

Revenue Authorities: Experiences from sub-Saharan Africa

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Motivation

To compare the experiences with the revenue authority model in selected African countries

Does the establishment of a revenue authority lead to better revenue administration performance compared to what would have been the case had the tax administration remained a department of government?

Outline of the presentation

1. The Revenue Authority model
2. Rationales for establishing a RA
3. Experiences with RAs in different African countries
 - Measuring performance
 - Political interventions
 - Tax exemptions
 - Role of RAs in the tax reform process
4. Conclusions/Lessons learned
5. Questions for discussion
6. Areas for future SEAPREN research on tax administration

What is a Revenue Authority?

- A governance model for revenue administration where the revenue collection function typically is removed from the ministry of finance departments into an agency with a degree of autonomy from civil service rules to structure and manage it
- Semi-autonomous (SARA):
 - Less autonomous than a central bank
 - More independent than departments in line ministries, especially with respect to funding, budget flexibility, and human resources policy (hiring and firing, promotions, remuneration etc)

The RA-model addresses two major constraints in revenue administration:

1. Political autonomy

- Limit direct political interference in day-to-operations

2. Managerial autonomy

- Free the revenue administration from the constraints of the civil service system
 - Attract and retain quality staff by paying rates above the civil service regulations, and to make dismissals easier
- An attempt to create a credible commitment to taxpayers that the revenue administration will be more competent, effective and fair by delegating power to tax bureaucrats

Arguments in favor of RAs

1. Public revenue enhancement reflected in higher tax ratios and real revenue growth
2. Greater efficiency in public resource utilization via financial and administrative independence/managerial autonomy
3. Employment of a competent, disciplined, and more qualified staff via the freedom to offer higher compensation than the civil service and the freedom to recruit and fire on own terms
4. De-politicization of tax administration
5. Reduced corruption, thereby improving the credibility of taxation in particular and the government in general
6. Improved taxpayer services and reduced taxpayer compliance costs
7. Better work ethic and modification of administrative culture from reactive, bureaucratic, and hostile to proactive and professional
8. Comprehensive accounting for all tax revenues
9. Integration of tax and taxpayer-related databases

Counter arguments against RAs

1. Represents an enclave approach to public sector reform - in the absence of broader public sector reforms it will become isolated and far less effective
2. Creates an inherent conflict with the MOF - a disjuncture between accountability and authority
3. Generates resentments in other public sector entities and leads to enhanced public sector institutional rivalries
4. Tends to over-emphasize tax collection rather than fundamental and more broad-based administrative reforms
5. Interferes in the formulation of tax policy, an essential responsibility of the MOF and the legislature
6. Creates a “super entity” which, without strong and honest leadership and solid accountability mechanisms, may abuse its taxing powers and also become another source of governmental corruption
7. Establishes an “unnecessary” organization whose tax collection functions, given the political will and resources, could be upgraded within already existing departments of the MOF

Revenue Authorities in Africa (2006)

Country	Board	HR autonomy	Funding
Ghana (1985) – n.i.			
Uganda (1991)	Yes	Yes	Normal budget&Parl approp+
Zambia (1994)	Yes	Yes	Normal budget&Parl approp
Kenya (1995)	Yes	Yes	1.5% of est. rev.+3% exces
Malawi (1995)			
Tanzania (1996)	Yes	Yes (Min)	Normal budget&Parl approp+
South Africa (1997)	No	Yes	Normal budget&Parl approp+
Rwanda (1998)	Yes	Yes	Normal budget&Parl approp
Zimbabwe (2001)	Yes	Yes	Normal budget&Parl approp
Ethiopia(1997/2002)	No	No	Normal budget&Parl approp
Sierra Leone (2002)			
Lesotho (2003)	Yes	Yes	2% of est. revenues +
Botswana (2003)	Yes	Yes	Normal budget&Parl appr +
Gambia (2005)			
Mauritius (2005)	Yes	Yes	Normal budget&Parl approp ⁸

