

Autonomy, Incentives and Patronage

A Study of Corruption in the Tanzania and Uganda Revenue Authorities

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Preface

The purpose of this report is twofold: Firstly, to explore in greater detail factors that may explain the observed patterns of corruption within the Tanzania Revenue Authority (TRA) and the Uganda Revenue Authority (URA). In particular, the study discusses the key assumptions behind the revenue authority model and the relevance of these in an African context characterised by scarcity of qualified tax officers, accountants and auditors, as well as clientilistic networks between political, bureaucratic and economic agents. Secondly, based on this analysis and in light of existing political, economic and administrative constraints, the study aims to identify options available for sustainable tax administrative reforms in the two countries. Issues of particular relevance for foreign assistance towards fighting fiscal corruption and strengthening tax administration are highlighted.

The study is commissioned by the *Norwegian Agency for Development Co-operation*, NORAD. The present report presents the work done by the project group, counting Odd-Helge Fjeldstad (project leader), Ivar Kolstad and Siri Lange.

The main ideas of the report have been worked out by the group as a whole. Some division of labour has, nevertheless, been necessary: Fjeldstad (economist) wrote the first outline of the report and had the main responsibility for chapters 1, 2, 3, 4 and 8, Kolstad (economist) for chapters 5 and 6, and Lange (social anthropologist) for chapter 7.

The analysis is based on a variety of sources of information: official reports and data on tax revenues in Tanzania and Uganda; available grey literature produced by the governments, the TRA and the URA, donors and business communities; personal interviews and discussions with present and past tax officers and board members of the revenue authorities, staff at the Ministries of Finance in Tanzania and Uganda, business people and customs clearing agents in Dar es Salaam and Kampala, aid workers, tax consultants and researchers; and newspaper articles on tax issues in the two case countries. Data collection and interviews were carried out by Fjeldstad during frequent visits to Tanzania and Uganda during the period 1996-2003, and by Lange in Uganda in November 2002. During the course of the project we have benefited from comments by Eyolf Jul-Larsen, Mohamed Othman, and Bertil Tungodden, and from discussions in seminars at IDS-Sussex University and at a visit to HM Customs and Excise, London. Special thanks to the CMI-librarians for their assistance, and to the many people in Tanzania and Uganda who took the time to speak to us. Points of view and any remaining errors can be attributed to the authors.

Bergen, November 2003

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Executive summary

1 Introduction

- 1.1 In order to increase revenue and curb corruption, a number of African countries have implemented comprehensive reforms of their tax administrations over the past two decades. Uganda introduced a major reform in 1991 with the formation of a semi-autonomous revenue authority – the Uganda Revenue Authority (URA), and Tanzania followed in 1996 with the formation of the Tanzania Revenue Authority (TRA).
- 1.2 How successful were these reforms? It is naturally too early to pronounce a final verdict. Reforms need time and results will always depend on the criteria underlying the evaluation. However, neither the TRA nor the URA have been able to sustain their early successes. In Uganda, the reforms appeared to be a success in URA's first six years of existence. Reported tax revenue increased sharply - from 7% of GDP in FY 1991 to more than 10% in 1997. Corruption seemed to be declining too. But since then, the tax-to-GDP ratio has stagnated. There are also clear indications that corruption is on the rise again. The Tanzania Revenue Authority has experienced a similar development, though the decline in the tax-to-GDP ratio and rise in corruption came faster compared to the URA: Reported revenue increased in TRA's first year of existence from about 10% of GDP in 1996 to almost 11% in 1997. Thereafter, the tax-to-GDP ratio has declined.
- 1.3 In both Tanzania and Uganda this pattern, initial increases in revenue collection followed by stagnation or decline, took place despite continued economic growth, further reforms of important tax legislation in line with best practice as prescribed by the IMF, and accumulated operational experiences in the new revenue administrations. There are many indications that an increase in fiscal corruption has contributed to reducing the growth in reported revenues. Thus, a closer look at the pattern of corruption may shed light on the development of tax revenues.
- 1.4 The purpose of this report is to explore in greater detail factors that may explain the observed patterns of corruption within the TRA and the URA. Three factors are highlighted; one is related to the autonomy of the tax administration and political interference, the second is linked to the power of incentives schemes for tax officers, and the third is connected to patronage and the 'cultural logics of corruption'. The study discusses the key assumptions behind the revenue authority model and the realism of these in an African context characterised by (a) scarcity of qualified tax officers, including accountants and auditors, and (b) clientilistic networks between political, bureaucratic and economic agents. Based on this work, the study aims to identify options available for sustainable tax administrative reforms in the two countries in light of existing political, economic and administrative constraints.

2 The tax systems in Tanzania and Uganda

- 2.1 Reforms of the tax systems in Tanzania and Uganda during the last decade have focused on simplifying the direct and indirect tax structures, removing discretionary tax exemptions and improving the tax administration. In addition to revenue raising, efficiency and economic development considerations have motivated recent reforms of the tax system.
- 2.2 The major measures implemented are:
 - lower personal and corporate income taxes;
 - simplification of the tax bands and broadening of the bases for personal and corporate income taxes;
 - introduction of the value-added tax;

- simplification of the excise duty structure;
- reduction of import duties and simplification of the rate structure; and
- abolition of export taxes.

2.3 Administrative reforms are also increasingly stressed, as reflected in the establishment of the TRA and the URA. More recently, reforms of the local government tax system and harmonisation of local and central government taxes have been addressed in Tanzania.

2.4 While addressing many relevant issues, the tax reforms of the 1990s have failed to tackle serious problems of taxpayer-tax administration relations. In spite of the reforms, the tax systems in Uganda and Tanzania are characterised by an excessive number of different taxes with different rate structures that are difficult for taxpayers to understand. The tax law is written in a confusing way and manuals to consult are often absent, opening up for discretionary powers by tax enforcers. Tax officials have, for instance, discretion over important decisions, such as those related to the determination of tax liabilities, selection of audits, litigation, etc. Many administrative procedures, including the procedures for reporting tax revenues, lack transparency and are poorly monitored both within the tax administration and by the Auditor General's Office. Moreover, the legal sanctions to enforce punishments on either taxpayers or collectors who do not comply with the law are weak. Each of these factors contributes to a non-transparent and complicated tax system, where taxpayers' often are left to the discretionary power of tax officers.

3 The Tanzania and Uganda Revenue Authorities

3.1 The TRA and URA are set up as semi-autonomous agencies of Government reporting to the Minister of Finance, and operate under the supervision of a Board of Directors. The revenue authorities' main functions are to administer, assess, collect and account for all revenues due under the country's tax laws, and to advise the Ministry of Finance on changes to those laws and fiscal policy in general.

3.2 The choice of a revenue authority 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. 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 expected that such steps would provide incentives for greater job motivation and less corruption.

3.3 A shift to a revenue authority was also attractive to donors and senior politicians because it opens up opportunities for more widespread reforms of the tax administration. To this should be added an additional concern: the deep fiscal crisis in the two countries in the late 1980s and 1990s, and the chronic inefficiencies of the previous tax administration arrangements placed in the Ministry of Finance.

3.4 Although the agencies, in principle, are not constrained by civil service rules on employment, including salaries and promotion, there are, in practice, substantial staffing constraints: the freedom to set salaries is constrained externally and the real wage level has declined over time. As many other public institutions in Tanzania and Uganda, the TRA and URA also lack suitable qualified staff within key areas, in particular there is a shortage of economists, IT-specialists, lawyers and auditors.

3.5 The autonomy of the TRA and the URA has steadily waned over time. Moreover, both agencies suffer from micromanagement. The Board increasingly intervenes in the day-to-day operations. In the URA, the Ministry of Finance is almost in full control of the Board. Particularly in staffing matters, the Ministry exerts its power. These interventions contribute to undermining the authority and legitimacy of the Commissioner General and

the top management of the agencies. In Uganda, it has also led to accusations of biased recruitment based on 'secterism' and 'tribalism'.

4 Autonomy, incentives and patronage: An introduction to the themes

- 4.1 Tax administration comprises three interrelated activities: (i) the identification of tax liabilities based on existing tax legislation; (ii) the assessment of taxes to determine if the taxes actually paid are smaller (or larger) than tax liabilities; and (iii) the collection, prosecution and penalty activities that impose sanctions on tax evaders and ensure that taxes and penalties due from taxpayers are actually collected. Such activities require some degree of autonomy if a tax administration is to effectively enforce a government's tax policies. Moreover, they require that tax officers are provided with incentives to perform their tasks in accordance with the objectives of the tax administration.
- 4.2 As noted above, reforms of the tax administrations in Tanzania and Uganda in the 1990s resulted in short term revenue increases. But these achievements have proved to be difficult to sustain in the longer run. After the initial success, revenues as a percentage of GDP have stagnated or declined and the level of fiscal corruption seems to increase. Our study explores three factors that may explain this trend: one is related to the erosion of autonomy, the other to the power of incentive schemes for tax officers, and the third to patronage and 'the cultural logics of corruption'. These factors are discussed in further detail in the following three chapters.
- 4.3 Firstly, when the autonomy of a tax administration is compromised, revenue collection performance suffers. The establishment of a proclaimed autonomous revenue authority with comparatively generous remuneration packages and substantial budgets does not protect the authority from political interference. To the contrary, as observed in Uganda, it may make it a more attractive target because the authority offers both relatively well paid jobs and considerable rent-seeking opportunities. Consequently, such an authority is vulnerable to political interference, especially in personnel matters.
- 4.4 Secondly, even with relatively high wages and good working conditions, corruption may continue to thrive. In a situation where there is high demand for corrupt services, it is unrealistic to provide tax officers with pay rates that can compensate for the amount gained through bribery. Without extensive and effective monitoring, wage increases may produce a highly paid but also highly corrupt tax administration. Moreover, hiring and firing procedures may lead to more corruption. Corrupt tax officers often operate in networks, which also include external actors. These corruption networks seem to have been strengthened because many of those fired are recruited to the private sector as 'tax experts'.
- 4.5 Thirdly, as long as corruption is legitimised as a natural part of public office and as a way to accumulate means to support dependants, its participants may view what they take part in as legitimate. In the URA, in particular, patronage runs through networks grounded on ties of kinship and community origin. As such, people recognise the benefits of large extended families and strong kinship ties, even as their social and economic aspirations may be unambiguously modern. This implies that such social relations may rule out formal bureaucratic structures and positions. It is difficult to combat corrupt practices as long as the people who take part in them view them as acceptable.

5 Autonomy and corruption

- 5.1 The initially quite substantial degree of autonomy awarded the revenue authorities in Tanzania and Uganda has in recent years been undermined. One way in which to understand these developments is to consider the strategic interaction of the institutions

involved and their interaction with the taxpayer community. In particular, the problem of credible commitment to sustained tax administration reform seems particularly difficult to resolve.

- 5.2 While a semi-autonomous revenue authority may have a sharper focus due to less political interference, the downside of this is that it may take a narrow view of its activities, disregarding its place in the wider civil service context. In particular, a semi-autonomous authority may prove to be less inclined to align its activities with those of the Ministry of Finance, where the activities of the two conflict or where there is a need for co-ordination. And vice versa, the Ministry might be less eager to assess the impact of its policies and practices on the Authority.
- 5.3 A fragmentation of the civil service may also lead to the proliferation of regulations and discretionary decisions, as each civil service unit seeks new ways of extracting rents. Thus, under certain conditions, the creation of autonomous agencies will increase corruption in the civil service, as measured by the level of bribes demanded.
- 5.4 Given the centrality of the commitment idea to the creation of semi-autonomous agencies in other areas of government, it is surprising that this perspective has by and large been absent from the discussion of tax administrative reforms. The basic point of departure is that taxpayers base their decision to comply or not on the perceived competence, effectiveness and fairness of the current tax administration. In countries with an incompetent, ineffective and unfair tax administration, we will therefore expect low compliance. A government wanting to increase taxpayers' compliance, thus, has an interest in reforming the tax administration. However, a reform is costly in terms of investment in personnel and equipment, in addition to the foregone opportunities of patronage and other discretionary use of the tax administration.
- 5.5 In Tanzania and Uganda, the formal autonomy awarded the TRA and the URA upon their inception, and the degree to which this autonomy was exerted in the initial phases of their existence, could very well have had a favourable impact on taxpayers perceptions of their operations, and hence on compliance rates. However, failure to sustain the initial reform efforts has, in both countries, implied a powerful signal to the contrary. The fact that nominal wages in the revenue authorities have been stagnant in recent years, and that the use of dismissals has decreased substantially, point to a decreasing degree of personnel autonomy. Increasing Board and government interference in staffing matters has a similar effect, and also signals a lesser degree of managerial autonomy.
- 5.6 Moreover, managerial autonomy has been substantially undermined by the increasing use of tax exemptions in Tanzania, and by the politically motivated appointment of new Board members in both Tanzania and Uganda. There are many indications that the initial improvements in taxpayers' perceptions due to the Revenue Authority reforms, have been reversed in later years. To the extent that taxpayers were able to foresee this backlash, the reforms may not have had much of an impact on 'voluntary' tax compliance in the first place, which indicates that any initial rise in tax revenues would be attributable to other factors.

6 Incentives and corruption

- 6.1 A failure to provide effective incentives for TRA and URA staff may be another reason for the stagnation in the performance of the TRA and the URA, and the apparent rise in corruption. Moreover, the incentive schemes introduced in the TRA and URA may have failed to improve performance, due to a failure to meet the basic conditions under which monetary incentives can be expected to work. In addition, organisational and behavioural

complexities make the use of incentives less straightforward. These matters underscore the importance of a careful and comprehensive reform.

- 6.2 A core idea behind the introduction of semi-autonomous revenue authorities is their freedom to use pay and incentive structures to improve the degree to which organisational objectives are met. The idea that pay increases can have an effect on worker performance can be traced to two economic models. The first is the *shirking model*, which basically says that paying high wages makes keeping a job more valuable to workers, and they will thus exert more effort. The second model is the *fair wage model*, according to which workers provide more effort if they perceive wages to be fair. Each of the two models provides conditions under which pay increases result in significant increases in performance.
- 6.3 According to the shirking model, the size of the wages required to make tax officers choose a high level of effort, depends on several factors. In particular, it depends on the probability of being detected and fired if shirking, and on how long a period of unemployment a tax collector faces if fired. The less efficient the monitoring of tax officers' effort, the higher the salaries must be to induce a high level of effort. And the lower the level of unemployment, i.e. the shorter the period a worker does not have a paid job, the higher must the salaries be to make tax officers provide a high level of effort.
- 6.4 Regarding the probability of being fired for corruption in the TRA and the URA, it is worth noting that the initial wave of dismissals has not been sustained. In addition, the appointment of executives known for their integrity in the initial stages of the reform has been undermined by recent examples of politically motivated appointments and interference into revenue authority affairs. A perception of a more lenient attitude towards corruption may thus have formed among TRA and URA staff. The initial pay increases may consequently not have had much of a lasting impact on corruption, and the subsequent decline in real wages has most likely eroded any initial impact.
- 6.5 According to the fair wage model, the initial boost in pay rates for Revenue Authority staff should result in increased effort and reduced corruption, by moving pay rates closer to a perception of equitable wages, or by reducing the need for additional income from bribes. However, the subsequent failure to maintain the new wage levels in real terms implies a reversal of effort and corruption. A wage increase followed by a wage decrease might even produce less effort and more corruption than if wages had been constant, if the tax collector's perceptions of fair wages are adjusted upward with rising wages. Finally, in a wider civil service context, rising wages in one department could imply that the staff of other departments views their own wages as even more unfair, with detrimental consequences for civil service morale.
- 6.6 Besides wage incentives, there are of course other types of quasi-monetary incentives which impact on staff performance. For instance, promotion policies based on merit would be one, similar in effect to a bonus. Though some effort has been made in the revenue authorities to improve hiring and promotion practices, promotion is often based on seniority and the 'right' connections. Moreover, there are strong indications of internal markets for attractive positions. The impact of pay structures on the composition of staff is, thus, a subject which requires consideration.
- 6.7 With respect to bonus systems, there are convincing arguments against introducing such schemes in the TRA and the URA. For instance, the introduction of a bonus system for tax collectors may have greater costs in terms of bonus payments than benefits in terms of added tax revenue if corruption at higher levels is rampant. The evolution of high level corruption in the URA makes this argument important to consider. While at their inception, great care was taken to staff upper management positions with individuals known for their integrity and independence, there seems to be a reversal to past practices of political appointments in recent years. A failure to root out high level corruption may thus weaken the impact of new incentive schemes on tax collection performance.

7 Patronage and the ‘cultural logics of corruption’

- 7.1 Corruption in Tanzania and Uganda is as frequently denounced in words as it is practised in fact. But the verbal stigmatisation of corruption rarely leads to legal proceedings or sanctions. Political leaders, as well as the ‘grassroots’, repeatedly name corruption as one of the major obstacles for development. Still, many researchers and journalists have noted that corruption is in actual practice *accepted*. People involved in corruption often see their own actions as legitimate, and only the practices to which one falls victim or from which one is excluded are denounced as being corrupt.
- 7.2 Corrupt practices are generally *not* linked to shame, and people who engage in them often conduct their activities with a clear conscience. Moreover, there may not be a social stigma for being dismissed from one’s position due to corruption. In the URA, for example, there is a perception among some of the staff that the agency is a place to stay for a few years only to make money. Then, if one is finally caught in corruption, it doesn’t hurt much to be fired.
- 7.3 Based on anthropological research, our study explores a set of social practices that do not necessarily have anything to do with corruption, but which provide a favourable ground for its generalisation. Five ‘cultural logics’ are singled out which all provide a fertile ground for corruption: (i) gift-giving; (ii) negotiation; (iii) solidarity networks; (iv) predatory authority; and (v) redistributive accumulation:
- 7.4 Petty corruption tends to enter into the ‘*gift-giving*’ category, often making use of the terms and expressions that are traditionally associated with gift giving. To *not* thank someone for a service is not only a sign of bad manners, but may also mean that one invites misfortune. If a civil servant kindly disregards ‘the rigours of the law’, doesn’t he then deserve a gift? And why not just as well give the gift in advance?
- 7.5 The *logics of negotiation* that apply to marriage negotiations for example, also apply to corruption. ‘Petty corruption’ often has a rhetorical dimension to it. It is not uncommon to leave these negotiations to a middleman – a broker – who organises the transaction and who saves both parties time and risk.
- 7.6 The *logics of solidarity networks* entail an obligation of mutual assistance. This applies to friends of friends as well, so that the circle of people to whom one has responsibilities may be almost infinite. ‘Traditional’ networks are based on ascribed identities such as family or ethnic origin. But in modern, urban society, people may find it even more useful to nourish networks that cut across such boundaries. It is argued that the elite in African countries tends to be so small that the price of open conflict is simply too high. This may be one of the reasons why the culprits are rarely prosecuted. Moreover, positions in the revenue authorities are regarded as extremely attractive, to the point that applicants may try to use their networks in order to get the jobs.
- 7.7 In Uganda, the authorities have sought to avoid the problem of mutually protective networks by appointing women in core positions. Educated women have often studied at separate girls schools and are therefore considered less inclined to get involved in the (predominantly male) elite corruption networks. This does not mean that women are innate or ‘naturally’ less inclined to get involved in corruption. But it may support the proposition that there is a connection between ‘old boys’ networks and mutual protection in cases of corruption. This kind of reasoning seemed to lie behind the appointment of Julia Sebutinde, a high court magistrate, to head the Judicial Commission of Inquiry into Corruption of the Police Force, and, in 2002 to her appointment as chair of the Commission of Inquiry in the URA. The appointment of Annebritt Aslund as the Commissioner General of the URA may also be seen as part of this new strategy of placing women in key positions. While

indigenous Ugandans have somewhat mixed feelings about the practice of appointing expatriates in key positions, Aslund's candidature was at the time widely applauded.

- 7.8 Appointing expatriates in key management positions may also be a technique to avoid the unfolding of *the logics of predatory authority*. The background for this way of exercising authority is partly to be found in the pre-colonial system, partly in the colonial form of administration. In many of the pre-colonial political systems, the chiefs were obliged to show largesse to all. The capacity to redistribute was founded on patrimonialism, which regulated traditional power in the context of confusion between the wealth of the state and that of the sovereign. Thus, many contemporary leaders and civil servants see it as their *right* to exploit the opportunities that a given office offers.
- 7.9 There is an intricate form of reciprocity in this relationship, in what is termed the *logics of redistributive accumulation*. Politicians at all levels – from local councillors to the executive – need to enrich themselves in order to redistribute, a redistribution which is necessary in order to uphold their authority and their networks. Seen from the relatives' point of view (and that of network associates), someone who holds a prestigious position must spread the benefit around. Often there is a considerable social pressure in the direction of the accumulation of wealth in view of redistribution. Only someone who accumulates, can redistribute, the entering point to an identity as a 'man of honour' or 'big man'.
- 7.10 A major proposition in anthropological studies of corruption is that it is not realistic to combat corrupt practices as long as the people who take part in them view them as acceptable. Thus, a challenge is to work for a reform of the public attitudes towards corruption in general. But, for this to succeed one may need an almost utopian change at the administrative level since corruption is on the one hand, a result of the incompetence of the state apparatus and on the other, its cause and agent of reproduction. As long as the political elites are unwilling to give up some of their privileges and to reform, changing the general public's attitudes may ultimately take the form of 'puritanical' or 'fundamentalist' movements based in the 'grassroots'.

8 Lessons and implications for reform

- 8.1 This report has emphasised the economic, social and political dimensions of tax administrative reforms, and the limitations of some of the 'technocratic' approaches to institutional reforms taken by donors. The technocratic approach has overlooked the fact that reforming a tax administration, though it has important technical aspects, also is a social and political phenomenon driven by human behaviour and local circumstances. It is a long and difficult process that requires tax officials to change the way they regard their jobs, their tasks and their interaction with taxpayers.
- 8.2 Another problem is the lack of local ownership that has characterised many donor-supported tax administrative reforms in Africa. Such reforms are unlikely to succeed if the main source of energy and leadership for it comes from outside. It should be recognised that tax administrative reforms are highly political processes that will inevitably pose a threat to important local stakeholders. Hence, strong and well-placed leadership of the revenue authority is essential for overcoming the political and bureaucratic obstacles that at present confront the TRA and the URA.
- 8.3 This also requires a better demarcation of management authority between the board and the Commissioner General in both the TRA and the URA. A board acting as the chief executive is certainly not a recipe for a strong and effective daily leadership which the revenue authority needs. The present problems of micro-management and the board's involvement in day-to-day operations must therefore be addressed. This may imply a re-

composition of the board that better matches the expectations of the Government about the status and performance of the tax administration.

- 8.4 Furthermore, the successful implementation of such reforms requires political will to back them up. An indication of the limited political willpower in Tanzania to fight fiscal corruption and tax evasion is the rise in tax exemptions granted in recent years. Experience has shown that tax exemptions create room for bribery and corruption, reduce the tax base, and expands loopholes for tax evasion. Recently, the Tanzanian Government discontinued customs duty exemptions for public sector imports of goods and services. This is a step in the right direction. But, many openings for abusing the system remain. The removal of tax exemptions, including those granted to aid organisations and their employees, would help boost the credibility of both the revenue authority and the donors in relation to anti-corruption measures, and, at the same time, contribute to widening the tax base and simplifying the tax system.
- 8.5 The TRA and the URA are today top-down organisations characterised by submissiveness. Promotion is in general based on seniority. Younger staff members are given few opportunities to developing their skills. Incentives are in general weak in the sense that good performance is not rewarded and bad performance is not punished. Thus, a reformed pay structure and advancements mechanisms conducive to attracting, retaining and motivating highly qualified staff is required. Improved retirement benefits and physical working conditions should be part of this modernisation programme.
- 8.6 Recent economic research on human behaviour indicates, however, that reformers and economists have an inclination to exaggerate the impact of monetary incentives because of a too narrow understanding of intrinsic motivation and group dynamics. Moreover, an additional aspect of wage incentives that has received little attention in connection with institutional reforms in Africa is associated with the role of family networks and obligations. Increased pay rates may also imply more extensive social obligations, resulting actually in a net loss to the employee. This state of affairs can develop into a vicious circle with higher wages leading to more corruption because the tax officer has to make up for the loss caused by such obligations.
- 8.7 Appointing expatriates in key managerial positions may be an efficient technique to avoid the unfolding of the logics of patronage and predatory authority. Experiences from some countries, including Zambia, show that a few expatriate senior advisors and top managers, who are in place for a limited period of time, can contribute to the development of integrity and professionalism in the tax administration. Strong expatriate leadership may more easily confront political and bureaucratic pressures, and may provide a 'buffer zone' within which systemic changes and new forms of staff behaviour are implanted. The required systemic changes include a rigorously planned and executed re-staffing process, also at the senior management levels, and introduction of human resources policies relating to transparent recruitment, adequate remuneration, pension/retirement schemes, etc. Such measures ought to take place before proceeding with traditional forms of technical assistance such as training, computerisation, and process re-engineering, including better forms and filing, auditing and management of revenues, taxpayer education programmes, etc. The experiences in Africa with the latter form of technical assistance for revenue enhancement and transfers of skills suggest that such measures have failed to provide sustainable results.
- 8.8 Private management contracts are raised as a possible approach to strengthen tax administration in Uganda. But historical evidence and recent experiences from other African countries (e.g., Mozambique) give reason for concern: Such reforms have produced few sustainable results; the transfer of skills has been limited and the contract has been very expensive for the government. Tax practitioners are therefore increasingly questioning the value of outsourcing tax administration.

8.9 Although local political and bureaucratic leadership is an essential ingredient for tax administrative reform, it is not sufficient. The tax administration cannot be relied upon to reform itself. Large numbers of taxpayers and citizens regard the tax system as illegitimate. Thus, to tackle the serious problems of taxpayer-tax administration relations impetus for reform must also come from taxpayers. Business communities, taxpayers' associations, trade unions and other influential domestic institutions have a critical important role to play in pressuring the revenue administration to do a better job of serving the society. There are today some promising indications that an organised response to tax policies is developing within the business communities in both Tanzania and Uganda.

1 Introduction

One of the areas of government where corruption looms largest is in the assessment and collection of taxes (Galtung, 1995:1). Substantial amounts never reach the treasury (Kiser and Baker, 1994; Ul Hague and Sahay, 1996; Ghura, 1998). Tax systems in most poor countries are characterised by widespread corruption and tax evasion. This erosion of the tax base has several detrimental fiscal effects, and there are at least four reasons for concern. First, the consequences of lost revenue to the funding of public services are of special concern (Tanzi, 2000a). Second, income distribution suffers because the effective tax rates faced by individuals may differ due to different opportunities for bribing (Slemrod and Bakija, 1998; Hindriks *et al.*, 1999). Third, corruption and tax evasion may have harmful effects on economic efficiency in general (Chand & Moene, 1999; Tanzi, 2000b). Finally, there is a growing concern about the expanding underground economic activities, and how these activities affect economic policies (Tanzi, 2000a). Acts of corruption by tax collectors often play a role in promoting or sustaining underground economic activities and in facilitating tax evasion (Tanzi, 1995). Fiscal corruption may thus contribute to undermining the legitimacy of government. Moreover, citizens' disrespect for the tax laws may expand disrespect for other laws.

In order to increase revenue and curb corruption, a number of African countries have implemented comprehensive reforms of their tax administrations over the past two decades (Devas *et al.*, 2001).¹ Uganda introduced a major reform in 1991 with the formation of a semi-autonomous revenue authority – the Uganda Revenue Authority (URA), and Tanzania followed in 1996 with the formation of the Tanzania Revenue Authority (TRA). 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.² 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, 2002b:5). To this should be added an additional concern: the deep fiscal crisis in the two countries in the late 1980s and 1990s, and the chronic inefficiencies of the existing tax administration arrangements placed in Ministries of Finance.

How successful were these reforms? It is too early to pronounce a final verdict at the present moment. Reforms need time and results will always depend on the criteria underlying the evaluation. However, neither the TRA nor the URA have been able to sustain their early successes. In Uganda, the reforms appeared to be a success in URA's first six years of existence. Reported tax revenue increased sharply - from about 7% of GDP in FY 1991 to more than 10% in 1997 (see Figure 1). Corruption seemed to be declining too. But since then,

¹ In Africa, the revenue authority model has been instituted in Ghana (1985), Uganda (1991), Zambia (1994), Kenya (1995), Malawi (1995), Tanzania (1996), South Africa (1997), and Rwanda (1997). Mauritius is planning an authority and several West African countries may follow.

² McCourt & Minogue (2001) examine the conceptual and practical problems connected with such policy transfers to developing countries.

the tax-to-GDP ratio has remained stagnant around 10%.³ There are also clear indications that corruption is on the rise again. The Tanzania Revenue Authority has experienced a similar development, though the decline in the tax-to-GDP ratio and rise in corruption took place faster compared to the URA: Reported revenue increased in TRA's first year of existence from about 10% of GDP in 1996 to almost 11% in 1997. Thereafter, tax revenue has declined to less than 10% of GDP in 2000 (Figure 1). In both Tanzania and Uganda this pattern, initial increases in revenue collection followed by stagnation or decline, took place despite continued economic growth, further reforms of important tax legislation in line with 'best practice' as prescribed by the IMF, and accumulated operation experiences in the new revenue administrations (Therkildsen, 2002:3).⁴

The developments within the Ugandan and Tanzanian tax administrations can be summarised in the following way:

- *Prior to the establishment of TRA and URA*: Widespread and systemic corruption. Low tax revenues in percentage of GDP.
- *Establishment of the TRA and the URA*: Focus on wage incentives, control, recruitment and steps to reduce political interference.
- *Post-reform phase 1*: Low(er) corruption levels. Sharp annual growth in tax revenue.
- *Post-reform phase 2*: Rising corruption levels. Stagnant or declining revenue in percentage of GDP.

