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Lobbying and the shaping of tax policies in Tanzania*

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Abstract

This paper explores the role of interest groups in shaping tax policies in Tanzania. Tracing the various stages behind the VAT Act 2014 in Tanzania, weighing the various interests, lobbyists and political actors, the study documents a tax reform outcome that diverted significantly from the draft stage to the final gazette stage. The analysis of the process behind the 2014 VAT Act illustrates how a political context characterized by an institutionalized dominant party state, legitimized by major business interests, was vulnerable to lobbying from interest groups and international consulting firms acting on behalf of business interests. The tax literature has not adequately addressed this critical dimension of lobbying in tax reform processes. Our analysis suggests that lobbyism in poorly regulated developing countries may be much more important than previously assumed in both the academic and policy-oriented literature. Our analysis further underscores the need for better understanding of how the rules of the 'lobby' game is affected by uneven power relations between various interest groups.

Keywords: Lobbying, tax policy, tax reform, VAT, Tanzania

JEL-classification: D72, H25, H26, H32, O23

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1. Introduction

Tax reforms in developing countries have long been considered the exclusive domain of the International Monetary Fund (IMF), external experts, and the Ministry of Finance (Barbone *et al*., 1999; Bird, 1992; Bird, 2013; Bird & Zolt, 2003; Fjeldstad & Moore, 2008; Goode, 1993; Mahon, 2004; Tait, 1990; World Bank, 2000). However, recent studies find that tax policy debates are opening up to a wider range of political actors, including business and professional associations, civil society organizations and individual companies (Moore, 2013; Prichard, 2015; Moore *et al.*, 2018). Although the involvement varies across countries and issues, interest groups seem to be increasingly engaged in tax reform processes, in particular in relation to tax exemptions (Castañeda, 2017; Fairfield, 2010; Schiller, 2016; Therkildsen & Bak, 2019; Van Parys & James, 2010). While some scholars argue that bribery is the preferred way to influence policy decisions in developing countries (Harstad & Svensson, 2011; Lambsdorff, 2002), an emerging literature suggests that lobbyism and interest group mediation are more prevalent in revenue bargaining than previously assumed (Campos, 2009; Lumi, 2014; Moore, 2013; Nownes, 2017; Weymouth, 2013; Yadav, 2008). Yet, there is little empirical evidence, especially in Africa, on what specific interests are involved in revenue bargaining, how bargaining processes are set in motion and evolve, how it is organized, what activities are involved, at what level of government the lobbying is directed, and the outcomes of lobbyism on tax reform. This may have important policy implications, as the nature of the different bargaining positions may affect the political-economic outcomes of micro-level fiscal contracts.

This paper aims to advance the literature on revenue bargaining in a developing country context through an analysis of the role that lobbyism by various interest groups plays in shaping tax policies. We use the process behind a recent Value Added Tax (VAT) reform in Tanzania as our case. VAT was introduced in Tanzania in 1998, with support from the IMF. The VAT Act of 1997 allowed for few exemptions and the zero rating of only a limited range of products (URT, 1997). It was expected that the new tax would broaden the revenue base, leading to increased tax revenue without distorting investment decisions. Over time, however, successive legislative amendments created more exemptions and increased the number of goods and services that were zero-rated. Some of these amendments were framed as incentives for investors, while others reflected private deals between individual business owners and ministers. As a result, VAT administration became more complex, opportunities for abuse and avoidance multiplied, and VAT collections decreased sharply. To address these challenges, the Government, supported by the IMF, established a technical reform team that produced a new "model" VAT Bill. The new Bill was tabled at the National Assembly in May 2014, along with an explanation of the reasons for reform.[1] The new Bill allowed only a few exemptions and zero-ratings (mostly food, agricultural implements and other necessities), and removed the discretionary power of the Minister of

[1] The Value Added Tax (VAT) Bill 2014 is a Special Bill Supplement No. 3 of 12th May, 2014. It was gazetted in the Gazette of the United Republic of Tanzania No. 20 Vol. 95 dated 16th May 2014 (URT, 2014a). The bill contains eight (8) parts as detailed in appendix one of this report. It is a bill for an Act to make elite legal framework for the imposition and collection of, administration and management of the value added tax, to repeal the Value Added Tax Act, Cap. 147 and to provide for other related matters (URT, 2014b).

Finance to grant and modify tax exemptions. New exemptions should be created or modified only through legislation.