IMF-survey (2006): Reasons for establishing the RA ranked from 1 (highest) to 7

	A	B	C	D	E	F	G
Botswana	2	3	6	4	5	7	1
Ethiopia	1	3	6	2	5	4	7
Kenya	1	2	3		4	5	
Lesotho	7	6	1	3	4	5	2
Mauritius	1	3		4	5	2	
Rwanda	3	2	7	1	4	6	5
South Africa	1	2		3	4	5	6
Tanzania	1	6	2	4	3	5	7
Uganda	1	2	6	3	5		4
Zambia	1	6	7	2	4	5	3

A= low effectiveness of tax administration and poor levels of compliance

B= impediments caused by poor civil service human resources policies

C= perceptions of political/ministerial interference

D= need for a catalyst to launch broader revenue administration reform

E= poor communication and data exchange among the existing revenue departments

F= high levels of corruption

G= desire to create islands of excellence

Reasons for establishing the RA

No single reason was identified by all respondents as being the main motivating factor for the establishment of the RA

1. The highest priority reason for establishing an RA was low effectiveness of tax administration and poor levels of compliance
2. Need for a catalyst to launch broader revenue administration reform
3. Impediments caused by poor civil service human resource policies
4. Poor data exchange among the existing revenue departments (e.g. income tax, sales tax, and customs)
5. A desire to create islands of excellence

High levels of corruption, was cited (ex post) by the fewest number of countries and ranked last on the list

This answer contrasts with what is reflected in the background documents and arguments (ex ante) behind the establishment of RAs in several countries:

Corruption is there cited as one of the main reasons

Experiences with RAs: a 'roller-coaster ride'

Three stages of the RA evolution

Stage I: Decision to establish the RA

- Increase revenues
 - De-politicize the tax administration bureaucracy
 - Reduce corruption
- RA legislation: essential to put in place legislation that establishes & defines the RA's institutional and technical base
- Challenges: relations to MoF, the Board's role and composition, funding, etc
(revisions/amendments to the RA Act)

Stages of the RA-evolution: a 'roller-coaster ride' (cont)

Stage II: Commencement and rise in tax ratios and efficiency indicators

- Disengagement process from the MoF
- Putting in place new administrative structures
- Appointment of new leadership
- Hiring of staff, wage incentives, internal controls, codes of conduct
- Steps to reduce political interference

→ **The 'RA-effect':** Increase in tax ratios and real revenue collections

- RA perceived as a credible and fair alternative to previous tax administrations
- Improved taxpayer compliance
- Reduced corruption

Stages of the RA-evolution: a 'roller-coaster ride' (cont)

Stage III: Divergences on the road to enhanced performance and sustainability

- **After the 'honeymoon': Insiders' and outsiders' learn how to 'game the system'**
- **Divergent paths in different countries:**
 - (i) Steady, but slower institutional improvement
 - (ii) Relative stagnation
 - (iii) Backsliding

