

# Participation, representation and taxation: Why collect taxes in oil rich Angola

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## Talking points:

- I. Taxation and state-building
- II. Taxation in Africa and Angola
- III. Weaknesses of the current tax system
  - ❖ The national tax system
  - ❖ The local government tax system
- IV. Towards a state-building approach to reforming the national and local tax systems

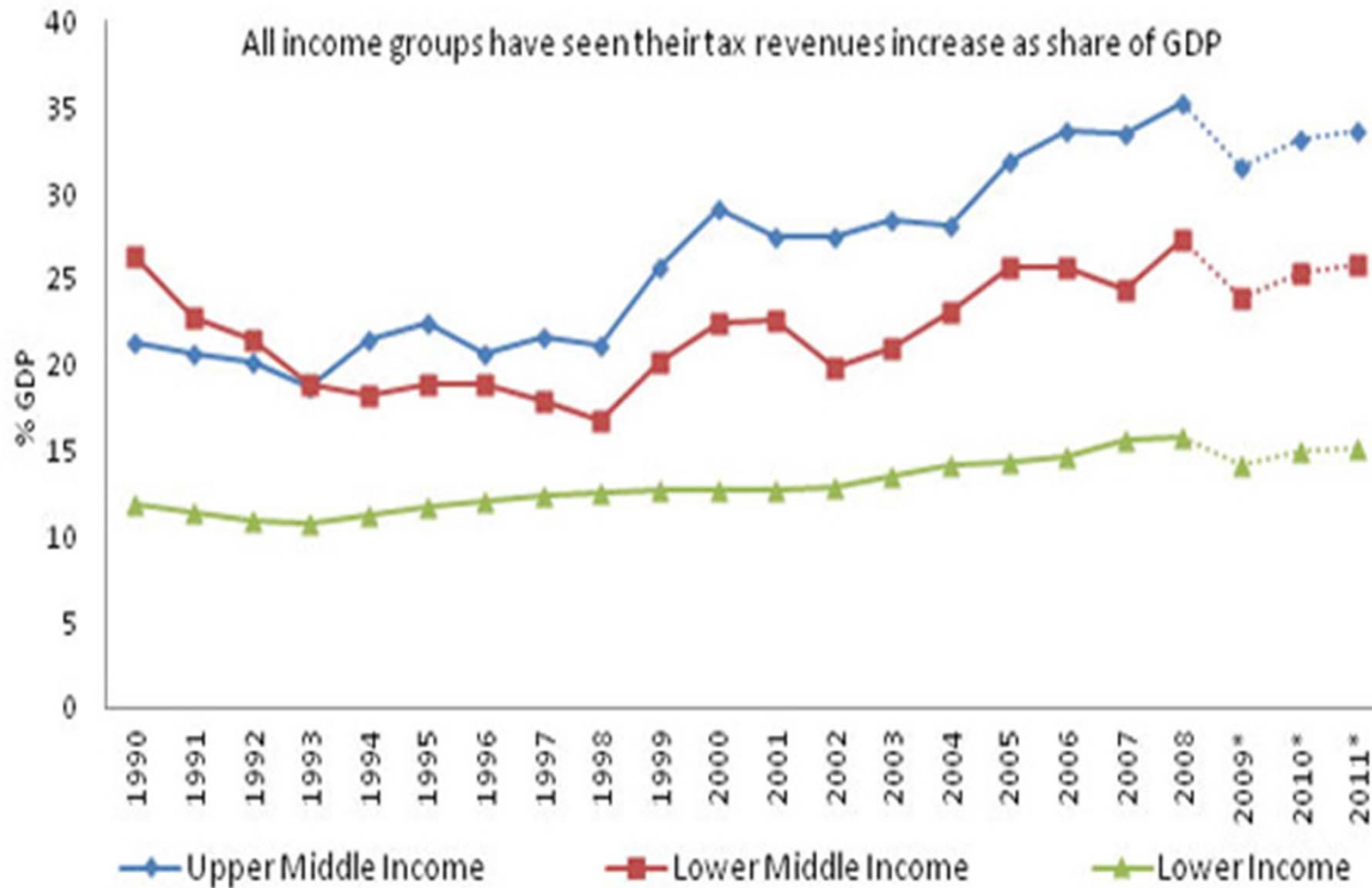
# I. Taxation and state-building

- Tax is not an end in itself, but a means towards a well-functioning state:
  1. Governments dependent on taxes will be inclined to pursue policies to expand the economy and thus the tax base
  2. Dependence on taxes requires states to develop tax raising capacities
  3. Bargaining over taxes is central to building relations of accountability between state and citizens based on mutual rights and obligations
  4. Rising tax revenues combined with economic growth are the **exit strategy** out of volatile, single resource dependency

