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Building taxpayer culture in Mozambique, Tanzania and Zambia: Achievements, challenges and policy recommendations

Odd-Helge Fjeldstad and Kari K. Heggstad



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"We need to focus on educating future generations of taxpayers. The current generation is lost."
Statement by tax officer in Zambia.

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recommendations

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The *Terms of Reference* defined the assignment as a desk study with shorter fieldworks in each of the three countries. Part of the work involved reviewing and synthesising existing material both published studies as well as grey literature provided by the revenue authorities in Mozambique (ATM), Tanzania (TRA) and Zambia (ZRA), the Norwegian (NTA) and South African (SARS) tax administrations, the Norwegian embassies in the three countries, Norad and other development agencies, including the IMF, DFID, GIZ, Danida and JICA, business associations, and from research institutions and civil society organisations. The study has also benefited from the CMI Library's large collection of tax literature.

The fieldworks took place during October and November 2011 and included interviews with senior managers in the AT, TRA and ZRA, staff of the Ministries of Finance in Mozambique, Tanzania and Zambia, donor officials, local NGOs, business people, representatives of business associations, and researchers involved in tax related work. The purpose of the fieldwork was to give the study a necessary 'reality check' as well as updated and new inputs to the report.

The study team consisted of Dr Odd-Helge Fjeldstad (economist, project leader) and Kari K. Heggstad (political scientist).

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Odd-Helge Fjeldstad and Kari K. Heggstad

Chr. Michelsen Institute and the International Centre for Tax and Development

Acronyms

ACBF	African Capacity Building Foundation
ACET	Centro Africano Pura Transformacao Económica
AERC	African Economic Research Consortium
AfDB	African Development Bank
AFRITACs	African Regional Technical Assistance Centres
ATAF	African tax Administration Forum
ATI	African Tax Institute
AT	Tributária de Moçambique (Mozambique Tax Authority)
CIP	Centro de Integridade Pública (Center for Public Integrity)
CMI	Chr. Michelsen Institute
CREDAF	Centre de Rencontres et D'études des Dirigeants des Administration Fiscal
CSO	Civil Society Organisation
Danida	Danish International Development Agency
DFID	Department for International Development (United Kingdom)
EAZ	Economics Association of Zambia
EC	European Commission
EITI	Extractive Industries Transparency Initiative
ESAURP	Eastern and Southern African Universities Research Programme
ESRF	Economic and Social Research Foundation
EU	European Union
GFI	Global Financial Integrity
GIZ	Gesellschaft für Internationale Zusammenarbeit (German Agency for International Cooperation)
GOT	Government of Tanzania
GRZ	Government of the Republic of Zambia
ICTD	International Centre for Tax and Development
IESE	Instituto de Estudos Sociais e Económicos
IGC	International Growth Centre

IMF	International Monetary Fund
ISPC	Simplified Tax for Small Contributors
KfW	KfW Entwicklungsbank (The German Development Bank)
MoF	Ministry of Finance
NCA	Norwegian Church Aid
NGO	Non-governmental organisation
Norad	Norwegian Agency for Development Cooperation
NTA	Norwegian Tax Administration
ODA	Official Development Assistance
OECD	Organisation for Economic Cooperation and Development
OECD DAC	OECD Development Assistance Committee
OECD CTPA	OECD Centre for Taxation Policy and Administration
OFU	Oil for Development
PWYP	Publish What You Pay
RA	Revenue Authority
REPOA	Research on Poverty Alleviation
RWI	Revenue Watch Institute
SARS	South African Revenue Service
SSA	Sub-Saharan Africa
TIN	Tax Identification Number
TJN	Tax Justice Network
TRA	Tanzania Revenue Authority
ZBC	Zambia Business Council
ZIPAR	Zambia Institute for Policy Analysis and Research
ZMK	Zambian Kwacha
ZRA	Zambia Revenue Authority
ZTP	Zambia Tax Platform

Executive summary

This study is motivated by the desire of the Governments of Mozambique, Tanzania and Zambia, and in particular the revenue authorities in the three countries to build taxpayer culture, primarily to increase domestic revenues and promote equity and fairness in the tax system. The study was commissioned by the *Norwegian Agency for Development Cooperation* (Norad) for the purpose of systematising and analysing strategies and measures that aim to encourage taxpayer compliance through taxpayer education and constructive engagement between governments and citizens over taxation issues. Experiences from each of the three countries – and relevant lessons from other countries – are examined. On this basis the study provides recommendations to Norwegian authorities on how this knowledge can be translated into practical, effective and concrete development policies.

Conceptual framework

Compliance refers to the degree to which taxpayers meet their obligations under the tax law. This is not just an issue of technical compliance, but the building of taxpayer behaviour or a taxpayer culture in which compliance to the spirit of the tax law is commonly perceived as a positive social value.

The government's ability to collect taxes depends on peoples' and businesses' willingness to pay them. Understanding how taxpayers think about and experience taxation may provide an essential diagnostic of the political realities for reform and for the implementation of effective policy and administrative measures. Measures to enhance tax compliance and build a taxpaying culture need to be tailored for the different segments of taxpayers and the specific constraints they face.

Taxpayer compliance largely depends on having a favourable attitude towards the tax system, and in particular on considering that it is generally a fair and just system. Factors affecting compliance behaviour include: (a) people's sense of moral obligation to pay, i.e.

the intrinsic factors that induce the taxpayer to pay taxes 'voluntarily', defined as an intersection of individual and societal values and norms; (b) the extent to which taxpayers believe that the government spends their tax money wisely; (c) fair and transparent treatment of taxpayers by the tax administration; (d) the magnitude of the tax burden; (e) the ease of compliance; (f) the speed and accuracy of detection of non-compliance; (g) the speed and accuracy of corrective measures; (h) the severity of the deterrent measures; (i) perceptions of whether others are paying their fair share; and (j) taxpayer knowledge, i.e. skills that allow the taxpayer to pay taxes.

The study identifies three partly interlinked areas for interventions are identified to build taxpayer culture and enhance compliance: (i) tax policy, (ii) tax administration and (iii) interventions outside the tax system. Such interventions may involve difficult trade-offs.

Tax policy: clarification, simplification and fairness

Mozambique, Tanzania and Zambia have come a long way in reforming their tax systems, in particular with respect to improved tax legislation, lowering of tax rates and simplification of procedures. Tax laws are updated, consolidated and simplified. Thereby clearer rules and a more transparent and predictable tax system are established. However, much remains to be done in all three countries with the legislation for taxation and licensing of natural resources, both renewable resources (fisheries, forestry, and wildlife) and non-renewable (oil, gas and minerals).

A major challenge for building effective, transparent and accountable tax systems are the current tax policies in relation to exemptions and tax incentives for foreign investments. In all the three case countries generous investment incentives to specific industries have led to large revenue losses and distorted competition. Experience shows that a high occurrence of tax exemptions reduces the tax base, creates room for bribery and corruption,

and increases the appearance of loopholes for tax evasion. Tax holidays, which are time-limited exemptions from corporate income tax, are open to abuse, undermining tax revenue by providing corporations with a strong incentive to use transfer mispricing and financial arrangements to shift costs and taxable profits between domestic and external jurisdictions. Whatever clever the legal provisions crafted to address this risk, experience suggests that companies will prove adept in finding ways to avoid them. Even the most developed tax administrations have difficulties dealing with such abuse.

Taxpayers in Mozambique, Tanzania and Zambia interviewed as part of this study perceive the current tax system to be unfair since it, according to their views, favours the large, multinational companies by granting these exemptions and tax incentives. In these circumstances, where the majority of (potential) taxpayers perceive the system to be unfair, it is difficult to build a taxpaying culture characterised by broad-based (quasi-) voluntary compliance.

The experiences from Mozambique, Tanzania and Zambia provide important lessons on measures and approaches to improving the relations between the private sector and the government through trust building devices. In all the three case countries tax policy is in principle made through consultative processes that involve the private sector, mainly the larger business associations. Still, it is uncertain what impact such consultations have had on the actual implementation of tax policy. Although there is no lack of contact, the formalised public-private interaction in the tax arena often occurs after tax policy has been adopted by the government.

An effective public-private dialogue has yet to develop. By taking into consideration the views of the various segments of the business sector, it might have been easier to achieve consensus on vital fiscal policy issues. Such consultations could also contribute to improve tax compliance by creating a more cooperative and less conflictual relationship. Policy makers and revenue officials should therefore view consultations with taxpayers as an important

mechanism for learning about problems with the tax system, educating a major constituency, and strengthening the coalition in favour of good tax policy.

Tax administration: facilitating, monitoring and improving compliance

The revenue administration's three main tasks are: (1) facilitating compliance; (2) monitoring compliance; and (3) improving compliance. These tasks must be tailored to the compliance risks identified for the various segments of taxpayers.

Non-compliance may be due to taxpayer ignorance, inability or intent. Thus, the tax administration's approach to enhancing compliance generally has three main components: (a) taxpayer education and outreach to ensure that taxpayers are aware of their legal obligations; (b) taxpayer services to secure that tax payment and processing are relatively simple and easy; and (c) deterrence and enforcement which implies credible deterrent and consequence for those who seek to avoid their obligations. An important aspect of this is procedural fairness: compliance is more likely if taxpayers feel they have been treated respectfully, honestly and impartially

General tax administrative approaches to ensuring compliance implies in practice to (i) make tax payment as easy as possible for those trying to comply, and (ii) make it 'hard' for those taxpayers who will not comply whether effective tax enforcement is in place or not. For the first category improved taxpayer services is the suggested approach, while improved detection and enforcement are required for the second category. In between these two broad categories, there are a large number of 'undecided' taxpayers whose behaviour must be influenced by a combination of improved services and deterrence.

The South African Revenue Service (SARS) addresses non-compliance through a range of educational, service, deterrence or fool-proofing measures. One key element of deterrence is effective detection of non-compliance. SARS focuses on high risk areas

with minimal intervention in low risk areas. The taxpaying population is segmented by industry, geographic area, income level etc. The compliance behaviour of each segment is profiled and their risk profiles modelled. On this basis an understanding of the compliance landscape and the profile of each segment are developed. Deterrence or enforcement measures are designed to match the nature of the non-compliance. Thus, enforcement measures move along a continuum from 'soft enforcement' (e.g. for unknowing non-compliance) to hard enforcement (e.g. for conscious, deliberate non-compliance).

Improved knowledge about the tax system can change taxpayers' attitudes and tax moral. Generally, poor education makes it difficult to understand tax-related legislation and procedures. People from both the public and private sectors interviewed as part of this study argued that the public in general has poor understanding of tax policies and tax administration. This is reflected in the public debate.

Taxpayer education has become an important component of the revenue administrations' efforts to build a taxpaying culture in the case countries. These programmes must be tailored to the specific segments of taxpayers in line with overall compliance strategy. Religious organisations are seen as effective partners to reach broader segments of the population, since they are present all over the country, have a high degree of legitimacy among people and are able to communicate in a way that common people understand. Tanzania Revenue Authority, for instance, has a training programme on entrepreneurship that started in 2002. One focus of the programme is to inform about how to pay tax.

TRA has for many years used radio to reach out to citizens. All radio programmes by TRA are in Swahili. TRA has also started 'tax clubs' in secondary schools. The clubs are given reading material, and TRA officers provide information on tax issues. Once a year, there is a competition where pupils from each tax club participate on behalf of their school. These competitions are popular and receive substantial media coverage. In Mozambique,

the educational officers of AT have received special training to communicate and interact with various segments of taxpayers and citizens in general on tax issues. AT uses leaflets, TV, radio, newspapers and collaborates with municipalities to propagate the Simplified Tax for Small Contributors (ISPC). Both local languages and Portuguese are used. AT collaborates with universities to make students register for the unique taxpayer identification number.

Training of tax collectors and inspectors who interact directly with taxpayers is important. It is particularly important to securing that they behave in accordance with the overarching strategies, codes of conduct and measures communicated to the public by the senior management of the tax administration. Representatives of some business associations interviewed as part of this study complained about the mismatch between the messages they received from the head office of the revenue authority at public meetings and the reality they faced when the tax collectors visited them.

For some companies the compliance costs are a major barrier for tax compliance in the sense that complying with the tax laws would force them to close their business. For other firms, however, the compliance costs are relatively unimportant for their taxpaying behaviour. The South African Revenue Services (SARS) has established an integrated approach to taxpayer services and simplification which includes some of the following components: (a) *Taxpayer segmentation* to provide services appropriate to the needs of the taxpayers; (b) *Risk based processing* to avoid examining every taxpayer or every transaction in favour of those where a high risk of non-compliance is detected; (c) *Introduction of electronic and self-service channel* thereby speeding up the processing of information and reducing the likelihood of errors and the need for rework; (d) *Simplification of tax forms* suitable to the specific requirements of the individual taxpayer; (e) *Reducing the compliance burden* by using pre-population of forms from third party data and thereby achieving quicker processing of tax forms and fewer errors.

Finding better ways of taxing the informal sector is gaining increasing attention by the revenue authorities in Mozambique, Tanzania and Zambia. The inclusion in the tax net of those taxpayers who generate relatively little net revenue is in line with the tax reform agenda of broadening the tax net. In Mozambique, the AT has made substantial efforts to broadening the tax base by incorporating informal sector operators in the tax base. This has been achieved by (a) simplification of the taxing procedures for small and micro enterprises, including mobile collection points (currently, there are about 30 of these operating across the country); (b) through taxpayer education and outreach programmes using local languages; and (c) collaboration between the AT and informal sector/micro-enterprise associations.

Tanzania Revenue Authority has introduced a *Block Management System* (BMS), which has received international attention. The Block Management System consists of areas of trading concentrations that are mapped up in small territories/segments, defined on the basis of geographical or administrative set up, or a combination of a few streets to form a block. One block is supposed to be a one-stop shop except when it is a very complicated audit. Thus, each BMS is mandated to operate all the tax functions of registering, assessing, collecting and accounting for revenue collected. The BMS has simplified the registration of traders, and has brought more non-filers and non-payers into the tax net through closer monitoring and collaboration with local government authorities. The advantages of the BMS are evident. The system is highly potent for widening the tax base by capturing new taxpayers and evaders. Evidence suggests that the BMS has resulted in increasing the number of businesses registering with the tax administration.

Interventions outside the tax system

A range of factors outside the tax system are likely to impact on taxpayer behaviour and the building of a taxpaying culture, including how tax revenues are spent and the extent to which taxation mobilises citizens' political engagement. There are strong arguments in the

literature, that better links between tax payment and public expenditures are essential to building effective and accountable states. The presence of government expenditures may motivate compliance.

The links between tax payment and public service delivery is in general weak in many developing countries. This is reflected in widespread resistance to pay taxes. Citizen surveys commonly reflect the view that people feel they receive little in return for taxes paid. Poor service delivery, in taxpayers' view, legitimises tax evasion and avoidance. Is earmarking of taxes required to enhance compliance and build a taxpaying culture?

The attraction of tax earmarking is that it can regularise spending on essential tasks and create greater transparency about the connection between taxation and public spending. By doing so, it can give taxpayers a say over how tax revenue is spent, improve monitoring of expenditures, build trust around taxation and encourage public engagement. However, there are reasons to be cautious about earmarking. The most common problem arises from the fact that revenues are highly fungible, meaning that newly earmarked revenues can be offset by shifting existing revenues to other priorities, thus leaving the aggregate pattern of spending unchanged. Such behaviour can actually undermine public confidence in the tax system if it is perceived to be manipulative. Despite these critiques, from a governance perspective, tax earmarking may be a useful strategy to build trust, achieve important revenue and spending objectives, improve monitoring and increase public engagement.

Erosion of the tax base through transfer mispricing is a challenge that has adversely affected domestic resource mobilisation. Zambia has the estimated highest degree of illicit flows of the three countries largely due to the systematically higher estimated trade-mispricing. The issue of transfer mispricing is complex in nature. Tax evasion remains widespread despite the many tax reforms undertaken. Technical changes dependent on cooperative elites and high tax morale have been overcome by underlying political forces.

Fighting illicit capital flows therefore requires not merely more tightening of tax policy and tax administration, but a shift in citizen attitudes toward the political institutions shaping the governance context. Further, international collaboration and treaties are required to make inroads against the problem.

Recommendations for Norwegian support

Experiences from support to tax and budgetary reform echo lessons learned from support to capacity development in other policy areas. These include the importance of local leadership, locally designed solutions and donor approaches that are sensitive to each country specific socio-economic environment.

There is now a much wider appreciation of the importance of taxation in development, and many more agencies and governments are active in the field. Unfortunately, this is now associated with frequently unhealthy ‘competition’ among different aid and development agencies. This poses serious problems of duplication and fragmentation, which may undermine reform efforts by diverting local capacities, reducing local ownership and undermining the coherence of reform programmes. It is therefore important that the Norwegian engagement is planned strategically to minimise the danger that it will exacerbate these existing problems. **Donor coordination and cooperation should be supported.**

An important part of the Norwegian efforts should lie in seeking to **support reform in strategic, and comparatively neglected, areas**. There is considerable scope to (a) address the international dimensions of the tax systems; (b) increase international cooperation among tax agencies, and (c) to change the accounting rules for transnational business, in order to reduce the degree of tax evasion. Challenges with respect to extractive industries have been exposed. The problems are also serious in renewable sectors such as fisheries, forestry and wildlife, though these have received relatively limited attention.