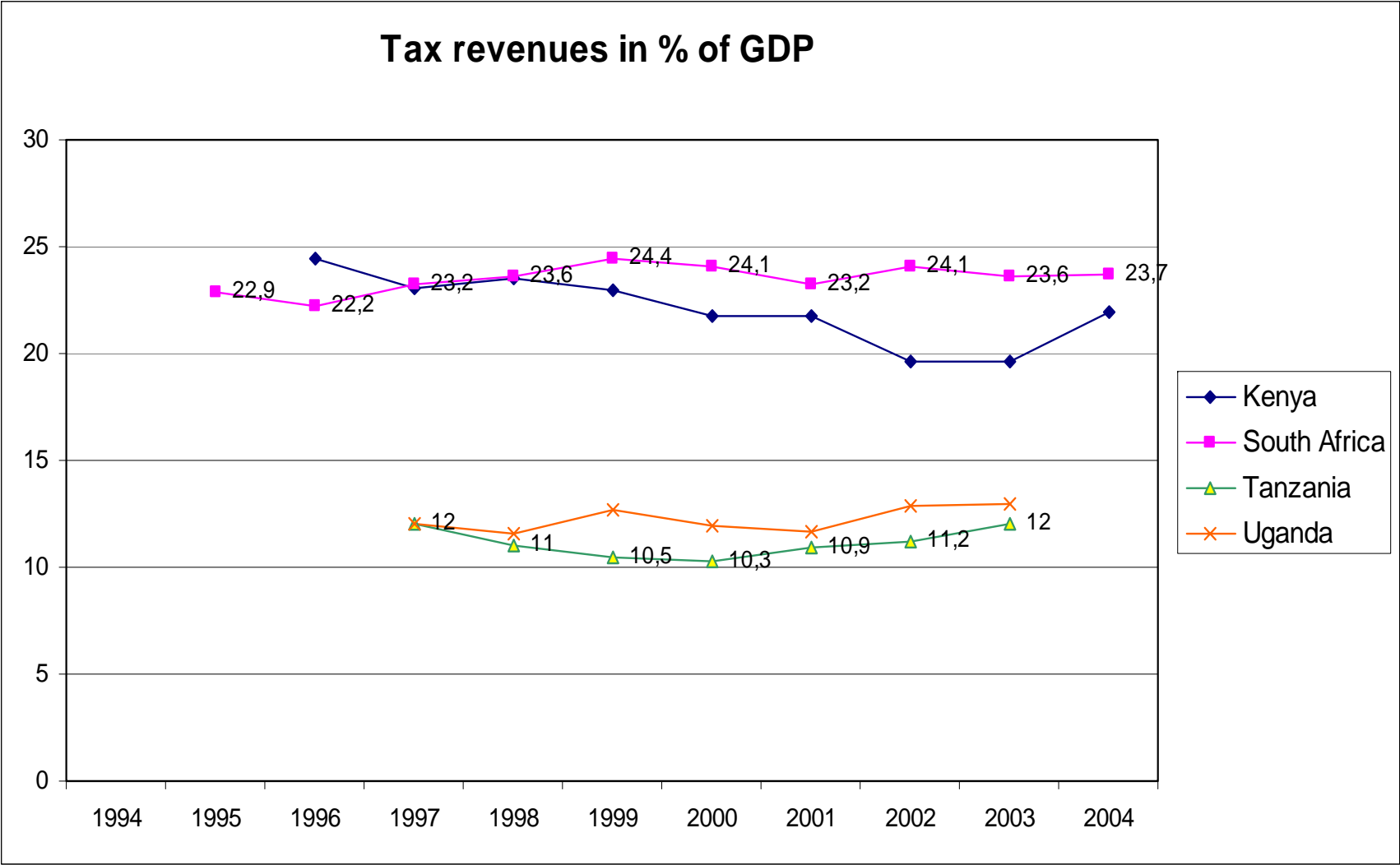
Why backsliding in some countries?

- **Limited changes in taxpayers-tax adm relations (accountability)**
- **Conflicts between RA and MoF on tax policy design**
- **Tax policy changes create barriers to better tax administration**
- **Difficult to maintain political support**
- **Micromanagement by the RA Board**
- **Corruption networks - revitalised and strengthened**
- **Discretion in application of legislation (exemptions)**