# Characteristics of a 'good' tax system

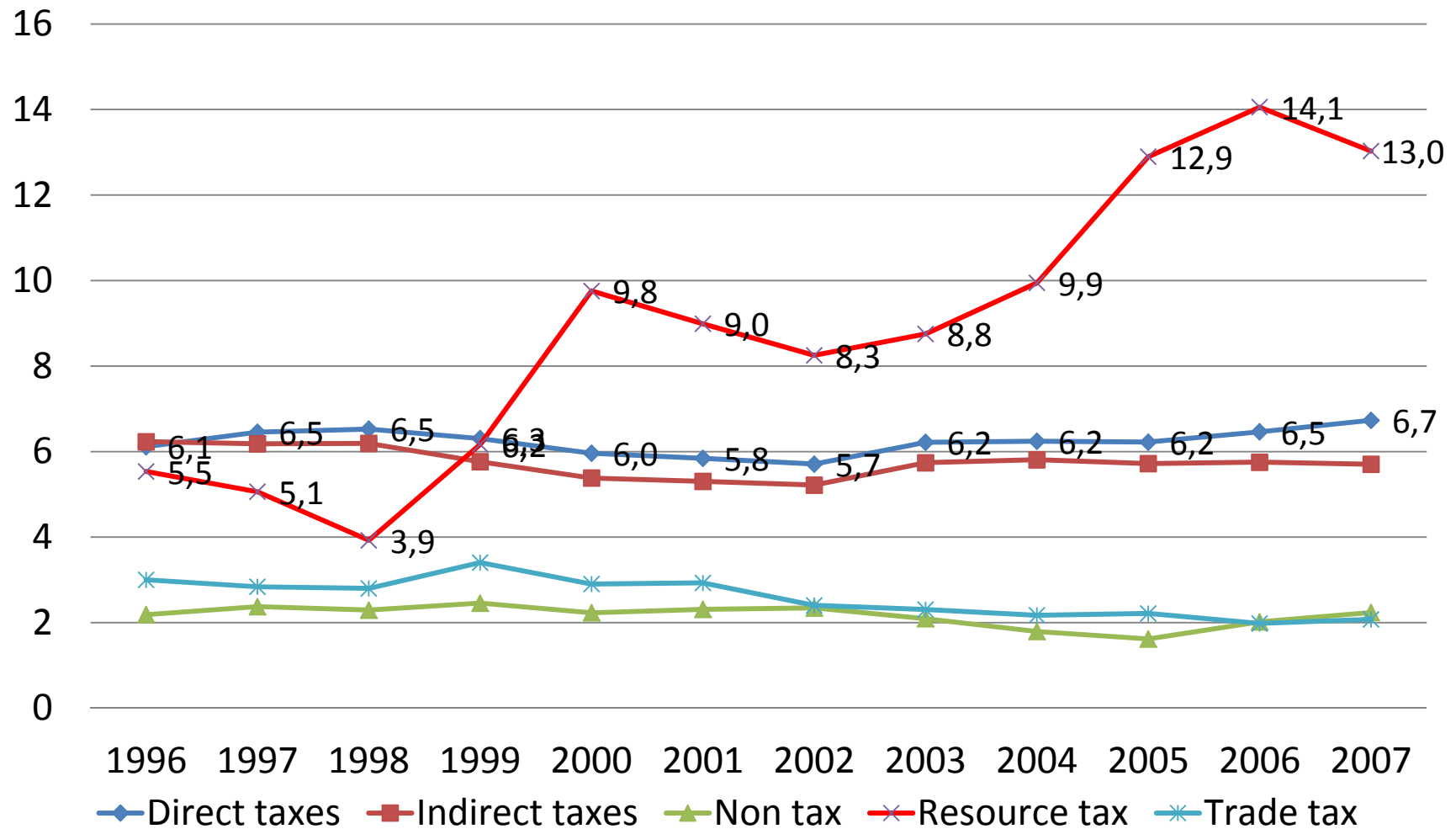
- Economically efficient
  - Effective
  - Equitable
- These objectives frequently conflict: trade offs
  - It matters how taxes are raised
  - Extending the reach and inclusiveness of the tax system requires tax cooperation across levels of government (national – provincial – local)