This could have been the end of the VAT reform story. But in contrast to 1997, the private sector quickly mobilized to oppose the new Bill, with individual businesspeople pushing for their own special interests. More significantly, the lobbying of Parliament and the Ministry of Finance was coordinated by business associations, especially the Tanzania Private Sector Foundation (TPSF). They employed the services of tax consultants from the Big Four global accounting and professional services firms[2], in particular PricewaterhouseCoopers (PwC), and a former Deputy Commissioner General of the Tanzania Revenue Authority. Individual businesspeople also lobbied for their specific interests. In addition, public sector agencies, the Ministry of Agriculture and the ministry responsible for tourism, mobilized against the Bill. The lobbyists argued that the abolition of exemptions would make the country unattractive for investors and leave Tanzanian companies uncompetitive in domestic and regional markets.

Working together in a concerted fashion, business associations and other lobby groups succeeded. Despite the fact that the governing party, CCM, holds a majority vote in the Parliament (Bunge), and that the Bill had been drafted by a technical team appointed by the Government, the VAT Act that the President signed in January 2015 reintroduced many exemptions that had been abolished in the draft Bill, and restored to the Minister of Finance some discretionary power to grant further exemptions. A member of the VAT technical team in the Ministry of Finance described the new Act as “old wine in new bottle”.[3]

Analysing the process leading up the new VAT Act 2014, our study makes three contributions. First, it shows that tax lobbying in Tanzania has become better organized and coordinated through the larger business association, sometimes under the umbrella of the Tanzania Private Sector Foundation. In the context of the VAT Act 2014, well-organized associations were able to mobilize more powerfully for their demands, partly by engaging professional tax consultants and lobbyists to promote their position to parliamentarians and senior government officials. The enhanced role of the international accounting and consultancy firms in revenue bargaining in Tanzania is a reflection of the importance of lobbying and the substantial resources spent on influencing policymakers and legislators. Professional tax advisors with in-depth knowledge of the tax legislation target their lobbying towards influential

[2] The *Big Four* are the world’s four largest international professional services networks, offering audit, tax, consulting, advisory, actuarial, corporate finance, and legal services. Ordered by size they are: PricewaterhouseCoopers (PwC), Deloitte, Ernst & Young (EY) and KPMG. In 2012 they had a combined turnover of 112 billion USD, 2800 offices and over 700 000 employees worldwide. All four companies have businesses in over 150 countries. Based on information published in the official global websites of the firms Deloitte, PwC, EY and KPMG.

[3] Interview, Dar es Salaam, 11 March 2015.

stakeholders, including parliamentarians and public agencies who would be affected by the proposed legislation.

Second, the study adds important nuances to our understanding of legislative performance in single and dominant party regimes. Tanzania is considered one of the most institutionalized dominant one-party regimes in Africa (Collord, 2019; Morse, 2014; Nyirabu, 2002). As an institutionalized, dominant party state it could be assumed that once government is united, there is very little room for lobbying the Parliament. Arguably, as a unitary actor, we would expect reforms approved by the executive to be approved by Parliament with relative ease in contrast to more feckless political systems characterized by political alternations and deinstitutionalized party systems (Rakner & Svåsand, 2013). However, in connection with the VAT reform, we find that the Government was not able to instruct individual Members of Parliament who proved to be receptive when confronted by an increasingly professional group of lobbyists. In Tanzania, during the last decade, political elites have sought to entrench their bargaining power through legislative reforms, creating the institutional resources needed to better extract benefits from the executive. The bargaining process behind the 2014 VAT Act is illustrative of the complexities of implementing tax reforms in contexts of multiple interests.

Third, our study challenges the argument that bribery is the preferred way to influence policy decisions in developing countries, whereas lobbyism is more common in rich countries (Harstad & Svensson, 2011). Our study shows that this is an oversimplification not reflecting how policy influencing actually takes place in poor, weakly regulated countries. Lobbyism might be more prevalent than previously assumed in the literature (Fjeldstad & Johnsøn, 2017). When interest groups grow in influence, companies and business associations may grow a preference for lobbyism over corruption. Our analysis of the implementation of the VAT reform in Tanzania shows that there are numerous entry points for lobbying. Escalating in the period after 2000, elite bargaining around policy reform in Tanzania involve private sector financiers who contest for parliamentary seats, fund MPs' campaigns and lobby in an *ad hoc*, issue-based manner (Collord, 2019: 219).