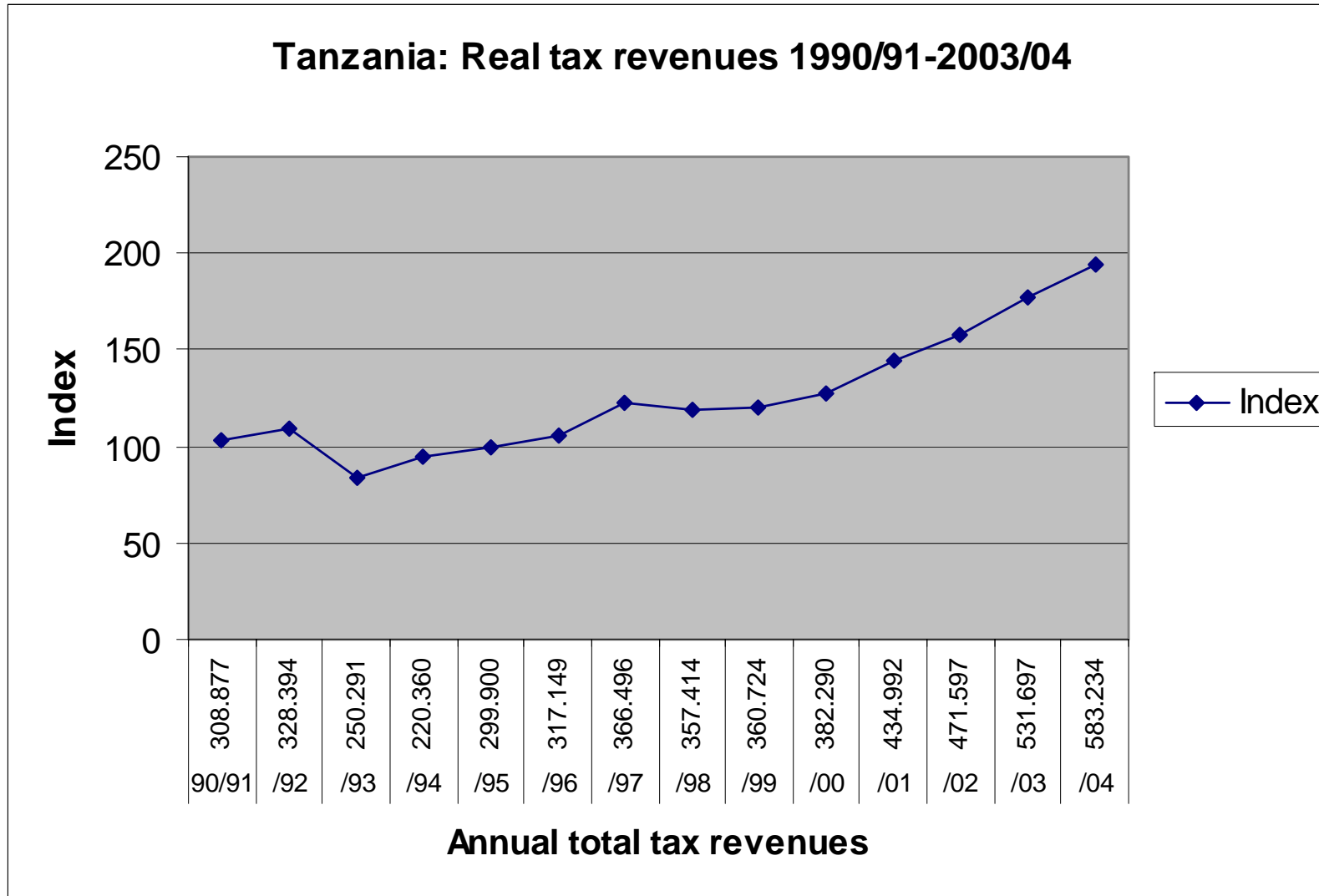
RAs not protected from political interventions

- Politics dominates over law: Legal provisions for organisational autonomy have limited importance in contexts where political elites do not respect them (e.g. granting **tax exemptions**)
- Attractive targets of political interference due to both comparatively favourable remuneration packages and to rent-seeking opportunities
- Inflated expectations may help undermine autonomy: Ministry of Finance and IMF/Donors, by pushing for unrealistically high revenue targets help to undermine the RA's credibility in the eyes of state elites and the public
- Autonomous organisations often become easy targets for political blaming:
 - Museveni, Uganda (2000): 'URA is a den of thieves'

Performance measured as the tax-to-GDP ratio



Performance measured as changes in real tax revenues



Performance indicators

Tax Administration Project (TAP) - Tanzania

Effectiveness indicators

Tax gap

Number of
declarations/registered
taxpayers

On time declarations/Total
declarations

Arrears recovered

Efficiency indicators

Registered taxpayers per
employee

Collections per employee

Tax arrears as % of annual
revenue

Tax revenues/GDP

- Baseline (av. 1996/97-1997/98): 12.4 %
- 2002: 13.3 %
- 2004: 14.8 %

IMF-survey (2006): African RAs' Self-Assessment of Effectiveness
Degree of impact of the RA-model on specific issues

