

TAXATION AND **STATE-SOCIETY** RELATIONS

IN SUB-SAHARAN AFRICA

**THE CASES OF CAMEROON,
MOZAMBIQUE AND SOUTH AFRICA**



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A PARI report

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Disclaimer

Any mistakes and inaccuracies are the sole responsibility of the authors. The points of view expressed here do not reflect those of other people and institutions involved in the project.

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List of Acronyms

ADIN	Africa Development Interchange Network	GNP	New Growth Path
ANC	African National Congress	GST	General Sales Tax
ANESCAM	Association Nationale des Sauveteurs du Cameroun	HRIU	High Risk Investigations Unit
ASGISA	Accelerated and Shared Growth Initiative for South Africa	ICE	Imposto de Consumos Específicos (Specific Consumption Tax)
ATAF	African Tax Administration Forum	IFI	International Financial Institution
ATM	Autoridade Tributária de Moçambique (Mozambican Tax Authority)	IMF	The International Monetary Fund
ATRN	African Tax Research Network	IRPC	Imposto sobre o Rendimento de Pessoas Colectivas (Corporate Income Tax)
ATO	African Tax Outlook	IRPP	Impot sur le revenue des personnes physique (Personal Income Tax)
CAGR	Compounded Annual Growth Rate	IRPS	Imposto sobre o Rendimento de Pessoas Singulares (Personal Income Tax)
CDI	Centres Divisionnaires des Impôts	ISMP	Institut supérieur de Management Publique (High Institute of Public Management)
CDC	Cameroon Development Company	ISPC	Imposto Simplificado para Pequenos Contribuintes (Simplified Tax for Small Taxpayers)
CEMAC	Communauté Economique et Monétaire de l'Afrique Central (Economic and Monetary Community of Central Africa)	LNG	Liquefied Natural Gas
CET	Common External Tariff	MPRR	Mineral and Petroleum Resources Royalty
CFA	Central African Franc	NDP	National Development Plan
CFAF	Franc of Central African Financial Cooperation	NUIT	Número Único de Identificação Tributária (Individual Taxation Identification Number)
CGT	Capital Gains Tax	ODA	Official Development Assistance
CIP	Centro de promocao da integridade publica	OECD	Organisation for Economic Co-operation and Development
CIT	Corporate Income Tax	OUTA	Organisation Undoing Tax Abuse
CIME	Centre des Impôts des Entreprises Moyennes (Medium Taxpayer Office)	PARI	Public Affairs Research Institute
CONAC	Commission National Anticorruption (National Anti-Corruption Committee)	PAYE	Pay-As-You-Earn
COSATU	Congress of South African Trade Unions	PIT	Personal Income Tax
CRADEC	Centre Régional Africain pour le Développement Endogène et Communautaire	RDP	Reconstruction and Development Programme
CSO	Civil Society Organization	RENAMO	Resistencia Nacional Moçambicana (Mozambican National Resistance)
DGD	Direction Generale des Douanes (General Directorate of Customs)	RSI	Regime simplifie d'imposition (Simplified tax)
DGI	Direction Générale des Impôts (General Directorate of Taxation)	SAA	South African Airways
DGE	Direction Générale des Grandes Entreprises (Large Unit Taxpayers)	SADC	Southern African Development Community
DTC	Davis Tax Committee	SAFU	South African Federation of Trade Unions
ENAM	Ecole nationale d'administration et de magistrature	SAP	Structural Adjustment Programme
GICAM	Groupement Inter-Patronal du Cameroun	SARB	South African Reserve Bank
FES	Friedrich Ebert Stiftung	SARS	South African Revenue Service
FRELIMO	Frente de Libertação de Moçambique (Mozambique Liberation Front)	SEZ	Special Economic Zone
GDP	Gross Domestic Product	SOEs	State-Owned Enterprises
GEAR	Growth, Employment and Redistribution	TSPP	Taxe spéciale sur les produits pétroliers (special tax on petrol)
GIZ	Deutsche Gesellschaft für Internationale Zusammenarbeit	UDEAC	Union Douaniere et Economique de l'Afrique Centrale (Customs and Economic Union of Central Africa Union)
		VAT	Value Added Tax

Introduction

The centrality of taxation in the making and functioning of modern states is widely recognized in academic literature as well as in public policy debates.¹ The powers and legitimacy of the state, allocation of public and private resources, financing of public administration and the ability of government to deliver services are some of the many themes of socio-political and economic life that run through the issue of taxation. Moreover, the autonomous development of nations and their economic growth are highly conditioned by their fiscal systems. Because modern states, independently of the political system, depend on ‘collection of taxes on a large scale’, it is a task ‘always ... at the forefront of state activities’ (Giddens, 1985:102; 1981:170).

Taxation has the potential to contribute to the development and strengthening of democratic institutions and processes and, accordingly, to good governance and accountability. When revenue from domestic taxation is small, the political elite is less inclined to attend to the needs of the masses. Once the state imposes a significant fiscal burden on its citizens, rulers tend to become more responsive to popular demands. Tax policies can also be used as tools for redistributive measures to promote social justice and equality.

Furthermore, in modern societies, taxation is one of the most pervasive aspects of state–society relations. Tilly (2009:xiii) says taxation ‘constitutes the largest intervention of governments in their subjects’ private life’. The rights and duties of citizenship – the obligations of individuals to the state as well as to other members of society – are deeply embedded in fiscal dynamics. Thus, through taxation, citizens ‘pay for their rights’ and contribute to the common good (Isin and Turner, 2007:16).

Although these aspects and dynamics of taxation are increasingly being recognized by academics, tax practitioners and policy-makers, much research and debate is focused on the so-called developed states of the global North. Although these contributions provide relevant theoretical insights and useful conceptual tools, a central question remains: How far can they go towards an understanding of taxation in the developing world? Notwithstanding some relevant works,² the specificities of taxation in the post-colonial polities of the developing world are yet to be fully explored.

In recognition of the centrality of taxation in contemporary societies and the need for more detailed investigation that considers the particularities of sub-Saharan Africa, the Public Affairs Research Institute (PARI), in partnership with the the Friedrich Ebert Stiftung (FES) South Africa, developed a three-year, interdisciplinary research project on taxation in the region.³ The project – Understanding Taxation and State Building in Sub-Saharan Africa – sought to identify the contribution of taxation to state capacity and the character of state–society fiscal relations, territory which, in the African context, are underexplored.

This report presents the results of an in-depth analysis of South Africa, Mozambique and Cameroon, the three countries selected for the study. Based on the assumption that taxation can be used to further economic and political development, the first question we asked was: What conditions need to be in place for taxation to contribute to a country’s development?

We identified two sets of conditions, which are also highlighted in the literature on the topic. Firstly, the success of a tax system is largely dependent of the quality of its institutional design. The way in which the tax administration is organized and operates, the content of tax policies and the form the tax structure assumes are fundamental determinants of the strength of a tax system and of its capacity to contribute to the development of a state. For this reason, we analysed these elements in the three countries of our study, inquiring to what extent recent tax reforms had resulted in an institutional framework that would

1 See: Hobbes (1651); Locke (1690), Smith (1776); Marx (1852); Weber (1914); Elias ([1939] 2000); Giddens (1981, 1985); Tilly (1992), and Levi (1988; 1997), among others.

2 In the last decade or so, a new scholarship emerged that approaches fiscal policies in the context of the developing world. See, for instance, Lieberman (2003); Besley and Persson (2013); Bräutigam, Fjeldstad and Moore, (eds.) (2008); and Arndt and Tarp (2009).

3 The project, which ran from 2015 to 2018, focused on the cases of South Africa, Cameroon, Mozambique, Botswana, Angola and Nigeria, with the first three selected for the in-depth analysis that we present here.

contribute to a wealthy tax system. To answer this, we explored the accomplishments and limitations of existing tax systems.

Although quality is an important factor, on its own it cannot guarantee an efficient tax system. The developmental potential of taxation is also determined by the character and dynamics of state–society relations, which constitute the second set of requirements identified in our research and analysed in this report. Although we acknowledge the centrality of institutional aspects, our main claim is that to understand the limits and potentialities of any tax system, it is necessary to go beyond analysis of institutional design and interrogate broader socio-political aspects of state–society fiscal relations as well.

We therefore argue that societal perceptions of taxation are also a fundamental element of a vital tax system because by contributing to tax morale and voluntary compliance, they enhance the extractive capacity of the state. Our main hypothesis is that in South Africa, Cameroon and Mozambique the greatest challenge to consolidation of a strong tax system (aside from some institutional obstacles) is the character of state–society fiscal relations, which in their present state do little to boost tax morale. As such, we claim that future interventions and reforms should focus on this dimension.

It is in this second set of conditions that our chief contribution to the debate on taxation in sub-Saharan Africa resides. Academics and tax practitioners alike are beginning to acknowledge that societal factors – distinct from a government’s institutional capacity for enforcement – affect attitudes towards taxation.⁴ Despite this knowledge, there are few qualitative studies that analyse these factors in specific countries in the region. Most of the information we have about the state of tax morale in the region is based on perception surveys, which while relevant do not offer a detailed picture of the character and dynamics of state–society fiscal relations.

Our hope is that our in-depth analysis of current dynamics of state–society fiscal relations in the three study countries will contribute to filling this gap and unveil unique and substantive aspects for each country.

After the explanation of our methodology that follows this introduction, the report is divided into three sections.

In Section One we review available literature on the central topics of the report – different approaches to the connection between tax and development; debates on tax reform, and recent perspectives on state–society fiscal relations – to establish the links between tax morale and compliance. We also define the concepts that frame our research and this report.

Section Two establishes the fiscal trajectories of each country, emphasizing aspects of their fiscal histories relevant to an understanding of their current institutional taxation framework. We explain the structure of the institutions that implement tax policies by providing an outline of the main features of the tax system, discussing its main challenges and identifying its limits and potentialities in contributing to development. Thus, the section engages with the first set of conditions we identified as central to a strong tax system – the quality of the institutional designs of taxation.

Section Three analyses the dynamics of state–society fiscal relations, with an emphasis on popular perceptions of taxation. Here we interrogate the second set of conditions identified as a central determinant of the developmental potential of taxation and explore the extent to which societal comprehension of taxation and the dynamics of state–society fiscal relations promote or hinder the effectiveness of the tax system in the three countries. We look first at the role of collective memory this regard. We then explore perceptions of government and tax administration. The subsection that follows addresses collective notions of justice, fairness and equality of the tax systems. We conclude with an outline of perceptions of taxation among citizens, especially notions that surround the meaning of the fiscal contract and the provision of public goods.

The conclusion of this report summarizes the main findings of our study, indicates its limitations and points out possible directions for further research.

4 See, for instance, Daude et al. (2013); Bräutigam (2008); Luttmer and Singhal (2014); OECD (2013).

Methodology

This report relies on three case studies elaborated in the context of the project, Understanding Taxation and State Building in Sub-Saharan Africa: South Africa, Cameroon, and Mozambique.⁵ Each study is based on quantitative and qualitative data gathered through secondary literature review, interviews, statistics, surveys and fieldwork.

In Mozambique, fieldwork was conducted in four trips between October 2015 and October 2017. Most of the time was spent in the capital, Maputo, where most of the actors from government, the international cooperation sector and the Civil Society Organizations (CSO) are located, which reflects the centralized nature of the Mozambican state. A shorter visit was undertaken to cities in Nampula Province in the north of the country in September 2017, when we engaged with various actors involved in the special economic zone (SEZ) of Nacala and in the Crusse and Jamal Integrated Tourist Development Zone.⁶

Fieldwork in Cameroon was conducted during five trips between October 2015 and November 2017. Although the bulk of the fieldwork was conducted in the capital city, Yaoundé, in Central Region, because of the diverse social, political and economic nature of different parts of the country, we also visited cities in South West, West, Littoral and Northern regions.

South African fieldwork was conducted throughout 2017. The bulk of the research was carried out in the economic and financial hubs of South Africa – Johannesburg and Cape Town – where government institutions and CSOs are concentrated.

In each case, we collected qualitative data through participant and non-participant observation, semi-formal and open interviews, and informal conversations with different actors of state and civil society. We conducted interviews with public servants, particularly those from the tax administrations; state representatives; members of national and international civil society organizations; international cooperation agencies; private-sector representatives; formal and informal traders; academics; and ordinary citizens.

For the analysis of the institutional design of the tax systems we undertook extensive reviews of legislation, decrees and other legal documents produced by the government of each country. We also studied newspapers and other media.

To compile quantitative data, we used statistics on revenue collection and expenditure from the tax authorities of each country, from the International Monetary Fund (IMF), and from the African Tax Outlook (ATO). To analyse societal perceptions of taxation, aside from the qualitative data gathered in the fieldwork, we used quantitative data from two perception surveys: Afrobarometer and the Corruption Perceptions Index (CPI) compiled by Transparency International.

It is worth noting that in accessing the elements of our three case studies, we did not rely on a comparative method, because the three countries are neither sufficiently similar nor different to allow for systematic comparison. This report will show that each country displays distinct and unique post-colonial historical trajectories with regard to taxation. Their post-colonial political systems, social fabric, institutional design and economic realities are diverse, as are their sources of state revenues and their tax systems.

However, we do argue that the three countries share similar challenges in their efforts to consolidate tax systems able to contribute more broadly to development. Thus, what we seek is to establish similarities and differences between the selected countries with regard to our central research quest, which is outlined in the introduction.

5 The authors of this report also elaborated the case studies. Thatshisiwe Ndlovu was tasked with the South African case, Federica Duca the case of Cameroon, and Alice Soares Guimarães, Mozambique.

6 For details of these development zones, see section 3 of this report.

Approaches and concepts: critical literature review

This section presents the different analytical axes and theoretical perspectives from which we depart and delimits the meanings of the main concepts and expressions used in this work.

Firstly, we present various approaches to the connection between tax and development. We explore in particular claims that taxation can lead not only to economic development but also to political development. We then review the debates on tax reforms, focusing on the main elements of the global tax-reform agenda in the late 1990s and on the criticism levelled at these in the literature. We conclude with a retrieval of the theoretical elements that guided our reflection on the fiscal relationship between state and society. Here we explore recent perspectives of these relations that have established the links between tax morale and tax compliance, on the one hand, and between taxation, democracy and citizenship, on the other.

We have critically assessed these contributions, but have located our research questions and the salient points of this report in the theoretical context of current relevant debates around taxation in developing countries.

1.1 Tax and development

As Keen (2012:3) points out, interest in the connections between taxation and development of policymakers, academics and civil society actors ‘comes and goes’. We are currently in a phase where these topics are high on their respective agendas of these players. The broader claim – to which we subscribe in this report – is that taxation can be a pivotal tool in promoting development. Now, although there is broad consensus that there is indeed a connection between taxation and development, the characteristics, dynamics and determinants of this relationship are viewed through a variety of analytical and theoretical lenses.

The first approach emphasizes the role of taxation in promoting – or hindering – economic development. It is here that traditional economic approaches to taxation and development reside and in which the link between the two is viewed from a public finance standpoint. The basic assumption of this perspective is summarized here in the classical claim developed by Nicholas Kaldor (1963:7): ‘It is shortage of resources, and not inadequate incentives, which limits the pace of economic development. Indeed the importance of public revenue from the point of view of accelerated economic development could hardly be exaggerated.’ Or, as Di John (2006:1) so succinctly puts it: ‘Resource mobilization lies at the heart of economic development.’

From this point of view, the chief contribution of taxation to development is thus to raise revenue to finance state expenditure. Bräutigam (2008:1) unpacks this dependency in the following statement: ‘Without the ability to raise revenues effectively, states are limited in the extent to which they can ... foster economic development.’ Taxation can also help to promote redistribution and control externalities and other market imperfections (Burgess and Stern, 1993:762). Based on these assumptions, the central question posed by this perspective is: What accounts for different levels of taxation? The literature also asks why developing countries do not raise as much revenue through taxation as developed countries, and looks at ways in which they can improve their ability to tax. Besley and Persson (2013:2) frame the latter in the question: ‘How does a government go from raising around 10% of GDP in taxes to raising around 40%?’ Mainstream economic approaches limit the answers to these questions to within two factors: level of economic development and the characteristics of the economic structure. In the first factor, the relationship between taxation and development is portrayed as ‘a simple, evolutionary process, a function of modernisation’ (Bräutigam, 2008:5). The dominant view is that: ‘Ability to tax is closely associated with administrative capability and this is likely to improve with economic development’ (Burgess and Stern 1993:774-5). Developed countries thus owe their higher tax ratios as a percentage of GDP to development

itself, which in turn has enhanced 'literacy, industrialisation, economic openness, debt, formalisation of the economy and urbanisation' (Bräutigam, 2008:5), factors which this approach deems crucial to a government's capacity to tax. Economic development also allows governments to broaden their tax base by making new tax handles available, and, claim Burgess and Stern, 'as tax bases broaden, the temptation to impose high rates on constricted bases lessens and this may have a positive effect on enforcement and hence revenue' (Burgess and Stern 1993:774-75).

The characteristics of the economic structure are also said to have a central impact on revenue collection. Tanzi and Zee (2000:3), for instance, claim: 'In developing countries, the establishment of effective and efficient tax systems faces some formidable challenges', the first of these being 'the structure of the economy that makes it difficult to impose and collect certain taxes'. Features of economic structure in developing countries that have been highlighted by various authors as constraints to the development of a strong tax system are: a high degree of reliance on the primary sector with agriculture accounting for a comparatively large share of total production and employment; an extensive informal sector; a predominance of small-scale enterprises; a minor contribution of wages to the total national income; and, a high ratio of poor people to a small number of people who are extremely wealthy (Tanzi and Zee, 2000:3; Burgess and Stern, 1993:786-87). These factors 'reduce the possibility of achieving high tax levels' (Tanzi and Zee, 2000:3).

Some authors add to the standard economic approach the question of administrative capacity. Tanzi and Zee (2000:3), for instance, list the 'limited capacity of the tax administration', and 'the paucity, or the poor quality, of basic data' among the challenges that developing countries face in their efforts to establish a strong tax system. Their claim is that in these countries, 'In part as a consequence of the structure of the economy, and in part as the result of low literacy and low human capital, it is difficult to combine all the ingredients that make for a good tax administration' (Tanzi and Zee, 2000:3). As such, they deduce: 'Tax administrations must be strengthened to accompany the needed policy changes' (Tanzi and Zee, 2000:31), and as Bird (2004) further observes, 'the best tax policy in the world is worth little if it cannot be implemented effectively'. In the sections that follow, this report will show how tax administration reforms became a central tenet of policy recommendations for developing countries.

By way of summary, traditional economic approaches examine the effects of the level of development and of the economic structure on efforts to consolidate 'a tax system that is capable of financing the necessary level of public spending in the most efficient and equitable way possible' (Tanzi and Zee, 2000:3).

However, the core assumptions of this approach are highly problematic. Various authors have shown that levels of tax collection and the designs of tax systems can vary significantly among states with similar economic structures and levels of development (Di John, 2006:4). In order to account for these differences, a second set of contributions relevant to the debate on taxation and development has shifted the emphasis from the structure of the economy to political institutions and processes.⁷

The first systematic contribution within this alternative approach is Steinmo's book, *Taxation and Democracy* (1993), in which he analyses the politics of taxation in Sweden, Britain and the United States over the period of a hundred years.⁸ The book explores the reasons behind the substantive differences between tax policies in the three countries, and claims that they resulted from differences in institutional structures. Steinmo looks at the relationship between institutions and interest group politics and argues that although the major actors are the same and pursue similar goals in the different countries, outcomes vary depending on the structure of a polity's decision-making institutions – constitutions, electoral rules,

7 The political dimension of taxation is largely absent from economic approaches. As Burgess and Stern (1993:762) argued, the economic theory of taxation is to a great extent based on formal models, which 'must necessarily be simple and omit a great deal if they are to be tractable'; and as a result 'many other problems of administration and political pressures have been left out of formal policy models'. Hence, the economic approach to taxation 'abstracts from the political and institutional processes that determine the ability of the state to create tax policies and enforce them' (Di John, 2006:4).

8 The hundred-year period from the beginning of the modern tax system, in the late nineteenth century, to the tax reforms of the 1980s and early 1990s.

parliamentary committees and so on. These institutions, especially those through which fiscal decisions are made, affect the incentives and strategies of political actors, as well as their relative bargaining power and access to information. The decisive factor in explaining different tax systems is thus the structure of political institutions and policy-making processes and mechanisms.

Following the lead of Steinmo's work, various authors have explored the influence of a range of political institutions on the capacity of the state to collect taxes. Bräutigam (2008:9-10) lists the main topics dealt with in this literature as follows: 'tax bargaining (factors that affect relative bargaining power), the incentives for cooperation and compromise, the impact of other political factors as they intervene to shape decisions over taxing and spending, and (perhaps most basically) the relationship between taxation and representation.' Based on the assumption that political institutions are central in shaping tax systems, many scholars tried to establish if, and how, different regime types affect taxation.⁹

With the focus still on political institutions, other authors have explored the relationship in the opposite direction, that is, the impact of taxation on political institutions. Underlying such efforts is a question which we consider fundamental to political approaches to taxation: Do democratic states exchange taxation for representation? In other words, does taxation play a role in the development of democratic institutions? This line of questioning shifts the analytical lens applied to the relationship between taxation and development from economic to political. Although the economic perspective correctly identifies revenue collection as fundamental to economic development and tax as a privileged tool to do this, it only shows part of the potential contribution of taxation to development. From the political point of view, taxation may contribute to state-building and state capacity beyond raising revenue alone.¹⁰ Taxation also has the potential to promote political development.

Viewed in this way it is not only state tax capacity that is influenced by political institutions but also the structure of such institutions in that they are framed and changed by practices of taxation. The main assumption is that there is a two-way relationship between political development and the growth of the tax system, following a logic of 'taxation-for-representation': once a state expands its practices of taxation, political institutions must respond to demands for accountability and representation. The hypothesis is that the 'need for greater tax revenue force governments to democratize' (Ross, 2004:229). Besley and Persson (2013:7-8) offer the following example: 'The old American adage of "no taxation without representation" is a vivid instance of such thinking, whereby demands for transparency and representation are built as part of the need to build a strong fiscal state in a "fiscal contract" between the citizens and the state.' Ross (2004:229) too reminds us that

[...] taxation led to representation in the past: representative government first came about in early modern Europe when monarchs were compelled to relinquish some of their authority to parliamentary institutions, in exchange for the ability to raise new taxes; similarly, the war for independence in the United States began as a rebellion against British taxes.

9 The impact of regime type in taxation was explored by different authors who either compared democracies with authoritarian regimes, or looked at different forms of democracy, e.g., parliamentary versus presidential systems. There is no agreement in the literature on whether, and to what extent, regime differences account for variations in taxation policy. For instance, Cheibub (1998) argues that differences in taxation are not influenced by regime type. Others claim that extractive capacity is indeed related to regime type. However, among this second group there is no agreement about the actual correlation. Fauvelle-Aymar (1999), for example, claims that authoritarian regimes have higher levels of taxation, while according to Thies (2004), Besley and Persson, (2013), and Boix (2001) democracies tax more. For Bräutigam (2008), the results are even less clear when it comes to the analysis of developing countries: 'From the point of view of states still struggling to build effective institutions ... much of this research raises as many questions as it answers. In much of the developing world, democracies either do not exist, or are new, fragile or impermanent. Institutions may have the same names, but they may not function in the same way. [...] we cannot assume that 'institutions are institutions' and that they will have the same effect in poor countries as in wealthy ones.'

10 There is a long history of thinking that links the process of state-building with the capacity of rulers to collect taxation and connects the development of the modern state with the emergence of rationalized system of tax (Weber, 1922; Giddens, 1985; Schumpeter [1918] 1991; Tilly, 1990). We do not engage with this literature here, however, as our focus is on the role of taxation in promoting democratic developments and not state-building per se.