The analysis draws on findings from research carried out in Tanzania during the period 2014-16. We analyze the process of the VAT Act from the process started in December 2012, to the presentation of the draft Bill in the Parliament in May 2014, through its final vote in the Parliament in November 2014, and its final signing by the Executive in December 2014. Our main sources of data are: (i) careful reading of the VAT Bill (draft May 2014), the amended Bill (November 2014) and the VAT Act (December 2014); (ii) interviews with representatives of the business community, individual business people, partners of the Big Four international accountancy and advisory companies, domestic tax practitioners, IMF representatives, staff of the Ministry of Finance and the Tanzania Revenue Authority, and sector interests; and (iii) reports and newspaper articles collected for the period December 2012-June 2016. Our findings resonate with other case studies in this book, and, as such, contribute to substantiate and elaborate the theoretical framework.

The remaining parts of the paper are divided into five sections. In the next section, the VAT reform is presented. The third section explores the conditions that triggered the VAT-reform initiative and provided entry points for revenue bargaining. The lobbying process and its organisation are examined in the fourth section. The following section five discusses the outcome of the revenue bargaining as reflected in the new VAT Act. The last section concludes.

2. The case: Background for the VAT reform

VAT was implemented in Tanzania in July 1998, advised by and with technical assistance from the IMF.[4] The VAT was expected to broaden the tax base leading to substantial increase in tax revenues without distorting investment decisions. With few exemptions and zero ratings, the original VAT Act of 1997 was perceived by the IMF and international tax advisors as a 'best model' for VAT design in a developing country context. Subsequent developments, however, deviated from the 'best practice model'.[5] When the new act was introduced in 1998, it was estimated that VAT would generate revenues equivalent to 6% of GDP. However, the VAT regime was gradually undermined by exemptions and the revenues never reached above 4.5% of GDP.

Over time, amendments of the Act incorporated an expanding number of exemptions and zero ratings of goods and services and of persons who were entitled to receive exempt supplies. Some of these exonerations were promoted by the Tanzania Investment Centre (TIC) in order to attract investments. Generous tax incentives granted to multinational companies, especially in agriculture and extractive sectors such as mining, led domestic enterprises to lobby for tax exemptions to adjust for the perceived unfairness of the tax regime.[6] The VAT act gave space for domestic companies to request for exemptions. The Minister of Finance had power to grant exemptions and could channel requests for exemptions through the Task Force on Tax Reform, composed of representatives from the public and private sectors, a process which made it relatively easy to add exemptions.[7] Also other ministries and government agencies were involved in tax policymaking. Fragmented policymaking and bureaucratic competition made it easy for interest groups and individuals to lobby for their interests.[8] According to

[4] As early as in 1991, introduction of VAT was proposed by a Tax Commission appointed by the Government (URT, 1991, chapter 12). However, before 1997 little progress was made in this area.

[5] Interview with senior officer, Research and Policy Department, TRA-HQ (member of the VAT Technical Team), Dar es Salaam, 11 March 2015.

[6] By end 2014, 80% of the strategic investors granted tax exemptions by the Tanzania Invest Centre were domestic companies. Interview with Director of Investment Facilitation, TIC, Dar es Salaam, 17 November 2014.

[7] Interview with two senior officers, Research and Policy Department, TRA-HQ, Dar es Salaam, 11 March 2015.

[8] Interview with IMF-representative, Dar es Salaam, 25 August 2014.

Ali Mufuruki, a leading business owner in the country, a "tax incentives industry developed to advise clients on how to legally access incentives".[9] The Big Four became a big part of this industry.

The numerous exemptions and zero-rated goods and services complicated the underlying VAT structure, caused complexity in the tax system and added to widespread leakages through the many opportunities for abuse and avoidance. This also had adverse effects on revenue generation. By 2012, Tanzania ranked among the countries with lowest VAT productivity among the Southern African Development Community (SADC) and East African Community (EAC) countries. An IMF Aide-Mémoire from 2012 describes the Tanzanian VAT regime as follows (Krelove *et al.,* 2012: 46):

> "The ever-expanding list of preferences has deteriorated VAT tax base. Tax exemptions of inputs add to tax cascading and numerous tax relieves seriously undermine VAT revenue productivity".