Rising levels of corruption may help explain why the growth in revenue has tailed off in recent years in both Uganda and Tanzania (see Figure 1).⁵ But other explanatory factors are clearly also at work. First, tax revenue depends on external factors of which the tax administration has no control. For instance, general economic trends have an impact on tax bases such as income tax, VAT and import duties. Import restrictions and politically allocated tax exemptions for different sectors and businesses also contribute to reducing the tax base.⁶ Furthermore, staff productivity may have changed possibly due to falling motivation caused by, for instance, declining real wages. However, there are many indications that an increase in fiscal corruption has contributed to reducing the growth in reported revenues. Thus, a closer look at the pattern of corruption may shed light on the development of tax revenues.

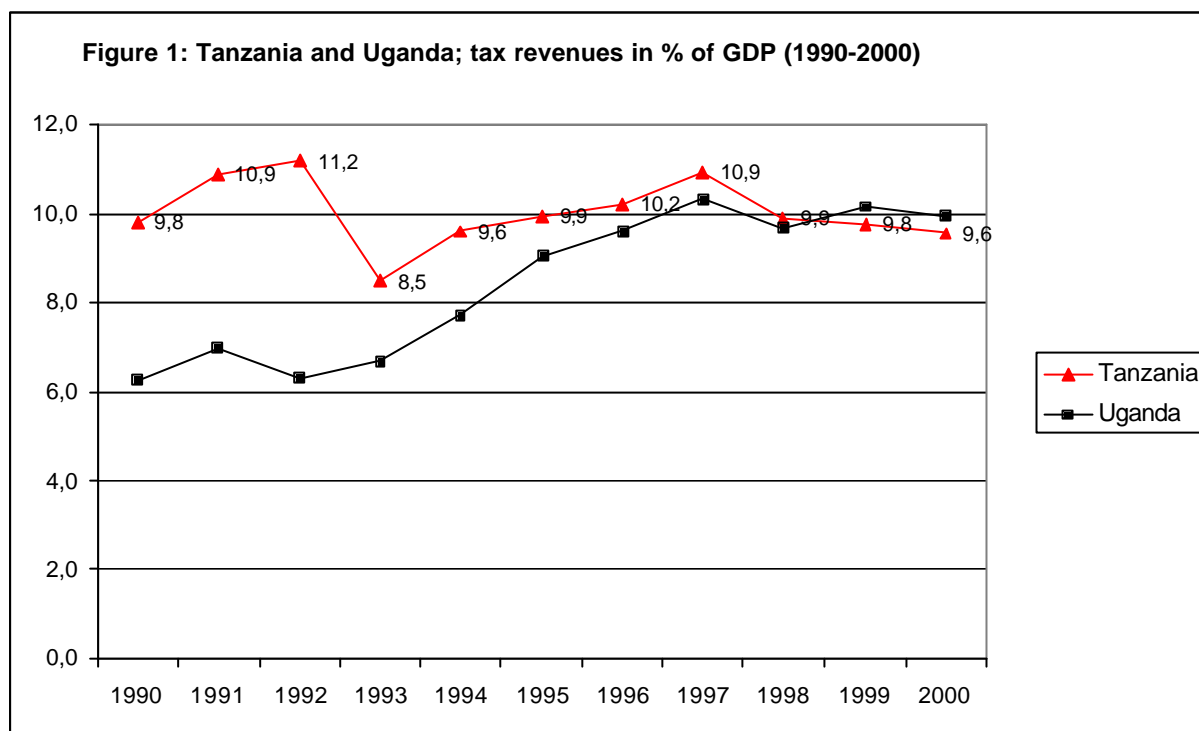
³ On average, the tax-to-GDP ratio in sub-Saharan Africa is around 21%, compared with the OECD average of about 32% (World Bank, 2002). These data only include central government tax revenues, and not non-tax revenues and local government taxes. Different sources report slightly different figures both with respect to the tax-to-GDP ratios and in absolute numbers. For instance, the tax shares reported in TRA (2003) and URA (2002) for FY 2000/01 are above 11% of GDP, including non-tax revenues. The revenue trends, however, are the same as those referred to in this study. To make the data comparable across countries, we have chosen to apply the same source, i.e., the World Bank's *African Development Indicators 2002*.

⁴ This pattern is not atypical for tax administrative reforms in Africa as the experience from Ghana show (see Chand and Moene, 1999; Hadler, 2000). According to Taliercio (2001), similar developments are observed in several Latin-American countries.

⁵ One should be careful about drawing a too confident conclusion about successes and failures on the basis of the tax-to-GDP ratio since it tends to be a relatively imprecise measure of performance (see Stotsky & WoldeMariam, 1997). However, increase in revenues has been the major performance criterion publicly announced by the Tanzanian and the Ugandan governments, clearly reflected in the Budget Speeches of the Ministers of Finance. Moreover, the International Finance Institutions (IFIs) and various bilateral donors usually also refer to the tax share as the key performance indicator.

⁶ In Tanzania, for instance, there has been a considerable increase in the use of tax exemptions in recent years, which obviously erodes the tax base, at least in the short run. For instance, generous investment incentives in the form of tax exemptions have been granted foreign investors, especially in the mining and tourism sectors (Fjeldstad, 2003).

The purpose of this report is twofold: Firstly, to explore in greater detail factors that may explain the observed patterns of corruption within the TRA and the URA. The study will focus on the key assumptions behind the revenue authority model and discuss the realism of these in an African context characterised by (a) scarcity of qualified tax officers, including accountants and auditors, and (b) clientelistic networks between political, bureaucratic and economic agents. Secondly, based on this work, the study aims to identify available options for sustainable tax administrative reforms in the two countries in light of existing political, economic and administrative constraints.



Source: World Bank (2002) African Development Indicators.

(local government taxes and non-tax revenues are not included in the revenue data)

Reliable information on levels of corruption and tax evasion is obviously hard to come by. Given the sensitive issues at stake, one cannot work towards an understanding of the phenomena discussed in this report by the standard methods of random sample, structured questionnaires and formal interviews.⁷ A combination of informal and formal methods is often required. This analysis is therefore based on a variety of sources of information collected during fieldwork in Tanzania and Uganda: official reports and data on tax revenues in Tanzania and Uganda; available grey literature produced by the governments, the TRA and the URA, donors and business communities; personal interviews and discussions with present and past tax officers and board members of the revenue authorities, staff at the Ministries of Finance, business people and customs clearing agents in Dar es Salaam and Kampala, aid workers, tax consultants and researchers; and newspaper articles on tax issues in the two case countries.

The remaining part of this report is divided into seven chapters. Chapter 2 presents briefly the main characteristics of the central government tax system in Tanzania and Uganda, including

⁷ Wade (1982) provides an excellent account of methodological challenges and approaches for analysing systems of corruption in public sector institutions.

the major revenue bases and recent tax reforms. The institutional set-up of the tax administrations in Tanzania and Uganda, including staffing and remuneration, are discussed in chapter 3. The chapter also briefly discusses the extent and types of corruption in the two tax administrations. Chapter 4 provides a general introduction to the themes discussed in detail in the three forthcoming chapters, by assessing the key assumptions behind the administrative reforms and the choice of the revenue authority model. In chapter 5, the limits of the revenue administration's autonomy are discussed, followed by a discussion in chapter 6 of incentives and staff performance, while the 'cultural logics of corruption' and patronage are the focus of chapter 7. Finally, chapter 8 examines lessons learned from these case studies which could benefit future reforms of tax administrations in poor countries.

2 The central government tax systems in Tanzania and Uganda

This chapter provides a brief presentation of the central government tax systems in Tanzania and Uganda, including the major revenue bases and recent tax reforms.

2.1 The central government tax system in Tanzania

2.1.1 The tax structure

The tax structure is composed of direct and indirect taxes (see figure 2). Direct taxes are levied on the factors (i.e., human and capital) that produce the incomes, while indirect taxes are levied on households or firms that consume the taxed items. Direct taxes include corporation tax, personal income tax (e.g., Pay-as-you-earn (PAYE)), withholding tax, rental income tax, tax on interest in banks, and presumptive income tax. The indirect taxes include taxes on domestic goods and services such as value added tax (VAT), and excise duties on so-called demerit goods (e.g., on beer and cigarettes). Moreover, indirect taxes include taxes on international trade transactions such as import duties, VAT on imported goods and services, and excise duties on specific imported goods such as beer and cigarettes.

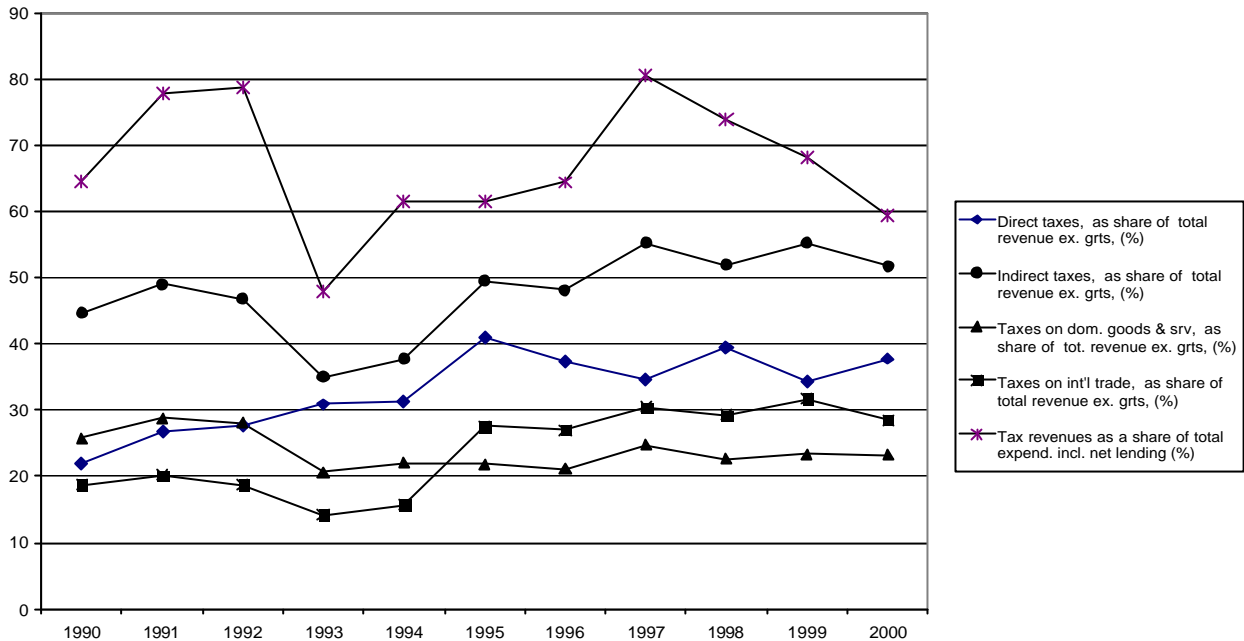
Indirect taxes on goods and services are the major revenue bases, and contribute about 52% of total tax revenues in 2000 (Figure 2). However, direct taxes on income and wealth are also important, and generated almost 40% of total tax revenues in 2000. Of these, corporate income taxes are most important, followed by pay-as-you-earn (PAYE) taxes on formal sector employees.

Table 1a: Annual changes in tax revenues (in %)						
	1994-95	1995-96	1996-97	1997-98	1998-99	1999-00
Total tax revenues	36.1	28.6	33.4	10.0	8.9	11.1
Tax on imports	81.9	32.8	43.7	3.7	21.1	0.7
Tax on exports					-100.0	
Sales and excise tax on domestic goods	3.1	44.2	35.3	-0.9	14.8	11.6
Income taxes	48.2	29.5	19.5	11.6	8.7	28.7
Other taxes	19.9	-7.7	41.5	40.2	-18.8	2.3

Table 1b: Tax revenues in % of GDP							
	1994	1995	1996	1997	1998	1999	2000
Total tax revenues	11	11.3	11.4	12.1	10.9	10.1	10
Tax on imports	2.5	3.4	3.6	4.1	3.5	3.6	3.2
Tax on exports	0	0	0	0	0.1	0	0
Sales and excise tax on domestic goods	3.5	2.7	3.1	3.3	2.7	2.6	2.6
Income taxes	2.9	3.3	3.3	3.2	2.9	2.7	3.1
Other taxes	2	1.9	1.3	1.5	1.7	1.2	1.1

Source: Mokoro & Oxford Policy Management (2001).

Figure 2 Tanzania: Direct and indirect taxes in % of total revenues (excl. grants) and tax revenues as share of total expenditures (1990-2000)



Source: World Bank (2002) African Development Indicators.

2.1.2 Reforms

Since the mid-1990s, reforms of the tax system have focused on improving the tax administration and removing discretionary tax exemptions, and simplifying the direct and indirect tax structures. Table 2 provides a summary of the major tax reforms in Tanzania during the last decade. In addition to revenue raising, efficiency and economic development considerations have motivated recent reforms to the tax system. For instance, export taxes were abolished in FY 1999/00. Apart from the introduction of the VAT in 1998, no new taxes have been introduced, and there has been a general decrease in overall rates. With each reform to simplify the tax system, the Ministry of Finance (MoF) and Tanzania Revenue Authority (TRA) have aimed to ensure that the changes at least are revenue neutral in the short run. Moreover, it is expected that the reforms will be conducive to growth in the formal economy, and thereby over time increase tax revenues. However, the present central government tax base still rests on three main sources. The first is the traditional excise and VAT base of the so-called 'demerit goods', i.e. beer, tobacco, spirits and so on. The second source is taxes on imports, particularly consumer goods, and the third is taxes on company profits and personal income (PAYE).

The reforms have emphasised measures to broaden the tax base while simultaneously flattening the tax rates. In summary, the major measures implemented are:

- introduction of the value-added tax (1998);
- lower personal and corporate income taxes;
- simplification of the tax bands and broadening of the bases for personal and corporate income taxes;
- reduction of import duties and simplification of the rate structure;
- simplification of the excise duty structure; and
- abolition of export taxes.

Administrative reforms are also increasingly stressed, and reflected in the establishment of the TRA. More recently, reforms of the local government tax system and harmonisation of local and central government taxes have also been addressed.

Table 2: Tax reforms in Tanzania since the early 1990s

Form of taxation	Reforms
Direct taxes	Substantial simplifications of tax structure during the last decade. Reduction in marginal tax rate to 30%. Personal income tax bands reduced to 5. The increased income tax threshold (from TSh 20,000 to TSh 45,000 per month) has removed more than 40% of all taxpayers from the tax system. Corporate income taxes and PAYE most important.
Indirect taxes	Contribute about 52 % of total revenue. Include at present value added tax (VAT), excise duties and import duties, and “other taxes” (mainly road toll and stamp duty).
Export taxes	Export duties were abolished in FY 1991/92 and later re-introduced in FY 1996/97. In FY 1999/2000 export duties on traditional export crops (cotton, coffee, tea, tobacco, sisal and pyrethrum) were again abolished.
Import duties	Import duty is levied on the c.i.f. value of imports. Statutory exemptions are diplomatic corps, foreign government projects, and religious, educational and charitable institutions. The tariff structure is basically <i>ad valorem</i> for most items. Effective from 1 July 2001 customs duties comprise four tariff bands; 0, 10, 15 and 25%. Recent simplifications of the customs duty structure have made the system more transparent. However, still extensive tax evasion, which is made possible by weak customs administration and a lack of effective surveillance and deterrence mechanisms.
Excise duties	Since 1992/93 substantial simplifications and reduction of rates. Previously, the base was very wide covering several hundred items. Both <i>ad valorem rates</i> and <i>specific rates</i> as well as composite rates for some items were levied. In January 1999 excisable items were grouped into 9 main groups covering 40 excisable items. However, the bulk of excise revenues (> 90%) come from only five products, both imported and domestically produced, i.e., beer, cigarettes, petroleum products, spirits, and motor vehicles.
VAT	VAT introduced in July 1998. Replaced the previous sales taxes and part of stamp duty and entertainment taxes. Two VAT rates are imposed; a zero rate and a standard rate of 20%. The zero rate is applied on exports. The standard rate applies on all other goods not exempted. Food, most basic goods, inputs to agriculture and NGOs are exempted. VAT exemptions to Government and its institutions were abolished in July 2001. The threshold for being registered for VAT is set to an annual turnover of TSh 20 million in FY 1998/99. The VAT base is significantly broadened vis-à-vis the previous sales tax. However, the scope of VAT exemptions and relieves has been broadened steadily since the original VAT legislation was approved by the National Assembly in August 1997. For instance, the number of zero-rated and exempted items has increased from 19 to 39. Furthermore, the number of special relieves has been increased from 5 to 17. These amendments narrow the VAT base, reduce its revenue productivity, and introduce various distortions and inequities in the tax system.

Sources: Fjeldstad, Hussein & Shallanda (2002).

But still, in spite of reform, official statistics on reported revenue, in particular from customs duties, indicate large leakages. While the most commonly applicable import duty rate was 25% during 1998-2001, the customs tariff generated a revenue equivalent to less than 9 % of the official import value during that period (Table 3).

Table 3: Effective import duties in Tanzania (1995–2001)

	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01
(a) Revenue from import duties (in million TSh) ¹	61,272	78,374	82,047	88,052	88,769	96,356
(b) Total import value, c.i.f. (in million TSh) ²	885,953	807,303	808,168	1,043,097	1,164,841	1,227,757
(c)=(a)/(b) Effective import duties (in %)	6.9	9.7	10.2	8.4	7.6	7.8

Sources: Fjeldstad (2002) based on: ¹ World Bank (2002: 295, Table 5.2); Ministry of Finance (flash reports-FY 1995/96, 1999/00 and 2000/01); and ² BoT (2001, p. 72, Table 4.6, referring to calendar years).

2.2 The central government tax system in Uganda

2.2.1 The tax structure⁸

Table 4 shows the percentage contributions of Uganda's tax structure over the last decade. International trade taxes represent the major revenue base. Between FY 1990/91 and FY 1998/99 trade taxes generated about 55% of the total tax revenue annually and 56% in FY 1999/2000. In comparison, during the same period revenues from taxes on domestic goods and services generated between 23% and 27% annually of the total tax revenue. The contribution of income taxes to total revenue has improved gradually from a low 10% in FY 1990/91 to about 18% during 1999/00.

Table 4: Central government revenue structure, in percentage of total revenue (FY 1991/92-1999/2000)

Fiscal year	1990/91	91/92	92/93	93/94	94/95	95/96	96/97	97/98	98/99	99/00
Income taxes	10	13	15	15	15	13	14	15	18	18
Trade taxes	60	55	58	56	57	57	60	55	55	56
Domestic goods and services	27	24	23	26	25	27	23	26	25	24
Other revenue sources	3	8	3	3	3	3	3	3	3	2

Sources: Obwona & Muwonge (2002a) based on URA (1990-2000, various issues).

Actual total revenue (both tax and non-tax revenue) increased six-fold from US\$ 180.45 bn in FY 1991/92 to about US\$ 1,031.58 bn during 1999/2000. As a percentage of GDP, revenue has risen from 6.97% in FY 1991/92 to an average of 11.7% annually since FY 1994/95. However, since FY 1996/97 the tax-to-GDP ratio has been stagnant at around 10% of GDP (see Figure 1). Income tax revenue rose from US\$ 23.64 bn in FY 1991/92 to US\$ 181.90 bn in 1999/2000 (Table

⁸ This section is based on Obwona & Muwonge (2002a).

4). Trade taxes rose from of US\$ 99.39 bn in FY 1991/92 to US\$ 551.02 bn in 1999/2000 with an average of US\$ 346.62 bn. The domestic goods and services registered an average of US\$ 157.86 bn annually. Table 5 shows the trends in major taxes in Uganda over the study period.

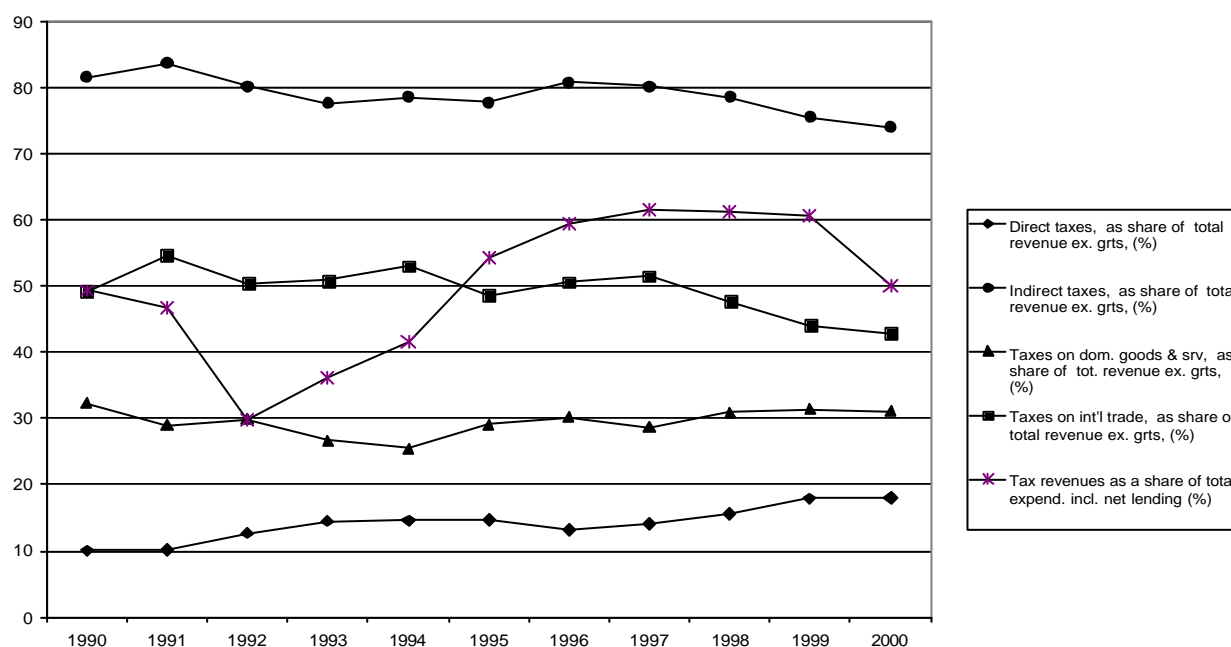
The strong growth in the tax revenue registered during the FY 1994/95 and FY 1995/96 was mainly due to the outcomes of the coffee boom, which indirectly boosted demand for consumption goods, particularly some local products such as beer and soft drinks, and to some extent increased the level of imports. In addition, the attainment of macroeconomic stability in 1992 laid down a firm foundation for enhancing production of goods and services.

Table 5: Trends in major taxes in Uganda, in US\$ bn (FY 1991/92-1999/2000)

<i>FY/ Tax category</i>	<i>Income tax</i>	<i>Trade tax</i>	<i>Domestic goods and services</i>	<i>Other revenue sources</i>	<i>Actual total tax revenue</i>	<i>Share of total tax to GDP in (percent)</i>	<i>GDP</i>
FY 1991/92	23.64	99.39	43.27	14.16	180.46	6.97	2,589.9
FY 1992/93	43.57	164.27	65.85	8.91	282.59	7.79	3,627.0
FY 1993/94	57.37	217.33	102.29	11.05	388.04	9.53	4,072.5
FY 1994/95	77.17	295.52	132.49	17.05	522.23	10.63	4,914.6
FY 1995/96	82.93	365.78	171.61	19.05	639.37	11.34	5,639.6
FY 1996/97	102.45	442.18	174.09	23.90	742.62	12.34	6,023.0
FY 1997/98	124.90	455.56	214.50	26.63	821.59	11.56	7,104.3
FY 1998/99	170.03	528.55	244.63	26.36	969.57	12.18	7,963.4
FY 1999/00	181.90	551.02	272.03	26.63	1,031.58	11.94	8,655.9
Average	95.99	346.62	157.86	19.30	619.78		

Source: URA Various Annual Reports.

Figure 3 Uganda: Direct and indirect taxes in % of total revenues (excl. grants) and tax revenues as share of total expenditures (1990-2000)



Source: World Bank (2002) African Development Indicators.

2.2.2 Reforms

In 1996 a uniform VAT which replaced the commercial transaction levy tax and sales tax was introduced, and the following year the *New Income Tax Act* was implemented. A flat VAT-rate of 17% both on imports and local production was applied. Some commodities and services were exempted from VAT and others zero rated. In 1998 the presumptive income tax was introduced, and the tax appeals tribunal and Large Taxpayers Department (LTD) created. In the Customs and Excise Department, reforms included the simplification and reduction of import duty rates; reduction of exemptions and deductions; increased surveillance of taxpayers and improvements of Customs' facilities. Moreover, the customs computer programme *Automated System for Customs Data* (ASYCUDA) and the *Very Small Aperture Terminal* (VSAT) were introduced in 1997 for purposes of tracking the flow of customs documents and transit cargo.

These reforms affected the assessment and collection of taxes, the management of taxpayer registers, audits and enforcement mechanisms as well as the taxpayer appeals process. The Tax Appeals Tribunal was formed to address taxpayers' complaints against tax collectors on tax assessment.

2.3 Concluding remarks

While addressing many relevant issues, the tax reforms of the 1990s have failed to tackle serious problems of taxpayer-tax administration relations. In spite of recent reforms, the tax systems in Uganda and Tanzania are characterised by an excessive number of different taxes with different rate structures that are difficult for taxpayers to understand. The tax law is written in a confusing way and manuals to consult are often absent, opening up for discretionary powers by tax enforcers. Tax officials may, for instance, have discretion over important decisions, such as those related to the determination of tax liabilities, selection of audits, litigation, etc. Many administrative procedures, including the procedures for reporting tax revenues, lack transparency and are poorly monitored both within the tax administration and by the Auditor General's Office. Moreover, the legal sanctions to enforce penalties on tax evaders and to punish collectors who do not comply with the tax law, in general, weak. Each of these factors contributes to a non-transparent and complicated tax system, where taxpayers' often are left to the discretionary power of tax officers.

3 The Tanzania and Uganda Revenue Authorities

The Tanzania Revenue Authority (TRA) and the Uganda revenue Authority (URA) are set up as semi-autonomous agencies of government reporting to the Minister of Finance, and operate under the supervision of a Board of Directors. The choice of a revenue authority model, which originates in the so-called executive agency 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.⁹ The institutional set-up gives the management the autonomy to operate the activity like a business, emphasising economic norms and values, rather than a civil service department. The extent and nature of the autonomy is, however, distinct from that of the autonomy assigned to other types of public sector organisations (Taliercio, 2002). The revenue authorities are not intended to be as autonomous as central banks, nor as dependent as ministerial line departments, thus the concept ‘semi-autonomous’. The autonomy is basically intended as a remedy for managerial and administrative problems in the public sector, as well as political problems.

In particular, the revenue authority is meant to be more independent of the financing and personnel rules that govern the public sector in general. Thus, in principle, it is not constrained by civil service rules on employment, and can pay higher wages to hire and retain quality staff. In practice, however, there are staffing constraints: the freedom to set salaries is externally constrained and the real wage level has been declining over time. As many other public institutions in Tanzania and Uganda, TRA and URA also lack suitably qualified staff within key areas, in particular there is a shortage of IT-experts, economists, lawyers and auditors.

This chapter briefly presents the organisational set-up and key responsibilities of the TRA and the URA, respectively.

3.1 The Tanzania Revenue Authority

A major reform of the tax system in recent years was the establishment of the *Tanzania Revenue Authority*. The TRA was established by the *TRA Act. No. 11 of 1995* as a government agency charged with the responsibilities of assessing, collecting and accounting for Government revenue. The agency became operative on 1 July 1996, the beginning of the fiscal year 1996/97.

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, 2003:7). The TRA-act provides for retention of a percentage of target revenue collected by the Authority as determined by the Ministry of Finance, from time to time.

3.1.1 Objectives

The principal objectives of TRA are to:

⁹ The executive agency model is one institutional model of the new public management (NPM), which is inspired by the radical public sector reform programmes of the 1980s that began in the UK, USA, Australia and New Zealand. McCourt & Minogue (2001) examine the conceptual and practical problems connected with such policy transfers to developing countries.

- raise domestic revenues by establishing a sustained revenue base to enable Tanzania to finance its recurrent and development expenditure needs and thereby reducing aid dependency; and
- develop a tax regime that is transparent, effective and conducive to economic growth led by private investment and international trade.

Of these objectives, increase in revenues has been the major one as publicly announced by the government and clearly reflected in the Budget Speeches of the Minister of Finance. The performance criterion of this objective is to reach a given revenue target, expressed as a given ratio of tax revenue to GDP. This target is revised annually in the Finance Minister’s budget speech.

Revenue targets are set on the basis of negotiations between the TRA and the Ministry of Finance (URT, 1998:5). Moreover, the *Research and Policy Department* of the TRA plays the unusual policy role of setting collection targets for the TRA revenue departments, once the total tax revenue budget has been agreed with the Ministry (Mokoro & Oxford Policy Management, 2001:18). This arrangement indicates a strengthening of the tax bureaucracy at the expense of politicians.¹⁰ It also amplifies the moral hazard problems when the tax collection agency becomes involved in the process where its own performance targets are set.

Within the donor funded TRA the Tax Administration Project (TAP) has established performance indicators for the TRA as illustrated in Table 6:

Table 6: TRA performance indicators Established by the Tax Administration Project (TAP)	
<i>Effectiveness indicators</i>	<i>Efficiency indicators</i>
Tax gap	Registered taxpayers per employee
Number of declarations/registered taxpayers	Collections per employee
On time declarations/Total declarations	Tax arrears as % of annual revenue
Arrears recovered	Tax revenues/GDP <ul style="list-style-type: none"> • Baseline (av. 1996/97-1997/98): 12.4 % • 2002: 13.3 % • 2004: 14.8 %
<i>Source: Mokoro Ltd. & Oxford Policy Management Ltd. (2001).</i>	

The administrative reforms incorporated in the TAP are expected to have positive fiscal impacts by improving the effectiveness in tax administration. The reforms were expected to lead to a permanent increase in tax revenues of about 1% of GDP by 2002, and more that 2% of GDP by 2004. These projections reflect expected increases due to overall economic growth, administrative and policy changes in VAT, customs measures (including harmonisation of tariffs with neighbouring countries and tightening of borders), and the impacts of income tax reforms such as reduced TIC exemptions, increased petroleum windfall taxes and improved efficiency of collection.