There is need to build political support for reform. Continuing challenges are frequently

rooted in politics. Coordinated efforts from the international community, including Norway, should focus particularly on **supporting and encouraging local efforts to overcome these political barriers**, especially those related to tax exemptions, tax holidays, illicit capital flight and more transparent budgeting.

Building local research capacity to inform policy reforms should be one component in these efforts. There is a need to strengthen the more general analytical capacity within the revenue authorities in all three countries. ATAF, which also is supported by Norway, in partnership with the ICTD, may be a productive entry-point to strengthen the research capacity of the revenue authorities.

An important opportunity for building political support for reform lies in **putting more emphasis on the ‘demand side’**, i.e. in building broader citizen engagement around taxation. Public debates on taxation in Mozambique, Tanzania and Zambia are to a large extent limited to taxation of multinational companies. While this is important, a broader engagement about the whole tax and public expenditure system is missing. This is also reflected in Parliamentary debates on taxation. Norway should **enhance its support to domestic civil society organisations engaged on tax issues**. There is also demand for **technical assistance to building tax capacity/knowledge in the business communities**, especially for small and medium enterprises. A long-term strategy to increase knowledge and dialogue on tax issues at a more advanced level is to inspire students to choose topics related to taxation for their university degrees.

Norway should **consider providing advisory, training and research support to improve the technical capacity and basic skills of Members of Parliament** in public finance and tax policy, including how to read and understand government budgets. Priority should be given to members of the Finance and Economic Affairs Committee and the Public Accounts Committee. Second, there is a need to increase the time available for scrutiny of the budget proposals. Third, more user-friendly

information on tax reforms should be provided at an earlier stage of the budget cycle.

In Tanzania, Norway has over many years provided technical assistance to the Policy Analysis Department in the Ministry of Finance and Economic Affairs, including support to the development of a mining tax model. The Norwegian Embassies in the three countries covered by this study should consider exploring the MoF's needs for further technical assistance, possibly in collaboration with the IMF's Regional Technical Assistance Training Centre (RTAC).

In contrast with important progress at the national level, **sub-national taxation has been relatively neglected and requires further attention**. It is important not to leave local government out of the equation when one is addressing public finance management, tax and governance reforms, including better management of renewable natural resources (forestry, fisheries, wildlife etc). Norway should **consider supporting initiatives to strengthen the local government revenue bases**, with a particular focus on natural resources taxation and taxation of the agricultural sector. Building more efficient revenue sharing arrangements between local communities, local government authorities and the national government could be one important component of such initiatives.

Concluding remarks

The challenge for Mozambique, Tanzania and Zambia is not only to tax more (i.e. to increase

the tax to-GDP ratio), but to tax a larger number of citizens and enterprises more consensually. This is not easy for various reasons, including economic structure and history. The tax-paying culture is generally weak. Some of the reasons for this attitude are the legacy of taxation being seen as coercive and extractive, the inability of taxpayers to see the relationship between benefits in the form of services being provided by the state from taxes paid and inadequate public education programmes by the tax administrations. There also seems to have been a general lack of concern for the historical evidence about the connection between taxation and state-building, notably the need to construct tax systems that engage citizens in politics in a positive way, and contribute to the legitimacy of the state.

Programmes to improve public expenditure management and increase efficiency in the delivery of public services go hand in hand with tax reform. Increased domestic revenue generation will only lead to improved development outcomes if the revenue is translated into productive public expenditure. In more practical terms, if tax reform is undertaken in a way that promotes greater responsiveness and accountability, alongside improvements in the state's institutional capacity, then tax reform can become a catalyst for broader improvements in government performance.

1. Introduction

Governments' ability to collect taxes depend on people's willingness to pay them

Common features of the tax systems in many African countries are that the number of registered taxpayers is small, and relatively few medium sized and large enterprises account for the majority of tax revenue. Generally, the revenue base excludes the large number of small and micro enterprises, as well as many professionals, such as lawyers, doctors, and private consultants.

We know from a wide variety of sources that this heavy concentration on a few medium sized and larger taxpayers can have perverse results (Fjeldstad and Moore 2009). Tax collectors, both institutionally and personally, have stronger incentives to concentrate on trying to extract more revenue from this existing, registered base than to go about broadening the base by bringing more, smaller enterprises and individuals into the net. Identifying, locating and registering new taxpayers can be difficult. Concentrating on the existing base can be more rewarding. Those processes in turn help to keep issues of taxation off the public political agenda since smaller enterprises and the majority of citizens may be little affected by tax at all. From pure economic efficiency grounds it may make sense to concentrate scarce tax administrative resources on a limited number of larger taxpayers. However, from a state-building perspective broadening the revenue base is vital to building the social fiscal contract. It is also central to creating an equitable tax regime. In this perspective, a major challenge for many countries in Africa is broadening the revenue base and thus increasing public income without raising the tax levels.

It is increasingly recognized that tax systems can contribute significantly to shaping accountability relationships between the state and citizens, and strengthening state capacities (Bräutigam *et al* 2008; Ayee *et al* 2010). Taxation is one of the few objective measures of the power and legitimacy of the state. First, taxes are the primary platform for political negotiations amongst the country's stakeholders. Second, bargaining over taxes is central to building relations of accountability between state and citizens based on mutual rights and obligations (i.e. the social fiscal contract). This implies that taxes should be levied as consensually and as transparently as possible. Third, for taxation to have a positive effect on accountability taxes must be 'felt' by a majority of citizens. The 'felt' experience of paying taxes should not be confined to a small number of companies. It should be shared sufficiently widely to secure that taxation issues become prominent on the public political agenda. This is all about building a taxpaying culture.

Enhancing compliance and expanding the revenue base have both a domestic and an international component. Domestically the size of the untaxed informal economy and the extent of tax exemptions may make both tax evasion and avoidance an easy option. Internationally the global financial system offers possibilities to hide assets abroad in secrecy jurisdictions and dishonest banks. Some of the illicit financial flows could be liable for taxation, if the assets had been registered in the country of origin. Thus, capital flight should be included in discussions on how to broaden the revenue base.

This study is motivated by the desire of the Governments of Mozambique, Tanzania and Zambia, and in particular the revenue authorities in the three countries, to build taxpayer cultures, primarily to increase domestic revenues and promote equity and fairness in the tax system. The taxpaying culture in the three countries is generally weak. In Tanzania, for instance, with a total population of more than 44 million people, the number of taxpayers registered in the Taxpayer Identification System (TIN) was about 400,000 in 2008.¹ Further, less than 400 large taxpayers, i.e. less than 1% of the registered

¹ In comparison, the total number of registered taxpayers (total number of tax return processed) in Norway was more than 4 million in 2010. Norway has a population of 5 million people.

taxpayers, pay almost 70% of the domestic taxes (Fjeldstad and Heggstad 2011). Some of the reasons for this attitude are the legacy of taxation being seen as coercive and extractive, the inability of taxpayers to see the relationship between benefits in the form of services being provided by the state from taxes paid, and inadequate public education programmes by the tax administrations (ibid.). Further, there seems to have been a general lack of concern for the historical evidence about the connection between taxation and state-building, notably the need to construct tax systems that engage citizens in politics in a positive way, and contribute to the legitimacy of the state.

The objective of the study is to examine strategies and measures that aim to encourage taxpayer compliance through constructive engagement between governments and citizens over taxation issues. Experiences from Mozambique, Tanzania and Zambia are examined, as well relevant lessons from other countries, in particular Norway and South Africa. On this basis the study will provide recommendations to Norwegian authorities on how to strengthen institutions and networks that may contribute to build taxpaying cultures and achieving broader citizen engagement on tax issues in the three case countries.

The report is organised in seven chapters. Following on from this introduction, Chapter 2 presents a conceptual framework for the analysis, focusing on factors that determine taxpayers' compliance behaviour. The underlying challenges for policymakers and revenue administrations are considered. The following chapters identify and examine strategies and measures to enhance compliance and to build a broader citizen engagement around taxation in Mozambique, Tanzania and Zambia. The analysis focuses specifically on achievements and challenges related to (i) tax policy (Chapter 3), (ii) tax administration (Chapter 4), and (iii) factors outside the tax system impacting on taxpaying behaviour (Chapter 5). Thereafter, Chapter 6 provides recommendations for Norwegian support to building taxpayer cultures in the case countries. Finally, Section 7 concludes by identifying areas where further knowledge and research are required.

Two sections are annexed to the report: Annex 1 gives an overview of civil society organisations and networks focusing on tax issues in Africa in general and in Mozambique, Tanzania or Zambia in particular. An overview of local research institutions in the three case countries working on taxation and capital flight is presented in Annex 2.

2. Conceptual framework

Governments' abilities to collect taxes depend on people's willingness to pay them. Thus, systematic and coherent information on taxpayer attitudes and behaviour are required for better analysis and more informed policy design. Understanding how taxpayers think about and experience taxation may provide an essential diagnostic of the political realities for reform and for the implementation of effective policy and administrative measures.

This section presents a conceptual framework for understanding (potential) taxpayers' behavior. Determinants of tax compliance, which may vary substantially between different segments of taxpayers, are discussed. Underlying challenges for policymakers and revenue administrations are considered, and relevant interventions outside the tax system to building taxpayer cultures are identified.

2.1 Factors influencing taxpayer behaviour

Compliance refers to the degree to which taxpayers meet their obligations under the tax law. This is not just an issue of technical compliance, but the building of taxpayer behaviour or a taxpayer culture in which compliance to the spirit of the tax law is commonly perceived as a positive social value (SARS 2011: 2).

Behavioural sciences focus on the consensual aspects, termed 'tax morale', in an attempt to explain the positive motivations for compliance (Cummings *et al* 2005). Feld and Frey (2007, 2010) argue that citizens and the state appear to develop their fiscal relationships according to a psychological 'tax contract' that establishes fiscal exchange between taxpayers and tax authorities. This relationship, however, reaches beyond pure exchanges, and involves relationships and loyalties between the 'contract partners'. This has laid the foundation for compliance models that include factors such as (i) people's sense of moral obligation to pay; (ii) their perception of the tax system's fairness and, in particular, the perception that other taxpayers are also paying; and (iii) the extent to which taxpayers believe that the government spends their tax money wisely, and/or spend it on public goods that will benefit the taxpayer (Andreoni *et al* 1998; Frey and Feld 2002). Accordingly, the factors affecting compliance behaviour are an intersection of individual values and norms, societal values and norms, the belief in the fairness of the system, the ease of compliance, the speed and accuracy of detection of non-compliance (i.e. the likelihood of getting caught), the speed and accuracy of corrective measures and the severity or impact of the deterrent measures (SARS 2011: 3).

More specifically, factors that determine whether and to which extent taxpayers comply with their tax obligations include:² (a) the magnitude of the tax burden; (b) the costs of being tax-compliant, e.g. the time required to register for taxation or to fill out tax forms; (c) taxpayer knowledge, i.e. skills that allow the taxpayer to pay taxes, including an understanding of why paying tax; (d) sticks, i.e. the probability of being detected and punished for non-compliance; (e) carrots, i.e. the direct benefits that taxpayer registration entails, for instance in providing access to specific services such as passport, driver license etc.; and (f) norms, i.e. the intrinsic factors that induce the taxpayer to pay taxes

² This framework draws on Misch *et al* (2011: 28-31).

‘voluntarily’.³ ‘Voluntary’ compliance is promoted by fair and transparent treatment of taxpayers by the tax administration, and by the way tax revenues are spent.

Several of the factors listed above are interconnected (Misch *et al* 2011: 28). For instance, low compliance costs (b) are not sufficient if taxpayer knowledge (c) is lacking. Even if compliance costs are low and if taxpayers have developed a sufficient understanding of taxation, tax compliance also requires sticks (d) and carrots (e), factors that motivate taxpayers to become ‘voluntary’ compliant (f), or a combination of (d), (e) and (f). Furthermore, changes in tax policy and tax administration may affect tax compliance through effects on (a) – (f). This implies that a combination of policy and administrative measures is likely to be required to enhance taxpayer compliance depending on the specific constraints in place. For instance, if taxpayers have sufficient knowledge of the tax system, including laws and regulations, furthering taxpayer education may have little impact on tax compliance (ibid: 29). The need for taxpayer education, however, is likely to differ substantially between different segments of taxpayers, and may be more acute for smaller taxpayers than for larger corporations (see Table 2). Thus, measures to enhance tax compliance and build a taxpaying culture need to be tailor-made for different segments of taxpayers and the specific constraints they face.

Determinants of tax compliance are illustrated in Table 1. It explains the links between factors impacting on tax compliance and three sets of interventions, namely (i) tax policy, (ii) tax administration and (iii) interventions outside the tax system (Misch *et al* 2011: 29). For instance, tax policy directly impacts on compliance costs by the complexity of the tax laws. Further, tax policy is one key determinant of the effective tax burden. The tax exemption regime is likely to impact on the non-exempted taxpayers’ willingness to pay. Thus, changes in tax policy may be important to build a taxpaying culture characterized by broad-based (quasi-) voluntary compliance. This also applies to tax administration. Compliance costs, for example, depend on the complexity of procedures for taxpayer registration and tax payment. Further, compliance is likely to be affected by the tax enforcement regime, whether it is perceived to be corrupt or fair and transparent. A range of factors outside the tax system are also likely to impact on taxpayer behaviour and the building of a taxpaying culture, including how tax revenues are spent and the extent to which taxation mobilises citizens’ political engagement and is reflected in the general public debate.

³ Levi (1988) uses the concept ‘quasi-voluntary compliance’. It is ‘voluntary’ because taxpayers choose to pay. It is ‘quasi-voluntary’ because the non-compliant are subject to coercion - if they are caught.

TABLE 1: DETERMINANTS OF TAX COMPLIANCE

Measures/ Determinants	Compliance costs	Tax burden	Taxpayer knowledge	Penalties	Quasi- voluntary compliance
Tax policy	Complexity of tax laws	Effective tax rates Tax exemptions	Knowledge of tax laws, rights and obligations	Self-enforcing tax regime or not	Fairness of the tax system (incl. who/what are exempted) Policy dialogue
Tax administration	Complexity of procedures for tax registration and payment	Corruption	Knowledge of registration, payment procedures, rights and obligations	Credibility of effective tax enforcement	Taxpayer outreach; treatment of taxpayers (fairness, predictability)
Interventions outside the tax system	Interaction with different/many public institutions	Non-tax fees, charges, bribes, etc. Impact of foreign aid on incentives to pay taxes	Level of education (literacy, numeracy). The role of media in addressing and communicating tax issues		Use of tax revenues Citizen political engagement around tax issues

Source: Adapted by the authors based on Misch *et al* (2011)

2.2 The diversity of potential taxpayers

Table 2 illustrates the diversity of taxpayers and the multiplicity of compliance challenges. Formal sector employees commonly are taxed via their payroll where the personal income tax is withheld by the employer. Hence, there is little opportunity for evasion. In contrast, the risk of non-compliance for microenterprises is generally high since the businesses often are unregistered, record keeping is poor, and most transactions are cash-based. Many small and some medium sized enterprises also deal in cash and record keeping is often poor. Still, most medium sized enterprises in the formal sector prepare and file tax returns. Large, multinational enterprises, however, generally maintain records, but are able to minimise taxes through business arrangements, generous tax exemptions and/or sometime abusive transfer pricing. Moreover, within each of these broad categories there is often huge diversities. Thus, measures to enhance tax compliance and build a taxpaying culture generally need to be tailored for the different segments of taxpayers and the specific constraints they face.