## II. Taxation in Africa and Angola

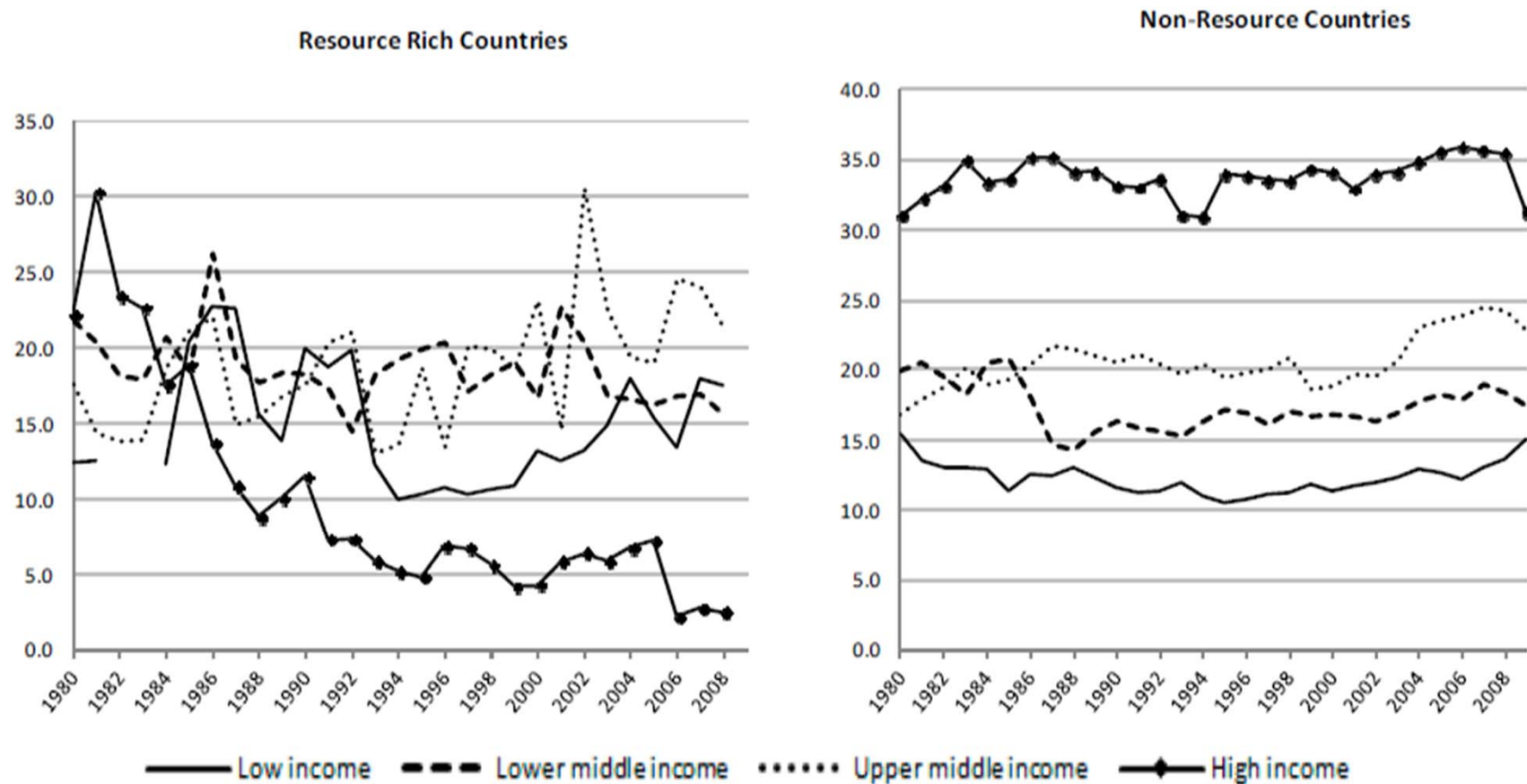


## II. Taxation in Africa

Africa: Domestic revenue mix as share of GDP

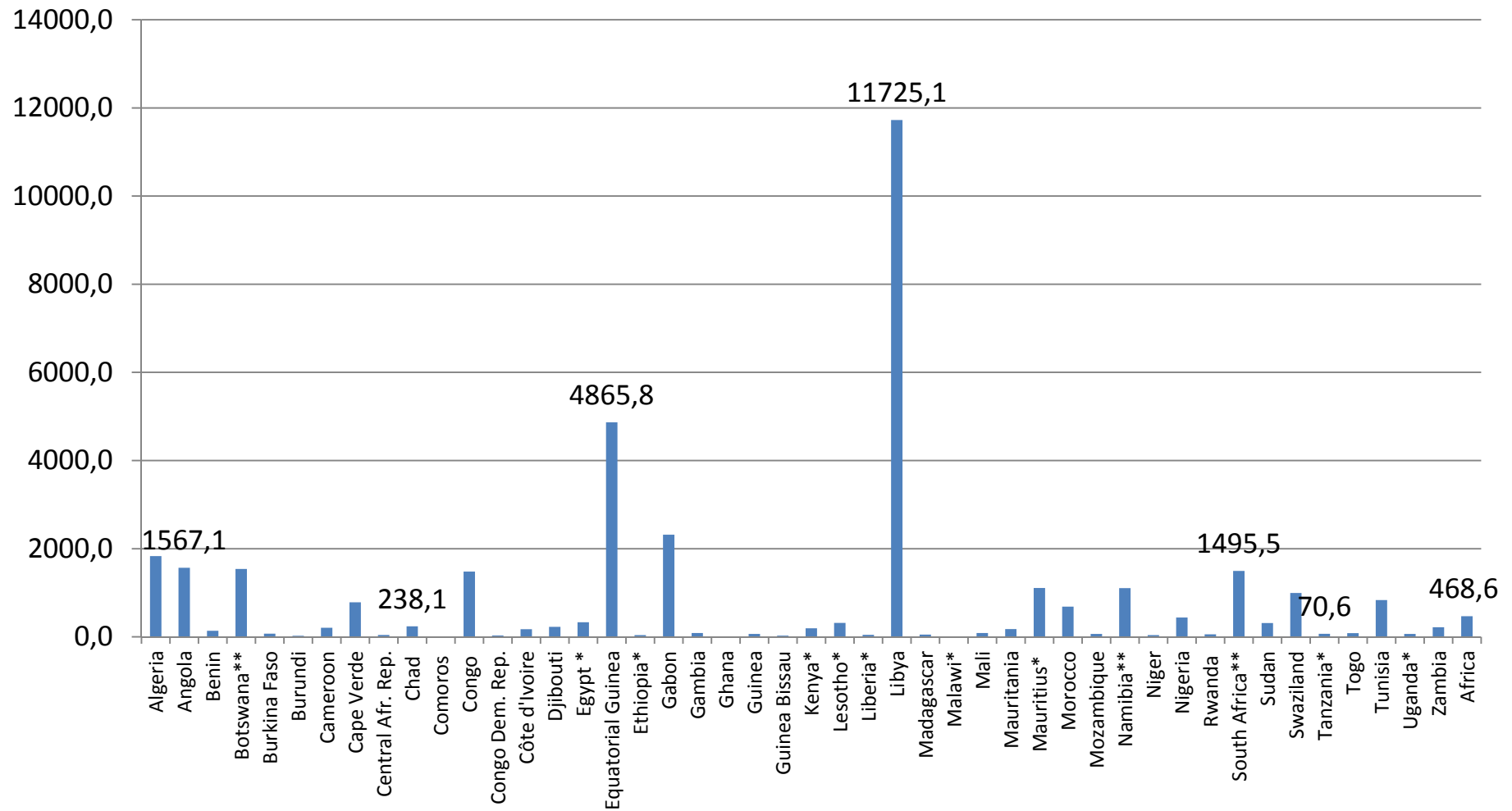


