The tax systems in Mozambique, Tanzania and Zambia: capacity and constraints

Odd-Helge Fjeldstad and Kari K. Heggstad

Chr. Michelsen Institute

Commissioned by Norad

SUMMARY OF THE DRAFT REPORT

27 April 2011

Abstract

Strengthening the tax systems in developing countries is a key priority area for Norwegian development assistance. The purpose of this study is to systematise and analyse existing knowledge of the capacity and constraints of the tax systems in selected African countries, and to advice Norwegian authorities on how this knowledge can be translated into practical, effective and concrete development policies. This report focuses on Mozambique, Tanzania and Zambia. It examines current work to strengthening the tax systems in these countries, identifies gaps and provides recommendations for Norwegian support for effective and accountable taxation.

Acknowledgements

The *Norwegian Agency for Development Cooperation* (Norad) commissioned *Chr. Michelsen Institute* (CMI) to undertake a study to systematise and analyse existing knowledge on taxation and tax administration in selected African countries, and to advice Norwegian authorities on how this knowledge can be translated into practical, effective and concrete development policies. This study focuses on Mozambique, Tanzania and Zambia, and examines current work to strengthening the tax systems in these countries.

The *Terms of Reference* (attached) defined the assignment as a desk study with shorter fieldworks in each of the three case countries during autumn 2010. A substantial part of the work involved reviewing and synthesising existing material both published studies and grey literature provided by the revenue authorities in Mozambique (ATM), Tanzania (TRA) and Zambia (ZRA), by the Norwegian Embassies in the three countries, by Norad and other development agencies, including the IMF, DFID and GIZ, as well as from research institutions and civil society organisations. The study has also benefited from the large collection of tax literature at Bergen Resource Centre for International Development.

The fieldwork included interviews with senior managers in the ATM, TRA and ZRA, the Ministries of Finance staff in Mozambique, Tanzania and Zambia, donor officials, local NGOs 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* (CMI, economist, project leader), and Kari Heggstad (CMI, political scientist).

The study team would like to thank all respondents for providing us with information; both the people we have interviewed face-to-face and by phone. Their insights and advice have been invaluable. We would also like to thank the revenue authorities in Mozambique, Tanzania and Zambia, the Norwegian Embassies in the three countries and Norad for practical support, factual information and advice.

The usual disclaimer applies; this report does not reflect the policies or views of Norad, the Norwegian Ministry of Foreign Affairs, and the Norwegian Embassies in Dar es Salaam, Maputo and Lusaka. The opinions expressed are those of the authors alone. Furthermore, the responsibility for its contents and any errors rests entirely with the study team.

Bergen, 27 April 2011 (draft)

Odd-Helge Fjeldstad and Kari K. Heggstad

Chr. Michelsen Institute

Summary

This study was commissioned by the *Norwegian Agency for Development Cooperation* (Norad) for the purpose of systematising and analysing existing knowledge on taxation and tax administration in selected African countries, and to advice Norwegian authorities on how this knowledge can be translated into practical, effective and concrete development policies. The report focuses on Mozambique, Tanzania and Zambia. It examines current work to strengthening the tax systems in these countries, identifies gaps and provides recommendations for Norwegian support for effective and accountable taxation.

The study is a desk study, supported by shorter fieldworks in each of the three case countries during September-November 2010.

1. Introduction

1.1. Effective tax systems are central for a sustainable development because they can (i) mobilise the domestic tax base as a key mechanism for developing countries to escape aid or single resource dependency; (ii) reinforce government legitimacy through promoting accountability of the government to taxpaying citizens and good public financial management; and (iii) achieve a fairer sharing of the costs and benefits of globalization.

1.2. Taxation is not just an administrative task for citizens and governments. It is also about politics and power - the way that authority is exercised in a country through its formal and informal institutions.

1.3. If taxation is undertaken in a way that promotes greater responsiveness and accountability, alongside improvements in the state's institutional capacity, then the tax system can become a catalyst for broader improvements in government performance.

