Summary

1. In most developing countries national tax collection is carried out by line departments within the Ministry of Finance. However, over the past two decades more than 30 developing countries, especially in Latin America and Africa, have created revenue authorities whereby the tax administration function has devolved from the Ministry of Finance to a semiautonomous entity.

2. In Africa alone there are now more than 15 revenue authorities.¹ The Uganda Revenue Authority, established in 1991, is the oldest integrated revenue authority in sub-Saharan Africa.² The Mauritius Revenue Authority is the newest; it became operational in 2005.

3. The purpose of this paper is to compare the experiences with the revenue authority model in selected African countries. The paper analyses features of the model, examines reasons why revenue authorities were established, and discusses successes and failures. It also assesses whether and how the revenue authorities may have contributed to improved performance and compliance with the tax law.

4. The paper concludes that the establishment of a semi-autonomous revenue authority offers no ‘quick-fix’ to a country’s revenue and tax administration quandaries. Creating a RA is expensive, may take a long time and require significant effort. Moreover, evidence is inconclusive whether the establishment of a revenue authority has led to better revenue administration performance compared to what would have been the case had the tax administration remained a department of government. However, a revenue authority can establish a platform from which change can be facilitated, but its initial impact and longer-term successful performance, depend on
   a) the strength and quality of the management of the revenue authority;

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² In 1985, Ghana established the first revenue authority in Africa, but each major tax (for instance, income tax and customs duties) was collected by its own agency (Terpker 1999).
b) political commitment; and
c) sustained public and private sector support.

5. Although each country that has established a revenue authority has done so under differing circumstances, there are some general patterns in the underlying political and economic circumstances that led them to do so (Devas et al. 2001; Taliercio 2004; Kidd & Crandall 2007). First, governments have been greatly dissatisfied with the performance of revenue collection, especially in the face of fiscal deficits and expanding public expenditure needs, and with chronic inefficiencies that exist with tax administration by the ministries of finance (Mann 2004). Second, perceptions of widespread corruption and tax evasion, combined with high taxpayer compliance costs, led to calls for wholesale reform of the tax administration (Ghura 1998; Barbone et al. 1999; Fjeldstad 2003, 2006; Fjeldstad & Tungodden 2003). Third, in some aid-dependent African countries foreign donors were attracted to the concept of a semiautonomous revenue authority because it created opportunities for more widespread reforms of tax administration procedures (Therkildsen 2004).

6. The revenue authority model is designed partly to limit direct political interference in day-to-day operations by the Ministry of Finance and partly to free tax administration procedures from the constraints of the civil service system (Devas et al. 2001; Taliercio 2002). A revenue authority is not meant to be as autonomous as a central bank or as dependent as departments in line ministries; it is supposed to be semiautonomous. But a revenue authority is meant to be quite independent from the financing and personnel rules that govern the public sector in general.

7. A semiautonomous revenue authority can, in principle, recruit, retain, and promote quality staff by paying salaries above civil service pay scales, and can also more easily dismiss staff. Such steps are expected to provide incentives for better job performance and less corruption. Moreover, a single-purpose agency is meant to integrate tax operations and focus its efforts on collecting revenues more effectively than is usually possible under civil service rules.

8. Although revenue authorities are relatively diverse and their degree of political and managerial autonomy differ, their essential mandate in all the case study countries refers to:
   a) Assessing, collecting, and accounting for all revenues due under the country’s tax laws
   b) Advising the government both on changes to those laws and fiscal policy in general.

9. Revenue authorities are generally assigned an important role in developing a tax regime that is transparent, effective, and conducive to economic growth led by private investment and international trade. In this respect, the main functions of revenue authorities are to:
   a) Promote (quasi-)voluntary tax compliance
   b) Improve the quality of tax services
   c) Counteract fraud and tax evasion
   d) Produce and publish revenue and trade statistics

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3 The revenue authority model is motivated by the executive agency model, which is one institutional model of the new public management concept, which was inspired by the radical public sector reform programs of the 1980s that began in Australia, New Zealand, the United Kingdom, and the United States. Autonomous agencies are seen as a remedy for a number of institutional problems that plague the public sector, such as multiple layers of principals and agents, byzantine rules and regulations, and poor incentives. It is a way of separating certain governmental functions into arms-length units, giving management the autonomy to operate the activity like a business, emphasizing economic norms and values. Willy McCourt & Martin Minogue (2001) examine the conceptual and practical problems connected with such policy transfers to developing countries.
10. Revenue authorities have the complex duty to be efficient (minimizing distortions that affect growth policies that favour the poor), effective (in raising revenue), and equitable (building on and reinforcing political legitimacy). They were created to eliminate or minimize arbitrary, inefficient, and corrupt practices that undermine growth and that weaken state legitimacy and capacity (Fjeldstad et al 2004). For businesses, revenue authorities can result in the elimination of multiple inspections and, as under the Zambia Revenue Authority, the undertaking of major reforms to improve user-friendliness and compliance.