By 2012, senior managers in the Ministry of Finance and the TRA recognized that the VAT regime needed reform.[10] The Minister thereafter consulted the IMF. An IMF mission was put in motion and external VAT consultants were engaged. A technical reform team composed of staff from Ministry of Finance, the Tanzania Revenue Authority, and the Office of the Attorney General was established. According to the IMF, the original VAT regime in Tanzania from 1997 was almost "textbook", but some structural features affected its intentions negatively over time and contributed to the low tax-to-GDP ratio. Two problems were noted: (i) poorly structured refunds (paid late, leaving businesses cash strapped, legitimizing the "cry for exemptions"),[11] and (ii) the stated aim of providing incentives for foreign capital (FDI). Amendments of the VAT Act of 1997 introduced many exemptions and zero-ratings for intermediate inputs to various industries and sectors, originally intended in part to work around tax refund problems, in part to enhance investment and protect the local market, and in part to reduce the tax burden on consumers and some sectors, especially agriculture (Krelove *et al.*, 2012).

[9] Interview, Dar es Salaam, 10 November 2014. The late Ali Mufuruki was a co-founder and chairman of the CEO Roundtable of Tanzania, a policy dialogue forum that brings together more than 100 CEOs of leading companies in Tanzania.

[10] Interviews with members of the VAT Technical Team from the Ministry of Finance and TRA, Dar es Salaam, 11 March 2015.

[11] In Tanzania, like in many other many African countries, it may take several months, and sometimes up to a year, to process refund claims (Carter, 2013).

3. The VAT-reform initiative and conditions that triggered revenue bargaining

While revenue concerns played a major role in the initiation of the VAT reform process, the reform was also triggered by pressure from various stakeholders demanding more tax fairness. The excessive VAT exemptions were routinely lamented by civil society groups, Members of Parliament, as well as the Controller and Auditor general (CAG) who in his various reports pointed to the increasing and escalating exemptions (IMF, 2008; Uwazi 2010; TRA, 2011; Ndunguru, 2012; CAG, 2013; IFC, 2013).12 The extensive discretionary power of the Minister of Finance to grant exemptions was also noted as a major problem by all parties. Based on recommendations from the IMF, pressure from the international donor community as well as increasing pressure from the main opposition party Chadema, the Parliament's Public Accounts Committee (PAC) in 2012 directed the Controller and Auditor General to conduct a special audit on the exemptions to ascertain whether the waivers were beneficial to the country.

In 2013, the Government decided to develop a new VAT Act, and established a technical reform team to lead this work. The team was composed of staff from Ministry of Finance, the Tanzania Revenue Authority, and the Office of the Attorney general, with support from an external VAT expert recruited by the IMF. During 2013 and 2014, a new VAT Bill was drafted. According to the IMF Resident Representative in Tanzania, the original draft was very ambitious, almost aiming to be a "perfect VAT Act with very limited number of exemptions".[13] The new Bill included a few exemptions and zero-ratings (food, and basic necessities), but all special reliefs for named bodies were abolished (URT, 2014a). The draft Bill removed the discretionary power of the Minister of Finance to grant and modify tax exemptions (ibid. 88). The Bill stipulated that exemptions should be approved by Parliament and that new exemptions should be created or modified by Parliament only. The draft VAT Bill was sent to Parliament from the Ministry of Finance in May 2014.

The work leading up to the draft bill was run by the technical reform team supported by the IMF. According to a member of the technical team, the multi-stakeholder Task Force on Tax Reform "was not consulted since it was seen as being part of the problem".[14] The first version of the bill was drafted by a technical expert engaged by the IMF. Thereafter, the Tanzanian VAT Technical Team made some "improvements of the draft act during first half of 2014 to make it better fit the Tanzanian context".[15] The IMF's resident representative confirmed that the Tanzanian team did not take on board all

[12] In an interview in *The Est African* (8 February 2014), Mr. Rakesh Rajani, director of the civil society organization Twaweza East Africa, questioned the government's commitment to reviewing the exemptions saying the job takes less than six months to accomplish, but the government has been dragging its feet.

[13] Interview, Dar es Salaam, 27 October 2015.

[14] Interview, Dar es Salaam, 11 March 2015.

[15] Interview with members of the technical team, Dar es Salaam, 11 March 2015.

recommendations from the IMF, claiming they would not work in the Tanzania context.[16] In this process, the technical team also had consultations with some Cabinet members.