2. Revenues and tax structure

2.1. For Mozambique and Tanzania the tax-to-GDP ratio was around 14% in 2007, i.e. below the average (14.9%) for lower African income countries, while Zambia generated a tax ratio of about 17.7%. However, the tax share in Zambia declined to 15% of GDP in 2009. A similar decline took place in Tanzania from 15.1% in 2008 to 14.2% in 2009, possibly due to the global recession. Mozambique, on the other hand, saw a substantial increase in the tax ratio from 14.3% of GDP in 2008 to 15.4% in 2009, which is linked to improved tax administrative procedures and enforcement.

2.2. Official Development Assistance (ODA) as share of total of public revenues has declined from 2004 to 2008 in all three countries. Zambia has experienced the largest reduction in aid dependency, from 53% of total public revenues in 2004 to 28% in 2008. The corresponding figures for Tanzania are 54% in 2004 and 41% in 2008, and for Mozambique 62% and 56%, respectively.

2.3. Mozambique is the most aid dependent of the three countries and also compared to the African average, with USD 66 per capita in tax revenues and USD 93 in ODA per capita in 2008. In Tanzania tax revenue per capita in 2008 was USD 71 compared to ODA per capita of USD 58. Zambia is the least aid dependent of the three countries with USD 219 in tax revenues per capita and USD 93 in ODA per capita.

2.4. Does aid substitute for domestic tax mobilisation? There is *no* robust evidence to support the claim that aid crowd out domestic tax effort. Recent econometric studies actually find evidence of a positive association between aid inflows and tax revenue. This positive correlation lends some support to the interpretation that development aid since the 1990s, through its stronger

focus on institutions may have led to an improvement in the tax administration and revenue collection in recipient countries.

2.5. Value Added Tax is a major tax base in all three countries. In FY2009/10 VAT generated revenues equal to 5.4% of GDP in Mozambique, which was more than the revenues from personal and corporate income taxes combined. This was also the case in Tanzania where the VAT-to-GDP ratio was 4.6%, compared to 4.1% for Personal Income Tax (PIT) and Corporate Income Tax (CIT) combined. Special for Zambia is the importance of Personal Income Tax, which generated more revenues than VAT in both 2007/08 and 2008/09.

2.6. In spite of the laws' intention, the opportunity of using the personal income tax (PIT) to improve vertical and horizontal equity is in practice more limited in Mozambique, Tanzania and Zambia than it is in developed countries. There are two main reasons for this. First, the tax base is typically non-comprehensive due to the large untaxed informal sectors in the three countries. Second, there are challenges in properly administering the tax.

2.7. A recurring problem with PIT is the non-compliance of employers to register their employees and to remit such taxes to the relevant authorities. Further, capital income, predominantly earned by relatively wealthy individuals, either faces low effective rates or escapes taxation altogether. In Zambia, for instance, there is no tax on capital gains, while in Mozambique the gross capital gain or loss is halved in real estate or business assets. In Tanzania, capital gain or loss is included in business or investment income and taxed in principle at 30%, but in practice it is easy to avoid.

2.8. The corporate income tax regime is challenged in all three countries due to substantially tax-base narrowing, mainly through tax exemptions and the provision of tax holidays in Investment Codes and Free Zones. For instance, in Mozambique, special tax regimes are established for certain investment projects where incentives are granted, e.g. in Rapid Development Zones, Industrial Free Zones, and in the agriculture, mining, oil, and tourism sectors.

2.9. The presence of tax holidays has enabled a number of firms, notably extractive industries, manufacturing and processing firms, but also hotels and tourist lodges, to effectively escape taxation altogether for a large subsequent number of years.

2.10. The question remains open whether countries that do have proper anti-abuse legislation are in the position to apply it in an effective way. Tanzania, for instance, has a catch-all anti-avoidance clause in its CIT legislation, but is not clear how this is applied in practice.

2.11. Mining is a revenue generating activity in all three countries. Historical data on mining tax revenues are limited, and the tax regime in the sector is relatively complex. Extensive tax incentives are common. Changes in the regime and renegotiation of mining contracts are controversial and a source of both national and international debate.