If the examples of early modern Europe and colonial America are regarded as the rule, it is assumed that being taxed engages citizens in the political process and that the dependence of governments on tax revenues encourages political elites to bargain with taxpayers, which in turn gives the latter more influence over public policy.¹¹ As Fjeldstad and Rakner (2003:viii) point out, '[...] government's increased financial dependency on tax revenues may generate governance benefits, because it encourages the accountability of the state to its citizens. Explicit or implicit agreement about who should pay tax, at what rates and for what purposes was reached through bargaining between the ruler and the potential taxpayers.' In sum, agreement of this kind reached through bargain between a government and its citizens amounts to what many authors have called the 'fiscal contract', that is, what Ross defines as the 'idea that taxes are traded for representative or democratic government' (Ross, 2004:233).

Ross (2004:235) identifies two versions of this argument. The first, the 'pure anti-tax model', holds that 'a rise in the tax burden alone is sufficient to produce a demand for representation', while the second, the 'cost-benefit approach', assumes that 'citizens hold preferences about both tax levels and government policies', weighting 'the burden of paying taxes against the benefits of receiving government services'. Thus it is only when an increase in the tax burden is not accompanied by a commensurate increase in desired services that pressure for representation will be exerted. Ross tested both models – '[...] whether democracy is linked to a higher absolute tax burden, or a higher tax burden relative to the services the government provides' – and concluded that while the first proposition is generally not valid, the second is. He deduced that 'people do not generally rebel against taxation without representation; rather, they appear to rebel against taxation without commensurate government services' (Ross, 2004:247). Ross concludes: 'When citizens are faced with an undemocratic government that is charging unreasonably high prices for its services, they tend to demand democratic reforms' and 'merely increasing taxation had little effect on demands for democracy' (Ross 2004:248).

Taxation can thus lead to the development of democratic institutions. Besley and Persson (2013:69) correctly note that 'it seems far from coincidental that states that are able to appropriate nearly half of national income in the form of taxation have also evolved strong political institutions, particularly those that constrain the use of such resources'. It follows that because citizens have a tendency to hold their governments accountable in exchange for paying taxes, taxation can contribute to good governance.

The payment of taxes generates public debate and negotiations involving different groups of society, in processes of revenue-bargaining that can promote a social fiscal contract that connects state to society through an exchange relationship between government and citizens.

The notion, 'fiscal contract' implies that payment of taxes involves a kind of bargained exchange between governments and taxpayers. Fjeldstad and Heggstad (2012:1) state that 'taxes are the primary platform for political negotiations amongst the country's stakeholders [...] and bargaining over taxes is central to building relations of accountability between state and citizens based on mutual rights and obligations (i.e. the social fiscal contract)'. Di John also highlights taxation's central role in engaging state officials with interest groups and citizens and promoting the legitimacy of governments. He says '[...] fiscal capacities are needed to build a legitimate state. Democratic elections do not themselves ensure state legitimacy. Elections provide an avenue for the citizenry to voice demands; responding to those demands requires capacity to mobilise, allocate, and spend public resources effectively' (Di John, 2010:1).

With regard to developing countries, most authors call attention to the absence, or weakness of the fiscal contract. Fjeldstad and Rakner (2003:viii), for instance, in analysing the case of sub-Saharan Africa, remarked that 'issues of taxation [have] not entered the political agenda' in most of the countries because 'only a minority of citizens pay direct taxes to the state'. In addition, reliance on other sources of revenue like resource rent or official development assistance (ODA), reduces the need for taxation and thus diminishes the need for governments to ask the consent of its subjects. Moore (2008:61), for instance, argues that when

11 On the historical and different theoretical applications of this argument see Ross (2004).

a state depends more on natural resource rents or large aid inflows than on the taxation of its citizens, 'the scope for revenue bargaining' is reduced. According to Huntington (1991:65): '[...] the lower the level of taxation, the less reason for the public to demand representation.'

Other authors, however, have found support for the cost-benefit model, even in contexts where the number of taxpayers is very limited. Bratton and van de Walle (1997), for instance, found a positive correlation in sub-Saharan Africa between the implementation of structural adjustment programmes (SAPs) in the 1980s and political protests in reaction to higher prices for public services, which typically come with these programmes. These protests, they claim, were linked to the third wave of democratization, which reached the region in the 1990s.

One of the objectives of this report is to inquire about the state of the fiscal contract in Cameroon, South Africa and Mozambique. More specifically, we explored the perceptions of citizens about state–society fiscal relations, the scope for revenue bargaining and the dynamics of the exchange relationship where, theoretically, the payment of taxes is traded for the provision of public goods, on the one hand, and for democratic concessions from governments on the other, which results in enhanced accountability and representation.

Based on the assumption that taxation does indeed possess the potential to contribute to both economic and political development, the question arises of how to fulfil this potential. The answers found in the literature can usually be clustered around their emphasis in two different but potentially complementary realms: formal institutional design, and the informal institutional aspects of state–society fiscal relations. While it is true that in both spheres tax reforms are advocated, the details of these reforms vary. Since these elements are central to the analysis in our case studies, what follows is a review of the literature available on this subject.

1.2 The global agenda of tax reform and its critics

Since the late 1980s, in the wake of the fiscal crises that plagued the developing world, countries in sub-Saharan Africa countries have continually reformed their tax systems and administration. They have sought to implement better designs to increase tax revenues to finance government expenditure, provide incentives for growth and meet distributional demands (Mabugu and Simbanegavi, 2015:ii3; Toye, 2000). The central assumptions were that taxation could 'affect economic growth, poverty and inequality', and constitute 'an instrument that can be used to promote development' (Mabugu and Simbanegavi, 2015:ii3).

Despite the singularities of each country, tax reforms around the globe have much in common. Fjeldstad and Moore (2008:235) partly explain this phenomenon in the following statement: 'Public finance has always been one of those domains where governments generously borrow ideas and institutional technologies from one another.' Fjeldstad and Moore also show that in the last three decades similarities have become even stronger because 'most governments have participated in a genuinely global process of tax reform'.

The drivers of this global tax reform programme are international financial institutions (IFIs), with the International Monetary Fund (IMF) at the helm.¹² Starting in the late 1980s and strengthening in the 1990s, tax reform became a central tenet of IMF policy recommendations put forward to overcome economic crisis and promote development. Fjeldstad and Rakner (2003:4) explain that '[...] tax reforms became part of the larger structural adjustment programmes and incorporated in the economic restructuring agreements with the International Finance Institutions.' Hence, the structural adjustment experiences of the developing countries brought fiscal issues to the centre of policy agendas; almost all adjustment programmes included tax-system reforms and reduction in public spending as their main objectives (World Bank 1991; Burgess and Stern, 1993:767).

12 On the prominence of the IMF, see Fjeldstad and Moore (2008). According to the authors: 'Actual decisions about substantive tax reform are especially likely to be made at moments of economic stress or crisis. These are exactly the occasions when IMF teams are likely to be in town and able to exercise influence' (Fjeldstad and Moore, 2008:238).

While there is an undeniable ‘connection between the incidence of tax reform and the existence of explicit IMF performance conditions’ (Fjeldstad and Moore, 2008:238), it is worth noting that dissemination of global tax reform did not result only from the coercive muscle of the IFIs. The IFIs are also a major source of expertise, ideas and publications on tax reform, which play a leading intellectual role when it comes to reflections on taxation. Hence, IFIs such as the IMF, the World Bank and the Organisation for Economic Cooperation and Development (OECD) have influenced not only the practices but also the theoretical discourses on tax reform for developing countries (Fjeldstad and Moore, 2008:238; Mabugu and Simbanegavi, 2015:ii5).

Aside from the conditioning inserted by structural adjustment programmes (SAP) and the intellectual influence of the IFIs, local players have also contributed to the diffusion of the global tax reform agenda through their participation in ‘an increasingly organised epistemic community of tax professionals’ (Bräutigam et al., 2008:240). It is thus clear that the political and intellectual impetus required for tax reform comes not only from international organizations but also from participants in this global epistemic community, which includes employees from international organizations such as the IMF and from national tax administrations, economists, accountants and lawyers who specialize in taxation (Fjeldstad and Moore, 2008:239-40). On the African continent, the African Tax Administration Forum (ATAF) and its research body, the African Tax Research Network (ATRN), are the most prominent examples of local instantiations of this global epistemic community of taxation.

The global tax reform programme adopted what Di John (2006:5) terms an ‘administrative approach’, which identifies administrative constraints as the main obstacles to the ability of states to collect tax revenues,¹³ and ‘focuses on the role institutional design and policy plays in enhancing the prospects of efficiency and effectiveness of the tax system’. Following this approach, the reform agenda for developing countries was based upon three pillars: introduction of broad-based consumption taxes such as VAT; simplification of tax designs; and, improvement of tax administration and enforcement (Fjeldstad and Rakner, 2003:4; Fjeldstad and Moore, 2008:236).

Concerning tax administration in developing countries, the recommendation of the IFIs was that revenue authorities should be autonomous – of the state, in general, and of the finance ministry, in particular. In line with this directive, in most sub-Saharan countries revenue-collection activities previously performed by various departments within finance ministries were transferred to newly created semi-autonomous revenue authorities. The main objectives of granting a degree of managerial and strategic autonomy to tax administrations were to isolate revenue authorities from political pressure, reduce direct political interference by the finance ministry and free the tax administration from some of the constraints of the civil-service system, such as institutional obstacles of weak public sectors, burdensome regulations and low pay (Di John, 2006:5-6; Fjeldstad and Heggstad, 2011:29). Another administrative change adopted in most countries in the region was to integrate the administration of tax and customs revenue. In theory, these changes would improve effectiveness, efficiency, and compliance.

Although there is consensus that simplification of tax designs is a necessary and positive reform, the other two elements of the global programme of tax reforms – the introduction of broad-based consumption taxes and the creation of semi-autonomous tax administrations – have both been objects of much criticism. Many commentators call particular attention to the ‘apolitical’ character of the processes by which such reforms were designed and implemented. According to Fjeldstad and Moore (2008:240): ‘Given a relatively united front between the tax professionals, the IMF and other international financial institutions and the tax economists, much tax reform passes as necessary modernisation of an essentially technical character.’

The introduction of broad-based consumption taxes such as VAT has been widely criticized for its

13 Most literature identifies the following administrative constraints in the tax systems of developing countries: ‘insufficient staff with appropriate skills, low public-sector wages, lack of up-to-date equipment and facilities, ill-defined and complex tax and related laws; poor enforcement of penalties for evasion and corruption; poor information collection and identification of taxpayers’ (Di John, 2006:5).

regressive character; because these taxes do not differentiate between taxpayers they have a greater effect on lower income earners who spend a higher proportion of their income on consumption goods. In developing countries, given the high levels of inequality of asset and income distribution, the regressive aspect of VAT is even more extreme (Smith, 2002:22; Hartzenburg, 1996:223; Budlender, 2009:16). Promoted by the global agenda of tax reform on the basis that they are administratively easier to collect than other tax handles such as income taxes, in sub-Saharan Africa, equity concerns have been downplayed by widespread adoption of VAT, with the most progressive taxes, such as those levied on income or property, receiving only secondary attention.

Concerning the creation of semi-autonomous revenue authorities, Di John clearly summarizes criticism of the technical approach in the work of different authors:

Such a technical approach to tax policy abstracts from politics in at least three ways. First, the reasons why such reforms were politically feasible in the first place are not addressed. Second, there is little analysis of why such autonomy is acceptable to relevant political coalitions over time. Third, there is no accepted definition of autonomy. Since tax policy, which is the domain of finance ministries, cannot practically be divorced from tax collection, which is the domain of newly created ARAs, it is not ultimately possible for the latter to operate in purely autonomous ways. In effect, autonomy can never be complete where there are inter-dependencies among agencies” (Di John, 2006:6).

Furthermore, based on the experiences of revenue authorities in Africa, Fjeldstad and Rakner (2003:18) conclude that ‘[...] establishment of a proclaimed autonomous authority with comparatively generous remuneration packages and substantial budgets has not protected them from political interference. To the contrary ... it has made the revenue authority (RA) a more attractive target because the authority offers both relatively well paid jobs and considerable rent-seeking opportunities’.

The technical approach, given its apolitical nature, is unable to tackle questions of state power and legitimacy, which are central requirements to ‘enforce and change rights and institutions, and to extract and mobilise the resources required to sustain development and growth’ (Di John, 2006:2). As we will discuss in the next subsection, low levels of legitimacy are often the main reason for the inability of a state to ensure tax compliance (Levi, 1988). Yet the global tax reform agenda has ignored the ‘connection between taxation and state-building ... and the need to construct taxation systems that engage citizens in politics in a positive way, and contribute to the legitimacy of the state’ (Fjeldstad and Moore, 2008:259).

In summary it should be noted that ‘while technical aspects of tax reform are crucial, an understanding of the sustainability of reforms is not possible without understanding how reforms become legitimate [...] the focus on institutional designs (such as the degree of autonomy) and other technical issues of tax is incomplete since it ignores the political nature of taxation’ (Di John, 2006:21).

Until very recently, the idea of a social fiscal contract was absent from most debates on tax reforms around the world. However, in the last decade or so, various authors have called attention to the following facts: a strong tax system is not the result of institutional designs alone and tax compliance is not only a matter of the enforcement capacity of a government. Although tax structure and efficiency of tax administrations are fundamental elements of successful revenue collection, tax compliance is much more than a technical issue. The politics of taxation, as well as societal perceptions about the state and about the tax system, affect attitudes towards the payment of taxes.

One of the most important findings from our research in Cameroon, South Africa and Mozambique is that it is in the realm of the politics of taxation and of broader societal factors – that is, in the sphere of state–society fiscal relations – that the challenges to consolidating a robust tax system are located. In the last part of this literature review we briefly explore the salient theoretical ideas in this regard.

1.3 State–society fiscal relations

In this report we claim that aside from economic structure, administrative capacity and the political institutions and processes of a country, it is societal factors also that influence the strength of a tax system and its ability to contribute to development. Our work is thus aligned with a scholarship on taxation that emphasizes the impact of societal factors on tax morale and tax compliance.

Tax compliance, and its opposite phenomena, tax evasion and tax avoidance, have traditionally been regarded exclusively from a utility theory that privileged the enforcement perspective; in this context, compliance is a function of the rational calculations of self-interested and risk-averse taxpayers. According to this theory, citizens weigh up the benefits and costs of evasion and optimize their compliance behaviour based on their perception of the probability of detection and punishment and of the impact of the penalty if evasion was detected (Allingham and Sandmo, 1972). Since the end of the 1990s, however, academics have increasingly recognized that, distinct from the enforcement capacity of governments, societal factors affect attitudes towards taxation (Daude et al., 2013; Bräutigam, 2008; Luttmer and Singhal, 2014). Culture, values, norms and trust are now claimed as fundamental elements in driving tax compliance.

Governments and tax practitioners have also come to accept the assumption that societal factors are primary drivers of compliance and that they play a relevant role in improving the effectiveness of tax systems and the extractive capacity of states.¹⁴ Accordingly, the notions of ‘tax morale’, ‘tax legitimacy’, and ‘fiscal contract’ have acquired a prominent place in the fiscal lexicon. Although measures oriented towards enforcement are still in place, tax administrators are increasingly emphasizing the need for interventions targeted at improving tax morale, which is defined as a set of intrinsic underlying non-pecuniary motivations – in addition to legal obligations – for paying taxes (Luttmer and Singhal, 2014:150; Daude et al., 2013:11). Higher tax morale can increase ‘voluntary compliance with tax laws and creating a social norm of compliance’ (Luttmer and Singhal, 2014:149). As a result, compliance can be achieved ‘at a lower cost by improving tax morale than by increasing enforcement’ (Luttmer and Singhal, 2014:154).

A large amount of empirical evidence confirms that there is a significant correlation between tax morale and tax compliance (Daude et al., 2013:11). As a result: ‘Tax authorities around the world pursue policies that reflect their belief that nonpecuniary factors are important in tax compliance decisions’ (Luttmer and Singhal, 2014:149). Consequently, debates on the importance of taxpayer education has proliferated globally, with notions such as ‘tax culture’, ‘tax literacy’ and ‘tax awareness’ acquiring a central place in tax collection strategies.

A pioneering work in this vein is Levi’s *Of Rule and Revenue* (1988), in which she claims that ideology influences the willingness of citizens to pay taxes and that state legitimacy rests to a great extent on the ‘quasi-voluntary compliance’ of citizens with respect to taxation (Levi, 1988). This ‘quasi-voluntary compliance’, she claims, depends on the fact that tax systems represent in some sense the basic values of at least a minority of the population. As Bird has pointed out: ‘Taxation is not just a means of financing government; it is also a very visible component of the social contract underlying the state. Citizens are more likely to comply with tax laws if they accept the state as legitimate and credible’ (Bird, 2012:13).

Compliance is thus related to the perceptions of taxpayers regarding state institutions and public policies. It is affected by the level of trust in the government and the tax administration of a given society. Societal views on the strength of democracy, together with satisfaction with the incumbent government and perceptions on corruption, also play a role in increasing the willingness of citizens to pay taxes (Daude et al. 2013:15). In this sense, Daude et al. (2013:24) thus calls attention to the fact that a ‘potentially key issue for accepting tax enforcement as legitimate is its relationship with the perception of corruption’; ‘countries present[ing] higher levels of tax morale when corruption is (perceived to be) under control’. There is thus a correlation between tax legitimacy, societal trust in the incumbent government and public perceptions on corruption.

14 For a seminal work on why attitudes toward government matters for tax compliance, applied to the African context, see the IMF study by Stotsky and WoldeMariam (1997). More recently, see OECD (2013).

Aside from trust in the government, perceptions on the quality of the fiscal contract also have an impact on tax compliance (Cummings et al., 2005:1; Bräutigam, 2008). From the point of view of the paradigm of tax-for-service, compliance is affected 'by taxpayers' expectations that their tax moneys will be spent on valued public services' (Bräutigam, 2008:6-7). Hence, the expenditure side of the fiscal system also shapes attitudes towards taxation, according to expectations that the government is making good and just use of tax revenues by expending them on public goods that benefit society. In this sense, perceptions about taxation are also related to opinions about the quality of public services, particularly health care, education and social protection (Daude et al., 2013:31-32).¹⁵

In the African context, based on data of the Afrobarometer, Daude et al. (2013:25) found that there is a 'statistically significant relationship' between perceptions on the quality of public services, in general, and tax morale, with this correlation being 'particularly strong for the satisfaction with health care, as well as water and sanitation'; the better the perception of citizens about the provision of public goods, the greater the tax morale. There is also circularity in this relationship. As Luttmer and Singhal (2014:158) explain, 'Weak tax morale could lead to low compliance, low revenue, and poor state capacity and provision of services, thereby further reducing tax morale.'¹⁶

Higher compliance is also a result of the legitimacy of fiscal policies, derived largely from the perception that the tax system is a fair one, with a socially desired distribution of the tax burden. As Bräutigam (2008:6) notes, views on the fairness of the tax system are intrinsically related to 'the perception that other taxpayers are also paying', that is, to notions about how the tax burden is distributed among different groupings in society, which in turn is closely related to opinions of what the role of taxation should be. Fjeldstad and Heggstad, (2012:8) show that there is enough 'evidence that taxpayer compliance largely depends on having a favourable attitude towards the tax system, and in particular on considering that it is generally a fair and just system ... [that] treats everyone equitably'. Thus, societal perceptions on the justice, equity and fairness of the tax system also influence compliance.

Finally, it is worth noting that the notion of the payment of tax being related to some kind of contract between a state and its citizens is approached in the literature in two different ways. The first is the aforementioned notion of fiscal exchange, where the exchange of tax for public services is highlighted, based on a liberal, rationalist and individualist notion of citizenship. Another relies on a broader notion of citizenship, as meaning not only 'rights and duties', but also referring to a sense of belonging to a broader community, which entails not only individual, rational interests but also social solidarity and shared cognition about the ultimate goal of a given political community (Guimarães, 2017).

In this second approach, 'taxpayers' social values, sense of moral obligations, ideologies and norms' (Bräutigam, 2008:6) play a central role in voluntary compliance. Thus, social norms also affect tax compliance by generating the intrinsic motivations associated with tax morale. As Luttmer and Singhal (2014:155) have highlighted: 'Other forms of intrinsic motivation are feelings of pride and positive self-image that are often associated with honesty and the fulfilment of civic duties, and altruism toward others, which could result in a willingness to contribute to public goods through the tax system. Cheating on taxes may cause feelings of guilt or shame (Luttmer and Singhal, 2014:155)'. Thus, social pride or, alternatively, shame or stigma, are also motivations for the payment of taxes.

Summing up, tax compliance is affected by perceptions of the government's legitimacy, the functioning of democracy, the fairness of the tax system and on the transparent and appropriated use of tax moneys.

15 As Luttmer and Singhal (2014:157) point out, 'A number of studies have documented positive correlations between survey measures of institutional quality, trust in government, and satisfaction with public services and survey measures of tax morale, as well as relationships between institutions and tax morale.' See also OECD (2013), and Torgler (2005).

16 In one article also produced in the context of the PARI/FES project, Guimarães and Chilenga (2016) identified precisely this circularity in Kaduna North, Nigeria. In this case, party-political interference reduces the municipality revenues, which reduces the capacity to provide services. This in turn leads to a decline in tax morale and a further decline in revenue collection.

Compliance is also related to social norms and values and a sense of belonging to a political community that generates moral obligations. Accordingly, when assessing attitudes towards taxation and tax compliance, it is necessary to take into account the dynamics of the relationship between the citizens and the state. As Daude et al. (2013:14) points out, 'Overall, the literature confirms the relevance of moving away from mechanistic recommendations on tax administration, and producing fresh analysis on the relationship between tax morale ... and satisfaction and trust in the government'.

Recognizing the centrality of societal elements – such as trust in the government and on the fairness of the tax system; and norms, values and the role of non-economic aspects – such as culture – we explored these aspects and the dynamics of the state–society fiscal relations in Cameroon, South Africa and Mozambique.¹⁷ In having done this, we hope to contribute to the growing literature on tax morale and voluntary compliance in the developing world, which argue that different aspects of state–society fiscal relations are also vital to the sustenance of a strong tax system. As such, following Fjeldstad and Moore (2008:255), we claim that to strengthen the tax systems of developing countries, governments, tax administrators and reformers in general should not focus on institutional designs alone, as has been the norm thus far, but also 'encourage constructive engagement between governments and citizens over taxation issues'.

To conclude, we consider that it is clear in the literature reviewed here that a comprehensive analysis of any tax system must combine economic, political and social factors because the patterns of taxation of each country reflect its economic structures, its administrative capabilities, and its political, cultural, and institutional histories and contexts (Besley and Persson, 2013:69; Burgess and Stern 1993:796-97).

17 Section 3 of this report presents our findings on these matters.

The formal institutions: Post-colonial trajectories of taxation, institutional designs and current challenges

As we discussed in the previous section, the tax structure and the well-functioning of the tax administration are fundamental elements in assuring tax compliance and a successful revenue collection. Hence, the quality of formal institutions is fundamental to a strong tax system, which is able to contribute to the development of a given state. In this section of the report, we look at the main characteristics of the institutional designs of taxation in Cameroon, Mozambique and South Africa, inquiring to what extent they contribute to a robust tax system.

The rest of this section is structured into three subsections, one for each country of our research. In each of them we, firstly, present the historical background of the fiscal system and associated practices of taxation, and discuss the most relevant economic and political shifts that happened. Our focus is on the post-colonial period, emphasizing the main tax reforms that took place, and locating then in the broader socio-political contexts in which they happened, highlighting the events that constituted critical junctures in their trajectory of taxation. We then lay out the form of the current institutional designs concerning the tax administration, and the tax structure, specifying the main tax handles of each country. In this, we will also show the linkages to the previous reforms and systems. Finally, we present statistic data on revenue collection, and discuss the main challenges currently faced by each country.

