should consider allocating long-term funding to research institutions in Mozambique, Tanzania and Zambia to conduct research on taxation and governance in their respective countries. Further, as a co-funder of the International Centre for Tax and Development (ICTD), Norway is in position to influence the research agenda of the centre with the purpose to strengthen the focus on issues considered to be of particular relevance for the tax agenda in Mozambique, Tanzania and Zambia.

It is our hope that some of the recommendations presented in this report can be translated into practical, effective and concrete development policies that will contribute to strengthening the tax systems in Mozambique, Tanzania and Zambia.

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Annex I: Useful internet links and resources

International organisations dealing with taxation

European Commission (EC)	www.europa.eu.int/comm/taxation_customs/taxation/taxationlinks.htm
International Monetary Fund (IMF)	www.imf.org
International Trade Center (ITC)	www.intracen.org
Organisation for Economic Co-operation and Development, (OECD)	www.oecd.org
The World Bank (WB)	www.worldbank.org
World Customs Organisation (WCO)	www.wcoomd.org
World Trade Organisation (WTO)	www.wto.org

Research on taxation and governance in Africa

Center for Economic and Policy Research (CEPR)	www.cepr.net
Centre d'étude d'Afrique noire (CEAN)	www.cean.u-bordeaux.fr
Centre for Policy Studies (CPS)	www.cps.org.za
Centre d'Études et de Recherches sur le Développement International (CERDI)	www.cerdi.org
Chr. Michelsen Institute (CMI)	www.cmi.no
The EAGER Project	www.eagerproject.com
The Expert Group On Development Issues (EGDI)	www.egdi.gov.se
Institute of Development Studies (IDS)	www.ids.ac.uk
Institute on Governance (IOG)	www.iog.ca
International Institute of Public Finance (IIPF)	www.iipf.net

Other relevant links on taxation:

Commonwealth Association of Tax Administrators	www.cata-tax.org
Extractive Industries Transparency Initiative (EITI)	http://eiti.org/
Global Financial Integrity (GFI)	www.gfip.org/
International Bureau for Fiscal Documentation (IBFD)	www.ibfd.nl
International Tax Dialogue (ITD)	www.itdweb.org/
International Tax Programme (ITP)	www.law.harvard.edu/programs/itp
International Taxman	www.taxman.nl
KPMG	www.kpmg.com
PWC	
Tax and Accounting Sites Directory	www.taxsites.com
Taxes Around the World	www.paradine.com/worldtax
Tax Justice Network (TJN)	www.taxjusticenetwork
World Tax	www.taxworld.org
World Taxpayers Association (WTA)	www.worldtaxpayers.org
World Wide Governments on the WWW	www.gksoft.com/gov

Statistical databases

African Economic Outlook	www.africaneconomicoutlook.org/en/data-statistics/
The Collecting Taxes Data System	www.collectingtaxes.net

Aid Data	www.aiddata.org
IMF Data and Statistics	www.imf.org/external/data.htm
World Bank Data	http://data.worldbank.org/
Odamos – Official Development Aid to Mozambique Database	http://mozambique.odadata.ampdev.net/
Africa	
African Development Bank (AFDB)	www.afdb.org
African Tax Administration Forum (ATAF)	www.ataftax.net
Mozambique	
Government of Mozambique	www.portaldogoverno.gov.mz
Mozambique Tax Authority	www.at.gov.mz/
Instituto Nacional de Estatística	www.ine.gov.mz/
Central Bank of Mozambique (Banco do Moçambique)	www.bancomoc.mz
Technical Unity of Financial Administration of the State	www.utrafe.gov.mz
Mozambique EITI	http://www.itie-mozambique.org/
CIA World Factbook	www.cia.gov/library/publications/the-world-factbook/geos/mz.html
Tanzania	
Government of Tanzania	www.tanzania.go.tz/
Tanzania Revenue Authority	www.tra.go.tz/
Tanzania Minerals Audit Agency (TMAA)	www.tmaa.go.tz/
Central Bank of Tanzania	www.bot-tz.org/
Tanzania National Bureau of Statistics	www.nbs.go.tz/
Tanzania EITI	http://eiti.org/Tanzania
CIA World Factbook	https://www.cia.gov/library/publications/the-world-factbook/geos/tz.html
Zambia	
Government of Zambia	www.statehouse.gov.zm/
Zambia Revenue Authority	www.zra.org.zm/
Central Statistics Office Zambia	www.zamstats.gov.zm/
Ministry of Finance and National Planning	www.mofnp.gov.zm/
Bank of Zambia	www.boz.zm/
Zambia EITI	http://www.zambiaeiti.org.zm/
CIA World Factbook	https://www.cia.gov/library/publications/the-world-factbook/geos/za.html
Norway	
Norwegian Agency for Development Cooperation	www.norad.no
Norwegian Tax Administration (NTA)	www.skatteetaten.no
Oil for Development	www.norad.no/en/Thematic+areas/Energy/Oil+for+Development