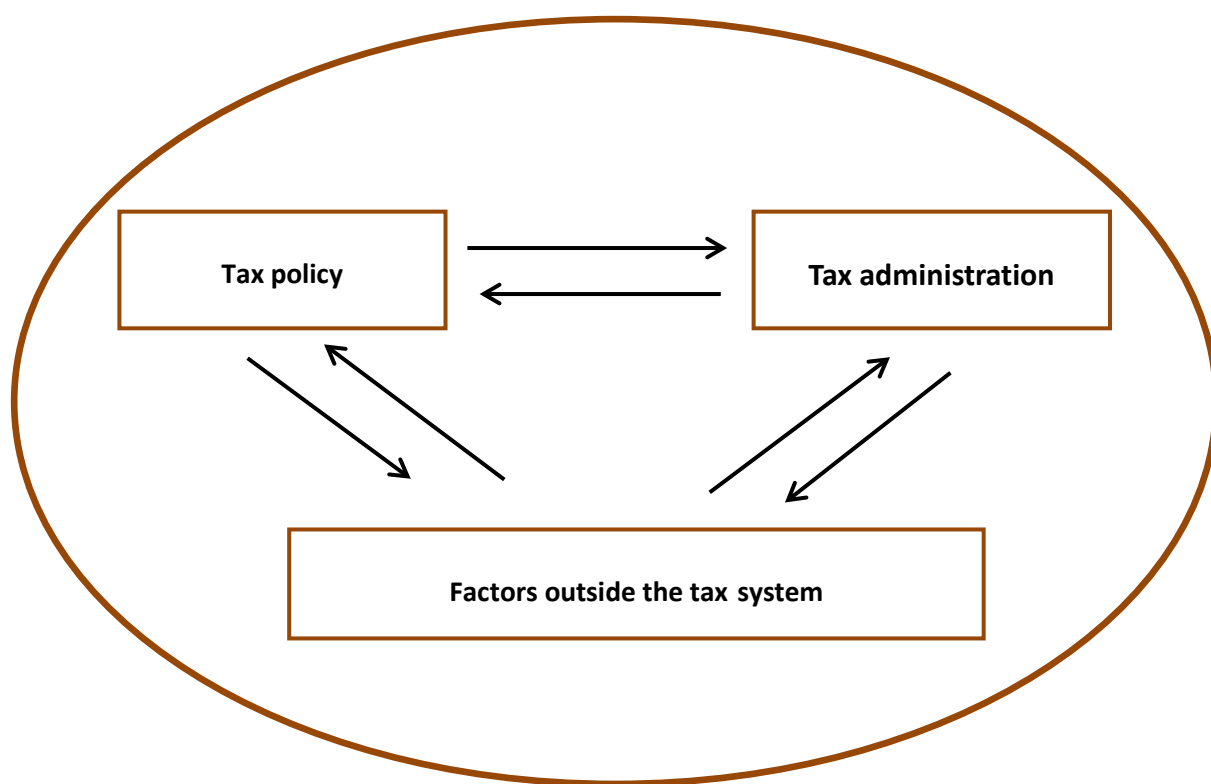
TABLE 2: CHARACTERISTICS OF (POTENTIAL) TAXPAYERS

	<i>Employees</i>	<i>Microenterprises</i>	<i>Small and medium size businesses</i>	<i>Large enterprises</i>
Number of taxpayers	Millions/Hundreds of thousands	Millions/Hundreds of thousands	Hundreds of thousands	A few hundred
Revenue potential per taxpayer	In tens or hundreds of USD	In tens or hundreds of USD	Thousands of USD	Millions of USD
Return preparation	Deducted from salary and submitted by employer (commonly PAYE)	Do not prepare and file returns (Unregistered)	Prepare and file their return with advice from local accountants	Receive advice from international lawyers and accountants in return preparation
Risk of non-compliance	Low compliance risk - Payroll tax withholding by employer, little opportunity for evasion (but tax exempted allowances; fraud by employer)	High compliance risk - Deal in cash, absent/poor record keeping	Medium compliance risk - Deal in cash, often poor record keeping, ready opportunity for evasion	High compliance risk - Maintain records, but minimized taxes through business arrangements and sometime abusive transfer pricing (often generous exemptions)
Nature of compliance issues	Minor in nature	Major - Informal sector, but may pay local government charges/fees	Medium compliance issues - Partly informal sector/evasion	Major compliance issues - Involve complex transactions with major revenue implications
Lobbying capacity	Minimal	Low	Low/medium	High

Source: Adapted from Bodin (2003)

2.3 Areas for interventions to build taxpayer culture

The previous section discussed determinants of tax compliance and identified three, partly interlinked areas for interventions to build taxpayer culture and enhance compliance, namely (i) tax policy, (ii) tax administration and (iii) interventions outside the tax system (see Table 1). In the following three chapters we discuss concrete interventions in each of these areas that may contribute to broadening the tax base and building taxpaying cultures (Figure 1). It should be acknowledged that efforts to broadening the tax base may involve difficult trade-offs. For instance, implementation of a policy to tax many small taxpayers may impose high administrative costs on the revenue administration. However, exempting small firms from taxation or providing them with a more favorable tax treatment may provide disincentives for firm growth (Misch *et al* 2011: 29), and may also legitimise tax evasion by firms that are not granted exemptions. On the other side, heavy taxation of small scale operators may provide disincentives for entrepreneurship and, thus, hinder economic growth.

FIGURE 1: AREAS FOR INTERVENTIONS TO BUILD TAXPAYER CULTURE

Source: Developed by the authors

3. Tax policy: clarification, simplification and fairness

There is much evidence that taxpayer compliance largely depends on having a favourable attitude towards the tax system, and in particular on considering that it is generally a fair and just system (Braithwaite 2003a, 2003b). Acceptance of the fairness of taxation may derive from an ‘identification’ with the state and a general confidence that its tax system treats everyone equitably (Picciotto 2007). Thus, tax reforms in developing countries have in recent years focused on simplification as a means of establishing or restoring confidence in the fairness of the tax system. In many cases, however, it seems to have been difficult to achieve the triple aims of (i) greater clarity, (ii) less complexity, and (iii) a simpler and fairer tax structure. Even the most clear-cut rule is often open to interpretation; frequently both the revenue authority and the taxpayer have a tendency to interpret the rules to their advantage.⁴ Indeed, the existence of different understandings or interpretations of ‘what is required’ by a rule is a frequent and even normal situation (ibid). This suggests that the primary task in designing a tax policy is to build it on principles which are widely accepted as fair and hence help foster shared understandings. Clear, unambiguous rules with not too many exceptions would likely avoid many unnecessary conflicts.

Mozambique, Tanzania and Zambia have come a long way in reforming their tax systems. There are a large number of good things to report, in particular with respect to improved tax legislation, lowering of tax rates and simplification of procedures (Fjeldstad and Heggstad 2011: 92). Tax laws are updated, consolidated and simplified. New tax laws have established clearer rules and a more transparent and predictable tax system. However, there are still remaining ambiguities in various tax laws that open up for discretion and negotiations between taxpayers and tax officers (ibid.). Further, much remain to be done in all three countries with the legislation for taxation and licensing of natural resources, both renewable resources (fisheries, forestry, and wildlife) and non-renewable (oil, gas and minerals). These sectors are dominated by transnational companies, and the tax regimes are often characterized by non-transparent rate structures, exemptions and generous tax holidays. Thus, a major challenge for building effective, transparent and accountable tax systems are the current tax policies, particularly in relation to exemptions and tax incentives.

3.1 Public-private dialogue: consultations in tax policy formulations⁵

A constructive dialogue between taxpayers and tax policy makers is needed to build taxpayer trust in the tax system. Various ‘stakeholder forums’ are potentially important entry points to improve the dialogue and communication between the government and taxpayers. In Mozambique tax policy is in principle made through a continuous consultative process which involves the private sector. Representatives of the major business associations (CTA and ACIS) have monthly meetings with the tax authority (AT) where issues related to the simplification of the tax system, tax rates and taxpayer education are discussed. Every quarter private sector representatives from business associations meet the Minister of Finance, and twice a year they meet with the Prime Minister. Taxation is among the topics discussed at these meetings. There are also occasional meetings between AT and large corporations. In Tanzania, consultations between the private sector and government take place in both formal and informal forums, including the *Taskforce for Tax Policy Reform*; Tanzania Revenue Authority’s *Stakeholder Forum*; the *International Roundtable*; the *CEO Group*; and the *Tanzania*

⁴ Valerie Braithwaite has asked: “What does it mean to comply?” She suggests that it is not always easy to assess whether a person has done “what is asked of him or her”, and that “whether or not a person interprets the request in accordance with its intent is far from certain” (Braithwaite 2003a: 276).

⁵ This section draws on Fjeldstad and Heggstad (2011), section 4.3.

National Business Council (TNBC). In addition, a range of business associations, as well as individual businesses lobby the government on tax issues. Among the institutionalised mechanisms in Tanzania, the *Taskforce for Tax Policy Reform* provides an important forum for dialogue on tax issues between the private and the public sector. Although the membership of the Taskforce is significantly skewed towards the public sector, it functions as an arena for trust building between the private and government sector on fiscal issues. The influence of the Taskforce on Tax Policy Reform has fluctuated over time, but seems to have increased recently, possibly reflecting the impacts of long term trust building between the Ministry of Finance, TRA and segments of the private sector.

As part of the national budget formulation process, the Government of Zambia, through the Ministry of Finance and National Planning (MoFNP), has put in place mechanisms through which non-state actors can submit tax and expenditure proposals to be considered in the national budget (Bwalya *et al* 2009:6). This opportunity is increasingly being utilised by individuals, businesses, professional associations and civil society to lobby for tax concessions and exemptions, changes in tax administration and public expenditures, and thereby influencing budget outcomes. In addition to lobbying through the formal budgetary process and structures, interest groups also use informal means to channel their lobbying effort to influence policy decision making.

During the last decade the Government of Zambia and the private sector have initiated a more formalised consultative process through the *Zambia Business Council* (ZBC) where key government institutions and the private sector engage in a dialogue on key policy issues (ibid:10). The objective of the private consultation is to generate ideas and dialogue with the Government on institutional, regulatory and policy reforms that need to be undertaken to promote private sector development. The ZBC comprises four key Cabinet Ministers responsible for Commerce Trade and Industry, Finance and National Planning, Transport and Communication, and Agriculture; Zambia Development Agency (ZDA), Business Associations, and the Zambia International Advisory Council (ZIBAC) that is comprised of well-established international business experts. The Zambia Business Council is chaired by the President and in his absence by his Economic Advisor and meet quarterly. Bwalya *et al* (2009:11) question how effective the ZBC has been and argues that its future relevance is still questionable since its establishment and credibility was strongly linked to the late President Mwanawasa.

The *Zambia Business Forum* (ZBF) comprises seven business associations. The business forum was formed as a common intermediary organisation to spearhead constructive and formal engagement with the Government on cross-cutting issues of interest to all its members, as well as a platform for exchanging information and lobbying Government and other stakeholders such as the bilateral and multilateral agencies on matters of business interest of its membership (ibid: 11). The seven members of the ZBF are represented by their Chairpersons on the ZBF Board, from whom the Chairperson of the board is appointed normally on a rotation basis, and the Chief Executive Officer of ZBF serves as the Secretary of the Board. The *Zambia Chamber of Commerce and Industry* (ZACCI), which was one of the core founder members, has pulled off the ZBF perceiving it as simply duplicating the core functions and mandate of the ZACCI. However, with its current seven member associations, the ZBF still represents business sectors that account for approximately 50% of Zambia's GDP.

The *Zambia Chamber of Mines* is member of the ZBF. Representatives of the mining sector are also supposed to have quarterly meetings with the Ministry of Mines. This arrangement was disrupted in 2008, but the Chamber of Mines aims to re-establish these contact meetings with the new Government that took over in 2011. However, even large – and potentially powerful – sector organisations like the Chamber of Mines are not always able to speak with one voice.⁶

⁶ Interview, Chamber of Mines, Lusaka 3 November 2011.

While the Zambia Business Forum (ZBF) and other private sector associations are generally perceived to advance the interests of the business community, civil society organizations are seen to advance broader public interests and especially the interest of the poor. Consequently, it has not been uncommon to find policy positions and interests of the business associations and those of civil society organizations at variance and in competition (Bwalya *et al* 2009: 12).

The experiences from Mozambique, Tanzania and Zambia provide important lessons on measures and approaches to improving the relations between the private sector and the government through trust building devices. Still, it is uncertain what impact such consultations have had on the actual implementation of tax policy. Our research suggests that although there is no lack of contact, the formalised public-private interaction in the tax arena often occurs after tax policy has been adopted by the government.

According to business people interviewed in Mozambique, the private sector had some impacts on recent Customs reforms. Still, they argue that government representatives are not always receptive to their views about problems with the tax system. They claim that the government has sought comments on drafts of recent tax reform decrees on a very short notice, and only after major decisions already had been made. Similar critique has been raised in Tanzania against TRA's *Stakeholder Forum*, which is perceived by taxpayers as a mechanism for the TRA to inform on tax policy changes (FIAS 2006). Consequently, the potential important role such forums could have for dialogue, and thereby to clarify misunderstandings between the administration and taxpayers, is not working.

Business leaders in Mozambique also complain about problems to get information from the Government/AT on specific tax issues, for instance data on VAT-collection and reimbursements. They argue that public information and dialogue on the tax system are inadequate, though consultations with Customs are reported to have improved after the establishment of the AT. In all the three countries, however, small businesses, which compose the largest number of enterprises, seem to be left out of the tax consultative processes. Small businesses, in general, are not well organized and do not have a particularly strong political voice. This makes it difficult to harness the views of these businesses when tax changes are being designed. Recently, however, the Mozambique Tax Authority has signed Memorandums of Understanding (MOUs) with informal sector and microenterprise associations, which have laid the foundation for reforms that simplify the procedures for business registration and taxation of SMEs.

An effective public-private dialogue has yet to develop. By taking into consideration the views of the various segments of the business sector, it might have been easier to achieve consensus on vital fiscal policy issues. Such consultations could also contribute to improve tax compliance by creating a more cooperative and less conflictual relationship. Policy makers and revenue officials should therefore view consultations with taxpayers as an important mechanism for learning about problems with the tax system, educating a major constituency, and strengthening the coalition in favour of good tax policy. However, it is also important that government officials distinguish between special pleadings of the business lobby and insights from the business community for improving the tax system.

Communication within Government in the case countries that considers tax changes does not always work well. According to senior officials interviewed in the Ministry of Finance and National Planning (MoFNP) in Zambia, a major problem is that the approach to policy design lacks proper coordination and is not holistic.⁷ For instance, industrial growth and investment are sorted under a separate ministry that wants to attract investments (see section 3.2). Further, according to officials interviewed, the unit within the MoFNP that is responsible for mineral taxation often has a diverging view of what is optimal tax policy than the Ministry of Commerce. This leads to a proliferation of tax incentives that is

⁷ Interview, Ministry of Finance, Lusaka, 1 November 2011.

difficult for the Government, including the tax administration, to handle. Consequently, according to one official interviewed, “the culture of paying taxes is wiped out”.

Some of the larger companies and chambers of industries actively seek to improve their image among the general public and to build popular support. In particular, mining companies have started campaigning to demonstrate that they pay taxes and contribute to development. One example is billboard announcements by mining companies on how many wells their tax payments finance. The Chamber of Mines in Zambia recently hired a full time PR-manager to help the mining sector with improve their public image by focusing on their contribution to the communities where they are operating.⁸

3.2 Fairness: reforming the tax exemption regime

In all the three case countries generous *investment incentives* to specific industries have led to large revenue losses and distorted competition (Fjeldstad and Heggstad 2011). A recent study suggests that exemptions and tax incentives in Tanzania could account for up to 6% of GDP (AfDB 2011: 242). In particular, influential corporations and wealthy individuals constantly seek ways to take advantage of special tax breaks to shelter income that should be fully taxed.

Tax holidays, which are time-limited exemptions from corporate income tax, are open to abuse, undermining tax revenue by providing corporations with a strong incentive to use transfer pricing and financial arrangements to shift costs and taxable profits between domestic and external jurisdictions. Whatever clever the legal provisions crafted to address this risk, experience suggests that companies will prove adept in finding ways to avoid them. Even the most developed tax administrations have difficulties dealing with such abuse.

Experience shows that a high occurrence of tax exemptions reduces the tax base, creates room for bribery and corruption, and increases the appearance of loopholes for tax evasion. Hence, the extent of tax exemptions is often an indication of a government’s political will to strengthen the fiscal contract and fight fiscal corruption and tax evasion. Strong will and commitment by the political leadership is a pre-requisite to achieving this shift in culture. However, due to resistance from the benefiting elite, political leaders and businesses it is likely that the exemption regime will remain a major challenge in the short to medium term.

Taxpayers in Mozambique, Tanzania and Zambia interviewed as part of this study perceive the current tax system to be unfair since it, according to their views, favours the large, multinational companies by granting these exemptions and tax incentives.⁹ In these circumstances, where the majority of (potential) taxpayers perceive the system to be unfair, it is difficult to build a taxpaying culture characterised by broad-based (quasi-)voluntary compliance. This would require policy makers and revenue administrations to seek more refined means of establishing or maintaining taxpayers’ confidence in the tax system and its integrity. Without substantial reforms of the tax incentive and exemption regimes it is unlikely to achieve this in the foreseeable future. Thus, tax policy represents a major obstacle for the development of a taxpaying culture in Mozambique, Tanzania and Zambia.

⁸ Interview, Chamber of Mines, Lusaka 3 November 2011.

⁹ In all the three countries we interviewed businesspeople from small and medium sized enterprises. Most of the interviews were conducted during November 2011. In Zambia we also interviewed representatives from large enterprises during the same period, while representatives for larger enterprises in Tanzania and Zambia were interviewed during an earlier fieldwork in October 2010. Perceptions of the tax system differed substantially between the large enterprises and the small and medium sized with respect to fairness and technical challenges.

Policy changes with respect to the tax exemption regime will require a combination of measures, including more detailed information of revenue losses due to exemptions, citizen mobilisation and external pressure. In Tanzania, the Tanzania Revenue Authority (TRA) has reviewed the tax exemption scheme over time and estimated the revenue losses (TRA 2011a, 2011b). This information has been used by *Uwazi*, a local NGO, to foster a broader public debate in the country on exemptions. *Uwazi* collects available data in order to inform citizens, newspapers and parliamentarians (Uwasi 2010). The organisation aims to enhance transparency and public accountability by making existing data more accessible and informative.