# Revenue developments in Resource-Rich and Other Countries, 1980–2009 (in % of GDP)



Source: IMF staff estimates

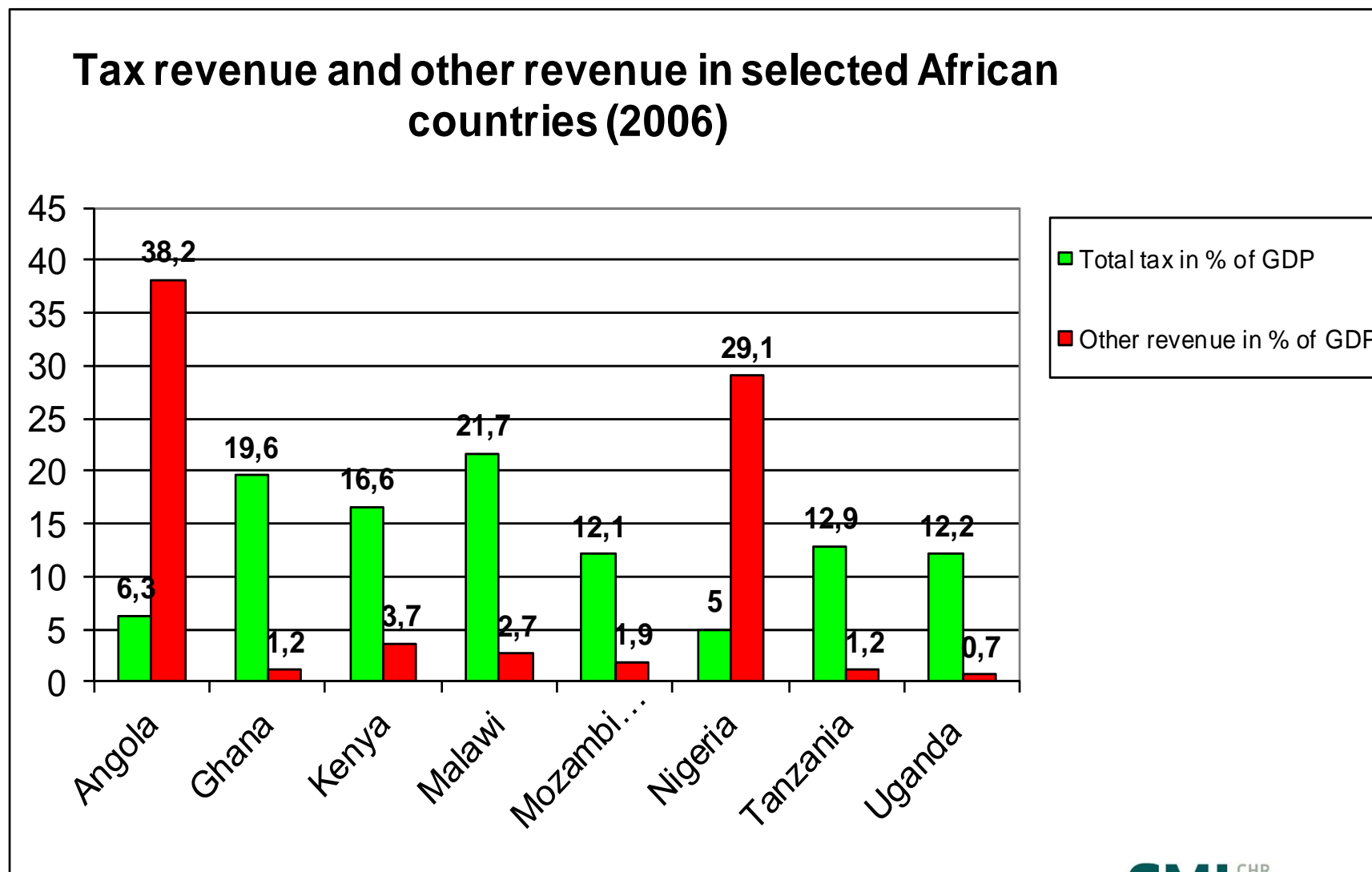
## Africa: Fiscal revenue per capita 2008 (USD)