11. A substantial shift has occurred in the attitudes of tax administrations toward taxpayers. Stimulated in part by research about factors affecting tax compliance conducted first in the United States (Slemrod 1992) and later in other OECD countries, including Australia (Braithwaite 2003), customer service and user friendliness have become the norm. National tax administrations have been eagerly emulating one another in opening customer-friendly, so-called “one-stop shops,” simplifying procedures, making possible online filing of returns, providing extensive information for taxpayers in printed and digital form, and trying to explain themselves to their customers. The mission statement of the Tanzania Revenue Authority - To be an effective and efficient tax administration which promotes voluntary tax compliance by providing high quality customer services with fairness and integrity through competent and motivated staff - might have come from any of several dozen tax authorities in Anglophone countries. The South African Revenue Service widely advertises “your taxes paid for this road/school/hospital” while simultaneously and publicly working with the Scorpions, a special crime investigation unit attached to the National Directorate of Public Prosecutions, to deal with suspected high-profile tax defaulters.

12. Revenue authorities may have improved efficiency, but at the possible cost of undermining growth prospects by being inadequately accountable and too often driven by a single performance target. Although there are tradeoffs between user-friendliness and compliance, perceptions exist that in some instances user-friendliness has actually diminished in some of the countries covered by this study (Fjeldstad & Rakner 2003). The structures and motivations of revenue authorities may encourage concentration on revenue expansion from known businesses instead of widening the tax base and, in particular, to encourage some firms to deregister into the informal sector. VAT repayments may have a particular effect on business if the tax refund is paid late, or not repaid at all.

13. The inadequate separation of tax administration and tax policy appears to have exacerbated these practical challenges. In addition, budget processes are often insufficiently transparent, with planning being undermined by last-minute tax proposals that may not be well conceived and partisan. Different sectors and different size businesses appear to be affected in different ways: large businesses may have a disproportionate/dysfunctional influence through effective political connections and organized lobbying.

14. Because contemporary tax collection always involves some exercise of discretion, the creation of a powerful, revenue authority not subject to adequate external constraints could expose other segments of taxpayers to extortion. The tax relationship will only work well if the taxpayer has some kind of protection against extortion, notably substantive taxpayers’ rights.

15. Furthermore, if the autonomy of the revenue authority 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.
16. Another challenge is embedded in the application of the concept of *autonomy* to an organization 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 revenue authorities in some African countries is that the label *autonomy* has in practice disguised the fact that they have been answerable to only one person, often the President.

17. The revenue authority model has the great merit of facilitating the degree of managerial autonomy that many tax administrations need. However, at this point in time we can conclude that the ways in which revenue authorities have been introduced and promoted in some African 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 organizational performance often depends on the nature of the relationships among agencies. In particular, as argued by Fjeldstad & Moore (2007):

   a) 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 jeopardized.

   b) If revenue authorities 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 maximized to the extent that:
   - a revenue authority has a guaranteed budget that cannot be changed by the government in power;
   - its status, responsibilities and powers are enshrined in law and can be protected through the police and the courts;
   - 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);
   - appointments to the supervisory board are of long-term and fixed duration; and
   - managerial and operational staff are answerable only to the supervisory board.

   c) As organization theorists have long argued, in the public service, sustainable organizational autonomy cannot be granted, but has to be continually earned. It is always under threat. The organization has continually to demonstrate the value of its autonomy to those who could terminate it.
References
Annexes

Table 1-A.1. Mandate and Legislative Base for Revenue Authorities in the Case Study Countries