IMF is also engaged in the policy dialogue on tax exemptions, while few bilateral agencies are involved, possibly due to the fact that they also are benefitting from the current exemption regime (Fjeldstad 2009). Generally, transactions associated with foreign development assistance are exempted. Poor countries are often forced to administer a myriad of exemptions that typically vary from donor to donor. This places unnecessary burdens on already weak tax authorities. Even worse, it fuels a tax-exemption culture and promotes corruption. The removal of tax exemptions granted to aid agencies and their employees would help boost the credibility of both the government and of donors in relation to building taxpaying cultures. It would also contribute to widening the revenue base and simplifying the tax system. It might further improve both budgetary transparency and resource allocation by fully accounting for public investment costs. Thus, a step forward would be to abolish exemptions granted donor projects and programmes. Norway unilaterally has taken steps in this direction.

It is striking how far the IMF (in particular, but also some other international organisations) and civil society organisations campaigning around tax issues seem to have very similar positions on important questions such as tax incentives and exemptions, and taxation of transnational companies. However, relationships between them are still characterised by a combination of indifference and suspicion. There is a need to facilitate a more productive dialogue.

4. Tax administration: facilitating, monitoring and improving compliance

*Tax administration must foster tax compliance
- not simply enforce*

Ideally, all individual taxpayers and businesses should fulfill their obligations under the law to register for tax purposes, and to voluntarily declare and pay on time their tax liabilities (EU 2010). This statement captures the four basic tax compliance obligations of citizens and businesses that generally must be administered by all revenue administrations in accordance with their respective tax laws:

- Registration (identification).
- Filing (submission of tax returns on time).
- Declaration (correctly report tax liabilities).
- Payment (on time as stipulated in the law).

Compliance by taxpayers with these basic obligations can also be viewed in terms of whether such compliance is achieved voluntarily (i.e. quasi-voluntary compliance) or corrected by enforcement actions carried out by the revenue administration (i.e. enforced compliance). This distinction is highly relevant as ‘enforced compliance’ has a cost, and often a significant one. Thus, the tax administration should aim to improving the overall level of ‘voluntary’ compliance and rely less on ‘enforced’ compliance.

FIGURE 2: COMPLIANCE PYRAMIDS

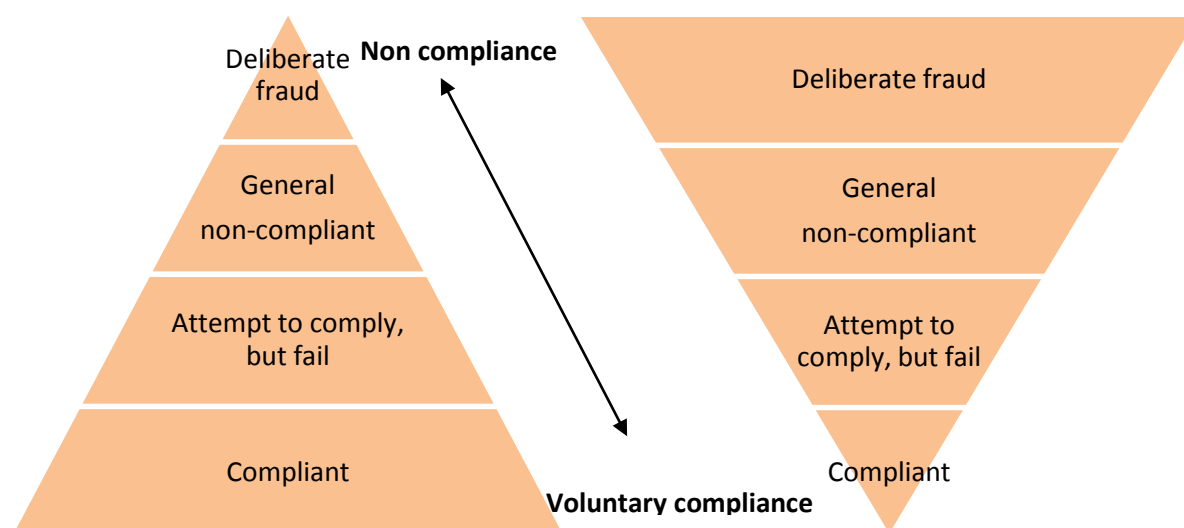


Figure 2a: The compliance pyramid

Figure 2b: The inverted compliance pyramid

As illustrated in Figure 2, compliance is a continuum that ranges from deliberate and determined non-compliance to unwilling compliance to unwitting compliance due to lack of knowledge of taxpaying procedures and legal requirements, and finally willing and quasi-voluntary compliance. Thus, some people will always comply with the tax laws, some will always deliberately try to evade taxes, while most taxpayers fit between these two extremes. Figure 2a refers to the ‘standard’ compliance model commonly referred to in the literature, where the majority of taxpayers are compliant, i.e. the bottom

of the pyramid. However, in many developing countries only a minority of taxpayers are compliant. Therefore, Figure 2b is probably a better reflection of the reality.

In this perspective, the revenue administrations three main tasks are to: (1) facilitating compliance; (2) monitoring compliance; and (3) improving compliance (see Box 1). These tasks must be tailored to the compliance risks identified for the various categories of taxpayers.

BOX 1: THE THREE MAIN TASKS OF A TAX ADMINISTRATION

1. Facilitating compliance:

- Improving services to taxpayers.
- Information, clear guidelines, understandable forms.

2. Monitoring compliance:

- Requires information systems/databases/tax auditing.
- Procedures to detect non-compliance.

3. Improving compliance:

- Requires a mix of 1 and 2.
- Measures to deter non-compliance.
- Effective application of penalties.

Non-compliance may be due to taxpayer ignorance, inability or intent. Thus, tax administrations' approach to enhancing compliance generally has three main components: (a) taxpayer education and outreach, i.e. to ensuring that taxpayers are aware of their legal obligations; (b) taxpayer services, i.e. to secure that tax payment and processing are relatively simple and easy; and (c) deterrence and enforcement, i.e. credible deterrent and consequence for those who seek to avoid their obligations (SARS 2011: 2). An important aspect of this is procedural fairness: compliance is more likely if taxpayers feel they have been treated respectfully, honestly and impartially (McKerchar and Evans 2009; Picciotto 2007; Murphy 2003; Fjeldstad and Tungodden 2003; Slemrod 2003).

4.1 Taxpayer education and outreach

Economic experiments from Western countries find that improved knowledge about the tax system can change taxpayers' attitudes and tax moral (Eriksen and Fallan 1995). This can in turn affect peoples' tax behaviour and temptation to evade taxes. Since peoples' attitudes are important for their tax behaviour it is likely that it is possible to influence peoples' behaviour by influencing the attitudes that reflect their tax moral.

Lewis (1982: 71) argues that "attitudes should be examined for what they are - a product of myth and misconception". If myths and misconceptions about the tax system are replaced by knowledge, we may expect that the tax behavior will be changed even though the taxpayer's core ideology and values are fixed and the tax legislation is the same as before. In a study of peoples' knowledge about the objectives of a planned tax reform in the USA, Song and Yarbrough (1978) found that the respondents who had most tax knowledge also received the highest score on questions related to tax moral. A study by Roberts *et al.* (1994) found that specific tax knowledge had impacts on tax attitudes. Whether these experiences from North America and Western Europe are relevant in the African context is not

documented by research. Nonetheless, taxpayer education has become an important component of the revenue administrations' efforts to build a taxpaying culture in the case countries. This requires knowledge of where different segments of taxpayers get information about the tax system. For instance, large companies commonly have staff, tax lawyers, accountants, etc., specialized to handle tax issues, while medium sized companies may use external tax consultants. For taxpaying small and micro enterprises, however, friends and colleagues often represent important sources of information, which may also indicate that they do not receive sufficient - or adequate - information from the revenue administration.

A recent study from Zambia finds that the share of small and micro entrepreneurs who regard their knowledge of the tax system as 'poor' is significantly higher for non-taxpaying firms than for firms paying tax. This suggests that poor knowledge of the tax system is a barrier toward tax compliance (Misch *et al* 2011: 34). Generally, poor education makes it difficult to understand tax-related legislation and procedures. People from both the public and private sectors interviewed as part of this study argued that the public in general has poor understanding of tax policies and tax administration. This is reflected in the public debate. For instance, according to one informant in Lusaka, "everyone wants the windfall tax, but few know what it is".¹⁰

From this follows that one uniform taxpayer education strategy will not cover all needs. Taxpayer education programmes must be tailored to the specific segments of taxpayers in line with overall compliance strategy. Churches, in particular, are seen as effective partners to reach broader segments of the population, since they are present all over the country, have a high degree of legitimacy among people and are able to communicate in a way that common people understand. TRA, for instance, has a training programme on entrepreneurship that started in 2002. One focus of the programme is to inform about how to pay tax. TRA experiences an increasing number of requests for these seminars. Especially churches have shown a keen interest in this area.

Mozambique Tax Authority (AT) has established an office responsible for taxpayer training. It has two divisions, the education and the tax communication division. The educational officers have received special training to communicate and interact with various segments of taxpayers and citizens in general on tax issues. AT use leaflets, TV, radio, newspapers and collaborates with municipalities to propagate the new Simplified Tax for Small Contributors (ISPC). Both local languages and Portuguese are used. AT collaborates with universities to make students register for the unique taxpayer identification number (NUIT). In collaboration with university lecturers, course curriculums are also adapted to include tax issues. Currently, AT is in dialogue with the Ministry of Education to introduce tax education in schools starting from primary and secondary education.¹¹ Further, AT has signed MoUs with business associations and informal sector operators.

Tanzania Revenue Authority has a relatively large Taxpayer Services and Education Department, which is responsible for all information and communication from TRA. The department is supposed to have 69 employees, including 17 in the head office. The staff are graduates in economics, finance, business or law. In addition a 6 weeks training course at the Institute of Tax Administration¹² is mandatory. This is referred to as the 'total tax person' course.

According to TRA-officers interviewed, traditional face-to-face communication is still expected by the public, but the Taxpayer Services and Education Department has also 'modernised' communication by targeting various sectors and tailoring the taxpayer training according to the needs of those attending. Agriculture, diaspora, small companies are examples of target groups. At the seminars the participants

¹⁰ Interview, Lusaka, 2 November 2011.

¹¹ Interview AT HQ, Maputo, 8 November 2012.

¹² http://www.tra.go.tz/index.php?option=com_content&task=section&id=15&Itemid=46

receive leaflets and information material. For small and micro businesses the seminars have the same format for the whole country. In addition, specialised seminars, for instance for accountants, are provided. Universities also invite TRA to hold seminars on specific topics, for instance taxation of secondary income. According to TRA officers interviewed, discussions are often on how to simplify the tax regime or on how to get tax exemptions.¹³ TRA's taxpayer outreach programme also includes visits to places where many people meet, for example the large small traders market *Kariakoo* in Dar es Salaam. Further, Tanzania has an annual 'Taxpayer Day'. The purpose is to show appreciation to those who pay tax. Outreach programmes are rolled out the weeks ahead of the Taxpayer Day.

Various outreach programmes also create meeting places between the revenue administration and the private sector, but then mostly for small and micro enterprises in busy market places. Tanzania Revenue Authority targets small trader markets by using a truck playing popular music, where TRA officers inform about tax issues. In Mozambique, the revenue administration also uses music to attract the attention of small traders at markets. These campaigns are created for educational purposes and provide limited space for small traders to give inputs to tax policy. Still, the outreach programmes may give small businesses – who otherwise are not in contact with the tax administration – opportunity to lobby their interests and air frustrations.¹⁴ A challenge for such meetings where tax policy and administration are discussed is to encourage a discussion on how to improve the current system – instead of discussing possibilities for tax exemptions. For example, in one meeting between 300 small traders and TRA in the Kariakoo market, the traders argued mainly for VAT to be abolished and that their businesses should not be assessed by TRA.¹⁵

TRA has for many years used radio to reach out to citizens. All radio programmes by TRA are in Swahili. Initially, the messages were read by the involved TRA officers, and there was no interaction between them and the public. Recently, this approach has changed. TRA now introduces a topic and thereafter opens up for discussion with the public. According to TRA staff interviewed, this approach has given the tax administration improved insights on practical constraints and challenges facing taxpayers. One example is the campaign to get customers to ask for receipts when purchasing goods and services. Feedback from radio listeners showed that if customers asked for receipts, they rarely received these from the vendors. Based on this information, TRA developed a new radio programme targeting vendors, which presents arguments on why vendors should provide receipts to their customers. Occasionally, TRA also uses television to educate taxpayers.

TRA has started 'tax clubs' in secondary schools. The clubs are given reading material, and TRA officers provide information on tax issues. Each club has about 50 students. Once a year there is a competition where 20 pupils from each tax club participate on behalf of their school. These competitions are popular and receive substantial media coverage. TRA has received requests from some schools to organise tax competitions more frequently. Budget constraints, however, limits the number of schools participating, the geographical coverage and the frequency of the competitions. In 2011, the competition included 20 schools in Dar es Salaam. These clubs are one measure taken by TRA to build a new generation of compliant taxpayers. It takes more to convince adults, according to TRA officers interviewed. A similar view was communicated to us by ZRA-officers: "We need to focus on educating future generations of taxpayers. The current generation is lost."¹⁶

¹³ Interview, TRA HQ, Dar es Salaam, 15 November 2011.

¹⁴ Interview of staff at TRA's *Taxpayer Services and Education*, TRA HQ, Dar es Salaam, 15 November 2011.

¹⁵ Interview, TRA Domestic Taxpayer Department, TRA HQ, Dar es Salaam 18 November 2011.

¹⁶ Interview, ZRA HQ, Lusaka, 2 November 2011.

4.2 Taxpayer services: simplifying payment and processing

Tax compliance costs are defined as the cost that taxpayers' incur to pay taxes. These costs include (i) the time required to prepare tax returns which is determined by the complexity of tax legislation and the number of taxes that need separate payments and returns, and (ii) the payment frequency (Misch *et al* 2011: 32). How easy it is to pay tax in a country is measured by the World Bank as a part of the *Doing Business* project. Regulations relevant for a small to medium sized business are identified and ranked in 183 countries providing an overall score of the ease of doing business in a country. The ease of paying tax is one of the indicators from *Doing Business*, and it is found by examining the number of payments needed each year; hours spent on tax issues per year; the total tax rate as a percentage of profit (Fjeldstad and Heggstad 2011). Table 3 is based on *Doing Business 2011*. It reports the scores of the three case countries compared with the world ranking and the regional ranking of Sub-Saharan Africa, where 1 is the best and 183 and 46 are the weakest for the World and Sub-Saharan ranking, respectively.

TABLE 3: THE EASE OF DOING BUSINESS AND PAYING TAXES (2009/10)

DB 2011 rank	Doing business		Paying tax	
	World (183)	SSA (46)	World (183)	SSA (46)
Tanzania	128	14	120	21
Mozambique	126	13	101	19
Zambia	76	7	37	5

Source: Doing Business 2011 (based on data collected in 2009-2010)

As reflected in Table 3, Mozambique, Tanzania and Zambia are far better performers in terms of the 'paying taxes ranking' than in the 'ease of doing business ranking'. Zambia, for example, ranks as 37 of the 183 countries in the world on the ease of paying tax, while the overall Doing Business rank is 76 of 183. This implies that even if tax rates and tax administration are considered to be a constraint in the region there are other issues that should be considered as well for the ease of doing business. Thus, in contractual negotiations with mining companies tax incentives should not be the only bargaining card, because there are other factors that generally are more important for the ease of doing business than the tax system.

However, the average figures referred to above do not reflect that there are substantial variations in tax compliance costs between companies and sectors. Compliance costs may differ due to (a) firm size (small firms are likely to face much higher tax compliance costs relative to larger firms); (b) firm location and the distance to the nearest tax office; (c) firm age (as tax payment becomes easier the more experience a company has); and (d) whether the company uses a tax advisor or not as well as the price and quality of the agent (Misch *et al* 2011: 32). For some companies the compliance costs are a major barrier for tax compliance in the sense that complying with the tax laws would force them to close their business. For other firms, however, the compliance costs are relatively unimportant for their taxpaying behaviour.

The South African Revenue Services (SARS) has established an integrated approach to taxpayer services and simplification with the following main components (SARS 2011: 7-8):

- *Segmentation*: The requirements of specific categories of taxpayers have been segmented in order to provide a service appropriate to the needs of the taxpayers.
- *Risk based processing*: By applying risk based processing, SARS avoids the need to examine every taxpayer or every transaction in favour of those where a high risk of non-compliance is detected. This approach has speeded up the taxpaying process for at least 90% of the taxpayers whom little risk is identified.
- *Introduction of electronic and self-service channel*: The manual paper based processes are reduced by introducing electronic forms and self-service channels, thereby speeding up the processing of information and reducing the likelihood of errors and the need for rework.
- *Simplification of tax forms*: Long and complex tax forms are reduced into flexible forms suitable to the specific requirements of the individual taxpayer.
- *Single forms*: Multiple forms/applications (e.g. registration) have been reduced into single forms/applications.
- *Reducing the compliance burden*: Errors and the compliance burden on taxpayers are reduced by using pre-population of forms from third party data. This has resulted in quicker processing of tax forms and fewer errors.