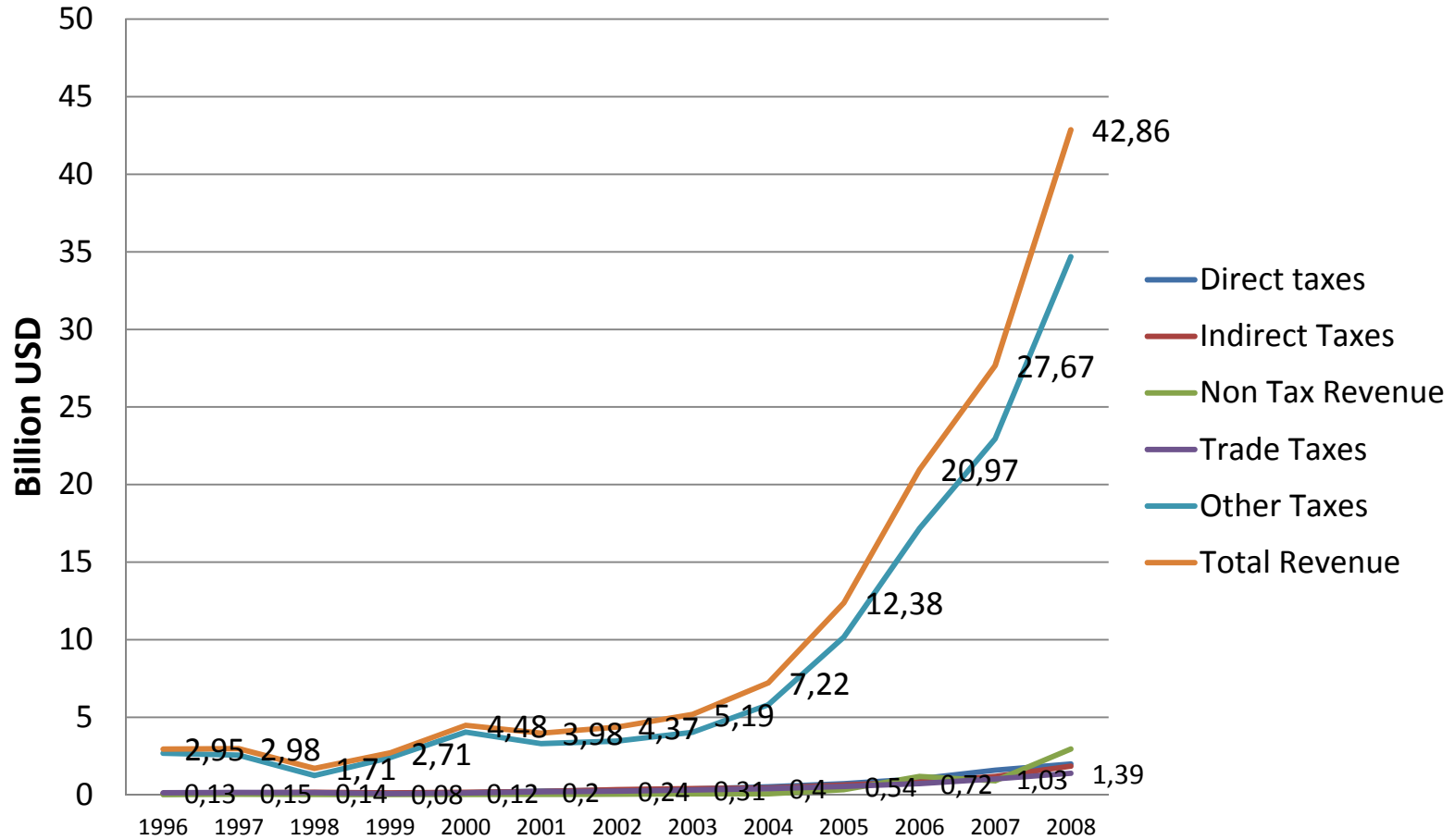
Source: AEO 2010



## Large differences in Tax-to-GDP ratios between African countries

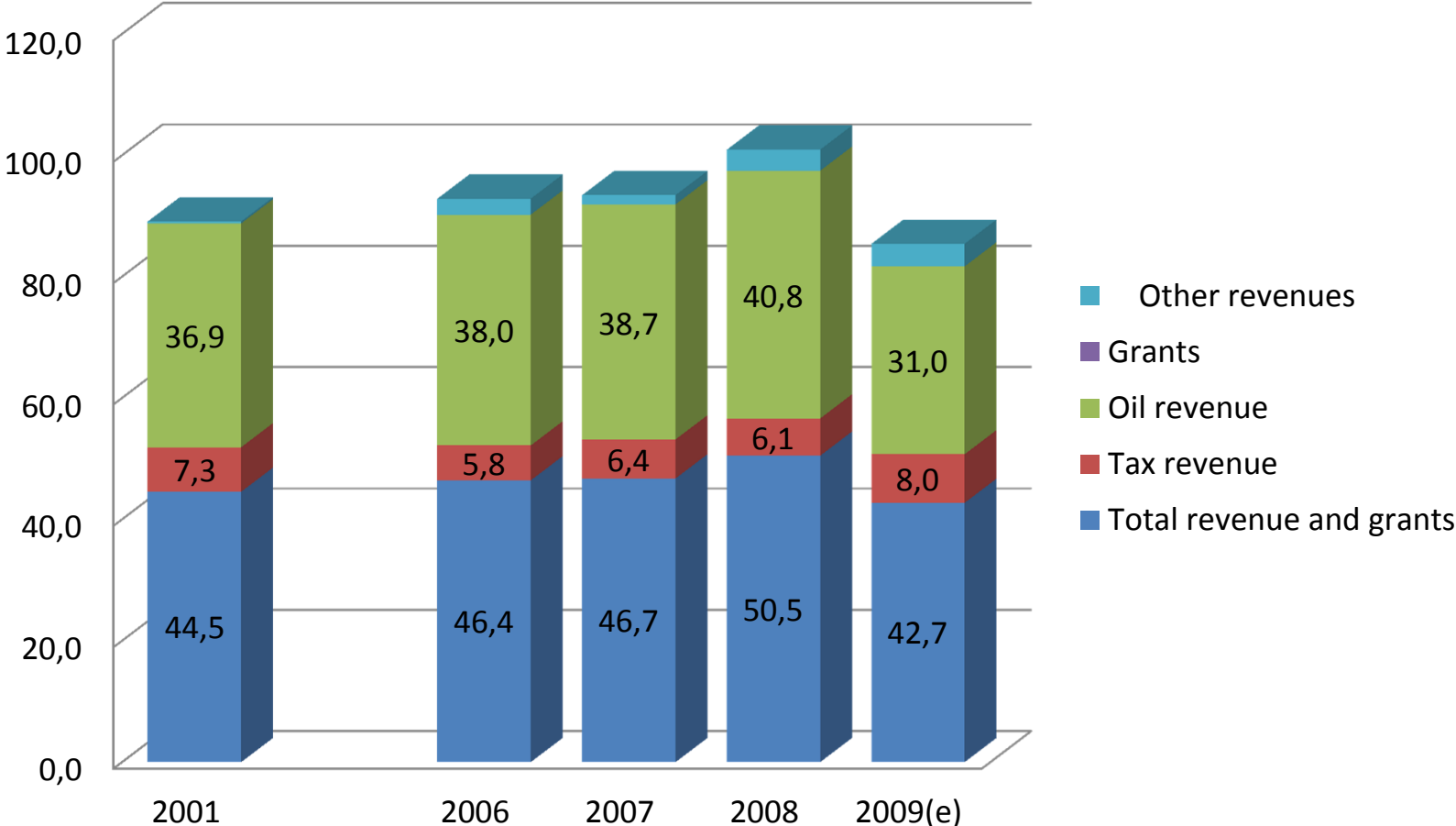


## Angola: The tax mix (1995-2008)



Source: AEO 2010

# Angola: Public revenues (in % of GDP)



Source: AEO 2010