2.12. All three countries are candidate countries for the Extractive Industries Transparency Initiative (EITI). The first EITI reports that disclose payments made by the major mining companies to government in Tanzania and Zambia were launched in February 2011, and in Mozambique in March 2011. The reports for all three countries show substantial discrepancies between what mining companies reported having paid and what government entities reported having received.

2.13. Mining could potentially contribute with substantial revenues since the activity, in principle, is relatively easy to tax compared to many other economic activities. However, considering the extent of natural resource rents in many sectors and in particular in mining, the current tax-to-GDP ratios are significantly below what they could have been if the resource rents were differently shared between the country and the investors. This is particularly so for Zambia, where the level of foregone rent is significant, but also for Tanzania and Mozambique albeit at a lower level relatively due to less developed mining sectors.

2.14. Revenues from renewable natural resources, mainly from fisheries, forestry, and wildlife, are commonly collected by the respective line ministries and by local government authorities (especially forest levies). Only limited revenues from renewable resources reach the Treasury in

the three countries. The revenue potential, however, is substantial. Revenue enhancement from renewable resources requires policy changes and better administration.

3. Revenue administration

3.1. Mozambique, Tanzania and Zambia have all established semi-autonomous revenue authorities, in line with 14 other African countries. The Zambia Revenue Authority (ZRA) was established in 1994, the Tanzania Revenue Authority (TRA) in 1996, and the Mozambique Tax Authority (Autoridade Tributária de Moçambique ATM) in 2006.

3.2. The choice of a revenue authority model aimed partly to limit direct political interference by the Ministry of Finance, and partly to free the tax administration from the constraints of the civil service system with respect to recruitment, promotion of staff, and dismissals. Moreover, it was believed that a single purpose agency could integrate tax operations and focus its efforts on collecting revenues better than what was possible under civil service rules.

3.3. In 2010, ATM had 3010 staff members of whom 1776 were in Customs; TRA employed a staff of 3727 people (1236 in Customs); and ZRA had 1380 staff members (about 450 in Customs). While TRA and ZRA have offices in all districts in their respective countries, ATM – the newest of the three RAs - is currently present with offices in 43 of Mozambique's 128 districts. Salary and related expenditures account for the largest portion of the RAs' budgets (up to 80%).

3.4. The number of tax staff available for every 1000 persons differs between the countries, from 0.131 in Mozambique, 0.087 in Tanzania and 0.099 in Zambia in 2010. These 'tax staff per population ratios' are very low compared to the world average of 0.82, but higher than the average of 0.037 for sub-Saharan Africa.

3.5. Funding of the three RAs comes from the annual Parliamentary budget appropriation process and in the form of grants from donors. According to the Tax Authority Act in Mozambique, ATM shall retain 1% of the revenues collection for its operation (which is in line with OECD countries' limit of 1%). However, due to the substantial investments required to develop and expand the tax administration, ATM at present receives 4-4.5% of the revenues collected through the general Government budget. Further, a group of donors (UK, Switzerland, Belgium, Germany and Norway) coordinates their support to ATM through the Tax Common Fund.

3.6. In Tanzania, the budget allocated to TRA through the Government budget in 2008/09 constituted about 2.8% of the revenue collections (net of VAT refunds). This amount, however, is insufficient to cover infrastructure, software, hardware, training needs etc. Thus, a substantial share of non-current expenditures are currently funded through the Tax Modernisation Programme – a basket funding arrangement signed in 2006 and supported by the World Bank, DFID, Danida and the Government of Tanzania.

3.7. In 2008, the costs of running ZRA accounted for 2.3% of the total domestic revenues collected (down from 2.7% in 2006), while the initial target agreed by the Government of Zambia and DFID was 1.9%. DFID has been the main external funder of ZRA since the revenue authority was established in 1994.