Yet, a fairly recent study from South Africa found “that overall the [tax] compliance costs are regressive – the smaller the business, the heavier the burden (FIAS 2007, cited in AfDB 2011: 37). As a result, the majority (over 60%) of businesses with an annual turnover of ZAR 300,000 (approx. USD 40,000) or less preferred not to formalise their businesses. The study recommended the design and implementation of a simplified tax regime for small businesses. A 2008 survey of small business enterprises commissioned by the USAID endorsed a similar proposal. Accordingly, from 1 March 2009, the Government of South Africa introduced a simplified tax system for micro-businesses (including sole proprietors, individuals, partnerships, close corporations, companies and co-operatives) with a turnover of ZAR 1 million (approx. USD 132,000) or less. The new system requires that small taxpayers pay a single *turnover tax* rather than five separate taxes (i.e., VAT, provisional tax, income tax, capital gains tax (CGT) and Secondary Tax on Companies (STC).

Is *turnover tax* a way forward to tax the hard-to-tax small and micro-enterprises? Single turnover taxes have been introduced in many countries, including Tanzania and Zambia, as a measure to reduce the compliance costs of small firms. One advantage with the turnover tax is that it is fairly easy to administer and understand for taxpayers compared to income tax where profits constitute the tax base. For instance, the only accounting requirement consists of keeping records of sales. However, the tax burden induced by turnover tax may vary substantially depending on the firms’ profit margins. In Zambia, the turnover tax is 3%. Thus, if the profit-turnover ratio is below 3%, the turnover tax burden exceeds the profits. According to Misch *et al* (2011: 39), the turnover tax only converges with the standard income tax rate of 35% if the profit-turnover ratio is around 8.6%. ZRA officers interviewed by the research team as part of this study argued that the current turnover tax of 3% was excessively high for many firms, and discouraged growth and formalisation of small enterprises.¹⁷

Turnover tax may provide incentives for tax planning, for instance by underreporting sales. Since accounting requirements are minimised under the turnover tax, the problem may be exacerbated because costs cannot be deducted. Thus, small firms do not have incentives to ask for receipts since they cannot use them for tax purposes (*ibid.*: 39). Moreover, small firms often trade with individuals who also have no incentive to ask for receipts. Consequently, tax evasion is likely to remain undetected since there is no ‘paper trail’. It is therefore often problematic to enforcing proper

¹⁷ Interview, ZRA HQ, Lusaka, 2 November 2011.

reporting of turnover, also because the tax administration does not have sufficient capacity and resources to monitor firms registered for turnover tax. In such circumstances, the tax collector may set an arbitrary 'tax' for small businesses that either do not want to disclose information or have not managed to keep an overview of their turnover. The risk for corruption is high when the tax is discretely decided by the tax collectors. A business association in Zambia, organising small and medium sized enterprises, reported to the research team that "sometimes the taxpayer can choose between an arbitrary tax and a lower, alternative amount that is pocketed by the collector."¹⁸

What is the alternative to the turnover tax and still maintain a simplified tax regime? One option discussed in Zambia is to modify it by allowing for the deduction of "expenses, including supplies and the purchase of capital assets, but excluding labour costs, payments to owners in respect of equity or debt repayments from taxable turnover" (Misch *et al* 2011: 60). By introducing deductibility of cash expenses the tax base would better reflect actual income and thereby reducing the tax burden of firms with low profitability. Further, by being able to immediately write-off capital purchases small-firms get incentives to invest. Finally, small firms will be given incentives to ask for receipts when purchasing supplies, which may promote accounts and record keeping (*ibid*). However, one counter argument against such an amendment of the turnover tax is that it will undermine the purpose of the turnover tax, i.e. to lower compliance costs by minimising accounting requirements. Further, the required turnover tax threshold may provide strong incentives for tax-planning by firms, by splitting up firms into smaller portions. It will require substantial tax administrative resources to investigate such attempts (*ibid*: 61).

An alternative to the turnover tax on small and micro enterprises is to introduce a *single business license* or *single business permit* (SMP), which has been introduced in some countries during the last decade. The purpose of the single business licence is to raise revenue with each business, trade or profession paying only one annual fee which allows it to operate within a specific area. The fee structure is commonly differentiated by business size and type. In contrast to the turnover tax, the single business licence would be collected by local governments. This makes sense in many cases since the national revenue administration often has limited resources to collect tax from a large number of small enterprises. Local government authorities may be in better position to identify the location of the firms. The main objectives of the single business permit reform are to (a) enable local authorities to collect significantly more revenues, and (b) to reduce the compliance burden on the businesses. Currently, Zambian authorities are considering whether the turnover tax shall be turned into a single business permit levy to be collected by municipalities, possibly in collaboration with the national revenue authority (Misch *et al* 2011).

In the late 1990s, Kenya pioneered a single business permit (SBP) system, which has since become a model for other countries in the region (see Box 2). The Kenyan SBP system was introduced on an optional basis in 1999, with all the local authorities being required to adopt it from January 2000. According to Devas and Kelly (2001: 387), the initial reports were positive. However, one major problem experienced was the lack of effective dialogue and communication with the local business community in the early stages, leading to misunderstandings and some initial resistance to the reform. Moreover, some local authorities chose inappropriate tariff sets – usually too high. This led to tax resistance from local traders. There were also cases of business misclassification (that is, over-assessment) leading to calls for improved administration, transparency, and accountability. On the positive side, however, most local governments experienced substantial increases in revenues. Some councils more than doubled their revenue from this source in one year. In some cases, this was due to improvements in coverage of the revenue base, but in most cases, the increase was due to choosing higher tariff sets (*ibid*: 388).

¹⁸ Interview, Zambia Chamber of Small and Medium Business Associations, Lusaka, 4 November 2011.

BOX 2: THE SINGLE BUSINESS PERMIT (SBP) IN KENYA

The Kenyan business license reform has the following components:

1. Local business licensing is decoupled from regulatory requirements, since these are usually ineffective and create opportunities for rent seeking.
2. All economic activities within the local jurisdiction are, in principle, included in the base. The law was amended to broaden the base to include all businesses and trades, including professionals such as lawyers, doctors, and private consultants. This aimed to widen the revenue base and to improve equity, while at the same time minimizing the economic distortions of the license system. To avoid double taxation, the central government abolished its registration fees on professionals.
3. Businesses are only required to have one business permit per premise regardless of the range of activities carried out there, hence the name Single Business Permit (SBP).
4. Local authorities are required to establish 'one-stop-shops', at which permits will be issued on the spot in exchange for the appropriate fee. The philosophy is a more customer-oriented approach to business licensing.
5. A standardized rate structure is established. Businesses are classified into eight sectors, which are subdivided into broad categories reflecting the scale of profitability of the business. These size categories are based on easily identifiable and objective criteria. The system is based on self-declaration, but with the opportunity for official checking.
6. The tariff structure is designed to be progressive, with smaller businesses paying less than larger ones. The system provides a standard tariff structure for all local authorities, but still allows local government discretion over the actual tariff rates.
7. Measures are taken to improve the local administration of the system. This includes the design of simplified SBP registration forms. Training is provided to encourage local authorities to work with the local business community in choosing the SBP tariff schedule.

Source: Devas and Kelly (2001).

In both Kenya and Uganda, the time required to obtain business permits has been substantially reduced due to the introduction of one-stop-kiosks (see Box 3). This has reduced the compliance costs of the enterprises, though not necessarily the total costs since the tariffs have been raised. In general, however, collection performance remains a problem and there is a need for improved financial management. However, the early evidence is fairly positive. The new system seems to enable local authorities to enhance revenues. At the same time, compliance costs on businesses are lowered and the opportunities for rent seeking and corruption are reduced.

4.3 Taxing the informal sector

A large share of the economic activity in the case countries is located within the informal sector.¹⁹ That sector is hard to tax (Tendler 2002; Bird and Wallace 2003; Kloeden 2006). From an economic and administrative perspective, it makes a great deal of sense *not* to tax multitudes of poor people.

¹⁹ The size of the informal economy is hard to estimate. The most cited estimates for our case countries are from the 1990s showing the size of the informal sector in percent of non-agricultural GDP to be 20.2% in Zambia (1998); 43.1% in Tanzania (1993); 44.8% in Mozambique (1994); with a sub-Saharan average of 39.6% (Charmes 2000:3).

Therefore, Terkper (2003) and others argue that the tax system can be improved by having tax officers concentrate on handling a few thousand files efficiently, rather than trying to cover tens of thousands of very small taxpayers. For instance, a study by Ernst and Young notes that more than 13,000 enterprises were registered for the normal VAT regime in Mozambique in 2004, and more than 10,000 were registered for the simplified regime, while nearly 12,000 were recorded in the exempt regime (Nathan Associates 2004:27-28). Yet, those filing under the simplified regime accounted for just 0.4% of the revenue. Thus, it is argued, there is a strong case for raising the thresholds for tax coverage, which would actually narrow the coverage of the tax base, but with little effect on revenue. Further, it is claimed, the revenue effect of this policy is likely to be positive, because administrative resources could be deployed more effectively.

Nevertheless, there are good public policy reasons for paying more attention to taxing informal urban economic activity, both in terms of governance concerns about the spread of the tax net and in order to explore alternative ways of building the capacity to tax the sector more effectively in the long term (Fjeldstad and Moore 2008). Much of the anger about tax evaders in the informal sector centres on competition from enterprises that operate well above the margin of subsistence. We know from a wide variety of sources that this heavy concentration on a few larger taxpayers can have perverse results. Tax collectors, both institutionally and personally, have stronger incentives to concentrate on trying to extract more revenue from this existing, registered base than to go about broadening the base by bringing more, smaller enterprises and individuals into the net. Identifying, locating and registering new taxpayers can be difficult. And concentrating on the existing base can be more rewarding. This simple causal model does of course not tell anything like the full story. The point is that it is sufficiently valid that it makes sense to question the dominance of economic arguments for excluding smaller taxpayers from the tax net on pure efficiency grounds, and to explore the potential political advantages of widening that net, including the argument of building a taxpayer culture.

Finding better ways of taxing the informal sector is gaining increasing attention by the revenue authorities in Mozambique, Tanzania and Zambia. The inclusion in the tax net of those taxpayers who generate relatively little net revenue is in line with the tax reform agenda of broadening the tax net. Mozambique Tax Authority (AT) has made substantial efforts to broadening the tax base by incorporating informal sector operators in the tax base. Between June 2009 and November 2010, 35,000 small taxpayers were registered. This has been achieved by (a) simplification of the taxing procedures for small and micro enterprises, including mobile collection points (currently, there are about 30 of these operating across the country); (b) through taxpayer education and outreach programmes using local languages; and (c) collaboration between the AT and informal sector/micro-enterprise associations.

Tanzania Revenue Authority (TRA) has introduced a *Block Management System* (BMS), which has received international attention. The objectives of the BMS are (a) to promote compliance by registering all eligible small and medium scale enterprises within a particular business, sector or geographical area, and (b) to gather relevant tax information on the level of economic activities to fight tax evasion (TRA 2011c). The Block Management System (BMS) consists of areas of trading concentrations that are mapped up in small territories/segments, defined on the basis of geographical or administrative set up, or a combination of a few streets to form a block. One block is supposed to be a one-stop shop except when it is a very complicated audit. Thus, each BMS is mandated to operate all the tax functions of registering, assessing, collecting and accounting for revenue collected. To measure performance, each Block is allocated targets, including revenue collection targets, measured against set time frames and benchmarks. Minimum four staff is needed per block, one for registration, one assessing collection and one accountant. It is a rotational system where the TRA officers change

blocks to oversee at least every five years.²⁰ Before an officer is assigned to a block the skills and needs of knowledge for the specific block is considered. Constant TRA staff presence is a part of the strategy. Traders cannot close their shops and ‘run away’ in the same way as they can - and do - on random visits.

The BMS has simplified the registration of traders, and has brought more non-filers and non-payers into the tax net through closer monitoring and collaboration with local government authorities. It appears that the motive for innovating the BMS came from a concern with ‘fairness’ within the tax system in which formal firms were paying taxes and facing competition from informal businesses which were not. The BMS was intended to widen the tax base by ‘reaching out to the unreached.’ A key assumption was that ‘close monitoring and rigorous enforcement’ was essential to bring informal firms into the tax net. Broadening the tax base was thus a strategic objective for the tax administration to improve compliance among all taxpayers. The advantages of the BMS are evident. The system is highly potent for widening the tax base by capturing new taxpayers and evaders. Evidence suggests that the BMS has resulted in increasing the number of businesses registering with the tax administration. In 2006-2008, 16% of new registrants were through the BMS, in 2007-2008 the number had grown to 43%, and was sustained in 2008-2009 at 41%.

Currently, the expansion of the BMS is constrained due to limited financial resources. Hence, TRA has decided to develop a limited number of ‘model blocks’ which are allocated sufficient resources to be able to operate according to the original plans. Moreover, based on experiences from other countries, it is important to establish measures to combating corruption.²¹ In Georgia, for instance, tax officers are monitored by people they do not know. Tax officers are required to have approval from their supervisor to work within a tax area, when to enter and exit and what to do while he/she is there. The movements of the tax officers are monitored by information technology. A similar system is in place in The Philippines.

South African Revenue Services (SARS) has in recent years devised interventions to enhance compliance of informal sector operators through education and outreach initiatives, including the small business amnesty. In the medium-term, SARS is challenged to broadening the tax base by:

- Expanding its outreach through ‘walkabouts’ to establish unknown economic activities, which are outside the tax net.
- Assessing how SARS can expand its footprint into areas where there are no branches. Such expansions would offer SARS the opportunity to educate small businesses, although the revenue yields are likely to remain miniscule in the short-term.
- SARS partners with shopping malls who provide space and internet access to enable it to provide services to individual taxpayers. SARS also coordinates services in collaboration with other government departments via ‘Thusong’ (i.e. one-stop centres).
- The number of lifestyle audits is increasing. According to Temkin (2010: 52), SARS may obtain information about non-disclosure of taxable income from various sources, for instance, a “disgruntled employee, a recently divorced spouse or media reports that raise suspicion about a taxpayer...”

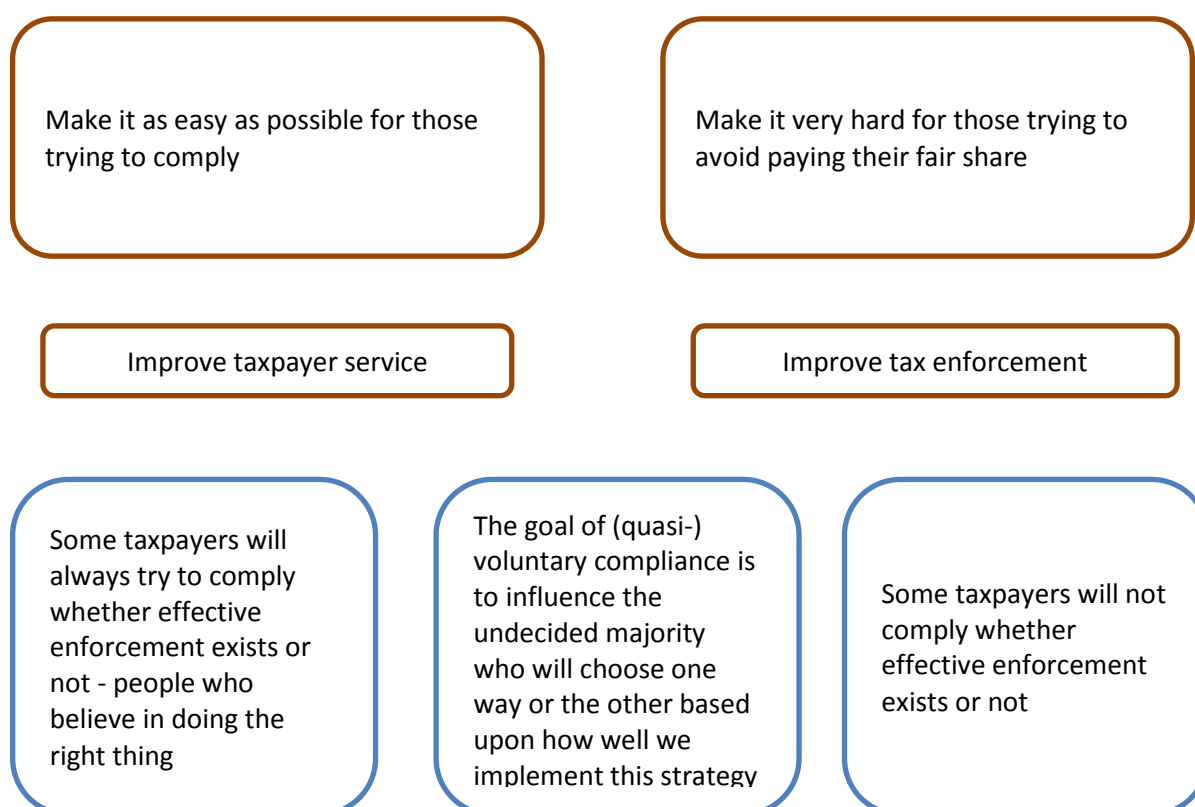
²⁰ Interviews with the Commissioner for Domestic Taxation, and the Director for Research and Policy, TRA HQ, Dar es Salaam, 18 November 2011.