However, the expected increase in revenues did not materialise in 2002, and, at present, it seems unlikely that the 2004-objective will be achieved. Thus, a recent World Bank/IMF document states that “[T]he ongoing tax reform has as one of its key objectives the generation

¹⁰ Caulfield (2002) provides an interesting analysis on how recent public sector reforms in Tanzania may have strengthened the hand of bureaucrats such that, without enhanced mechanisms of accountability and political control, the potential for rent-seeking is high.

of higher revenues; the fact that Tanzania has not yet achieved that objective reflects both the long gestation period of the effectiveness of the new tax system and certain ongoing weaknesses in the tax system that have yet to be addressed” (IDA/IMF, 2000:24). As argued in chapter 1, rising levels of corruption may help explain why the growth in revenue has tailed off in recent years. But there are clearly other explanatory factors at work as well. In particular, politically allocated tax exemptions for different sectors and businesses have contributed to reducing the tax base (see chapter 8). There has been a considerable increase in the use of tax exemptions in recent years, which obviously erodes the tax base, at least in the short run. For instance, generous investment incentives in the form of tax exemptions have been granted to foreign investors, especially in the mining and tourism sectors (Fjeldstad, 2003).¹¹

With respect to the second principal objective of the TRA, the basic tax agenda is simplification of the tax structure to ease the administration and to reduce the nuisance effects of the tax system. As reflected in Table 2 (chapter 2), this has been accomplished through substantial simplifications of the excise and import duty structures, as well as simplifications of and reduction in the number of income tax bands.

The key institutions involved in tax policy formulation are: (i) The Parliament (final approval of tax policy proposals in the Budget and Finance Act); (ii) the Policy Analysis Division (PAD) in the Ministry of Finance (preparation of the budget with revenue policy measures); and (iii) the TRA’s Research and Policy Department (see Mokoro & Oxford Policy Management, 2001:17). Some line ministries, including the Ministry of Energy and Minerals, also have a notable influence on tax policy formulation. Moreover, the IMF and the World Bank are involved in policy debates, in particular with respect to revenue targets (T/GDP-ratio), policy proposals and technical details.

The broader guidelines for tax reform are discussed and set by the *Steering Committee on Tax Reform* (a task force). The Committee is chaired by the Principal Secretary, Fiscal Affairs, in the Ministry of Finance, and draws on inputs from the Policy Analysis Division’s sections dealing with macroeconomic and fiscal policy. It also works closely with the TRA’s Research and Policy Department. The Committee includes members from the Ministry of Finance, the National Planning Commission, Bank of Tanzania, Ministry of Local Government (now within the President’s Office), the Tanzania Chambers of Commerce, Industry and Agriculture (TCCIA), the Chamber of Tanzanian Industries (CTI), the Attorney General, and the Economic and Social Research Foundation (ESRF). Proposals from the Committee are passed on to a technical sub-committee for more detailed work on the revenue effects. In order to preserve confidentiality of the budget preparation process, detailed proposals from the technical team are submitted only to the chair of the Steering Committee, the senior management of the Ministry of Finance and relevant others on a ‘need-to-know’ basis (Mokoro & Oxford Policy Management, 2001:17).

3.1.2 Organisation

A key element of the administrative reform was to move the existing revenue departments out of the Ministry of Finance. Moreover, TRA also replaced the Institute of Tax Administration (ITA). TRA collects all major taxes on mainland Tanzania and the income tax and all taxes on imports on Zanzibar. The revenue departments within TRA are (www.tra.go.tz):

¹¹ The rise in tax exemptions has been observed for some time. For instance, while exemptions were 15.2% of total collections (i.e., actual collections plus exemptions) in FY 1996/97, this ratio grew to 37% in FY 1998/99 (Mokoro & Oxford Policy Management, 2001:7).

1. *VAT Department* (VAT, excise duties on domestic goods);
2. *Income Tax Department* (direct taxes, including PAYE, company taxes, withholding taxes, personal income taxes – it contributes between 25% and 30% of the total tax revenue to the Government);
3. *Customs and Excise Department* (import duties, VAT and excise duties on imported goods - about 50% of the total tax revenue is collected by this department.); and
4. *Large Taxpayers Unit* (responsible for assessing, collecting and accounting of all taxes from large taxpayers, including corporation tax, PAYE, withholding taxes, VAT and local excise duty).

The *Tax Investigations Department*, supports directly the Revenue Departments in enforcing the various tax laws through regular investigation of tax cases with substantial amounts of revenue at risk.

In addition, TRA has eight support departments:

- (1) Legal Services
- (2) Human Resources and Administration
- (3) Information Systems
- (4) Finance
- (5) Internal Audit
- (6) Tax Investigations
- (7) Research and Policy
- (8) Taxpayer Education.

3.1.3 Management and board

To ensure a sense of ‘local ownership’ to the reforms, board and executive management positions in the TRA have been filled with Tanzanians since the establishment of the agency. Persons recognised for their integrity and past good performance are appointed as Chairman of the Board and Commissioner General. The rest of the executive management, with a few exceptions, have been recruited from outside the system, most from jobs in government-owned enterprises.

The Commissioner General is the chief executive of TRA and is appointed by the President (TRA, 1999: 4). The TRA Board consists of ten members, including the chairperson who is appointed by the President on the recommendation of the Minister of Finance (*ibid.*, p. 3). Five members are *ex-officio* who sit on the Board by virtue of their positions (i.e., the Permanent Secretary, Ministry of Finance, the Union Government; the Principal Secretary, Ministry of Finance, the Zanzibar Government; the Secretary of the National Planning 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. The tenure of office for the members is three years and non-*ex-officio* members can be re-appointed only once.

The institutional set-up of the TRA seems to have increased the distance between the executive management and the staff, by allowing huge differences in pay levels between the top and

bottom grades.¹² Moreover, few in the top management of TRA had any previous experience with tax administration, in contrast to other staff members who were largely recruited from the former tax administration. The commissioners lack, in the view of a broad section of the staff, knowledge of how the organisation actually works on the ground. This may of course change in the future, and it is obviously positive that the present TRA leadership, in general, is considered to be ‘clean’.¹³ But it is not obvious that the *esprit de corps* among the top managers that has characterised TRA will permeate the rest of the organisation.

In July 2002, the TRA Board declined to renew the contracts of six members of the top management team, including the Secretary of the Board and Chief Counsel, the Commissioner for Human Resources and Administration and the Acting Commissioner for Tax Investigation (*Daily News*, 26 July 2002). Moreover, several heads of department received an extension of their contracts with only six months against the ‘normal’ tenure of office of three years. We have not been able to trace the reasons why the Board made the decision to not renew these contracts. For instance, was this decision based on insights of poor performance or accountability problems or does it simply reflect an attempt by the board to allow ‘new blood’ into the institution?

The board’s decision not to renew the above mentioned contracts seems to have been taken against the advice of the Commissioner General, and indicates that the board is taking a more active role in TRA-operations. Increasingly, the TRA-Board has come to play the role of an executive management, for instance, by intervening in cases determining the tax-liabilities of individual taxpayers.¹⁴ This kind of micro-management by the board is certainly not the recipe for effective daily leadership and will most likely contribute to undermining the authority of the Commissioner General and the top management.

3.1.4 Staffing

At present, the TRA-staff counts about 1900 people (see table 7), compared to more than 3300 staff members of the previous tax administration. From the outset in 1996, drastic measures were taken to break the ‘culture of corruption’ in the tax administration. All former staff members were dismissed and had to re-apply for a position in the new TRA. More than a third (35%) were rejected on evidence or suspicion of misconduct (see Table 7). Almost 1200 previous staff members, of whom 500 were former Customs officers, were not re-employed. All new employees were given a one-year probation period before being accepted on a permanent basis. Staff had to report their private financial circumstances, including wealth, on starting.

¹² A similar situation prevails in the Uganda Revenue Authority (URA), where the internal wage compression rate is 34, i.e., equivalent to a wage gap of 3,300% between the top and bottom grades (personal interview, Commissioner for Personnel at URA, June 2000; Odd-Helge Fjeldstad).

¹³ These opinions emerged from personal interviews with business people in Dar es Salaam and surveys conducted by the University of Dar es Salaam.

¹⁴ Personal interview with advisor to the TRA, September 2002, and interview with a previous member of the TRA-Board, February 2003 (Odd-Helge Fjeldstad).

Table 7: TRA staff dismissed for misdemeanours

Year	1995/96	1996/97	1997/98	1998/99	2000/01
Staff at start of fiscal year	3365	2201	1962	1927	1897
Dismissed	1164	239	35	30	24
Percentage dismissed	35	11	1.8	1.6	1.3

Source: World Bank (2001:28).

A key element of the administrative reform was to pay salaries that would enable TRA to attract and retain highly qualified staff. Since the agency is established outside the civil service system, it is not, in principle, bound by wage rates and employment regulations that apply to other sectors of government. This involved dramatic increases in pay rates – for some categories of staff up to ten times higher than corresponding positions in the civil service. Further emphasis was laid on strengthening accounting and internal monitoring systems and curtailing the opportunity of tax officers to deal with cases on the basis of their own discretion. A new unit was set up for internal investigation and monitoring. The general scarcity of qualified accountants, lawyers and IT-experts in Tanzania meant, however, that these groups at TRA would be equally sparse. Finally, steps were taken to improve working conditions for employees by improving offices, expanding computer services, purchasing service vehicles etc.

According to leakages to the media, the Board has drafted a major restructuring plan for its organisation, including the retrenchment of a substantial number of staff. *Daily News* (26 July 2002) reports that ‘the main criterion in the retrenchment exercise is mainly non-performing workers or staff with doubtful integrity’. The article writes that about 1000 staff members are to be retrenched, which corresponds to more than 50 % of the total staff. The management has, however, rejected this information as ‘unfounded rumours’, and the restructuring plan has yet to materialise.

3.1.5 Fiscal corruption

Increasing corruption and embezzlement of tax revenues are documented in a number of recent reports from both commercial and official sources.¹⁵ However, developments after the founding of TRA can be divided into two periods.¹⁶ The first was characterised by decreasing corruption and a sharp increase in tax revenue. As already indicated, the trend turned, corruption seemed to increase and growth in revenue declined. In what follows these changes in corruption levels over the two periods are explained.

Phase 1 (1996–97)

In the first year of TRA’s operations tax revenues grew by more than 30 % compared to the previous fiscal year (see Table 1a, chapter 2). Since there were only minor changes in the tax structure (rates and bases) and external conditions in this period, the growth in revenue must be mainly due to the efforts of the tax collectors and other officials at TRA.¹⁷

¹⁵ Table 8 provides an overview of types and mechanisms of fiscal corruption and tax evasion in Tanzania.

¹⁶ This section draws on Fjeldstad (2003).

¹⁷ In the Budget Speech for FY 1996/97, the Minister of Finance focused on implementing measures to improve efficiency in revenue collection, in particular legal and administrative measures against tax evasion and corruption (URT, 1996b: 59-63).

It may also suggest that the internal control mechanisms worked. During the probation period (1996/97) 239 staff members were dismissed (Table 7). A survey of taxpayers in Dar es Salaam also concludes that corruption shrank during the first year (PriceWaterhouseCoopers, 1998). But, according to the respondents, at the same time as the *number* of corrupt acts fell, the *price* per bribe rose (ibid. p. 3). Since there is no evidence that the demand for corrupt services grew during the period, the most plausible explanation is that tax officers who were willing to take bribes considered it more risky than before, and, thus, incorporated a 'risk premium' in the bribes. According to the PriceWaterhouseCoopers-study, the most corrupt staff members during this period were junior officers. Interviews with business people in Dar es Salaam confirmed this observation. This may imply that younger staff members were more inclined to accept a higher risk, or that they acted as agents for players higher up in the tax administration and then shared the 'proceeds' with them.¹⁸

Phase 2 (1997–2002)

After the initial success, tax revenues have dropped in percentage of GDP (Table 1b, chapter 2). Moreover, a new increase in corruption and tax evasion occurred (Osoro *et al.*, 1999: 36). In particular, corruption seems to be growing at the middle and lower levels of TRA (Waller, 2000). According to taxpayers interviewed, there is also an increase in the number of tax collectors *openly* demanding bribes after presenting taxpayers with unreasonably high assessments (ibid., appendix 2, section 9.2). How can this relapse be explained? The following factors may contribute to shed light on this development: (i) probation period; (ii) declining real wages; (iii) group dynamics and social obligations; and (iv) corruption networks.

Firstly, one explanation could be that the first year's success was due to the fact that most employees were working on a probationary basis and, additionally, had yet to learn how the new system worked (TRA, 1997). So although their attitudes to corruption may not have changed, it was perceived to be more risky to get involved at that stage in corrupt dealings. Tax officers did not know how the internal control mechanisms worked or how the top management would execute the rules and whether they were in danger of losing prospects of a permanent job. These points were also confirmed in interviews with present and former TRA staff. It was stressed that many employees in the operational departments used their probation period to 'study' how the system worked: 'sitting on the fence waiting for better times'. Later it was shown that some staff at TRA's Internal Investigation and Monitoring Unit (IIMU) were willing to take bribes to turn a blind eye to corruption. Rumours of corruption in the IIMU were circulating as early as 1997, but it was not until December 2000 that the TRA management and board took action, resulting in 24 IIMU officers, including the head of the unit, being 'retired in the public interest'.

Secondly, despite a dramatic increase in pay rates compared with normal rates in the public sector, it was not enough to compensate for the potential gains from corruption. (URT 1996: 285): 'For a 'Long-Room' employee who is used to get bribes of TSh 20–30,000 daily, a ten fold increase of his salary from the present level will not make him desist from demanding and accepting bribes.' The situation worsened even more due to the erosion by inflation of the initial pay rates for TRA staff, since nominal wages between 1996–2000 remained unchanged.¹⁹ It is therefore no surprise that the wage reforms seem to have had limited impact on restraining the extent of corruption in the tax administration. But, irrespective of wage rates the tax administration remains a very attractive workplace. According to the Commissioner for

¹⁸ URT (1996: 284) reports that such mechanisms were in place in the previous tax administration, too.

¹⁹ Personal interview, M.E. Sila, then Commissioner for Human Resources and Administration, March 2001 (Odd-Helge Fjeldstad).

Human Resources and Administration, TRA receives hundreds of applications for every advertised vacancy. The tax collection departments are particularly attractive. There is also considerable internal competition within TRA for vacancies in the operational departments. The 18% increase in salaries of TRA-staff in 2001, may, thus, prove to have only minor impacts on motivation (ESRF & FACEIT, 2002: 63).

Thirdly, the assumption that higher salaries will boost productivity over time is most likely exaggerated. It is a well-known fact in sociological management theory that workplaces are social environments and that people in them are motivated by much more than pure economic self-interest (Gillespie, 1993). Recent economic research on human behaviour also indicates that reformers and economists have an inclination to exaggerate the impact of monetary incentives because of a too narrow understanding of intrinsic motivation and group dynamics (see Frey, 1997). An additional aspect of wage incentives that has received little attention in connection with institutional reforms in Africa is associated with the role of family networks and obligations (see chapter 7). Increased pay rates may also imply more extensive social obligations, which in turn may lead to an actual net loss to the individual. This state of affairs can develop into a vicious circle with higher wages leading to more corruption because the tax officer has to make up for the loss caused by such obligations.²⁰

Another explanatory factor is linked to the impact of corruption networks. Research has shown that corruption in public institutions is often conducted by reasonably well-organised networks, where there is a high degree of trust and reciprocity among the network members (Rose-Ackerman, 1999; Gehlbach, 2001). Such relationships are likely to reduce transaction costs, as well as any moral costs that may arise from allowing oneself to be involved in corruption. Furthermore, the peer networks often function as 'repositories of knowledge' for members, e.g., on the attitudes of the top management to corruption, how the internal monitoring unit works, who is potentially bribable among staff members and management, etc.

The reforms probably managed to break a few existing networks, but they did not to hinder new networks – within and outside TRA – from emerging. The following anecdote may illuminate this process within TRA.²¹ The TRA board is responsible for appointing people to high-ranking positions, while vacancies at lower levels are taken care of by middle-level managers. Already in TRA's first year, board members were made aware of a practice in some units in TRA where applicants had to pay 'speed money' just to have their applications processed. The board suspected this to be a method of sifting applicants which ensured that only those who signalled their readiness to pay bribes – and therefore probably also a readiness to get involved with the internal corruption networks – were recruited. This indicates the emergence of an informal market for jobs in TRA.²²

Just as intriguing is to see how new networks gradually established connections between TRA and former employees in the tax administration. As already mentioned, about a third of former employees in the tax administration were not given new jobs in TRA. They were persons considered by the new management and board to have compromised themselves through involvement in corrupt dealings and misbehaviour. Many of the dismissed people were,

²⁰ This point was raised by several past and present TRA-officials interviewed (Odd-Helge Fjeldstad).

²¹ Personal interview with former board member of TRA, December 1998 (Odd-Helge Fjeldstad).

²² According to the Warioba-report, such mechanisms also existed in the previous tax administration (URT, 1996: 284). From other countries it is known that a market for lucrative positions can emerge in public institutions that pay wages considerably over the market rate, where those with the capacity to pay the most get the jobs (see Andvig, 1999).

however, attractive for the private sector due to their inside knowledge of the workings of the system. For example, former customs officers were recruited by clearing agencies or they set up their own agencies.²³ These persons had intimate knowledge of the tax administration, of loopholes, etc. Since many of their former colleagues remained in the tax administration, good connections to the inside were assured.²⁴ It is therefore not surprising that this type of corruption network eventually managed to reverse the positive process that characterised TRA's first period.

²³ Since 1995/96, a total of 1,492 employees of the tax administration have been dismissed (Table 7). Of these, 656 came from the Customs Department (*Business Times*, 21–26 September 2001).

²⁴ An employee in the Research and Policy Department of TRA referred to these former tax collectors as 'ticking bombs' boded with potentially dangerous information and knowledge about TRA (personal interview, March 2001 – Odd-Helge Fjeldstad).

Table 8: Tax evasion and corruption in Tanzania – typologies (mid-1990s)

Different types of tax evasion and corruption	Mechanisms and extent
1. 'Unadulterated' tax evasion (without the involvement of tax officers)	
Smuggling	Smuggling of goods (beer, spirits, soap, sugar, cooking oil, etc.). Border police is involved in some cases. Extensive.
The Zanzibar loophole	Goods are imported via Zanzibar where tariffs are lower. They are then transported to the mainland. <i>Tanzania Harbour Authority</i> may be involved in some of the cases. Extensive.
Underreporting of the value of imports	A general problem in imports of goods.
Underreporting of turnover	Common within retail and wholesale sectors.
Misclassification of goods	Import goods with high tax and duty rates are classified as goods with lower rates. One example is the classification of alcoholic beverages as mineral water. Extensive.
Taxable income/transactions are not reported or are underreported in accounts	Several ledgers are often used, including one for taxation purposes that shows a deficit. Common within many businesses. Extensive.
Goods in transit are sold on the domestic market	Could involve many types of commodities. Extensive, especially for oil and petrol.
VAT fraud	Falsified claims for VAT refunds. Can occur with the help of collaborators within the tax administration.
Overreporting of expenditures	An accounting trick to reduce tax burden. Common.
2. External corruption (involves both tax officers and taxpayers directly)	
Goods in transit	Tanzania is a major transit country for the importation of goods to Burundi, Eastern DR Congo, Rwanda, Uganda and Zambia. One way of evading tax is to report import goods as transit goods. Customs officers and importers work together occasionally. Substantial taxation losses. A review in 1996 concluded that at least 50% of all transit imports were unable to provide final documents proving that goods had arrived at their final destination. Most likely they ended up on the domestic market. Extensive.
False classification of goods	Customs officers may be involved (see above).
Underreporting value of goods	To avoid pre-shipment inspection of goods before shipment from the export country, a common method is to split the goods into units which individually are worth less than the minimum required to trigger inspection. The goods are therefore exempted from pre-shipment inspection. Underreporting the value of goods is also common, in particular for used cars. Customs and excise officers may be involved.
Tax exemption	Involves the tax administration, the Ministry of Finance, and Tanzania Investment Centre (TIC). In some cases, the tax payer is not registered in the tax registers, but pays a lower tax "privately" to tax collectors. Goods imported to religious and non-governmental organisations are exempted from taxation by law, but this is misused by business people who, by bribing tax officers, register goods as if they were intended for these types of organisations. In some cases business people also collude with NGO officials. Extensive.
Extortion	Taking advantage of taxpayers incomplete knowledge of tax legislation, tax collectors threaten taxpayers to increase rates and/or assume that taxpayers will not be financially able to press charges. Difficult to quantify, but small businesses, e.g., hotels and restaurants, claim that this is a big problem.
3. Internal corruption within the tax administration (does not involve taxpayers directly)	
Embezzlement of collected revenue	Tax officers steal tax money, leaving little or nothing behind for the treasury. May take place with or without the collusion of bank employees and/or auditors within the tax administration. Extensive.
Fraud	Falsifying tax receipts is common.
Corrupt inspectors/auditors	Internal auditing within Customs is considered inefficient and corrupt. Exacerbates the problems of corruption since it undermines the credibility of the monitoring policy. Extensive.

Source: Fjeldstad (2002)

3.2 The Uganda Revenue Authority

The Uganda Revenue Authority (URA) was set up on September 5, 1991 by the *Uganda Revenue Authority Statute No. 6 of 1991* as a central body for the assessment and collection of specified tax revenue, to administer and enforce the laws relating to such revenue (Table 9) and to account for all the revenue to which those laws apply (<http://www.ugrevenue.com/profile.htm>). URA is also required to advise the Government on matters of policy relating to all revenue, whether or not this revenue is specified in statute No. 6.

Table 9: Revenue related laws administrated by the Uganda Revenue Authority

1	The Income Tax Act, 1997
2	The Stamp Duty Act, (Cap172) as amended;
3	The Finance Statute 1998 (statute No. 4 of 1998)-section 12 and the seventh scheduled to the statute (which provide for the imposition and collection of road users tax) as amended;
4	The Customs Tariff Act, 1970 (Act No. 17 of 1970) as amended;
5	The East African Customs Management Act (EAC Cap. 27) as amended
6	The Value Added Tax Statute, 1996 as amended.
7	The Finance Statute 1989 (Statute No. 3 of 1989)-Section 3 (which imposes a commission on import licenses) as amended;
8	The Traffic and Road Safety Act, 1998 (Act No.15 of 1998) and Regulations. All provisions for the collection of license fees and other fees, fines (other than fines imposed by Courts) and other levies collectable under the Act.
9	The Excise Tariff Act (Cap. 174) as amended; and
10	The East African Excise Management Act (EAC cap. 26) as amended.

Source: <http://www.ugrevenue.com/profile.htm>

3.2.1 Objectives

The role and objectives of the *Uganda Revenue Authority* can be summarised as follows:

- (1) To identify the taxpayers;
- (2) To inform the taxpayers of their tax rights and obligations by providing them with - necessary information;
- (3) To assess the taxpayer fairly with regard to those taxes relevant to them;
- (4) To collect the taxes in accordance with the law and related regulations and practice;
- (5) To account for the taxes collected in accordance with the statute; and
- (6) To enforce collection of taxes where default has occurred.

3.2.2 Organisation

A restructuring exercise in the URA carried out in July 2002 led to major changes in the organisational structure affecting the formation of departments and their functional structures (URA, 2002). The four revenue departments within the new URA organisational structure and their functions are listed below:

- (1) Customs & Excise (mainly customs duties, excises and VAT on imports).
- (2) Domestic Indirect Taxes (VAT and excises - tax contribution from in 2001/02 was 26% of total revenues)
- (3) Domestic Direct Taxes (tax contribution in FY 2001/02 was 21%)

- (4) Expansion & Collection Improve Revenue contribution of Domestic Taxes (a new department which is responsible for the collection of domestic taxes and pioneer initiatives geared towards expansion of the tax base. The department is to register, collect and account for domestically generated revenues due in accordance with the relevant laws of Uganda – aims to improve revenue contribution of domestic taxes (i.e., local indirect and direct taxes) to total revenue from 47% in FY 2001/02 to 55% in FY 2006/07.

The *Internal Audit and Tax Investigation Department* handles investigations, related to tax fraud system and transaction audits in respect of revenue and expenditure. This department provides support to the revenue collection and administration by reviewing systems of internal controls and investigating cases of suspected tax evasion.

The *Commissioner General's Office* is composed of six units: Administration, Tax Education, Public Relations, Business Analysis and Revenue Support, Staff Monitoring Unit, Revenue Protection Services. However, generally, the Commissioner General's office aims at providing a facilitative role and executive control in making the organisation achieve its objectives. In addition, there are four support departments:

- Legal Services And Board Secretariat;
- Information Technology And Corporate Services;
- Finance; and
- Human Resources.

3.2.3 Management and board

URA is managed and administered by a Board of Directors, which is the policy making body and has general oversight power (<http://www.ugrevenue.com/>). The Management of URA is headed by the Commissioner General, and is assisted by two Deputy Commissioner Generals and all the Commissioners. Management is responsible for the day-to-day administration and operation of the Authority, and makes recommendations to the Board for new policy initiatives.

The Commissioner General is the Chief Executive of URA and is responsible for the day-to-day operations of the Authority, management of the entire organisation and control of all the departments. The Commissioner General's office comprises of two Deputy Commissioner Generals one in charge of Revenue and another in charge of Administration. Generally the Commissioner General's office aims at providing a facilitative role and executive control in making the organisation achieve its objectives. The Commissioner General is directly responsible for the Staff Monitoring Unit and the Public Relations; the Deputy Commissioner General – Administration is directly responsible for Administration Unit and the Deputy Commissioner General – Revenue is directly responsible for Tax Education Unit, Business Analysis and Revenue Support and Revenue Protection Services.

In contrast to the TRA, expatriates are employed in high level positions in the URA. The first Commissioner General (1991-97) was a Ghanaian and the present one is a Swede. The philosophy behind the use of expatriates is to contribute to improved professionalism and integrity. Moreover, given tribalism and the prevalence of patronage in the public sector, it was considered necessary to hire outsiders to undertake serious reform of the tax administration. When the current Commissioner General, Annebritt Aslund was appointed (2001), President Museveni is reported to have remarked that she came from a “very distant tribe” (Taliencio,

2002:129). Aslund worked as a tax consultant at PricewaterhouseCoopers in Uganda before being recruited to the URA, and the President became aware of her due to her involvement in the public debate on taxation in Uganda.

The original URA statute of 1991, created a fairly autonomous Board of Directors (see Taliercio, 2002:125). It was composed of the chairperson, the Commissioner General, the secretary to the Treasury, the Principal Secretary of the Ministry of Commerce, the Commissioner for Industry, the Governor of the Bank of Uganda, and three members appointed by the Minister of Finance. However, the statutes set up conflicting responsibilities for the URA-Board. The board was responsible for both the formulation and implementation of the policy of the URA. Furthermore, it was responsible for complying with any directives given by the Minister of Finance. Thus, the Minister of Finance appointed the majority of the members of the board and gave also directives to the board.

This design of the board soon laid the foundation for conflicts between the board, the Ministry of Finance and the Commissioner General. In particular, the board became directly involved in day-to-day operations, which contributed to undermining the authority and credibility of the Commissioner General and the top management (Taliercio, 2002:126). Moreover, the Ministry of Finance came to see the board as problematic, partly because powerful members of the board who were not appointed by the Ministry came to disagree with the Ministry in some cases, and partly because the Ministry perceived that the board did not possess the required technical expertise on taxation matters. Thus, in 1998 the Parliament approved the refashioning of the board to be explicitly under the control of the Ministry of Finance. Moreover, the responsibilities of the board were reduced to make it less operational and more policy-oriented and supervisory. To provide for stakeholder representation, the Parliament also gave the Uganda Manufacturers Association (UMA) a seat on the board.

According to URA-managers interviewed, the board is still too much involved in details. Although the board does not seem to intervene in cases determining the tax-liabilities of individual taxpayers, complaints have been raised that the UMA-representative uses his position to pursue his own company's interests on the board.²⁵ But, in general, the current board has not been very active, something which may reflect the fact that the Ministry of Finance is almost in full control on the board (see Taliercio, 2002:127). Thus, the present board is regarded by some as a 'rubber stamp' for the Ministry. For instance, in contrast to the statute, which says that all management personnel are appointed by the board, it is the Minister of Finance who in practice recommends the appointments of commissioners. According to Taliercio (2002:128) it is not clear why the Ministry is micromanaging the URA, but the effects of its interference is reported to be negative. It has also led to frequent accusations in the media of 'tribalism' and 'secterism', in particular with respect to staffing (Therkildsen, 2002).

3.2.4 Staffing²⁶

By 30 June 2000, the URA payroll had 2191 staff members (Table 10). Owing to the merger between the Internal Revenue Department (IRD) and the Value Added Tax (VAT) department, which was effected in April 2000, IRD is the largest department with about 39 % (863 people) of the total URA staff. This is followed by the Customs and Excise Department (CuE), Commissioner General's (CG) Department, and the Finance and Administration Department

²⁵ Personal interviews, Kampala, March 2003 (Odd-Helge Fjeldstad).

²⁶ This section draws on Obwona & Muwonge (2002b).