2.1 The case of Cameroon

Located in central Africa, the Republic of Cameroon has the particularity of having a double colonial past, with what are now eight provinces of the country being previously controlled by the French, and the two remaining colonized by the British. Thus at the time of independence, Cameroon found itself trying to overcome a multi-layered, diverse colonial legacy. The population of what now is contemporary Cameroon has been familiar with the notion of the tax since the pre-colonial times. There is evidence that taxes (be it intended as contribution, exchange, means of protection or imposition) were present in Cameroon since pre-colonial times.¹⁸ The populations of the north, for instance, such as the Peuls, were under Islamic influence and subjected to payment of tributes.¹⁹ In the south, and especially by the shores of Douala, exchanges of goods were common even prior to the arrival of the Europeans and the integration of the economy into the monetary circuit. Forced labour was also in place and it formed part of the complex system of exchange among the different kingdoms and populations. The first interactions with Europeans, notably with the Spanish and the Portuguese in the 17th century, revolved around commerce too – testimony of which is the establishment of the Court of Equity in 1800, with the mandate to guarantee a good exchange between Europeans and Africans by levying taxes or penalties when it came to trade disputes.

However, it is not until the resolution of the Berlin Conference of 1885 that the colonial borders and administrations had been set and that Cameroon, then a German colony,²⁰ started to be ruled by the French and the British (creating what are known as the British Cameroons). It was at this time that a system of formalization of taxes and payment was put in place, in the context of the colonial doctrines of both the French and British powers. Indeed, the first task of the French colonial administration was to institute a monetary system and a fiscal administration, which had not existed earlier. The French doctrine, known as

18 With regard to precolonial times, please refer, among others, to the work of Mveng (1963) and Pahimi (2009, 2010)

19 In the north, the introduction of a systematic form of payment similar to the current notion of tax was attributed to the Islamic invasion in the 19th century.

20 Prior to the Berlin Conference, Cameroon was a German Colony. German domination in this region lasted from 1884 to 1916.



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direct rule, started with formalizing the payment of stamps and duties, and organizing the customs in 1921. It reached full implementation with the introduction of the Code de l'Indigénat (Code of the Indigénat) in 1924, which consisted of a set of laws and regulations directed at civilizing by directly administrating the populations.²¹ The Code had specific mentions of regulations of the fiscal behaviour of the natives, making provision for tackling any aversion to the payment of taxes. Taxes, at this time, were both direct and indirect. Among the direct ones, special attention should be devoted to the *Impôt de capitation* (head tax) – a tax to be paid by married men to the traditional leaders. Assene (2016) describes this tax as emblematic of the colonial

²¹ Note that direct rule was not evenly implemented across the country. In fact, it is reported that in the north of the country, where the role of the traditional leaders (*lamida*) was much stronger, a doctrine more similar to indirect rule was in place.

power as it allowed for full control of the population in the context of a broader project of civilization of the native populations towards a process of assimilation of the subject. Import and export tariffs were formally introduced as well, in order to protect French interests vis-à-vis the competition with other colonial powers, and to foster a regional French market.

At the same time, two of the current Anglophone regions of Cameroon were administered under the Nigerian Protectorate, on the basis of the doctrine of indirect rule.²² Differently from the experience of French Cameroon, the British colonial administration did not work for the assimilation of the African subject into Britain, but rather for the maximum economic exploitation to ensure the financial self-sufficiency of the colony.

Despite the difference in colonial administration, both the French- and British-ruled Cameroons experienced taxation as a form of violent imposition on the population, as a form of dispossession and colonial domination, and in the aftermath of independence, the newly formed state faced the challenges both to harmonize and unify the two systems, and to overcome a notion of tax that was associated with the colonial powers.

The process of constitution and unification of the Cameroonian state started with a liberation war referred to as the 'bloody forgotten war' in French Cameroon. As a result of this conflict Cameroon was granted independence in 1960, with the election of the first President Ahmadou Ahidjo – representing the Cameroon National Union and coming from the north of the country. At the same time, negotiation for independence started in Nigeria as well, and a plebiscite was held in 1961. This resulted in the annexation of the Southern Cameroons (under British protectorate) into Cameroon as federated states. The terms of this annexation were discussed at the Foumban conference of 1961, one of the major decisive moments in Cameroonian history, right after the results of the plebiscite. More specifically, at this conference Cameroon was defined as a federal state, to accommodate the diverse needs of the French East and the British West. It is on this federalist promise that the political, administrative and economic journey of the newly independent country started.

Cameroon faced, at this stage, multiple challenges to its unity. The choice of electing a President from the north was an emphasized effort to integrate the various cultural, religious and political cultures, in a context in which, from a linguistic and institutional point of view, the country was already diverse. From the fiscal perspective this meant embarking on a process of harmonization of the two fiscal systems (the British and the French). However, this process didn't start until the 1970s, while in the first decade of independence the same colonial systems persisted.

The economic and fiscal trajectory of independent Cameroon is conventionally divided into four phases. The first one goes from 1960 to 1977, the immediate post-independence and prior to the discovery of oil. Importantly at this time, the process of harmonization of the fiscal systems (of west and east Cameroon) started. The second goes from 1978 until 1986 and it covers the discovery of oil. The third phase is from 1987 until 1993, when there is a period of economic crisis, and finally from 1994 up to the present, there is the phase of the devaluation of the Central African Franc (CFA) and the beginning of the fiscal reforms.

Independence, as in many other African countries, was gained in a rather tumultuous fashion. Cameroonian liberation was shaped by a strong armed struggle led by the Union of the Peoples of Cameroon. From the fiscal point of view, the former British and French Cameroons maintained their fiscal authorities, respectively the 'Inland Revenue Authority' and the *Direction des Contributions* (Directorate of Contributions). This period saw the continuation of the colonial system of taxation, in the form of direct and indirect taxes, which was officially shaped by the Brazzaville Treaty of 1964. Among the major achievements

22 Indirect rule was elaborated by Lugard (1922) based on his experience as colonial administrator first in Uganda, then in Nigeria. The main pillar of this rule was that of administering the colony indirectly via the help of the traditional leaders. For a deeper analysis of the differences between direct and indirect rule and their institutional implications, please refer to Ziblatt et al. (2011).

of this Treaty was the establishment of the *Douaniere et Economique de l'Afrique Centrale* (Udeac),²³ whose main objective was to harmonize the commercial regimes of the region. Economically the government adopted an interventionist approach to industrialization and economic development (Fambon, 2016). Agriculture was, at this point, the main source of growth, accounting for 34 per cent of the GDP yearly, on average (Amin, 1996).

The integration into the regional economy, facilitated by the Treaty of Brazzaville, was accompanied, during the decade, by a process of harmonization of the internal fiscal system. This happened concomitantly to other political shifts. The '70s saw an active attempt to forcibly unify the country. In 1970, President Ahidjo passed a very unpopular law that ended the federal character of the former British Cameroon; at the same time, with the decree n. 68-DF-216 of 4 June 1968, the President created a dedicated commission aimed at harmonizing the two fiscal systems. And following this, in 1972 a new, unified and harmonized fiscal code was adopted. Thus the process of fiscal harmonization went hand in hand with that of political unity.

The process of harmonization was not only important to facilitate the administrative management of two different systems, but also to promote fiscal justice; the difference between the two areas did not only touch on the administration, but on the tax rate as well. For instance it is reported that the managers of western Cameroon were subjected to a much higher fiscal pressure than the ones of French Cameroon, and this needed to be rectified. The new code, published on 29 May 1973, maintained the bulk of the characteristics of eastern Cameroon's system, comprising the company tax, the personal tax and the tax on commercial activities. The *Direction des Impôts* (Tax directorate) was instituted, which included the two previous directorates, while stamps and registration fees were managed by a different directorate.

The discovery of oil in the late '70s opened up a new phase. Between 1965 and 1977, the country experienced a steady growth of 4 per cent, with a peak of 8 per cent from 1981 to 1985, after the discovery of oil. Cameroon, according to the parameters of the World Bank, was then considered a country at average income. This was a moment of economic shift, and the main source of growth now became oil. In order to promote growth in the country, the government adopted policies of tax exemptions, especially for what concerned international commerce. The economy of the country was vigorous and mostly based on oil production. At the same time, politically and economically, in 1982 a new era started with the election of President Paul Biya – still in office today – and a failed *coup d'état* in 1984 against the newly elected president. During this period, Cameroon adopted an expansionary fiscal policy (Fambon, 2016), characterized by consumption and investment spending. The government started development programmes, especially in the field of education, health and housing. The country was able to rely on its own resources and 'external funding accounted for only 6 per cent of total expenditure, while the external debt amounted to only 27 per cent of GDP in 1988/9' (Fambon, 2016).

The oil boom was followed by a phase of major political and economic shifts. This period was characterized by political unrest, as the persistence of the President in office despite official elections caused a set of strikes and protests referred to as 'ghost towns'. At this time constitutionally, as a result of the strikes and the protest, Cameroon introduced a multi-party system and freedom of press. Yet, the political efforts to stabilize the country were not successful, and the concomitant unhealthy economic situation marked by the devaluation of the currency in 1994 defined a new and serious challenge for the country.

Entering into a phase of recession, new reforms to the fiscal administration seemed imperative. The first reform was the fusion of the two existing directorates via the decree n.91/498 of 18 December 1991; this was done to reduce administrative costs and to further centralize the activities of tax collection and management, under the assumption that the existing double financial management would be more conducive to practices of corruption and a much more dispersed system of collection.

This fusion constituted the first step towards a much more systematic set of reforms, which started in

23 The country members of Udeac are Cameroon, Congo, Gabon, Central African Republic, Equatorial Guinea and Chad. These countries refer to the same Central Bank, the Bank of Central African States.

1994 with a twofold aim: to further harmonize the sub-region with much more flexible tax agreement and to mobilize domestic resources via the improvement of tax collection and the increase of domestic taxes.

The financial crisis was caused by the collapse of the price of its main export products²⁴ and, in order to enhance the country's economy, the government adopted several fiscal reforms, associated with the structural adjustment programmes (SAPs), performed with the involvement of the IMF, aimed at stabilizing the country financially. After this moment, new reforms had been introduced (in the late 1990s and in the 2000s), following which, not only the debate on taxation but also on the state started to gain a renewed interest: the state was now not the only actor dealing with taxation, but other, international actors were involved too (Obam, 2016). Preoccupied with facing such a situation, which is referred to by Obam (2016) as fragmentation of the political and judicial frames, the tax administration at this time had consistently endeavoured to improve its capacity in terms of collection; to contribute in a greater way to the national budget and to offer better services to its citizens. This also meant making provisions for broadening the tax base. As it will be discussed in the next section, not only reforms of the tax structure had been put in place, but of the tax administration as well, particularly via the fusion and simplification of services.

The economic harmonization of the sub-region was achieved with the introduction of the *Communaute Economique et Monetaire de l'Afrique Central* (Cemac) in 1994 and the agreement of the monetary union with the Central Africa Franc (CFA) in order to create a common market. Export taxes were also reformed, especially for export of wood for which a progressive surtax was collected exceeding 30 per cent of the total production (Fambon, 2016).

In terms of domestic revenue, the reforms that started during this period were mostly oriented to offering technical assistance to implement new taxes. Among the main changes was the introduction of consumption taxes, such as the VAT in 1999 and excise duties. Another major change was the introduction in 2000 of the *impot liberatoire* – a personal income tax to be paid based on self-assessment. The forestry sector had also undergone reforms including the introduction of a public bidding, an annual forestry charge and a tax based on the annual wood harvest (Fambon, 2016). During these years of reform, and specifically from the 1990s until the 2000s, Cameroon enjoyed a steady growth, with a growing tax revenue to GDP rate (growing from 13.8 per cent in 1993 to 15.6 per cent in 2000). Charlier and N'Cho-Oguie (2009), analysing these reforms in greater detail, find that overall they have been successful: the introduction of consumption tax (VAT and excise duties) has contributed to the improvement of the domestic tax receipts, increasing from 7.8 per cent of GDP in 1993 to 13 per cent of GDP in 2010; the reduction of export taxes has also improved the competitiveness of the economy and finally 'the tax reforms adopted in the forestry sector in the finance act of July 2000 have provided substantial dividends, including the five times increase in forestry taxes between 1995 and 2003' (Charlier and N'Cho-Oguie, 2009, in Fambon, 2016).

The Cameroonian fiscal policy and administration should not be divorced from broader processes of political change. In fact, parallel to these reforms in the fiscal administration, other administrative changes occurred. The adoption of the new constitution in 1996 was one such change, following which Cameroon became a decentralized unitary state.²⁵ This new constitution promised to be the first step towards a process of decentralization (both fiscal and administrative), but on the contrary Cheka (2007) suggests that from the 2004 dispositions aimed at regulating decentralization, not much progress had been registered towards actual implementation. As a consequence, the expected devolution of power and transfer of means, financial and material, to local institutions of the 339 councils of the 10 regions of the country, did not occur.

The repercussions of this unattained decentralization are tangible in the country in different forms. For instance, the recent events that have seen the South and North-West regions of Cameroon demanding more

24 According to the World Bank (1994) tax revenues in 1992 amounted to only 12.3 per cent of GDP (way below the 18.5 per cent median for other sub-Saharan countries).

25 Prior to 1996, the constitution had undergone several changes from 1961 when it was first signed. Cameroon in 1961 was born as a Federal Republic, it then changed in 1972 and became a United Republic to then turn into a Republic in 1984. In 1996, the new Constitution declared Cameroon to be a decentralized unitary state.

independence from the central power (in fiscal, political and social terms), referred to as the Anglophone question, pointed out the very shortcomings of the actualization of the decentralization process,²⁶ which according to Cheka (2007), if fully and correctly implemented, should have brought more equity and democracy in the country.²⁷

At present Cameroon, populated by 23 million people, faces an unemployment rate of 27 per cent (Bureau of Statistics, Cameroon).²⁸ The ten regions of the country face different challenges, of which the ones in the Far North are linked to the threat of Boko Haram,²⁹ and in the Anglophone regions are, at the moment, the most urgent to be attended to. Swinging between structural and political challenges such as the imperative need to allocate resources in the northern part of the country to face the threat of Boko Haram,³⁰ and dealing with 330,000 refugees from the Central African Republic and Nigeria, Cameroon's fiscus is under increasing stress. While in popular and marketing discourse, the diversity of the country is presented as a positive feature of which the Cameroonian population should be proud, the country is struggling to come to grips with its pluralism. As it will become clear in the course of this report, the challenges faced by the fiscal administration cannot be delinked from the overall debates and concerns that preoccupy the country at large. The recent resurgence of the 'Anglophone question'³¹ is one such example. Cameroon – referred to as 'Africa in miniature' for its diversity – still today deals with the consequences of its process of unification. Culturally proud of its diversity (different colonial heritages, two official languages-English and French, different religions and ethnic backgrounds), it also tries to deal with the institutional and administrative challenges on which its unification was premised.

Given this context, it is easy to appreciate the importance of addressing taxation in the country. In recent years and after the reforms of the '90s, the DGI instituted a series of reform directed at a process of modernization of the tax administration, aiming at offering better services, simplified, dematerialized and at lower costs, and addressing concerns of transparency. On a positive note, it is safe to state that the efforts of the administration have brought some good results. For instance, in the year 2014 alone, the tax base had been broadened from 25,000 to 95,791 and consequently, the amount collected increased too. Yet much of the Cameroonian population does not relate to the notion of tax as it is conceived by the fiscal administration. These initiatives, as well as the current tax system and the population's perception of these, will be presented later in this report.

Current institutional designs: tax administration and tax structure

Cameroon is one of the few countries in Africa in which tax offices are still departments within the Ministry of Finance. Additionally, taxes and customs are managed separately by two different directorates that fall under the Ministry of Finance. The African Tax Outlook (ATO) report of 2017 indicated that countries in which the directorates are part of the ministry of finance 'reported low cost of tax administration, doubtless because they enjoy little room for recruitment and budgetary approvals' (ATO, 2017:22). Yet Obam (2016) points out that this could lead to a less autonomous system, in which political interference prevents the smooth functioning of the administration. This is critically evident in Cameroon, where there is a strongly centralized state in which the role of the Head of State in the decision-making process and in designing the

26 It should also be noted that this question is far more complex and cannot be reduced to decentralization. For the scope of this paper we limit ourselves to analysing it only with regards to this aspect.

27 For a detailed history of decentralization in Cameroon, see Owona (2012). Please note that this report does not address the question of decentralization (fiscal and political) directly, as its main focus is on the central fiscal administration. The concerns linked to decentralization are only briefly introduced here as they form part of the current political, economic and social debates in Cameroon and they affect resident's perception of taxes.

28 However, statistics are not very accurate as they do not take into consideration people that are unemployed but not looking for a job.

29 Boko Haram is a jihadist militant organization based in northeastern Nigeria, also active in Chad, Niger and northern Cameroon.

30 In April 2017 alone, more than US\$1,194,718 was allocated to 45 local municipalities of the north.

31 In the last two years, the two Anglophone regions have resurfaced the question of their position within the overall Cameroonian polity.

fiscal policy, is particularly relevant (Obam, 2016).

Cameroon, following the French system, has historically invested in the training of civil servants (both high officials and administrators) at the *Ecole nationale d'administration et de magistrature* (Enam), founded in 1959, and offering courses on the fiscal subject from 1979. The school works in synergy with the *Direction Generale des Impots* (DGI) as part of the public administration and other relevant actors, such as the *Groupeement Interpatronale du Cameroun* (Gicam), representative of the private sector, to offer a training that relates directly to the context of the country, to its challenges and to its current needs.

The work of Enam is complemented by that of the *Institut superieur de Management Publique* (ISMP), instituted in 1985 to offer managerial support to civil servants who have already been working in the public administration for at least five years. The institute started as support to the process of modernization of the public administration and while it does not necessarily tackle fiscal matters, its offer assists those students who come from the DGI to acquire notions, skills and competences in line with improving the management and the administration of the state apparatus, including the fiscal sector. Training and the focus on human resources are the tax administration's priority and indeed, the vision is a competent and well-resourced staff at the basis of a successful resource mobilization. The training at Enam is often accompanied by ongoing training by the DGI, notably in the fields of the dissemination of taxation law (this is done in the 12 centres), amelioration of the quality of services (such as training on e-filing), broadening the tax base (via seminars on techniques of collection and awareness) and strengthening tax functions (via seminars on tax audit or TVA refund). This means that the professionalization and the training of the DGI's staff is highly supported by the school and that civil servants who pursue a career at the DGI have both a theoretical and practical background when they take their position.

The current structure of the tax administration is the result of the reforms that started in 2004. Different from the reforms of the '90s which aimed at stabilizing the country and mobilising domestic revenue, these were oriented more explicitly towards the modernization of the system. This was under the assumption that only a more transparent, efficient and smooth administrative machine would be conducive to broadening the tax base and to greater tax collection.³²

The first step of the reform was the segmentation of the fiscal population and the restructuring of the DGI through establishing the *Direction des Grandes Entreprises* (DGE, large taxpayers unit) as a unit of the general directorate of taxation. This is based in the capital city, Yaoundé, and it is for enterprises with an annual turnover from CFA5 million to CFA2.5 billion (from US\$8,901.86 to US\$4,450,932.50). Later in 2005, a new law regulated the functioning and administration of the DGI, what it is now the country's main tax authority.³³ The full fiscal administration had fallen under the jurisdiction of the DGI and broadening the tax base became one of the main aims of this modernization process. This was done in order to overcome the difficulties due to the highly fragmented tax administration into several departments and separate organizations responsible for tax collection. The main mandate of the DGI is to elaborate the laws and regulations on taxations, identify, locate and register taxpayers, collect taxes, control and audit taxes, centralize and produce statistical and fiscal data and collect tax information, fight against fraud and enforce the law.³⁴

This has entailed reconsidering the collection system's functioning, with efforts to digitalize and simplify

32 The reforms that took place in '90s were similar in many other African countries. More specifically, in the Francophone region, countries such as Burkina Faso, Comoros, DRC, Republic of Congo, Côte d'Ivoire, Senegal, Djibouti and Madagascar.

33 Decree n.2005/119 of 15 April 2005.

34 From an administrative aspect, at present there are 12 regional taxation offices, one per region, with the exception of Centre and Littoral, the two main administrative and economic hubs, where there are two offices each. The office of Centre I region is the most resourced, with a total of 830 staff (23 per cent). This is not surprising, given that Yaoundé is the administrative capital. Not all regions benefit from the same good staff complement. In the north for instance, there are only 65 public servants (2 per cent) shared with taxation offices in remote regions. At the national level, there are 829 (23 per cent) staff in the central services, which are the DGI, the DGE and revenue enhancement programmes located in Yaoundé.

the collection process to alleviate tax controls, especially on big enterprises, and to reconsider the fiscal pressure on enterprises in order to welcome new ones and to avoid the small ones shifting from the formal to the informal sector due to the heaviness of taxation.

Further to the process, the Decree of June 2003 established the creation of the *Centre des Impôts des Entreprises Moyennes* (CIME, medium-size taxpayer offices), for enterprises with a turnover from CFA141,500 to CFA4.5 million (from US\$251.92 to US\$8,011.68), but below the requirements of the DGE. These offices are located where there are sufficient enterprises of this kind (with annual turnover between CFA100 million and CFA1 billion). The CIMEs started in Yaoundé and Douala, where the main economic activity takes place, but they are now being introduced in other provinces (such as the South-West, Limbe), where authorities are in the process of conducting a census of the enterprises. The taxpayers of this segment are subjected to a *regime simplifié d'imposition* (RSI). Finally, in 2009 new pilot tax centres (CDI *centres divisionnaires des impôts*) were set up for small taxpayers (initially in the two main cities of Yaoundé and Douala) and for small businesses whose income ranges from CFA50,000 and a maximum contribution of CFA140,000 (from US\$89 to US\$250). These taxpayers are subject to the *impôt libératoire*, a lump-sum tax calculated according to the income.

In 2008, the reform of the tax administration went ahead with the law n.2008/365³⁵ defining the mandate of the customs as regulated by a separate directorate from the one on taxation, and under the supervision of the Ministry of Finance. The directorate of customs has got a tax mission (collection of taxes and custom duties which contribute roughly to more than 30 per cent of the state budget); an economic mission (protection of the national economic space); an assistance mission (being at the border, it assists other ministries, such as that of defence, in controlling the entry of weapons, or that of public health in controlling the entrance of drugs or quality food); and a surveillance mission (notably surveillance of land, air at entry points in order to fight illegal trafficking and crime).

To ensure a much more efficient and comprehensive system of tax collection, in June 2016 a memorandum of understanding was signed between the General Directorate of Taxation and the General Directorate of Customs, with the aim of promoting the exchange of information and cooperation between these two directorates, in order to improve the system of collection. The system that followed was called 'Fusion', and has been put in place thanks to the support of the German international cooperation organization, GIZ. According to the Ministry of Finance, Fusion is a 'new tool of control thanks to which less tax will be lost, especially VAT (which contributes 33 per cent to the overall state budget)'. The idea was that the great loss of tax revenue was due to the weak collaboration between the two directorates and the absence of data sharing. Collaboration between the two directorates was also aimed at diminishing control and making the process of paying tax and duties smoother.

From a stricter administrative point of view, in the years preceding 2017, reforms towards the system's modernization were implemented in a more systematic way. To sum them up, these tackled the organization of services, notably with the opening of new CIMEs in the different regions as well as CDI offices; the issue of taxpayers registration with the implementation of a new process to register taxpayers in the various collection centres; the question of tax return and collection. In terms of tax return, one of the main reforms since 2014 was starting a process of automation of procedures in the tax administration aimed at reducing costs of the administration: e-filing has been made available to large taxpayers but also to small and medium enterprises. As far as tax collection is concerned, the DGI has set out to make more transparent and easy the payment procedures, encouraging the payment of taxes via bank transfer.