²¹ Interview with tax officer, TRA HQ, Dar es Salaam, 16 November 2011.

4.4 Deterrence and enforcement

General tax administrative approaches to ensuring compliance are illustrated in Figure 3. In practice this implies to (i) make tax payment as easy as possible for those trying to comply, and (ii) make it 'hard' for those taxpayers who will not comply whether effective tax enforcement is in place or not. For the first category improved taxpayer services is the suggested approach, while improved detection and enforcement are required for the second category. In between these two broad categories, there are a large number of 'undecided' taxpayers whose behaviour must be influenced by a combination of improved services and deterrence.

FIGURE 3: TAX ADMINISTRATIVE APPROACHES TO ENSURING COMPLIANCE



Source: SARS (2011)

Deterrent and enforcement actions need a combination of (i) coverage (to ensure sufficient likelihood of detection of non-compliance); (ii) depth (sufficient thoroughness to detect the full extent of non-compliance); and (iii) influence (encourage other non-compliers to become compliant by utilizing information of the detection of non-compliance).

Unique taxpayer identification numbers are being introduced in the three case countries, though relatively few taxpayers are currently enrolled in the schemes. In Tanzania, for instance, all citizens with a business are required to have a Tax Identification Number (TIN) which is to be used for all tax related transactions. As of December 2008, around 434,000 taxpayers were registered with TINs. The TIN is computerized, thus enabling easy updates of taxpayer information. In addition, a system to cross check information has been initiated to help in noting discrepancies and triggering audits. The initiative includes walk-ins, SMSs to Revenue Commissioners and the use of telephone calls to reach taxpayers (TRA 2011c). There is also a 'Reward for Informers' in which informers are given 3% of the tax identified and collected. Between July 2008 and March 2009, approximately USD 64,000 was

paid to 46 informers under this arrangement. Additionally, 'tax amnesties' have been offered to encourage firms or individuals to register and pay without incurring penalties. However, such initiatives bear a risk for perverse taxpayer behaviour and corruption. We were informed by a representative of a small business association that the tax administration had not informed properly about a tax amnesty. Consequently, tax collectors allegedly pocketed the payment of the 'old tax'. True or not, stories like this contribute to undermine taxpayers' trust in the tax administration.

The South African Revenue Service (SARS) addresses non-compliance through a range of educational, service, deterrence or fool-proofing measures. One key element of deterrence is effective detection of non-compliance. SARS focuses on high risk areas with minimal intervention in low risk areas (Figure 3). The taxpaying population is segmented by industry, geographic area, income level etc. The compliance behavior of each segment is profiled and their risk profiles modeled. On this basis an understanding of the compliance landscape and the profile of each segment are developed (SARS 2011: 4). Deterrence or enforcement measures are designed to match the nature of the non-compliance (ibid: 5). Thus, enforcement measures move along a continuum from 'soft enforcement' (e.g. from unknowing non-compliance) to hard enforcement (e.g. for conscious, deliberate non-compliance). In short, the South African Revenue Service's deterrence and enforcement system has the following main components (SARS 2011: 6-7):

1. *Focused risk management:* SARS has shifted from being gate keeper to a focused risk management approach to compliance by focusing enforcement activities on high risk areas while automating areas of lesser risk. This has been done by increasing access to third party data and by increasing third party validation of declarations. Through the pre-population of declarations from third party data, it is possible to reduce the opportunity for false or inaccurate declarations. Data and information on trends and specifics of non-compliance are essential measures.
2. *Integrating data from multiple sources:* SARS aims to gain a more complete economic understanding of taxpayers across all types and areas of economic activities in South Africa. By moving from a transactional to an economic view of taxpayers, the purpose is to make it easier to detect inaccuracies in declarations as well as to identify those who have attempted to stay outside the tax net, while at the same time provide more appropriate taxpayer services.
3. *More focused enforcement:* The shift from gate keeper to risk management and from transactional to an economic view enables the revenue administration to focus the enforcement activities more effectively on cases of highest risk and to proportion the level of enforcement activity to the scale of the risk.
4. *Administrative penalties:* In order to ensure consistency in compliance behavior, SARS is increasingly using administrative penalties to deter administrative non-compliance such as failing to file on time.

In practice, the implementation of this approach implies that SARS has increased its human resources dealing with high revenue generation taxpayers who require specialized skills to improve tax compliance (SARS 2011). Further, the human resource efforts to processing medium revenue generation taxpayers have been reduced in order to increase the ease and fairness of the interaction between SARS and these taxpayers, and to become more cost effective and internally efficient. Finally, SARS deploys human resources to broaden its engagement with low revenue generation taxpayers to improve compliance.

Training of tax collectors and inspectors who interact directly with taxpayers is important. It is particularly important to securing that they behave in accordance with the overarching strategies, codes of conduct and measures communicated to the public by the senior management of the tax administration. Representatives of some business associations interviewed as part of this study complained about the mismatch between the messages they received from the head office of the revenue authority at public meetings and the reality they faced when the tax collectors visited them.

5. Interventions outside the tax system

A range of factors outside the tax system are likely to impact on taxpayer behavior and the building of a taxpaying culture, including how tax revenues are spent and the extent to which taxation mobilises citizens' political engagement. Hence, the need to strengthen the demand side of tax accountability, i.e. to encourage broader citizen engagement around taxation. The role of the media, civil society, the Parliament and other institutional oversight bodies are important in this respect.

5.1 Linking tax and expenditures

There are strong arguments in the literature that better links between tax payment and public expenditures are essential to building effective and accountable states. The presence of government expenditures may motivate compliance (Andreoni *et al.* 1998; Alm *et al.* 1992; Cowell and Gordon 1988). Individuals may pay taxes because they value the goods provided by the government, recognizing that their payments are necessary both to help finance public goods and services and to get others to contribute. A taxpayer may therefore be seen as exchanging purchasing power in the market in return for government services (Levi 1988). The existence of positive benefits may increase the probability that taxpayers will comply voluntarily, without direct coercion. Without a material benefit, compliance becomes less assured. Although most taxpayers cannot assess the exact value of what they receive from the government in return for taxes paid, it can be argued that they have general impressions and attitudes concerning their own and others' terms of trade with the government (Fjeldstad 2001; Richupan 1987).²² It is then reasonable to assume that a taxpayer's behaviour is affected by her/his satisfaction or lack of satisfaction with her/his terms of trade with the government. Thus, if the system of taxes is perceived to be unjust, tax evasion may, at least partly, be considered as an attempt by the taxpayer to adjust her/his terms of trade with the government. In this perspective, taxation and the provision of public goods and services can be interpreted as a *contractual relationship* between taxpayers and the government.

This understanding of the links between taxation and public expenditure is about to become mainstream in the literature on tax and development. Still, there is a tendency for the revenue and expenditure sides of the public finance equation to be treated as separate silos. The links between tax payment and public service delivery is in general weak in many developing countries. This is reflected in widespread resistance to pay taxes. Citizen surveys conducted in various African countries commonly reflect the view that people feel they receive little in return for taxes paid (Fjeldstad and Schulz-Herzenberg 2011). Poor service delivery, in taxpayers' view, legitimises tax evasion and avoidance. Is earmarking of taxes required to enhance compliance and build a taxpaying culture?

Tax earmarking refers to the act of legally committing specific tax revenues to specific expenditures. The most explicit form of earmarking is *benefit taxation*: charging for a particular service in order to provide that same service. Other forms of earmarking are much less direct, for example when a specified share of income tax revenue is earmarked for transfers to local government (see Table 4). In both cases, the attraction of tax earmarking is that it can regularise spending on essential tasks and create greater transparency about the connection between taxation and public spending. By doing so, it can give taxpayers a say over how tax revenue is spent, improve monitoring of expenditures, build *trust* around taxation and encourage public engagement.

Fiscal earmarking may take many forms both within a country and between countries. Bird (1997) suggests a taxonomy of eight distinct types of earmarking with reference to three different features of

²² Survey research from Western countries also suggests that taxpayers make judgements about the fairness of particular taxes (e.g. Smith 1992).

the way in which taxes and expenditures are connected (Table 4): (a) the degree of specificity of the expenditures involved; (b) the strength and nature of the linkage between the earmarked revenues and the expenditure; and (c) whether or not there is an identifiable benefit rationale for the linkage. Generalisations with respect to either the vices or virtues of earmarking are therefore of little value unless it is carefully defined what is meant by the term with respect to the features referred to above. In addition, there are additional questions that need to be answered with respect to any particular kind of earmarking before its real nature can be fully understood, for example (Bird and Jun 2005:6):

- Are the earmarked revenues channeled through the budget or do they go directly to the recipient institution(s) in some off-budget way?
- Are the revenues collected by the government or directly by the benefiting institution, as is usually the case with a self-financing public enterprise (e.g. a water supply company)?
- Is the earmarking for a fixed time period or indefinite?
- Is the rate of the earmarked tax fixed or subject to change as part of the normal budgetary process?
- Must the earmarked revenues be spent in the period in which they are received?

TABLE 4: VARIETIES OF EARMARKING

Varieties (examples)	Degree of specificity of the expenditures involved	Strength of linkage between the earmarked revenues and the expenditure	An identifiable benefit rationale for the linkage
Self-financing public enterprise such as a water supply company	Specific	Tight	Benefit
Fuel tax and road finance	Specific	Loose	Benefit
Social security (e.g. pensions, maternity benefits, sick pay)	Broad	Tight	Benefit
Tobacco tax and health finance	Broad	Loose	Benefit
Environmental taxes and clean-up programmes	Specific	Tight	None
Payroll tax and health finance	Specific	Loose	None
Revenue sharing of national tax revenue to sub-national governments	Broad	Tight	None
Lottery revenues to health	Broad	Loose	None

Source: Adapted from Bird and Jun (2005: 41) based on Bird (1997)

Both politicians and taxpayers seem often to find earmarking to be an attractive and feasible way in which to finance social security, road works, education, environmental programmes and other good things. Politicians like earmarking as a means of reducing taxpayer resistance to higher taxes, and taxpayers like the greater accountability they perceive with respect to how their tax money are spent. However, much of the public finance literature and many fiscal experts advise against earmarking

(Bird and Jun 2005; Bird 1992).²³ One reason is that tax earmarking reduces fiscal flexibility in the long-term. Perhaps more importantly, in practice many tax earmarks serve a political purpose, but do not actually affect spending patterns or improve monitoring. The most common problem arises from the fact that revenues are highly fungible, meaning that newly earmarked revenues can be offset by shifting existing revenues to other priorities, thus leaving the aggregate pattern of spending unchanged (Prichard 2010). Such behaviour can actually undermine public confidence in the tax system if it is perceived to be manipulative.

Despite these critiques, there may be a particularly strong case for using some forms of tax earmarking in developing countries (Bird 1992). In the face of political instability earmarking can stabilise funding for priority needs, as in the case of Road Funds funded by fuel taxes (Gwilliam and Shalizi 1999). More important, from a governance perspective, tax earmarking may be a useful strategy to build trust, achieve important revenue and spending objectives, improve monitoring and increase public engagement.

5.2 National commitment and international cooperation to fight illicit capital flows

It is well documented by research that illicit capital flows from Africa - mainly to tax havens and Western financial institutions - are huge. The proceeds of commercial tax evasion, mainly through trade mispricing, are found to be by far the largest component. Of the three case countries, Zambia has the estimated highest degree of illicit flows largely due to the systematically higher estimated trade-mispricing in Zambia than in the two other countries (Kar and Cartwright-Smith 2010).

Table 5 shows the combined score of estimates of export under-invoicing and import over-invoicing (GER method) and the World Bank Residual model (CED) that captures the channel through which illicit capital leaves a country through its external accounts.

TABLE 5: ESTIMATED CAPITAL FLIGHT FROM TANZANIA, MOZAMBIQUE AND ZAMBIA (1970-2008)

Units: mill USD ²⁴	2001	2002	2003	2004	2005	2006	2007	2008	2000-2008	1970-2008
Tanzania	-	597	106	1 146	85	-	277	334	2 545	7 356
Mozambique	3	178	67	369	-	362	143	-	1 121	5 450
Zambia	91	72	374	1 095	1 336	496	1 502	155	5 120	9 348
Sub-Saharan Africa	20 190	21 808	27 245	37 114	3 771	50 575	74 773	88 102	323 577	532 926

Source: Compiled by the authors based on Kar and Cartwright-Smith (2010)

²³ In practice, many countries use tax earmarking to some degree. For instance, a study by Ebel (1990) found that 64% of local government own source revenue was earmarked. Hickling Corporation (1991) found that 36% of federal revenue was earmarked in Canada. Bird (1984) found that over half of all central government revenue in Colombia was earmarked. According to Rajkumar (2004), the percentage of national revenues earmarked for specific purposes in Brazil rose from 30% a few decades ago to almost 80% by the end of the 1990s.

²⁴ USD million 2004 deflated. For information on the methodology see Kar and Cartwright-Smith (2010:18) and Fontana (2010).

Erosion of the tax base through transfer mispricing is a challenge that has adversely affected domestic resource mobilisation. Technical changes dependent on cooperative elites and high tax morale have been overcome by underlying political forces (Everest-Phillips 2012; Engelschalk and Nerré 2002). Further, the issue of abusive transfer pricing is sophisticated and complex in nature. International collaboration and treaties are required to make inroads against the problem. Thus, tax evasion remains widespread in many developing countries despite the many tax reforms undertaken. Fighting illicit capital flows therefore requires not merely more tightening of tax policy and tax administration, but a shift in citizen attitudes toward the political institutions shaping the governance context.

The political settlement includes the formal rules for managing politics (peace treaties, constitutional provisions, parliamentary rules, the organisation of political parties, etc.) and the informal networks, family ties, and social norms that shape political behaviours (Everest-Phillips 2012). The political settlement shapes tax morale as an expression of social order, a collective interest, and a sense of political commitment to improve public institutions, constrain corruption, and deliver public goods (Andreoni *et al.* 1998). The settlement develops from the national political community that delivers the perceived fairness of and trust in a credible state. Within this context, the tax system represents a legitimate and effective exercise of state power, while the efficient provision of public goods benefits ordinary citizens (Lieberman 2003). Whether taxation is viewed as a value-for-money contribution to society or simply an unproductive burden depends also on how it is raised and used. Variation in state effectiveness and, therefore, in the opportunity to turn evasion into illicit capital flows is the meeting point of the domestic and the international political economy (Everest-Phillips 2012). The political will to tackle illicit capital flows requires the combination of effective national commitment to development and international coordination.

5.3 Norwegian experiences to building taxpayer culture

“Clear, unambiguous rules with not too many exceptions would avoid many unnecessary conflicts”

Fredrik Aksnes, Norwegian Tax Administration

This section briefly summarises some of the Norwegian efforts and experiences to build a taxpayer culture. The Norwegian Tax Administration (NTA) works from the perspective that most pay their taxes voluntarily. In line with the compliance pyramid (Figure 2a), the emphasis has been on making compliance as easy as possible. The aim is to ensure that those who are willing to comply manage. The assumption that the majority of taxpayers want to comply with the tax rules implies a fundamentally different reference point for the tax administration’s compliance campaigns compared to a scenario where the assumption is that most people will actively avoid paying. The latter scenario, however, is closer to the reality facing the tax authorities in Mozambique, Tanzania and Zambia than the Norwegian context. Are there still experiences from Norway that are relevant for the African context? The answer is yes and no.

In the petroleum sector Norway has built an efficient and effective tax regime. Main characteristics of the Norwegian petroleum-tax system are: (a) transparency; (b) fairness; (c) avoiding distortions of investment incentives; (d) long-term stability and predictability for investors; (e) equal tax treatment of all petroleum companies with no exemptions; and (f) simplicity for both the tax administration and taxpayers. The Norwegian government carries a large part of the risk in the exploration phase. However, when the extraction starts the tax rates are high, but predictable (Holterud 2011). Important differences between Norway and many resource rich developing countries are that the tax regime is predictable and applies for all. Negotiations about exemptions and pressure from powerful lobbies are therefore less challenging compared to a situation where each contract is to be negotiated individually. Thus, the risks for corrupt deals are lowered.

In Mozambique, Tanzania and Zambia the mining sector suffers from long-term agreements with individually negotiated contracts between the state and mining companies. A similar situation should

be avoided when developing the petroleum tax regimes in Mozambique and Tanzania. A valuable lesson from the Norwegian experience is to establish a tax regime that is predictable for investors, simple to understand for both revenue administration and the petroleum companies, and free for exemptions that commonly lead to economic distortions.