(10=highest and 1=lowest)

	A	B	C	D	E	F	G	H	I	J	K	L	M	N	O	P
Botswana	5	2	8	4	7	4	4	4	6	2	5	5	5	n/a	8	4
Ethiopia	8	5	5	5	6	7	3	8	5	n/a	2	3	3	2	5	3
Kenya	6	n/a	10	5	7	7	4	6	5	4	7	10	7	7	7	7
Lesotho	10	10	10	10	6	4	10	10	10	10	10	10	10	10	10	6
Mauritius	n/a	n/a	7	7	n/a	n/a	n/a	n/a	n/a	n/a	8	8	5	5	8	n/a
Rwanda	10	9	10	8	9	10	9	10	10	8	9	9	8	10	10	10
South Africa	10	0	8	2	10	10	10	8	6	7	6	7	10	7	9	10
Tanzania	9	n/a	n/a	9	8	9	8	7	8	7	7	7	8	8	8	8
Uganda	10	3	8	6	5	8	5	7	6	6	7	5	6	6	8	4
Zambia	10	9	8	5	10	7	6	10	10	7	10	10	7	7	10	7
Zimbabwe	8	2	9	1	5	7	5	6	5	5	8	10	9	9	7	6

A=increase tax revenues

B=introduce self assessment

C=integrate tax adm.

D=introduce taxpayer segmentation

H=improve automation

I=simplify laws, regulations, procedures

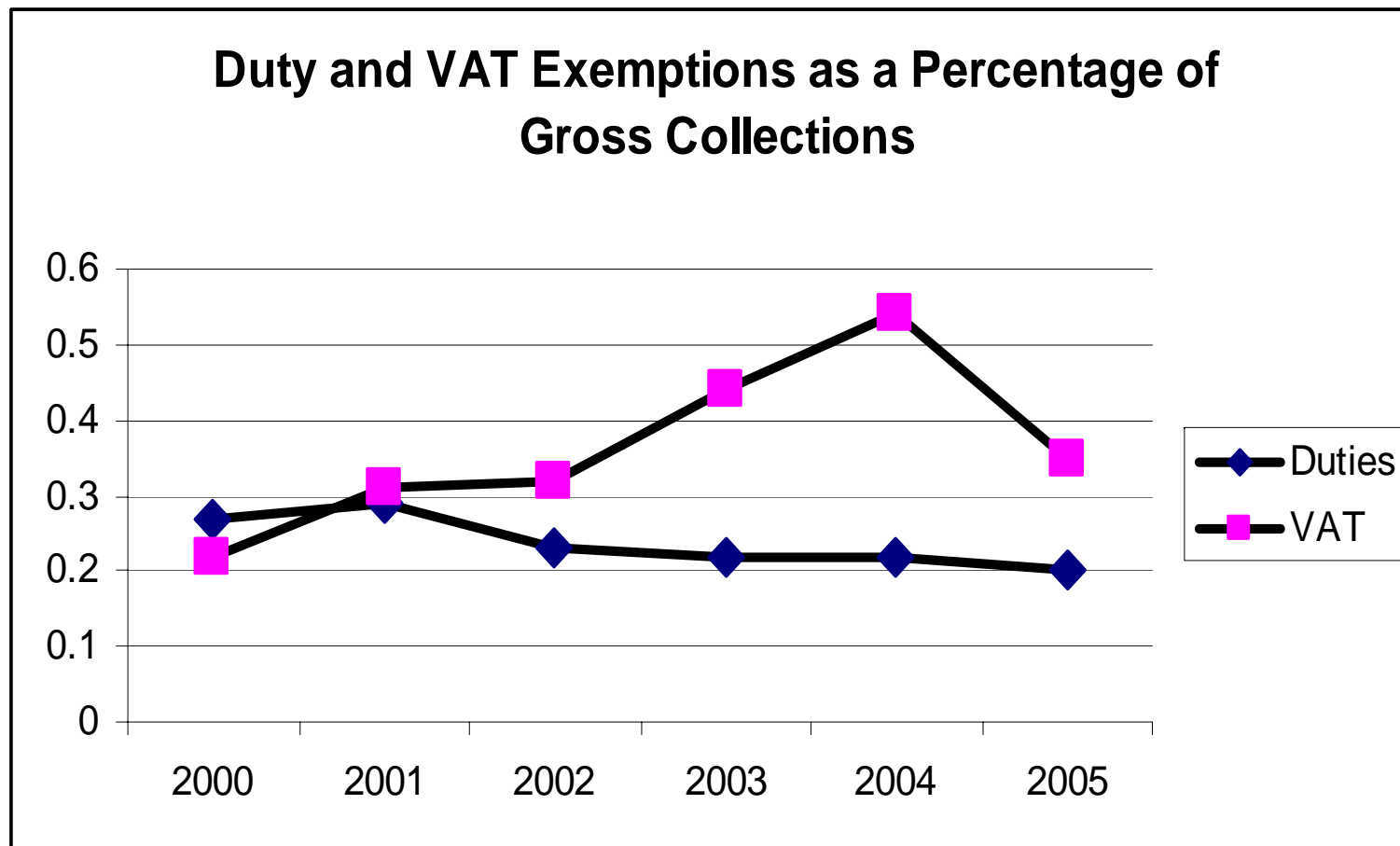
J=improve valuation, classificat., origin