3.8. A relative small number of large enterprises account for the majority of tax revenue (60-70% of total tax revenue).These enterprises engage in large-scale, specialised, and often global operations. Hence, due to their unique characteristics and needs, ATM, TRA and ZRA have all set up Large Taxpayer Offices (or units) to manage the tax affairs of the large taxpayers. By end 2010, there were approximately 600 large taxpayers in Mozambique of which about 350 were located in Maputo. In comparison there were six mega-projects of which 5 were multinational companies covering multiple sectors (construction, mineral extraction, energy, aluminium production and the financial services) and one domestic (energy).

3.9. In Tanzania, 400 large taxpayers were registered in November 2010 (0.08% of total taxpayers) whereof 18 were dormant. The large taxpayers contribute about 70% of total

domestic revenue collections in Tanzania. The number of large taxpayers registered in Zambia is about 420 (4.1% of total taxpayers).

3.10. The establishment of revenue authorities in Mozambique, Tanzania and Zambia has improved tax administration through the introduction of new information and communication technologies, and by moving from a system organized around different taxes to one organized around localities and tax segments so that individual taxpayers have to deal with fewer tax officers. Further, it has comprised the introduction of unique taxpayer identification numbers (TIN) for each individual taxpaying unit.

3.11. According to the World Bank's *Doing Business 2011* survey, the countries 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 also applies for Tanzania and Mozambique. Consequently, although tax rates and tax administration are considered to be a constraint by businesses there are other factors that seem to be more important constraints. Thus, it is unlikely that the provision of generous tax incentives will have significant impacts on foreign direct investments.

4. The political economy of tax policy and revenue collection

4.1. High-level, political support is needed to build a strong revenue authority. In Mozambique, for instance, ATM has benefitted from the support of the President of the Republic. This support has facilitated ATM's campaigns to change public attitudes towards paying taxes.

4.2. Establishment of a semi-autonomous authority, however, has not protected the tax administration completely from political interference in the day-to-day operations. To the contrary, in some respects it might have made it a more attractive target because the revenue authority offers both relatively well paid jobs and considerable rent-seeking opportunities. Experiences from Tanzania and Zambia show that a revenue authority can also be vulnerable to political interference, in particular with respect to tax exemptions.

4.3. Good working relations between the Ministry of Finance and the revenue authorities, particularly in Mozambique and Tanzania, have facilitated the design and implementation of significant tax reforms.

4.4. Providing timely and well-argued tax policy advice should be a core responsibility of the Ministry of Finance. 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.

4.5. Consultation and cooperation between the central government revenue administration and local government authorities are generally limited in the three countries. Firms often have to negotiate and provide similar information on their operations to several government bodies, imposing high compliance costs on the private sector. Furthermore, the duplication of databases implies higher administrative costs on the public sector.

4.6. Local government taxation is still a major constraint on the commercialization of smallholder agriculture and formalisation of the small and micro enterprises. Specifically, multiple taxes (including fees and charges) make it difficult to enter new businesses and markets. Levies are perceived as exorbitant, often charged up-front irrespective of the size and type of business. Sometimes local and central taxes duplicate.

4.7. A general lesson from the country studies is that there is need to build local government capacity in tax design and modern revenue administration. In Tanzania there is an on-going pilot project on property tax collection where TRA is collecting the tax on behalf of the municipalities in Dar es Salaam. This pilot may provide relevant lessons with respect to how the collaboration between the central government tax administration and local government treasuries can be designed and implemented.

4.8. Various stakeholder forums have been established in the three countries where the tax administration and taxpayers (business people) meet, exchange information and discuss tax policy changes. These forums have the potential to improve the relations between taxpayers and the revenue authorities. However, it is uncertain whether they have had any impacts on tax policy. An effective public-private dialogue has yet to develop.

4.9. Consultations between the tax administration and business associations may contribute to improve tax compliance by creating a more cooperative and less conflictual relationship. Revenue officials should therefore view consultations 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. Government officials, however, do need to be cautious about distinguishing between special pleading of the business lobby and important insights from the business community for improving the tax system.

