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Revenue Reform and Statebuilding in Anglophone Africa

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Summary. — Although increasingly justified in terms of statebuilding, recent tax reforms in anglophone Africa contributed only modestly to that goal. They have produced impressive tax agencies, but no detectable increases in revenue collections. They have not addressed some major deficiencies in tax policy and administration. The reforms have however helped improve the career prospects for senior African tax administrators and generated more movements of senior staff between tax agencies, the private sector, and international advisory work. These personnel changes have ambiguous implications for the development of revenue capacity in the long term.
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1. INTRODUCTION

Over the past two decades, the national revenue systems of most countries in anglophone Africa [1] have undergone major reforms, with three main components:

- Introduction of value added tax (VAT), which is an organizationally demanding but effective instrument for raising revenue.
- Adoption, in varying degrees, of a package of "advanced" tax administration practices, most of them conducive to more voluntary compliance by taxpayers and greater cooperation between them and tax collectors.
- Giving tax collection agencies a degree of autonomy from the political executive.

These revenue reforms are not exclusive to anglophone Africa. Some variant of VAT is now in place in most poorer countries (Bird & Gendron, 2007; Keen, 2007). Similarly, most national tax administrations pay at least lip service to these advanced tax administration reforms (Section 3). Anglophone Africa is distinctive only in its enthusiastic embrace of semi-autonomous revenue authorities (SARAs): almost every government in the group has now created a SARA, making it the most SARA-rich cluster of countries in the world. [2] Overall, there has been substantially more tax reform in anglophone Africa than in the obvious comparator clusters of low-income countries: francophone Africa, which shares the continent; and South Asia, which shares a British legal and bureaucratic inheritance. [3]

Tax reform is now routinely justified in terms not only of effective revenue collection, but also in terms of its potential contributions to better governance. The proposition that improving the revenue process is a route to more effective statebuilding has caught the imagination of both aid and development agencies (OECD, 2010, 2008) and senior African tax administrators. [4] It is in this context that I set out to assess the implications of these recent tax reforms for patterns of politics and governance in anglophone Africa. While most of the data used is from secondary sources, most of the insights derive from extensive discussions with African tax administrators and international tax experts.

My conclusions are only partly consistent with the conventional emphasis on the positive interactions between tax reform and the quality of governance. One conclusion is that these reforms have contributed only modestly to statebuilding where that is defined as increasing the capacity and effectiveness of the state apparatus. Another is that, while the reforms have made it possible for governments to raise revenue from the organized private sector in a more "Weberian" (institutionalized, rule-bound) and a more consensual manner, they have also increased the possibility that taxation systems will be shaped by private sector interests, making it difficult for governments to raise the revenue that they claim they need. This is an especially significant issue for African governments, because they rely more than most on taxes levied directly on larger private companies.

The structure of the paper is as follows. In Section 2, I briefly set the context by pointing out that, contrary to expectations arising from the image of Africa as a continent of weak governance institutions, African governments—and especially the governments of the anglophone countries—have long benefited from relatively effective public revenue systems. [5] The tax reforms discussed in this paper are a response to fiscal needs, but not generally to fiscal crises. I explain the reforms in Section 3. In Section 4, I argue that these reforms have contributed significantly to a set of changes in the professional environment and the opportunities facing the senior staff of (anglophone) African revenue authorities. Senior tax professionals are: (a) increasingly well-connected transnationally, through personal and organizational linkages; and (b) increasingly able to migrate between domestic public sector posts (with tax agencies), international public sector roles (with the International Monetary Fund (IMF) or aid agencies, as employees or consultants), and private sector posts, including jobs with the fast-expanding "Big Four" international accounting firms and international banks.

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In Section 5, I look at the combined impact on statebuilding of the revenue reforms and the associated changes in the senior African revenue profession. While the reformed revenue agencies are themselves quite impressive and influential organizations, I am reluctant to talk of great successes in statebuilding for four reasons. First, the reforms have not led to significant increases in revenue collections. Second, because they are relatively high-cost organizations focused on headquarters and IT-based activities, the reformed revenue authorities are well placed to engage with the organized private sector, but not with the bulk of small actual or potential African taxpayers. If there are statebuilding functions to be performed by extending revenue collection to smaller-scale enterprises and by helping sub-national governments to raise revenue more effectively, the reformed revenue authorities may not be best placed to perform them. Third, focusing energy on improving the capacity of revenue authorities has come at some indirect cost, in terms of the absence of corresponding developments in tax policy formulation within Ministries of Finance. Fourth, with the conspicuous exception of Rwanda, the reformed revenue authorities have generally not played their classic role as training grounds for high quality, motivated staff for the public sector more broadly—and are unlikely to do so in future.

