

## Why collect local taxes in oil rich Angola? ...and the challenges of doing so.



An effective tax system is required to implement and finance current government policies of diversifying the Angolan economy and providing quality public services to citizens across the country. Extending the reach and inclusiveness of taxation requires tax cooperation across levels of governments.

Local governments are particularly important for the growth of small scale enterprises and for equity considerations. Currently, however, collection of taxes and local fees in Angola takes place according to centralised and outdated instructions which have limited connections to local government development plans. This brief addresses some of the institutional and political challenges of local taxation in Angola. It argues that tax reform should include real political and administrative decentralisation. This is closely linked to the building of a democratic state.

### ANGOLA'S CENTRALISED TAX SYSTEM

One of the most striking features of governance in Angola is the nearly unparalleled centralization of government. Despite official pronouncements about fiscal decentralization, earmarked central government transfers continue to constitute practically the whole local government budgets – or more precisely in the Angolan legal jargon, the budgets of the local organs of the state.

There is currently neither a legal framework nor well positioned institutions to establish a system of local taxation and spending in Angola. Taxation continues to be considered the sole prerogative of the central state.

Furthermore, the current practise is that the local office of the Ministry of Finance, which is even detached from the centralised provincial administrations, has the all-important role in tax collection. The município and comuna administrations, which are closer to the citizenry, play only a minor role.

### ACCOUNTABILITY THROUGH FISCAL DECENTRALISATION

There are several arguments in favour of developing the domestic tax system. Empirical research find evidence that effective tax systems are central for a sustainable development because they can (a) mobilise the domestic tax base as a key

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mechanism for countries to escape single resource dependency; and (b) reinforce government legitimacy through promoting accountability of the government to taxpaying citizens and good public financial management.

There is also a growing realisation in Africa that taxation and state-building are linked. The way domestic revenue is raised significantly influences both economic growth and democratic consolidation. 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. 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 tax revenues leads to improved service provision, which in turn increases citizens' willingness to pay their taxes.

In this perspective, local taxation may be particularly important to fostering positive linkages between taxation, responsiveness and accountability because local taxes generally are more visible and broad based, owing to the simple fact of proximity and the types of taxes that are predominant at the local level. Proximity implies that by taking revenue and expenditure decisions to the local level, and therefore making them more visible, fiscal decentralisation is expected to strengthen these connections between what people pay and what they get in return. Furthermore, whereas national revenues are dominated by natural resource rents and by narrowly based income taxes, local taxation generally rely on taxes on small businesses, various levies and, in principle at least, property taxation. These aspects make local taxation particularly capable of promoting broad based tax bargaining, even when the absolute amounts collected are modest. Despite comprising only a small share of total revenue, reforming local taxation could play a crucial role in promoting citizen participation, accountability and government legitimacy.

However, there is widespread concern that the availability of oil revenues may reduce incentives for the national government to raise domestic taxes in general and, in particular, local government taxes. This may, in turn, negatively affect the quality of governance by reducing incentives for the government to bargain with citizens over taxes. Most governments are genuine in their desire to raise revenue, but the availability of large oil revenue flows may reduce the

urgency with which domestic tax collection is pursued. There is an additional risk that an oil dependent government will shy away from politically demanding income, property and local tax reforms, while these are precisely the areas that are likely to be most important to establish constructive state-citizen linkages. Thus, in oil rich Angola there seems to be a vicious circle which is difficult to break: less taxation of citizens implies less accountability and public scrutiny of public spending. Low efficiency and poor service delivery maintains poverty at high levels, which further limits the possibilities to tax citizens.

"We don't have much autonomy to tax, so we only charge for the same fee categories as in colonial times. Only the names have changed. The only new thing is market fee, but that isn't much at all."

*Experienced município employee, 2010*

#### THE LEGAL FRAMEWORK FOR LOCAL TAXATION AND BUDGETS

In Angola, there are no real local governments – as the provincial and district (município) administrations are considered local organs/branches of the central state, where the local citizenry is not represented. Future decentralised local governments will therefore evolve when and insofar as the autarquias are created. However, it is hard to imagine how the future autarquias could be successful without any previous experience of tax-and-spending governance.