In Norway third-party information (e.g. from employers and banks) about the taxpayers' income and wealth are submitted directly to the tax administration. This system applies for all taxpayers across the country. For instance, banks submit information directly to the tax administration about the deposits and transactions of their Norwegian clients. Financial institutions are obliged by law to report any questionable transactions to the authorities. Consequently, there is less scope to misreport or avoid reporting bank deposits to the tax administration. This also applies for other financial institutions and financial assets. Automatic exchange of information requires firm routines and potentially adjustments of laws protecting personal information. Exchange of information from banks to the tax administration is only relevant if taxpayers actually use banks. In many African countries, the majority of the population is 'unbanked', accessibility to banks is often limited and when available, banking fees can be extremely high relative to the average income for individuals and small businesses. However, this situation is likely to change in the coming years due to the adoption of new technologies. For instance, SMS banking is spreading fast. However, it is likely that it will take longer time before banks will provide the tax administration with automatic and trustworthy information about their clients' deposits and transactions.

It is common that Norwegian media (newspapers and TV) report cases of tax fraud. The Serious Fraud Office of the NTA goes public once a case is filed to the police. When a case of tax fraud is identified in a specific sector, the tax administration indicates via media that it will initiate further tax audits in the sector in the near future. The purpose is to create 'unease' among potentially non-compliant taxpayers. However, such information via the media is carefully balanced to avoid creating a perception among the public that 'everyone is cheating'. To what extent is this approach applicable to African countries? In Norway printed and online newspapers have a large outreach. Two main TV-stations cover the whole country. In many African countries TV and newspapers do not reach large segments of the population, in particular in not rural areas, while radio may reach many more people (Heggstad *et al* 2011).

Statistics, facts and analysis are key tools to understand taxpayers' behavior and risks for non-compliance. When analysing the risks NTA distinguishes between different segments of taxpayers, tax fraud and risk. Different profiles are created for taxpayers and specific sectors. Taxpayers are categorised from those who are completely non-compliant, those who are partly non-compliant and those who are merely too late with their payments. Further characteristics are the type of tax fraud, the magnitude and the seriousness of the fraud, and the type of economic activity within a specific sector (Arntsen *et al* 2012; NTA 2011). On this basis strategies to promote compliance can be tailored to each profile. Informed taxpayer-risk analyses help to distinguish between important details of groups that easily could be categorised as identical if the analyses did not dig deep enough. For example, a middle man in the oil sector who has never paid tax is a very different offender than a medium sized production company for oil technology that for the first time is delayed in tax payment due to an administrative slip. Although none of the two cases are legal, the action taken to collect the missing tax and to ensure future compliance is likely to be substantially different.

Development of expensive e-solutions can be valuable, but the importance of maintaining capacity to deal directly with taxpayers via the phone or in local tax offices should not be underestimated. The majority of Norwegian taxpayers have access to the internet. The Norwegian Tax Administration has invested heavily in making the user interface simple and highly accessible. Almost all tax information and tax services are available online, and a large part of the tax returns are delivered electronically between the taxpayer and the tax administration. Still, according to NTA, telephone and face-to-face meetings at tax offices are important channels for information and taxpayer contact (NTA 2011).

Design of web-pages and experiences of how to adapt new users to online services can be valuable lessons for tax authorities in Africa that are developing better e-tax systems. However, internet access is still a privilege of the few and even for the group already using the internet it is not obvious that they will accept using the internet to handle their tax affairs. This has partly to do with peoples' trust in government and the tax administration.

In Norway citizens can see a clear connection between the taxes they pay and the benefits they receive in the form of public goods and services. From an early age, children are taught at school - and also from adult family members - about this connection. Thus, a taxpaying culture is rooted in the population from generation to generation. This approach is to some extent also used by the tax administrations in the case countries. As discussed in Section 4.1, Tanzania Revenue Authority has established tax clubs in secondary schools where children are taught about the tax system and the benefits of paying tax. TRA organizes competitions between tax clubs and creates attention around the participants. Journalists reports from the competitions. The tax clubs have become a mechanism both to enhance knowledge about the tax system among children and also to expose it for a wider audience. Tax education in schools can also be way to strengthen the understanding of the importance of holding politicians accountable for public spending and corruption, since this has implications for taxpayers' compliance.

6. Recommendations for Norwegian support

Experiences from support to tax and budgetary reform echo lessons learned from support to capacity development in other policy areas.²⁵ These include the importance of local leadership, locally designed solutions and donor approaches that are sensitive to each country specific socio-economic environment. A significant feature of the more successful aspects of recent tax reform efforts is that they have not just been externally driven. Tax officials from developing countries increasingly participate in an organised global community of tax professionals. This has supported the emergence of a consensus about the key technical elements of reform.

An effective engagement in this field will be inter-departmental, involving in particular the Treasury, revenue administrations, bi- and multilateral donors. Compared to previous decades, global issues and international cooperation should feature more prominently in any future donor programme. In setting priorities, the starting point must be an understanding of the changed context in which tax and budgetary reforms are being pursued, and donor support is being provided. There is now a much wider appreciation of the importance of taxation in development, and many more agencies and governments are active in the field. Unfortunately, this is now associated with frequently unhealthy ‘competition’ among different aid and development agencies. At the level of individual developing countries, an unhealthy competition for individual aid donors to fund tax agencies, often on a small scale, is growing (Fjeldstad and Heggstad 2011, Sections 6.5 and 6.6). This poses serious problems of duplication and fragmentation, which may undermine reform efforts by diverting local capacities, reducing local ownership and undermining the coherence of reform programmes. It is therefore important that the Norwegian engagement with tax and expenditure issues is planned strategically to minimise the danger that it will exacerbate these existing problems. Donor coordination and cooperation should be supported.

In light of the expansion of donor activity in this area, an important part of the Norwegian efforts should lie in seeking to support reform in strategic, and comparatively neglected, areas. There is considerable scope to address the international dimensions of the tax systems. There are opportunities to increase international cooperation among tax agencies and to change the accounting rules for transnational business, in order to reduce the degree of tax evasion that takes place, which is evident in resource rich countries such as Mozambique, Tanzania and Zambia. Challenges with respect to extractive industries have been exposed. The problems are also serious in renewable sectors such as fisheries, forestry and wildlife, though these have received relatively limited attention.

At present, the need for further technical assistance from Norway to the tax administrations in Mozambique, Tanzania and Zambia is related to building expertise on specialised audit functions in growing sectors, such as natural resource extraction, telecommunications, the banking and finance sectors, and tourism. While considerable progress has been made in national level tax reforms many remaining barriers are related to the need to build political support for reform. Continuing challenges are frequently rooted in politics, rather than in the absence of local understanding or donor funding. Coordinated efforts from the international community, including Norway, should focus particularly on supporting and encouraging local efforts to overcome these political barriers, especially those related to tax exemptions, tax holidays, illicit capital flight and more transparent budgeting.

Building local research capacity to inform policy reforms should be one component in these efforts. There is a need to strengthen the more general analytical capacity within the revenue authorities in all three countries. ATAF, which also is supported by Norway, in partnership with the ICTD, may be a productive entry-point to strengthen the research capacity of the revenue authorities. In the short term

²⁵ This section has benefited from discussions with Mick Moore and Wilson Prichard from the International Centre for Tax and Development (ICTD).

this will require the involvement of external/international researchers since only few researchers in the countries covered by this study at present are specialised on taxation. A natural extension of this would be to build regional and in some cases national academic courses or degrees on natural resource management and taxation. This could be done by ICTD in partnership with the African Tax Institute (ATI) at the University of Pretoria (www.ati.up.ac.za/); with national and regional research institutions like the African Economic Research Consortium (AERC) in Nairobi (www.aercafrica.org); and with ATAF.

A long-term strategy to increase knowledge and dialogue on tax issues at a more advanced level is to inspire students to choose topics related to taxation for their university degrees. Student organisations and/or other civil society organisations can promote tax and capital flight as important areas to study. Thus, the seeds for increased and improved knowledge on taxation can be planted. Experiences from entrepreneurship and innovation studies in Norway show that the academic staff in many colleges and universities have been drawn into the field by the keen interest of the students they are supervising. In Norway Tax Justice Network is planning to use this approach to encourage Norwegian students to focus on tax and capital flight in their bachelor and master studies.

A core responsibility of the Ministry of Finance is to formulate and design tax policy in accordance with the Government's priorities. Although the capacity of the MoF to fulfil this function has improved in recent years, in particular in Tanzania and Zambia, the Ministry's capacity for formulating tax policy and realistic revenue budgeting needs to be strengthened. In Tanzania, Norway has over many years provided technical assistance to the Policy Analysis Department in the Ministry of Finance and Economic Affairs, including support to the development of a mining tax model. The Norwegian Embassies in the three countries covered by this study should consider exploring the MoF's needs for further technical assistance, possibly in collaboration with the IMF's Regional Technical Assistance Training Centre (RTAC).

Although the legislature in Mozambique, Tanzania and Zambia plays a role in designing tax policies through debating budget statements and tax bills, the disturbing aftermath of passing the bills has raised questions as to whether legislators really understand tax policies and the implications of tax reforms for their constituents. Norway should consider providing advisory, training and research support to improve the technical capacity and basic skills of Members of Parliament in public finance and tax policy, including how to read and understand government budgets. Priority should be given to members of the Finance and Economic Affairs Committee and the Public Accounts Committee. Second, there is a need to increase the time available for scrutiny of the budget proposals. Third, more user-friendly information on tax reforms should be provided at an earlier stage of the budget cycle. The Economic Association of Zambia (EAZ) and Revenue Watch in Tanzania have organized training seminars for Parliamentarians on the 'basics of taxation' and how to read and understand budgets. This model could be extended to include a range of tax related issues. The EAZ is also organising high quality public meetings where the annual government budget is commented and discussed.

In contrast with important progress at the national level, sub-national taxation has been relatively neglected and requires further attention. Despite significant moves towards decentralisation in Mozambique, Tanzania and Zambia, fiscal decentralisation has been limited and not very successful. This effectively reduces the decision-making power and autonomy of local governments. It also potentially undermines many of the expected governance benefits of decentralisation, which are significantly premised on fostering bargaining around revenue and budgeting between citizens and government. Tax and expenditure reform at the sub-national level has been held back by a combination of political constraints, capacity constraints and poor coordination between national and sub-national authorities. It is important not to leave local government out of the equation when one is

addressing public finance management, tax and governance reforms, including better management of renewable natural resources (forestry, fisheries, wildlife etc). Norway should consider to support initiatives to strengthening the local government revenue bases, with a particular focus on natural resources taxation and taxation of the agricultural sector. Building more efficient revenue sharing arrangements between local communities, local government authorities and the national government could be one important component of such initiatives.

An important opportunity for building political support for reform lies in putting more emphasis on the 'demand side', i.e. in building broader citizen engagement around taxation. Public debates on taxation in Mozambique, Tanzania and Zambia are to a large extent limited to taxation of multinational companies. While this is important, a broader engagement about the tax and public expenditure system is missing. This is also reflected in Parliamentary debates on taxation. Norway should enhance its support to domestic civil society organisations engaged on tax issues. There is also demand for technical assistance to building tax capacity/knowledge in the business communities, especially for small and medium enterprises.

7. Concluding remarks

An effective tax system is essential to strengthening the state's legitimacy, accountability and responsiveness. It matters that governments tax their citizens and it matters how they tax them. Taxation stimulates demands for representation, and an effective tax administration is a central pillar of state capacity. In this perspective addressing the informal sector, cutting down on tax exemptions and hindering illicit financial flows out of the country are complex, challenging but potentially rewarding areas to focus efforts to broadening the revenue base and building taxpayer culture.

The challenge for many developing countries is not only to tax more (i.e. to increase the tax to-GDP ratio), but to tax a larger number of citizens and enterprises more consensually. This is not easy for various reasons, including economic structure and history. Nonetheless, historical and contemporary experiences show that taxpayers' behaviour can be transformed by reforming the tax and expenditure system, leading to both a greater willingness to pay and an increased propensity to mobilise demand for better public services.

Still, considerable and sustained efforts are required before the tax bases in most African countries will be significantly broadened. During this process it is also important to strike the right balance between the expansion of the tax base, compliance and enforcement. Furthermore, erosion of the tax base through abusive transfer pricing is a major challenge that has adversely affected domestic resource mobilisation. African tax administrations generally need better training on how to recognize the transfer mispricing opportunities in key sectors and stronger capacity to detect and respond to this problem. There is also a need for more in-depth knowledge of the extent and impacts of capital flight at the country levels. The issue of transfer mispricing is sophisticated and complex in nature. International collaboration and treaties are required to make inroads against the problem. With respect to tax exemptions, due to resistance from the benefiting elite, political leaders and businesses it is likely that the exemption regime will continue to be a major challenge in many countries.

While the technical aspects of tax reform are crucial, a better understanding of the sustainability of tax reforms is not possible without a better understanding of how reforms become legitimate. Because taxation affects incentives and distribution simultaneously, tax reform requires either a degree of social consensus that taxation is in the collective interest and/or it requires a state with the ability to coerce those who challenge its allocations. The focus therefore on institutional designs and other technical issues is incomplete since it ignores the political nature of taxation (Ayee *et al* 2010). More emphasis on the political economy of taxation is required for designing and implementing effective tax systems.

A key challenge is to strengthen accountability between government and taxpayers. The channels through which governments hold themselves accountable to citizens, and citizens communicate their demands for better government, are still highly dysfunctional in many African countries. The tax-paying culture is generally weak. Some of the reasons for this attitude are the legacy of taxation being seen as coercive and extractive, the inability of taxpayers to see the relationship between benefits in the form of services being provided by the state from taxes paid and inadequate public education programmes by the tax administrations. There seems to have been a general lack of concern for the historical evidence about the connection between taxation and state-building, notably the need to construct tax systems that engage citizens in politics in a positive way, and contribute to the legitimacy of the state (Fjeldstad and Moore 2008: 259).

Efforts to broaden the tax base are intimately connected to the quality of government expenditure. If taxpayers feel that their tax payments are wasted or misdirected then compliance will be low, and tax reforms will be far less effective. Programmes to improve public expenditure management and increase efficiency in the delivery of public services go hand in hand with tax reform. Against this

backdrop, there is a strong case for linking revenue enhancement much more explicitly to broader governance objectives (Prichard 2010). Increased domestic revenue generation will only lead to improved development outcomes if the revenue is translated into productive public expenditure. In more practical terms, if tax reform is undertaken in a way that promotes greater responsiveness and accountability, alongside improvements in the state's institutional capacity, then tax reform can become a catalyst for broader improvements in government performance.

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Annex 1: Organisations and networks focusing on tax and capital flight in Africa

‘Tax justice’ is a fairly new issue in the development debate in Africa.

Tax Justice Network Africa (2012)

Organisations and networks focusing on tax issues in Africa in general and in Mozambique, Tanzania or Zambia in particular are listed in Table 6. One commonality between the civil society initiatives at the domestic level is their focus on extractive industries. Especially mining has been a main area of interest in the case countries. The emerging oil and gas sectors are receiving increasing attention in Tanzania and Mozambique. Although tax and capital flight are addressed at some meetings, CSOs themselves emphasise that they need more in depth (also technical) knowledge and a broader understanding of these issues to seriously engage in the public debate. Concerns that the issues are very complex and require specialised technical insight were repeated by civil society organisations interviewed as part of this study.²⁶

Similarly, international networks and global NGOs have focused extensively on taxation of extractive industries. However, international NGOs such as *Global Financial Integrity* (GFI) and *Tax Justice Network* (TJN) are generally better resourced and have capacity to do more in depth work on complex technical issues such as transfer mispricing and illicit capital flows. Further, these global networks play an important role in building capacity at the national level by facilitating training, workshops and dissemination seminars for – and with – domestic NGOs.

Tax Justice Network Africa, *SOMO* and *Christian Aid* are some of the networks that invest in civil society education on tax and development. Workshops based on the publication “Tax Justice Advocacy: A Toolkit for Civil Society” (Golding *et al* 2011) are one example.²⁷ In Zambia one civil society training using the toolkit took place during the second half of 2011. Some of the participants reported that the training helped to ‘demystify’ taxation. One lesson learned is that civil society organisations do not need to understand all the technical complexities of national and international tax laws to be able to engage in the public debate and impact on policy.²⁸

In Mozambique, *Centre for Public Integrity* (CIP) has organised events involving a broad range of CSOs, media and researchers where tax issues are discussed addressed. CIP is also actively engaged in international events and meetings. The engagement has so far mainly focused on extractive industries, while there has been limited public debate on other tax related issues. *IMPROG*, which bases its membership on university students, is actively engaged in the public debate, newspapers and at the universities on extractive industries and EITI. Few if any CSOs in Mozambique focus explicitly on taxation. According to people interviewed as part of this study, some who might have been interested in broader issues of taxation did not feel they had sufficient knowledge to promote tax issues. There is also less tradition for CSOs in Mozambique to focus on efforts to reforming existing systems and practices.²⁹ Some of the CSOs, such as CIP, are also actively engaged in international meetings. Partners range from national human rights associations like *Liga Mocambicana dos Direitos Humanos* (GMD) to the London based anti-corruption organisation *Tiri*.