Annex II: Nuts and bolts of technical assistance

Considerable efforts have been devoted to improving the tax systems in Mozambique, Tanzania and Zambia by the governments and donors alike. The establishment and development of semi-autonomous revenue authorities is a clear reflection of this. The tax administrations are perceived to be among the best-functioning public institutions in the case countries. This does not imply, however, that they do not face challenges and require further capacity building. This annex summarises some of the lessons deriving from technical assistance in the area of public finance management, including tax administration.¹⁸

1. *Take a long-term perspective*

Building institutions requires a long-term perspective. Considering all components and the immense need for change and improvement as well as the external factors like the poor availability of trained local professionals (especially accountants, auditors, economists and tax lawyers) that keep progress back, it is easily realised that reaching the appropriate standard will take a long time. In an insightful study of capacity building in public finance management in Africa, Andersson and Isaksen (2002) argue that to reach a level where the country is capable of self-reliantly maintaining and developing the PFM-systems, 15-25 years, rather than 5-10 years is necessary. These are important insights in the light that the revenue authorities in the case countries are relatively young institutions ranging from 17 years (ZRA) to 5 years (ATM). The authors add, however, that this “does *not* mean that all interventions will have to have an equally long-term focus. Worthwhile improvements may of course be attained in the short and medium term.” However, they argue, short- and medium-term interventions will often not cover the whole system, with the attendant danger that improvement achieved in one component will be lost if not followed up in the rest of the system.

2. *Balance the support between different components of the tax system*

The ‘traditional’ donor approach to capacity shortages in the tax administration has been ‘stand-alone’ Technical Assistance (TA). Increasingly donors take a capacity building approach, comprising individual training and organisational improvement as well as attention to institutional frameworks. In line with this, the focus has changed from a concentration on individual components of the tax administration (risk assessment, auditing etc) to a *systemic* view that takes into account the interfaces between components and considers their interdependence. Experience indicates that the degree of improvement and success of interventions in one component are limited by the state of play in other components. It is therefore important to undertake interventions that are *balanced* between components. There is some evidence that an early focus on basic routine processes, such as accounting and auditing, will yield results that over time can spill over into analytical processes where it is inherently much more difficult to intervene.

The attention to systemic issues may, however, be taken too far. Andersson and Isaksen (2002) stress that a comprehensive approach is important in the *diagnostic* phase. In the implementation phase, however, it clearly may prevent action. They argue that a balance has to be struck between getting a project off the ground and continuing preparatory analysis.

A more comprehensive approach increases the importance of conducting joint recipient-donor diagnoses and building a common understanding of project goals. Without a strong interest in changing systems and improving components from the recipient, projects tend to be handicapped from the start.

¹⁸ This annex draws on Andersson and Isaksen (2002).

3. *Support the education and training of accountants, auditors, economists, legal expertise and IT-expertise*

The long view is particularly important when the supply of local professionals (particularly *accountants, auditors, economists, legal expertise and IT*) has to be increased. In parallel with the educational measures, support to short-term job-oriented training will also be necessary. It is necessary not only to equip staff with the necessary academic background. Considerable job experience and good track records are essential for individuals who take on the very serious responsibilities in tax administration. It will also be necessary to build up capacity for capacity building. Considering the tenuous situation in many countries today, 15 – 25 years for building up a strong professional cadre of accountants and economists is not an overestimate.