The changes made in the legal frameworks of the local state administration in 1999, 2007 and 2010 effectuated little real change to institutionalised ways of revenue collection and budgeting, except that from 2007 onwards when the municípios were given status as state budget units and more responsibilities. In practice, however, this has given the município little if any financial autonomy. The legal framework change in 2007 also gave the local organs of the state the right – which was never really implemented – to keep the revenue from fourteen different taxes and fees. In principle, the 2007 legislation gave local administrators and governors incentives to increase local tax collection in order to bolster the local expenditure autonomy. This opportunity, however, was effectively removed in 2010. The 2010 law on the local organs of the state (law 17/10, art 85) now stated that the only source of income for the local organs of the state is the transfers from the central state budget. Somewhat confusingly, only a few months earlier a presidential decree (30/10) allowed the municípios to be reimbursed an unfixed percentage of revenues from ten specified taxes and fees collected locally. The system is still in flux, as in 2011 a "tributary reform" is being prepared for legislation (the contents of which have not yet been made public).

#### Local organs of the state vs. autarquias

The three tiers of the local organs of the state that we can refer to as local government in today's Angola are the provinces, the municípios, and the lowest tier, the comunas. These are considered to be extensions of the central state, without legal and fiscal autonomy.

Local governments proper – referred to as autarquias – are intended to have locally elected governments, legal personality, some fiscal autonomy, including the prerogatives of local taxation and. Autarquias have been envisaged in the constitution(s) for the last 20 years, but never been implemented.

It is reasonable to conclude that there has been little advancement in the Government's decentralisation plans – at least what regards fiscal decentralisation.

More important than the current legal framework is the fact that actual practice at the province and município level appears to be lagging behind the shifts in legislation and seems to follow established patterns determined by the strongest policy signals emanating from central ministries.

#### WHAT DOES LOCAL TAXATION MEAN IN THE AVERAGE MUNICÍPIO TODAY?

To the extent that revenue is collected from citizens and businesses throughout the country today, it is largely deposited with the so-called financial delegations (Delegações Provinciais das Finanças – colloquially referred to as repartições) which are the local offices of the Treasury. These transfer all revenue to the Treasury's "single account" (Conta Única do Tesouro). The central government, through the national budget and several other mechanisms, redistributes funds to the provincial governments and the districts, but there is no established mechanism to guarantee a link between the size of locally collected revenue and locally disposable funds.

The average município, the administrative level from which the future autarquias are supposed to grow, has a population of around 100 000. It is led by the centrally appointed Administrator. The município administration has a few departments such as health, education and agriculture, but these have precious little autonomy to decide how or how much resources will be spent in their area. Resources for service provision largely remain with the provincial government. There is currently hardly any autonomy for the município to spend beyond transfers from the central level.

It is also unlikely that any kind of local "tax policy" could be implemented, even if a município administration so desired. All personal income tax deducted from wages goes directly to the Treasury's single account. Businesses operating in the municipalities will typically have to travel to their closest repartição fiscal, usually in the provincial capital, in order to deposit their taxes and fees. Other taxes collected at these central offices are transit circulation fees, document fees, housing taxes, and land title fees.

However, embryonic elements of a local tax system are found. The municípios have periodically, at least in principle, been returned a percentage of the revenues from the collection of some fees, tariffs and fines. The most prominent fee is that collected at the local markets where município employees (or sometimes private collection agents) levy the vendors for a small daily amount. In Kalandula the daily fee was 5



Many urban services are needed in Angola.  
Photo: Aslak Orre

kwanza (USD 0.06) in 2008. Another example is the annual bicycle and small motorbike "tax", levied to the great annoyance of many citizens, who may see their vehicles "arrested" if caught without a receipt. In some local governments animal traction is subject to the payment of fees, and even dog-owners were required to pay small fees to the município. People can also be fined for a variety of trespassing behaviour.