<table>
<thead>
<tr>
<th>Country</th>
<th>Law</th>
<th>Legal form/character</th>
<th>Essential mandate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lesotho</td>
<td>Lesotho Revenue Authority Act 2001</td>
<td>Agency of the government; body corporate</td>
<td>Assessment, collection, and receipt of specified revenue</td>
</tr>
<tr>
<td>Mauritius</td>
<td>Mauritius Revenue Authority Act 2004 (previously the Unified Revenue Authority Act)</td>
<td>Agent of the state; body corporate</td>
<td>Assessment and collection of tax; and management, operation, and enforcement of the revenue laws</td>
</tr>
<tr>
<td>Rwanda</td>
<td>Rwanda Revenue Authority Act 1997</td>
<td>A “public” establishment and a body corporate</td>
<td>Assess, collect, administer, and account for fiscal and customs revenue</td>
</tr>
<tr>
<td>South Africa</td>
<td>South Africa Revenue Service Act 1997/revised in 2002</td>
<td>Public entity; organ of the state within the broad public administration, but outside public service</td>
<td>Efficient and effective collection of revenue; control over import, export, manufacture, movement, storage, or use of goods</td>
</tr>
<tr>
<td>Tanzania</td>
<td>Tanzania Revenue Authority Act 1996/revised 2001</td>
<td>Agency of the government; body corporate</td>
<td>Assess, collect, and account for government revenues; administer the revenue laws</td>
</tr>
<tr>
<td>Zambia</td>
<td>Zambia Revenue Authority Act 1994</td>
<td>Body corporate</td>
<td>Assess, charge, levy, and collect revenue due to the government</td>
</tr>
</tbody>
</table>

Table 1-A.2. Revenue Authority Management

<table>
<thead>
<tr>
<th>Country</th>
<th>Board</th>
<th>No.</th>
<th>Private sector rep.</th>
<th>CEO vested powers</th>
<th>Appoint chair</th>
<th>Appoint board members</th>
<th>Appoint CEO</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lesotho</td>
<td>Yes; empowered management board prohibited from involvement in casework</td>
<td>8</td>
<td>Yes</td>
<td>Yes</td>
<td>Minister</td>
<td>Minister</td>
<td>Board subject to approval by Minister</td>
</tr>
<tr>
<td>Mauritius</td>
<td>Yes; empowered management board is prohibited from intervention in cases</td>
<td>7</td>
<td>Yes</td>
<td>Yes; may subdelegate</td>
<td>President</td>
<td>Minister</td>
<td>Board</td>
</tr>
<tr>
<td>Rwanda</td>
<td>Yes; empowered management board</td>
<td>8</td>
<td>Yes</td>
<td>Yes; may subdelegate</td>
<td>Prime Minister on recommendation of Cabinet</td>
<td>Prime Minister on recommendation of Cabinet</td>
<td>Prime Minister on recommendation of Board</td>
</tr>
<tr>
<td>South Africa</td>
<td>No (advisory board prior to 2002; now ad hoc advisory committees only)</td>
<td>N/A</td>
<td>N/A</td>
<td>Yes; may subdelegate</td>
<td>N/A</td>
<td>N/A</td>
<td>President</td>
</tr>
<tr>
<td>Tanzania</td>
<td>Yes; empowered management board is prohibited from involvement in tax assessments, but has operational role in exemptions</td>
<td>10</td>
<td>Yes</td>
<td>Yes; may subdelegate</td>
<td>President on recommendation of Minister</td>
<td>Minister</td>
<td>President on recommendation of Minister</td>
</tr>
<tr>
<td>Zambia</td>
<td>Yes; operationally empowered board</td>
<td>9</td>
<td>Yes</td>
<td>Board has vested powers; may delegate to CEO</td>
<td>Chair elected by Board</td>
<td>Minister</td>
<td>President</td>
</tr>
</tbody>
</table>


Table 1-A.3 summarizes key governance features and funding mechanisms of the revenue authorities in the case study countries. The Ministry of Finance in most cases has a supervisory and oversight role, and general responsibility for taxation. In all cases, the revenue authority operates outside the public service regulations, and has extensive autonomy when it comes to human resources management, including hiring, firing, and remuneration, although these are often subject to approval by the Minister of Finance (e.g., in Lesotho and Tanzania). The autonomy to appointing external auditors varies, however. In Lesotho and Zambia, the revenue authority boards appoint the external auditor, while the Auditor General is assigned to this task in South Africa and Tanzania, in accordance with public sector regulations.
Table 1-A.3 Governance and Funding of Revenue Authorities