As we have already mentioned, the main turning point for Cameroon – when looking at its tax system and management of tax handles – is the 1990s, when new fiscal reforms were adopted via intervention of the IMF. The objective of these reforms was to raise domestic revenue by increasing indirect taxation. As noted, Cameroon relied to a very large extent on its natural resources, primarily on oil, from post-independence

35 Law n.2008/365, 8 November 2008.

until the 1980s when the price of oil dropped internationally. The current tax structure is determined by the reforms of the 1990s and by the subsequent administration reforms started in 2000. At the time of the reforms, Cameroon was part of the Uedac (a customs union with free trade for the member countries) and the reforms were implemented in the name of regional economic integration.

In 2014, the World Bank reported that at that time tax revenue amounted to only 12.3 per cent of GDP and that this was not in line with the idea that ‘the level of tax revenue must be adequate to avoid public finance imbalances so that the spending necessary for development can be covered’ (Fambon, 2006:1). The purpose of the reforms was then to lay out the basis for a sustainable fiscal system that could rely on internal fiscal resources and methods of collection. This meant also expanding the tax basis and spreading a positive conception of taxation among the population and it required reforms on a double level, on the fiscal level *stricto sensu* and on the administration level.

At the time of the first reforms, the tax structure was divided, as in many other countries, into direct and indirect taxes. The first set of reforms pertained to trade and they were aimed at stopping the various exemptions among the countries members of Uedac to increase the domestic revenue, and at reducing tariffs to counterpart the devaluation of the currency. In 1994, to this effect a common external tariff (CET) was introduced for all of the countries members of Uedac. Furthermore, in order to protect the rather vulnerable economic condition of the various states, each of them was allowed to introduce any further protection (not exceeding 30 per cent) and an additional excise duty to some consumption goods. Concomitantly, indirect taxation in trade was reformed, again via a process of simplification of the system and with the aim of reducing exemptions.

Another important step was the introduction of VAT in 1999, in line with SAP liberalization. This was introduced by the finance law n. 98/009 of 1 July 1998, set originally at the rate of 18.5 per cent, and is presently at 19.5 per cent. However, some sectors (notably the agriculture and health) were exempt from VAT, in order to be competitive in the market. Finally, VAT was combined with an excise tax. The IMF (1974:166) defines these as ‘taxes levied on particular products or a limited series of products ... which may be imposed through each step of the production or distribution process, and may be determined on the basis of weight, content, quantity of a product, or on the basis of value.’³⁶ The products subject to this type of tax are alcohol, cosmetic products, tobacco and oil products. The rate of the excise tax is 25 per cent on the final consumption goods. VAT has been extremely crucial in the fiscal administration’s modernization process and it has contributed to improving tax receipts (Fambon, 2016). Indeed, the fiscus has registered an increase due to VAT, from 7.8 per cent of GDP in 1995 to 13 per cent of GDP in 2010.

Reforms were also made in the realm of direct taxation. The finance law of 1996/97 introduced the *Impôt libérateur*, to be paid to the local administration by people at a very low income. Additionally, reforms also touched on the *Impôt sur le revenu des personnes physique* (IRPP, personal income tax). Before the reform, collection of this tax was crippled by various structural issues. The personal income tax (referring to taxes on salaries and wages, income from property and profits – both industrial and commercial) has existed since 1973 and was reformed with the law n.2002/014. This tax is calculated on the taxpayer’s income. The Cameroonian government has made efforts to widen the tax basis increasing the number of households asked to pay the tax. Fambon (2016) reported that, ‘The tax on income in Cameroon has contributed for more than a fifth to the non-petroleum income of the government in 2005.’

In the process of the local administration reform, a new law (n.2009/019 of 15 December 2009) regulated local taxation. Taxes to be paid comprised business license, graduated tax and additional council tax. In 2010, a new law broadened the scope of local taxation and from this moment, local administration also collected the property tax, the tax on games and entertainment, duties on the transfer of real estate, windscreen licences, annual forestry royalties, stamp duty on publicity, local development tax and fees

36 Cited in Fambon (2006:6).

on leases. The current capacity for collection of these taxes is extremely limited³⁷ and the incidence and relevance of these taxes should be studied in relation to the ongoing process of decentralization, both political and fiscal, of Cameroon.

Finally, looking at the overall revenue of the country, a special fiscal code is devoted to forestry, petrol and mining. The forestry sector experienced a reform in 2000, thanks to which greater transparency in public bidding and greater taxation resulted in a more consistent contribution of this sector to the overall GDP. In the petrol sector, there is the *taxe spéciale sur les produits pétroliers* (TSPP) emanating from the Société Nationale de Raffinage. It is also worth mentioning a special fiscal regime (as per decree n.2008/2304/PM) of 'big structural projects'. This entails tax exemptions for big companies that fall under this regime.

For now, suffice it to say that the legislation on these sectors is perceived as unfair (due to their high levels of exemptions) and characterized by a lack of transparency.³⁸

National Taxes			Municipal Taxes
Direct Taxes	Indirect Taxes	Other Taxes	Business licence tax
Personal Income Tax (IRPS)	Value Added Tax (VAT)	Stamp Duty	Property tax
Corporate Income Tax (IRPC)	Excise duties	Forestry taxes	Impôt libératoire
Special income tax	Special tax on petroleum products	TSPP	Livestock tax
			Liquor licence

Figure 1: Main tax handles: Cameroon

Revenue collection and current challenges

The reforms implemented in the 2000s have been somewhat successful. In 2016, non-oil tax revenue is the main source of revenue in Cameroon, accounting for 60 per cent of the overall budget, and over recent years, the DGI recorded a steady increase in the collection of taxes.

Yet in order to assess the success of the reforms we need to delve into the analysis of the Cameroonian tax system, positioning it within the greater economic context. Data offered by the World Bank show that since the reforms of the '90s the tax to GDP ratio has not increased greatly, maintaining an average of 14 per cent. The tax to GDP ratio reached its peak in 2000 (15.9 per cent), but by 2016 went down to 14.9 per cent, close to the 1994 ratio when the first reforms were started.

³⁷ Local municipalities and tax collection centres are responsible for the collection of this tax. Evidence from interviews conducted in six local municipalities with councillors and tax collectors (three in the Centre, one in the Far North, one in the West and one in the South-West) shows that the revenue collected locally is minimal.

³⁸ On these topics, see Mballa Mballa (2016).

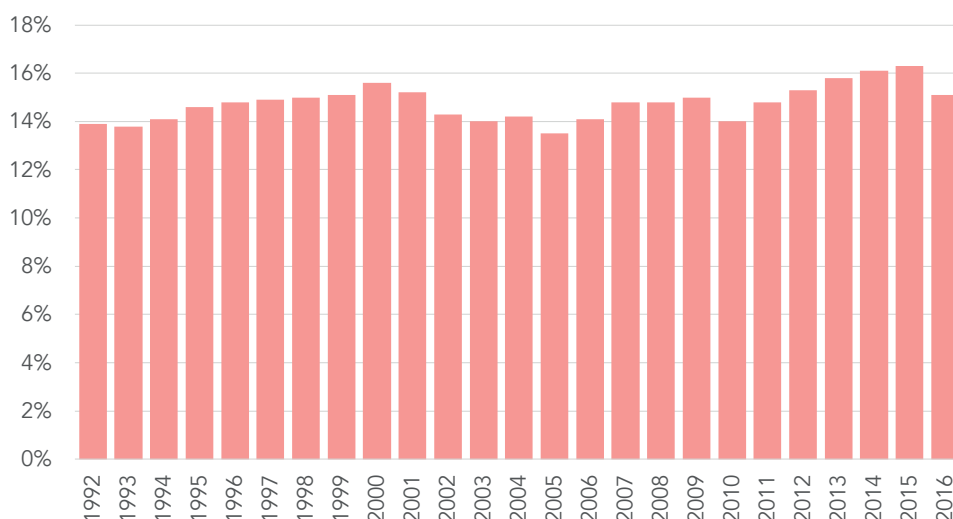


Figure 2: Tax revenue as percentage of GDP

Source: IMF country report (1992–2016)

The tax to GDP ratio is a good indicator of the success of reforms as it requires looking into the country's overall economy. The World Bank (2017) reported that:

Growth is expected to dip to 3.7 per cent by the end of 2017, compared to 4.4 per cent in 2016.

This outcome is due to slower growth in oil production (+3 percent in 2016 against 37 per cent in 2015) resulting from the maturity of the main oil fields, and to the avian flu epidemic that has damaged the local poultry industry, particularly in the West, which accounts for 80 per cent of production.

The annual report of the DGI, with regard to the drop of the ratio states: 'After observing a continuous evolution between 2010 and 2015, tax/GDP ratio witnessed a decline in 2016 following a fall in total revenue collected whose growth was less than the GDP. Tax/GDP ratio in 2016, stood at 15.1 per cent of the GDP as against 16.3 per cent in 2015, representing a drop of more than 1 point.' This means that in order to better unpack the successes and challenges of the tax administration, we need to look at tax collection considering both oil and non-oil revenue. In 2016, the DGI recorded an increase of 1.7 per cent (compared to 2015) in non-oil tax collection, while when this is calculated with oil revenues, the DGI records a loss: revenues from taxes and duties including the company tax on oil companies declined from CFA1,761 to CFA1,724.6 billion. Furthermore, the economic crisis that hit Cameroon in 2016 had repercussions on the performance of the large taxpayers (big enterprises), who registered a decrease of 0.9 per cent in revenue collection in 2016 (from 77.4 per cent to 76.5 per cent).

Since 2015, the DGI has recorded a stable increase in the collection of consumption taxes (VAT, stamps etc.), but at the same time it has registered a decrease in the collection of company taxes. If we look at the tax composition in 2017, we note a predominance of the consumption tax, which accounts for 46 per cent of the total, followed by the contribution of the Company Income Tax (21 per cent); of Customs (14 per cent), of Personal Income Tax (13 per cent) and other taxes (6 per cent).

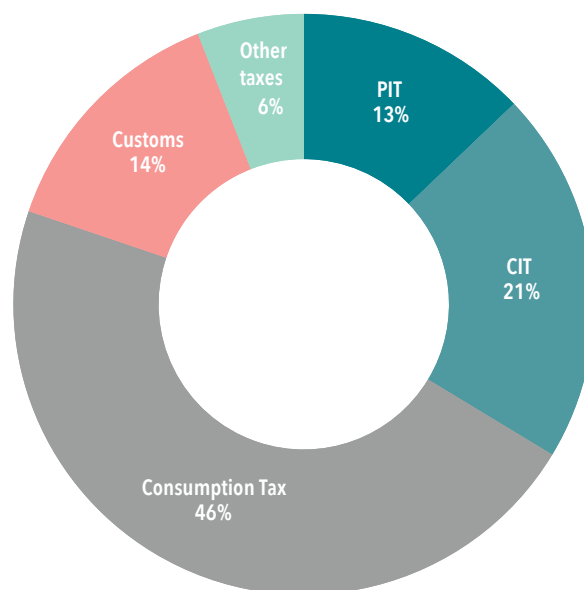


Figure 3. Breakdown of tax revenue

Source: ATO (2017:41)

Consumption tax represents the main contribution in 2017. This is unsurprising if we look at the patterns of increase of VAT, which in 2016 represented 34.5 per cent of the revenue collected (registering an increase of 6.4 per cent compared to 2015). In fact, looking at the trend in non-oil taxes collected between 2014 and 2016, we can detect a decrease in the contribution of income and personal tax (from US\$562,366,000 to US\$516,600), while we see an increase in the consumption tax, registration fees and stamp duty.³⁹

Further analysis of the results shows a great unevenness in the collection patterns, both at regional level and per segmentation of the fiscal administration. In what follows, we offer a brief statistical analysis of the current tax collection at national level (and taking into consideration the differences among the various regional centres),⁴⁰ to then discuss some of the main challenges of the current tax administration – both centrally and in the various regions.⁴¹

As far as the regional taxation centres are concerned, two of them stand out as the best performers. These are Centre 1 (the territory of Mfoundi, Yaoundé) with a contribution of 7.5 per cent and Littoral 1 (the administrative territory of Wouri, Douala), with a contribution of 6.89 per cent. As mentioned earlier, these are also the most resourced regions in terms of staff and training. It should also be noted that the main contributors are the Medium Size Taxpayers Offices (CIME), which are well represented in the two regions. The remaining regions contribute between 0.25 per cent and 0.64 per cent to the total. Arguably, political and religious conflict in the Far North (where the collection is 0.35 per cent) and the current crisis in South and North-West (where collection is 0.50 per cent and 0.64 per cent respectively) are some of the elements that affect the difficulty of collection. Yet, compared to the previous year, all of the regions but two (the East and the Centre 2) have registered a positive variation in the collection, and in the case of the Centre 1, the increase has been of 17.3 per cent.

The reforms undertaken by the GDI seem to have been successful if we look at the overall results. However, it should be noted that the bulk of the taxes are paid by the big enterprises and that the major

³⁹ Annual report DGI, 2016

⁴⁰ It has already been stated that this work does not take into account the local dimension and does not enter into the depth of the debate on decentralization. For this reasons, the data used for this analysis are the ones collected nationally.

⁴¹ Fieldwork has been conducted mostly in the Centre, but visits to the regional centres of the Far North and of the South-West have given different perspectives on the specific challenges of other regions.

increase was registered at the level of consumption tax. As mentioned earlier, in 2016 76.5 per cent of DGI collection came from the DGE, the main contributor to income personal tax, company tax and VAT.

Looking more closely at the latest reforms we can argue that the DGI has improved its performance in terms of organization of its services. In this regard, the creation of more CIMEs resulted in an increased return from these structures from CFA28 billion (US\$49,850,444,00) in 2006 to CFA109 billion (US\$194,060,657,00) in 2016.

Additionally, taxpayers registration project has also gone ahead, and 4,000 new taxpayers have been registered. The process of taxpayer registration seems to have been successful: in 2015 the number of medium enterprises registered increased from 2,500 to 96,791.

While these are positive outcomes, it is notable that many of the small and medium enterprises have a high mortality rate, moving from the formal to the informal sector very quickly. Thus, the contribution to the DGI is not always stable and consistent. Additionally, the pervasiveness of the informal sector and high poverty rate contributes to the difficulty of collecting taxes in rural areas and in disadvantaged regions.

Large- and medium-sized companies complain about the heavy, bureaucratic fiscal machine and voice their demand for a better effort to track tax evasion, nationally and internationally. Big companies are willing to be subjected to more transparent controls as they feel that they would benefit from them (more efficient controls would be in the interest of the management of the company as it would make clearer what procedures the company is supposed to follow and what its status is vis-à-vis the state). For this reason, they have asked for digital and more accurate controls, which the DGI has taken on board. It has introduced reforms to reduce the audits and to allow bank payments of taxes.

On the other side, the tax administration faces human-resources challenges. Interviews conducted with a tax administrator at the central-level governance revealed that the challenges of the fiscal administration are to be found at the level of tax collector and inspector and at the local centres of collection. In 2004 alone, it is estimated that Cameroon lost US\$575 million in fiscal fraud (led both by tax payers and tax collectors). In this regard, the World Bank in 2011 reported that Cameroon's tax collectors were among the wealthiest class of civil servants due to their involvement in corrupt practices and not on the basis of their salaries.

From the administrative point of view, challenges are also determined by the context. In the Far North the enforcement of collection of taxes is a difficult task, given the dire situation in which the population lives. On the other side, the Anglophone crisis has also brought to the fore questions of language and of 'justice of the system'. Linguistically, the translation of the fiscal laws and of the modules has proven a difficult task, and sometimes there are ambiguities in the understanding of the concepts (see, for instance, the translation of *impot et taxe* into tax).

Despite some of the successes, one of the major challenges of the tax administration is the prominence of tax exemptions. The DGI in 2016 approved 251 attestation of exemptions, and Mballa Mballa (2016) finds that in 2016, the DGI lost US\$12 billion in tax exemptions in the forestry and extractive sectors.

In conclusion, despite the great attention put on the education of administrators of the fiscal system, across the spectrum there is consensus about the difficulties of the fiscal administration, especially at the local level, where tax collectors are seen as corrupt state agents who do not have adequate means to do their jobs. On the other side, a skewed system in favour of tax exemptions in key sectors, such as forestry and the extractive sectors, are also considered to be the causes of a weak collection system. This brings to the fore a fundamental question and concern both for the population and for the tax administration: who pays taxes, to who and in what form?

2.2 The case of Mozambique

Taxation was in place in what is now Mozambique many centuries before the arrival of Europeans to the region, going back at least to the 9th century. It was mostly associated with Mozambique's insertion into the world economy through participation in the Indian Ocean trade; and to local practices to acknowledge sovereignty and display loyalty to myriad local authorities – more specifically, African chiefs and 'kings,' and Muslim sheikhs (Newitt, 1995; Beaujard, 2005).

Since the end of the 15th century, a few, mainly coastal, parts of Mozambique were occupied by the Portuguese. However, it was not until the 'scramble for Africa' and the Berlin Conference (1884-85) at the end of the 19th century, that the Portuguese started a transition from 'informal imperialism' to direct rule, with effective military and administrative occupation of its African possessions. This was translated into various state-building efforts, of which developing and implementing fiscal policies and institutions became a central aspect.

Under Portuguese colonial rule, taxes were used as a central, multifaceted tool for oppressing the African population. Different kinds of 'indigenous taxes,' such as the *Imposto de Palhota* or hut tax, or the *Mussoco*⁴² constituted a revenue source for the metropolitan administration. But besides the obvious goal of financing the colonial state, taxation was also oriented to broader political, economic and social objectives. Different indigenous taxes were seen, in the context of colonial state-building efforts, as a political instrument: their payment was viewed as a recognition of Portuguese sovereignty. Converting Africans into taxpayers was considered by the colonial administration as making them into genuine subjects of the Portuguese empire. Additionally, it was an indirect tool for labour recruitment, increasing crop production and monetarizing the colonies. Thus, taxation was a way to incorporate the empire's periphery into the global capitalist circuit, as both raw-materials exporters and industrialized-goods importers. Finally, taxation was also a 'civilizing' tool, expected to contribute to transforming 'uncivilized' Africans into 'governable subjects'.⁴³

Besides the direct taxation of Africans, the colonial administration relied on revenues from import and export tariffs, and adopted protectionist customs duties that 'facilitated the flow of profits from investments in the African colonies back to Portugal' and 'encouraged the re-export of colonial goods via Lisbon's Ports' (Anderson, 2014:32). In the 1960s, a plan to abolish all tariff barriers on trade within the Portuguese Empire was implemented, with new consumption taxes replacing the levies on imports from the colonies.

Although widespread social unrest and demands for independence were contemporaneous to the pervasive wave of self-determination movements that reached the African continent in the late 1950s and early 1960s, Mozambican liberation groups had to fight a decade-long war with Portugal before attaining the country's independence in 1975.

As a result of the long conflict, which some authors call the most violent of all the colonial rebellions on the continent,⁴⁴ the new independent state emerged devastated by the war and amidst economic recession. Moreover, as in other African countries, the end of colonialism was followed by the massive and rushed departure of most Portuguese and other European inhabitants, which until then constituted the bulk of economic and political elites. The result was a massive capital flight, the destruction of productive and administrative infrastructure, and a major loss of economic, and also human, resources. These translated into a major decline in personnel qualified to perform even basic public administration tasks, and in the

42 The Mussoco was, in the Zambezi valley, in Mozambique, the principal tribute paid by Africans to the lords of the land where they were settled. The fiscal unit was the family, and chief of the village was exempt from payment. For details on the payment of Mussoco see Newitt (1973). The hut tax was applied in the rest of the country and constituted a fixed amount charged to each household.

43 For an exemplary document presenting the mainstream vision of the Portuguese colonial administrators on both these economic and non-economic reasons for taxing the African population, see the report on Mozambique presented by António Enes (1946) to the Portuguese government, published originally in 1897. The views expressed by Enes, an experienced colonial administrator that among other positions acted as Minister of the Navy and Overseas, and High Commissioner in Mozambique, are representative of the general view of the Portuguese on the relationship between the taxation of Africans and colonial state-building efforts.

44 See, for instance, Chabal (2002).

collapse of industrial production. The first two decades of post-colonial experience did not help to change this picture, as only two years after independence, the country became the setting of a civil war between the governmental party, Mozambique Liberation Front (Frelimo), and the opposition group Mozambican National Resistance (Renamo).⁴⁵ Since independence, Mozambique's economic system experienced two major changes: from the colonial system of extractive capitalism to socialism, and then from the state-controlled economy to free market capitalism. Each of these structural changes required a reorganisation of the public finance system, a task in which major tax reforms were an indispensable component (Byiers, 2005:3-4). In what follows, we briefly describe these distinct approaches to fiscal policy and administration.

When Frelimo came to power in 1975, the liberation movement, now a political party, did not adopt liberal democratic institutions. Instead, a one-party, socialist state was formed. Accordingly, in the economic realm, Mozambique witnessed a transition from the colonial system of extractive capitalism to socialism, with the associated centralized, planned, state-controlled economy. Private property – such as industries and commercial houses – was reverted to the state. Social services such as education, health and housing were nationalized and declared a universal right that, together with other public goods, would be provided by the state. In rural areas, where the majority of the population lived and worked, land became state property and individual peasants were encouraged to organize themselves into production collectives. The development of the rural areas was to be based on its 'socialization', with the creation of large-scale state farms, production and consumer cooperatives, and communal villages, that is, by adopting 'collective forms of life and production' (de Matos and Medeiros, 2014:603)⁴⁶.

The armed conflict with Renamo, the nationalization of social services and the ambitious programme of providing universal free education and health, resulted in the need to raise large revenue. This led to the first tax reform in independent Mozambique in 1978, which aimed to simplify the tax regime, to adapt it to the constitutional principles of social justice and socialism⁴⁷, to eliminate 'certain remnants of the colonial system', and to raise 'sufficient resources for the Government's expenditure programmes' (Byiers, 2005:8). Thus, the reform aimed to 'decolonize' taxes. Instead of being a 'colonial instrument of domination',⁴⁸ taxes were now to be seen by the population, according to Frelimo's plans, as 'the duty of each citizen to contribute ... to the costs of the programmes of the Popular State in order to create the conditions for the introduction of socialism' (Byiers, 2005:7).

Although initially the reform was successful, generating an upward trend of revenues in the following years,⁴⁹ its positive results did not last long. Frelimo's reluctance to increase and expand the direct taxation of ordinary citizens resulted in a very limited tax base,⁵⁰ which relied mainly on profit transfers from state-run enterprises.

45 Frelimo led the liberation struggle, and emerged from the colonial war as the group in power. Renamo, in its turn, was created in 1975 among Frelimo dissidents, Mozambican political exiles and other opponents of the regime, backed by the Rhodesian and South African governments as part of an anti-communist strategy in the region. The Civil War officially ended with the signature of a UN-negotiated Peace Agreement between the two warring parties in 1992. However, since 2013, the relationship between the two political parties deteriorated and armed conflict ensued, with the opposition group carrying out attacks, to which the government used the military to retaliate. Peace talks started in 2016 and a ceasefire was declared. A deal on further decentralization of the country promises to bring stability, but the situation is still of an unstable peace.

46 Collectivization, in the forms of settlement, production and consumption was fundamental to the socialist programme of Frelimo, see Bowen, 2000; de Matos and Medeiros, 2014.

47 CRPM, Art. 13.

48 Law n.2/78.

49 Tax revenues increased from 7.6 per cent of GDP in 1977 to 11.1 per cent in 1978, and kept increase until reaching 14.1 per cent in 1983 (Byiers, 2005:8).

50 On the societal dynamics that influenced Frelimo's decision to not resort to direct taxation, see the next part of this report.



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These enterprises, however, were not generating enough profits to provide the necessary levels of revenue. As Byiers (2005:9) points out,

The further intensification of the armed conflict after 1980 destroyed key infrastructures and severely restricted mobility and was accompanied by continuing expensive social programmes, low export levels and inefficient socialist planning which finally led to severe economic decline in the early eighties and collapse in 1986.