4.10. Although the tax administrations in the three countries have made significant progress in recent years, and the private sector acknowledges this to some extent, problems in taxpayer and tax administration relations remain. In spite of tax laws which in general are well formulated and 'business friendly', tax officers in practice have discretion over important decisions, such as those related to the determination of tax liabilities (assessments), selection of audits, litigation, delays in VAT refunds, etc. Many administrative procedures, including those reporting tax revenues, could be more transparent.

4.11. All three revenue authorities address corruption risk with a wide range of approaches. For example, ZRA's annual reports regularly list the number of corruption cases, their completion rate, and the time required for their processing. In Tanzania, the TRA-management has recently invested substantially in awareness raising and anti-corruption training of its staff. Still, according to studies done on perceived levels of integrity the results show that further efforts has to be made both to fight corruption and to improve the public's perception of the administration.

4.12. There is also a need for striking a balance between revenue and service targets. The uncompromising revenue target focus of the tax administrations implies that achieving the collective target becomes not 'everything', but the 'only thing' - sometimes also at 'any cost', to the detriment of other responsibilities of the tax administration. This may legitimise extortion and harassment of taxpayers, and transparency, accountability and customer friendliness are likely to suffer.

4.13. Civil Society Organisations (CSOs) can be an important channel for improving awareness and education on tax issues. In Zambia during the last decade and more recently also in Tanzania CSOs have played an important role in generating public debates about tax policies, and their role has not been limited to the commercial interests of the private sector. NGOs in the social sectors with a pro-poor agenda have contributed to the public discussion of these issues, in particular with respect to taxation of natural resources.

4.14. CSOs have become increasingly involved in issues related to the mining sector and natural resource taxation in Zambia, Tanzania and other countries in the region. Caritas Zambia and Revenue Watch Institute Tanzania (RWI) have also initiated dialogue meetings and training workshops for policy and law makers on mining sector reforms. CSOs in Mozambique, Tanzania and Zambia, including Caritas, Center for Public Integrity, RWI and the Norwegian Church Aid have published several reports which have led to widespread public debate on the role of the mining sector for the development of the country.

5. Broadening the revenue base

5.1. 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 on broadening the revenue base.

5.2. A large share of the economic activity in the three countries is located within the informal sector. Much of the anger about tax evaders in the informal sector centres on competition from

enterprises that operate well above the margin of subsistence. However, the sector is hard to tax. Generally, tax administrations tend to give it little priority, because, in cash terms, returns to effort may be low and attempts of collecting the tax is likely to be unpleasant, difficult, or even dangerous.

5.3. Yet, finding better ways of taxing the informal sector is receiving increasing attention by the tax administrations in all the three countries. For instance, TRA has introduced a 'Block Management System' (BMS) that aims to promote compliance by registering all eligible small and medium scale enterprises within a particular business, sector or geographical area, and to gather relevant tax information on the level of economic activities to fight tax evasion. The BMS has simplified the registration of traders, and has brought non-filers and non-payers into the tax net through closer monitoring and collaboration with local government authorities. Thus, it is expected to widen the tax base.

5.4. Tax exemptions are widespread in all three countries. In Tanzania, for instance, tax exemptions in Fiscal Year 2009/10 are estimated by TRA to represent 2.3% of GDP. A recent study by the African Development Bank suggests that exemptions and tax incentives combined in Tanzania could account for up to 6% of GDP. According to official data, about 40% of the exemptions were granted to the Tanzanian Investment Act (TIC) and the Zanzibar Investment Promotion Act (ZIPA) holders, 26% were VAT exemptions. Exemptions granted to mining and donor funded projects represented 7.1% and 10.4%, respectively, of total exemptions although these sectors may have enjoyed additional tax exemptions through the TIC and VAT.

5.5. The mining sector enjoys generous tax incentives in all three countries. One argument is that a favourable tax regime will attract more foreign direct investment and thus contribute to economic growth. The World Bank has been a strong advocate for this policy. This happens in spite of the fact that research shows that the tax regime is only one of many factors that impacts on investment decisions and the general business environment. For poor countries the 'competition to grant tax exemptions' could become a race to the bottom.

