

# Taxation, Aid and Democracy: The evolution of tax systems in Africa

Odd-Helge Fjeldstad

Final conference of the research programme  
**Development Paths in the South**

Oslo, 10 March 2008

## Outline of the presentation

1. Background and motivation
2. Organisation of the research project
3. Findings
4. Continuation of research on taxation and development

# 1. Background and motivation

“The history of state revenue production is the history of the evolution of the state” (Margaret Levi, 1988:1)

## **Main proposition:**

- The way the new and evolving democracies in Africa tackle the issue of domestic revenue generation will significantly influence their potential for economic growth and democratic consolidation

## **Research objectives:**

1. To contribute to a better understanding of the evolution of tax systems in African countries (i.e. tax policies and implementation arrangements)
2. To explore the constraints and options available for tax policy making and implementation in light of current political, economic and administrative reforms

## **Case countries:**

- Tanzania, Uganda and Namibia

## 2. Organisation of the research programme

### Disciplines

- Theoretical perspectives and methods primarily based in **economics** and **political science**, but also involved public administration, law and economic history

### Research partners

- Chr. Michelsen Institute (CMI)
- Danish Institute for International Studies (DIIS)
- Economic Policy Research Centre (EPRC)
- Faculty of Law, Makerere University
- Faculty of Law, University of Dar es Salaam
- Institute of Economics (IE), Makerere University
- Namibia Economic Policy Research Unit (NEPRU)
- Norwegian School of Economics and Business Administration (NHH)
- Research on Poverty Alleviation (REPOA)
- Uganda Debt Network (UDN)

### Project period

- October 1999 – End 2003

### Funding

- Research Council of Norway (NOK 3.2 mill)
- DANIDA (DKK 1.72 mill for partners in Tanzania and Uganda)
- Own sources (CMI, DIIS, Nepru, ACBF)

### 3. Among the key findings are:

- Coercion, conflicts and methods of tax collection - rather than politically negotiated contracts about services in exchange for taxes between citizens and rulers – are central for the size of revenue mobilisation in the case countries
- Administrative problems and political interference in the actual implementation of tax policies are often bigger obstacles to increased revenue than lack of political will to change tax policy
- To the extent that state-citizens relations are influenced by taxation, local government taxation is central to a better understanding of state-citizen relations

### 3.1 The politics of taxation

- Taxation generally *not* high on the domestic political agenda in the case countries
- The politics of taxation tend to take place in non-public arenas
- Typically, small lobby groups pressure for exemptions, for rate reductions on imports, or bargain with officials or ministers about tax liabilities
- Major debates in Parliament about tax issues or about tax reforms are rare as are statements by political parties about *their* tax policies
- Central government taxation is shaped by technical staff (from MoFinance, RAs and donor advisors) rather than by Parliament
- Local government taxation is a major exception to this:
  - Around election time, local gov. taxation often high on the political agenda of both national and local politicians
  - The politicisation of local gov. taxes undermines tax collection efforts

## 3.2 Taxation, aid and accountability

- **Aid dependence has grown in Africa since independence:**
  - How does aid dependency affect accountability relations between state and society?
  - Does aid dependency reduce domestic efforts to raise taxes and undermine the future sustainability of the public sector?
  
- **Aid has certain similarities with oil as a form of revenue**
  - Empirical evidence that oil and mineral rich countries tend to be less democratic than states which depend on taxation of citizens for their fiscal base
  
- **A main difference between oil and aid income** is that donors are increasingly directly involved in recipient country tax policy making and administration:
  - Donors push for ambitious overall revenue targets
  
  - In some contexts this may have significant but unintended negative influences on:
    - Taxpayers' rights through coercive tax enforcement
    - Accountability by empowering the bureaucracy at the expense of elected politicians

### 3.3 Reform of tax administration: Semi-autonomous revenue authorities

- Two factors are highlighted:
  - The limits of autonomy
  - Patterns of fiscal corruption
  
- Revenue authority not protected from political interference
  
- In a situation with high demand for corrupt services, it is unrealistic to provide tax officers with pay rates that can compensate for the amount gained through bribery

### 3.4 Local government taxation

- Despite major central government tax reforms, local government tax systems have remained largely unchanged
- Local tax systems often are distortive, costly to administer, and exacerbate inequity
- In all three case countries little or no co-ordination on taxation was observed between various levels of government
- Double-taxation of the same revenue base common, as well as inconsistencies between local and central government tax policies
- While central government taxes affect only relatively few people directly (perhaps less than 5% of the total population), local government taxation affects many more
- To the extent that state-citizens relations are influenced by taxation, local government taxation is therefore central to a better understanding of state-citizen relations