4. *Improve human resource management systems*

Human resource management systems in the public sector are often deficient and rigid. The revenue authorities, however, are delinked from civil service regulations with respect to recruitment of staff, career opportunities, remuneration etc, and have – in principle - flexibility in giving particular incentives to categories of staff that are either in short supply or seen as particularly important. Still, capacity building efforts in the revenue authorities may not improve the tax administration, simply because those tax officers who have been taking part in training leave for higher paid jobs in the central bank and the private sector when they have completed their training. It is therefore important that the tax administration can provide competitive remuneration packages, career opportunities and retirement schemes if it is to attract and retain competent personnel for the various components of tax administration. Staff incentives have to be set to attract the right calibre of personnel. According to Andersson and Isaksen (2002), a number of donors have tried to run supplementary salary schemes for particularly important groups in PFM, with varying success. The argument against such schemes is that they are not sustainable, and will lead to demands for salary hikes in other parts of the public sector.

5. *Institutionalise the dialogue between recipient agencies and donor agencies*

Joint (recipient/donor) analysis has been stressed as an important ingredient of successful capacity building projects within public finance management during the *diagnostic* stage. There is a good case for keeping the same close relationship also during the *implementation* stage. In particular, an emphasis on joint learning about best practices in designing and managing organisational development processes is likely to yield results. Studies and research may often play an important role in spurring the dialogue.

6. *Stick to the 'development' perspective*

Tax is not an end in itself, but a means towards a well-functioning state: (a) governments dependent on taxes, will be inclined to pursue policies to expand the economy and thus the tax base; (b) dependence on taxes requires states to develop tax raising capacities; and (c) the development of an effective tax administration may stimulate the development of institutions in other parts of the public sector. In this perspective, the principal challenge is neither to raise more tax revenue nor to tax more equitably across income groups, although both are urgent needs in many contexts. The overall challenge is to tax better, i.e. more consistently, simply, transparently, fairly, predictably, efficiently and honestly.

7. *Put the recipient government in the lead for joint analysis and intervention*

Bilateral donors have supported development programmes under joint donor 'umbrellas' where the IFIs have often taken the lead. It is felt that this joint programmatic approach is an important departure. Working jointly, donors will have to co-ordinate their efforts and are less often left to implement individual and possibly counterproductive and overlapping approaches. It is, however, not necessarily the case that the leadership of such groups will have to be provided by the IFIs. Ideally, the

recipient tax administration should provide leadership. Bilateral partners may be as efficient under such an umbrella as any other arrangement in providing the required support. There is, however, a limit to the emphasis on joint approaches. It is important not to see co-ordination as an end in itself so that it prevents valuable bilateral projects and institutional co-operation.

8. *Support and encourage regional organisations and networks in the field of taxation*

There are a number of regional, Pan-African and international organisations that are active in capacity building in the tax area. Examples of such organisations are the African Tax Administration Forum (ATAF), the African Development Bank (AfDB), the African Tax Institute (ATI), and the Tax Justice Network for Africa (TJN-A). Norway is lending support to both ATAF and the AfDB, thus boosting the competence and extent of capacity building in Africa.

9. *Consider implementation conditions - they matter*

A capacity building project focusing on any of the tax administration components will be influenced by conditions that are external to the project. External conditions are important in determining the outputs, outcomes and impact of the intervention. An analysis of the external factors is necessary to be able to assess the potential success of the project. No sector or system can sustainably operate at a much higher level of efficiency and rationality than the environment within which it is located. The chance for a successful tax administration capacity building project will be influenced by:

- The level of political will to improve tax administration, i.e. incentives at the political level.
- The existence of a chronic state of crisis management created by a ‘desperate’ lack of resources.
- The degree of top-level management involvement.
- Degree of organisational and institutional blockage.
- Terms and conditions for key staff.
- Capacity for capacity building (‘training of trainers’).
- Donor behaviour and co-ordination, e.g. pressure and incentives from donors.

10. *Secure links to poverty reduction approaches*

The quality of the tax administration will be one of the decisive factors in ensuring that policy decisions and agreements with donors *actually* lead to a greater flow of public sector resources to poverty reduction measures. Norway should seize the potential for poverty alleviation by linking domestic revenue enhancement and improvement of the tax system to efficient pro-poor public spending. This can be done both through reforms of the tax system being part of conditionality and through support to capacity building and reform of the tax administration.