5.6. New tax exemption rules were introduced in Mozambique in 2009. The General Tax Law ends the special low-rate regime for large projects, and taxation of mining and petroleum companies will increase. However, tax exemptions already granted to previous major projects will not be revised. These foreign-owned projects account for up to 12% of GDP but less than 3% of tax revenues and 3% of employment.

5.7. The mining laws in Tanzania were revised in July 2010 after a national debate on the government's management of the mineral sector that followed the publication of the report of the *Presidential Mining Review Committee* from 2008. The Committee recommended a major review of the tax regime for natural resources, and to modify the existing legislation to enable the government to acquire a pre-set minimum revenue from mining companies.

5.8. In Zambia mining tax exemptions have caused serious domestic debate in recent years. In April 2008 a new mining tax regime was introduced, but only a year later many of the new incentives that would ensure larger government revenue from the mining sector were reversed.

5.9. Estimates of illicit financial flows suggest that the amount of money leaving Africa illegally in 2008 was substantially higher than the amount received in the form of official development assistance. Of the three case countries, Zambia has the estimated highest degree of illicit flows. The difference is largely due to the systematically higher estimated trade-mispricing in Zambia than in the other two countries.

6. External support to strengthening the tax systems

6.1. Multilaterals, regional development banks, donors, think tanks and NGOs have different approaches to domestic and international tax issues in Africa. While some focus on tax administration, others focus on broader issues of fiscal policy. To promote tax administration, for instance, the African Tax Administration Forum (ATAF) has enrolled the support of the African

Development Bank, the joint Task Force on Tax and Development set up in January 2010 by the OECD Centre for Taxation Policy and Administration (CTPA) and its Development Assistance Committee (DAC) and the German Agency for International Cooperation (GIZ).

6.2. At the global level, fiscal issues are traditionally part of the International Monetary Fund's (IMF) domain of intervention, rather than the World Bank's. The Fiscal Affairs Department of the IMF provides technical cooperation via assistance, missions and training in collaboration with several donors. The IMF Regional Technical assistance centres for technical cooperation initiatives are used on the country level. Other collaboration is with the International Tax Dialogue and the International Tax Compact.

6.3. The European Commission (EC) has expertise in supporting tax administration reforms as a means of financing development from Central and Eastern Europe, and the EC has now turned to Africa, for instance, by supporting reform in Tanzania and financing a fiscal transition programme with the West African Economic and Monetary Union (WAEMU). The EC channels funding through the Extractive Industries Transparency Initiative (EITI) by using the World Bank's Multi-Donor Trust fund with only few donations going directly to the EITI International Secretariat.

6.4. Donor countries with strong fiscal capacities are currently the most involved in supporting public resource mobilization in Africa through their development agencies. The International Tax Compact (ITC), an initiative of the German Federal Ministry for Economic Cooperation and Development (BMZ), aims to strengthen international cooperation with developing and transition countries to fight tax evasion and avoidance. The United Kingdom's DFID has provided technical assistance to a range of tax reform and tax administrative issues in several African countries. DFID has also funded research programmes on taxation and governance, as well as projects enabling African governments to broaden their tax base.

6.5. The large number of donors present in Mozambique makes it difficult to get a full overview of efforts targeting the tax system. But at least ten different development partners and multilateral organisations support the development of the tax system. Thus, there is need for strict donor coordination to avoid overlapping efforts. The *Tax Common Fund* is a group of donors that has coordinated their support to the tax administration in the country. It consists of UK, Switzerland, Belgium and Germany, with IMF as an observing partner. In December 2010 Norway signed a MoU to join the fund. The German Development Bank (KfW) has led the tax basket and refers to it as 'international best practice' in donor coordination on tax reform.

6.6. In December 2010, ATM and the Norwegian Tax Administration (NTA) signed a MoU for technical assistance to the taxation of international companies operating in the oil and gas sectors in Mozambique. This work will involve the Petroleum Tax Office which is part of NTA.