# External financial inflows to Africa

## 1. Foreign aid (2007):

- USD 104 billion (from OECD-DAC countries)
- USD 8 billion (from non-OECD-DAC donor countries)

## 2. Foreign direct investments in Africa (2008)

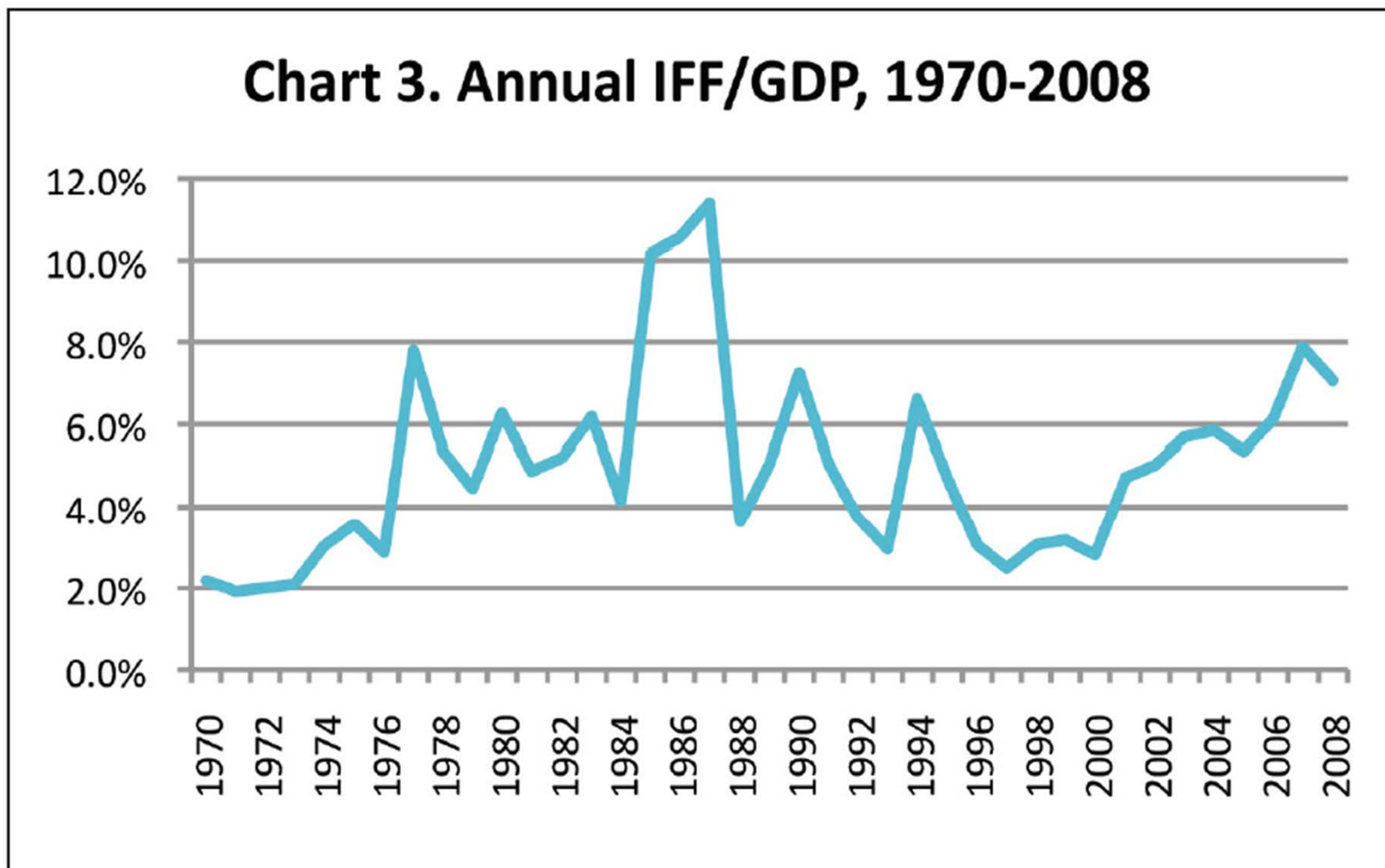
- USD 88 billion
- Mostly to extractive industries
- Most to Nigeria, Angola, Egypt, South Africa