Annex III: Tax statistics

Tax revenues in Zambia 2005-2009

	2005			2006			2007			2008			2009		
	Actual	Tax/ GDP	Tax item/ tot tax	Actual	Tax/ GDP	Tax item/ tot tax	Actual	Tax/ GDP	Tax item/ tot tax	Actual	Tax/ GDP	Tax item/ tot tax	Actual	Tax/ GDP	Tax item/ tot tax
Tax revenue	5516	17.22		6323	16.40		8185	17.72		9544	17.33		9660	15.02	
A. Income taxes	2456	7.67	44.53	2960	7.68	46.81	3833	8.30	46.83	4573	8.30	47.91	5073	7.89	52.52
A.1 Company tax	448	1.40	8.12	695	1.80	10.99	1223	2.65	14.94	1353	2.46	14.18	1376	2.14	14.24
A.2 PAYE	1729	5.40	31.35	1939	5.03	30.67	2199	4.76	26.87	2531	4.60	26.52	2924	4.55	30.27
A.3 Withholding taxes	240	0.75	4.35	267	0.69	4.22	344	0.74	4.20	451	0.82	4.73	538	0.84	5.57
A.4 Mineral royalty	39	0.12	0.71	59	0.15	0.93	68	0.15	0.83	238	0.43	2.49	235	0.37	2.43
B. Excise duty	772	2.41	14.00	827	2.14	13.08	1207	2.61	14.75	1368	2.48	14.33	1023	1.59	10.59
C. Domestic VAT	623	1.94	11.29	558	1.45	8.82	25	0.05	0.31	-431	-0.78	-4.52	307	0.48	3.18
D. Trade taxes	1666	5.20	30.20	1977	5.13	31.27	3121	6.76	38.13	4034	7.32	42.27	3257	5.06	33.72
D.1 Import VAT	1010	3.15	18.31	1233	3.20	19.50	2204	4.77	26.93	2641	4.79	27.67	2168	3.37	22.44
D.2 Customs duty	652	2.03	11.82	742	1.92	11.73	914	1.98	11.17	1203	2.18	12.60	1072	1.67	11.10
D.3 Export duty	4	0.01	0.07	2	0.01	0.03	2	0.00	0.02	190	0.34	1.99	17	0.03	0.18
Non Tax Revenue	6	0.02		7	0.02		9	0.02		13	0.02		19	0.03	
TOTAL G.D.P. AT MARKET PRICES	32041.5			38560.8			46194.8			55078.8			64326.1		

Source: ZRA (2011)

Note: Actual revenue in 2008 does not include windfall tax revenue.

Tax revenues in Tanzania mainland 2003/04-2007/08

Tanzania Mainland Millions TZS	2003/04			2004/05			2005/06			2006/07			2007/08		
	Actual	% tot. tax	% GDP	Actual	% tot. tax	% GDP	Actual	% tot. tax	% GDP	Actual	% tot. tax	% GDP	Actual	% tot. tax	% GDP
P.A.Y.E.	183 236.7	13.2	1.41	234 094.7	13.9	1.56	288 286.2	14.3	1.70	408 611.6	15.6	2.10	512 177.1	14.8	2.25
Corporation Tax	109 072.1	7.9	0.84	152 744.1	9.1	1.02	203 330.7	10.1	1.20	267 230.9	10.2	1.37	374 640.1	10.8	1.64
Individuals	18 293.8	1.3	0.14	26 067.9	1.5	0.17	31 433.7	1.6	0.19	31 174.2	1.2	0.16	36 306.8	1.0	0.16
Other Income Taxes	94 904.4	6.8	0.73	97 969.2	5.8	0.65	114 789.4	5.7	0.68	146 483.5	5.6	0.75	182 625.1	5.3	0.80
Domestic Excises duty	92 868.7	6.7	0.71	110 335.5	6.6	0.74	135 062.9	6.7	0.80	175 955.0	6.7	0.90	220 616.0	6.4	0.97
Domestic VAT	229 178.8	16.5	1.76	287 324.2	17.1	1.92	334 263.6	16.5	1.97	421 252.7	16.1	2.17	550 080.5	15.9	2.41
Other Domestic Taxes & Charges	32 019.7	2.3	0.25	25 760.8	1.5	0.17	29 977.7	1.5	0.18	36 329.8	1.4	0.19	73 996.1	2.1	0.32
Import duty	132 220.9	9.5	1.01	106 561.4	6.3	0.71	177 795.6	8.8	1.05	245 477.9	9.4	1.26	304 477.1	8.8	1.34
Excises duty on Import	120 587.5	8.7	0.92	127 615.2	7.6	0.85	126 507.4	6.3	0.75	311 984.6	11.9	1.60	440 301.2	12.7	1.93
VAT on Import	306 671.9	22.1	2.35	437 667.3	26.0	2.92	502 437.3	24.9	2.96	463 753.2	17.7	2.38	550 066.0	15.9	2.41
Other Import charges	68 693.9	5.0	0.53	77 447.9	4.6	0.52	76 879.3	3.8	0.45	111 235.5	4.2	0.57	220 549.3	6.4	0.97
GRAND TOTAL (Mainland)	1 319 306.1		10.12	1 625 239.3		10.86	1 971 414.8		11.63	2 577 263.9		13.25	3 378 793.4		14.83
GDP (nominal)	13 039 325.5			14 968 442.0			16 953 280.5			19 444 835.5			22 782 917.1		