6.7. In Zambia, the number of donors involved on tax issues is currently limited with Norway and the United Kingdom as the main development partners. IMF provides technical assistance to the Government in Zambia on tax policies and tax administration. There is low or no danger of overlapping work. While Norway will continue the support to strengthening the tax system, DFID has expressed plans on leaning more towards governance than taxation in the years to come. Strengthening the management of the mining sector, however, is one of the priorities of several development partners in Zambia, with IMF, DFID, the World Bank the EU Commission and Norway as key partners.

6.8. Norway's engagement on taxation in Zambia dates back to 2006. Norwegian consultants and lawyers have provided advice to the Zambian government on a new tax regime for the mining sector and on the possibilities to renegotiate the contracts with the private mining companies. This support also included the development of a mining tax model for Zambia and training of ZRA staff in applying the model. Furthermore, Norway has supported specialised tax audits of three mining companies, and the establishment of a new Financial Intelligence Centre within the Bank of Zambia. For the period 2010-2014, Norway will fund a programme that aims to build large taxpayer administrative capacity in ZRA, in particular through improved specialised mining tax administrative assessment, auditing and enforcement capacity. The programme will involve

institutional cooperation between ZRA, NTA and IMF. In Tanzania, the MoU for the basket funding arrangement of the *Tax Modernisation Programme* (TMP) was signed in 2006. It is supported by the World Bank through IDA, DFID, Danida and the Government of Tanzania. The objectives of the TMP were aligned to the TRA second Corporate Plan (2003/04 – 2007/08) strategic goals. The five core elements of the TMP are: (a) to increase revenue collection in a cost effective way; (b) to integrate TRA operations; (c) to provide high quality and responsive customer services; (d) to promote tax compliance through a fair, equitable and transparent application of tax laws; and (e) to improve staff competence, motivation, integrity and accountability.

6.9. From 1998 until 2007 GTZ (GIZ) assisted TRA specifically in computerisation of the then Income Tax Department and in developing the taxpayers identification numbers (TIN) and the Income Tax system mainly for employment taxes. With the integration of the Income Tax and the VAT Departments into the Domestic Tax Department, the income tax system supported by GTZ was improved in 2004 to support the integrated operations with the necessary modules of audit, registration (TIN) and debt management. A key element of the project was the introduction of the electronic iTAX-system in 2004. GIZ (GTZ) is currently supporting a regional programme for the East African Community (EAC) that also includes Tanzania. The project duration is from 2008 to 2011. Tax harmonization of laws and procedures in the EAC region is a main component.

6.10. Norway has supported the development of a mining tax model in Tanzania. Furthermore, Norway has funded the review of mining contracts and relevant acts, as well as the analysis and revision of hedging agreements in the mining sector. Recently, preparation for long term institutional collaboration between TRA and NTA has been initiated, with a possible agreement in place in 2011. This work is likely to focus on specialised audit of large taxpayers in various sectors, possibly including the finance and banking sectors, telecommunications, tourism and mining.

7. Conclusions and recommendations

7.1. 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 simplification of the tax system, including rates and procedures, and improved tax administration at the central government level.

7.2. A major challenge for building effective, transparent and accountable tax systems in the three case countries are the current tax policies, particularly in relation to exemptions and tax incentives.

7.3. There is still scope to build administrative capacity, especially specialised audit and legal expertise for taxation of key and growing sectors such as natural resources, telecommunications, bank and financing, and tourism. Further, there is a need to strengthen the demand side of tax accountability, i.e. to encourage broader citizen engagement around taxation (civil society, including business and taxpayer associations).

7.4. Broadening the tax base is important, both for the sake of increasing tax revenue and for good tax governance. This includes finding more effective ways to taxing the informal sector and hindering illicit capital flows out of the country. Further, the overall benefits of special treatment of large multinational corporations are questionable. Research shows that tax incentives play only a marginal role in influencing for investment decisions. Policymakers in all three countries should here recognise the potential for raising substantial revenues and also to establish a more fair and transparent tax system. This scenario will require further capacity building to strengthening the tax administrations and sensitive amendments to the current fiscal benefit laws.