According to members of the technical team, an early draft of the VAT Bill was sent to the Confederation of Tanzania Industries (CIT), the Oil and Gas Association of Tanzania (OGAT), the Tanzania Petroleum Development Corporation (TPDC), the Tanzania Private Sector Foundation (TPSF), and the Big Four international consultancy and accounting firms. However, according to the Tanzania Private Sector Foundation no consultations took place prior to the bill being presented to the Parliament in May 2014.[17] Conceding to this point, the IMF representative referred to the drafting of a bill as a rather closed process, where technical assistance and outside forces are somewhat limited in their inputs: "By Tanzanian standards there were some consultations, but consultations could have been made better, more widely, and involved more interest groups for example from private sector".[18] He further reflected that: "IMF had expected that the Cabinet approved the May 2014 Bill and agreed on the Bill before it was sent to the Bunge. This did not happen. The line ministries - especially tourism and agriculture – were not aware that the exemptions for their sectors had been removed and reacted when they saw the bill".[19]

It is not surprising that different stakeholders hold different views when describing a consultation process that happened some time back, and a process with which at least one party (the private sector) was unhappy. However, based on evidence acquired through process tracing, it is evident that the process of drafting the VAT 2014 Bill was not participatory nor consultative. Key stakeholders in the private sector were not properly consulted, and some ministries and members of Cabinet, especially tourism and agriculture, had not been provided with adequate information about the short-term consequences of the proposed changes of the VAT act. The fact that the Parliament's Budget Committee sent the draft Bill back to the Cabinet for a redrafting, adds credence to the argument that stakeholder consultations were limited in the first stage of drafting the VAT Bill.

The above analysis illustrates that revenue bargains can be triggered by the reforms drafted by technocratic staff of government (or external actors) tasked with how to increase revenue. The case further illustrates that such "technocratic reforms" have distinct limits as stakeholders who have not been consulted in the initial stages of a reform may seek to influence the reform after the draft bill has been tabled.

[16] Interview, Dar es Salaam, 27 October 2015.

[17] Interviews with Ali Mufuriki (CEO Roundtable Tanzania), 10. November 2014; Lathifa Sykes (CEO Hotel Association of Tanzania), 19 March 2015; and Edward Furaha (Research and Policy Manager, Tanzania Private Sector Foundation), 27 October 2015.

[18] Interview, Dar es Salaam, 27 October 2015.

[19] Interview with IMF representative, Dar es Salaam, 27 October 2015.

4. The political context and arenas of revenue bargaining

In Tanzania, revenue bargaining takes place in a context characterized by a strong institutionalized party dominating the parliament upheld and legitimized through its ties to the country´s business elites (Isiyama & Quinn, 2006; Babeiya, 2011).[20] The ruling party *Chama Cha Mapinduzi* (CCM)[21] has governed Tanzania since independence with remarkable stability (Phillips, 2010: 115). Whereas legal reforms have officially detached the party from the state, most state institutions are behaviorally still informally linked to the ruling party. The lack of separation between the state and the party (Makulilo, 2008) makes CCM a *state-party* or a *party-state*. The party remains the "party of choice" for anyone seeking a political career. As noted by one Tanzanian describing the CCM likelihood of winning the 2005 elections, "CCM has its roots everywhere… It has taken up all the earth. There is no room for other parties to grow" (Phillips, 2010: 109). Signalling the ruling party´s control over commercial business, Babeiya (2011: 95) argues that: "The use of threats also continues to guarantee CCM much support from the business community as businesspersons fear repression if they do not support the incumbent party."

With economic liberalization, the CCM's ability to retain centralized control over wealth accumulation began to unravel due to a combination of economic decline, growing informalization, corruption, and, ultimately, economic liberalization (Babeiya, 2011; Kiondo, 1992; Mmuya, 1998). As argued by Collord (2019), Tanzania's changing economy saw CCM leaders adapting a new pattern of politicized accumulation, one characterized by *ad hoc* connections between an expanded private sector elite and various factional networks within CCM itself. Business owners of Asian origin won two out of four by-elections between 1992 and 1995, an unprecedented occurrence in Tanzania (ibid, p. 118). Despite CCM dominant position and executive dominance, Babeiya (2011: 97) argues that individual MPs' influence rely heavily on private resources in their election campaigns, and their individual resources are shaping voting behavior: "The power of the purse is currently one of the tickets to pass the nomination and election test in both party and intra party competitions". Corresponding to the discussion of government capture above, arguably, this culture of private wealth shaping electoral outcomes, businesspeople are venturing into political careers, suggesting a strong link between business and politics (Therkildsen and Bak, 2019).