## 3. Remittances from Africans living abroad (2008)

- USD 41 billion

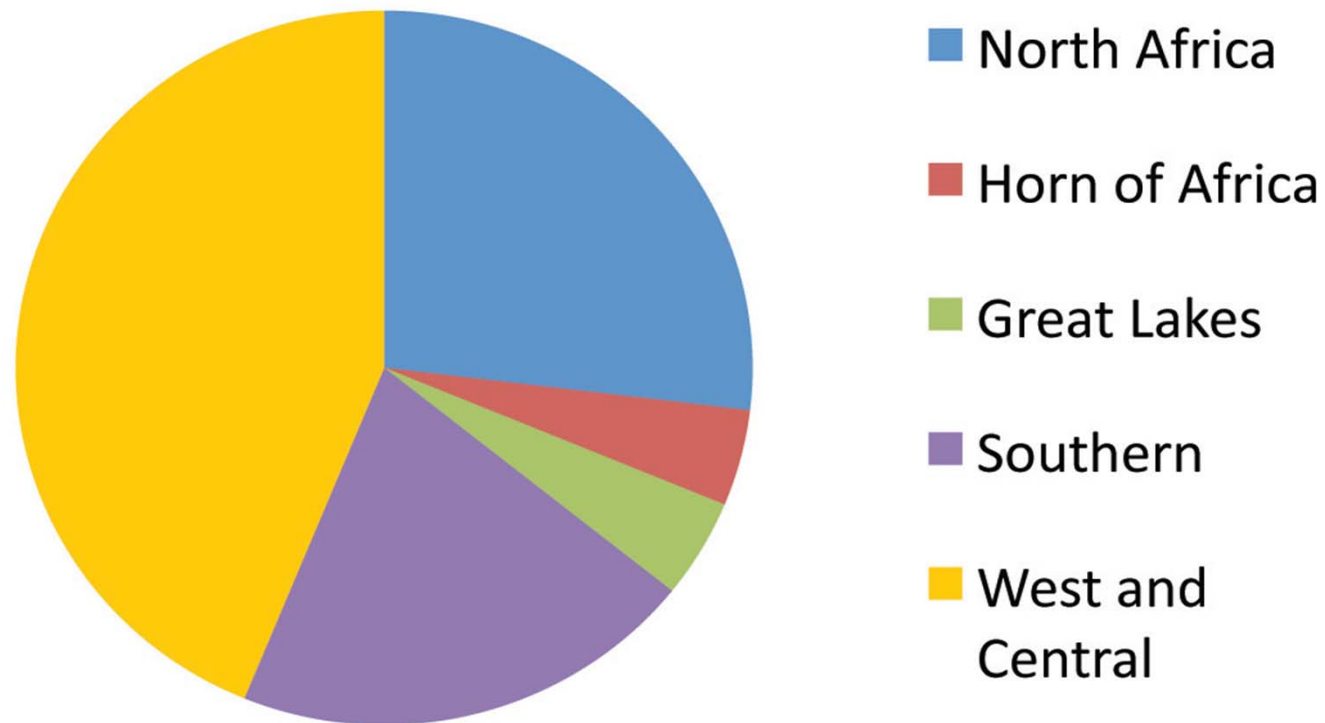
## 4. Philanthropy

Illicit financial flows from Africa are massive  
Proceeds from commercial tax evasion account for 65%



GFI (2010)

## Chart 2. Distribution of Illicit Flows Cumulative 1970-2008



## Estimated capital flight from Angola, Nigeria, Tanzania, Mozambique and Zambia

<i>Units: mill USD</i>	<i>2002</i>	<i>2000-2008</i>	<i>1970-2008</i>	<i>1990-2008</i> <i>(average annual IFF in</i> <i>% of GDP</i>
<b>Angola</b>	<b>2 156</b>	<b>24 062</b>	<b>29 500</b>	<b>10.9%</b>
<b>Nigeria</b>	5 135	169 871	217 738	
<b>Mozambique</b>	178	1 121	5 450	8.9%
<b>Tanzania</b>	597	2 545	7 356	2.9%
<b>Zambia</b>	72	5 120	9 348	7.6%
<b>Sub-Saharan Africa</b>	21 808	323 577	532 926	

### III. Weaknesses of the current tax system

- 1) Taxation generally *not* high on the domestic political agenda
- 2) The political and economic elite not part of the tax base
- 3) Illicit financial capital flows facilitated by tax havens entrench an inefficient tax system
- 4) Extremely narrow tax bases
- 5) Large untaxed informal sectors
- 6) The local government tax system almost absent



## Why local government taxation is important in a state-building perspective

- Local taxation can play a crucial role in promoting citizen participation, accountability and government legitimacy
- Local taxation has potential to foster positive linkages between taxation, responsiveness and accountability
- Local taxes are generally more visible and broad based:
  - Property tax
  - Business licences
- By taking more tax and expenditure decisions to the local level, fiscal decentralisation potentially can strengthen connections between what people pay and what they get in return