(FAD) constituting 32 % (697 employees). Staffing in the CG and the Finance and Administration departments increased most from 111 employees and 108 employees, respectively, in FY 1996/97, to 257 employees and 225 employees, respectively, during 1999/2000. This represents an increase of 131 % in the CG's Department and 108 % in the Finance and Administration department. In the Customs and Excise Department and the Internal Revenue Department, staffing increased by 25 % and 35 %, respectively during the same period.

The percentage share of staff at the revenue officer level has increased from 35 % to about 47 % of the total workforce between FY 1995/96 and FY 1999/2000. On the other hand, while the number of employees at the rank of revenue assistantship and junior revenue assistantship has increased, the share of these workforce categories in the total workforce seems to have declined over time. This may indicate a policy of promoting staff members as a motivation and measure to encourage morale. For example, during 1999/2000, promotion or re-grading of lower cadre staff was used to boost staff morale. At least 411 staff members were promoted during 1999/2000. Of these 89 were from IRD, 126 from CuE, 61 from VAT, 32 from Large Taxpayers Department (LTD), 66 from FAD, 25 from Internal Audit and Investigations, 10 from Board secretary's office and 2 from CG's office. In terms of gender, about 7 women currently hold the ranks of assistant commissioner and the Commissioner General is a woman. By end 1998, 1999 and 2000 the total number of men (women) were 1340 (605), 1338 (608) and 1497 (694), respectively.

Table 10: Staff distribution by employment category (FY 1995/96-1999/2000)

	FY 1995/96		FY 1997/98		FY 1998/99		1999/2000	
Staff by Rank	Staffing	Percent share	Staffing	Percent share	Staffing	Percent share	Staffing	Percent Share
I	20	1.18	33	1.70	36	1.85	38	1.73
II	594	35.02	742	38.15	750	38.48	1032	47.10
III	479	28.24	503	25.86	515	26.42	493	22.50
IV	303	17.87	391	20.10	363	18.62	339	15.47
V	300	17.69	276	14.19	285	14.62	289	13.19
Total	1696	100.00	1945	100.00	1949	100.00	2191	100.00

Source: Obwona & Muwonge (2002b)

Notes: In the table (I) denotes employees at commissioner level; (II) denotes employees at Revenue officer level; (III) denotes employees at Revenue assistantship level; (IV) denotes employees at Junior Revenue assistantship; and (V) denotes the support staff (i.e., drivers, messengers, cleaners, and domestic servants).

Table 11 shows the statistics on human resource changes. Over the last decade a total of about 127 members of staff have been dismissed. Of these, the CuE department registered the largest number of staff dismissal (78 employees), followed by the FAD (18 employees) and IRD (17 employees). Most of the dismissals are staff of the ranks ranging from RO9 to R13 (synonymous to levels I, II, and III in Table 10). Over 46 deaths have occurred, most of which are HIV/AIDS related. Moreover, abscondments are relatively high while retirements are few. Most of the terminations have taken place in the CG's office. Out of 33 resignations, most of them (11 employees) have occurred within the CuE department.

Table 11: Termination and other related issues (1991-2000)

		<i>Board</i>	<i>CGO</i>	<i>FAD</i>	<i>CUE</i>	<i>IRD</i>	<i>R&D</i>	<i>LTD</i>	<i>IA</i>	<i>Total</i>
Resignation	1	1	5	4	11	4	1	5	1	33
Retirement	0	0	0	1	4	1	0	0	0	6
Dismissal	3	0	4	18	78	17	0	1	6	127
Death	0	0	3	24	14	4	0	0	1	46
Abscondment	0	1	1	9	5	25	0	0	1	42
Termination	0	0	20	2	2	6	0	0	1	31
Total	4	2	33	58	114	57	1	6	10	285

Source: Obwona & Muwonge (2002b), based on URA (various records, 1991-2000)

The URA Corporate Plan provides forecasts of human resource data each year for the 1996-2000 period. Four URA staff members were expected to retire per annum. Dismissals were expected to increase from 14 members of staff in 1996 up to 70 members of staff in 2000. Resignations were set to an average of 7 persons per annum while deaths were expected to average 23 persons per annum. Table 11 shows human resource data for the whole 1991-2000 period and not on an annual basis. The deaths and retirements are relatively low compared to dismissals and resignations.

With respect to salaries, in 1993 the URA received 8-9 times higher wages than other civil servants (Therkildsen, 2002). By 2000, however, this gap had been reduced to 4-5. For high-level technicians, remuneration (i.e., salaries plus benefits) has declined by about one third since the mid-1990s, and by about 10 % for low level administrative staff over the same period (Taliercio, 2002:128).

The remuneration system allows huge differences in the pay levels between the top and bottom grades. In 2000, the internal wage compression rate was 34, i.e., equivalent to a wage gap of 3,300% between the top and bottom grades.²⁷ This is probably the highest compression rate in any public agency in Uganda. Moreover, pension differences are of a similar magnitude. The huge differences in enumeration between top and bottom staff are regarded as unfair by lower level staff. Hence, well-paid staff does not ensure that the staff is highly motivated. Actually, high compression rates may have the opposite effect. The 10 % bonus that was paid to the staff on top of their salaries in FY1998/99, because revenue targets were reached, contributed also to highlight the huge wage differences within the organisation (Obwona & Muwonge, 2002b).

3.2.5 Fiscal corruption

In a recent interview, the Commissioner General, Annebritt Aslund, listed corruption as ‘problem number one’ in the organisation.²⁸ Frequent media reports support the perception that corruption is endemic in the URA. Also EME (2000:20) points to the continued public perception of a high level of corruption, reflected in the widespread availability of ‘duty free’ goods on local markets and arrests of senior URA officers. Thus, in March 2000, President Museveni is reported to have called URA ‘a den of thieves’ (Therkildsen, 2002).

Corruption seems to have riddled the URA since its outset. For instance, a survey conducted in Kampala in 1993, two years after the URA was established, revealed that there was ‘a general

²⁷ Personal interview, Commissioner for Personnel at URA, June 2000 (Odd-Helge Fjeldstad).

²⁸ Personal interview, 20 March 2003 (Odd-Helge Fjeldstad).

impression that URA is a corrupt institution, high-handed and inconsiderate' (Zake 1998:77). Moreover, in a survey conducted in 1998, which covered 243 respondents, as many as 43 % said they were paying bribes to tax officers occasionally or always, while 38 % reported paying bribes to customs officials (Gauthier & Reinikka, 2001). The frequency of bribe-paying increased with firm size. However, the actual burden of bribe extraction by public officials was heaviest for the medium sized firms (26-75 employees). These firms paid 3.5 % of their sales in bribes, equivalent to 60 % of what the average sized firm actually paid in taxes. This is 29 times more per unit of sales than larger firms, and 9 times more than smaller firms (less than 6 employees). Furthermore, small-scale businessmen and women interviewed in Kampala in late 2002, expressed strong antipathies against the URA and its staff (Lange, 2003).

Exemptions have increased in prevalence and importance from 1995-97 when Gauthier & Reinikka (2001:4, 23) looked into this – despite official policies to the contrary. In particular, large firms have benefited from exemptions (Therkildsen, 2002:17). Although the *Income Tax Act of 1997* provided more effective means to reduce exemptions, the introduction of accelerated depreciation allowances have weakened the effects of the reduction in exemptions (EME, 2000:17).

Smuggling is also an increasing problem. The government itself is increasingly focusing on this problem in recent budget speeches and background papers to the budget (Therkildsen, 2002:18). According to the *Uganda Manufacturers Association* (UMA), smuggling accounted for a revenue loss of 10% per year in the late 1990s (EME, 2000:17). The Customs Department, in particular, has most consistently had difficulties in meeting its targets (Obwona & Muwone, 2002:27). Hence, smuggling, which implies the involvement of Customs officers, may be part of the explanation for the tax share stagnation in recent years.

In contrast to the information we have acquired on corruption in the TRA, senior managers seem to be heavily involved in corruption in the URA. This is, for instance, reflected in the ongoing court case against five senior officers attached to the Large Taxpayers Department (LTPD), who are accused of defrauding the URA US\$ 338 million. The accused include the commissioner of the LTPD, three assistant commissioners (i.e., for audits and business analysis), and the public relations officer (*The New Vision*, 11 March 2003, p. 4). However, according to officials in the URA, this court case is only the 'tip of the iceberg'.²⁹

As a measure to combat corruption, all URA staff members were in January 2002 requested to fill out an asset declaration for themselves and their relatives. This is something Members of Parliament are supposed to do as well,³⁰ although several MPs refuse to comply (Musamali, 2002; Mwenda, 2002; Osike, 2002). Asset declaration has proved to be a very difficult process in the URA as well. Many staff members own property that is not registered in their own name, and sometimes not even in the name of their spouses or other relatives. As part of the anti-corruption programme, 'Integrity Councillors' are supposed to 'carry the message' to the rest of the staff. A letter has been distributed within the URA where all staff members are asked to tell what they know about misappropriation of tax revenues. According to the Commissioner General (CG), this initiative has resulted in a lot of information. The CG has also established a separate e-mail address to which only she has access, and where the general public may report. Information on this address has been publicised in several newspapers (Mpigi, 2002).

²⁹ Personal interviews, Kampala, March 2003 (Odd-Helge Fjeldstad).

³⁰ Leadership Code Act of July 2002.

In March 2002 a *Commission of Inquiry of Corruption in the URA* was appointed. On this occasion the BBC News Online wrote: “A three-month judicial probe into Uganda's tax authority has started to root out ‘massive’ corruption and boost tax revenues.”³¹ The Commission is chaired by High Court Magistrate Julia Sebutinde, who also headed the Commission of Inquiry into the Police Force. Judge Sebutinde is assisted by commissioners Fawn Couserēs and James Kahoza. The secretary is Geoffrey Kiryabwire, and Maureen Owor and Monica Twesiime are counsel.

The Commission started its work in May 2002 and was expected to deliver its report and recommendations after 3-4 months. However, after almost one and a half year, the Commission has yet to reach its conclusions. Thus, the initial enthusiasm – and expectations - which met the Commission seems somewhat blurred today. There are also indications that the long standing of the Commission, and the rumours surrounding it, are contributing to the erosion of staff morale within the URA.³²

According to leakages from the Commission, around 100 corrupt individuals are named in its report, which, according to some observers, is less than what one ‘hoped for’, considering the total number of the staff (about 2200) and the size of the problem. Moreover, some of the ‘known’ offenders do not appear to be referred to in the investigation. Some observers therefore suspect that the Commission’s inquiry now has become so politically sensitive that its conclusions is unlikely to have any positive impacts on the fight against corruption in the URA. Under these circumstances, it is argued, some other method has to be found to break the cycle of corruption. Thus, Jenkins (2003b) argues that a major re-staffing is required to ‘eliminate’ corrupt staff. This measure would also send a signal that the URA-management is serious: “*That signal is awaited by the core of good staff*” (ibid., 15). However, according to senior officials interviewed in the URA, there is only a limited pool of qualified people who can fill the positions of the corrupt officers if they are to be retrenched.³³ In other words, it is hard to replace corrupt staff. One cannot recruit expertise, but have to take the costs of training them. Another issue emphasised by senior officials interviewed, is that one may actually have a corrupt officer who is *efficient*, and a non-corrupt officer who simply ‘does not do anything’.

³¹ See <http://news.bbc.co.uk/1/hi/business/1873529.stm>

³² A recent dramatic development in the tale of the Commission appeared on Friday night 10 October, 2003, when Justice Sebutinde’s home reportedly was attacked by six gunmen. No one was hurt. In an interview, Justice Sebutinde linked the attack to the inquiry in corruption in the URA: “I don’t think it was an attempted robbery. Otherwise they would have begun with my neighbours who are richer, do not have armed guards and have expensive cars parked in their compounds. But the report (on URA) is ready and will be out anytime. We shall stand by our positions and leave the rest to God,” Sebutinde said (The Monitor, 13 October 2003).

³³ Personal interviews, Kampala, November 2002 (Siri Lange).

4 Autonomy, incentives and patronage: An introduction to the themes

Tax administration comprises three interrelated activities: (i) the identification of tax liabilities based on existing tax legislation; (ii) the assessment of taxes to determine if the taxes actually paid are smaller (or larger) than tax liabilities; and (iii) the collection, prosecution and penalty activities that impose sanctions on tax evaders and ensure that taxes and penalties due from taxpayers are actually collected (Das-Gupta & Mookherjee, 1998:28). Such activities require some degree of autonomy if a tax administration is to effectively enforce a government's tax policies. Moreover, they require that tax officers are provided with incentives to perform their tasks in accordance with the objectives of the tax administration. However, social relations in the form of networks grounded on ties of kinship and community origin may rule out the formal bureaucratic structures, incentives and positions. Hence it is required to look beyond the formal structures of public institutions to the informal networks of patronage and social domination that often determine how political power actually is wielded.

4.1 Autonomy³⁴

A revenue authority is not meant to be as autonomous as a central bank, nor as dependent as departments in line ministries. Hence, it is referred to as 'semi-autonomous' (Taliercio, 2002:13). But a revenue authority is meant to be more independent of the financing and intended personnel rules that govern the public sector in general. Moreover, a revenue authority is meant to be more independent from the Ministry of Finance on matters pertaining to corporate governance. Likewise, in aid dependent countries like Tanzania and Uganda, the tax administration's autonomy depends on donor influence and on the relations of tax agencies to other state actors and state elites because fragmentation is a key feature of these states and of individual organisations therein (Therkildsen, 2002:6). Autonomy with respect to taxation is therefore multi-dimensional and relational, and depends on interactions between the tax administration and a variety of actors.

Autonomy is intended as a remedy for political as well as managerial and administrative problems. Firstly, an important element of the revenue authority reform is to give the tax administration's management autonomy from undue political influence. Secondly, the managerial and administrative problems often refer to problems of recruiting and retaining the professional, specialized staff that the revenue administration need.

4.1.1 Political interference

Few public agencies are as powerful and as interwoven with society as the tax administration, which monitors and appraises the economic activities of many of the citizens and corporations in the country. For instance, the tax administration has often important financial information about the economic operations of these actors. Hence, having political control over the tax administration can pay high political dividends (Taliercio, 2002:17). Politicians can, for example, intervene in the tax administration to grant favours such as tax exemptions to supporters or to harass political opponents through audits.

In many African countries, the frequent use of the tax administration for political purposes has contributed to eroding taxpayers' confidence in the fairness and impartiality of the tax administration, which again has contributed to undermine tax compliance. An important

³⁴ This section draws on Taliercio (2002) and Therkildsen (2002).

element of the revenue authority reform is therefore to give the tax administration's management autonomy from undue political influence. Hence, Taliercio (2002) argues that the establishment of a revenue authority represent an attempt by politicians to create a credible commitment to taxpayers that the tax administration will be more competent, effective and fair by delegating power to tax bureaucrats. The level of autonomy is the factor that enables politicians to make the commitment credible, since tax administration traditionally has been a area characterised by high levels of political intervention (ibid.:16).

4.1.2 Revenue targets

One challenge is to understand under which conditions autonomy of a tax administration is possible vis-à-vis the actors from which some autonomy is sought (Therkildsen, 2002:5). Economic policy in Tanzania and Uganda is intimately linked to donor influences and must be interpreted in this light (ibid. 18). This is also the case for tax policies and tax administration. It seems clear that neither the TRA nor the URA have autonomy in setting revenue targets. This has important implications for both staff motivation and tax collection priorities. Donors, and in particular the IMF, are actively involved in the annual exercise of setting revenue targets, as is the Ministry of Finance. The tax-to-GDP targets are announced in the Budget Speeches, and are written into the Policy Framework Papers (PFP) which the government co-signs with the IMF (ibid. 19).

There are no indications of any major disagreement between the Ministry of Finance and the IMF about revenue targets in Tanzania and Uganda. However, many staff members of the TRA and URA interviewed complain about their own lack of influence in setting the revenue targets. Both TRA and URA staff blame the MoF and the IMF for setting unrealistic targets, based on expenditure needs rather than revenue potentials. Others points out that the international comparisons of tax shares frequently used to argue for the existence of large untapped revenues, and hence for the legitimate expectations of better TRA and URA performance, has a shaky empirical basis. Firstly, due to the fact that the GDP-figures themselves are subject to discussion. And secondly, straight tax share comparisons fail to take into account the differences between countries with respect to economic structure (e.g. the size of small-scale agriculture and the extent of the mining sector), income per capita, urbanisation, tax policies etc. (see Stotsky & WoldeMariam, 1997).

The focus by the MoF and the IMF on short-run revenue maximisation is also translated directly into a TRA and URA concentration on the larger known taxpayers, as reflected in the establishment of large taxpayers departments, which draw resources from the other revenue collecting departments within the revenue authorities (Therkildsen, 2002:19). Hence, the targets have substantial influence on the way the revenue authority allocates its internal resources. Moreover, the failure to reach the externally set revenue targets may have the opposite effect on staff motivation than intended (ibid. 20).

In Uganda, we also observe that the relations between the Ministry of Finance and the URA have deteriorated over the years as the URA has failed to meet its targets. Hence, the MoF and the URA frequently have quite different views about revenue collection targets and the analytical basis for these (Therkildsen, 2002). On the one hand, the MoF regards itself as the key tax policy maker. On the other hand, the URA has the administrative expertise without which realistic target setting and tax policy cannot be met. Thus, when targets slipped in Uganda, the conflicts between the MoF and the URA seems to have intensified. In contrast, the relations between the MoF and the TRA seem to be more 'harmonic' in Tanzania. This may be due to the special policy role the Research and Policy Department plays in the TRA of setting

revenue targets for the revenue departments, once the total tax revenue budget has been agreed with the ministry (see section 3.1.1).

4.1.3 Managerial autonomy and political intervention

To operate a tax administration effectively requires that chief executive has some autonomy over the setting of organisational goals and recurrent operations vis-à-vis the political system and donors. Obviously, it needs ‘adequate’ resources, too, without which autonomy has little practical meaning. Finally, to secure internal discipline and efficient operations, the chief executive needs some control over resources, staff and their use. According to Grindle (1997:491), autonomy in personnel matters is crucial. This autonomy implies that an organisation can identify positions, advertise for candidates, establish routines for hiring people to fill positions, promote staff based on organisationally defined standards, and punish those that do not meet them (Therkildsen, 2002b:6). Such autonomy is associated with good performance as it facilitates effective chief executive and management practices so that performance-oriented norms and behaviours are possible. But, obviously autonomy does not *assure* these outcomes.

Experiences from the revenue authorities in Tanzania and Uganda show that the establishment of a proclaimed semi-autonomous authority with comparatively generous remuneration packages and substantial budgets has not protected them from political interference. To the contrary, as argued by Therkildsen (2002b), it has made the revenue authority (RA) a more attractive target because the authority offers both relatively well paid jobs and considerable rent-seeking opportunities. Consequently, a revenue authority is vulnerable to political interference - especially in personnel matters.

The arguments supporting this observation can be summarised as follows:

1. Politics dominates over law: Legal provisions for organisational autonomy of revenue authorities have limited importance in contexts where political elites do not respect them.
2. Autonomy may also contain seeds of its own destruction: RAs have become attractive targets of political interference due to both comparatively favourable remuneration packages and to rent-seeking opportunities.
3. Success may help to protect autonomy: Respect for organisational autonomy established by law depends to some extent on the success of the tax administration. The undermining of, for instance, Uganda Revenue Authority’s autonomy became increasingly open once it did not meet its revenue collection targets after 1996.
4. Inflated expectations may help undermine autonomy: Donors and the Ministry of Finance, by pushing for high revenue targets help to undermine the RA’s credibility in the eyes of state elites and the public, because such targets create expectations that cannot be met.
5. Autonomous organisations often become easy targets for political blaming: In Uganda, for instance, the public denunciation of the URA by high level political figures, the president included, has helped to undermine the credibility of the tax administration, and hence its capacity to enforce tax laws.

Taken together, these factors may contribute to explaining why the initial success of the RA after a period fades somewhat.

4.2 Incentives

4.2.1 Principals and agents

Fiscal corruption is caused by the aggregate effects of numerous decisions by taxpayers, tax collectors, administrators, and political decision makers. Individuals respond to the natural, cultural, social, political, legal and economic environment that surrounds them. In this section we concentrate on economic explanations and consider the key assumptions behind the policy recommendations which derive from economic models of organisations. The emphasis is on how incentives and disincentives in the tax administration affect tax collectors' decisions about whether to engage in corrupt acts or not.

The revenue authority model, as well as many other New Public Management (NPM) inspired public sector reforms, has at its roots the principal-agent theory of incentives and corruption.³⁵ In this theory, divergent motivations spur strategic behaviour where agents pursue their personal ends, rather than the success of the institution. This is possible due to asymmetric information across individuals. Such informational asymmetries may be significant in a tax administration. For example, tax collectors are often more informed about the revenue potential of a tax base than is the top management of the revenue authority or the treasury. Tax collectors may thus have incentives to exploit these informational advantages to their own personal gain, whereas the management has incentives to encourage tax collectors to reveal truthfully their knowledge of the revenue potential. By the same token, taxpayers may have informational advantages over tax collectors concerning their tax liability.

In models of fiscal corruption, the typical structure of the principal-agent relationship is as follows. The *principal*, in this case the government or the top level of the tax administration, hires an *agent*, i.e., the tax administrator or collector, to collect taxes from a *client*, i.e., the taxpayer. It is assumed that tax collectors (agents) and taxpayers (clients) are motivated by narrow self-interest. This implies that their decision to behave honestly or corruptly is based on calculations of potential personal gains and losses that may result from their behaviour.

In this setting, the principal faces two informational limitations. The first is that he cannot perfectly observe the inclinations of agents to perform corrupt acts. This leads to a problem of adverse selection, where some proportion of the agents hired will be corrupt. The second limitation is that once an agent has been hired, the principal can only imperfectly monitor his performance. The principal cannot tell how much of the outcomes of tax collection he observes are due to the agent's efforts. This leads to a problem of moral hazard, in which the agent chooses to take bribes or expend little effort on tax collection. Consequently, the principal faces two basic challenges:

1. How to screen and detect opportunists before they are employed, i.e. how to solve the problem of adverse selection.
2. If opportunists are employed, how to design an incentive scheme that makes them choose to be honest.

The first question is about recruitment procedures, while the second question focuses on how one might use sticks and carrots (incentives) to elicit productive and honest behaviour from the agents hired. Though both are important questions, the following chapter 5 mainly addresses the issue of incentives. Numerous variables affect the tax collector's decision to either behave

³⁵This approach builds on Becker (1968) and Becker & Stigler (1974).

honestly or corruptly. Box 1 presents a list of some key factors (van Rijckeghem & Weder, 1997:21). Let us review each of these in turn.

Box 1 Factors impacting on fiscal corruption

1. *Payment:*
 - Salary.
 - Fringe benefits, pensions, allowances, other financial incentives.
2. *Controls:*
 - 2.a. Internal control:
 - Supervision and control systems.
 - Standards of performance for employees.
 - Recruitment and selection procedures for personnel.
 - Rules and procedures for tax collection and reporting.
 - 2.b External control:
 - General auditor's independence and capacity.
 - Law and order tradition, checks and balances.
 - Public attitudes about corruption (e.g., public tolerance of corruption and the role of civil society).
 - Information made available to the public (e.g., newspapers, media).
 - The judiciary system.
3. *Statutory penalty:*
 - The size of penalty (amount of fine, confiscation of wealth, prison sentence).
 - Administrative sanctions.
4. *Public sector regulations:*
 - Governmental regulations (e.g., licences, fees, the etc.).
 - The tax law and tax regulations (including tax bases, collection procedures and transparency).
 - Statutory tax rates.
5. *Other factors:*
 - Parliament and political institutions.
 - The bureaucratic structure.
 - Political and administrative leadership.
 - Concentration of economic power.
 - Education of civil servants.
 - Cultural and ethnical determinants (e.g., the role of social networks and family ties).
 - Development aid organisations.

4.2.2 Payment

A common observation about the wages received by tax collectors in many developing countries is that they are so low as to invite corrupt behaviour (Chand & Moene, 1999; Mookherjee, 1997). This was also the case in Tanzania and Uganda before the establishment of the TRA and the URA. Many scholars, including, Palmier (1983); Gould & Amaro-Reyes (1983), and Klitgaard (1988) seem to argue that increasing civil service wages will reduce corruption. The basic idea is that a rise in the tax collector's salary is like an increase in his fine for bribery, since that is what he will lose if he is caught and fired. And a key element of the tax administrative reform in both Tanzania and Uganda was to raise the salary of tax officials without parallel increases for the rest of the public sector.

Van Rijckeghem & Weder (1997) provide empirical evidence that wages affect corruption in public institutions. They find that corruption seems to be less in countries where bureaucrats are relatively well paid compared to private sector employees. However, in order to eliminate

corruption very large increases in salaries are needed.³⁶ Hence, fighting corruption only on the basis of wage incentives may be extremely costly to the authorities, and will most likely have limited impacts if not combined with other measures such as improved auditing and monitoring of tax officers (Besley & McLaren, 1993; Tanzi, 1998). This also reflects the experiences of both the TRA and the URA. Despite a dramatic increase in pay rates compared to normal rates in the public sector, it was not enough to compensate for the expected gains from corruption.

4.2.3 Control and penalty

In addition to wage incentives, tax collectors' decision whether to behave honestly or corruptly depends on the anticipated costs of the decision. Two variables matter: First, the probability of being detected, and second, the size of the penalty. The behaviour of the bureaucrat needs not be influenced by a high probability of being detected if the penalty is insignificant. Similarly, the size of the penalty may be unimportant if the probability of being detected is minimal.

To increase the probability of detecting corrupt activities, the principal can hire an auditor.³⁷ The role of the auditor is to reveal the true level of taxes collected for the principal. Thus, the goal of the monitoring policy is to identify and report tax fraud. Hiring an auditor, however, does not automatically solve the problem. A self-interested auditor may choose to expend little effort on detecting tax fraud, or may choose to collude with tax collectors in corrupt activities.

The problem of collusion can to some extent be dealt with by hiring an (external) auditor to audit the (internal) auditor ('hawk over hawk'). And a bonus system linked to the number of fraudulent cases reported to the principal may provide the auditors with the right incentives. The reward (or bonus) to the auditor detecting fraud must, however, match the potential bribe from the tax collector. In a situation where bribes are very large, this may therefore result in a very expensive monitoring system.

Lack of effective monitoring systems characterised the situation in Tanzania before the establishment of the TRA. A study of the *Customs Department* in 1996 reports that internal auditing and inspections functions had become for the most part non-operative and ineffective (Cunningham, 1996). The establishment of the TRA did not manage, however, to root out the problem of corrupt monitors. Almost from the outset of the TRA, corruption seems to have been entrenched in the Internal Investigation and Monitoring Unit (IIMU) where staff were willing to take bribes to turn a blind eye to corruption. Rumours of corruption in the IIMU were circulating as early as 1997, but it was not until December 2000 that the TRA management and board took action, resulting in 24 IIMU officers, including the head of the unit, being 'retired in the public interest' (Fjeldstad, 2003).

4.2.4 Regulations and tax structure

What impacts do public sector regulations have on the incidence of corruption? Some studies argue that a country characterised by large government involvement is more likely to experience high levels of corruption (Tanzi, 2000b). The basic argument is that the more

³⁶ van Rijckeghem & Weder (1997) estimate, for instance, that to reduce the corruption level in Ghana and Colombia to the low Singapore level, one needs to raise the public sector's pay by 975 percent and 660 percent, respectively.

³⁷ A paper that carries a lot of insight into the problem of monitoring is Mookherjee & Png (1995). The paper studies the optimal incentive arrangement for a bureaucracy in which a pollution inspector must monitor a firm for compliance with pollution regulations. The insights of the model can, however, be applied directly to the monitoring (and auditing) problem in tax administration if the word "compliance" is taken to mean compliance with the tax law instead of with pollution regulations.

governments intervene in the economy, the more *opportunities* for discretionary interpretation of regulations and allocation of resources by civil servants. However, the public sector is extensive in some of the least corrupt countries such as Denmark, the Netherlands, Norway and Sweden. At the same time corruption seems to have increased in some countries, including Tanzania, which have gone through economic liberalisation and privatised public companies. According to the Commission on Corruption in Tanzania (URT, 1996), economic liberalisation has significantly contributed to increase corruption in the country by facilitating new opportunities for culprits. Hence, empirical evidence indicates that it is not the size of the public sector, but the way the public sector works that are of importance for the level of corruption.

Despite quite comprehensive changes in the tax structure (rates and bases) in recent years, the tax systems in Tanzania and Uganda are still complicated and non-transparent. In Tanzania, tax legislation is unclear and causes random and partly *ad hoc* collection procedures (Luoga, 2002). Assessors are considered to have wide discretionary powers to interpreting tax laws, for instance, to allow or disallow expenses or charges, or to exempt import duty on items imported (ESRF & FACEIT, 2002, p. 62). Added to this, are weaknesses of legal sanctions to enforce punishments on either taxpayers or collectors who do not comply with the law. Furthermore, tax enforcement often implies direct physical contact between taxpayers and collectors, since many taxes are paid in cash by individuals to tax collectors.

4.2.5 Bureaucratic and political structures

In the principal-agent model focusing on the public-sector it is usually assumed that the principal plays the determining role in the reform process: The principal selects the agent; sets the rewards and penalties of the agent; and affects the moral costs of corruption (Galtung, 1998). Hence, the principal embodies the public interest, in other words, it is a highly principled principal who is representing the public interest (Klitgaard, 1988). It is therefore implicitly assumed that the principal is committed to systemic reform, improvements in tax collection efficiency and greater integrity in the tax administration. There are (at least) two objections to this assumption. First, there may be several principals involved each with incoherent objectives and interests. Second, the principal may also be corrupt and not acting in the interests of the society but pursuing his or her own narrow self-interests.