The political context outlined above could be expected to have yielded a different outcome of the VAT revenue bargaining process. In a one-party dominant state, holding a majority of the parliamentary seats, we would not expect that a law endorsed by the Government to be altered by lobbying or treatment in the Parliament. However, because individual Members of Parliament rely heavily on resources and business support to finance their electoral campaigns, the VAT Bill was susceptible to changes during the vote in the Parliament. During the bargaining process, the draft Bill was substantially reshaped. For

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[20] CCM´s majority position does not include Zanzibar where the opposition is strong. The main opposition party in mainland Tanzania, Chadema, has succeeded to win a number of subnational elections since 2010 in several of the major cities, including Dar es Salaam and Arusha.

[21] CCM in English: "Party of the Revolution".

instance, many items that are referred to as “VATable” in the May 2014 Bill, are exempted in the VAT Act passed in the Parliament in November 2014. While central actors in government, particularly in the Ministry of Finance and the Tanzania Revenue Authority, parliamentary opposition, NGOs, the media and some donors had argued for a simplified VAT Act, with a drastically reduced exempt-list, Tanzania ended up almost in “status quo”: According to an official from the Ministry of Finance, “the new VAT Act is ‘old wine in a new bottle”.[22]

Interviews with both members of the technical drafting team and representatives from the private sector established that the draft Bill of May 2014 was met with protests from the private sector.[23] The private sector argued that the drastic removal of exemptions would imply severe challenges for the business environment in Tanzania. For the private sector, the key issue was fiscal predictability. They argued, for instance, that the tourism sector needed more time to adjust. The Budget Committee of the Parliament demanded more consultations due to what the Committee considered to be weaknesses and shortfalls in the draft Bill. Public hearings on the VAT Bill started in August 2014. These led to extensive lobbying, especially for exemptions, and amendments of the Bill. Also, the debate that took place in the Cabinet as the Bill was returned, suggests that the Cabinet had not fully grasped the implications of the removal of exemptions for the private sector and some line ministries. The Cabinet was not united. Some ministries, in particular the Ministry of Agriculture and the Ministry of Natural Resources and Tourism, were much in favour of tax exemptions for enterprises in their respective sectors. The Minister responsible for tourism personally lobbied for exemptions in the Parliament.

Members of the main business associations, the IMF, TRA and the Ministry of Finance all confirmed in interviews that lobbying gathered momentum after the drafted Bill was presented to Parliament in May 2014. IMF initially suggested that the Parliament should be involved in developing the new act to reduce exemptions and sensitize Members of Parliament on the costs of exemptions. This did not happen, and arguably, this decision left the Parliament open for lobbying during the period after the draft Bill was presented to the legislature. There was no constituency within the Parliament in favour of reducing exemptions. This position among MPs is interesting, considering that the debate for the new VAT Act started with some opposition MPs publicly shaming the VAT exemptions inherent in the amended VAT Act of 1997.

The claim that MPs were being lobbied individually by representatives of the private sector was confirmed by the private sector. According to Edward Furaha of Tanzania Private Sector Foundation: “Individual members who do not know issues are normally made to understand issues in the process of lobbying”.[24] A typical strategy would be to start with general issues that touch everyone (such as VAT imposed on funeral services) and use this as evidence on the impacts of the draft Bill of May 2014 if

[22] Interview, Dar es Salaam, 11 March 2015.

[23] Interviews with representatives from TPSF, 12 November 2014 and 27 October 2015; managers from TRA, 14 November 2014 and 11 March 2015; and officials from the Ministry of Finance, 11 March 2011.

[24] Interview, Dar es Salaam, 27 October 2015.

implemented. The direct lobbying of MPs was also confirmed by public sector representatives. According to a senior TRA manager: “MPs listen to too many lobby groups… Allocation of responsibility is problematic…MPs are swayed by the Big Four and TPSF….. Clearly, government should have done their own explanation, as politicians were misled by lobbyists”.[25] While tax practitioners from KMPG claimed that KMPG had not been involved in the lobbying of MPs, they, nevertheless, conceded that a lot of lobbying of individual MPs had taken place and that “the exemptions are all back and the draft VAT Bill has gone through a complete overhaul”.[26]

The VAT law changed considerably between its submission to the Parliament for debate in May 2014 and the final vote in November. Lobbying against the VAT Bill was coordinated by TPSF towards members of the Budget Committee. They also had meetings with the Ministry of Finance presenting the private sector’s position. Much of this lobbying was done by tax experts from PwC engaged by the TPSF. According to Lathifa Sikes, representative of the Hotel and Tourism (HAT) association, PwC and TPSF were present in Dodoma to lobby the MPs.[27] She argued, however, that they did not pay bribes to MPs: “We went to Dodoma and argued our case”. This observation is important and suggests that it is too simplistic to expect that businesses will prefer to bribe than lobby if both strategies can achieve the same goal. While it is difficult to substantiate that lobbying took precedence over bribery, the rise of large, reasonably well-organized business associations combined with stricter perceived enforcement of international legislation and conventions against corruption lead us to tentatively conclude that lobbying was considered a preferred strategy by the Tanzanian business sector.