K=improve HR regime

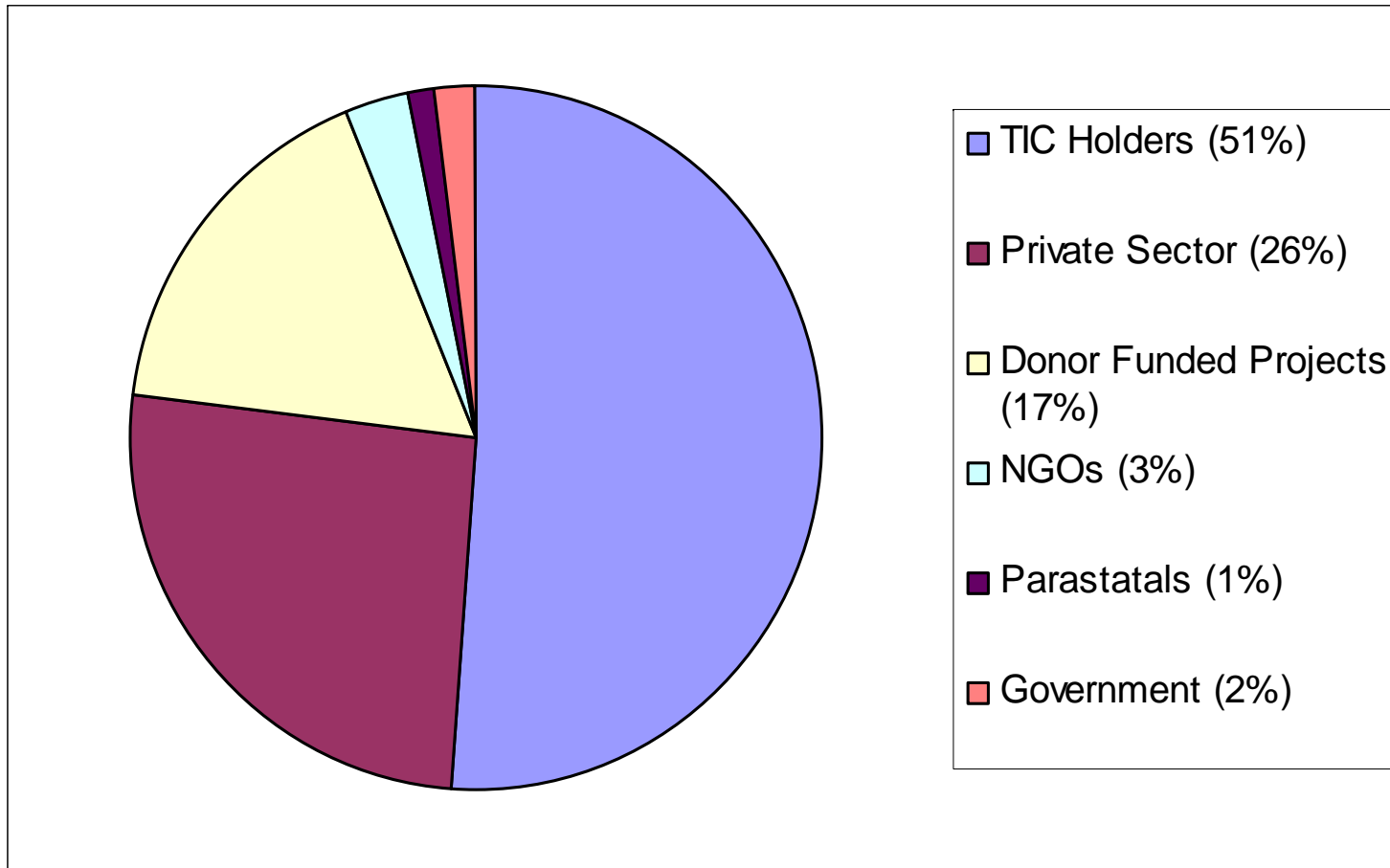
L=improve remuneration

Discretion in application of tax laws & pol interventions

Tanzania: Tax exemptions erode the revenue base



Shares of beneficiaries of customs exemptions in Tanzania (2005)



The role of the RA in formulating tax policy and relations to the Ministry of Finance

- The RA is involved in tax policy formulation in some countries
- Tanzania: revenue targets are set on the basis of negotiations between the TRA and the Ministry of Finance
- Collection targets for TRA's revenue departments are set by TRA's Research, Planning and Policy Dept.
- Is this problematic, and why? Or why not?
 - Moral hazard when the tax collection agency sets its own performance targets, but ...
 - Capacity constraints facing both TRA and MoF
 - Good working relations between RA and MoF important
 - May strengthen the capacity to estimate revenue effects of proposed changes
 - Short vs long term solutions

Conclusions: Summary of RA-experiences in Africa

- There is no typical RA story to tell
- The establishment of a RA offers no “quick-fix” to a country’s revenue and tax administration quandaries
 - Creating a RA is expensive, may take a long time and require significant effort
 - Inconclusive evidence whether RA has led to better revenue administration performance compared to what would have been the case had the tax administration remained a department of government
- RAs have received a great deal of HR autonomy
 - Potential for improving performance
- A RA can establish a platform from which change can be facilitated, but ... its initial impact and longer-term successful performance, depend on
 - the strength and quality of RA leadership
 - political commitment
 - sustained public and private sector support

Questions for discussion

1. Funding of the Revenue Authority

- Many Revenue Authorities in Africa are funded through the 'general government budget and Parliamentary appropriation'. What constraints does this imply on the RAs operations?
- What alternative funding mechanisms are realistic to put in place in your country to secure the financial autonomy of the RA and stability for planning purposes?

2. Political interventions

- What types of political interference are revenue authorities most vulnerable for?

3. Accountability

- To what extent have the RA-reforms succeeded in creating more efficient and trustworthy tax systems?

SEAPREN Phase 2:
Possible areas for future research on
taxation & tax administration

- I. Measuring performance of the tax administration
- II. Relations between the revenue administration and the Ministry of Finance
- III. Taxation and accountability: The political economy of tax exemptions
- IV. Harmonisation of central and local government tax systems in the SEAPREN countries
- V. Strengthening the social fiscal contract in the SEAPREN-countries: Tax compliance and service delivery
- VI. Taxing the informal sector: Challenges for revenue enhancement and broadening the tax base in the SEAPREN-countries