Source: Tanzania Revenue Authority (TRA 2011c, d:19)

Tax revenues in Mozambique 2000-2009 as share of GDP

Mozambique	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
<i>Tax revenue</i>	10.51	10.3	10.52	11.94	12.1	12.2	13.41	14.17	14.28	15.38
Income tax						2.9	3.69	4.44	4.88	5.02
Individual	0.97	1.14	1.4	1.58	1.89	1.96	2.02	2.34	2.49	2.38
Corporate	0.57	0.64	0.71	0.66	0.84	0.94	1.67	2.1	2.39	2.64
VAT	4.44	4.48	4.37	4.46	4.87	4.92	5.31	5.44	5.42	6.33
Fuel tax	1.18	0.98	0.87	1.18	1.2	1.21	1.14	1.09	1.05	1.23
Excises	0.96	0.92	0.96	1.01	1	1.01	0.96	1	1.1	1.03
Customs duties	1.95	1.75	1.86	2	1.78	1.92	1.93	1.84	1.52	1.53
Other	0.44	0.4	0.35	0.63	0.43	0.24	0.38	0.36	0.31	0.24

Source: Mozambique data from 2000-2006 (Castro et al 2009: table2) and from 2007-2009 (Lemgruber et al 2010:9)

Indirect taxes in Tanzania, Zambia and Mozambique: VAT and Excises 2003-2009

%GDP (current)	2003		2004		2005		2006		2007		2008		2009	
	VAT	Excises												
Mozambique	4.46	1.01	4.87	1	4.92	1.01	5.31	0.96	5.44	1	5.42	1.1	6.33	1.03
Tanzania (Mainland)	4.11	1.64	4.84	1.59	4.94	1.54	4.55	2.51	4.83	2.90	4.96	NA	4.88	NA
Zambia	5	2.3	5.2	2.3	5.10	2.4	4.64	2.1	4.83	2.6	4.01	2.6	3.85	2.6

Source: Tanzania GDP (TRA 2011d) VAT Tanzania 2008/09-2009/10 (Tanzania 2010:82); Mozambique from 2000-2006 (Castro et al 2009: table2) and from 2007-2009 (Lemgruber et al 2010:9); Zambia (Bank of Zambia 2004-2009; and ZRA(2011) based on authors' calculations.

Direct taxes in Tanzania, Zambia and Mozambique: Personal Income Tax (PIT) and Corporate Income Tax (CIT)

% GDP (current)	2003		2004		2005		2006		2007		2008		2009	
	PIT	CIT												
Mozambique	1.58	0.66	1.89	0.84	1.96	0.94	2.02	1.67	2.34	2.1	2.49	2.39	2.38	2.64
Tanzania (Mainland)	1.55	0.84	1.74	1.02	1.89	1.20	2.26	1.37	2.41	1.64				
Zambia	5.5	1.6	6.5	1.5	6.15	1.40	5.7	1.8	5.5	2.65	5.4	2.46	5.38	2.14

Source: Mozambique from 2000-2006 (Castro et al 2009: table2) and from 2007-2009 (Lemgruber et al 2010:9); Tanzania (TRA 2011c,d) and income 2008/09 (Bank of Tanzania 2009); and Zambia data from Bank of Zambia (2004-2009; and ZRA (2011) based on authors' calculations.