**Communication of results:***Types and number of publications (by Dec 2003)*

<b><i>Type of publication</i></b>	<b><i>Number</i></b>
Articles published and forthcoming in international refereed journals and edited books	21
Articles published in journals and books in Denmark, Norway and Tanzania	8
Articles submitted for publication in international journals	5
Working papers (DIIS, CMI, NEPRU)	12
Papers presented at international conferences, workshops and seminars	30
Popularised feature and debate articles in newspapers and newsletters	10
Papers under preparation (including working and conference papers)	19
<b><i>Total</i></b>	<b><i>105</i></b>

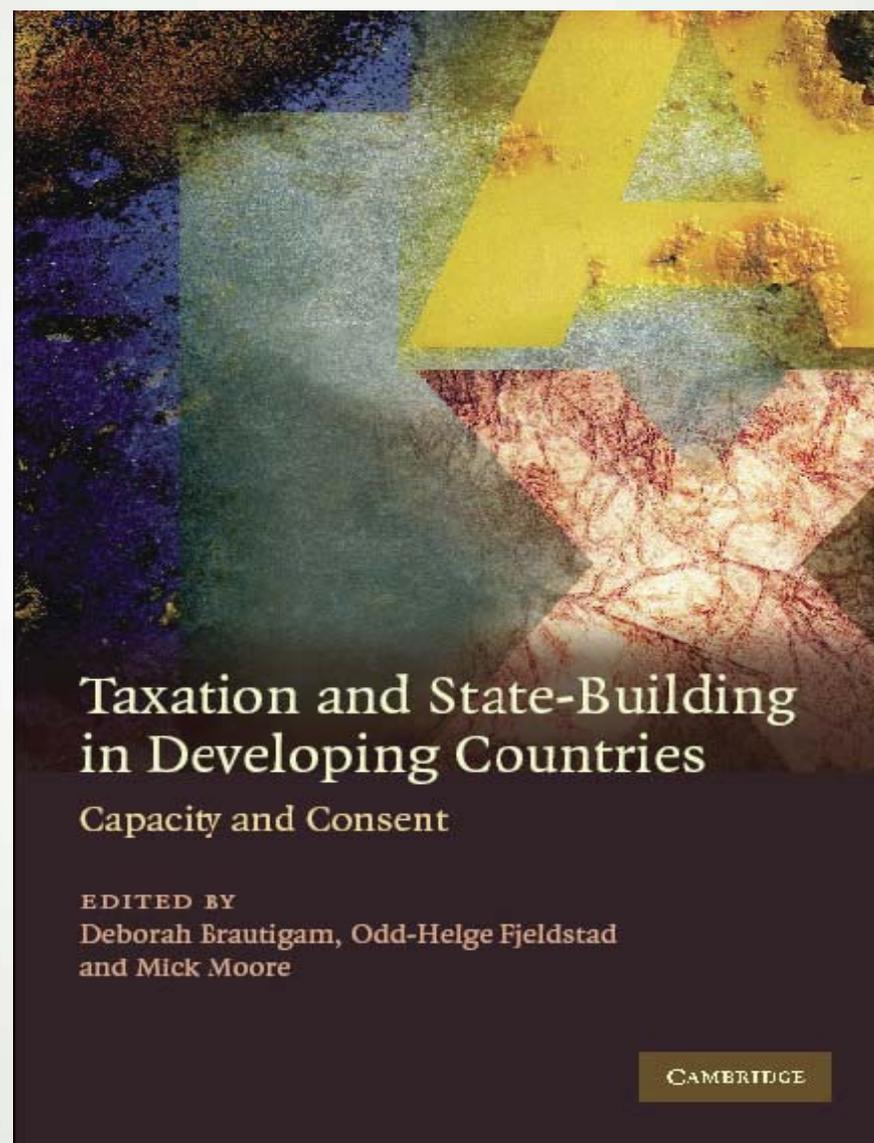


IDS Bulletin (vol. 33, no 3) edited by Mick Moore and Lise Rakner: A collection of papers from the programme that is representative of the aggregate work done before 2002



## 4. The theme of the research project continues to be relevant

- African countries remain as aid dependent as ever
- The issue of whether foreign aid preempts the opportunities for building local political accountability has become even more pertinent
  - Budget support
  - Corruption
- Taxation and state-building:
  - How do taxation and sources of public revenue affect state-building and governance in contemporary developing countries?
  - What sort of arrangements might be politically feasible to enable governments to tax more effectively, equitably and sustainably, and hence improve the chances for constructive bargaining with citizens over tax?



# Taxation and State-Building in Developing Countries

Capacity and Consent

EDITED BY  
Deborah Brautigam, Odd-Helge Fjeldstad  
and Mick Moore

CAMBRIDGE