In Lubango, one of the largest cities, the município was allowed by the central government to collect fees for trash collection and various other basic services provided (indeed very irregularly). Through these fees, the Lubango município was able to collect up to 6 million kwanza (USD 60 000) a month, translating to around 700 kwanza (USD 7-8) per inhabitant per year. This amount barely covers the current expenses of the administration.

However, whereas there seems to be some precedent for município collecting money from an array of sources, there is no institutional apparatus strong enough to guarantee effective, equitable and universal implementation of taxation. Local tax- and fee collection is therefore bound to be quite random and disorganised, and is likely to appear as provocative and illegitimate by citizens.

A key problem is that there is no real "tax policy" behind the collection. The municípios collect largely according to antiquated tables – often dating back to colonial times – which dictate what is to be levied. Our findings therefore conclude that there neither is solid institutional backing nor a legal foundation for the implementation of any kind of local tax policy, hence a disconnect between taxation practices and policy objectives exists.

#### Fiscal decentralisation

The devolution of taxing and spending powers to lower levels of government – has become an important theme of governance in many African countries in recent years..



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#### SPENDING PROGRAMMES DISCONNECTED FROM LOCAL REVENUE AND LOCAL PARTICIPATION

The budgets available for non-administrative expenditure to municípios have in recent years entirely depended on a series of central government transfer “programmes”, emanating from various ministries and central offices. The largest though not the first of these programmes, was named the Município Investment Plan. It took off in 2008, when up to USD 5 million were made available to each of 64 municípios for constructing administrative and social infrastructure, regardless of the size of the município. In some places this allocation resulted in a hectic spending spree with dubious long-term results. The programme was planned to expand to cover all municípios, but was discontinued in 2009, only to be substituted by the “Integrated Municipal Programme for Development and the Combatting of Poverty and Hunger”. The latter seems to be directed from the President’s office, though executed by the Ministry of Finance. All municípios were invited to make an investment plan of around USD 2.4 million to be spent on various social infrastructures. By November 2010, little if any of the money for that budget year had been forthcoming to the municípios we visited. Our findings indicate that the CACS – the newly established councils of local representatives – were partly informed, but not really participating in decision-making about the investments for services infrastructure.

In none of the municípios studied did the public officials make clear connections between the provision of public services and the generation of local revenue through taxes and fees. All seemed to depend on the rather capricious central government transfers.

#### CONCLUSIONS AND RECOMMENDATIONS

A domestic tax-system involving local government would reduce the current overwhelming reliance on volatile and non-renewable petroleum and mineral resources. While quite understandable, this reliance is short-sighted and hardly commensurate with experiences from state-building in other parts of the world.

A local revenue system is important since increased fiscal autonomy, if properly designed and implemented, may improve the efficiency and responsiveness of the public sector. In this perspective it is important to ensure that there is adequate balance between local government expenditure responsibilities and their own revenues, in addition to clearly defined transfers from the centre.

We ask if there is political will to develop a tax system. Based on our studies of the political economy in general and research in the provinces, it is hard not to conclude that there is little impetus in the political or administrative system to push forward tax reforms, either at central or local levels. No politicians today are placed to get quick gains from arguing for a comprehensive tax system. In addition, local officials neither have the mandate, nor the institutional apparatus to collect taxes. If they want to finance the improvement of public services, their best hope is that some of the large-scale, albeit irregular, central investment programmes come their way.

One of the most challenging issues in Angolan local governance in general, and the building of a better domestic tax system in particular, is to settle on which system of local democratic representation is to be adopted – as the implementation of local elections and the autarquias have been delayed for long and the CACS have failed to institutionalise properly. This is important, since the government must expect demands for local democratic representation as taxation increases. Civil society campaigns for improved public services will also find that local taxation will bring their demands stronger legitimacy.

Even if few take delight in paying their taxes, far-sighted politicians have reminded their peers and citizens that all democratic polities – those who have inspired the current constitution of Angola – have evolved in a constant negotiation over the “social fiscal contract” where local taxation is a key component.

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