Facing a massive economic crisis and highly indebted, and motivated by a need for external financing, Mozambique joined the International Monetary Fund (IMF) and World Bank in 1984. In 1987, under pressure from the Bretton Woods institutions, the country implemented a series of macro-economic reforms intended to stabilize the economy, in line with what became known as the Washington Consensus. These

reforms marked the end of the socialist planning experiment and began the transition to a market economy, bringing in – as in the Cameroonian case – structural adjustment. Although the reforms were successful in increasing tax revenue,⁵¹ the gain was still not enough to finance even the most basic tasks of the state. Furthermore, the full consolidation of a market economy was obstructed by the civil war. From this period and over the next three decades, foreign aid became the main source of revenue and the major contributor to Mozambique's economy.

The 1992 Peace Agreements brought renewed hope of democratic consolidation and therefore, of political stability and possibilities for further economic reforms.⁵² In 1993, the Mozambican government, with IMF assistance, reassessed the tax system to strengthen and adapt it to the new reality of a market economy in the context of peace.⁵³ A first restructuring was brought about by the Investment Law (1993), which diminished corporate and individual tax obligations and promoted exports and investment. In context of the broader liberalization of Mozambique's economy, the law was aimed at 'a more open and objective economic policy which fosters greater participation and equal treatment of national and foreign investments.'⁵⁴ As Anderson (2014:128) points out, the law essentially 'created a legal framework to provide guarantees and security for national and foreign investments, property rights and international remittances', and introduced 'measures to provide broadened incentives and benefits schedule for taxes and customs duties'. As we will discuss, the resource to tax incentives, or in other words, to tax expenditures as a strategy to attract foreign direct investment (FDI) has persisted since then, constituting one of the most debated aspects of the current tax system.⁵⁵

Between 1993 and 1998, Mozambique enjoyed political and economic stability, an average annual GDP growth of 8.5 per cent and low inflation. Tax revenues, however, performed poorly.⁵⁶ Failure to mobilize domestic resources forced the government to keep relying on donor funding and foreign borrowing, depending on expensive, conditional loans. In this context, one more round of tax reforms followed between 1999 and 2003, attempting to consolidate previous reforms. These were oriented to liberalizing the economy, simplifying and modernizing the tax system, broadening the tax base, boosting revenue collection and thus, to reducing the budget deficit (Anderson, 2014:216; Byiers, 2005:3-4; OECD, 2015:136). Overall, the changes implemented in this period followed the lines of the global agenda of tax reforms, discussed earlier.

The new reforms introduced Value Added Tax (VAT),⁵⁷ Special Fuel Tax (*Imposto Especial sobre Combustíveis*) and Specific Consumption Tax (*Imposto de Consumos Específicos*, ICE).⁵⁸ In the realm of

51 Tax revenues increased from 8.2 per cent of GDP in 1987 to 10.2 per cent in 1992 (Byiers, 2005:11).

52 Multi-party elections were held for the first time since independence in 1994. However, to date Frelimo has won all national elections, and only losing a few local elections recently.

53 The neoliberal Enhanced Structural Adjustment Programme (ESAP) and the first Enhanced Structural Adjustment Facility (ESAF), which were in place since 1987 and 1990 respectively, influenced the tax reform in the direction of a free market economic strategy of growth.

54 Investment Law 3/1993.

55 According to many Mozambican agents, tax exemptions conceded to foreign capital and private national investors deprives the state of much needed revenue for the country's development; revenue that is appropriated privately by a capitalist elite of national and, mostly, international economic actors.

56 Tax revenues went from contributing 11.3 per cent of GDP in 1993, to 7.9 per cent in 1996 (IMF country reports).

57 VAT was first implemented in 1999 with a rate of 17 per cent applied to goods and services transacted within Mozambique, as well as customs and imports. The VAT Code, however, defined a series of special regimes and exceptions that significantly reduced its revenue-collection potential. These exceptions applied to a range of activities considered significant for the development of the Mozambican economy, including the informal sector and small businesses. In addition, the law set out special regimes for a variety of goods and services related to financial services, health, education, exports and the agricultural, forestry, and fishing sectors. In parallel, Law 3/98 and Decree 51/98 made provisions for reimbursement on production and export of some of these basic goods. Furthermore, the law granted exemptions from customs tariffs on imported goods for Special Economic Zones, Export-Free Zones, and international organisations (Decree 51/98).

58 Specific Consumption Tax (ICE) constitutes an excise tax on so-called demerit goods, which charges ad valorem rates on products categorised as 'luxury, superfluous, bad for the health, or dangerous for human consumption or for the environment, such as automobiles, alcoholic drinks, beer and tobacco' (Decree 52/98; Byiers 2005). Fixed percentage charged ranged between 20 per cent for personal hygiene products to 75 per cent for tobacco, wine, and alcohol. As with VAT, legislation established exemptions to certain products, some of which, ironically, fitted in the general definition of items to be taxed.

customs, the most significant change in this period was the ratification of the SADC Trade Protocol (2000), which established a free-trade area in Southern Africa.⁵⁹ These changes, together with a new wave of tax reforms that started in 2006, led to the current Mozambican tax system, which is presented in detail in the next section.

Despite repeated efforts to boost revenue collection through tax-system reforms, Mozambique remained dependent on external donors and preferential loans to fund its budget, ‘shifting foreign backers for financial and technical assistance’ (Orre and Rønning, 2017:x). Notwithstanding minor successes, the country is still highly dependent on external revenues. Orre and Rønning (2017:x) correctly indicate that ‘Mozambique remains exceptionally dependent on [Official Development Assistance] ODA – a situation that is likely to remain for the near future. Emerging powers, China, Brazil and South Africa in particular, have an increased importance in the political economy, but are not near to ending the donor dependency’.

In 2016, a corruption scandal and new debt crisis hit the country. Debt around US\$2 billion came to light, resulting from loans contracted by three public companies⁶⁰ during Armando Guebuza’s government in 2013 and 2014. These loans were contracted without following due procedure and with no approval from parliament. They were not disclosed and to date, little is known about the destination of most of – what became known in public parlance as – the ‘hidden debt’.⁶¹ The hidden debt crisis prompted the IMF and international donors to suspend aid to the Mozambican budget, which has dragged the country into an unprecedented crisis. Under donor pressure, an independent international audit report was commissioned to establish details of the loans, what happened to the money, and who was responsible for it. However, the report was not published in its entirety, with only the executive summary being shared so far. Also, the consulting firm in charge of its elaboration claims that they received full cooperation from the government, and no action has yet been taken to hold anyone accountable.⁶²

Although the hidden-debt case captured the collective imaginaries and became central in the country’s public debates, it is worth noting that the infamous loans only account for a small part of Mozambique’s new debt. The discovery of large mineral resources in the country in the early 2010s – notably huge reserves of offshore liquified natural gas (LNG) – brought about optimistic prospects of large income, which led the government to engage in ‘heavy international and domestic borrowing and public spending’, which some authors describe as the ‘pre-source curse’ (Orre and Rønning, 2017:ix). Hence, in recent years, the country has experienced a spiralling debt, with the public-debt volume increasing from 42 per cent of the gross domestic product (GDP) in 2012, to around 73 per cent in 2015. In 2016, the country defaulted on its foreign debt, which is currently estimated at around 83 per cent of the GDP (World Bank, 2017:1).

Today, Mozambique faces serious obstacles to its development. The high growth levels that the country enjoyed in the mid-1990s are now over. Moreover, such growth was not translated into a ‘major industrial transformation of Mozambique, and the rewards of the long period of growth have been very unequally distributed’ (Orre and Rønning, 2017:ix). With a population estimated around 28.8 million, about 50 per cent live below the poverty line.⁶³ The country has high levels of illiteracy and a lack of educational and health infrastructure, and of basic services more generally. Unemployment is currently estimated at 24.5 per cent,⁶⁴ and most of the working force, around 70 per cent, is involved in subsistence agriculture. As we have seen,

59 The maximum customs tariff rate was lowered from 35 to 30 per cent in 2001, and to 25 per cent in 2003. Additionally, the maximum value of imported consumer products was reduced from US\$200 to US\$50.

60 These are ProIndicus SA, Ematum SA and Mozambique Asset Management SA.

61 Part of the money was used for purposes other than the original ones. The money to Ematum, for instance, which was meant to be invested in the tuna fishing industry, was diverted to buy military equipment. The destination of most of the money, however, is still unknown.

62 The report was elaborated by the consulting firm, Kroll. On the socio-political impacts of the scandal, see part 3.2 of this report.

63 Res. Preliminares do Censo 2017, available at <http://www.ine.gov.mz/>.

64 Unemployment data, however, are highly problematic. As defined by the World Bank, ‘Unemployment refers to the share of the labour force that is without work but available for and seeking employment.’ Thus, those that are unemployed but not seeking a job are not included in the data.

countries with economic structures with these characteristics have more difficulty in raising tax revenues. Furthermore, the government economic strategy prioritizes investments in so-called ‘mega-projects’ in the extractive industries which, according to many analysts, have a very ‘limited positive impact... in overall employment and poverty levels’ (Orre and Rønning, 2017:x).

Politically, although officially a multi-party democracy, many prefer to use the term ‘party-state’ to describe the country. Frelimo has been in government since independence, and controls both the executive and the legislative branches of power. Thus, there have been growing tensions between the governing party and the opposition, which eventually led to armed clashes between them.⁶⁵

In this context, it is not surprising that, as in the case of Cameroon, the mobilization of domestic revenue through taxation is increasingly seen by many actors, both in the realm of the state and within civil society, as a possible privileged tool to promote the country’s development. As mentioned previously, the success of a tax system is partly defined by the quality of its institutional design. Hence, what follows describes the current institutional outlook of taxation in Mozambique, its main accomplishments, and its key challenges.

Current institutional designs: tax administration and tax structure

As the African Tax Outlook (2016:60) highlights, ‘How a revenue authority is designed is a key determinant of how efficiently it administers and collects taxes and is, therefore, a central element in reform and modernisation programs’. As the literature review indicated, a common trend in reforms since the 1990s was to create semi-autonomous revenue authorities in charge of tax administration and collection activities – which were usually performed by a department within the finance ministry. Another administrative change adopted in most countries in the region was the integration of tax and customs revenue administration.

These elements – integrating tax and customs, and creating a semi-autonomous revenue authority – were incorporated into the reorganization of Mozambique’s tax system.⁶⁶ The Mozambican Revenue Authority (*Autoridade Tributária de Moçambique* [ATM]) was created in the latest wave of reforms in 2006, aiming at the ‘modernization and strengthening of tax administration institutions.’⁶⁷ The ATM’s creation ‘transformed Mozambique’s national revenue collection apparatus’, in what can be seen as ‘a fundamental overhaul of the system and the greatest administrative shift in Mozambique’s tax system after independence’ (Anderson, 2014:231).

The ATM emerged from the fusion of two then-existing revenue bodies – the National Tax and Audit Directorate (*Direcção Nacional de Impostos e Auditoria*) and the Directorate-General of Customs (*Direcção Geral de Alfândegas*). Although the ATM is under the supervision of the Minister of Finance, the organisation has, theoretically, a degree of autonomy in order to reduce political interference, with a high level of control over both domestic taxation and customs, and funded directly by the central budget. Additionally, it has some independence from the national civil service system – a measure designed to attract the best skills by allowing independent human resources processes such as hiring, training and a separate salary scale that allows for higher wages.⁶⁸

The objectives of the ATM are to ‘ensure the effectiveness, efficiency and equity in the application of tax and customs policies, ensuring greater convenience for taxpayers in complying with tax obligations and creating a greater capacity of detection of non-compliance and tax evasion.’⁶⁹ The tax authority assures the management, coordination, control and strategic planning, as well as the administration of activities relating

65 See footnote 45 for details on the renewed conflict between Frelimo and Renamo.

66 As we will show below, this was also the case for South Africa, while in Cameroon the tax administration is still under different departments within the Ministry of Finance.

67 Law 1/2006 22 of March (BR n. 12, I Série); Decree 29/2006; Revised by the Law 19/2009.

68 The model adopted by the new entity is similar to the one adopted by many other countries in the sub-Saharan region in the same period to improve effectiveness, efficiency, and compliance in tax administration, and to reduce political interference (ATM, 2011; Fjeldstad and Heggstad, 2011).

69 Law 1/2006, Chapter I Art. 3.

to the determination, collection and control of public revenues.⁷⁰ The legal attributions of the ATM are to:

1. Execute the tax and customs policy, directing and controlling the functioning of its services;
2. Plan and monitor its activities and systems of information;
3. Train and qualify human resources;
4. Develop studies and support the design of tax and customs policies;⁷¹
5. Conduct inspections and customs control of the entries and exits of goods, means of transport and people linked to those goods or means of transport in the territory of the country; and
6. Prevent, combat and suppress fraud of customs and tax offenses, exchange fraud in the area of customs, unauthorized external trade and illicit trafficking in narcotic drugs, psychotropic substances, weapons, art objects, antiquities and other goods prohibited or protected by law.⁷²

The main ATM bodies are the Presidency, the Fiscal Higher Council (*Conselho Superior Tributário*), the Governing Board (*Conselho Directivo*), the Directorate-General of Customs (*Direcção-Geral das Alfândegas*, DGA), the Directorate-General of Taxes (*Direcção-Geral de Impostos*, DGI); and the Directorate-General of Common Services (*Direcção-Geral dos Serviços Comuns*, DGSC). There is also the Office of Planning, Studies and International Cooperation (*Gabinete de Planeamento, Estudos e Cooperação Internacional*, GPECI), and of Internal Control (*Gabinete do Controlo Interno*, GCI). Additionally, there is an advisory body, the Fiscal Council (*Conselho Fiscal*), tasked with ‘analysing and monitoring the evolution of the tax system and the fiscal policies, in order that they remain key tools for social justice’.⁷³

In the last two years, the new president of the ATM, Amélia Nakhare, initiated internal reforms in the ATM. According to Nakhare, the ATM ‘was an extremely heavy institution in its structure’, which slows down processes and ‘had significant implications on the state budget’. In this context, ‘It was necessary to move forward with reforms in terms of organization of its structure, from the bottom up, [to] reduce the structure and make it more compact, more flexible, and allow the flow of information to occur’.⁷⁴ The changes implemented under Nakhare saw a significant reduction of management positions and, consequently, of personnel, achieving both a more straightforward chain of command and a reduction of the overall organizational costs.⁷⁵

Another reform in tax administration procedures was establishing the compulsory use of the Individual Taxation Identification Number (*Número Único de Identificação Tributária*, NUIT) by individuals, companies and other collective entities when paying any kinds of taxes, including customs.⁷⁶ Initially established by the Tax Reform Law (Law 15/2002) but only regulated by a decree in 2012, the NUIT implementation aimed to improve control and to simplify tax-payment procedures.⁷⁷ All taxpayers have the duty to apply for the document, after which they are assigned a number and given a NUIT card. The NUIT number must feature in all taxpayers’ interactions with the revenue authorities, and in other situations such as licensing economic activities, and operations with credit, insurance and other financial organisations.⁷⁸

In 2011, the government implemented an electronic system for customs clearance, the single electronic window (SEW). Through the SEW, external components of taxes, a significant portion of tax revenues, are collected. In 2014 for instance, 27 per cent of tax revenues were collected via the SEW. The system was put

70 Law 1/2006, Chapter I Art.4 2.

71 Law 1/2006, Chapter I Art.4 3.

72 These last two added by the law n.19/2009.

73 Law 1/2006, Chapter III, Art. 10 1. See Annexe I for ATM’s organization chart.

74 <http://opais.sapo.mz/nakhare-acredita-num-orcamento-mais-sustentavel>

75 For instance, before reorganisation each directorate had three general directors and five deputy directors. Now there is only one of each for each directorate.

76 This comprised all citizens, including self-employed and individual business owners, commercial associations, cooperatives, public and private companies, associations, foundations, NGOs, and diplomatic representations, among others (ATM, 2015). Law n.15/2002, 26 June, Art. 16; Decree 28/2012, 26 July.

77 Decree 28/2012, 26 July.

78 ATM (2015).

in place to 'enhance efficiency, efficacy and transparency of trade across borders, improve trade taxation management and enable phyto-sanitary and other controls in an expedited, efficient and transparent manner'. As a result, 'improving Mozambique's Customs' ability to deliver streamlined automated customs programs at levels demanded by new international agreements and standards'.⁷⁹

Mozambique's current tax system is the result of different waves of reforms which, as discussed, have been adopted by the government since the late 1980s and early 1990s. This, in the context of the transition to capitalism and a market economy; of the end of the civil war and the democratization of the country; and of the country's continuous dependence on foreign donors and international financial institutions. After the first changes to the post-independence tax system described above, a Tax Reform Law (Law 15/2002) was approved in 2002 by the parliament, aiming to simplify the overall fiscal framework to make the task of further reforms easier.

The law systematized the different tax handles as direct and indirect taxes. For direct taxes, the law created a new income-tax regime, both for individuals (*Imposto sobre o Rendimento de Pessoas Singulares*, IRPS) and corporate taxpayers (*Imposto sobre o Rendimento de Pessoas Colectivas*, IRPC).⁸⁰ The IRPS is a personal income tax levied progressively on all households earnings at a rate of 20 per cent, with the exception of those in the agriculture sector, for whom a 10 per cent rate cap was established. The rates are subject to a set of deductions according to a taxpayer's conjugal status and number of dependents. Households with earnings under MZN24 million are exempt,⁸¹ and capital incomes are taxed at 10 per cent. The IRPC is a corporate income tax that is applied to private, public and cooperative enterprises at 32 per cent. Incomes taxed at source were subject to 10–20 per cent rates.

A new Fiscal Benefits Code (*Código dos Benefícios Fiscais*) was also approved in 2002.⁸² The Code granted fiscal exemptions for megaprojects, and for projects in designated special economic zones in Stamp Tax, Income Taxes, Customs Duties, and some property taxes.⁸³ Additionally, large-scale investments enjoyed an investment tax credit, on 5–10 per cent of the total investment, during the first five years. The Code also established incentives for investment in specific industries defined as strategic sectors. Oil and mining operations were provided exemptions on VAT, customs tariffs and ICE on imports, and until 2010, enjoyed income tax rates reduced by a quarter on income taxes for investments over US\$500 million. Agriculture investments got a fixed-term rate reduction of four-fifths for income taxes until 2012.

The Code also aimed to stimulate the economy of less developed areas of the country.⁸⁴ With that in mind, investments outside Maputo enjoyed higher tax breaks. For projects in certain priority industries (e.g. transport, education, health, agriculture, and construction), an income tax credit of 20 per cent was established up to 2015, together with exemptions on some customs duties. Finally, investments on Industrial Free Zones that met certain criteria – such as the creation of a minimum of 500 jobs and with more than 85 per cent of production oriented to exports – received exemptions from property tax, all customs tariffs, 60 per cent reduction on IRPC and reductions on VAT and ICE for ten years (Anderson, 2014:223).

The systematization of the tax handles and the Fiscal Benefits Code set the basis upon which the most recent tax reforms occurred. It is against this background that, starting in 2006, a new wave of tax reforms led to the current Mozambican tax system.

In 2006, a new General Law on Taxation was approved (Law 2/2006). The law 'revised the system's core

79 SPEED, (2013) Note 001, <http://www.speed-program.com/wp-content/uploads/2013/03/2013-SPEED-Note-001-Impact-of-the-Single-Electronic-Window-EN.pdf>

80 This new regime replaced the previous dysfunctional system, which had five income taxes and a base severely narrowed by excessive exemptions and benefits (IMF, 2004).

81 On approval of the law this amount corresponded to around US\$1,200.

82 Decree 16/2002.

83 To gain exceptional incentives, an investment project must be approved by the Council of Ministers and demonstrate how it would enhance Mozambique's economic development (specifically important were plans to create jobs and reduce regional disparities).

84 The incentives regime recognised Rapid Development Zones in several locations, such as the Niassa province, the Zambezi Valley region, and the Nacala district.

framework, including taxpayer rights and obligations and the duties of the government bodies responsible for taxation' (Anderson, 2014:233). In 2007, a new VAT code, with a revised list of exemptions and higher sales thresholds to access them, was implemented.⁸⁵ Legislation concerning the IRPS and the IRPC was also revised: the first included a new tax on income from fixed term deposits and traded securities, while the second raised the threshold for taxable income.⁸⁶

More reforms came in 2009. In indirect taxes, a new ICE code was approved, reducing rates for some goods (e.g. vehicles, jewellery, wine), and withdrawing others from the list of goods liable to excise taxes (e.g. sporting goods and toys).⁸⁷ Additionally, a new Customs Law was approved, reducing the tariff cap from 25 to 20 per cent.⁸⁸

Concerning direct taxes, the government created the Simplified Tax for Small Taxpayers (*Imposto Simplificado para Pequenos Contribuintes*, ISPC)⁸⁹. The ISPC was designed for people and companies engaged in small and medium businesses, whose annual sales do not exceed MZN2,500,000.⁹⁰ The main aim of the new simplified regime was to expand the tax base by facilitating tax payments for those operating mainly in the informal sector, for instance, 'street traders, general wholesale, retail and mixed trade, and rural commerce, including stalls, kiosks, canteens, shops and tents, as well as manufacturing and service providers, including small-scale exporters and importers'.⁹¹ Those who opt for paying the ISPC have to pay neither income taxes (IRPS or IRPC), nor VAT. There are two rates options, payable every three months: either 3 per cent on the value obtained doing business, or a fixed amount of MZN75,000.⁹² As a measure to further stimulate the target audience to register to pay the ISPC, a 50 per cent discount was conceded for the first year of payment of this tax.

Finally, still in 2009, a new Fiscal Benefits Code was approved,⁹³ revising the tax incentives and exemptions, and defining general as well as sector/zone-specific benefits for investment projects.⁹⁴

Parallel to these changes in the tax system and administration, a process of political decentralization was in motion. In 2008, a Municipal Finance Law (*Código Tributário Autárquico*) was approved, reforming the municipal tax system and setting out the budgetary, financial and asset regimes for local governments.⁹⁵ According to legislation, the main taxes collected locally are the property tax (at a rate of 0.4 per cent for residential and 0.7 per cent for commercial properties in urban areas); the motor vehicle tax; the SISA, charged at a 2 per cent rate on the value of real estate assets when transferring its ownership; and the municipal personal tax, a kind of 'head-tax' charged to all residents at a progressive rate from 1 per cent to 4 per cent of the person's salary, annually.⁹⁶

Summing up, the reforms narrated in this section consolidated the current Mozambican tax structure, divided into national and autarchic, and direct and indirect taxes, as in the figure below.⁹⁷ Administratively, the government introduced the NUIT; created a new semi-autonomous revenue authority, the ATM; and implemented an electronic system for customs revenue collection. In terms of legislation, it enacted a new

85 Law 32/2007, Decree 7/2008.

86 Laws 33/2007 and 34/2007; Decrees 8/2008 and 9/2008.

87 Law n.17/2009. The rate varies between 5 per cent and 65 per cent.

88 Law 6/2009.

89 Law 5/2009, 12 January; Decree n.14/2009, 14 April

90 Around US\$ 87,000 at the time the ISPC was established. With the extreme devaluation the metical has suffered in the past three years this amount now is less than half, at around US\$41,000.

91 Decree 14/2009 Art.1

92 Currently this amount is around US\$1240.

93 Revoking the previous code established by the Decree 16/2002.

94 Law 4/2009.

95 Law 1/2008; Decree 63/2008.

96 ATM (2015b). There are also other fees and tariffs which local governments are entitled to charge, such as license fees for economic activities and service delivery tariffs.

97 There are some other minor taxes, which I do not discuss here, as they do not really add up to revenue collection, such as stamp duty or the National Reconstruction Tax. In the figure, I put them together in a category of 'others', which is the way that the ATM classifies those taxes in much of its official material.

General Tax Law clarifying the rules for tax collection and taxpayer rights. It also tried to rationalize fiscal benefits, to reduce the tax burden on small businesses through increased tax thresholds and VAT reductions, and to expand the tax base by enacting the ISPC.