The Parliament’s handling of the Value Added Tax Act of 2014 illustrates the ambivalent role the national assembly played in safeguarding elite interests. Following the 2010 election, both Parliament and Government took steps towards fiscal reforms. The then Speaker of the National Assembly, Anne Makinda, convened a special parliamentary committee, referred to simply as the Speaker’s Committee, and tasked it to recommend changes to Tanzania’s tax regime, including to decrease the number of exemptions. The Government´s VAT Bill (2014) was largely in line with recommendations made by the Parliament’s own Speaker’s Committee. And yet Parliament proceeded to amend the VAT Bill, rolling back many of the key changes. Many exemptions abolished through the Bill were reinstated; there was no clarity on what should happen to exemptions granted by the Tanzania Investment Centre (TIC); and the discretionary powers of the Minister of Finance were reduced, but not removed. According to Collord (2019: 219), this legislative activity appeared to follow a “parliamentary business cycle”, shaped by MPs’ changing incentives ahead of expensive re-election campaigns.

[25] Interview with senior manager in TRA, 14 November 2014.

[26] Interview, Dar es Salaam, 18 March 2015.

[27] Interview, Dar es Salaam, 19 March 2015.

5. Outcome of the revenue bargaining

In January 2015, the President signed the new VAT Act, and it became operational in July 2015. According to Rished Bade, then Commissioner General of TRA, the VAT Act that was presented for and debated in the Parliament in November 2014 was more "realistic" than the draft Bill of May 2014. Due to the many vested interests who were likely to resist major changes of the tax system, and particularly those related to exemptions, the original (May) draft VAT Bill was not realistic: "It was unrealistic to go from one extreme to the next", he said.[28] This position is supported by the IMF's resident representative, arguing that "the Cabinet had not grasped the implications of the removal of exemptions in the May 2014 Bill for the private sector and some sectors under some line ministries, especially tourism and agriculture. It would have been better if the Cabinet had represented a united front."[29]

The VAT Bill of May 2014 suggested to remove the discretionary power of the Minister of Finance to grant and modify tax exemptions. This would imply that any future changes in existing exemptions had to be approved by Parliament, and new exemptions could be created or modified only through legislation. This provision was altered in the new Act and it now states that the Minister of Finance can grant exemptions in cases of "emergencies and calamities" (URT, 2014b: para 6(2)).

Although the new Act removed the special relief schedule and the list of exempted items was reduced, some of the exemptions that were removed in the draft Bill were reinstated in the new Act (for example, the exemption for tourism services). Further, any tax incentives already granted to investors under the Economic Processing Zones Act and the Special Investment Processes Zones Act continued to apply. Since the VAT Act is silent on incentives granted under the Tanzania Investment Act, it is not clear whether these incentives will continue to be granted. The discretionary power of the Minister of Finance to grant exemptions was reduced, but not entirely removed in the new Act. The Minister may grant exemptions for Government imports of goods and services that are to be used for relief of natural calamities or disasters.

Business representatives interviewed argued that tax incentives were not of major importance for their decision to invest or not. They viewed improvements in the investment and business climate as a better way for Tanzania to boost growth and, thus, increase government revenue. To do so, they argued, the Government should improve efficiency and transparency in the public administration to reduce corruption. Rather than increasing tax exemptions, businesspeople argued in favour of a simple and predictable tax regime. What, then, explains the extensive lobbying for exemptions? The short answer is that tax incentives reduce business costs and incentives granted to other companies and/or sectors in a non-transparent way are perceived to be unfair. When "everyone else" is granted tax exemptions, one's own competitiveness depends on exemptions. Further, tax lobbying in Tanzania has become

[28] Interview, TRA-HQ, Dar es Salaam (add date).