²⁶ NCA, Civil Society Seminar ‘Tax and development – the Tanzanian perspective’ 18.11.2011; and Civil Society Platform on Natural Resources in Mozambique 09.11.2011.

²⁷ Interview NCA Zambia, Lusaka 03.11.2011.

²⁸ Interview NCA Zambia, Lusaka 03.11.2011.

²⁹ Interview Civil Society Platform on Natural Resources in Mozambique, Maputo 09.11.2011.

In Zambia the *Centre for Trade Policy and Development* (CTPD) is active both nationally and internationally. CTPD is a local voice aiming to influence the Zambian government. CTPD is also part of the Tax Justice Network and work closely with TJN Africa.³⁰ CTPD has tried to seek broader international support for the initiatives that aim to raise more tax revenues from multinational companies. In February 2012, the head of CTPD gave evidence to the UK Parliamentary Committee on International Development in London where he argued for more international support to Zambia to strengthen the country's tax base and to increase revenues from mining companies (Tran 2012). The *Economic Association of Zambia* (EAZ) is also actively engaged in the public debate on mining taxation, and is able to mobilise representatives from different social, economic and political spheres. Zambian media has reported the different tax positions on the mining tax regime taken by the *Chamber of Mines* and individual researchers from the *University of Zambia* (Zambia Daily Mail 2012).

CTPD hosts the newly started *Zambia Tax Platform*. ZTP is created to support and strengthen public, private and civil society interests, and aims to develop a broader approach to tax and development. Informal taxation and understanding taxpayers' views of taxes are among the issues identified by ZTP as important to pay more attention to. ZTP had not started any activities at the time of our research (end 2011). Thus, it is not clear what focus the work will have. This will also depend on the interests of the members and donor funding. The previous Zambian Government did not have a constructive dialogue with the NGOs. At the time of our field visit (October/November 2011) it was too early to tell how the new government would interact with civil society organisations.

In Tanzania, *Policy Forum* is a monthly meeting point for representatives from civil society, government, research institutions and donors. The events generally hold high professional standards with good media coverage. Forum Syd is involved in the Policy Forum events on tax and capital flight. Further, *Action Aid* is well positioned to work on the topic, partly because the manager previously worked for a mining company.³¹

Uwazi in Twaweza is a citizen initiative operating in Tanzania. Among the activities it publishes policy briefs. Some of these focuses on revenue collection and tax exemptions, while others focus on public expenditure tracking.³² 'Are Tanzania's tax exemptions too generous?' (Uwazi 2010) and 'If findings are ignored, why audit?' (Aiko 2011) are two of the briefs that have contributed to the public debate on tax exemptions, control mechanisms and expenditure of public revenues.

Civil engagement on natural resources and revenue transparency has increasingly been lifted from pressure on domestic politics to the global arena. Western governments and international regulations are challenged, as well as the domestic decision makers. In Tanzania, civil society organisations have recently joined forces to create stronger pressure on the Government and multinational companies for disclosure of revenues and payments from extractive industries and forestry resources. In March 2012, the following Tanzanian civil society organizations virtually convened to discuss the proposed EU regulations on mandatory disclosure on the extractives sectors and logging and its implications to the governance of Tanzanian oil, gas, mineral and forest sectors: Policy Forum, HakiMadini, IANRA-Tanzania, Tanzania Natural Resource Forum, Lawyers Environmental Action Team, Fordia, Publish What you Pay-Tanzania, Legal & Human Rights Centre. On this basis they issued a letter addressed to decision makers in the EU and the African Union (IANRA 2012). The links between local CSOs and international organisations create opportunities to mobilise both locally and internationally by sharing lessons and experiences.

³⁰ Interview with Savior Mwambwa, CTPD/ZTP, Lusaka 01.11.2011.

³¹ Interview, NCA, Dar es Salaam 14.11.2011.

³² See <http://www.twaweza.org/go/uwazi> (last accessed 13 March 2012).

Religious organisations and networks of NGOs are influential in all three case countries. Controversial issues, such as mining taxation, have been fronted by religious groups in Tanzania and Zambia. With the backing of religious leaders, ideas and reports have been spread widely. Policy makers cannot easily dismiss religious leaders and the views they express. Therefore, religious organisations can be efficient channels to reach both decision makers and the general public.

There is a sense that civil society engagement on taxation is growing in the case countries.³³ Mining taxation has been high on the agenda and the topic is potentially a good way to opening up for wider public engagement on taxation and capital flight. For instance, the *Norwegian Church Aid* in both Zambia and Tanzania have recently expanded their focus to some extent to also address broader issues of taxation, including illicit capital flows. Still, at present CSOs in Zambia show only limited engagement on broader issues of taxation and reform. The ZTP might contribute to change this. However, to achieve more civic engagement the media will also need to be mobilised. Currently, the press is weak as reflected in often poor analysis and unreliable information.³⁴

Most of the local NGOs in Mozambique, Tanzania and Zambia that are focusing on tax related issues either have a direct link to or are partners with at least one international NGO. Their activities rely to a large extent on donor funding, and many are heavily aid dependent. The increasing attention on domestic revenue mobilisation by civil society organisations is partly a reflection of the increased donor willingness to fund tax related activities. There is a risk that activities are driven by the possibilities for funding rather than a genuine interest in the topic. Consequently, the focus of attention may shift when funding opportunities change.

Another risk is that the local NGOs promise too much in exchange for funding. Complex issues like transfer mispricing and capital flight are appealing because of the potential size of the tax evasion. Local taxes that generate much smaller revenues, however, may in some contexts be more important for many communities with respect to government accountability in collection and use of public revenues. Mapping and publishing information on how revenues are collected, who pays and who does not, and what the revenues are spent on can be powerful activities for local NGOs, due to restricted and often unreliable public information. It is, however, likely that the more in-depth and long term engagement on issues related to domestic revenue enhancement will be limited to a relatively small segment of civil society organisations in the case countries.

³³ Interview with Charles Civweta, Lusaka 03.11.2011.

³⁴ Interview with DFID/ZIPAR, Lusaka 31.10.2011.

TABLE 6: OVERVIEW OF ORGANISATIONS AND NETWORKS WORKING ON TAXATION AND CAPITAL FLIGHT IN AFRICA

Global	Web address
Tax Justice Network	www.taxjustice.net
SOMO	http://somo.nl
ActionAid	www.actionaid.org
Oxfam	www.oxfam.org.uk
Caritas	www.caritas.org
Publish What You Pay	www.publishwhatyoupay.org
UN Tax Committee	www.un.org/esa/ffd
Regional	
Tax Justice Network Africa	www.taxjusticeafrica.net/
AFRODAD (Africa)	www.afrodad.org
ISODEC (Ghana)	www.isodec.org.gh
African Development Bank	www.afdb.org
National	
Policy Forum (Tanzania)	www.polciyforum-tz.org
Centre for Trade Policy and Development (CTPD) and Zambia Tax Platform (ZTP)	www.ctpd.org.zm
Norwegian Church Aid	www.kirkensnodhjelp.no/en
Centro de Integridade Publica (CIP)	www.cip.org.mz

Source: Adapted by the authors based on Golding *et al* (2011)

Annex 2: Local research on taxation and capital flight

Universities, independent research institutes, civil society organisations, consultants and the research and policy departments of the revenue authorities are the main sources of publications on taxation in Mozambique, Tanzania and Zambia. However, none of the three countries have strong, local research institutions that focus on tax and capital flight, although some research on public finance management, extractive industries (mining) and the business environment also address tax issues. The current research capacity is limited. Building research capacity is not simply a matter of funding, but will imply long-term commitments and research collaboration with international academic institutions.

Mozambique

In Mozambique there are currently few institutions that are researching or have expressed strong interest in research on taxation. Among those that have potential there is a general need to strengthen the analytical skills of the research staff. Three of the most relevant institutions are briefly presented below.

The *Research Department of the Mozambique Tax Authority (AT)* is relatively newly established. The management wants to strengthen the analytical capacity of the staff. Collaboration on research with the International Centre of Tax and Development (ICTD) is one approach that has been discussed.³⁵

Instituto de Estudos Sociais e Económicos (IESE) is one of the most respected research institutions in Mozambique. The research focuses on non-renewable and renewable natural resources and issues of industrial strategy to address diversification of the Mozambique economy. One researcher (Rogério Ossemane) focuses specifically on tax issues at IESE. He looks at the fiscal space for collecting taxes from large companies. IESE wants to expand the work on taxation through collaboration with external research institutions. One challenge is that training, research and access to information can be ‘moving slowly’ in Mozambique. IESE has tried to establish research collaboration with the tax authority. The progress has so far been slow because the draft MoU/ToR has not been sufficiently specific to commence with the work.³⁶

Centre for Public Integrity (CIP) is one of the most active NGOs on governance and extractive industries in Mozambique. CIP has managed to create meeting space for researchers and civil society through seminars and disseminations of research findings.

Tanzania

Generally, there has been more research on taxation in Tanzania than in Mozambique and Zambia. According to several observers interviewed, very much knowledge on taxation has been generated through research. The largest challenge now is to convince decision makers to follow recommendations from the research findings. Some of the institutions working on tax related issues are presented below.

The *Research and Policy Department* of the Tanzania Revenue Authority develops research proposals, conducts research, commissions research, and manages TRA’s data warehouse. In November 2011 the department commissioned a study on forestry and fishing revenues to a local consulting company. Reports from the Research and Policy Department are sent to TRA’s management for comments,

³⁵ Interview, AT Research and International Department, Maputo 7 November 2011.

³⁶ Interview, IESE 8 November 2011.

thereafter passed on to the TRA Board, and finally submitted to the Government, i.e. the Ministry of Finance. Some donors may also receive the reports.³⁷

Each year the department conducts a taxpayer survey, altering every second year between medium and large taxpayers. Strengthening the analytical capacity of the department would contribute to strengthen the quality of the surveys and the analysis. Data is stored in a data warehouse that is managed by the TRA Research and Policy Department. This system has made access to data considerably easier.

Research on Poverty Alleviation (REPOA) is an independent research institute located in Dar es Salaam. It is among the few research institutions in the region that has had tax on its research agenda for a long time (more than 15 years). REPOA's tax research has focused on local government taxation. Since 1996, REPOA has conducted surveys of citizens' views of taxation in Tanzania. REPOA researchers, in collaboration with international scholars have published, trained researchers and issued policy advice to the Government. REPOA has collaborated with the Norwegian Chr. Michelsen Institute in much of the tax research.

Economic and Social Research Foundation (ESRF) is based in Dar es Salaam. Taxation has not been a core area of research, although some consultancies have been conducted on the central government tax system. Recently, the management of ESRF has expressed an interest to develop taxation as a new area of research. ESRF has produced some relevant publications, including a policy brief on informal sector taxation in Tanzania (Mbilinyi and Mutalemwa 2010) and a working paper discussing tax exemptions in relation to foreign direct investment (Kabelwa 2002).

Universities are currently not very visible in tax research and dialogue in Tanzania.³⁸ One exception is Professor Osoro, now retired from the *Department of Economics, University of Dar es Salaam*, who has been active in tax research for several decades.

Eastern and Southern African Universities Research Programme (ESAURP), located in Dar es Salaam, is an independent inter-university research and training coordinating body, jointly owned by twelve sub-Saharan countries. ESAURP combines research and training within the field of democracy and good governance. Professor Maliyamkono, Executive Director of EASURP, has conducted research on informal sector taxation, and co-authored the book *'Why pay taxes?'* (with Mason, Osoro and Ryder), which was published in 2009.

Zambia

In Zambia many actors claim to be interested in researching or disseminating research on taxation. However, most have only recently entered this area of research. There is a risk that short-term interest in donor funding and long-term commitment to build a solid research environment on the topic may conflict.

Some of the organisations in Zambia that currently have potential to produce quality research on taxation include:

The Research and Planning Department of the Zambia Revenue Authority (ZRA) is conducting a study on tax exemptions and how effective they are in attracting investments.

Zambia Institute for Policy Analysis and Research (ZIPAR) has a fiscal policy section which potentially could do more work on taxation.

³⁷ Interview, TRA Research and Policy Department 14 November 2011.

³⁸ Interview, TRA Research and Policy, Dar es Salaam 16 November 2012.

The *International Growth Centre* (ICG) has a similar focus as ZIPAR.

Universities in Zambia are currently not active in researching tax and capital flight.³⁹

The *Centre for Trade Policy and Development* (CTPD) and the newly started *Zambia Tax Platform* (ZTP) aim to work as platforms for dialogue between researchers, civil society, public officials, international businesses and others (see Annex 1). CTPD is quite visible in the Zambian setting, while ZTP is at an early stage. However, the ZTP has the potential to become an important meeting place for discussions and dialogue on tax and capital flight.

A brief assessment of the research environment on taxation in Mozambique, Tanzania and Zambia

Interviews with key stakeholders on the current status of domestically driven research on taxation in the case countries identified three main categories of challenges for increasing the quality, relevance and volume of tax research, and to improving the dialogue between local researchers and other stakeholders.

First, some research topics are politically sensitive to address. For instance, studies of tax exemptions and mapping of who are granted exemptions are sensitive since it may reveal information about the political and economic elite that otherwise would not be systematised and published. Researchers who work for an institute that relies on Government support may be reluctant to address issues that might expose elite interests. To promote local research on politically sensitive issues, partnerships between local and international researchers can in some cases help to ease the pressure on the local partner. Support from religious leaders and other influential domestic actors may also provide useful back-up for the legitimacy of the findings in the public debate. In Tanzania, a network of religious organisations and leaders backed a critical report on the mining sector - '*A golden opportunity? How Tanzania is failing to benefit from gold mining*'. This support 'forced' the government and companies to take the report seriously and engage in the public debate (Fjeldstad and Heggstad 2011:65; Curtis and Lissu 2008).

Second, researchers may face difficulties to get access to reliable data and information. Partnerships between researchers and public or private bodies may alleviate such constraints. Researchers working on extractive industries, may for instance partner with the research department of the revenue authority, the ministry responsible for the mining sector or mining companies. One danger is that the partnership may yield little value with respect to the information/data made available. Another danger is that the partner 'exploits' the partnership to get positive public relation without having a clear obligation to share data and information with the researcher. Partnership contracts should be sufficiently detailed to secure substance to the content of the work and what is expected of each partner with respect to joint work, sharing of information, dissemination, etc.

Third, research findings may not be communicated in a way that is relevant or accessible for policy makers, the media and the public. It is important to develop strategies for how and to whom the research findings should be disseminated to influence policy and the public debate.⁴⁰ Targeted communication of research is a way to spread knowledge from research. How to build capacity to turn the knowledge into action, however, may also be a challenge.

To summarise, local research on taxation and capital flight in Mozambique, Tanzania and Zambia is at present relatively limited. Partnerships and collaboration between local researchers and international

³⁹ Interviews in Lusaka with academic staff from the University of Lusaka and the University of Zambia, 3 November 2011.

⁴⁰ Interview, Civil Society Platform on Natural Resources in Mozambique, Maputo 9 November 2011.

researchers may help stimulating more engagement from the domestic research community to work on these issues, and may be required to build local research capacity and strengthen the quality of the research. Partnerships between researchers, tax administrators and other public officials (ministry of finance, ministry of mining, etc) may give researchers access to data and information, while collaboration with civil society organisations may help disseminating the research findings to influence policy.

Regional and international research bodies

The *African Capacity Building Foundation* (ACBF), based in Zimbabwe, and the *African Economic Research Consortium* (AERC), are engaged in building research capacity in Africa.

ACBF offers training on issues related to taxation, although it is unclear how much of their activities that specifically focus on taxation within the broader thematic areas ‘Economic Policy Analysis and Management’; ‘Financial Management and Accountability’; and ‘Professionalisation of the Voices of the Private Sector and Civil Society’.

AERC focuses on building local research capacity in Africa. A limited number of publications on taxation are available on their web page, of which two are case studies from Tanzania. The organisation publishes and holds workshops on research methodologies for African master and PhD-students. AERC is currently not a driver of the tax research agenda in Africa, but is well positioned to take on board the issue.

The *International Centre of Tax and Development* (ICTD) has an ongoing research collaboration with ZRA and TRA on mining taxation in the two countries. ICTD has also been in dialogue with the AT in Mozambique on research collaboration.

Centro Africano Para Transformacao Económica (ACET) is a think tank based in Accra, Ghana, which does research on economic, political and social transformations to trace improvements. ACET is funded through the Norwegian Oil for Development programme. The centre is conducting a diagnostics of the natural resource fiscal regime in Zambia. However, ACET has not yet any publications on taxation.⁴¹

⁴¹ Interview with ACET representatives, Maputo 8 November 2011.

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INDEXING TERMS:

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The study examines strategies and measures that aim to encourage taxpayer compliance through taxpayer education and constructive engagement between governments and citizens over taxation issues in Mozambique, Tanzania and Zambia. Experiences from each of the three countries are assessed, as well relevant lessons from other countries, including Norway and South Africa. On this basis the study provides recommendations on how to strengthen institutions and networks that may contribute to build taxpayer culture and achieve a broader citizen engagement on tax issues.