National Taxes			Municipal Taxes
Direct Taxes	Indirect Taxes	Other Taxes	Municipal Personal Tax
Personal Income Tax (IRPS)	Value Added Tax (VAT)	Stamp Duty	Municipal Property Tax
Corporate Income Tax (IRPC)	Specific Consumption Tax (ICE)	Tax on inheritance and donations	Municipal Motor Vehicle tax
Simplified Tax for Small Taxpayers (ISPC)	Customs Duties	Special Tax on Gambling	Municipal SISA Tax
		National Reconstruction Tax	

Figure 4: Main tax handles, Mozambique (2017)

Revenue collection and current challenges

The latest tax reforms in Mozambique undeniably brought some progress and enhanced the country's fiscal system. However, some problems – in relation to which the tax policy evolved in Mozambique – persisted. Here, we focus on three topics: the aim of increasing domestic revenue mobilization; the goal of expanding the tax base; and the policy of tax expenditures.

The goal of increasing the domestic revenue mobilization was, to a certain extent, achieved. In 2015, tax revenues contributed to 21.8 per cent of Mozambique's GDP.⁹⁸ This represents a significant increase since the end of the war in 1992, when the tax to GDP ratio was 10.2 per cent. However, estimates for 2016 show a small decline to 20.1 per cent, and the 2015 ratio was already a reduction in relation to 2014, when tax revenues reached 25.4 per cent of the GDP.

⁹⁸ ATO (2017:181).

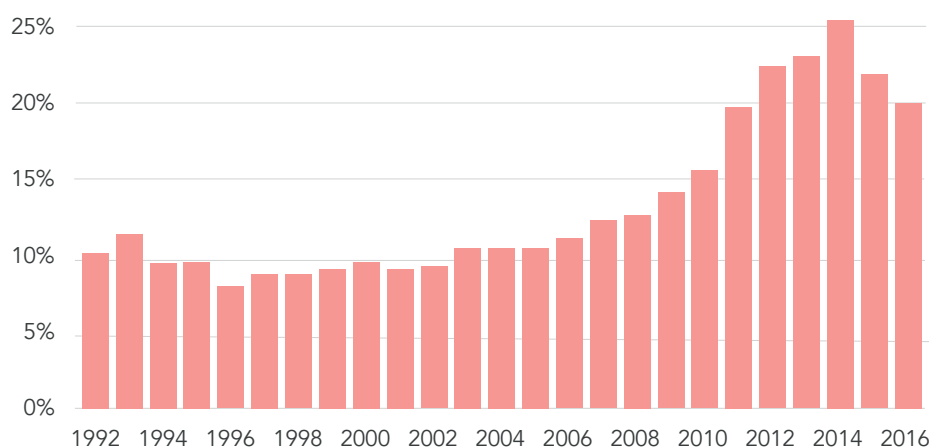


Figure 5: Tax revenue as a percentage of GDP (ATO, 2017:181), Mozambique

Sources: IMF country report (1992-2012); World Development Indicators (2013-2016).

One of the reasons for this decline is the serious economic crisis that hit the country in the last two years on the graph, which shows that good institutions alone cannot hold tax levels stable. Other aspects of the economic structure and external environment are key determinants of the extractive capacity of a state. According to the World Bank's most recent data, a 'slowdown in Mozambique's economic performance may be taking hold and shifting this once fast-growing economy to a more modest pace of growth... After registering 7 per cent GDP growth on average between 2011 and 2015, growth is expected to dip to 3.1 per cent in 2017' (World Bank, 2017:1).

The economic crisis had a negative effect on the mobilization of domestic revenues, as small and medium enterprises faced restricted growth for the first time since 1994.⁹⁹ According to the ATM, in 2017 alone, 1,549 companies that used to pay taxes had ceased their activities, and a further 220 suspended the payment of Corporate Income Tax.¹⁰⁰

Additionally, the level of concentration in the economy is increasing, 'with a few commodities dominating exports... which heightens exposure to external shocks' (World Bank, 2017:1). In this context, the falling of commodity prices in early 2016, paired with a serious El Niño drought further impeded the government's extractive capacity.

The decline of the share of tax revenues in the GDP, however, is not only a reflex of the broader economic crisis, but also of the limited results of policies oriented to expanding the tax base, which was one of the main goals of recent reforms. For instance, the creation of the ISPC aimed to encourage those operating in the informal sector to formalize. However, the new tax handle was met with resistance:¹⁰¹ the number of people that subscribed to pay this tax is only approximately 200,000 and the contribution of the ISPC to the overall revenue is insignificant, amounting to around 0.14 per cent.¹⁰²

In terms of the composition of the tax revenue, in 2015 direct taxes accounted for 45 per cent of revenues, with the Personal Income Tax contributing 17 per cent and the Corporate Income Tax, 28 per cent. Indirect taxes made up for most of the remaining, with consumption taxes on domestic and international goods combined contributing 42 per cent, and imported duties and other taxes on imports amounting to 10 per cent. All other taxes together made up as little as 3 per cent.

99 According to World Bank (2017:1) growth, and capacity of small and medium enterprises to generate jobs, was constrained by the economic downturn in the post-hidden-debt period through reduced demand from both private consumers and the public sector, reduced investment, and the high cost of credit.

100 <http://clubofmozambique.com/news/tax-collection-on-target-mozambique/>

101 For the point of view of the informal sector about why they were not attracted by the measure, see part 3.3 of this report.

102 Data provided by the ATM.

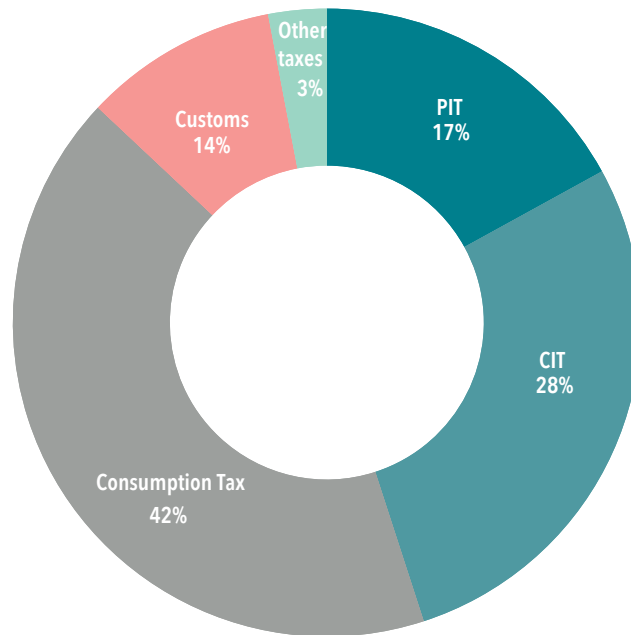


Figure 6. Breakdown of tax revenue, Mozambique

Source: ATO (2017:41).

It is true that the ATM successfully increased the number of registered tax payers – from 390,000 people through NUIT in the year of its creation in 2006, to around 5 million registered citizens by the end of 2017.¹⁰³ However, this amount represents only 17 per cent of the population, and not all of them actually paying tax. Estimates are that only around 20 per cent of those registered are active taxpayers. As Amelia Nakhare, president of the ATM, acknowledged, Mozambique has an economic active population of around 14 million, which means that most of them are still out of the tax administration reach.¹⁰⁴

Structural problems, such as high levels of informality, unemployment and poverty, make difficult the collection of direct taxes from a bigger portion of society. However, different challenges related to the tax administration also play a role. According to Nakhare, in 2017 the ATM undertook 1,199 audits, which uncovered around MZN3.6 billion in tax debts, but of this sum less than MZN162 million was actually collected.¹⁰⁵ The president lists as factors behind these debts the lack of ATM resources, tax avoidance and corruption.¹⁰⁶ Tax avoidance is facilitated by the fact that the ATM is understaffed, which makes enforcement and audits hard to conduct. In such context, to increase tax morale becomes a central task, as voluntary compliance could help reduce evasion. We will discuss this topic in the next part of this document.

The president also acknowledged that corruption inside the ATM remains a major challenge. According to her, ‘Fighting corruption among tax officials... does not just involve administrative measures, but also far-reaching work of institutional reform, training, development of moral and ethical values and improving the legal framework.’ This includes the amendment of criminal law ‘to ensure “implacable penalties” for corrupt ATM staff’.

In relation to the tax structure, while the share of direct taxes has increased, with income taxes now accounting for about 45 per cent of tax collections, the relative efficiency of direct taxes in Mozambique is low, especially concerning the corporate income tax (IMF, 2016:18). The reason is that the system of

¹⁰³ AT, Boletim Tributário, Edição n.103, Maio-Julho 2017.

¹⁰⁴ <http://opais.sapo.mz/nakhare-acredita-num-orcamento-mais-sustentavel>.

¹⁰⁵ The total of tax debts amounts to US\$ 59,9 million, while the amount collected was US\$ 2,7 million.

¹⁰⁶ <http://clubofmozambique.com/news/tax-collection-on-target-mozambique/>

fiscal incentives established the Fiscal Benefits Code (2009), which according to the IMF (2016:19) ‘tends to favour large, capital intensive projects, and established larger tax credits to the higher income brackets’. In order to attract FDI, the government offers a series of fiscal incentives, such as tax holidays, tax-rate deductions, investment-tax credits and VAT exemptions, which together are depriving Mozambique of relevant resources.¹⁰⁷ In 2014, for instance, tax expenditure represented 3.3 per cent of GDP (IMF, 2016). Moreover, despite the generous tax exemptions, FDI to Mozambique has been falling since 2013, with an estimated drop by 44 per cent in 2017 (World Bank, 2017:10).

Summing up, enhancing the ATM’s capacity for tax inspection, fighting corruption, tax enforcement and reducing tax evasion, expanding the tax base and reducing tax exemptions are the main challenges that the tax system faces today in Mozambique. Institutional reforms and measures are fundamental to dealing with these problems, such as modifying the Fiscal Benefits Code, implementing accountability measures within the tax administration, and increasing the number – and better training of – the tax administration personnel. However, as we argue in the next part of this report, other measures pertaining to state–society fiscal relations could contribute significantly to dealing with these challenges, especially in what concerns expanding the tax base and reducing tax evasion.

2.3 The case of South Africa

With a population of around 55.6 million people, the Republic of South Africa is the largest country in southern Africa, in population size as well as land area.¹⁰⁸

A long-standing system of institutionalized racial segregation dominates South African history. From 1948 until the early 1990s, a policy of *apartheid* imposed a system of separation of races and organized the socio-political and economic life of the country according to white supremacist ideology. Certain critical junctures significantly influenced the fiscal system and trajectory of taxation. For the purposes of this research, South African history is divided into four distinct periods, which are outlined below.

The first period, 1886–1902, begins with the discovery of vast gold deposits on the Witwatersrand, and with this fortuitous event, the birth of capitalist industry. Statutory black subjugation into bonded labour enabled access to cheap labour for the gold mines. This created friction with the farmers, who also needed cheap labour for their farms. Their differences were only settled by the Boer War and its aftermath after 1902.

The second period, 1902–48, saw the emergence of an imperial political administration crafted by the British to support the capitalist interests of the mining industry. It was during this time that policies to cement a ‘cheap labour’ system were implemented, at the expense of the black population who were turned into a ‘captive labour force through forcible incorporation into the capitalist system’ (Tshitereke, 2006:7). Afrikaner nationalism was at a low point; the system was designed to enforce the capitalist system and crush any opposing political and economic views. This period was one of industrial revolution and the consolidation of capitalism in which black people feature in the economic equation only as the cheap labour needed to drive the system. The political system introduced by the British began to weaken in the late 1940s, because ‘it focused more on capital accumulation while neglecting Afrikaners’ deep feelings of patriotic nationalism.’ (Tshitereke, 2006:7).

The third period, 1948–94, saw a rise of Afrikaner nationalism and the triumph of the National Party (NP), which was obsessed with racial purity and applied it through apartheid. Apartheid repression literally silenced black political voices and excluded and systematically oppressed 75 per cent of the population for 46 years until it was overthrown in 1994.

Black South Africans began to realize their long-awaited dream of freedom in the fourth period, which

¹⁰⁷ Fjeldstad and Heggstad (2011) discovered, for instance, that while large mining projects by foreign companies account for up to 12 per cent of Mozambique’s GDP, they contribute less than 3 per cent of tax revenues.

¹⁰⁸ Available from: <http://cs2016.statssa.gov.za/>

begins with the formal end of apartheid in 1994 and runs to the present. The new democratic government, led by the African National Congress (ANC), was presented with the challenge of addressing the economic and social ills left behind by the apartheid regime. According to Hirsch (2005:17), 'apartheid rule had long-lasting consequences on the broader characteristics and competitive capabilities of the South African economy too'. It is important to recognize how different the impact of the apartheid economy was for whites and for blacks; it was this conundrum that presented the ANC government with some of its greatest challenges. Most critical, however, was to heed the call of the masses for social justice.

One remarkable feature of the post-apartheid political economy is South Africa's rapidly growing economic role in Africa. South Africa has one of the continent's biggest and most developed economies. In 1994, the new government had a daunting task: to reprioritize resources in the economy by changing policy incentives and budget priorities. Post-apartheid South Africa was also in the process of dismantling myriad policies skewed towards distributing privileges for a white minority (Klaasen, 2002). Hirsch (2005:1) details the economic task faced by the ANC government upon taking office, noting 'when the African National Congress (ANC) came to power after South Africa's first democratic elections in April 1994, it faced daunting economic challenges: severe poverty and inequality and economic stagnation'.

Because these challenges were structural in nature, it was crucial to unpack and define the ways in which they had been engendered by apartheid policies. The ANC government identified a need for reforms to boost the ailing economy, which was not only suffering massive inequalities but also a specific history of racial discrimination that gave inequality a racial character. To address these challenges in the shortest period possible would require radical policy approaches.

Although igniting the economy became the focus of government policy, the ANC-led government had to tread carefully to maintain a balance between the need for social justice and the interests of corporate South Africa. The government introduced the Reconstruction and Development Programme (RDP) as part of the ANC election platform in the 1994 elections. RDP was to be the primary socio-economic programme.

The broader aim of RDP policy was to establish equality through reconstruction and development (Hirsch, 2001). The salient aims of RDP policy programmes were the creation of a strong, dynamic, balanced economy for South Africa and the region, and democratization of state and society, among others (ANC, 1994). In short, RDP aimed to address – and seek redress for – the inherited and gross inequalities of apartheid: social, economic and spatial.

Although the RDP was successful in certain sectors – an extensive welfare system was established, for example – there were some implementation problems caused by fiscal constraints and an inefficient public service (Visser, 2004). Government responded by introducing a macro-economic policy framework called the Growth, Employment and Redistribution (Gear) strategy in 1996 to stimulate the rapid economic growth required to provide sufficient resources to meet social investment needs. Gear was a response to the realization 'that the economy could not afford the luxury of an extended debate on macro-economic policy before essential stabilisation measures were put in place' (Friedman, 2004:185) cited in (Tshitereke, 2006:9). Gear encompassed most of the social objectives of the RDP but also aimed to reduce fiscal deficits, lower inflation, maintain exchange rate stability, decrease barriers to trade and liberalize capital flows.

What is to be commended is that Gear influenced fiscal deficit, inflation and government consumption targets (Tshitereke, 2006), and resulted in greater macro-economic stability and increased accountability (Hirsch, 2005). However, despite these achievements, private investment, job creation and GDP growth indicators were disappointing. According to Tshitereke (2006), the reasons were low levels of economic growth and private investment. Gear policy also had little effect on the unequal distribution of wealth. Thus, while Gear was successful in achieving macro-economic objectives, it fell short in terms of dealing with social challenges, most notably those of reducing poverty and creating employment.

Government noted the shortfalls in Gear policy and in 2005 replaced it with the Accelerated and Shared Growth Initiative for South Africa (Asgisa). Asgisa was designed as a response to what seemed perennial



poverty driven by unemployment and low wages in the wake of poor economic growth. Asgisa was intended as a means to reduce poverty by 2010 and halve the 28 per cent unemployment rate by 2014, but was rapidly ushered out with the resignation of Thabo Mbeki, who was president at the time.

The New Growth Path, which replaced Asgisa, sought likewise to tackle persistent poverty, unemployment and high levels of inequality; the structural nature of these social ills remained a thorn in the flesh of the ANC-led government.

In 2013, government introduced the National Development Plan (NDP) 2030, South Africa's long-term socio-economic development road-map whose twin visions of eliminating poverty and reducing inequality by 2030 are unrealized to this day. Its political liberation agenda and policies coincided with what Hart (2006:13) describes as a retreat from the harsh neoliberal prescriptions of the Washington Consensus in favour of gentler discourses of social inclusion and poverty alleviation.¹⁰⁹

South Africa emerged from authoritarian rule in the midst of a phenomenon referred to as the 'third wave of democratisation' (Lieberman, 2003:183) which describes a series of global transitions to democracy, which in sub-Saharan Africa began in 1989 with Namibian independence.

The formal end of apartheid in South Africa in 1994 marked a critical change in the existing tax system. Contemporary South Africa's break with the past was popularized in political discourse with the name 'New South Africa'.

¹⁰⁹ The *Washington Consensus* is a set of 10 economic policy prescriptions considered to constitute the 'standard' reform package promoted for developing countries.

This period opened avenues for renegotiation of policies and administrative practices in many different sectors of government and the economy.

Tax reform was a key policy concern. The democratic transition in the late 1980s and early 1990s afforded the freedom to review policy in a number of administrative areas. The tax system was to ‘become one of the several institutions targeted for righting past wrongs’ (Lieberman, 2003:210).

As was anticipated, a wide range of political actors began arguing for a fairer tax system. The drafting of the new Constitution prompted debates on the role of the state, and on how and by whom it should be financed. Upper- and working-class actors played critical roles in the process of democratization, which combined elite negotiations from above and popular challenges from below that brought to the fore new taxation policies along with the democratization process itself and the new Constitution.

The new government was confronted with considerable economic challenges birthed to some extent in the period just before democratic transition – a time characterized by increased spending by the apartheid government and a steep decline in revenues, exacerbated by economic sanctions and disinvestment.

At the advent of democracy, South Africa’s economy showed very high levels of inequality with regard to income and wealth distribution. Government coffers were in a perilous state. Revenue collection was weak and expenditure controls were poor (PARI, 2015). This contributed directly to the deterioration of the government’s poor financial position.

In the post-apartheid state taxation was fundamental to sustainable development; an essential tool to support the basic functions of the effective state and set the context for anticipated economic growth.

As we will see in the next part of this report, for broader sectors of civil society, taxation can be used to fight apartheid legacies and promote social justice, economic inclusion and racial equality.

Current institutional designs: tax administration and tax structure

The South African Revenue Service (Sars) administers the South African tax system and customs service. It was established in 1997 via the South African Revenue Service Act (No. 34 of 1997).¹¹⁰

Sars is the brainchild of the Katz Commission, which was tasked in 1994 to perform a comprehensive review of the entire tax system. The commission recommended an overhaul of the tax regime and the institutions responsible for revenue collection. Tax structures were simplified and many allowances and deductions for taxpayers were abolished, which made administration easier and more effective. In 1997, on recommendation of the commission, Inland Revenue and Customs and Excise, the two directorates responsible for revenue collection, were amalgamated into a new autonomous agency – Sars. Sars is headed by a commissioner who is appointed by the President of the Republic. The Sars organogram illustrates the impressive volume of the commissioner’s sphere of influence. Two group executives – the heads of Internal Audit and Tax, and the Tax, Customs and Excise Institute – report directly to the commissioner, as do the chief officers who head the following departments: Business and Individual Taxes; Customs and Excise; Enforcement; Digital Information Services and Technology; Human Capital and Development; Governance, International Relations, Strategy and Communications; Finance; and, Legal Counsel.

Sars is defined as a semi-autonomous organization with the authority to collect all revenue due to the fiscus; ensure compliance with tax and customs legislation; and, provide a customs service that maximizes revenue collections, protects our borders and facilitates trade. Sars is responsible for collecting a wide range of taxes. These include personal income tax (PIT), capital gains tax (CGT), value-added tax (VAT), corporate income tax (CIT), customs/import duties, excise duties, transfer duty, estate duty, skills development levy, unemployment insurance fund contributions, fuel levy, environmental levy and other taxes (Sars, 1997).

Sars reports directly to the Minister of Finance and works in cooperation with National Treasury, which manages national economic policy and finances and prepares the government budget.

At the time of its inception, Sars was regarded as a disorganized and ineffective organization that lacked

110 For a brief description of Sars’ trajectory, see section 3.2 of this report. See also PARI (2015).

both systems capacity and human resource capacity (PARI, 2015:10). Beginning in 1999, Pravin Gordhan (Sars commissioner at the time) and Sars management teams restructured Sars (PARI Budget reform in South Africa report, 2015:11-12) and turned it into a successful public sector entity.

The most notable changes included simplification of the tax system, whereby many low-yielding taxes were abolished; harmonization of tax systems of former bantustans; withdrawal of tax exemptions on various bodies and institutions; and, the abolition of non-resident shareholders' tax (NRST) (Lieberman, 2003:222).

Sars prides itself on its reputation as a competent state agency staffed by highly skilled and dedicated employees. Internal organization at Sars and the tax bureaucracy is excellent. Staff are well-trained and have a high level of technical ability, which accounts for the organization's phenomenal success at collecting taxes. Sars also focussed on changing people's perceptions towards tax compliance (PARI, Budget Reform in South Africa Report, 2015) and has recorded a gradual increase in the number of registered tax payers over the years. According to Sars officials, the organization increased the number of registered taxpayers through nationwide tax education, outreach and enforcement programmes, and also by instituting amnesties and increasing auditing.¹¹¹

There were massive revenue gains after the overhaul of the tax system was initiated. Total tax revenue increased from ZAR178,846,524 million in the 1998–99 financial year (Sars, Annual Report, 1999) to ZAR1,144.1 trillion in the 2016–17 financial year – 26 per cent of GDP (Sarb Annual Report, 2017). Innovations such as e-filing of returns also made compliance simpler and cheaper. These developments significantly transformed the tax collection system from 'a problem child to a star performer' (PARI, 2015:9). The most remarkable change to the taxation system, for which Sars is to be commended, is integration of black South Africans into a new relationship with the state. In the late 1990s, a large portion of the black population was not registered for tax. Although the tax state in South Africa is strong, the central state's ability to redistribute resources through the fiscus is cause for heated debate that is ongoing.

Over the years, Sars has increased registration compliance by introducing bulk registration at places of employment and providing an online facility that enables employers to register staff when their monthly Pay-As-You-Earn (Paye) returns are submitted. This revised employer filing and employee registration process introduced by Sars in 2010 is the chief reason for the phenomenal growth in the number of individuals registered for PIT. According to the Sars and National Treasury report (2017) the number increased by 4.9 per cent from 18.2 million in 2014/15 to 19.1 million in 2015/16 to 20.0 million in 2016/17. The number of companies registered for income tax is also increasing. In 2015/16 there were 3.3 million companies registered; in 2016/17 that number increased to more than 3.7 million.¹¹²

Currently, taxation in South Africa is governed by tax legislation and administered by Sars in terms of the South African Revenue Service Act (1997), together with the Tax Administration Act, No. 28 of 2011 (the 'TA Act'). The chief function of this Act is to consolidate the administration aspect of all Acts administered by Sars, with the exclusion of the Customs and Excise Act. The key revenue source, income tax, is guided by the Income Tax Act, 1962.