[29] Interview, Dar es Salaam, 27 October 2015.

better organized and coordinated through the larger business associations, sometimes under the umbrella of the Tanzania Private Sector Foundation. TPSF represents both domestic and multinational companies. Although lobbying by individual businesspeople still features, larger, organized associations are able to mobilize more powerfully for their demands, partly by engaging professional tax consultants and lobbyists to promote their position to Parliamentarians and senior government officials. The enhanced role of the Big Four international accounting and consultancy firms in tax lobbying in Tanzania is a reflection of the importance of lobbying and the substantial resources spent on influencing policymakers and legislators.

Professional tax advisors target their lobbying towards influential stakeholders including Parliamentarians and public agencies affected by the proposed legislation. For instance, the agriculture sector has benefited from a vast array of VAT and customs duty exemptions. The lobbyists could easily mobilise the Ministry of Agriculture against any attempt to remove these exemptions. The same applies to the tourism sector. Removal of tax exemptions to elected officials would also easily mobilise Parliamentarians against such a move – even if this would simply imply that public leaders receive the same tax treatment as their electorate.

Interest groups in Tanzania managed partly to reshape the VAT reform. A member of the technical VAT team in the Ministry of Finance said that, "The new Act is completely diluted."[30] This statement reflects a disappointment that the new Act did not go as far as anticipated in removing exemptions. One may, however, argue that the VAT Act of 2014 is a move in the right direction. As they have to be publicly debated, it will be harder to make new tax exemptions. The Minister's discretionary options have become more restricted. But given the recent history of tax lobbying in Tanzania, we may expect that pressure will soon emerge to amend the Act to bring back more exemptions and zero-ratings.

6. Conclusion

This paper has highlighted how revenue bargaining processes shape tax policies and tax legislation. Tracing the various stages behind the VAT Act 2014 in Tanzania, weighing the various interests, lobbyists and political actors, we have documented a tax reform outcome that diverted significantly from the draft stage to the final gazette stage. The analysis of the process behind the 2014 VAT Act has illustrated how a political context characterized by an institutionalized dominant party state, legitimized by major business interests, was vulnerable to lobbying from interest groups and international consulting firms acting on behalf of business interests.

The lobbying process against the draft VAT Bill of May 2014 may be considered a case of a coordinated lobbying by private business associations influencing and greatly shaping a set of uncoordinated policy positions by different government bodies. Accounting for this sub-optimal equilibrium - that initially neither major private sector interests nor the government wanted – we have shown how lobbying is

[30] Interview, Dar es Salaam, 11 March 2015.

shaped by political institutions. The tax literature has not adequately addressed this critical dimension of revenue bargaining in tax reform processes. Our analysis suggests that lobbyism in poorly regulated developing countries may be much more important than previously assumed in both the academic and policy-oriented literature. Our analysis further underscores the need for better understanding of how the rules of the 'lobby' game is affected by uneven power relations between various interest groups.

The process behind the Value Added Tax reform in Tanzania offers a vivid illustration of one kind of intensified public engagement in tax matters. This in turn suggests one potential road to more significant reform outcomes; the empowerment of a broader range of voices in tax debates to motivate and support political leaders willing to drive progress. A key area of concern is the extent to which revenue bargains benefitting only a few companies and wealthy people may affect the compliance behaviour of a larger segment of taxpayers, and ultimately the ability of governments to generate income and distribute income fairly. In some ways, the case of the VAT reform is yet another example of powerful interests securing special treatment. However, the political process was very different from that around the introduction of VAT two decades ago in 1998. This time, the decision was not made quietly behind closed doors but through a highly public and contested process. This exemplifies the increasingly active participation of business associations in tax policy debates in Africa. For this new trend to yield broader public benefits, the question now is whether this greater business activism will be matched by broader engagement by ordinary African taxpayers in creating a new politics of taxation.

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This paper explores the role of interest groups in shaping tax policies in Tanzania. Tracing the various stages behind the VAT Act 2014 in Tanzania, weighing the various interests, lobbyists and political actors, the study documents a tax reform outcome that diverted significantly from the draft stage to the final gazette stage. The analysis of the process behind the 2014 VAT Act illustrates how a political context characterized by an institutionalized dominant party state, legitimized by major business interests, was vulnerable to lobbying from interest groups and international consulting firms acting on behalf of business interests. The tax literature has not adequately addressed this critical dimension of lobbying in tax reform processes. Our analysis suggests that lobbyism in poorly regulated developing countries may be much more important than previously assumed in both the academic and policy-oriented literature. Our analysis further underscores the need for better understanding of how the rules of the 'lobby' game is affected by uneven power relations between various interest groups.

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