Note: Tanzania shows FY 2003/04- 2007/08; Zambia PIT 2005-2009 shows PAYE and withholding tax combined

Average tax mix in Africa as share of GDP (1996-2007)

Year	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Trade tax	3.00	2.84	2.80	3.40	2.90	2.93	2.40	2.31	2.17	2.21	1.98	2.08
Resource tax	5.53	5.06	3.92	6.17	9.76	8.99	8.25	8.75	9.95	12.90	14.06	13.03
Non tax	2.19	2.37	2.29	2.46	2.23	2.31	2.34	2.09	1.79	1.62	2.02	2.24
Indirect taxes	6.23	6.18	6.19	5.76	5.38	5.30	5.22	5.74	5.81	5.72	5.75	5.70
Direct taxes	6.11	6.45	6.53	6.30	5.96	5.84	5.71	6.22	6.24	6.22	6.46	6.73

Source: *African Economic Outlook (2010a,c)* and *World Bank GDP (current USD) from the World Bank (2011a)*

Tax mix as share of GDP in Mozambique, Zambia and Tanzania (1996-2008)

Mozambique	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Direct tax	1.89	2.13	1.89	1.57	1.65	1.72	2.14	3.00	2.81	2.89	3.52	4.48	4.66
Indirect tax	4.72	5.60	5.66	6.52	6.35	6.13	6.43	7.07	7.37	7.14	7.33	7.60	7.40
Non tax	0.79	0.91	0.78	0.83	1.01	1.28	1.43	0.99	0.97	1.90	2.07	1.93	2.00
Other tax	0.31	0.27	0.24	0.22	0.24	0.25	0.24	0.43	0.35	0.30	0.42	0.25	0.30
Trade tax	1.89	1.87	1.89	1.80	1.88	1.72	1.90	1.93	1.76	1.82	1.83	1.87	1.52
Total revenues	9.75	10.66	10.61	11.02	11.30	11.29	12.14	13.29	13.16	14.14	15.22	16.06	15.91
Tanzania	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Direct tax	3.08	2.99	2.57	2.58	2.45	2.31	2.41	2.66	2.96	3.25	3.84	4.28	4.54
Indirect tax	2.62	2.73	2.89	2.99	3.24	3.56	3.70	4.03	4.60	4.95	4.74	4.52	4.59
Non tax	1.74	1.13	0.92	1.14	1.19	1.14	1.04	0.94	0.98	1.05	1.08	1.15	1.06
Other tax	2.00	1.95	1.39	1.03	0.98	0.96	1.02	0.77	0.55	0.42	0.49	1.19	1.69
Trade tax	4.00	3.77	2.89	2.37	2.65	2.79	2.68	2.66	2.49	2.55	3.42	3.98	4.10
Total revenues	13.55	12.62	10.59	10.21	10.50	10.88	10.83	11.06	11.54	12.23	13.61	15.10	15.98
Zambia	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Direct tax	5.50	5.88	6.18	9.58	8.96	10.17	7.80	7.77	7.93	7.68	7.68	8.41	8.69
Indirect tax	3.36	3.58	3.40	3.19	2.16	2.20	2.15	1.83	1.66	2.38	2.15	2.63	2.64
Non tax	1.65	1.07	0.62	0.45	0.22	0.47	0.38	0.64	0.76	0.41	0.79	0.74	1.05
Other tax	0.61	0.51	0.31	2.24	2.47	0.27	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Trade tax	9.48	8.95	7.41	8.30	9.27	6.32	7.80	7.32	7.93	7.13	6.56	6.92	6.61
Total revenues	20.79	19.95	17.92	23.31	23.16	19.25	18.03	17.83	18.25	17.61	17.24	18.67	18.98

Source: *Tax statistics from African Economic Outlook, GDP (current USD) from the World Bank (2011a)*

Strengthening the tax systems in developing countries is a key priority area for Norwegian development assistance. The purpose of this study is to systematise and analyse existing knowledge of the capacity and constraints of the tax systems in selected African countries, and to advise Norwegian authorities on how this knowledge can be translated into practical, effective and concrete development policies. This report focuses on Mozambique, Tanzania and Zambia. It examines current work to strengthening the tax systems in each of the three countries, identifies gaps and provides recommendations for Norwegian support for effective and accountable taxation.



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