South Africa's fiscal history began in 1854, in the embryonic fiscal state that emerged first in the British colony at the Cape when the first income taxes were imposed on inhabitants by the Cape Colony government (Lieberman, 2003:111). According to Lieberman, these taxes generated almost no revenue and were abolished at the start of the Union (Lieberman, 2003:111–112). A major breakthrough came with the 1909 Constitution, which proposed a general income tax. Accordingly, in 1914, General Jan Smuts, in his capacity as Finance Minister of the Union of South Africa, introduced what was called a general income tax.¹¹³ This

111 Interview, Sars, 25 August 2017

112 2017 Statistics, National treasury and South African Revenue services, 2017. Available at: <http://www.sars.gov.za/AllDocs/Documents/Tax%20Stats/Tax%20Stats%202017/Tax%20Stats%202017%20Publication.pdf>

113 Income Tax Act of 1914.

marked the first time Europeans were directly taxed in South Africa. The tax was implemented immediately after enactment of the Act and became the major source of revenue for the Union. Income tax rates ranged between 2.5 per cent and 7.5 per cent of taxable income (Lieberman, 2003:129). As a percentage of GDP, income tax and property tax rose rapidly from 0.8 per cent in 1915 to 2.2 per cent in 1930 (Lieberman, 2003:124).

Over the years the Income Tax Act was rewritten to consolidate prior amendments.¹¹⁴ The current Income Tax Act (of 1962) administers both personal and corporate income tax. Generally, the rate structure for the white upper-income groups was highly progressive. The same was not true for African taxation (largely poll taxes and hut taxes) which remained highly regressive for the lowest income earners.

The apartheid state's demands for taxation relied on appeals to national consciousness (Lieberman, 2003) rather than coercion. According to Lieberman, a distinct feature of South Africa is what he refers to as 'the political glue of race', or 'whiteness', racially motivated notions of 'us' white people and 'them' black people centred around white racial identity and white supremacy more generally. The result is that in South Africa, racial identity was central to definitions of citizenship.

Liebermann, (2003:4-5) argues that such definitions of citizenship had an important influence on citizen behaviour, which ultimately affects the types of tax policies that are adopted and how they are implemented. Moreover, the revenue generated from these taxes was also used to support social welfare programmes targeted at tackling the 'poor white' problem (Lieberman, 2003:143).¹¹⁵ According to Hellman, social welfare policies were largely driven by the predominant development theory of the time, Keynesianism, which advocated, among other things, increased government expenditure and the creation of a welfare state (Hellman, 1949: 413). During the war years, more than 90 per cent of total assistance went to white South Africans (Hellman 1949: 415-16). As a result, the majority of the white population accepted the tax burden, whilst the majority of black people were pushed to the margins, unable to fully contribute to income taxes because of their limited salaries.

Although income tax legislation did not undergo major changes, the same cannot be said for the administrative side of the tax system. Over the years, the tax system underwent greater bureaucratization and subscribed to more advanced models of revenue collection. The state embarked on increasing simplifications to the tax system by reducing tax exemptions and incentives that were introduced to the tax policy framework over the preceding years. The tax system was furthermore modernized with new technologies for example, computerization in 1962, the introduction of the Paye system in 1963 and provisional tax.¹¹⁶ This significantly reduced collection costs and increased tax compliance.

In 1984, the schedule dealing with fringe benefits was introduced to address difficulties in determining the value of fringe benefits provided to employees. This ensured that fringe benefits were taxed on a similar basis to salaries and wages paid in cash. In 1995, the First Interim Katz Commission Report proposed amendments aimed at aligning the system with the imperatives of the interim Constitution. As per these amendments, gender and marital status discriminations were removed from the income tax system.

Over the years further drastic changes were introduced. In the early 2000s significant changes were made to the way in which foreign dividends received by South African residents were to be treated for tax purposes in order to counter tax avoidance using offshore companies. To this effect, section 10B was introduced to clarify the extent to which foreign dividends would be exempt from tax. It stipulated that any dividend

114 These included wartime taxes and super-taxes on companies, mines and individuals, for example, there was Income Tax (consolidation) Act, 1917; Income Tax Act, 1925; Income Tax Act, 1941.

115 The 'poor white problem' was a term coined by the Carnegie Commission (1932), which conducted a study of poverty among white South Africans and to whom the term referred. The recommendations of the commission are often credited with prompting welfare state building and some have argued would later serve as a blueprint for apartheid.

116 Paye is a part of employee salary that is withheld by the employer for payment of income tax. The amount is refundable if it exceeds tax as determined on tax returns. Paye may include withholding the employee portion of insurance contributions or similar social benefit taxes.

received by a foreign company resident in the same country as the company paying the dividend, is exempt from tax. In other words, dividends received by a controlled foreign corporation (CFC) of a South African resident company, from a company that is resident of the same country as the CFC, will be exempt. Formulas for exemptions were set out and clearly defined.¹¹⁷

The South African income tax system has always sought to be progressive. To ensure that the direct personal income tax burden on individuals remains reasonable, personal income tax brackets and rebates are adjusted to take account of inflation and occasionally also to provide limited real tax relief.

The other direct tax in South Africa is Company Income Tax (CIT), which is levied on the taxable income (gross income less exemptions and allowable deductions) of companies and close corporations. After PIT and VAT, CIT has been the third largest contributor to total tax revenue for the past decade (Sars and National Treasury, 2017). However, its relative contribution declined from the pre-recession peak of 26.7 per cent in 2008/09 to 18.1 per cent in 2016/2017. According to the Sars Annual Report (2017), this decline is largely attributable to reduced company profits because of weak global demand following the crisis, unanticipated shocks to economic activity such as labour disruptions in the mining and manufacturing sectors, electricity supply constraints and a weak global demand for commodities.

CIT from the mining sector was particularly affected by the deterioration in prices of commodities. Sars (2017) further highlights that the manufacturing sector was also adversely affected, largely due to oil-price fluctuations. Although the standard rate for CIT is 28 per cent, some sectors of the economy have different effective tax rates due to sector-specific dispensations and allowable deductions. These include the gold-mining formula, farming deductions and evaluations and accelerated depreciation of capital assets for qualifying sectors.

The second major contributor to the South African revenue basket is VAT, administered through the Value-Added Tax Act, 1991. VAT is based on domestic consumption and it is levied at the standard rate (currently 15 per cent) on the supply of all goods or services made by any vendor in the course or furtherance of any enterprise carried on by that person; the importation of any goods into South Africa by any person; and the supply of certain 'imported services' as defined in the VAT Act.

As in the case of Mozambique, the levying of VAT is subject to certain exemptions, exceptions, deductions and adjustments provided for in the VAT Act. Certain items are zero-rated, for example, exports, petrol, diesel and basic food items such as brown bread, milk and fruit. Certain services are also exempted from VAT, for example, educational services, public transport and residential rental accommodation.

VAT in South Africa has a rather interesting history. The introduction of VAT in the early 1990s was another of the state's concerted efforts to increase its revenues. The switch to VAT was propelled by the quest for a broader base and improved neutrality. VAT enabled taxing of a wider range of services and unlike the existing General Sales Tax (GST) was not as susceptible to tax evasion.¹¹⁸ The history of VAT dates back to the late 1980s, when the Commission of Inquiry into the Tax Structure of the Republic of South Africa, popularly known as the Margo Commission, recommended in their final report of 1987 the introduction of a value-added tax of the transaction type (Margo Commission, 1987). This tax was to be imposed on businesses to augment revenues of 13 per cent already being raised by GST. The commission recommended that GST be lowered to more modest level. It was recommended that transaction values on invoices serve as the basis for determining the amount of tax payable and that taxes paid on the costs of inputs should be refundable to producers. The government responded by replacing GST with invoice-based VAT.

VAT was introduced in 1991 at a rate of 12 per cent to replace GST. When consumer bodies and labour unions resisted this proposal, mainly because certain basic foodstuffs, which had been exempt from GST, were now included in the VAT base, the rate was reduced to 10 per cent to lighten the economic burden on

117 See <http://www.sars.gov.za/pages/Results.aspx?sq=1&k=Foreign%20Dividend%20Exemption%20Calculation>

118 A key difference between VAT and GST is that the taxable event in case of VAT is the sale of goods. However, in case of GST it is the supply of goods or services.

poorer households. Consideration was also given to the distributional impact of this tax by zero-rating and exempting a small number of goods and services.

In 1993, with democracy dawning and the need for revenue to support the new government's developmental agendas increasing, VAT was increased to 14 per cent. It has since become a chief component of indirect tax and for 25 years remained at a rate of 14 per cent of most goods and services supplied in the economy. Recently, with effect from 1 April 2018, the VAT rate was increased to 15 per cent.

VAT is no stranger to controversy. Smith (2002:22) and Hartzenburg (1996:223) categorically state that VAT is an extremely regressive tax and tends to affect lower income earners because they spend a higher proportion of their income on consumption goods. Budlender (2009:16) concurs with this assertion and adds that although the preponderance of the basic foods and that are zero-rated are important to the diet of the poor, they are also consumed in higher quantities by the non-poor. When VAT was imposed in 1991, the Congress of South African Trade Unions (Cosatu) called a two-day nationwide strike to demonstrate their opposition to the imposition of VAT on basic foodstuffs, health care and essential services. The strike attracted the support of 80 per cent of the workforce of the manufacturing industry. Recently, with the imposition of a 1 per cent increase, Cosatu once again cautioned the government: 'You are playing with fire.'¹¹⁹

Cosatu has threatened massive strike action. It believes that its concerns about the regressivity of VAT are not being taken into consideration. The South African Federation of Trade Unions (Safu) took to the streets of Cape Town on 12 April 2018 protesting the increase.¹²⁰

As a form of indirect taxation, VAT has produced commendable results that have led to an impressive increase in state revenues.

In the 2016/17 year, customs and excise duties accounted for 12.6 per cent of the South African tax revenue collected (National Treasury, 2017).¹²¹ Customs and excise is thus a crucial component of the South African revenue collection mechanism. Kirk and Stern (2005) provide clarity on the difference between the two: customs relates to the control of imported goods in contrast to excise, which relates to the control of locally manufactured goods. Duties are levied on imported goods in order to raise revenue and protect the local market.

In South Africa, both imported and locally-manufactured goods are classified according to the Harmonised System on Tariffs and Trade (commonly known as HS or Harmonised Tariff System), an international classification system that has its origin in Brussels, Belgium. Classification determines the rate of duty is for a specific commodity and whether it will attract additional duties or levies (Sars, 2017:86).

Duties are usually calculated as a percentage of the value of the goods (set in the Schedules to the Customs and Excise Act). For some products like meat, fish, certain firearms and other textile products, the rates of duty are calculated either as a percentage of the value or as cents per unit (for example, per kilogram or metre). For luxury or non-essential goods (for example, perfumes, firearms and arcade games) an extra charge – or *ad valorem* excise duty – is levied.¹²²

Generally, there are three kinds of duties levied on imported goods: customs duties, including additional *valorem* duties on qualifying products, anti-dumping and countervailing duties and VAT. The amount and type of duty imposed is determined by the value of goods, the volume of goods and the tariff classification of goods.

The policy on tariffs applicable on importation to South Africa is set by the Department of Trade and

119 See Neo Goba You are playing with fire, Cosatu warns government on VAT increase, accessed at <https://www.timeslive.co.za/politics/2018-03-01-you-are-playing-with-fire-cosatu-warns-government-on-vat-increase>

120 Omar Jee, L. Safu takes to the streets to Protest VAT hike, Minimum wage, accessed at <https://www.fin24.com/Economy/Labour/safu-takes-to-cape-streets-to-protest-vat-hike-minimum-wage-20180412>

121 The Customs and Excise Act, 91 of 1964 regulates both customs and excise.

122 See the External Standard-Ad Valorem Excise Duty <http://www.sars.gov.za/AllDocs/OpsDocs/Policies/SE-+AV-02%20-%20Ad%20Valorem%20Excise%20Duty%20-%20External%20Policy.pdf>

Industry (DTI) in conjunction with the International Trade administration (ITAC).

The Customs and Excise Act, 91 of 1964 regulated customs and excise long before South Africa's new democratic constitutional state came into existence in 1994. The 1964 Act was found to have loopholes that presented constitutional challenges on many fronts as evidenced by the Constitutional Court case of *Gaertner v Sars* adjudicated in late 2013, (*Gaertner and Others v Minister of Finance and Others*, 2013). This particular case highlighted that section 4 of the Act, which allows Sars to conduct non-routine or targeted searches by Sars without judicial warrant, is inconsistent with the Constitution and should be declared invalid because it infringes on the right to privacy.

This is just one example of the problems associated with this Act.

It was in this context that Sars embarked on a process of updating this legislation and its accompanying legislative mechanisms via the Customs Modernisation Programme. Sars proposed a new Act split into three separate laws: the Customs Control Act (2014), the Customs Duty Act (2014) and the Customs and Excise Amendment Act (2014).

Since the publication of the aforementioned Acts in the Government Gazettes, extensive work has taken place to draft the rules under the new Acts and several workshops have been conducted by the Sars legal team for key stakeholders. The Acts will only come into effect on a date yet to be determined by the president.

National Taxes		
Direct Taxes	Indirect Taxes	Other Taxes
Personal Income Tax (PIT)	Value Added Tax (VAT)	Capital Gains Tax
Corporate Income Tax (CIT)	Customs and Excise	Transfer duty
		Fuel levy
		Mineral and Petroleum Resources Royalty (MPRR)

Figure 7. Main tax handles, South Africa (2018)

Revenue collection and current challenges

At present, two taxes – income tax and VAT – account for 62.5 per cent of all tax revenue. Compared to most other African countries, which rely heavily on consumption taxes as their main source of revenue, South Africa collects an unusually high level of income tax. South Africa has a residence-based tax system, which means residents are taxed on global income irrespective of where it was earned (certain exclusions apply).

Non-residents are taxed only on their income from a South African source. Overall, the fiscal system in South Africa is progressive because it is based on the premise that the wealthy should contribute a greater proportion of tax than the poor.

South Africa is ranked as one of the countries with a very good tax system because of the push to reduce the incidence of VAT on the poor and set higher minimum tax thresholds to exclude the poorest and fair marginal tax rates to ensure that the wealthy are adequately taxed.

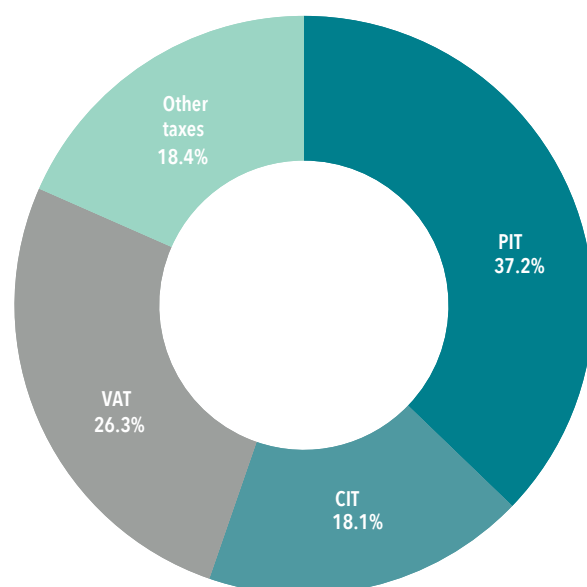


Figure 8. Composition of main sources of tax revenue

Source: Data sourced from Sars and National Treasury Report (2017)

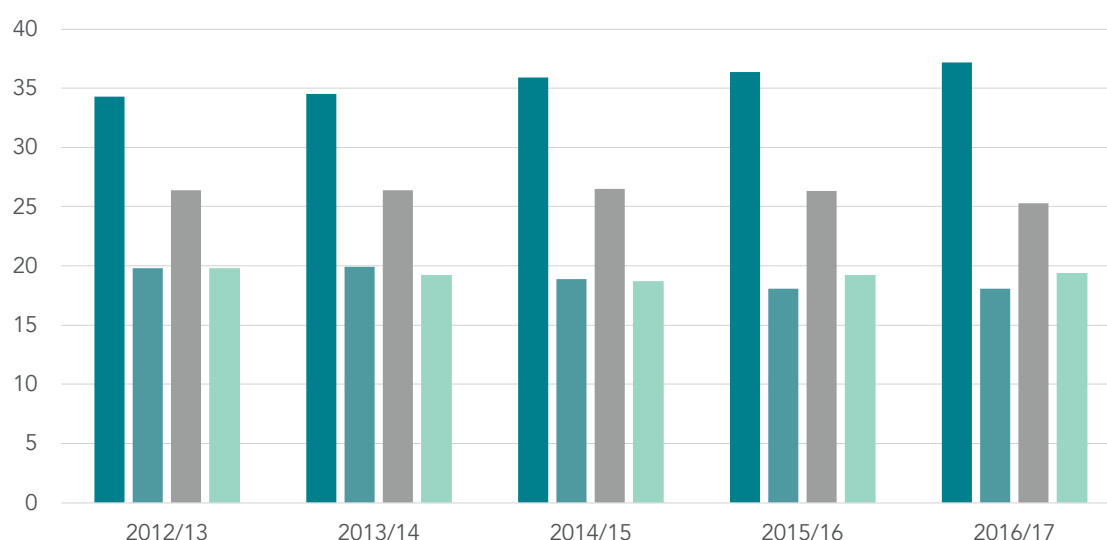


Figure 9: Relative composition of main sources of tax revenue, 2012/13 - 2016/17

Source: Data sourced from Sars and National Treasury Report (2017)

Until quite recently, revenue collection in South Africa was a success story. The consolidated South African tax revenue of all three spheres of government increased from ZAR572.8 billion in 2007/08 to ZAR1,144.1 trillion in 2016/17 – an increase of ZAR571.3.billion and 8 per cent Compounded Annual Growth Rate (CAGR). The global financial crises of 2008/9 had a significant impact on taxation; in South Africa its impact was felt chiefly through the slow recovery of CIT (demonstrated in the graph above) as many companies struggled to return to profitability.

After the financial crisis, the relative contribution of CIT to total tax revenue declined to 18.1 per cent in 2016/17 from 22.9 per cent in 2009/10 (Sars, 2017). However, PIT has soared to new heights. Its contribution to total tax revenue increased from 34 per cent in 2012/13 to 37.2 per cent in 2016/17.

Nationally collected taxes dominate the South African taxation system and account for 95.6 per cent of total South African tax revenue. Provinces account for just under 1 per cent of total South African tax

revenue (0.2 per cent of GDP) and local government around 3.6 per cent of total South African tax revenue (1 percent of GDP). The global financial crises in 2009/10 saw a decline in tax to GDP ratios. Tax revenue as a percentage of GDP recorded extraction ratios well above the long term average ratio of 25 per cent for most of the years under review. As a result of the financial crisis, the period from 2009/10 to 2013/14 saw extraction rates fall to 23.5 per cent before rebounding in 2014/15. The tax system automatically stabilized the economy by extracting less from the economy in response to the weaker economic growth rates.

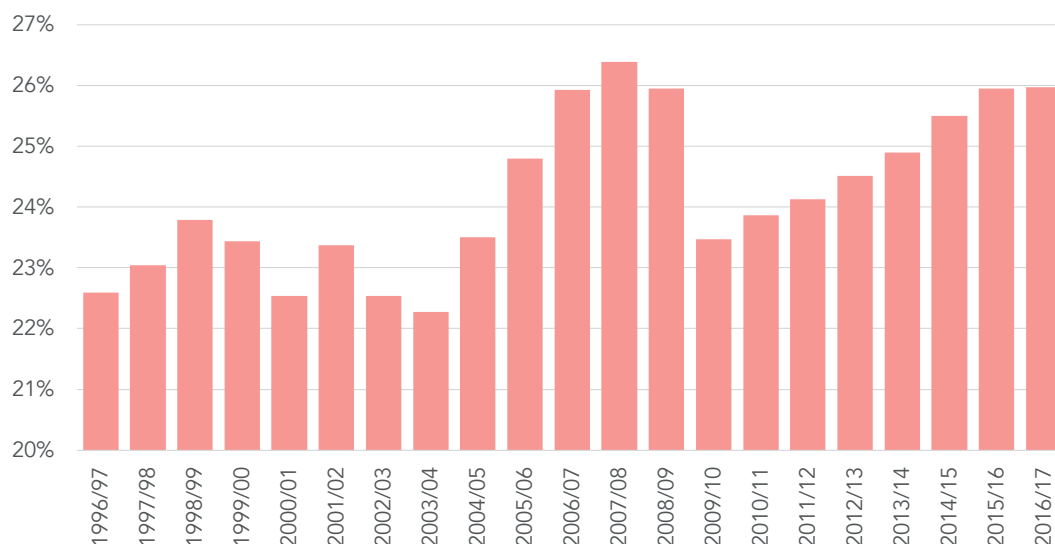


Figure 10: Tax revenue as a percentage of GDP, South Africa

Source: Statistics South Africa; Gross Domestic Product (GDP), Quarter 2 - 2017

According to Sars (2017), the recovery of the tax-to-GDP ratio since 2014/15 is mainly due to improved tax administration that in turn led to the increase in tax compliance. In addition to robust tax collections, growth is also attributed to tax policy changes. In retrospect, since 2007, revenue growth has been mainly supported by PIT, which increased from 29.6 per cent in 2007/08 to 37.2 per cent in 2016/17. According to Sars (2017), this increase can be ascribed to a combination of the increase in the tax register, tax rate increases, above inflation adjustments to salaries, upward social mobility of taxpayers as well as greater compliance.

On the indirect taxation front, import VAT collection grew from ZAR77.9 billion in 2007/08 to ZAR149.3 billion in 2016/17, while collections of customs duties rose from ZAR26.5 billion to ZAR45.6 billion over the same 10-year period. Both taxes slumped significantly in 2009/10 when effects of the global financial crisis weighed down on worldwide trade, consequently diminishing South Africa's import tax collections. Recovery was swift in the following years, with growth levels eventually tapering off, due to subdued demand and currency effect.

The case of South Africa demonstrates that strong institutions alone are not enough to sustain a thriving, effective and accountable tax state. External factors can disrupt the system and bringing disrepute to a once-capable entity.

A case in point is the current governance debacle at Sars that has derailed the objectives of the arm of the state that administers tax collection. According to the Davis Tax Committee (DTC) report on tax administration (2017) when Sars was formed in 1997 through the recommendations of the Katz Commission, its main objectives were to fastidiously comply with the values enshrined in the Constitution (Act No. 108 of 1996).

The crisis at Sars has played out in the public domain over the last few years. Accusations of creeping

corruption at Sars has led to questions about whether the existing structure of Sars has met the expectations of the Katz Commission and the relevant legislation and whether the structure promotes the principles of accountability and integrity of administration.

The appointment of the commissioner and the consequent government structures have been at the centre of an inquiry by the DTC, specifically on its implications on the principles of accountability of the office of the Commissioner to its statutory obligations and to tax payers. The DTC argues that the existing structure of appointment raises concerns. The president's unfettered powers to appoint and dismiss the Commissioner is subject to abuse as evidenced by the appointment in 2014 of Tom Moyane as new Sars commissioner by then president, Jacob Zuma.¹²³ Tom Moyane has been fingered as a 'striker for team Zuma in the game of state capture'.¹²⁴ His tenure at Sars has been marred by significant revenue collection shortfalls, accusations of protecting former President Zuma from payment of a massive tax bill and dismantling the high-level investigative capacity of Sars by purging a host of anti-corruption fighters.

Central to this was the drama that unfolded over an alleged 'rogue unit' operating within Sars, under the instruction of the former Commissioner. 'Revelations' in a popular weekly newspaper, *The Sunday Times*, claimed that an ad hoc and secretive investigate unit – the High Risk Investigations Unit (HRIU) – was involved in running a brothel, spying on the National Prosecuting Authority (NPA), other politicians and top cops and even running a covert campaign against President Zuma.