The institutional structure of the TRA and the URA is characterised by at least three principals: (i) the administrative leadership (management team) of the revenue authority; (ii) the Board; and (iii) the Ministry of Finance. Furthermore, some foreign aid organisations and the World Bank are heavily involved in the revenue administration with various types of projects and capacity building exercises, and may impose significant influence. These principals, independently of each other, may try to influence the revenue target and, thus, the actions of the tax collectors (the agents). What we may observe is that the principals fail to co-ordinate their strategies, either because they do not value the same variables, or because they cannot commit to collaborate. The effect is severe weakening of the power of the incentive schemes provided to the tax collectors. The more the principals' interests diverge, the more room for the agents' discretion, and the less effective monitoring and control of the agents.

Moreover, the political and administrative leaders may themselves be corrupt. Hence, the principal may to some extent not bother about corruption at lower levels in the public sector. The risk of being involved in corruption will then be lowered. In addition, corrupt leaders will contribute to reducing the moral and stigma costs associated with corruption. This seems to characterise the present situation in the Uganda Revenue Authority. There is a widespread

perception within the URA and among donors that several top managers are involved in corruption.³⁸ The ongoing fraud case against the management of URA's *Large Taxpayers Department* supports this perception. In contrast, the present leadership of the TRA is considered to be clean (Fjeldstad, 2003).

4.3 Patronage and social obligations³⁹

One cannot understand the logic and practices of Tanzanians and Ugandans vis-à-vis the state and the wider economy without examining how local histories, institutions, and moralities have shaped the political economy of the two countries. As in much of Africa, it is common that people in these countries identify themselves with their kin group and their ancestral community (Geschiere & Gugler, 1998). This sense of identity and the moralities that are tied to it both shape and are shaped by a political economy structured by patron-clientilism. Community, family, or kin interests rather than the market define values governing economic activity in what could be considered a 'moral economy' (Tripp, 2001a:5).

Particularly important for negotiating one's way in contemporary East-Africa is what natives refer to as the 'having people'. By this is meant people – especially kinspeople – strategically placed across the social and economic landscape to get access to opportunities and resources (see Smith, 2003:706). Generally, kinship and other social relationships of reciprocity are used to mobilise affective ties for instrumental political and economic purposes (see chapter 7). Such relationships combine moral obligation and emotional attachment. They also serve to perpetuate an ethic of appropriate redistribution that fuels corruption (see Olivier de Sardan, 1999). The importance of such ties may be growing rather than withering away as the countries try to modernise and democratise in a context of economic instability and uncertainty. Thus, many people rely on the social connections of their extended families to secure admission to schools and to paying school fees, to gain employment, to be awarded a business contract, or to benefit from government services.⁴⁰

Patron-clientilism is fuelled and sustained by obligations to 'home' and 'home people' – that is, people of the same kin group or community of origin (Smith, 2003; Bayart, 1993; Chabal & Daloz, 1999). Chabal & Daloz (1999) are perhaps most prominent in their emphasis on the role of clients in fuelling the corruption that characterises political economies structured around patron-clientilism. They argue that politics in Africa must be understood as driven by vertical ties of patronage on which power is maintained by redistributing resources accumulated through 'corruption' to clientilistic networks according to rules of reciprocity that have their origin in a kinship-based social organisation and morality. According to Chabal & Daloz (1999:27), the peoples' reference unit remains family- and kin-based. It is the fundamental 'circle of trust' within which individuals operate. Moreover, political elites seek to establish principles of mutual aid, of patron-client reciprocity, based on kin and family relations.

Central to Chabal & Daloz's argument is the assertion that patron-clientilism is structured in such a way that the whole society is invested in a system that privileges informal, personal ties over 'rational' Weberian bureaucratic rules and regulations. Thus, while we in the West tend to think of modernity as privileging individuality and increasing the atomism of individuals vis-à-vis the extended family and the community, this is, in many respects not the case in contemporary Africa. Since the nature of personhood is often grounded in relationships with

³⁸ Personal interviews with URA staff, Kampala, March 2003 (Odd-Helge Fjeldstad). Request for anonymity is respected.

³⁹ This section draws on chapter 2 in Andvig & Fjeldstad (2001) and Smith (2003).

⁴⁰ According to one observer interviewed, the Ugandan society is 'ruled by school fees'.

family, kin-group and community of origin, the motives of individual actors are tied to the interest of the social groups to which they belong (Smith, 2003:707).

How do these general arguments fit observations from the URA and the TRA? In the Uganda Revenue Authority, but also in the TRA, patronage runs through networks grounded on ties of kinship and community origin. As such, people recognise the benefits of large extended families and strong kinship ties, even as their social and economic aspirations may be unambiguously modern. This implies that such social relations rules out the formal bureaucratic structures and positions. For instance, according to some informers, one of the Commissioners in the URA is fully controlled by a lower ranking official in her department, because this person is ranking above the Commissioner in the kinship system.⁴¹ The traditional system rules over the formal 'modern' one. Fiscal corruption may therefore, to some extent, be understood in the context of a political economy in which access to social resources depends on patron clientilism.

For instance, when someone gets a job in the tax administration, perceived to be a well paid job, it is expected that he/she helps his/her kin and family. According to a previous staff member of the TRA, there is a general perception among many people in Tanzania that TRA-officers have high salaries.⁴² This attracts extended family members who expect to get their share of the high wages. It is your social obligation to help and share. TRA and URA staff are therefore seen by their family members and social networks as important potential patrons who have access to money, resources, and opportunities that they are morally obliged to share. A person in a position of power is expected to use that influence to help his or her kin and community of origin. Hence, increased salaries may lead to increased social obligations, which again may 'force' tax officers to take bribes to compensate for the higher expenses. What looks like corruption from outsiders, is undertaken by some tax officers in a context where the reciprocal obligations of kinship and community loyalty require such behaviour in order to be regarded as a 'good person'. The standard definition of corruption as 'the abuse of public office for private gain', thus, assumes a rigid dichotomy between public and private that glosses over a complexity that characterises the relationship between the individual and society in Africa.

To accumulate then, even by corrupt ways, is not necessarily bad in itself. It is accumulation without distribution which is considered unethical (Barber, 1997). Only someone who accumulates, can redistribute, the entering point to an identity as 'man of honour' or 'big man'. In a recent interview, Annebritt Aslund, General Commissioner of the URA, gives the example of two URA employees from the same family. One of them is honest, the other is corrupt. The one who has not accumulated more than he could from his official wage, is, according to her, 'regarded a fool by the society' and earns no respect what so ever.⁴³ He can not offer needy relatives or friends any assistance to speak of. In their eyes his un-corrupt attitude is not only foolish but in essence selfish.

Moreover, it is in the tax officer's own interest to help others because he/she might be the one who need help in the next time around. Thus, a manager in the tax administration may 'forgive' a tax collector who is caught taking bribes or embezzle money, because next time he/she may be the one who needs forgiveness (see Tripp, 2001: 5). This may explain why several corrupt tax officers in both the TRA and the URA have not been sacked, but instead are transferred to other positions within the tax administration. Favours of this kind may also be understood as a

⁴¹ Personal interview, Kampala, March 2003 (Odd-Helge Fjeldstad). Request for anonymity is respected.

⁴² Personal interview, Dar es Salaam, 23 March 2001 (Odd-Helge Fjeldstad).

⁴³ Telephone interview, Kampala, 29 November 2002 (Siri Lange).

way of consolidating and building social capital. In other words, tax officers are building up networks made up of family, friends, and acquaintances that are based on trust and reciprocity as a way of banking assistance in the future. The larger the network, the greater the accumulation of social capital that can be drawn on in a future time of need (see Tripp, 2001: 6). Thus, one possible explanation for the persistent corruption in the URA (and the TRA) may be due to the fact that people at the middle and low end of the political-economic spectrum, are just as involved in vertical networks of patronage as the elite patrons who benefit the most.

Why do people continue to depend so greatly on their kin? Smith (2003: 707) argues that one of the reasons is that the state is 'unreliable' when it comes to delivering basic services and assistance through formal channels. The manipulation of kinship and other social relationships that invoke moral obligations and affective ties is, therefore, a rational endeavour that enables everyday people to get access to social resources that they might otherwise be denied. Yet it is, in part, the very demands of the clientilistic networks to deliver public resources, including employment, based on moral obligations and affective attachments that make it almost impossible for officeholders to run offices in accordance with Weberian principles.

4.4 Concluding remarks

This chapter has discussed key assumptions behind the recent reforms of tax administrations in Tanzania and Uganda. Present controversies on public sector reforms, the redefinition of government roles, efficiency and accountability have been explored. The discourse is not about the need for reforms, but about how and what type of reforms. While advocates of the principal-agent model conceive it as a device for improving efficiency and responsiveness, some scholars argue that there is little in the principal-agent model and the more general New Public Management (NPM) adoption of more competitive and business-like practices that is appropriate for the politicised revenue administrations in poor countries.

What impacts have NPM had on efficiency, accountability and corruption control? There has been no systematic evaluation of the outcomes of NPM inspired reforms in developing countries. The most comprehensive overview is offered by Batley (1999). Batley summarises the experiences that have emerged from a range of new approaches to service delivery in South Asia, Sub-Saharan Africa and South America during the period 1994-99. His conclusion is that the effects of the reforms have been mixed at best with some improvements in efficiency and mixed effects on equity. Moreover, according to Batley's review, public sector reform programmes pushed by donors and emphasising technocratic solutions, have led to increased managerial power without a strengthening of the accountability of the managers to politicians and the public.

More recently a number of case studies of executive agencies conclude that outcomes of the reforms with respect to efficiency and accountability also have been mixed. Studies of semi-autonomous revenue authorities in sub-Saharan Africa find that after an initially successful period characterised by a sharp increase in reported revenues and a decline in perceived corruption, the success has not been sustained (Devas *et al.*, 2001; Fjeldstad, 2003; Hadler, 2000; Therkildsen, 2002). In several countries, including Tanzania and Uganda, tax revenue is now dropping in percentage of GDP and fiscal corruption seems to be on the rise again (see chapter 1).

How do we explain the many disappointing developments? Critics of the NPM-approach (e.g., McCourt & Minogue, 2001) argue that institutional change can only be brought about by a political process, i.e., by the complex interplay of various groups (including politicians,

bureaucracies, trade unions, economic pressure groups, etc.) who are motivated by economic interests but also by their traditions, ideologies and psychological investments. Because NPM has a higher political content than most other policies, the way it is introduced, the forms it takes, and the sequencing that is used, determine its success or failure as much as or even more than the substance of the policy. An understanding of these mechanisms is essential, not least for making relevant policy advices. However, economic theory and recent empirical work by economists also provide important insights on the shortfalls of principal-agent and NPM-inspired reforms. Let us illustrate this point by focusing on four issues:⁴⁴ (i) job motivation and group dynamics; (ii) above-the-market salaries; (iii) performance contracts; and (iv) job security.

1. (i) Job motivation: The general theory of incentives assumes that an agent gets utility solely from the money income the principal pays her or him, and disutility from the effort she or he exerts on behalf of the principal. However, there are many indications that reformers and, in particular, economists have an inclination to exaggerate the impact of economic incentives (see Dixit, 2000; Frey, 1997). In reality, agents often get utility from some aspects of the job itself. This in turn can define the organisational culture of the agency for a long time. Another non-monetary factor motivating agents is professionalism, which naturally goes together with career concerns. Thus, James Wilson (1989:47) argues that “[t]he principal challenge facing public managers is to understand the importance of carefully defining the core tasks of the organisation and to find both pecuniary and non-pecuniary incentives that will induce operators to perform those tasks as defined”.
2. (ii) Above the market wage rates: Significant, above-market rate wages in specific public institutions (e.g., a revenue authority) in order to reduce shirking and corruption, may actually have the opposite implication in some situations, and make a fertile ground for corruption and rent seeking (see Huther & Shah, 2000). In a high-corrupt environment, attractive jobs are likely to be sold. Thus, by inflating the wage levels in some public institutions new forms of corruption may arise, for instance in the form of informal markets for attractive positions.
3. (iii) Performance contracts: One of the most extensive empirical studies of how performance contracts works in developing countries is entitled *Bureaucrats in business*, published by the World Bank (1995). The study focuses on incentive schemes for managers in state-owned companies in 12 developing countries. It finds that performance contracts either did not improve performance or, in some cases, exacerbated the incentive problems. Why? First, they did not reduce the agents’ information advantage. Instead agents were able to use their knowledge to negotiate soft targets that were easy for them to reach. Second, such contracts rarely included rewards and penalties that could motivate the agents to put more effort into their jobs. For instance, when bonuses were offered they had little effect because they were not linked to better performance. Third, the leadership (i.e., the principals) proved little commitment to the terms of the contracts, giving the agents incentives to use their information advantage to negotiate soft targets.
4. (iv) Job security: The rationale behind high public-sector wages, according to the elementary theory of incentives, is to reduce the asymmetric information problem which also makes it difficult to prove that any agent is involved in a corrupt act. Hence, the demands for proof are likely to be relaxed if the probability of being detected is to increase. This means that the standard principal-agent approach requires that the security of employment for public officials has to be lowered. However, this approach weakens one of the Weberian principles for creating an honest, non-corrupt and efficient government,

⁴⁴ These issues are further explored in chapter 5 and chapter 6.

which also is supported by historical experiences from Germany and the Nordic countries (Rothstein, 1998), and more recently in an econometric study by Rauch & Evans (2000) on bureaucratic structure and performance in a sample of developing countries. Here it is shown that increased job insecurity for public officials goes together with increased corruption.

Hence, recent economic research on incentives and public sector organisations seems to converge – to some extent – with the position taken by critics of the NPM-approach: The current fad of market simulation in the public sector, aimed at improving the efficiency and reducing corruption, may, at least in some circumstances, have the opposite result. It should, however, be acknowledged that the theoretical arguments behind several of the Weberian arguments of public management have still not been developed to the same extent as the new public management arguments in microeconomic theory. Rauch & Evans' (2000) study on bureaucratic structure and performance is a partial exception, and Dixit's (2000) survey of incentives in the public sector indicates that the days of simplistic copying of private management ideas have passed.

The severe limits of the principal-agent model needs to be recognised. Still, there should be no disagreement about the necessity for tax administrative reforms. A major challenge today is how to break out of the bureaucratic decline characterised by weak incentives and lack of legitimacy. We also need to improve our understanding of why fiscal corruption has become endemic in some countries. Thus, research on fiscal corruption in poor countries should look beyond the formal structures of the central state to the informal networks of patronage and social domination that often determine how political power actually is wielded.

5 Autonomy and corruption

5.1 Introduction

The traditional way of organising central government tax collection is to let it be handled by units within the Ministry of Finance. In many developing countries, Tanzania and Uganda included, the integration of the revenue departments in the Ministry of Finance resulted in a high degree of political interference into matters of revenue collection (Fjeldstad, 2002; Therkildsen, 2002). The establishment of the Uganda Revenue Authority (URA) in 1991 and the Tanzania Revenue Authority (TRA) in 1996, as separate agencies outside the respective Ministries of Finance, was in part done to limit political interference into matters of tax collection. This chapter focuses on the effects of autonomy on corruption and tax collection efficiency, and discusses the changes in autonomy that have been observed since the introduction of the URA and the TRA.

Limiting political interference, or increasing autonomy, is in effect the same as increasing the authority of the revenue collection department at the expense of the Ministry of Finance. The separation of tax collection functions from the Ministry can therefore be regarded as a standard problem of delegation, where some authority is transferred from the Ministry to the revenue authority.⁴⁵ The basic trade-off in standard delegation problems is between sharpened focus and enhanced efficiency of the agent given greater autonomy, and less control over and coordination with the autonomous agent. In other words, an autonomous revenue authority might collect taxes more efficiently, but its insulation from political control, good or bad, also makes abuses of autonomy possible. Moreover, with autonomous agencies there is less coordination of civil service activities, which implies that potential gains from coordination are forgone.

This chapter discusses these pros and cons of autonomy in more detail. In section 5.2, the impact of increased autonomy on the efficiency of revenue collection is examined. The main argument is that autonomy provides the freedom to use incentives in a way that promotes the objectives of the revenue authorities (Devas *et al*, 2001). Moreover, there might also be a link between autonomy and a beneficial organisational culture, as argued by Grindle (1997). However, for autonomy to affect efficiency in any significant way, it must be real rather than nominal. While the URA and the TRA may have been given a degree of autonomy over their decisions, the ability to effectively exercise their autonomy is restricted by lack of resources. In particular, this is the case for the URA. Moreover, there is evidence that the actual autonomy of these institutions has been undermined in recent years.

Section 5.3 takes a closer look at the effect of agency autonomy on the coordination of civil service activities. In particular, the impact of autonomous agencies on the level of bureaucratic corruption, is discussed. Under certain conditions, one can show that creating autonomous agencies increases corruption in the civil service, as measured by the level of bribes demanded (Shleifer & Vishny, 1993). A fragmentation of the civil service might also lead to the proliferation of regulations, as each civil service unit seeks new ways of extracting rents. Though these arguments might to some extent be relevant for the reorganisation of a tax administration, we argue that the perspective does not fit the issue of tax evasion very well, and

⁴⁵ See Bendor *et al* (2001) for a review of game theoretic models of delegation.

that ascertaining the implications for tax administration efficiency therefore requires a different approach.

Though a lack of control over revenue authorities can be costly in terms of creating new opportunities for rent seeking, there are also situations where it is advantageous to relinquish control over a set of decisions. Specifically, in a context where a government institution takes action to elicit a response from other agents, but would reverse its action once the response had been elicited, rational agents (e.g., taxpayers) would not respond to the initial action of the government institution unless the institution could credibly commit to that action. For instance, in the case of a tax administration, a policy change stating that taxes will from now on be collected more fairly and efficiently, would not increase tax compliance since the taxpayers would most likely not trust the administration to live up to its promise. However, creating an autonomous revenue authority, thereby curtailing political interference, could be viewed by tax-payers as a credible commitment to improving tax collection efficiency and fairness, and hence increase tax compliance.

Section 5.4 discusses revenue authorities as a commitment device, and suggests that even in the absence of increased compliance, revenue authorities might serve this purpose if the civil service is sufficiently fragmented and the Ministry of Finance cares sufficiently about total revenues collected. It is suggested that a perspective of this kind explains several important aspects of the evolution of revenue authorities, notably why the revenue authorities were established with so little opposition from the institutions involved, and how the initial success of the revenue authorities may have undermined their autonomy by creating new opportunities for rent seeking.

5. 2 Autonomy, incentives and organisational culture

A basic implication of autonomy is that it expands the freedom to use incentives to promote the objectives of an organisation.⁴⁶ The civil service in developing countries is often quite rigid in its adherence to rules and formalities, too short on resources to recruit motivated and skilled staff, and unreceptive to the idea of increasing pay differentials to reward performance. Through the creation of autonomous revenue authorities, these institutions have more of an opportunity to run their affairs in a business-like manner, free from the constraints of the civil service system (Devas *et al.*, 2001). The institutions have more latitude in introducing pay and bonus structures to motivate, retain and recruit staff, and hiring and firing mechanisms to promote efficiency. Autonomy can thus be seen as a facilitator of improved management in public organisations.

Autonomy can also have a more direct effect on management, by potentially simplifying the environment in which an institution operates. Devas et al (2001:212) argue that an autonomous agency “as a single purpose agency, ... can focus its efforts on a single task”. In other words, where a tax administration integrated into the Ministry of Finance adheres to the murkier and more general objectives of the civil service, an autonomous revenue authority can focus explicitly on its fundamental objective of collecting taxes. Moreover, by limiting political interference in day-to-day operations, the structure of interaction with other parts of government is simplified, which means that less time and resources are spent on infighting and positioning within the civil service. Among other benefits of autonomy, Devas *et al.* (2001: 215) include flexibility in budget management, protection from budget cuts, control over buildings and equipment, and ability to take legal action.

⁴⁶ Incentives are discussed more thoroughly in chapter 6.

Grindle (1997) suggests that autonomy in personnel matters facilitates an organisational culture conducive to improved public sector performance. Based on a study of 29 public institutions in six developing countries, Grindle finds that the best performing organisations were characterized by a strong mission focus, performance-oriented management practices, high performance expectations and autonomy in personnel matters. From the way in which these characteristics tended to go together, Grindle (1997:488) argues that autonomy is a “facilitating condition that provided organisations and managers the ability to build cultures that allowed particular organisations to rise above the norm for public sector organisations”. Though these ideas are interesting, the data and methods used by Grindle are at best indicative of a link between autonomy and other success factors. The dataset is too small to offer any statistically valid conclusions, and the empirical analysis is done in a too simplistic manner to really prove the hypothesis.

Whether autonomy actually leads to improved management and in turn to improved performance, depends on a number of factors. One key factor is whether autonomy is extensive and real, rather than limited and nominal. At their inception, both the TRA and the URA were given a significant degree of formal autonomy. The composition of the Board and of the top management was also suggestive of a substantial degree of real autonomy (see chapter 2). In Uganda, foreign nationals were also recruited to top management positions, with a Ghanaian as Commissioner General. In Tanzania, nationals recognized for their integrity were appointed as Chairman of the Board and Commissioner General, while top management were mostly recruited from outside the tax administration.

Some of the actions taken initially are also indicative of a substantial degree of autonomy. For instance, the proportion of TRA staff dismissed on evidence or suspicion of misconduct was a whopping 35% in 1995/96 when all former staff members of the old tax administration had to reapply for a position at the TRA, and a brisk 11% in the year that followed (Fjeldstad, 2002:8). Though a slightly different process was used at the URA, it is estimated that 240 out of 1700 staff members, i.e. 14 %, were dismissed in the initial screening of employees (Therkildsen, 2002:10).

However, the quite extensive use of dismissals in the initial phases has not been sustained. In Tanzania, dismissals have in later years dropped to less than 2% of the staff total. In Uganda, failure to meet revenue targets has led to changes in the formal autonomy of the URA. In particular, the MoF has secured a greater representation (three of seven members) on the Board. There are also examples of direct Ministry interference into staff decisions (Therkildsen, 2002:20). On the whole, autonomy has proved hard to maintain, as the Ministry and the Board have become increasingly involved in the day-to-day operations of the Revenue Authorities in both Tanzania and Uganda.

As for monetary incentives, Revenue Authority staff initially saw a rise in their salaries to about ten times civil service salaries, both in Tanzania and Uganda. However, given the extremely low levels of civil service pay, this rise might not be sufficient to make tax officials desist from taking bribes (Fjeldstad, 2003). The limited nominal wage increases in later years, only serves to underscore this point. So even if one does postulate that incentives of this kind can have an impact on performance, the incentives offered might simply be too small to have much of an effect on behaviour. In other words, if the formal autonomy of the Revenue Authority is not backed up by sufficient funds, the real autonomy of the Authority in effecting changes in staff behaviour is constrained.

5.3 Autonomy, civil service co-ordination and the level of bribes

Changing the organisational structure of the tax administration has implications not only for how the administration orders its own internal affairs, but also for the way in which it interacts with other parts of the civil service. While an autonomous Revenue Authority may have a sharper focus due to less political interference, the downside of this is that it may take a narrow view of its activities, disregarding its place in the wider civil service context. In particular, an autonomous Authority could be less inclined to align its activities with those of the Ministry of Finance, where the activities of the two conflict or where there is a need for coordination. And vice versa, the Ministry might be less eager to assess the impact of its policies and practices on the Authority. To use an example, the Ministry might impose new taxes that the Revenue Authority is ill equipped to collect, or the Authority might effectively kill a tax reform by devoting insufficient resources to its implementation. There is an element of strategic interaction between institutions which comes to the fore when a separation is effected.

To discuss how a reorganisation of the tax administration affects the interaction of institutions, and in turn the efficiency of the civil service, we need a basic conceptual framework. In the words of Shleifer & Vishny (1993), a reorganisation of this kind would amount to a change in the market structure in the supply of government goods. Shleifer & Vishny study a situation in which different government agencies supply complementary permits to private agents. In other words, a private agent needs a permit from each of the agencies to do business. Examples given are of an importer needing several licences and permits, obtained from different agencies, to bring in, unload, transport and sell an imported good, or a builder needing several permits from different departments, such as fire, water and police.

Since each agency has discretion in the supply of its permit, it is in a position to extract bribes from private agents needing the permit. The bribe paid by private agents is thus akin to a price for the permit. In this setting, integrated agencies are analogous to a monopolist selling complementary goods, while two separate agencies constitute a duopoly with complementary goods. Shleifer & Vishny show that the level of bribes is higher in the case of separate agencies than when agencies are integrated. In other words, creating autonomous agencies may increase the bribes demanded by agency officials.

The intuitive reason for this result, is fairly simple. If one agency raises the bribe demanded for its permit, fewer private agents will be willing to pay the bribe to obtain the permit. But since permits are complementary, these same agents will not be willing to pay for the permit offered by the other agency, since a permit from one agency is no good without a permit from the other agency. Raising the bribe for a permit issued by one agency, thus reduces demand for the permit issues by the other agency. When two agencies are integrated, they decide on their bribe levels jointly, taking into account the effect that bribes taken for one permit have on the demand for the other permit. The agencies, thus, choose the bribe levels that maximize their total bribe revenues, which they share among themselves.

When the two agencies are separate entities, each does not take into account the impact of their bribe level on the demand of the other agency. Since the agencies operate independently and receive only the bribe revenue extracted by means of their own permit, bribe decisions are not disciplined by the fact that demanding higher bribes is detrimental to the revenue of the other agency. And without this joint discipline in setting bribe levels, both agencies will demand higher bribes for their permits than in the case where they are integrated. The level of bribes is therefore expected to be higher with autonomous agencies, than with integrated agencies.

A consequence of this is that the total bribe revenues of the agencies are lower when they are autonomous than when they are integrated. In other words, autonomy entails a loss in bribe revenues for the agencies. Again, the reason is that each agency keeps raising bribes even when their own added revenue is lower than the revenue lost by the other agency due to lower demand. Thus, separate agencies raise bribe levels beyond the point where total bribe revenues peak.

The problem is made even worse if independent agencies have the power to introduce new permits or licences, in other words if there is “free entry into the collection of bribes” (Shleifer & Vishny, 1993:606). If it is not too costly to do so, agencies might then impose any number of permits to increase their share of the total bribe revenues, and we get what we might term a proliferation of permits. However, as an increasing number of bribes must be paid to do business, the private sector would be even less inclined to pay for the package of complementary permits needed to conduct business. As a result, total bribe revenues collected by the government agencies decrease. Once more, the uncoordinated actions of the agencies, where each agency does not take into account the negative effect one more permit has on the demand for the permits of other agencies, produces a situation in which all agencies lose.

This general perspective on autonomous agencies is in some ways relevant to the specific case of tax administration reorganisation, and in other ways less directly applicable. In a sense, settling your tax liabilities or getting tax exemptions is similar to receiving a permit that allows you to keep doing business. Failure to satisfy the requirements of the tax authorities, entails costly penal sanctions and in the end foreclosure. Unmet tax liabilities also constitute a powerful signal to creditors, suppliers and customers that something is amiss, which makes transactions more costly if at all possible to conduct.

Perceiving tax exemptions or settlements as permits, nevertheless entails one important deviation from the perspective of Shleifer & Vishny (1993). In providing tax exemptions, the Ministry of Finance and the Revenue Authority provide not complementary permits, but permits that are substitutes. A company that bribes an official of the Revenue Authority not to be audited, which amounts to a *de facto* tax exemption, does not need to bribe staff at the Ministry of Finance to get an exemption, and vice versa. A company needs an exemption from one agency or the other, not from both.

If tax exemptions are substitutes, the implications for bribe levels under integrated and separate agencies are reversed. While integrated agencies collude to keep bribes at a level that maximizes total bribe revenue, separate agencies are in direct competition for bribes from the private sector. It is therefore rational for the private sector to buy tax exemptions from the agency that demands the lowest bribes. This puts a downward pressure on the level of bribes, and if the degree of competition is sufficiently strong, bribes may decline towards zero. For substitutable tax exemptions, then, autonomous agencies entail lower bribe levels than integrated agencies.

The impact of autonomy on the total bribe revenues collected by the agencies, is qualitatively the same as in the case of complementary permits. By competing for bribes from the private sector, autonomous agencies hurt each other's revenues as they keep lowering bribe levels. The total bribe revenues are thus lower in the case of separate agencies than when agencies are integrated. However, the private sector benefits from competition between agencies, since the bribes paid are lowered by a separation of agencies. In this case, private sector activity is therefore higher with autonomous agencies than with integrated agencies.

There might, however, exist complementarities between tax exemptions and other types of permits provided by the agencies involved. If in addition to an effective tax exemption from the Revenue Authority, a company needs to register with or obtain additional permits from the Ministry of Finance to conduct its affairs, the arguments from the analysis of complementary permits are applicable. Whether a separation of the tax administration from the Ministry of Finance on the whole raises or lowers bribe levels, thus depends on the existence or introduction of permits complementary to tax exemptions. An important point to consider is whether the two agencies will attempt to introduce new permits and regulations to recoup some of the bribe revenue lost in their separation.

The above analysis of how a reorganisation of the tax administration affects the market structure in the supply of government goods provides useful insights. However, on a couple of points, the basic model presented does not seem to fit the particular context of Revenue Authorities in Tanzania and Uganda very well. Firstly, the establishment of Revenue Authorities in these countries was marked by a noticeable absence of protests from the institutions involved (Therkildsen, 2002). This does not fit well with the present model, according to which these institutions stand to lose from a separation, whether permits are substitutes or complements. If separation is to their disadvantage, one would expect the institutions to oppose the reorganisation.