The reforms leave ambiguous the future relationship between the state and the organized private sector—the dominant source of revenue for most African governments (Section 6). On the one hand, reformed revenue authorities are better placed to tax the organized private sector in a more Weberian, consultative, and consensual manner, establishing revenue systems that are more predictable, based more on trust, and more responsive to taxpayers' needs. On the other hand, the growing extent of interchange of personnel between tax agencies and the private sector increases the risk that private interests will colonize and co-opt the domains of tax policy and administration, and make it difficult for governments to raise more revenue.

2. CONTEXT: REVENUE-RAISING IN SUB-SAHARAN AFRICA

For two decades or more, political scientists have been busy trying to explain why governance is so bad in much of Sub-Saharan Africa, and why many states there tend to be weak or failing.[6] Given the tendency of other political scientists to identify the capacity of a government to collect taxes as a—or even the—indicator of generic state capacity (Lieberman, 2002; Slater, 2010), we would expect that contemporary African governments would, on average, be poor performers in the revenue-raising game. The truth is significantly different. Overall tax collection, as a percentage of Gross Domestic Product (GDP), tends to be low in Sub-Saharan Africa. But that is because average incomes are low. Globally, there is a strong and robust statistical association between the structure of national economies and the proportion of national income raised in tax. For reasons that are explored further in Section 3, governments that preside over national economies characterized by high per capita income—and also a high ratio of international trade to GDP and a high proportion of non-agricultural activity—consistently garner a high proportion of national income in tax. Few Sub-Saharan African governments collect a high proportion of GDP in taxes. There is however an alternative measure of revenue performance: *tax effort*, i.e., actual tax collection levels relative to the levels we might expect countries to achieve given the structure of their national economies. Because of the scarcity of reliable data, we have no useful time series estimates of tax effort for Africa; we have only average figures relating to periods of several years. Over the past two decades, and compared to most poorer countries, the governments of most African countries, and especially the anglophone countries, score well in terms of tax effort.[7] As I explain in Section 4, there is no evidence that the recent tax reforms have as yet shifted them to a higher level of performance.

3. THE REFORMS

In a few cases—notably Ghana, Rwanda, and Uganda—the reforms discussed here were in part a response to fiscal crisis (Devas, Delay, & Hubbard, 2001, p. 213). In Rwanda and Uganda, in particular, long periods of civil war had largely destroyed the pre-existing formal revenue-raising apparatus. But in most cases the reforms were not crisis-driven.

The three categories of reforms—the introduction of VAT, advanced tax administration reforms, and the creation of SARAs—do not comprise a tightly integrated package. But neither are they independent of one another. The IMF has consistently been promoting the first over a long period. The General Agreement on Tariffs and Trade (GATT) reforms, which led to major reductions in tariff levels, cut heavily into the income of most African governments in the 1980s and 1990s (Baunsgaard & Keen, 2005), and encouraged a search for new revenue sources. The widening use of digital information and communication technologies (ICTs) facilitated the changes discussed here. There are specific logistical and organizational connections that in some cases meant that the introduction of one reform eased or encouraged the implementation of another. For example, the adoption of VAT from scratch appears to have provided a positive push to other tax reforms in anglophone Africa because it required the digitalization of enterprise accounts and administrative tax records, and created strong pressure at inception for revenue agencies to recruit qualified accountants and other professionals to deal with its complexities (Kloeden, 2011, p. 8). Other connections are more cognitive and political: some reform components were perceived and justified by their proponents in terms of their synergy with others. In the 1990s, in particular, revenue reform in anglophone Africa reflected a relatively high degree of cooperation between external agencies. The IMF and World Bank were influential over tax policy, especially in introducing VAT and simultaneously reducing what had hitherto been a major public revenue source—import and export duties.[8] At the same time, the British aid program and British-based consultants played the lead role in encouraging the creation of SARAs (Devas *et al.*, 2001, p. 11; Kloeden, 2011). This initiative was "designed to support the implementation of the tax reform agenda advocated by the International Monetary Fund (IMF) and the World Bank" (Gray & Chapman, 2001). Even observers who are skeptical of the specific benefits of SARAs have accepted the argument that their creation has facilitated more important changes in tax policy and administration (Devas *et al.*, 2001; Fjeldstad & Moore, 2009; Joshi & Ayee, 2009).[9]

(a) *Value Added Tax*

Value Added Tax (VAT) was introduced into anglophone Africa and then achieved almost universal coverage over a period of about 15 years beginning in the early 1990s (Kloeden, 2011, p. 44).[10] VAT is an intellectually demanding concept for non-specialists, involving as it does simultaneous processes

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