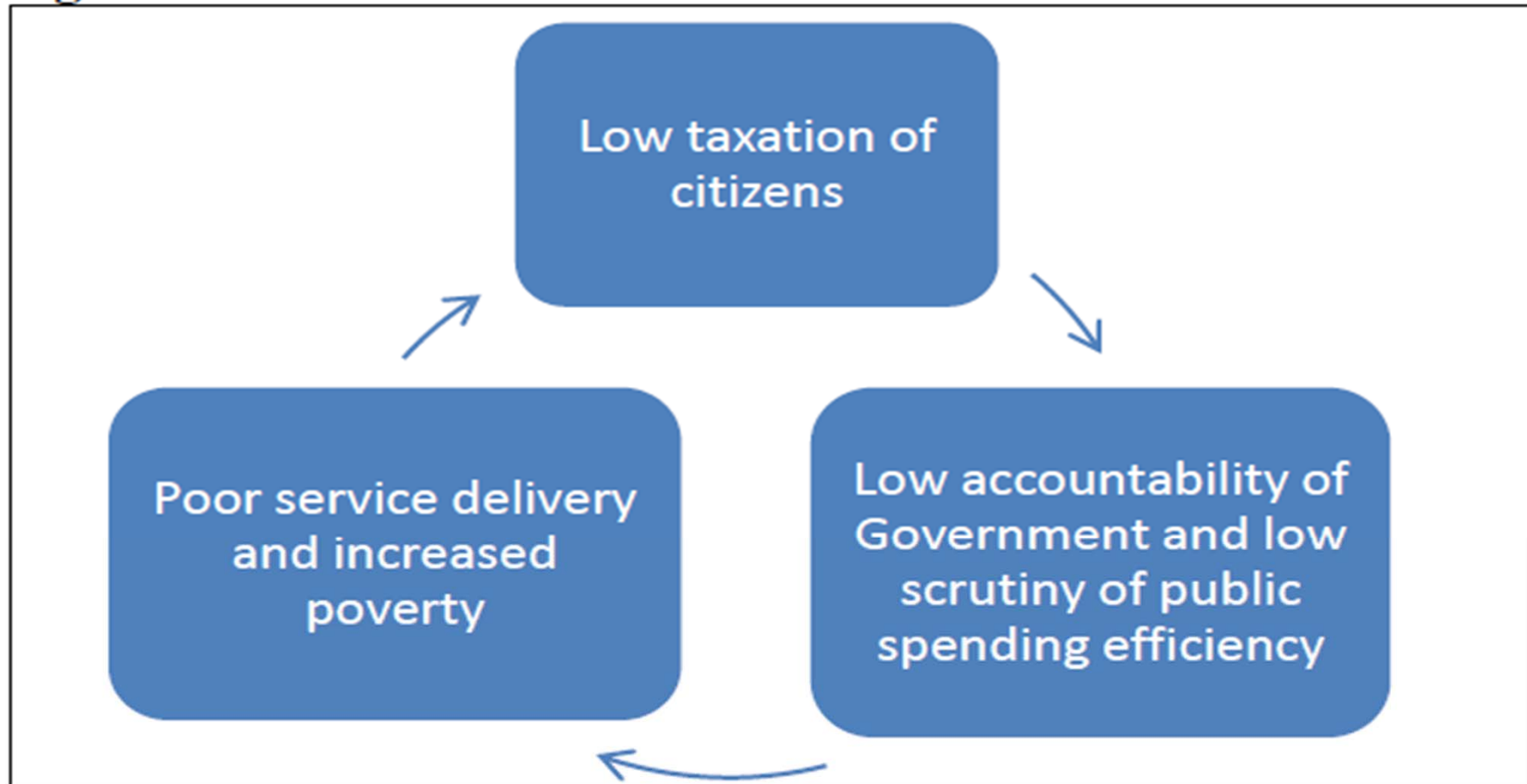
Local government taxation in Angola:  
Lack of local fiscal autonomy

- **There has been little advancement in the Government's decentralisation plans – at least what regards fiscal decentralisation**

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

*(Experienced município employee, 2010)*

# The vicious circle



## IV. Towards a state-building approach to reforming the tax system in Angola

### ❖ ‘Build the social fiscal contract’

- A major fiscal challenge for Angola is to develop a domestic tax-system that simultaneously facilitate:
  - ✓ **Revenue growth** to reduce the current overwhelming reliance on volatile and non-renewable petroleum and mineral resources
  - ✓ **Build tax administrative capacity** at the national, provincial and local government levels
  - ✓ **Build accountability** by encouraging constructive state-society engagements around taxes

## IV. A state-building approach to reforming the tax system (cont.)

### Engage with the political process:

- a. **Politics matters!** Understand the history and political-economy context of taxation
- b. Address **capital flight as a domestic and international political challenge**
- c. **Strengthen the political rationale for broadening the tax base**, in ways that explicitly encourage citizen groups as taxpayers to seek political ‘voice’
- d. **Conduct ‘citizen surveys’** to identify peoples’ attitudes towards the tax system and their willingness to pay

## IV. A state-building approach to reforming the tax system (cont.)

### Promote:

**Accountability, Responsiveness, Transparency, Capacity**

#### 1. Accountability

- Strengthen **Parliamentary and other institutional oversight of the tax system**
- Encourage **media and civil society** attention to tax, especially the importance of a sound tax system for poverty reduction and development
  - **Make tax 'rock' on the domestic political arena**
- **Greater visibility of direct taxation – income and property taxes** – which are particularly important in promoting political representation
- **Improve the link between taxes paid and benefits/services received**

## IV. A state-building approach to reforming the tax system (cont.)

### 2. Responsiveness

- Balance discretionary powers of the tax administration with **taxpayer rights, a customer service** attitude to taxpayers, and better **appeals process** to improve trust

### 3. Transparency

- Support **private sector associations** formally engaging with government over tax policy and its administration
- Secure **transparent laws, regulations and procedures**

### 4. Capacity

- Build domestic capacity to address **capital flight**
- Engage with **international networks of tax administrators**, to raise professional standards and ethics
- Find more effective ways to tax the **informal sector**
- Build capacity, accountability and transparency of **sub-national taxation**

Muito obrigado!

THANK YOU FOR YOUR ATTENTION!