Secondly, there is some doubt as to whether integrated agencies in countries like Tanzania and Uganda would actually coordinate their actions. Though the tax administration was previously organisationally integrated into the Ministry of Finance, there is still the possibility that the Ministry was fragmented in terms of its decisions, and thus unable to collude in setting bribe levels. Shleifer & Vishny in fact suggest that the idea of collective bribe decisions fits some East Asian countries and previously Communist regimes, whereas African countries and post-Communist transitional countries are characterized by a more fragmented supply of government goods. On a more general level, collusion can be enforced more easily when changes in bribes can be detected easily and punished heavily (Stigler, 1964). In turn, detection is easier where there is an effective monitoring system, where the ruling elite is small and society is closely knit. Punishment is more effective where rents are large, and these can be confiscated easily. African countries fail to meet at least a few of these criteria, which makes collusion harder to enforce. We return to the issue of a fragmented civil service in the next section.

5.4 *Autonomy, commitment and compliance*

In certain situations, an institution can benefit from tying its own hands, leaving certain decisions to agents outside its control. In particular, when government institutions have the discretion to revoke an action after it has been taken, a certain kind of pathology in its interaction with other agents might arise. For instance, a government may give investors a tax break to spur investment, yet once investors make their investments, the government would benefit from raising taxes again. Rational investors would understand the government's incentive to raise taxes after investments have been made, and would thus desist from making investments. The result is that the initial action of the government does not spur a response from the private sector, since sustaining the initial action is not a credible government strategy. As a consequence of the government's inability to commit to an action, both the government and the private sector may lose.

There are, however, several ways in which to get out of this impasse, in terms of several commitment technologies a government can utilize. One possibility is to leave decisions of this kind to an agent outside government control, which effectively takes away government discretion. If the agent has different statutes or preferences than the government, it can be in the agent's interest to stick to the action needed to elicit a private sector response. In turn, the private sector will perceive sustained action as credible, and invest or act accordingly. An independent agency thus has more success in eliciting the desired response, and the government therefore benefits from relinquishing discretion in situations where policies can be revoked.

This argument is in fact what underlies the creation of autonomous central banks in many countries. Consider a government with the dual objective of keeping unemployment and inflation low. If the government determines monetary policy, it will want to signal a tight monetary policy, to keep workers and businesses from raising wages and prices, and thus keep inflation low. But given a private sector decision not to increase wages and prices, the government would benefit from a more expansionary monetary policy, since the level of output would thereby increase, and unemployment decrease. Rational private sector agents understand this, and therefore increase wages and prices to fit the expected monetary policy rather than that signalled. A promise to keep monetary policy tight is thus not credible, and as a consequence we get higher inflation without any increase in economic activity, which does not sit well with government objectives. However, by leaving monetary policy to an autonomous central bank, whose sole objective is to curtail inflation, the government can credibly commit to a low inflation policy, and thus improve its situation.

Given the centrality of the commitment idea to the creation of autonomous agencies in other areas of government, it is surprising that this perspective has by and large been absent from the discussion of tax administration reforms. One recent exception, however, is Taliercio (2001), who discusses the link between autonomy, commitment and tax compliance. The basic point of departure is that taxpayers base their decision whether to comply or not on the perceived competence, effectiveness and fairness of the current tax administration.⁴⁷ Accordingly, in countries with an incompetent, ineffective and unfair tax administration, we can expect low compliance rates. A government wanting to increase compliance rates therefore has an interest in reforming the tax administration. However, a reform is costly in terms of investment in personnel and equipment, in addition to the foregone opportunities of patronage and other discretionary use of the tax administration.

Any promised or attempted reform will be met with suspicion among the taxpayers, who will assume that the reform be discontinued if tax compliance increases. A promise to sustain reform is simply not credible in the eyes of taxpayers, and will thus have little or no impact on their compliance rates. To increase taxpayers' compliance in this situation, some sort of commitment technology is needed. Taliercio (2001) argues that the establishment of autonomous Revenue Authorities is a convincing means of commitment, by affecting taxpayers' perceptions of the tax administration in three different ways. Firstly, Revenue Authorities signal a more competent tax administration, where improved quality of taxpayer services (e.g. simplicity and help in filling out tax declarations) reduces the compliance costs for taxpayers. Secondly, an autonomous Revenue Authority is more effective in detecting non-compliance, and less prone to outside influence in the enforcement of tax regulations. Thirdly,

⁴⁷ See also Fjeldstad & Tungodden (2003) for a discussion on the impacts of fiscal corruption and on taxpayers' compliance.

a Revenue Authority will be fairer in its treatment of individual taxpayers, and in taxing taxpayers in similar situations equally hard.

The fact that service quality, effective detection and fairness are factors which influence tax compliance, is well established in the literature on compliance (see, e.g., Levi, 1988; Andreoni *et al.*, 1998; Fjeldstad & Semboja, 2001). Taliercio (2001) goes on to test empirically which features of a tax administration produce a perception of the administration as competent in delivering services, effective in detecting non-compliance and fair in its administration of taxes. Three broad indices are used as explanatory variables: (1) Organisational Autonomy; (2) Service Delivery; and (3) Political and Policy Environment. Each of these three broad indices is an aggregate of several narrower indices.

- The Index of Organisational Autonomy (1) consists of three narrower indices: (i) Managerial autonomy which reflects how and by whom management are appointed and dismissed, and the tenure of managers. (ii) Personnel autonomy which captures how and by whom hiring and firing and remuneration decisions are made. And (iii) financial autonomy, which addresses the funding of the tax administration, i.e. whether it is funded by a percentage of its proceeds or by the Ministry.
- The Index of Service Delivery (2) is an aggregate of four narrower indices, capturing (a) the ease with which a tax declaration can be submitted, (b) the diffusion and simplicity of new regulations, (c) the availability of tax information, and (d) the quality and effectiveness of audits and sanctions.
- Finally, the Index of Political and Policy Environment (3), consists of two narrower indexes measuring the general credibility and performance of government, and the simplicity and fairness of tax policy.

To test which of the broader and narrower indices have an impact on perceptions of tax administration competence, effectiveness and fairness, Taliercio (2001) uses survey data from 200 large corporate taxpayers and professional tax consultants in four Latin American countries (Peru, Venezuela, Mexico and Bolivia, the first three of which have implemented Revenue Authority reforms). The results show that the broad indices of Organisational Autonomy (1) and Service Delivery (2) are significantly associated with perceptions of competence, effectiveness and fairness, whereas the Political and Policy Environment (3) has less of an impact. Based on the estimated coefficients, organisational autonomy matters the most for perceptions of fairness, while service delivery matters more for perceptions of competence and effectiveness.

Using the narrower, more detailed indices as explanatory variables of perceived competence, effectiveness and fairness, provides the following results.

Table 12: Explaining perceptions of competence, effectiveness and fairness

Competence depends on	Effectiveness depends on	Fairness depends on
<ul style="list-style-type: none"> • Information provision • Personnel autonomy • Tax payment services 	<ul style="list-style-type: none"> • Audits and sanctions • Political environment • Financial autonomy 	<ul style="list-style-type: none"> • Personnel autonomy • Managerial autonomy • Regulations

Source: Adaptation of table 4 in Taliercio (2001)

The table orders the statistically significant variables in each case, ranked by their importance as measured by the estimated coefficients. In other words, information services is the most important variable for perceptions of tax administration competence, the quality of audits and effectiveness of sanctions matter the most for perceived effectiveness, and personnel autonomy is the variable with the greatest influence on perceived fairness. The results by and large confirm the previous findings that (1) Organisational Autonomy is vital for perceptions of fairness, whereas different aspects of (2) Service Delivery matter the most for perceptions of competence and effectiveness.

Taliercio's results provides a detailed perspective on the variables that make a tax administrative reform credible in the eyes of taxpayers, and thus gives important policy advice on how to increase tax compliance through tax administration design. Yet, the study says less about the impact of creating a Revenue Authority than Taliercio purports. The empirical approach attempts to explain certain perceptions of tax administration activities by reference to other perceptions of tax administrative activities, and, therefore, does not explicitly consider how actual differences in the implementation or organisational design of Revenue Authorities affect their credibility. Since the data for the study stems from countries that differ in whether and how a Revenue Authority has been implemented, it should be possible and would have been preferable if the study instead of perceptions, used institutional variables as explanatory variables. Moreover, a particularly troubling aspect of the study is the use of service quality as both a dependent and independent variable. Since competence is essentially measured by service quality, the result that service delivery is the most important variable for competence seems tautological, and probably introduces a bias in the results obtained for other variables, such as autonomy.

In both Tanzania and Uganda, the formal autonomy awarded the TRA and the URA upon their inception, and the degree to which this autonomy was exerted in the initial phases of their existence, could very well have had a favourable impact on taxpayers perceptions of their operations, and hence possibly on compliance rates. In particular, the initial increases in wages and the extensive use of dismissals arguably would be easily observable indicators of a high degree of personnel autonomy. Similarly, the appointment of Board and management from outside the tax administration (and in the Ugandan case from abroad), and the recruitment of individuals publicly recognized for their integrity, would be a signal of a high degree of managerial autonomy. The initial reforms could therefore be expected to have had an impact on taxpayers' perceptions of fairness and competence in collecting taxes.

However, failure to sustain the initial reform efforts has in both countries provided a powerful signal to the contrary. The fact that nominal wages in the Revenue Authorities have been stagnant until recently, and that the use of dismissals has decreased substantially, point to a decreasing degree of personnel autonomy. Increasing Board and government interference in staffing matters has a similar effect, and also signals a lesser degree of managerial autonomy. Moreover, managerial autonomy has been substantially undermined by the increasing use of tax exemptions granted by political leaders in Tanzania, and by the politically motivated appointment of new Board members in Uganda (Fjeldstad, 2003; Therkildsen, 2002). Several instances of political interference in the operations of the TRA and URA have been heavily featured in the local press. There is thus reason to believe that any initial improvement in taxpayer perceptions due to the Revenue Authority reforms has been reversed in later years. To the extent that taxpayers were able to foresee this backlash, the reforms might not have had much of an impact on tax compliance in the first place, which indicates that any initial rise in tax revenues would be attributable to other factors.

5.5 Concluding remarks

The failure to sustain autonomy in Revenue Authority reforms may reflect the particularly difficult problem of credible commitment in these matters. A reform in the tax administration is not only costly to sustain in terms of increased pay and the purchase and maintenance of equipment, the costs of foregone opportunities for patronage and discretion in matters of taxation, are probably at least as important to the delegating institutions. And arguably, the more successful a Revenue Authority is in increasing tax revenues, the higher are the costs of foregone patronage, since higher revenues provide more opportunities for embezzlement. In the words of Therkildsen (2002:1), a successful Revenue Authority may be “a more attractive target [for political interference] because the authority offers both relatively well paid jobs and considerable rent-seeking opportunities”. Paradoxically, then, the success of the Revenue Authority model might contain the seed of its failure.

If the government and the Ministry of Finance in particular, believes that the creation of a Revenue Authority will increase tax compliance, one can understand why there was not much dispute over the implementation of these reforms in the countries in question. However, as previously argued, if taxpayers foresee the gradual reversal of the reform, one would expect the Ministry of Finance to be equally rational, and understand that an autonomous Revenue Authority would not constitute a credible commitment to sustained reform, and hence would not increase tax compliance. Explaining the creation of autonomous Revenue Authorities as a means to greater compliance, thus raises some fundamental questions which cast doubt on the soundness of the argument.

There is also another way in which one could explain why it would be in the interest of the Ministry of Finance to establish a Revenue Authority outside its control. If the tax administration is organisationally integrated into the Ministry, but the two are fragmented in the sense that they make their decisions independently, then their individual decisions on bribe levels may incur costs on the other party. In this situation, if the Ministry cares sufficiently about the level of tax revenues that ends up in Treasury coffers, and the tax administration is sufficiently inefficient, it can be in the interest of the Ministry to limit its own ability to extract bribes. In other words, if the bribes to be had are small, the Ministry may be willing to trade off these bribes for an increase in tax revenues. Again, this requires commitment, as Ministry staff will otherwise be tempted to return to past practices. Unfortunately, even with these motives for creating an autonomous Revenue Authority, if the reform has the added effect of increasing the tax administration’s efficiency or compliance rates, the increased opportunities for rent-seeking could lead the Ministry to seek a reversal of the reform.

In summary, the initially quite substantial degree of autonomy awarded revenue authorities in Tanzania and Uganda has in recent years been undermined. One way in which to understand these recent developments is to consider the strategic interaction of the institutions involved and their interaction with the taxpayer community. In particular, the problem of credible commitment to sustained tax administration reform seems particularly difficult to resolve.

6 Incentives and corruption

6.1 Introduction

A key part of setting up Revenue Authorities in Tanzania and Uganda was the introduction of new incentive schemes for tax administration officials. Tax administrations integrated into the Ministry of Finance are often hampered by civil service restrictions on pay levels, and rigid regulations and procedures. Hence, a core idea behind the introduction of semi-autonomous Revenue Authorities is their freedom to use pay and incentive structures to improve the degree to which organisational objectives are met. In particular, pay increases can be used to improve the motivation of staff and attract qualified staff members, less compressed pay structures could facilitate the recruitment of qualified personnel to higher level positions, and bonuses can be used to increase productivity in terms of revenues collected. And moreover, occupational misconduct and corruption can be made less attractive through the use of increased monitoring and staff dismissals. In other words, a Revenue Authority can be run more along the principles of a private business, as compared to a tax administration confined by the codes of the civil service (Devas *et al.*, 2001).

The initial years of existence of the Tanzania Revenue Authority (TRA) and its Ugandan counterpart (URA), were characterized by extensive reform of the incentive structures. Fjeldstad (2002:8) reports a dramatic increase in pay rates in the TRA, “for some categories of staff up to ten times higher than corresponding positions in the civil service”. Similarly, in Uganda in 1991, “URA staff got 8-9 times as much as other public servants” (Therkildsen, 2002:11). In both countries, replacement of higher level officials provided credible signals of an anti-corruption stance. In Tanzania, most executive positions were filled by managers recruited from outside the tax administration. In Uganda, the first Commissioner General appointed was a foreign national. The Revenue Authority reforms were also used as an opportunity to significantly change and to reduce staffing. In Tanzania all former staff members were dismissed and had to reapply for positions in the TRA, upon which almost 1200 staff members were not reemployed, a third of the total tax administration work force. A less dramatic approach was used in Uganda, where the entire staff was placed on probation at the inception of the URA, and approximately 250 out of 1700 staff members were dismissed.

The introduction of Revenue Authorities in Tanzania and Uganda initially appeared to have a favourable impact on productivity and performance, measured by tax revenues to GDP. There also appears to have been a reduction of corrupt activity in the tax administrations. However, in subsequent years the performance of the TRA and URA seem to have stagnated or deteriorated, with corruption on the rise again (see chapter 1). It is of course hard to isolate the impact of incentive structures on the evolution of TRA and URA performance, other factors might have had a more significant impact on the trends observed (Fjeldstad, 2003). Nevertheless, by analysing what incentive-based reforms are meant to achieve, how such reforms should be designed to be effective, and the extent to which the actual Revenue Authority reforms in Tanzania and Uganda were appropriately designed, we can get an idea of whether the reform of incentive schemes has contributed to the observed trends.

This chapter is structured as follows. Section 6.2 defines incentive-based reforms, and provides a general discussion of the various measures that fall into this category. Section 6.3 focuses more explicitly on pay and bonus incentives, and shows how the effects of these are intimately linked to other measures such as monitoring and sanctions. The main point of this section is

that for pay and bonus reforms to be successful, one must consult the basic models of economic incentives, and consider whether other important assumptions or conditions of these models are met. Section 6.4 introduces an additional complication, by discussing how the effect of economic incentives might be affected by the organisational structure of a tax administration. For instance, incentives to lower level tax officials may have a limited impact if corruption at higher levels is rampant. Section 6.5 gives voice to the claim that simple economic models of incentives often ignore important behavioural traits of human beings, such as reciprocation, the desire for social approval, or intrinsic motivation. In the presence of such motives, monetary incentives may backfire. On the upside, however, these motives can also be exploited to heighten the effect of incentive reforms. Section 6.6 concludes by arguing that a great number of factors must be considered in the design of successful incentive reforms, and the failure to do so might explain some of the observed trends in revenues collected.

6.2 Incentive-based reforms

The conceptual framework which underpins the idea of using incentives to influence behaviour, is the principal-agent model (see Das-Gupta & Mookherjee, 1998; Fjeldstad, 1999). In this model, a principal delegates a decision or action to an agent, who may or may not share the objectives of the principal. In the case of taxation, the principal might be viewed as the Ministry of Finance, the Government or society at large. The decision that is being delegated is the collection of taxes. And the agent to whom the decision is delegated is the tax administration or Revenue Authority (composed of tax officers). The basic problem highlighted by the model is that an agent, who does not share the objectives of the principal, might perform the delegated action in a way that fulfils his own private objectives rather than those of the principal. In terms of taxation, tax officers might exert little effort in collecting taxes for the government, or might choose to focus on collecting the taxes that offer the greatest potential for bribes.

Against this backdrop, the principal might attempt to bring the actions of the agent more in line with the preferences of the principal, by rewarding actions that benefit the principal and punishing actions detrimental to the principal. In other words, the principal can use carrots and sticks, or incentives, to elicit the desired behaviour from the agent. For tax administration staff, an example of a carrot would be a bonus awarded if revenue targets are met, and an example of a stick would be being fined or fired for accepting a bribe. If we focus purely on corruption, Rose-Ackerman (1999:39) defines incentive-based reforms as “reforms that reduce the benefits or increase the costs of malfeasance”. In short, the idea is to make corrupt acts less attractive by reducing the gains and increasing the pain from such acts.

On a general level, a number of measures can be taken to reduce the benefits and increase the costs of corruption. Rose-Ackerman (1999) suggests structural reform of the civil service, reform of the criminal law, and reform of public procurement as three general measures to curtail public sector corruption. Among structural reforms, Rose-Ackerman proposes elimination or simplification of regulations, privatisation of public institutions, and the introduction of competition in government services. Several of these are relevant to a tax administration. Simplifying the tax code or eliminating certain taxes altogether, can significantly decrease the opportunities to extract bribes. Reforms along these lines have been attempted in developing countries in recent years, sometimes with paradoxical results.⁴⁸ Outsourcing of tax administration is also an option. In Mozambique, the assessment and

⁴⁸ Fjeldstad (2002:7) cites an example from Tanzania, where a ‘revision’ of customs regulations (‘customs handbook’) produced a volume of guidelines and rules three times as large as the previous one.

collection of customs duties were managed for some years (1997-2001) by the private British company *Crown Agents*. Private management of the tax administration is also raised as a possible approach in other countries, including Uganda).

As general reforms of the kind just discussed appear extrinsic to the establishment of the TRA and the URA, we do not elaborate on them. Instead, we focus on incentive-based reforms that are part and parcel of the TRA and URA reforms. Monetary incentives aimed at tax administration staff to improve performance and reduce corruption, are of particular interest in this respect. The next section discusses when we can expect incentives in the form of pay increases or bonuses to have an impact on performance. Besides the direct motivational aspects of monetary incentives, we also discuss how these incentives affect recruitment and, thus, staff composition.

6.3 When do pay increases and bonus systems work?

The idea that pay increases can have an effect on tax collectors' performance can be traced to two basic economic models. The first is the shirking model of Shapiro and Stiglitz (1984), elaborated by Besley & McLaren (1993), which basically says that paying high wages makes keeping a job more valuable to workers, and they will, therefore, exert more effort. The second model is the fair wage model of Akerlof & Yellen (1990), according to which workers provide more effort if they perceive wages to be fair. Each of the two models provides conditions under which pay increases result in significant increases in performance. To get an idea of whether the pay increases following the TRA and URA reforms can be expected to have an effect on staff performance and corruption, a useful place to start is to see whether the critical conditions of the two respective models are met.

6.3.1 The shirking model and the role of incentives

In the shirking model of Shapiro & Stiglitz (1984), workers can choose to perform their job at a high or low level of effort. If a worker supplies low effort, i.e. if he shirks, there is a probability that he will be caught and fired. If fired, the worker faces a spell of unemployment, and the higher the level of unemployment in the economy, the longer is this spell of unemployment. So, in deciding what level of effort to put in, a worker weighs the disutility of a high level of effort against the possibility of a loss in wages if he supplies a low level of effort and is fired. By raising wages, employers can make the loss from shirking and being fired greater, and thus make supplying a high level of effort more attractive. If wages are raised to a sufficiently high level, the expected loss in wages from shirking will be greater than the disutility incurred in exerting a high level of effort, and workers will choose not to shirk.

Now, how high wages need to be in order to make tax officers choose to provide a high level of effort, depends on several factors. In particular, it depends on the probability of being caught and fired if shirking, and on how long a period of unemployment a tax collector faces if fired. The less efficient the monitoring of the collector's effort, i.e. the less probable that one will get caught if not shirking, the higher must wages be to induce a high level of effort. In other words, the less risky shirking is, the more a tax officer must stand to lose in the improbable event that he is caught shirking. The lower the level of unemployment, i.e. the shorter the period a collector does not have a paying job, the higher must wages be to make tax collectors provide a high level of effort. In other words, if a fired tax officer can find another job quickly, wages must be high for him to perceive a brief spell of unemployment as an undesirable event. From a slightly different angle, a given pay increase has less of an impact on the collector's

performance, the lower is the probability of being fired for shirking, and the lower is the level of unemployment.

This provides one interesting perspective on why the initial pay increases in the TRA and URA may not have had a sustained effect on staff performance. Though the increases in pay were substantial, both compared to earlier levels, and to civil service averages, they might not have translated into enhanced performance if low effort was not effectively penalized or dismissed staff could easily find other employment. Looking at trends in employment at the TRA and URA, the initial shake-outs in which a large proportion of staff were dismissed, have not been sustained in the years following the establishment of the Revenue Authorities (Fjeldstad, 2003; Therkildsen, 2002). This seems to indicate, and could also send a signal to TRA and URA staff, that dismissals are not as extensively used to discipline unproductive staff behaviour as in the initial phases. Thus, there is reason to believe that staff perceive the risk of being fired for misconduct as dwindling.

Though the levels of unemployment in Tanzania and Uganda are quite high, this might not be directly relevant to former staff of the TRA and URA seeking employment. It has been pointed out that former Revenue Authority staff is attractive to the private sector, due to their knowledge of how the tax administration works and their connections in the tax administration (Fjeldstad, 2002; Bjorvatn *et al.*, 2002). The time a sacked tax official spends in unemployment might therefore be relatively short. Taken together, the dwindling probability of being fired, and the ease with which former tax officials can get new employment, suggest that pay increases in the Revenue Authority would have to be large to elicit more effort from staff. If we add the fact that pay has failed to be adjusted for increased prices, i.e. that real wages have been falling in recent years (see chapter), we have one explanation of why any initial improvement in TRA and URA performance has not been sustained.

Besley & McLaren (1993) propose a model of corruption in tax collection that builds on the model of Shapiro & Stiglitz (1984). In this model, a proportion of tax collectors is corruptible and choose between taking bribes and not taking bribes. A tax collector that takes bribes is caught and fired with a certain probability. Tax collectors, thus, compare bribes received to the expected loss from being fired, when deciding whether or not to take bribes. Again, an increase in wages means that losing your job is more costly, and therefore makes taking bribes less attractive. If wages are sufficiently high, all corruptible tax collectors will choose not to accept bribes. How high wages have to be to deter bribe taking, now depends on the level of bribes and the probability of being caught and fired when a bribe is accepted.⁴⁹ The higher the bribes received by corrupt officials, the higher must the wages be to deter corruption. And once more, the lower the probability of being sacked for corruption, the higher are the wages needed to make tax collectors desist from taking bribes. Therefore, a given pay increase has less of an impact on corruption if bribes are high and the risk of being caught low, than in the opposite case.

This offers additional insight into the evolution of corruption in the TRA and URA. As frequently noted, the bribe levels in certain parts of the tax administration are very high compared to wages. URT (1996) states that “For a [customs official] who is used to get bribes of TSh 20-30,000 daily, a ten fold increase of his salary from the present level will not make him desist from demanding and accepting bribes”. As for the probability of being sacked for corruption, one can note again that the initial wave of dismissals has not been sustained. In

⁴⁹ Besley & McLaren (1993) assume that fired workers are reemployed at market wages, so unemployment does not play a part here, though one could easily fit this idea into the model.

addition, the appointment of executives known for their integrity in the initial stages of the reform has been undermined by recent examples of politically motivated appointments and interference into Revenue Authority affairs. A perception of a more lenient attitude towards corruption might thus have formed among TRA and URA staff. The initial pay increases in the TRA and URA might consequently not have had much of an impact on corruption, and the subsequent decline in real wages has most likely eroded any initial impact.

6.3.2 The fair wage model

A very different model of worker motivation is the fair wage model discussed by Akerlof & Yellen (1990). This perspective posits that workers supply less effort the more wages fall short of what they perceive to be fair wages. In the present context, several variations on this perspective are possible. According to one interpretation, workers are concerned with equity, they want a reasonable return for the effort they put in, or they will not put in any effort. In the words of Akerlof & Yellen: “When people do not get what they deserve, they try to get even” (p. 256). Getting even here might mean providing less effort, it might also mean being more corrupt. On a second interpretation, civil service employees in poor countries might receive pay insufficient for subsistence. In this case, effort is of necessity diverted to other sources of income, or bribes are taken to supplement the official civil service salary. There is ample anecdotal evidence that bribes are perceived as income supplement for poorly paid civil service staff, indeed this kind of bribe taking seems to be morally condoned in many cases.⁵⁰

According to the fair wage model, the initial boost in pay rates for Revenue Authority staff should result in increased effort and reduced corruption, by moving pay rates closer to a perception of equitable wages, or by reducing the need for additional bribe income. However, the subsequent failure to maintain the new wage levels in real terms, implies a reversal of effort and corruption. On the first interpretation of the fair wage model, a wage increase followed by a wage decrease might even produce less effort and more corruption than if wages had been constant, if the tax collector’s perceptions of fair wages are adjusted upward with rising wages. Finally, in a wider civil service context, rising wages in one department could imply that the staff of other departments view their own wages as even more unfair, with detrimental consequences for civil service morale.⁵¹

6.3.3 Empirical studies of the importance of civil service wages

Empirical studies of the effect of civil service wages on bureaucratic corruption show mixed results. A prominent study by van Rijckeghem & Weder (2001) shows that across countries, increased civil service wages (relative to manufacturing wages) has a statistically significant negative effect on corruption. In other words, countries with higher civil service wages exhibit less corruption, on average. The effect is economically significant; an increase in the ratio of civil service wages to manufacturing wages from 1 to 2, implies a decrease in the corruption index by 0.5 points. However, within countries, no statistically significant impact of wages on corruption is found. For a given country, one can therefore not see any impact of pay reform in the civil service on the level of bureaucratic corruption. Hence, the authors conclude that increasing civil service pay does not decrease corruption in the short run.

The results of van Rijckeghem & Weder also address the question of whether the shirking model or the fair wage model is the appropriate model of behaviour. Under the fair wage model, one would expect corruption to be rather more responsive to small wage increases than

⁵⁰ See Andvig & Fjeldstad (2001:86).

⁵¹ See Minogue *et al.* (1999) for a discussion of civil service fragmentation.

under the shirking model. The authors estimate that civil service wages must be 2 to 8 times manufacturing wages for corruption to be eliminated. Based on calibration results for the shirking and fair wage models, it is argued that this range is too high for the fair wage model to hold, and too low for the shirking model. The results thus do not support either model in its pure form. This conclusion should perhaps be accepted with caution, given the fact that corruption may be made more responsive to wages in the shirking model, if corruptible agents have different attitudes towards corruption. Since the shirking model provides clear conditions under which wages reduce corruption, a more direct way to test this model would be to interact the wage variable with other variables (such as proxies for monitoring or unemployment) and test for statistical significance.

6.3.4 Bonus systems and targets

The idea behind using bonuses to improve civil service performance and reduce corruption, is rather more straightforward than the elaborate models linking pay to performance. In a general principal-agent setting, bonuses improve the performance of the agent by making the right sort of effort more rewarding in monetary terms. There are different ways in which to fashion a bonus system. One important distinction in this context is between individual and group bonuses. With individual bonuses, each tax officer is rewarded for his individual effort. The upside to this bonus system is the direct link between what a tax officer does and what he receives, possible downsides are opportunism and a lack of coordination between collectors, as each pursues the tasks that are most rewarding. With group bonuses, tax collectors are rewarded for the performance of a group as a whole. The upside is greater coordination of tasks, the downside a possibility of free-riding behaviour, as each officer sees only a marginal effect of his own effort on his bonus. Which of the two systems is chosen, depends on several factors, of which an important one is the ease of monitoring individual versus group output.

In the case of the URA, the bonuses that have been used appear to have been more of the group bonus type.⁵² Performance is then gauged in terms of a revenue target, which is revised annually by the Ministries of Finance. There seems to be an implicit link between the fulfilment of this target and budgeting and autonomy of the Revenue Authority. In Uganda, a 10% bonus to staff was paid when revenue targets were met in 1998. However, in most years since their inception, the Revenue Authorities have fallen short of the revenue targets. There seems to be a feeling that revenue targets are set unrealistically high, based on desired government expenditure levels, rather than the ability to tax (Therkildsen, 2002). A sustained upward revision of revenue targets could prove detrimental to staff motivation. Moreover, one could ask whether revenue targets in terms of revenues to GDP is too broad a measure of performance. For individual staff members, the perceived ability to influence the percentage of revenues to GDP is likely limited, and bonuses based on this performance measure thus might not have much of an effect of staff effort and corruption. If group bonuses are to be used, bonuses awarded according to departmental revenues may provide a closer link between effort and reward.