7.5. Due to the reliance on trade taxes, the countries must cope with the fiscal challenges posed by trade liberalisation. In order to reduce the exposure to volatility or shortfalls in revenue, diversification of tax sources seems a correct policy strategy to follow. The development of a

rigorous regime for taxation of natural resources – both renewable and extractive – should be part of this strategy. Capitalising on many of the tax policy opportunities available could make a great deal of difference to the potency of the social fiscal contract, and ultimately to the improvements in public policy and development planning.

7.6. Addressing the gaps identified by this study will also require long-term commitment by the international community. It takes time to build institutions and change peoples' behaviour, whether they are policymakers, tax officers or ordinary citizens. Norwegian support to strengthen the tax systems in Mozambique, Tanzania and Zambia should aim to build effective tax systems through revenue enhancement, capacity building of the tax administration and improved accountability. It is of course essential that Norway's engagement within the tax area is based on demand from the partner countries.

7.7. Several international partners support the development of the tax systems in the three countries. It is important to secure complementarity and avoid duplication. Norway should aim to build a coherent, though flexible, programme on 'tax for development', based on (a) demand from the host countries; (b) relevant experiences from the development of the Norwegian tax system; (c) experiences from Norwegian support to institution building in developing countries; (d) support to civil society organisations; and (e) support to regional and international bodies involved in tax policy and tax administration reform.

7.8. To secure sufficient flexibility, and with reference to gaps identified above, the research team recommends that Norway's engagement should aim to cover the following tasks: (i) Support to tax policy reform; (ii) Capacity building of the revenue authorities; (iii) Support to civil society organisations; and (iv) Building domestic research capacity on taxation.

7.9. Within these broad categories, and to secure coherence, the research team suggests that (a) *Capital flight*, (b) *Natural resource and environmental taxation,* and (c) *Accountability* should be core thematic areas for the Norwegian engagement. The proposed areas are also among those prioritised by the governments of Mozambique, Tanzania and Zambia, and by the African Tax Administration Forum (ATAF).

7.10. To address the core areas (a) *capital flight*, (b) *natural resource* and *environmental taxation,* and (c) *accountability,* Norwegian support may include one or more of the following measures: (i) tax policy reform, (ii) capacity building of the revenue authorities, (iii) support to civil based organisations, and (iv) building domestic research capacity on taxation. This adds up to 12 specific recommendations (see the matrix below). Not all the areas will be covered in each country. And the areas covered may differ based on dialogue between domestic stakeholders and Norwegian authorities.

Recommendations for Norwegian support: what and who

	(i) Support to tax policy reform	(ii) Capacity building of ATM, TRA, ZRA	(iii)Support to civil society	(iv) Building domestic research capacity on taxation.
(a) Capital flight	IMF, Central Banks, ATAF, AfDB, OECD	NTA (specialised capacity building focusing on transfer pricing (on--the-job-training); ATAF	International and domestic NGOs; TJN-Africa; media	Research institutes; Research departments in ATM, TRA, ZRA, and MoF (policy analysis); partnerships international & domestic researchers
(b) Natural resource and environmental taxation	IMF, ATAF, EITI, OFD, NGOs (training of MPs)	NTA (specialised tax audits/n-the-job training); ATAF; EITI; OfD	Caritas (Zambia), RWI/NCA (Tanzania), CIP (Mozambique); media	ICTD in collaboration with ATM, TRA, ZRA, ATAF, AERC
(c) Accountability	Business associations, Taxpayers ass, CBOs, EITI	NTA ('soft' measures to enhance compliance); ATAF (compliance/enforcement) (taxpayer education; taxpayers' rights)	Caritas (Zambia), RWI/NCA (Tanzania), CIP (Mozambique), business associations, taxpayer ass, media	Research on compliance; how to establish links between tax payment and public expenditures (social fiscal contract); tax evasion and fiscal corruption