<table>
<thead>
<tr>
<th>Country</th>
<th>Role of Ministry of Finance</th>
<th>Public service</th>
<th>Authorization to borrow</th>
<th>Authorization to own assets</th>
<th>Human resources autonomy</th>
<th>Funding</th>
<th>External audit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lesotho</td>
<td>General supervision</td>
<td>Outside</td>
<td>Yes; subject to approval of minister</td>
<td>Yes</td>
<td>Yes, but Minister has authorization to make regulations</td>
<td>2% of estimated revenue plus additional funds allocated by minister for exceptional performance</td>
<td>Independent auditors appointed by board; government may request AG to audit</td>
</tr>
<tr>
<td>Mauritius</td>
<td>Oversight and final responsibility</td>
<td>Outside</td>
<td>Yes; subject to approval of minister</td>
<td>Yes</td>
<td>Yes</td>
<td>Normal budget and parliamentary appropriation. 2.3% of estimated revenue plus additional funds allocated by minister for exceptional performance</td>
<td>A competent official organ established by law</td>
</tr>
<tr>
<td>Rwanda</td>
<td>General supervision</td>
<td>Outside</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Normal budget and parliamentary appropriation, plus option for retention of percent of revenue collected (minister to decide)</td>
<td>Auditor General</td>
</tr>
<tr>
<td>South Africa</td>
<td>Minister of Finance is executive authority</td>
<td>Outside</td>
<td>No</td>
<td>Yes</td>
<td>Yes</td>
<td>Normal budget and parliamentary appropriation, plus option for retention of percent of revenue collected (minister to decide)</td>
<td>Auditor General</td>
</tr>
<tr>
<td>Tanzania</td>
<td>General responsibility</td>
<td>Outside</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes, but many aspects subject to the approval of the minister</td>
<td>Normal budget and parliamentary appropriation, plus option for retention of percent of revenue collected (minister to decide)</td>
<td>Auditor General</td>
</tr>
<tr>
<td>Zambia</td>
<td>Minister accountable</td>
<td>Outside</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Normal budget and parliamentary appropriation</td>
<td>Appointed by the authority</td>
</tr>
</tbody>
</table>


Annual revenue authority operations are commonly financed via the general government budget as part of the normal annual budget and parliamentary appropriation (see Table 1-A.3). The revenue authority usually prepares a budget on the basis of its annual action plan and revenue targets that are negotiated with the Ministry of Finance. Because the revenue target changes annually, it does not provide a solid base from which the revenue authority can carry out multiyear planning of its operations. This funding situation puts the autonomy of the revenue authority at risk (see Box 1-A.1). The Lesotho and Rwanda revenue authorities, however, represent exceptions: Around 2 percent of the estimated revenue collection is retained by the authorities, plus additional funds allocated by the Minister of Finance for
exceptional performance. This may help secure the managerial autonomy of these revenue authorities and the required stability for planning purposes. However, it remains to be seen whether this approach will generate resentments in other public sector entities and enhance public sector institutional rivalries due to relatively much better financing of the tax administration.

Box 1-A.1. Funding of the Tanzania Revenue Authority

In FY 2003/04 the Tanzanian budget allocated TSh 39 billion to the Tanzania Revenue Authority (TRA), which constituted some 3 percent of the revenue collections (net of VAT refunds). This amount, however, merely covered TRA’s current expenditures, and was insufficient to cover infrastructure, software, hardware, training needs, etc. Most of the noncurrent expenditures were funded by external donor sources in the form of loans and grants, mainly under the donor-supported Tax Administration Project (TAP). Recent TRA estimates have identified a financing gap of US$16 million to complete planned reform initiatives in addition to the original TAP funding of US$73 million.

Since 1999, TAP has been coordinated by the World Bank, and has included support from several bilateral donors and the United Nations Development Programme. In 2006, it moved to a basket funding arrangement using government systems for procurement and reporting. The common basket approach has helped facilitate donor coordination and has been more responsive to TRA demands. World Bank funding was concluded by July 1, 2006, while donor support is expected to continue through to 2008, which is the end of the current corporate planning period (2003/04–2007/08). This funding situation puts the autonomy of the TRA at risk. Because a continuation of the external donor support is not likely to be continued at current levels after 2008, it is essential to secure the TRA with reliable funding from domestic resources.


4 The Kenya Revenue Authority, established in 1995, is also funded by retention of revenues collected: 1.5 percent of estimated revenues, plus 3 percent of the revenues collected above the estimate.