The general drift of this section is that TRA and URA pay reforms are likely to have had little impact on staff performance and corruption, since the conditions under which pay would affect performance do not seem to hold. Whatever bonus systems which have been introduced have been too general to provide effective incentives for individual staff members. Besides pay and bonuses, there are of course other types of quasi-monetary incentives relevant to a discussion of the TRA and URA. Promotion policies based on merit would be one, similar in effect to a

⁵² The TRA has not introduced a bonus scheme, yet.

bonus. Though some effort has been made to improve hiring and promotion practices, however, there are still strong indications of internal markets for positions in the Revenue Authorities (Fjeldstad, 2003). The impact of pay structures on the composition of staff is also a subject which requires consideration. Given the decreasing real wage levels of tax collectors, there is a risk that mainly persons willing to supplement their wages through bribes are recruited to the Revenue Authorities.

6.4 Incentives in hierarchical organisations

The principal-agent relationship underlying the basic economic models of wage and bonus incentives, assume an extremely simple organisational form. In reality, civil service organisations are complex hierarchies, with several tiers of management above tax collectors, and a Commissioner General and a Board at the top. Thus, in reality one has a more complicated structure of interaction than that captured by the simple principal-agent model, where the decisions made by one level of the hierarchy has implications for other levels. In particular, corruption at higher levels may have consequences for corruption at lower levels. This in turn implies that incentives may have a different effect on lower level corruption, depending on the degree of corruption at the higher level.

Chand & Moene (1999), referring to the Ghanaian tax administration, examine these questions more closely in a model of a two-tiered tax administration. In this model, tax collectors choose the level of effort with which they audit corporate taxpayers. If a taxpayer is found to underreport profits, the tax collector bargains with the taxpayer for a bribe. The bribe in a sense gives the tax collector the incentive to exert effort in auditing taxpayers; the higher the bribe, the more can a tax collector earn by uncovering tax evasion, and the more effort does he exert in auditing books. For the taxpayer, more effort on the part of tax collectors implies a higher probability of being detected for evading taxes, which provides an incentive for reporting more of his profits (income). Finally, in the event that a tax collector uncovers tax evasion, both the taxpayer and the collector can appeal the finding to higher level tax officials, a certain proportion of whom is corrupt.

Consider the introduction of a bonus to tax collectors in this setting, where the bonus is a percentage of revenues collected. This would have the following effects. When uncovering tax evasion, a tax collector can expect to earn more from reporting this finding to his superiors than he would in the absence of a bonus. In turn, this implies that the taxpayer would have to pay a higher bribe to make the tax collector desist from informing his superiors. A higher bribe means that tax collectors will work harder to uncover tax evasion. In turn, if tax collectors work harder to detect evasion, corporate taxpayers will find it profitable to report more of their profits. Therefore, the introduction of a bonus system for tax collectors increases the amount of profits that is declared to the government.

The quantitative impact of a bonus on reported profits depends, however, on the proportion of corrupt higher level officials. The more corruption at the higher level, the less of an impact will a bonus have. This is best explained by considering the case in which all higher level officials are corrupt. The taxpayer can then always pay off a high level official, and a tax collector thus cannot increase his bonus payments by reporting evasion to his superiors. Hence, the introduction of a bonus does not affect the bribes a tax collector can extract. And if bribes are not affected by the introduction of a bonus, neither is the level of effort a tax collector exerts in auditing taxpayers. By implication, no change in the probability of detection means that corporate taxpayers will not report more of their profits. In the extreme case of perfect

corruptibility of higher level officials, then, the introduction of a bonus will have no effect on reported profits.

The basic insight to be gained from this model is that the introduction of a bonus system for tax collectors, may have greater costs in terms of bonus payments than benefits in terms of added tax revenue, if corruption at higher levels is rampant. The evolution of higher level corruption in the URA makes this argument an important one to consider. While at their inception, great care was taken to staff top management positions with individuals known for their integrity and independence, there seems to be a reversal to past practices of political appointments in recent years. In particular, this seems to be the case on the URA. However, also in the TRA it has been suggested that the initial reduction in corruption indicated that higher level corruption was dormant rather than dead. Moreover, higher level corruption may have been masked by the fact that higher level officials let junior staff do more of the dirty work (Fjeldstad, 2003). A failure to root out higher level corruption might thus have softened the impact of new incentive schemes on tax collection performance.

6.5 Incentives and human behaviour

The models of incentives presented above take a simple view of human motivation and the effect of monetary incentives. In particular, it is assumed that the relationship between the size of the monetary payoffs and the effort provided is a simple increasing one. In other words, workers always prefer more money to less money, and adjust their behaviour accordingly. A host of experimental studies suggests, however, that human behaviour is governed by a far more complex set of preferences, even in purely economic settings (Fehr *et al.*, 2002). Humans appear to exhibit preferences not only for their own well-being, but also for that of others, reflected in acts of altruism, reciprocity, or conversely spitefulness. Moreover, a range of situation specific properties appear to influence economic decisions; some tasks are intrinsically valuable to an agent and will be performed even in the absence of a monetary payoff; assets come to have a higher value if owned as compared to similar assets about to be purchased, and so on.

The presence of a wider set of motives implies that the relationship between monetary incentives and staff performance need not be a simple increasing one. A simple albeit extreme example in which the relationship is not increasing, is if tax officers are motivated by spitefulness. In this case, an attempt to elicit more effort by offering to pay more money will have the exact opposite effect, as tax officers choose to work less on tasks that their employer flags as important. In this section we focus on three motives that have been demonstrated to have a significant impact on workers' behaviour in organisations; (1) reciprocity, (2) the desire for social approval, and (3) intrinsic motivation. We attempt to extract the relevant implications of these motives for the design of incentive schemes in public organisations such as the TRA and the URA. One main insight is that the effect of monetary incentives depends on the way in which the incentives are presented; another is that the presence of other motives can in some cases be used to strengthen the effect of incentives on performance.

6.5.1 Reciprocity

A motive of *reciprocity* implies that an agent responds in a friendly way to actions he perceives as friendly, while actions signalling hostility are met with hostility. In terms of monetary incentives, an incentive that is perceived as benign produces more effort than one that is viewed as malicious. Using a different set of terms, incentives that signal that an employer trusts a worker implies that workers reciprocate by honouring that trust.

A range of experimental studies suggest that reciprocation is indeed an important motive in labour relationships. Fehr *et al.* (2002) summarises some of these, with a view to establishing how reciprocity affects the impact of monetary incentives. A first experiment reviewed gives employers an opportunity to stipulate a fine if workers are caught shirking. From the shirking model presented earlier, one would think that increased punishment for shirking would produce more effort from workers. However, compared to a baseline experiment in which no fine is available, the possibility of stipulating a fine significantly decreases worker effort. A second experiment substitutes a fine for the possibility of stipulating a reward. An interesting observation is that the second experiment is rigged in such a way that the payoffs are the same as in the first experiment.⁵³ The stipulation of a reward actually increases effort as compared to the first experiment featuring a fine, despite the fact that the economic payoffs to workers are the same in both cases. In other words, framing a monetary incentive as a bonus rather than a fine, leads to substantially more effort. The interpretation is that a bonus (giving something) is perceived by workers as a friendly gesture from employers, whereas a fine (taking something away) is seen as a hostile act or a signal of distrust.

However, both the reward and the fine experiments produced less effort than the baseline experiment in which no reward or fine was available. This raises the question of whether an employer can elicit more effort from workers by refraining from using incentives at his disposal. An additional experiment with a slightly different slant, suggests that having the ability to impose a fine and choosing not to do so, increases effort as compared to a case in which no fine is available. The interpretation here is that having sanctions at your disposal that you vow not to use, signals a high level of trust in your staff, and makes them honour your trust.

The experiments cited so far have the common feature that fines, rewards etc are stipulated in advance, i.e. before an employee chooses his level of effort. In other words, an employer binds himself to a certain action if shirking is later discovered. A final set of experiments allows the employer discretion in rewarding or punishing workers after they have chosen their level of effort. In other words, if a worker is observed to be shirking, an employer can choose whether or not to fine him after the fact. The results show that the opportunity to reward/punish after the fact increased worker effort substantially compared to the baseline case without bonuses or fines. One explanation of this result is that workers work hard to induce a reciprocal response (a bonus) from their employers. Note the different impact of a fine when it can be imposed after shirking is discovered, as opposed to being stipulated in advance. While effort is decreased if a fine is stipulated before workers choose effort, effort increases if a fine can be imposed after workers have chosen their level of effort. An explanation for this difference could be that stipulating a fine in advance introduces hostility into the employer-worker relationship.

Given motives of reciprocity in staff, monetary incentives should be framed as rewards rather than sanctions, and be used to discipline actual behaviour rather than to discourage potential misbehaviour. Though the TRA and the URA introduced positive incentives in terms of pay increases and bonuses, these were stipulated in advance, and thus might lead to less effort rather than more according to the above sets of arguments. Moreover, as these incentives were introduced to improve on an organisational performance presented as dismal, they might be

⁵³ In the second experiment, you get a base salary a if you shirk, you get $a+r$ where r is the reward if you do not shirk. In the first experiment, you get a base salary $b=a+r$ if you do not shirk, and a salary minus a fine, $b-f=a$ if you do.

perceived as distrustful towards TRA and URA staff, despite their positive spin. As for other types of incentives, the wave of dismissals initially and their subsequent discontinuation might be seen as unpredictable politically motivated events rather than fair punishment for misdeeds. The idea of letting rewards or punishment be imposed after the fact rather than being stipulated in advance, might not be a viable option in the TRA and URA, if there is a suspicion among staff that these incentives will not be justly administered.

6.5.2 Social approval

The desire for *social approval* is another motive with important implications for the employer-employee relationship. That social approval is an important motive in many settings has been suggested by a series of public goods experiments, in which it turns out that agents contribute more to a public good if the contributions are public rather than anonymous, and even more if agents are allowed to punish each other for failing to contribute. However, the desire to punish others for failing to contribute might be related to one's own contribution. Thus, very different norms may form with this kind of motive. On the one hand, if everyone contributes to the public good, everyone punishes free-riders, and a high-contribution norm is enforced. On the other hand, if no one contributes, no one punishes free-riders, and a low-contribution norm arises.

Fehr *et al.* (2002) suggest that “social norms pervade the employment relationship”, and review a series of experiments that suggest that very different norms evolve under different payment regimes for workers. In a piece rate regime, where workers are paid per unit of output, workers tend to develop effort-withholding norms. The reason is that if workers work too hard, the rate per piece of output might decline, leaving all workers worse off. In other words, if one worker increases his effort, all other workers are affected negatively. So to avoid this workers enforce a norm against supplying too much effort. By contrast, under a team compensation scheme, an effort-enhancing norm often forms. In this case, a worker affects the compensation of other workers negatively if he shirks. Thus, workers will enforce a norm under which shirking is punished.

The motive of social approval therefore suggests that a compensation scheme might have a greater impact on performance if pay is based on group rather than individual performance. For the revenue authorities, bonus incentives are to some extent linked to performance, measured as the ratio between tax revenues and GDP. However, an important condition for the right norms to develop in the above way is that a norm can be enforced. Since the bonus scheme at the URA in 1998 were based on performance of the Revenue Authority as a whole, the great number of staff involved suggests that effective norm enforcement is unlikely. Once more, compensation based on the performance of smaller organisational units might be desirable. Finally, since we know that corruption networks use many of the same mechanisms to enforce participation as those mentioned above, it is important to determine whether the strengthening of group coherence through the design of incentives is necessarily a good thing.

6.5.3 Intrinsic motivation

A final motive deemed important for labour relationships is that of *intrinsic motivation*. Frey (1997) suggests that in performing many tasks, humans are driven by an interest in the task itself rather than monetary incentives. Frey also suggests that being offered monetary incentives for performing such tasks, might in some cases crowd out intrinsic motivation, possibly leading to an overall reduction in effort. The conditions, under which a reduction in intrinsic motivation occurs, are when incentives are seen as controlling, in the sense that it reduces self-determination, self-esteem or personal expression.

It is hard to gauge whether the TRA and URA reforms were seen as reducing self-determination and so on among staff. Given the greater autonomy of the Authorities, one would be inclined to think otherwise. The crowding out of intrinsic motivation by incentives might thus not be much of a problem in this particular case (though the erosion of motivation due to other factors might still be a problem). It should be added that there is some disagreement in the literature about the importance of the crowding out problem in general. Fehr et al (2002) suggest that this kind of crowding out is a problem “only for those tasks for which payment of money is situationally inappropriate, i.e. in situations in which there is usually no pecuniary compensation”. Although staff in the tax administrations preceding the formation of the TRA and URA were poorly paid, one cannot say that their tasks were usually performed without monetary compensation.

6.6 Concluding remarks

There are several possible explanations for the seeming stagnation in the performance of the TRA and the URA, and the apparent rise in corruption. A failure to provide effective incentives for TRA and URA staff might be one reason. We have argued here that the incentive schemes introduced at the TRA and URA may have failed to improve performance, due to a failure to meet the basic conditions under which monetary incentives can be expected to work. In addition, organisational and behavioural complexities make the use of incentives less straightforward, which underscores the importance of careful and comprehensive reform.

7 Patronage and the ‘cultural logics’ of corruption

7.1 Introduction

The experiences of the Tanzania Revenue Authority (TRA) and the Uganda Revenue Authority (URA) indicate that wage increases do not necessarily put an end to corruption. Could it be that corruption in Africa is *less* connected to structural factors than mainstream development theory has proposed, and to a greater degree the ‘inevitable’ result of certain African cultural characteristics and traditions? This chapter will address this question on the basis of recent debates on corruption within anthropology and political science. The chapter is organised as follows: The first section examines the ‘cultural embeddedness’ of corruption and its symbolisation (7.2). It is followed by a brief discussion of the idealised ‘African communalism’ of pre-colonial society and the contradictions of the modern state (7.3). The next section (7.4) discusses why corruption, although often blamed for causing many of the problems in Africa, is still somehow accepted and the culprits seldom prosecuted. Five ‘cultural logics’, which independently and together provide a fertile ground for corruption, are identified: gift-giving, negotiation, solidarity networks, predatory authority, and redistributive accumulation. The last section draws the discussion together, pointing to the fact that money earned through corruption is often redistributed to needy kin, a redistribution that the modern African state has failed to fulfil.

7.2 The symbolisation of corruption: Is Africa a special case?

Research on corruption has long been dominated by economists and political scientists. The common way to define corruption within these fields has been *the abuse of public office (or power) for private gain* (Amundsen, 1999; Andvig & Fjeldstad, 2002:5; Gray & Kaufmann, 1998; Rose-Ackerman 1998). This definition is based on the Weberian rational-legal bureaucracy model in which the distinction between the public and private is central. This distinction, however, is less developed in many non-European countries and the above definition therefore becomes too narrow. What people regard as corruption varies from context to context and in order to understand corruption and to combat it, we need to understand how the people who practice it actually evaluate these social practices themselves (Gupta, 1995; Sissener 2001).

Is there something distinctive about corruption in Africa compared to other continents? Jean-Francois Bayart, author of “The State in Africa – The Politics of the Belly” (Bayart, 1993) argues that there indeed is. In his view, the corruption of an African civil servant has little in common with the corruption of his/her counterpart in Asia, America, or the former Soviet Union. He points to two main factors. First, the *symbolisation* inherent in corruption is different in different cultures and at different points in history. Second, the *state* in Africa has its own peculiarities, as a result of its amalgamation of age-old foundations and re-appropriated institutions of colonial design. We will come back to issues of the state shortly, after presenting the major ideas about the symbolisation of corruption.

In most African languages, corruption is referred to by a verb generally translated as ‘to eat’ (i.e. *kula* in Swahili). In many cases, this verb does not only imply to nourish oneself, but also to accumulate, exploit and to kill with witchcraft (Bayart, 1993:269). In former French West African colonies, for example, the French term *bouffer* (stuffing) is used to refer to “all illegal modes of enrichment through positions of authority” (ibid. 28). Contrary to popular belief, says

Bayart, individualism is not particularly ‘underdeveloped’ in African societies, although it is of a different nature than the kind of ‘individualism’ we find in the West. Throughout their histories, he argues, African societies have been haunted by “the spectre of individual violence: that of witchcraft and symbolic manducation” (ibid. 267). To see African societies as “harmonic” then, not only glorify them, but also has serious effects on the comprehension of these societies.

Another Africanist, the anthropologist J.P. Olivier de Sardan, criticises Bayart for over-interpretation. He does not agree with the systematic association between witchcraft/sorcery and the ‘belly’ metaphors linked to corruption (Olivier de Sardan, 1999:49). Like Bayart, however, Olivier de Sardan is concerned with the relations between corruption in Africa and African culture. In order to understand this relationship, he argues, we need to study what he terms the ‘corruption complex’. This complex does not only imply what we usually perceive as corruption, but also a number of illicit practices which are technically distinct from corruption but which do have “in common with corruption their association with state, parastatal or bureaucratic functions” (ibid. 26). Examples are embezzlement and various forms of misappropriation, nepotism, abuse of power, influence-peddling, prevarication, insider trading and abuse of the public purse.

Olivier de Sardan points out a number of ‘cultural logics’ which are favourable to corruption in Africa. Both he and Bayart, however, emphasise that none of these logics are traditional; they do not come directly from some ‘traditional’ pre-colonial culture. On the contrary they are all syncretic, a result of the historical processes of the pre-colonial, colonial and post-colonial eras:

The process of state-apparatus building during the twentieth century ... is obviously fundamental not only for the production of corruption itself, but also for the production of a cultural embeddedness of corruption (Olivier de Sardan, 1999:26).

The novel constructions and power relations that the new encounters entailed have resulted in what Achille Mbembe has termed ‘the postcolony’ (Mbembe, 1992). Let us briefly look at these processes before we come back to the cultural logics in section four.

7.3 Communalism in Africa

The fact that most pre-colonial African societies were less centralised than their European counterparts does not necessarily mean that they had a more ‘communal’ spirit. The image of traditional African societies as ‘harmonic’ has been forwarded not only by foreign scholars, but also by several African leaders. In the rhetoric of former Tanzanian President Julius Nyerere, for example, Africans are ‘natural socialists’:

We, in Africa, have no more need of being ‘converted’ to socialism than we have of being ‘taught’ democracy. Both are rooted in our own past – in the traditional society which produced us (Nyerere, 1967:170).

Nyerere argued that the principles of the extended family could be extended to the nation as a whole. As the failure of the *ujamaa* policies has proved however, family solidarity is not easily transferred to village level, not to mention the national. Despite appearances, village property is not common in African societies. Village infrastructures may happen to be used communally, but they belong either to the “representative of an eminent local group” or to the state. Olivier de Sardan (1999:31) puts it this way:

Most African villages are conglomerates of specific sub-communities (families, peer groups, ritual societies etc.) often existing in a climate of rivalry and antagonism, with no culture of 'general interest', partly because the village chiefs supposed to promote or represent this general interest were put in place by colonialism or were colonial agent.

Bayart traces the roots of present corruption partly to the colonial state. Under indirect rule, the Europeans seldom cared about *how* the chiefs recruited plantation workers etc, and coercion was the rule rather than exception. Those who could afford it would buy themselves out, providing an additional income for the chiefs. Indirect rule also entitled chiefs to a certain percentage of the taxes they collected. And it was not uncommon for the chiefs to invent new taxes themselves, claiming they were orders from the whites (Bayart, 1993:70).

Independence witnessed “the hasty construction of a new bureaucracy in the place of the colonisers, concerned above all with the exercise of their privileges and the consolidation of their status in as short a time as possible” (Olivier de Sardan, 1999:32). The state that Africans inherited was *not*, however, constructed on concepts like democracy, human rights and good governance. On the contrary, colonial states were characterised by control, exploitation and segregation (Roalkvam, 2002). As Ronald Cohen (1980:81) has pointed out on the basis of his work on Nigeria, “Africans learned how to live and operate under a bureaucratic system in which illegitimacy was normal”. The central role that the State has achieved in many post-colonial African countries, now criticised by most of the Western world, is in itself a legacy from the colonial times (Tripp, 1997:60).

The norms of the public service in Africa are inherited from Europe so they ought to be, in principle, the same. In Europe, however, this model was in part the product of rather different sociocultural logics (Médard, 1991:42). These logics - inaugurated in the nineteenth century - were based on the distinction between public and private affairs, on puritanism, on egalitarian and individualistic demands:

In Europe ... the norms of the public service and the legal definitions of corruption correspond or harmonise, even if only approximately, with the predominant sociocultural logics. In Africa, on the contrary, there is a glaring discrepancy. As a result, the functioning of the administrative apparatus, entirely copied from the European pattern is of a schizophrenic type. In law, official functioning and budget it is totally Western. In practice, it is otherwise, traversed by logics in drastic contradiction with the original model (Olivier de Sardan, 1999:47).

African civil servants may agree, in principle, with the bureaucratic principles. Through their education and training they have internalised these ideas that follows the same principles as in the West. In practice, however, many of them work against it (ibid. 48). This is where the aforementioned cultural logics come in.

7.4 The ‘cultural logics’ of corruption in Africa

Corruption is ... as frequently denounced in words as it is practised in fact. But the verbal stigmatisation of corruption rarely leads to legal proceedings or sanctions (Olivier de Sardan, 1999:29).

Donor agencies, the International Finance Institutions (World Bank and IMF), African leaders, as well as the ‘grassroots’, all name corruption as one of the major hindrances for development in the region. Still, many researchers and journalists have noted that corruption in Africa is in actual practice *accepted*. People involved in corruption often see their own actions as legitimate, and “only the practices to which one falls victim or from which one is excluded are denounced as being corrupt” (Olivier de Sardan, 1999:34).

A major proposition in anthropological studies of corruption is that one will never be able to combat corrupt practices as long as the people who take part in them view them as acceptable. What we need to do, therefore, is to see corruption from ‘the actors’ point of view’. In Hindu culture for example, favouritism is legitimate, and therefore not considered corruption (Sissener, 2001:10). What kind of legitimation processes do we find in the African context? Olivier de Sardan (1999:36) focuses on a set of social practices that do not necessarily have anything to do with corruption, but which provide “a favourable ground for its generalisation and banalisation”. He singles out five ‘cultural logics’ which all provide a fertile ground for corruption:

1. gift-giving
2. negotiation
3. solidarity networks
4. predatory authority
5. redistributive accumulation

7.4.1 Gift-giving

The *logics of gift-giving* in Africa is the cultural logic that often is most readily identified as a facilitator for corruption. In most African cultures, gifts are traditionally given to people who carry good news, to musicians (especially praise singers), and to friends and family when returning from a journey. In Bantu tradition, it is not impolite to ask for a present. The request signals that you regard the person you ask as having a higher status than yourself (Pelt, 1971). Nowadays, gift-giving in Africa is usually a question of money. In contrast to the Western world, money is seldom represented as the antithesis of bonds of kinship and friendship. Consequently, there is nothing inappropriate about making gifts of money to cement such bonds (Bloch & Parry, 1989:8). Petty corruption tends to enter into the ‘gift’ category, often making use of the terms and expressions that are traditionally associated with gift giving. To *not* thank someone for a service is not only a sign of bad manners, but may also mean that one invites misfortune. As Olivier de Sardan rhetorically puts it, if a civil servant kindly disregards “the rigours of the law”, doesn’t he then deserve a gift? And why not just as well give the gift in advance?

There is a continuum rather than a gulf between bribing someone and thanking someone for services rendered. Between obtaining a favour from a friend in the civil service, which favour will be ‘returned’ later on, and slipping a bank note in return for the same favour to a civil servant whom one does not know, there is only a difference of form, be it monetary or not, in the exchange (Olivier de Sardan, 1999:35).

7.4.2 Negotiation

Corruption is a form of transaction. It follows from this that it is a subject of ‘bargaining’. Bargaining does not only concern the amount to be paid, but also the rules themselves. The

logics of negotiation that apply to marriage negotiations for example, also apply to corruption. “Petty corruption”, writes Olivier de Sardan (1999:37), “always has a necessary rhetorical dimension” to it. It is not uncommon to leave these negotiations to a middleman – a broker – who organises the transaction and who saves both parties time and risk.

7.4.3 Solidarity networks

The central role of solidarity networks and trust for innovation and economic development in both developing and developed countries has been richly documented (Malecki & Tootle, 1997, Murphy, 2002:592, Mytelka, 1993, Powell, 1990, Storper & Salais, 1997). The *logics of solidarity networks* entail an obligation of mutual assistance. This applies to friends of friends as well, so that the circle of people to whom one has responsibilities may be almost infinite. ‘Traditional’ networks are based on ascribed identities such as family or ethnic origin, but in modern, urban society, people find it even more useful to nourish networks that cut across such boundaries. Among the elite, the most central network is perhaps that of the ‘old boys’ who studied together under colonial rule or during the early years of independence (Kelsall, 2002). Institutions for higher learning were so few that those who studied there often belong to a bounded group who all know each other well.

According to some observers, there are parallels between village solidarity and this small ‘techno-political and political world’. It is argued that the elite in African countries tend to be so small that the price of open conflict is simply too high. This may be one of the reasons the culprits are so seldom prosecuted. Another reason might be that too many high-ranking people are involved. It has indeed been suggested that the majority of African politicians is involved in some kind of embezzlement (Olivier de Sardan, 1999:30). As a result, it is all too common in African countries to launch anti-corruption campaigns only to accept corruptive practices afterwards (Bayart 1993:226; Médard 1991; Reno 1995).

One example is the much-debated Warioba Commission on Corruption in Tanzania (URT, 1996). This Commission was initiated by Benjamin Mkapa when he took over the presidency from Ali Hassan Mwinyi in 1995. Mwinyi is said to have been very lax on corruption and the Commission’s report revealed several severe cases that were much debated in the media. Still, little has been done to prosecute the culprits. Similarly in Uganda, President Museveni seems to have become less and less willing to do anything about corruption among high-level officials. In 1998, he shocked both Ugandans and donors by stating that “corruption is not hurting development as long as the money does not leave Uganda” (Githongo, 1998).

The mutual protection among the elite does not go by unnoticed by the large majority who falls outside of the exclusive networks. In Tanzania, the underprivileged complain that during anti-corruption campaigns, only the ‘small people’ are caught and prosecuted, while the higher-level officials and businessmen go free. In Uganda, four high-ranking URA officials were put on trial for large-scale corruption in 2001. None of them were prosecuted, due to the simple fact that the judicial system itself was corrupt.

In some African countries, the authorities have sought to avoid the problem of mutually protective networks by appointing women in core positions (Tripp, 2001:117). Educated women have often studied at separate girls schools and are therefore considered less inclined to get involved in the (predominantly male) elite corruption networks. This does certainly not mean that women are innate or ‘naturally’ less inclined to get involved in corruption. But it may support the hypothesis that there is a connection between ‘old boys’ networks and mutual protection in cases of corruption.

In Uganda, this reasoning seemed to lie behind the appointment of Julia Sebutinde, high court magistrate, to head the Judicial Commission of Inquiry into corruption of the Police Force. One of the national newspapers in Uganda, *The Monitor*, commented on the appointment in this way (7 July 1999):

The master-stroke in the Sebutinde Commission is the choice to appoint a woman to chair it. It ensured the chair was unlikely to have chummy old boy links to the Police but a total outsider, who brings totally different values to the probe. If the chair had been a man, you would have a cover-up, complete with back-room deals being cut to soft-pedal on some of the boys. And because Sebutinde is well educated, cosmopolitan, holds the high office of judge, and is beautiful, she has presented the male establishment a force the boys simply don't know how to deal with (Quoted in Tripp, 2001:117).

As the investigations unfolded, Judge Sebutinde became a household name and drivers of minibuses would place “her picture on their windscreens to scare off policemen seeking bribes” (Tripp, 2001:117). After her success in uncovering corruption all the way to the top in the Police Force, Sebutinde was appointed to head the Commission of Inquiry of Corruption in the URA as well.

The appointment of Annebritt Aslund as Commissioner General of the URA may also be seen as part of this new strategy of placing women in key positions. While indigenous Ugandans have somewhat mixed feelings about the practice of appointing expatriates in key positions, Aslund’s candidature seem to have been very much applauded. This may partly have to do with her sex, but perhaps even more important is the fact that she had worked in the country for some years already, and had participated in media debates on tax questions. It was indeed her interventions in the media that made President Museveni aware of her and then decided to personally appoint her to the position as Commissioner General in 2001.

7.4.4 Predatory authority

Appointing expatriates in key management positions may be a technique to avoid the unfolding of what Olivier de Sardan calls ‘the logics of predatory authority’. The background for this way of exercising authority in Africa is partly to be found in the pre-colonial system, partly in the colonial form of administration. In many of the pre-colonial political systems, the chiefs were obliged to show largesse to all. ‘The capacity to redistribute’, writes Oliver de Sardan (1999:43), “was of course founded on patrimonialism, which regulated traditional power in the context of a confusion between the wealth of the state and that of the sovereign”. Thus, many contemporary leaders and civil servants see it as their *right* to exploit the opportunities that a given office offers.

Bill Saidi, editor of *Daily News*, Harare, similarly refers to the role of the chief when explaining the roots of corruption: “In a society where the chief traditionally can take whatever he wants – including as many wives as he wants – one is not too concerned if people have achieved their money in a fair way” (own translation from Norwegian, Saidi, 2002). Saidi argues that in Africa, in contrast to Europe, there is no strong resistance against corruption. In a society where redistribution at a private level is the norm, it doesn’t make much sense to oppose the rich. It simply costs the poor more to oppose the “haves” than to try to become a client of them. As Chris Waterman (1990:224) reports from his study in Nigeria: “Among the Yoruba urban poor ... class-consciousness is tempered by the near-universal belief that every

individual has a powerful kinsman or hometown mate who might be persuaded to act as a sponsor”.

7.4.5 Redistributive accumulation

Patron-client relationships, be they between relatives, ‘home-boys’ or friends, may spur corruption through what Olivier de Sardan has termed the *logics of redistributive accumulation*. Politicians at all levels – from local councillors to the president himself – need to enrich themselves in order to redistribute, a redistribution which is necessary in order to uphold their authority and their networks. Seen from the relatives’ point of view (and that of network associates), someone who holds a prestigious position must spread the benefit around. In fact, there is indeed considerable social pressure in the direction of the accumulation of wealth in view of redistribution:

Illegal enrichment and nepotism are definitely supported by positive social values, namely the necessity to seize all opportunities allowing for a manifestation of cardinal virtues, such as generosity, largesse and gratitude to all those who in the past, when you were unimportant, weak, in need, provided help, encouragement and support (Olivier de Sardan, 1999:43).

To accumulate then, even by corrupt ways, is not necessarily bad in itself. It is accumulation without distribution which is considered unethical (Barber, 1997). Only someone who accumulates, can redistribute, the entering point to an identity as ‘man of honour’ or ‘big man’ (*mkubwa*). In a recent interview, a senior official of the URA gives the example of two staff members from the same family. One of them is honest, the other is corrupt. The one who has *not* accumulated more than he could from his modest wage, is, according to our source, ‘regarded a fool by the society’ and earns no respect what so ever.⁵⁴ He can not offer needy relatives or friends any assistance to speak of. In their eyes his un-corrupt attitude is not only foolish, but in essence selfish (see also Médard, 1991).

The relationship to the extended family and other forms of networks is also pivotal for what generates shame in an African context. Corrupt practices are generally *not* linked to shame and people who engage in it often carry their activities out with a clear conscience. In contrast to Europe, writes Olivier de Sardan (1999:47), ‘borrowing’ from the cash box or bribing a civil servant does not generate shame. “Shame”, he says, “is a social morality, a morality based on other people’s opinions, rather than one based on an individual examination of conscience”. Since ‘shame’ is fundamentally situational, it plays upon another register than what it does in Europe, namely that of “the pressure of the family circle and its networks, that of ‘what will people say’, and this register favours rather than impedes the practices of the corruption complex”.

A study of corruption in Ghana confirms that corrupt officers did not express any guilt or shame over their actions (LeVine, 1975). In Uganda, the Inspector General of Government, Mr. Jotham Tumwesigye, addressed this problem in his speech at the opening of a workshop on public awareness against corruption in Uganda: “We would like to see public intolerance of corruption increased and people acquire property through corrupt ways held in contempt and not in esteem” (Tumwesigye, 1998).

Some observers argue that there is *no* social stigma for being dismissed from one’s position due to corruption in Uganda. In the URA, for example, there is a perception among some of the

⁵⁴ Personal interview 29 November 2002, Kampala (Siri Lange).

staff that the URA is a place to be for a few years to make money. Then, if one is finally caught, it doesn't hurt much to be fired.⁵⁵ Sociological work on sub-cultures and their universe of legitimation for producing self-justification can shed further light on the lack of shame found among corrupt African bureaucrats (Olivier de Sardan, 1999:35).

As long as corruption is legitimised as a natural part of public office and as a way to accumulate means to support dependants, its participants may view what they take part in as some kind of legitimate 'white corruption' - in the same vain as people in the Western world categorise some of their more innocent lies as 'white lies'.

7.5 Concluding remarks

Despite all the factors that favour corruption, one should be cautious against imputing corruption in Africa to some kind of 'African culture'. The cultural factor is there, but so are structural factors like low wages and the crisis of the African state. Development aid, with its 'project system', separate wage system, state-in-the-state development and mushrooming of NGOs, also plays an important role in the development of corruption (see Olivier de Sardan, 1999:32).

It is, unfortunately, extremely hard to turn the negative trend of corruption. As pointed out above, there is almost no practical ethic of the public service in Africa and with time, corruption tends to become 'engrained in social habits' (ibid. 34). This, however, does not mean that certain types of corruption is not stigmatised. Many current problems in Africa are attributed to it and the people who do *not* benefit from it often hope that a change of regime will bring an end to it. After the recent election in Kenya, for example, the *IPS News Service* referred to a jobless mother of seven who rejoiced Kibaki's victory. Not only did she believe that President Kibaki would bring employment, she also assured the journalists that he would "bring an end to the pervasive corruption in Kenya, where nothing is done unless you give a small bribe" (Salmon, 2002).

Moreover, it is important to acknowledge that some of the cultural logics that favour corruption, such as the redistributive system and solidarity networks, seem to be better fit than the failed 'modern' state under the present economic crisis that most African states go through. Solidarity networks ensure at least a minimum degree of redistribution at a time where the modern African state hardly fulfils this role at all. 'African culture' then, if we may use such a concept, facilitates corruption, but at the same time ensures that many unfortunate children get a chance to go to school, since their (in our eyes) distant relatives feel obliged to pay their school fees. As Roalkvam pointed out in her response to Spinnangers (2002) proposition that many of the present problems that African countries face (among them corruption) are due to certain African cultural characteristics:

(T)he so-called Western individual values seem to be well internalised in the African elite long before state institutions that are supposed to control the free conduct of individuals are in place. One does not need to call cultural values to account in order to disentangle family and the state. What one really needs, are state institutions that are capable of keeping them apart (own translation from Norwegian, Roalkvam, 2002).

The suggested remedies for the URA and the TRA - increased wages and better office facilities and infrastructure - do not guarantee that these institutions will become 'corruption free' zones.

⁵⁵ Personal interview with the Commissioner general of the URA Mrs. Annebritt Aslund, 29 November 2002 (Siri Lange).

On the contrary, positions in these institutions may be regarded extremely attractive, to the point that applicants may try to use their networks or even bribery in order to get hold of them (for the case of the TRA, see Fjeldstad, 2003). Furthermore, since corruption to some extent is more a question of *lack of social stigma* than low wages, high wages will not in themselves keep people away from corrupt practices. Decent wages, however, will enable the URA and the TRA to attract also those individuals who are *not* prone to corruption. The challenge then is to find these people and to secure enough funding to pay them well.

A more long-term challenge is to work for a reform of the public attitudes towards corruption in general. But, as argued by Olivier de Sardan (1999:34), for this to succeed one needs an almost utopian change at the administrative level since corruption is at the one hand, “a result of the incompetence of the state apparatus” and at the other, “its cause and agent of reproduction”. As long as the political elites are unwilling to give up some of their privileges and to reform, changing the general public’s attitudes may ultimately take the form of ‘puritanical’ movements based in the ‘grassroots’ (ibid. 48). As long as such movements tend to have their locus in fundamentalist versions of Islam or Christianity and in opposition to each other, this scenario is not one that gives much hope for a peaceful transition to less corrupt public sector institutions in Africa.

8 Lessons and implications for reform

8.1 Why have tax administrative reforms disappointed?

Several factors have contributed to the disappointing results of the TRA and the URA, and it is difficult to distinguish among these and to determine their appropriate weights. Some observers argue that a main cause is that low levels of human capital are responsible for the organisational failure. However, why should the revenue authorities perform less well over time, despite the extensive resources spent on capacity building and training of tax officers? Another view is that the informational environment in tax administration is constrained in many ways, for instance by a political environment that favours control over competition and incentive systems that have failed to function (see Klitgaard, 1997:223). Others argue that civil servants do not perform because they do not identify themselves with their countries, with national aims and the government elite. Finally, is the view that kinship and tribal networks put an emphasis on social obligations and re-distribution that mitigate against the development of a Weberian bureaucracy.

Without passing a verdict on these and other explanations, this report has emphasised the social and political dimensions of tax administrative reforms, and the limitations of some of the 'technocratic' approaches to institutional reforms taken by donors.

One lesson to be learned from TRA's and URA's first years of operation is that even with relatively respectable salaries and working conditions, corruption may still thrive (Fjeldstad, 2003). The study shows that pay level is only one of several factors affecting the behaviour of tax officers. In an environment where the demand for corrupt services is extensive and monitoring ineffective, wage increases may end up functioning as an extra bonus on top of the bribes taken by corrupt officers. Such a situation requires strong internal control mechanisms and effective sanctions that make it easier to dismiss staff.

Moreover, recent economic research on human behaviour also indicates that reformers and economists have an inclination to exaggerate the impact of monetary incentives because of a too narrow understanding of intrinsic motivation and group dynamics (see Frey, 1997). An additional aspect of wage incentives that has received little attention in connection with institutional reforms in Africa is associated with the role of family networks and obligations. Increased pay rates may also imply more extensive social obligations, resulting actually in a net loss to the individual. This state of affairs can develop into a vicious circle with higher wages leading to more corruption because the tax officer has to make up for the loss caused by such obligations.⁵⁶

Furthermore, the study shows that hiring and firing procedures may lead to more corruption. Corrupt tax officers often operate in networks, which include both internal and external actors. The way the administrative reforms are implemented, where many of those dismissed are recruited to the private sector due to their knowledge of the workings of the tax system and their inside contacts, may strengthen the corruption networks. Thus, a major challenge facing reformers of tax administrations is to crack corruption networks and the inherent trust that appears to prevail between members of such networks. One suggestion is to introduce rotation

⁵⁶ This point was raised by several past and present TRA-officials interviewed. See Rose-Ackerman (1998:317–323) for a discussion of the role of traditional networks in reform processes

systems for staff in tax administrations, where tax collectors remain only for shorter periods in the same post (Das-Gupta & Mookherjee, 1998). But a danger of the rotation system is that the uncertainty which is thereby created for employees may result in increased corruption as collectors may use the opportunity to try enriching themselves while they are stationed in the most 'lucrative' posts. The rotation of officials may also give corrupt superiors undue power. For instance, they might 'sell' assignments to attractive positions or reassign officials to remote stations as a punishment for honesty (Rose-Ackerman, 1999:84). The scarcity of qualified personnel like auditors and accountants further reduces the potential of rotation schemes in the poorest countries.

Experiences from Tanzania and Uganda also show that the establishment of a proclaimed autonomous authority with comparatively generous remuneration packages and substantial budgets has not protected them from political interference. To the contrary, as argued by Therkildsen (2002), it has made the revenue authority (RA) a more attractive target because the authority offers both relatively well paid jobs and considerable rent-seeking opportunities. Consequently, a revenue authority is vulnerable to political interference - especially in personnel matters. The empirical evidence supporting this finding 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:* RAs have become attractive targets of political interference due to both 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. The undermining of, for instance, Uganda Revenue Authority's autonomy became increasingly open once it did not meet its revenue collection targets after 1996.
- *Inflated expectations may help undermine autonomy:* Donors and the Ministry of Finance, by pushing for high revenue targets help to undermine the RA's credibility in the eyes of state elites and the public, because such targets create expectations that cannot be met.
- *Autonomous organisations often become easy targets for political blaming:* In Uganda, for instance, the public denunciation of the URA by high level political figures, the president included, has helped to undermine the credibility of the tax administration, and hence its capacity to enforce tax laws.

A major factor contributing to the failure of tax administrative reforms, which is also the case for many other types of public sector reforms, has been the 'technocratic' approach taken by reformers and donors.⁵⁷ Tax administrative reforms in poor countries have often been treated as an 'engineering problem' – and as such a phenomenon to be addressed through 'blueprint' or 'textbook' solutions. There seems to be an assumption that tax administrative problems and their solutions can be fully specified in advance, and that the required measures can be fully defined at the outset and implemented on a predictable timetable, over fixed period (Schacter, 2000:7). This accounts for the prescribed and mechanical approach usually favoured by donors, featuring quantitative performance targets, redrawing of organisational charts, rewriting job

⁵⁷ Schacter (2000) provides an insightful discussion of why many donor initiated civil service reforms have failed in developing countries.

descriptions, training courses for tax officers, installation of new systems for human resource and financial management systems, etc. Klitgaard (1997) refers to this as the ‘more approach’ (or the supply side approach); i.e., more training, more equipment, more technical assistance, etc. Such strategies may be necessary, but if the demand side of administrative reforms is being overlooked, this may lead to distorted incentives through technical assistance and also to undermining the government’s commitment to civil service reforms.

The technocratic approach has also overlooked the fact that reforming a tax administration, though it has important technical aspects, also is a social and political phenomenon driven by human behaviour and local circumstances. It is a long and difficult process that requires tax officers to change the way they regard their jobs, their tasks and their interaction with taxpayers. As argued by Schacter (2000), the technocratic remedies supported by donors has underplayed the degree to which progress in [tax] administration depends upon thorough ‘culture change’ in the public service. The motives of individual actors are often inextricably tied to the interest of the social groups to which they belong. In the URA, but also in the TRA, patronage runs through networks grounded on ties of kinship and community origin. As such, people recognise the benefits of large extended families and strong kinship ties, even as their social and economic aspirations may be unambiguously modern. This implies that such social relations may rule out the formal bureaucratic structures and positions. Fiscal corruption must therefore, at least to some extent, be understood in the context of a political economy in which access to social resources depends on patron clientilism.

A related problem in both the TRA and the URA derives from the micromanagement by the top-management. The Board sometimes also intervenes in the day-to-day operations. In Tanzania, for instance, the Board is engaged in ongoing cases with individual taxpayers.⁵⁸ This contributes to sidelining and demoralising the staff.

The ‘power of the purse’, added with quite definite ideas regarding what sort of institutional reforms are desirable, has led donor agencies to take the centre stage in the tax administrative reforms in both Tanzania and Uganda. In theory donors respond to needs identified by client governments. But, in practice they often identify clients’ needs for them (Polidano, 2001:7). In particular, this seems to have been the case in Uganda where the URA was set up by external consultants who arrived with a pre-fabricate, ‘blue-print’ for tax administrative reforms. Although the reforms were supported by the political leadership and senior officials in the Ministry of Finance for a number of years, this support now seems to erode. Thus, it is reasonable to ask whether the political support to establish a semi-autonomous revenue authority, as well as the support from the local bureaucracy, was genuine from the outset, or whether it reflected the bargaining power of donors. The assumption that donors can build state capacity despite the lack of effective internal demand for a more effective tax administration is highly questionable. Furthermore, donors may exacerbate the problems when there are several of them involved in the same field. This is observed in the Tax Administration Project (TAP) in the TRA, in which several donors are involved, including Danida, USAID, GTZ, EU and the WB. Representatives from both the donor community and advisors to the TRA complain that there is no clear focus in the TAP.⁵⁹ Moreover, the many donors involved contribute to overloading the capacity of the TRA and slowing down implementation of the administrative reform. Thus, Bulir & Moon (2003), in a recent review of the experiences with IMF-supported programmes to fiscal adjustment, conclude that ‘...*revenue enhancing measures, and perhaps*

⁵⁸ Personal interviews with advisors to the TRA 4 September 2002 and the URA March 2003 (Odd-Helge Fjeldstad).

⁵⁹ Personal interviews, Dar es Salaam, September 2002 (Odd-Helge Fjeldstad).

also technical assistance provided to program countries, failed to provide a sustainable increase in the revenue-to-GDP ratio' (ibid. 24).

This point about 'internal demand' for capable tax administration opens the door to an additional insight about the poor record of the revenue authorities in Tanzania and Uganda. A key problem is a failure of accountability between government and taxpayers (i.e., citizens).⁶⁰ The channels through which governments hold themselves accountable to citizens, and citizens communicate their demands for better government, are still highly dysfunctional in Tanzania and Uganda. For taxation to have a positive effect on democratic accountability, taxation must be 'felt' by a majority of citizens in order to trigger a response in the form of demands for greater accountability (see Gloppen & Rakner, 2002). But the tax reforms during the last decade in both Tanzania and Uganda have only to a limited degree succeeded in widening the tax base. It has proven difficult or even undesirable to apply the tax law with full force to informal operators. With food commodities often zero-rated and most agricultural inputs exempted, VAT has not included many new groups into the tax net.

Only formal business corporations appear to be visibly affected by the central government tax reforms (Fjeldstad & Rakner, 2003). The effectiveness of the Tanzania Revenue Authority with regard to business is illustrated by the fact that until 1995, Tanzanian manufacturers rarely raised the issue of taxation in member-meetings or in member-surveys carried out by their association (Confederation of Tanzanian Industries, CTI). Since 1996, however, taxation has become the main issue of concern. In Uganda, firm surveys reveal that high taxes, excessive levels of tax bureaucracy, ad hoc assessments, and audits are their major complaints (Obwona & Muwonge, 2002). However, there are indications that a voice and an organised response to the new revenue policies are developing within the business community in both Tanzania and Uganda (Luoga, 2002; Kasimbazi, 2003).

8.2 What works?

With respect to tax administrative reforms, we know at present more about what hasn't worked in the past than what is likely to work in the future. There are many cases of obvious failure, but few cases of unequivocal success.⁶¹ However, mistakes of the past provide indications of promising paths for future efforts. Thus, there now seems to be increasing awareness around approaches to tax administrative reforms should take into account the following elements:⁶²

1. Local leadership and ownership.

Lack of ownership, in particular among the officials who have to make the revenue administration work, is a critical issue for sustainability. Tax administrative reforms is unlikely to succeed if the main source of energy and leadership for it comes from outside. Donors should therefore not play a leading role and they should not dictate the content, pace and direction of tax administrative reforms. Moreover, it should be recognised that such reforms often are highly political processes that will inevitably pose a threat to important local stakeholders. Thus, strong and well-placed leadership of the revenue authority is essential for overcoming the political and bureaucratic obstacles that confront the TRA and the URA. This also requires a better demarcation of management authority between the board and the Commissioner General. A board acting as the chief executive is certainly not a recipe for a

⁶⁰ Gloppen & Rakner (2002) provide an interesting discussion of the relationship between taxation and accountability in the context of tax reforms carried out in some sub-Saharan African countries.

⁶¹ The Zambia Revenue Authority appears to perform better than most other revenue authorities in Africa (Rakner & Gloppen, 2003).

⁶² Many of these elements are also applicable for more general civil service reforms (see Schacter, 2000).

strong and effective daily leadership which the revenue authority needs. The present problems of micro-management and the board's involvement in day-to-day operations must therefore be addressed. This may imply a re-composition of the board that better matches the expectations of the Government about the status and performance of the tax administration.

2. *Political willpower*

The successful implementation of such reforms requires political will to back them up (Tanzi & Pellechio, 1997; Rose-Ackerman, 1999). An indication of the limited political willpower in Tanzania to fight fiscal corruption and tax evasion is the rise in tax exemptions granted in recent years. While exemptions accounted for 15.2% of total tax revenues (actually collected tax plus exemptions) in 1996/97, this percentage grew to 37% in 1998/99 (Mokoro and Oxford Policy Management, 2001). Experience has shown that tax exemptions create room for bribery and corruption, reduce the tax base, and increase loopholes for tax evasion (URT, 2002:19). In the 2002/03-budget, however, the Tanzanian Government discontinued customs duty exemptions for public sector imports of goods and services. This is a step in the right direction. But, many openings remain to abuse the system in both Tanzania and Uganda. The removal of tax exemptions, including those granted to aid organisations and their employees, would help boost the credibility of both the authorities and the donors in relation to anti-corruption measures, and, at the same time, contribute to widening the tax base and simplifying the tax system.

3. *Organisational culture and incentives*

Public institutions with a culture that is outcomes-oriented and 'mission-driven' appear to have higher levels of performance than organisations lacking these features (see Schacter, 2000). This underscores the importance of leadership styles and internal performance management practices that focus on results and service to the public. Moreover, in the tax administration an appropriate system for setting performance objectives and measuring progress against them need to be developed. Both the TRA and the URA are today top-down organisations characterised by submissiveness. Promotion is in general based on seniority. Younger staff members are given few opportunities to develop their skills. Incentives are in general weak in the sense that good performance is not rewarded and bad performance is not punished. Thus, a reformed pay structure and advancements mechanisms conducive to attracting, retaining and motivating highly qualified staff is required. Improved retirement benefits and physical working conditions ought to be part of this modernisation programme. However, such measures will most likely have only minor impacts without a major re-staffing which also includes the top management. At present, the core of committed staff, who are willing to participate in change, are captured by peer pressure to confirm to corrupt practices, or they are turned off by an apparent lack of interest by a management – and a board - that seems mainly concerned about maintaining *status quo*.

4. *Expatriate management and technical assistance*

Appointing expatriates in key management positions may be an efficient technique to avoid the unfolding of *the logics of patronage and predatory authority*. Thus, President Museveni, referring to the appointment of Annebritt Aslund as the Commissioner General of the URA, remarked that she came from a 'very distant tribe' (Taliercio, 2002:130). Given tribal interests and the prevalence of patronage in the public sector, the President seemed to indicate that it was necessary to hire an outsider in order to undertake serious reform. Experiences from the Zambia Revenue Authority show that expatriate senior advisors and top managers, who are in place for a limited period of time, can contribute to effective change by building integrity and professionalism in the organisation through systemic changes. Strong expatriate leadership

may more easily confront political and bureaucratic pressures, and may provide a 'buffer zone' within which systemic changes and new forms of staff behaviour are implanted. The required systemic changes include a rigorously planned and executed re-staffing process, including at the senior management levels, and introduction of human resources policies relating to transparent recruitment, adequate remuneration, pension/retirement schemes, etc. Such measures ought to take place before proceeding with traditional forms of technical assistance such as the design and implementation of integrated computer systems, organisation of formal training courses and on-the-job training, and process re-engineering in a wide range of areas, including better forms and filing, auditing and management of revenues, taxpayer education programmes, etc. The experiences with the latter forms of technical assistance for revenue enhancement and capacity building in tax administrations are mixed in Africa. In general, external assistance should have a pre-defined and limited time schedule, with clearly specified and verifiable outputs.

5. *Capacity building for taxpolicy-making in the Ministry of Finance*

Providing timely and well-argued policy advice to the revenue administration is regarded as a core responsibility of the Ministry of Finance. The MoF's capacity to fulfil this function is in short supply in Tanzania and Uganda, a problem that has been under-addressed by donors involved in tax administrative reforms. In particular, there is a need to strengthen the capacity for tax assessment and realistic budgeting.

6. *Private management and outsourcing of revenue collection*

Private management of the tax administration is raised as a possible approach in Uganda. But historical evidence (Webber & Wildavsky, 1986) and recent experiences from other African countries (e.g., Mozambique) give reason for concern: Such reforms have achieved few sustainable results; the transfer of skills has been limited and the contract has been very expensive for the government. Tax practitioners are therefore increasingly questioning the value of outsourcing tax administration.

Outsourcing of some customs activities, for instance, verification, convoy security and warehousing, can be appropriate, though recent experience suggests it may be expensive and susceptible to corruption. (Jenkins, 2003). Instead it might be a better approach to upgrading customs capacity to carry out the tasks. Outsourcing of other activities such as valuation and entry processing is fraught, since it places the collection of government revenue directly into the hands of non-government interests. In countries with a high level of corruption, there is no reason to believe that those interests will be any less corrupt or more transparent in their dealings than staff of the Revenue Authority. Furthermore, placing expatriate customs personnel in line jobs in operational units may compound the current failure to manage and, thus, entrench the problems.

7. *Taxpayers' voice*

Although local political and bureaucratic leadership is an essential ingredient for tax administrative reform, it is not sufficient. The tax administration cannot be relied upon to reform itself. The tax system is regarded as illegitimate by large numbers of taxpayers and citizens. Thus, to tackle the serious problems of taxpayer-tax administration relations impetus for reform must also come from taxpayers. Business communities, taxpayers' associations, trade unions and other influential domestic institutions have a critical important role to play in pressuring the revenue administration to do a better job of serving the society. There are today some promising indications that a voice and an organised response to tax policies is developing within the business communities in both Tanzania and Uganda. In Tanzania, a constructive

dialogue has developed between the government and the major business communities through their involvement in the 'Task force on taxation', which has contributed to an increased understanding on both parts on the needs of reaching compromises. This is important in a country where the private sector was completely shunned two decades back. The fact that these issues are being treated through formal, public organisations, rather than through bribery and public deals may indicate the beginning of a link between the private sector and the government in issues of revenue generation.

8. *Building accountability*

A strong bond of accountability between citizens (taxpayers) and the public sector may contribute to generate demand for tax administrative reforms. The performance of the tax administration is determined to some extent by the interplay between the public sector and the country's key institutions of accountability, including the legislature, the judiciary, the auditor general's office, the media, and organised civic groups such as major business communities and trade unions. Successful tax administrative reforms should therefore be adapted to and address shortcomings in the accountability environment within which the revenue administration operates. Reformers must have an appreciation of factors such as key institutions of accountability's access to information about revenue collection (what has been collected from who, where and at what costs), as well as their capacity to analyse information about the tax administration and place demands on it for better performance. Wide dissemination of information that allows citizens to monitor revenue collection and public expenditures may have a powerful positive impact on the attitudes and behaviour of both tax officers and taxpayers.

9. *Tax reforms*

While addressing many relevant issues, the tax reforms of the 1990s have failed to tackle serious problems of taxpayer-tax administration relations. Despite quite comprehensive changes in the tax structure (rates and bases) in recent years, the tax systems in Tanzania and Uganda are still complicated and non-transparent (World Bank, 2002; Obwona & Muwonge, 2002a). Tax legislation is unclear and causes random and partly *ad hoc* collection procedures (Luoga, 2002; Kasimbazi, 2003). Assessors are considered to have wide discretionary powers to interpreting tax laws, for instance, to allow or disallow expenses or charges, or to exempt import duty on items imported. Reforms of tax legislation and procedures, including measures to improve transparency in the taxpayer-tax officer relations, should therefore take place concurrently to reduce opportunities for corruption and the demand for corrupt services. If not, one faces the risk that the administrative reforms will leave behind highly paid, but also highly corrupt civil servants.

10. *Systemic changes: Gradualism versus a big push?*

Serious cases of corruption, involving high level and politically well connected officers are rarely investigated. Thus, with a few exceptions such as the ongoing court case against five senior officials of the URA's *Large Taxpayers Department*, investigations into fiscal corruption only touch the surface. For instance, the ongoing Inquiry of Corruption in the URA does not investigate systemic corruption and the role of family relations and nepotism in sustaining corruption networks. Tribal networks seem to be particularly strong in the URA and influence promotions and transfers within the organisation. There is a need to break the influence of these networks on the operations of the revenue authorities. This may take time to achieve and requires systemic changes and support from the highest level of the government.

Thus, neither key stakeholders in the central government nor donor representatives interviewed expect that the Commission will have much impact.⁶³

How do we deal with the problems which can be rooted in social norms and patterns of behaviour rather than administrative structures? One approach would be to broaden the scope of reform to encompass those root causes, based on the view that reform is meaningless unless it does so (see Polidano, 2001:3). Another would be to say that government should reform society before it can reform itself. Both arguments are commonly made. According to Langseth (1995a:366), '[a] wide-ranging, holistic approach is necessary because administrative failure in Uganda stems from far more than mere technical competence. The collapse of the 1970s and early 1980s was caused by a political breakdown'. This argument is supported by Dia (1994:19) who argues that countries with a high level of patrimonialism in government need a comprehensive institutional reform programme to 'correct patrimonial distortions in the institutional environment, the incentives framework, and the performance of core government institutions.' This boils down to an 'advance on all fronts' argument.

However, other observers point to the dangers of this approach. They complain about over-elaborate reform projects which attempt to address too many objectives simultaneously and which are beyond the capacity of poor aid dependent governments to implement (Polidano, 2001; Therkildsen, 2001). Thus, Manning (1995) argues that grand reform designs tend to squeeze out local innovations. Moreover, Klitgaard (1997:497), referring to performance incentives, claims that 'the idea of designing an incentive master-plan for every part of the civil service at once is misguided'. According to Klitgaard (1997), performance measures are so problematic that one should start with experiments and then learn from experience.

Evidence from both Western and low-income countries appears to favour the incremental approach. Polidano (1995) argues that the public management reforms in developed Commonwealth countries (new Zealand partially excepted) succeeded to a large extent because they were much more incremental than is commonly supposed. Furthermore, over-ambition is cited as a common cause of project failure in various countries (see Schacter, 1995).

This does, however, not imply that the Tanzanian and Ugandan governments should keep the scope of tax administrative reform limited. But when governments decide what measures to take as part of their reform programmes, they should bear in mind the state of the economy and the resources at hand (Polidano, 2001:5). In general, most poor countries have neither the political capital nor the administrative capacity to sustain more than a limited range of concurrent initiatives. An incremental process of change can add up to a radical transformation if it is sustained long enough. Unfortunately, experiences from both Tanzania and Uganda indicate that comprehensive reform programmes may be necessary to attract the aid money without which reform cannot proceed.

11. Reforms take time

Perhaps the most easily overlooked lesson about tax administrative reforms is that it takes a long time to achieve fundamental reform of a public institution (Schacter, 2000:10). The experience of Western countries illustrates this well. It took centuries for today's industrialised countries to develop reasonably effective tax administrations, while Tanzania and Uganda are

⁶³ Personal interviews, Kampala, March 2003 (Odd-Helge Fjeldstad). According to a Ugandan Parliamentary interviewed in May 2003, the lack of support to the Commission from senior politicians is because the top management of the URA supports the government. This contrasts the government's support to the investigation into corruption in the police, since the police was perceived to house widespread opposition.

attempting to achieve this in a couple of decades. It is therefore not surprising that the record to date has been full of failures and disappointments. Sustainable change demands sustained effort, commitment and leadership over a long time. Mistakes and setbacks are a normal and inevitable part of the process. The big challenge is to use failures as learning opportunities, rather than as excuses for abolishing reforms.

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Summary

The report explores factors that explain the observed patterns of corruption within the Tanzania Revenue Authority (TRA) and the Uganda Revenue Authority (URA). In particular, the study discusses the key assumptions behind the revenue authority model and the relevance of these in an African context characterised by scarcity of qualified tax officers, accountants and auditors, as well as clientilistic networks between political, bureaucratic and economic agents. Based on this analysis and in light of existing political, economic and administrative constraints, the study identifies options available for sustainable tax administrative reforms in the two countries. Issues of particular relevance for foreign assistance towards fighting fiscal corruption and strengthening tax administration are highlighted.

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