In the wake of this scandal, Tom Moyane set about removing a host of senior managers; 55 senior officials left Sars from Moyane's arrival in 2014 to March 2016, virtually all connected in some way to the allegations of the unit. The group included senior managers, executives, group executives and chief officers who served on the Sars Executive Committee.¹²⁵

Rogue unit allegations have since been widely discredited, following the retraction of a fundamentally flawed report by KPMG. According to Van Loggerenberg, who headed the HRIU, 'the high-risk investigations we were doing into certain industries and individuals lay at the root of [the myth of the rogue unit]'.¹²⁶ Indeed, the unit had been advancing investigations on a number of high-profile individuals, some with connections to the president.¹²⁷

In his controversial 2017 book, *The President's Keepers*, Jacques Pauw produced internal correspondence from Sars which showed that the president himself was a delinquent taxpayer.¹²⁸

Under Moyane's tenure, the Chief Officer: Business and Individual Tax, Jonas Makwakwa, was accused of funnelling payments into his private account and that of his partner, having links to a money laundering debt collection firm and a hurried and unlawful VAT payment to the Gupta family.¹²⁹ Makwakwa was eventually forced to resign, although not before Moyane had reinstated the man he regarded as a close ally, even though investigations by Directorate for Priority Crimes Unit ('the Hawks') into Makwakwa were ongoing. Moyane's leadership continued to be immensely unpopular within Sars; Adriaan Basson reported

123 Moyane has been friends with Zuma for about 40 years.

124 Cameron, J. 22 March 2018. Meet Tom Moyane : Striker for team Zuma in the game of State Capture. Available at: <https://www.biznews.com/thought-leaders/2018/03/22/tom-moyane-state-capture-game/>

125 Van Loggerenberg, J. 2016. *Rogue*. Jonathan Ball Publishers: Cape Town. p.1.

126 Van Loggerenberg, *Rogue*, p.1

127 For instance, the unit had been investigating Zuma-linked businessman Jen Chih (Robert) Huang and his company Mpisi Trading 74, who owed an estimated R3 billion to Sars. Scorpio, the investigative journalism outfit attached to the Daily Maverick, produced evidence in 2018 that Huang attempted to settle his tax affairs for R20 million, that the finalisation of Huang's case, code-named 'Project Nightfury', ground to a halt after Moyane's arrival. See Van Wyk, P. 'Scorpio: the Curious Case of ANC Benefactor Robert Huang, a Never-ending Investigation and Billions Owed to Sars'. 23 January 2018. Available at: <https://www.dailymaverick.co.za/article/2018-01-23-scorpio-the-curious-case-of-anc-benefactor-robert-huang-a-never-ending-investigation-and-billions-owed-to-sars/#.WvGf9liiFPIU>

128 Pauw, J. 2017. *The President's Keepers: Those Keeping Zuma in Power and Out of Prison*. NB Publishers: Cape Town.

129 A wealthy Indian-born South African family with a publically close relationship to former President Jacob Zuma. The Guptas are at the center of so-called 'state capture' allegations in South Africa.

that 'in 2017 alone, 506 employees resigned from the tax authority, including 128 people with degrees'.¹³⁰

Moyane's controversial tenure also raises questions over the powers of the Finance Minister relative to those of the Tax Commissioner. The DTC highlights the diminished powers of the Minister of Finance. It argues that by giving the president unfettered powers to appoint the commissioner, the commissioner and minister enjoy an equal footing. The commissioner thus becomes accountable to the president and is therefore no longer legally accountable to the minister (DTC, 2017:17).

The quixotic appointment of finance ministers under the Zuma administration both highlighted and exacerbated this issue. The president can appoint ministers at his sole discretion; under the Zuma administration this privilege was abused when, in December 2015, 'South Africa got three Finance Ministers in four days'.¹³¹ There was confusion and mystery when Nhlanhla Nene was axed as Minister of Finance and replaced with the controversial David van Rooyen, an unknown parliamentary backbencher.

After a public outcry and a few days later, Van Rooyen was replaced by former Finance Minister Pravin Gordhan. Gordhan would soon publicly set out to address issues at the tax authority, which were to lead to acrimonious exchanges between the commissioner and himself. Ultimately, Gordhan was removed by Zuma in a late-night cabinet reshuffle announcement and replaced by Malusi Gigaba, a controversial figure in public discourse, frequently constructed as a Zuma acolyte and embroiled in allegations of state capture.¹³²

The controversies surrounding the appointments of the finance ministers has jeopardized the integrity of the tax system and adversely affected tax morality amongst tax payers. Revelations of maladministration within the revenue service continue to plague the once-revered organization. This damage is something President Cyril Ramaphosa seeks to heal. In his presidential capacity after his victory at the ANC's 2017 National General Committee, he is initiating moves to restore public confidence in this crucial institution.

In March 2018, Ramaphosa wrote a letter to Tom Moyane informing him of his suspension. This was applauded by many as the first step in patching up the credibility of Sars. Ramaphosa told Moyane that developments at Sars during his term in office had resulted in a 'deterioration in public confidence in the institution and in public finances being compromised'. He continued: 'The disrepute in which you have brought the Sars and the government as a whole and the risk to the national revenue fund are enormous.' The full costs of the Sars debacle are still being assessed. At a recent parliamentary committee meeting in the finance portfolio, it was reported that an estimated ZAR27 billion had been lost as a consequence of the dismantling of investigative structures in the revenue service. The committee chairperson submitted that losses of some ZAR5 billion in excise tax earnings resulted from Sars failing to pursue illicit tobacco trading in 2014 – a project which had been central to the work of the HRIU under Van Loggerenberg. Allegations continue to surface of Moyane's close links to the illicit tobacco trade.¹³³

In the wake of the so-called 'Sars Wars', some have called for more consideration to be given to the powers of appointment of the president with respect to a range of central institutions of state. Indeed, as Ivor Chipkin has pointed out, the (now former) president instigated a sustained campaign of 'purge and displacement' not only at Sars, but in the law and order departments – the police, the Directorate for Priority Crimes Unit, the National Prosecuting Authority and some state-owned enterprises. Because 'the consolidation of Jacob Zuma's authority as president has come with purges of the leadership of key state institutions and the deployment of political friends and allies'.¹³⁴

130 Basson, A. 'Tom Moyane's Biggest Blunders', 20 March 2018. Available at: <https://www.news24.com/Columnists/AdriaanBasson/tom-moyanes-10-biggest-blunders-at-Sars-20180320>

131 <https://www.news24.com/SouthAfrica/News/timeline-how-south-africa-got-three-finance-ministers-in-four-days-20151214>.

132 See Swilling et al., 'Betrayal of the Promise: How South Africa is being Stolen'. State Capacity Working Group Report, March 2016.

133 Merten, M. 'How Much did State Capture Cost South Africa?'. Daily Maverick, 3 May 2018. Available at <https://www.dailymaverick.co.za/article/2018-05-03-how-much-did-state-capture-cost-south-africa/#.WvGrS4iFPIU>

134 Chipkin, I. (2016). *The state, capture and revolution in contemporary South Africa*. Working paper. PARI Working Paper. Johannesburg: Public Affairs Research Institute.

Chipkin argues that the president's powers of appointment must be rethought. He has proposed a system similar to that by which members of the judiciary are elected. In this process, candidates for a position are selected by the Judicial Services Commission (JSC), a panel including among others: existing judges, members of political parties – at least half of which must be from opposition parties – and practicing advocates. The JSC then selects three names for the president to select from. According to Chipkin, the 'structure and composition of the JSC might offer the principles for the selection of executives in key state institutions ... [and] go far in relieving state institutions of the considerable political pressure they are subject to today, especially ones that play vital roles for the performance and integrity of the State.'¹³⁵

135 Chipkin, I. (2018). *Personalising and De-personalising power: The Appointment of Executive Officers in Key State Institutions*. Working paper. PARI Working Paper. Johannesburg: Public Affairs Research Institute.

State–society fiscal relations and tax morale: legitimacy, justice and citizenship

As discussed in the previous section, South Africa, Cameroon and Mozambique are currently facing challenges with regard to strengthening their tax systems. Some of these are related to their institutional designs. We have argued that to understand the limits and potentialities of any tax system it is necessary to go beyond the analysis of institutional design and interrogate the broader socio-political aspects as well. These include the nature and dynamics of the relationship between state institutions and society, the main cultural norms and values of the population, the social meanings ascribed to taxation, and societal perceptions of government and the tax system. The extractive capacity of a state is thus not a result of tax policies or the economic structure of a country alone. Bräutigam (2008:6) puts it simply, thus: ‘Governments’ abilities to collect taxes depend on people’s willingness to pay them.’

This willingness, we argued, is fundamentally related to tax morale, which we have defined as a set of intrinsic underlying non-pecuniary motivations, in addition to the legal obligations, about paying taxes (Daude et al., 2013:11; Luttmer and Singhal, 2014:150).¹³⁶ As we have seen, tax morale is affected by the way in which citizens perceive the government’s legitimacy, the fairness of the tax system and the transparent and appropriated use of tax moneys. It is thus important to take into account the dynamics of the relationship between the citizens and the state when assessing the limits of a tax system and attitudes towards taxation and tax compliance. In this section of the report we address these issues.

Firstly, we outline the role of collective memory and culture in shaping societal understandings on taxation. We argue that because the three countries in the study have been recently decolonized and/or democratized, collective memories about past experiences of oppression and exclusion still play a fundamental role in shaping societal perceptions about taxation. We then explore perceptions about governments and state institutions by analysing debates on tax justice and societal views about the fairness of the fiscal system. Finally, we outline the concepts that bind taxation and citizenship, particularly notions around the meaning of the fiscal contract and the provision of public goods.

The overarching aim of this section is to interrogate to what extent societal understandings of taxation and the dynamics of state–society fiscal relations promote or hinder tax morale and, accordingly, voluntary compliance and the effectiveness of the tax system in the three countries of study.

3.1 Collective memories and shared understanding on taxation

Mozambique

In Mozambique, taxation is associated very firmly with colonialism as a *praxis* in the collective imaginary.¹³⁷ As we noted in the previous section of this report, during the colonial period taxes were used by the Portuguese rule as a central, multifaceted tool to oppress the African population. This oppression was not always passively accepted; resistance and revolts against taxation occurred sporadically throughout the colonial period. On occasion, popular reactions to colonial taxes had spill-over effects, which led to widespread mobilization against the Portuguese administration as a whole.¹³⁸ By the end of colonial period,

¹³⁶ For the definition of tax morale and the discussion of its determinants, see the literature review section of this report.

¹³⁷ As previously discussed, taxation was in place in Mozambique many centuries before colonialism. However, in the collective memory of Mozambican society, Portuguese colonialism was the moment of birth of the practice of taxation. On the dynamics of the Indian Ocean trade more broadly, see Beaujard (2005). For the insertion of Mozambique, as well as on pre-colonial experiences of taxation, see Newitt (1995).

¹³⁸ Africans resisted both taxes, mainly due to the abuses associated with them. In some cases, as in Barue in 1902 and 1917, reactions against taxation contributed to the emergence of armed resistance against Portuguese rule.

during the decolonization war, taxes were flagged in the liberation discourses as a central aspect of oppression to be discarded. Accordingly, when Frelimo took power in 1975, tax was on the top of the list of colonial institutions to be reformed.

Taxation was taboo; a tool for exploitation intrinsically linked with the colonial masters and their evils, and was to be likewise overcome. Following this popular perception, as part of its anti-colonial rhetoric, Frelimo strongly condemned taxation.

As central economic planning was adopted, it was expected that most of the revenue necessary for the operation of the state would be generated by public enterprises. After a reform had adapted the tax system to the new organization of the economy, some minor tax handles, such as the National Reconstruction Tax, were implemented.¹³⁹ These, however, had little impact on the population; few citizens had to pay the taxes, and those who did were being charged a very small, symbolic amount. The Executive Director of a CSO pointed out,

The notion of taxation in Mozambique has a very long history, because there is a conception that we inherited from colonialism. The tax was seen with hatred, because it had nothing to do with the benefit of people. And it even had very pejorative names, for instance, the hut tax, and so on. And it was collected very coercively, even physically coercively, and then it acquired a negative connotation. So that soon after independence, tax collection in Mozambique was relaxed. There was almost no taxation, because there was a very strong feeling that the tax is a colonial thing.¹⁴⁰

It was not until the mid-1990s, after the end of the civil war and under pressure from international financial institutions, that the Mozambican government began to see its citizens as a potential source of revenue. In Mozambique, post-independence state–society fiscal relations thus date back only a couple of decades.

Mozambique's current tax system is, as a CSO member described, 'in its infancy' with regard to the relationship between taxpayers and the tax administration. The same interviewee emphasized this by saying: 'It took some time to turn to tax education, to make the citizen realize that their contribution is important for their own benefit, for social infrastructures, for health and education programmes and so on. And even in terms of institutional capacity, in the area of taxation, the staff was for a long time very timid, very insecure, very unstable.'¹⁴¹

After the creation of the Mozambican Tax Authority in 2006, the government launched a series of education campaigns aimed at changing Mozambican perceptions about taxation. More recently, CSOs such as ActionAid have also engaged in tax-awareness campaigns.¹⁴² As a result, some of the people we interviewed pointed out that the positive connotations of taxation, mainly related to its relevance for financing public goods and the country's development, are slowly starting take root. However, this recent resignification of taxation should be taken with a pinch of salt. Our interviews also demonstrated that this is only the case for a small portion of the society: urban, literate, living mainly in Maputo.¹⁴³ Still, for many citizens, taxation is a tool of colonial oppression and, as such, a relic of the past, which has no place in a contemporary, decolonized nation.

During our interviews and informal conversations it was often pointed out that identification of taxation practices with colonial rule is widespread among Mozambicans. A member of the CSO, ActionAid

139 As we discussed in the first part of this report, the new tax law explicitly acknowledges the colonial origins of taxation.

140 Interview with CSO, Maputo, August 2017.

141 Interview with CSO, Maputo, August 2017.

142 As we will discuss below, these initiatives focus mainly on the tax-for-service perspective, and on notions around the rights and duties of the 'good citizen'.

143 Afrobarometer.

Mozambique, highlighted the persistence of this historical connotation while discussing the challenges of taxpayer education:

We came from a culture a little bit different. Mozambique was once a colony, it was colonized. And during the process of independence one of the things that was said was we will be independent to stop paying this tax that is creating us problem. And like it or not, it stayed in people's mind. It stayed there. So, it's as if taxes were exploitation. So the concept still needs to be deconstructed, but deconstruct it in a positive way, people need to see why they really need to pay the tax, what the tax is for.¹⁴⁴

Moreover, even those who agree that tax should be paid – because they recognize that taxes are a source of revenue for the state – usually say that those who should pay are someone else, besides themselves. Moving away from the 'coloniality of taxes' imaginary, they see taxation as a potential tool to correct contemporary injustices that emerge from what they view as 'neo-colonial' practices.

As we will see, many Mozambicans, from a variety of political, economic and social strata, see taxation as a tool to target foreign actors, mostly multi-nationals engaged in the extractive industry who are benefitting unfairly from the country's resources without giving back a fair share of their profits. Since the 2000s, civil society engagement in debates on taxation has increased. Two broad themes are prominent: public finance administration and the related topics of corruption and transparency; and the taxation of international actors, with an emphasis on the extractive industry and so-called megaprojects.

We will return to these topics later on in the report. For now, suffice it to say that although ideas and perceptions about taxation in Mozambique are not static, with new elements being incorporated into the social imaginary, the overall negative connotation of an unfair and coercive institution persists. As one informal trader told me, making a wordplay joke: 'That it is why is called *imposto*. If it was a nice, voluntary thing they would had come up with another name.'¹⁴⁵

South Africa

In South Africa, the apartheid regime and its legacy provide the historical background against which the majority perceive taxation. When the apartheid era ended in 1994, the new democratic government inherited a society in which economic inequality was a product of race alone. In this context, taxation was – and still is – seen as a way to redress past injustices, being a central tool in what is the ultimate goal of the post-apartheid era: to reduce racial inequalities and exclusion.

This vision was exemplified by Archbishop Emeritus Desmond Tutu when he called upon white South Africans to consider paying a wealth tax. He argued that it was time for white citizens to accept the obvious and start contributing more to the betterment of the less privileged:

You all benefitted from apartheid. Your children could go to good schools. You lived in smart neighbourhoods. Yet so many of my fellow white citizens become upset when you mention this. Why? Some are crippled by shame and guilt and respond with self-justification or indifference. Both attitudes mean that we are less than we can be.¹⁴⁶

He went on to give a rough idea of what form this might take: 'It could be quite piffling, maybe 1 per cent of their stock-exchange holdings. It's nothing. But it could have helped ... maybe building new homes, and that

144 Interview with ActionAid Mozambique, in Maputo, Mozambique, 29 August 2017.

145 Conversation with an informal trader at the *Mercado do Pau*, Maputo. Tax, in Portuguese, is translated to *imposto*, which also is a conjugation of the verb 'to impose'.

146 <https://www.news24.com/SouthAfrica/Politics/Tutus-white-tax-is-racist-20110813>

would have been an extraordinary symbol of their readiness.¹⁴⁷

Conversations with informal traders on the streets of Cape Town revealed the same opinion; they felt that wealthy white citizens should give more back to the society because they had unfairly benefitted from the colonial system:

The problem is they tax us, the poor people. They must only tax the rich, white people must be the ones paying taxes. The poor must not pay taxes. White people are rich, they already benefitted you know. ... It is our country; if they [white people] want to stay here they must pay tax. ... Of course, this is our country. They employ us and they do not pay us much. Selling does not give us money.¹⁴⁸

Although this presents us with an ideal of what taxation ought to be in the 'New South Africa', most citizens recognize that this has not been the case; 24 years after the demise of apartheid, a decline in inequality is still an aspiration rather than a reality. In fact, inequality has grown, and there have been few clear policy responses to this trend. The question that arises is why government has not considered introducing a wealth tax.

Taxation in South Africa has always been an affair of the elite; even at the centre of the transition to democracy itself was 'an elite compromise', which Southall (2012:1) says was 'structured around the concession of political democracy to the incoming ANC in return for its acceptance of the existing contours of capitalism'.

Lieberman (2003) argues in the same vein that the history of taxation in South Africa and the formation of the tax state hinges on class relations and the calculations and strategies of the upper groups. It is thus fair to argue that this could be why a wealth tax has not been introduced. Lieberman further alleges that the upper groups, comprised of high-income individuals, firms and organizations, are critical to the development of the tax state because they control the bulk of taxable resources, particularly in a highly unequal society like South Africa.

The South African case affirms Lieberman's theory that 'at least initially, the state's authority over upper groups depended upon the willingness of those actors to cooperate and to comply with state initiatives' (Lieberman, 2003:16). During the apartheid and the early post-apartheid period, it was the wealthier actors in society that possessed the greatest capacity to influence the development of tax policy and thus avoid the tax burden if so inclined.

South Africa's emerging black middle class has expressed disdain at what it views as a kind of 'double taxation' that affects them alone. They are forced to pay an official tax to the state, on top of an unofficial 'black tax' – the portion of your income that you are compelled to give to your immediate and extended family should they have need of it.¹⁴⁹ In their view, this amounts to an added tax burden and is regarded as a hindrance to the economic advancement of black people. According to one of our interviewees, because of black tax, 'credit and debt becomes a livelihood, debt becomes an innate part of our lives.'¹⁵⁰ Black tax is a cultural and moral obligation towards one's family, based on an interpretation of the African proverb, *Izandla ziyagezana* – one hand washes the other. One participant summarized black tax as follows:

147 <https://www.news24.com/SouthAfrica/Politics/Tutus-white-tax-is-racist-20110813>

148 Interviews with informal traders, Cape Town CBD, 14 September 2017.

149 'Black tax' is a colloquial term for sharing your salary with your nuclear and, sometimes, even extended family, making sure that they are well taken care of before considering taking care of yourself. It feeds an expectation that a person may be liable to carry a burden if they have studied and found a job.

150 Interview, Cape Town, 3 November 2017.

As a black girl and the last-born child, a lot more resources were pumped into my education. My older siblings garnered resources to take me to school and through varsity (university). I was able to go to previously model C schools and that comes with a certain amount of social capital and that's what gives me access to different social spaces ... and my current employment.

So we all (black and white students) graduate, have to adjust to the work environment. People leave out the fact we (black people) have got so many things to undo for our own families. After graduating there is an expectation that once you start working you have to send back home something on a monthly basis. I grew up in a single parent home, so that means, outside my mother's salary, no one else earns a salary. Now that she is retired, she can no longer take care of her mother and other members of the extended family. Therefore, I have to inherit that responsibility. So you soon realize that there is no way you can be able to do you. You can't save for example. You're left with no disposable income. Important things like medical aid start to feel like luxury because they take out a big chunk of what you thought would be disposable income. Those are my notions of experiencing black tax.¹⁵¹

This *izandla ziyagezana* philosophy borders on negotiating the burden of extended family dependency, it assists and encourages people to consider it as helping one another, as is demonstrated in the above excerpt. There is a clear call for government to consider this implicit double taxation; according to some of the participants in this research, government's ignorance of the practice of black tax perpetuates tax evasion, exacerbates poverty and jeopardizes the idea of a 'rainbow nation'. Above all, it 'takes away our freedom'.¹⁵²

I know that I am not going to buy property for at least another ten years and I must accept that, unless I move back to the rural areas. But I do know that I have peers that are acquiring flats, rent-to-buys in Cape Town. You see, black tax is definitely a hindrance. You have aspirations that when you leave varsity and you begin to work, you want to be able to provide for your family in a certain way but you also want to provide for yourself, whether it's putting money away for a good master's programme and superficial but necessary things like cars, decent spaces to live in, furniture. It's a hindrance because you quickly learn that you can't do these things and it's a frustration on your way of being. It takes away even the liberties that you thought you had post-having-studied. And people in your family and extended family will look at you and think because you went to varsity (university), you surely have privileges because you earn a certain amount, which you actually don't have. Those who said 'more money, more problems', I think, were talking about black tax.¹⁵³

It is obvious that given South Africa's deep class and racial divides, perceptions of taxation are not homogeneous; conflicting views about the meaning and fairness of the fiscal system will be further discussed later in this report. However, for the majority of South African citizens, popular perceptions about taxation are organized around debates on the past, which are mobilized by social memories in the context of denunciations of its continuities: maintenance of the status quo of the old elite and the persistence of inequalities predicated on race.

151 Interview, Cape Town, 3 November 2017.

152 Interview, Cape Town, 3 November 2017.

153 Interview, Cape Town, 3 November 2017.

Even though history is at the centre of contemporary debates on taxation, shared understandings about the potential role of taxation in shaping the desired, democratic South African society are discussed among individuals and groups. These discussions mobilize norms and values, and more specifically, notions of solidarity, justice and equity.

Cameroon

Cameroonians are familiar with the concept of taxation. As is the case in many countries that have experienced colonialism, they too have lived with the payment of taxes as an obligation and as an unfair exchange.¹⁵⁴ Nowadays, in many social milieus (especially in the rural areas), a connection is made between the payment of taxes and colonial violence. As one student explains:

Us young people that live in the city understand the importance of paying taxes, 'though we don't like to ... but the situation back in the village is different. I could never convince my grandmother that paying taxes is the right thing to do and that it's important. She has got a different understanding of it. To her, it reminds of the colonial times and of a very strong imposition.¹⁵⁵

Along the same lines, a traditional leader in Yaoundé elaborated on the shift in thinking needed among citizens, in relation to the payment of taxes and the conception of the state:

The link between the tax and the project of state-building is something really recent in our country. People during colonial times didn't make the connection between payment and services, and I can tell you, as I lived it, there was so much violence, it was an aberration. Obviously the notion of participation in development was not in our mind back then, we also didn't think that we should and we could have some expectation from the state. I think that this is all linked to democracy. In totalitarian regimes such as the colonial ones, the rights of the populations don't exist. We now need to work on the relationship between those who detain the power and the citizens. All we saw before was the power of the colonizers and the only thing we could do was to be subjected. But now we need to start thinking that Cameroon is ours and that we have a say and we should claim our rights, even over our natural resources. We need to enter into a modern idea of the state.¹⁵⁶

These two extracts speak eloquently to the idea that tax and the colonial mindset are inextricably linked, and to the shift needed in the relationship between citizens and state. Working towards a new idea of citizenship in which citizens are entitled to make demands is, according to the above interviewees, a primary step towards a new understanding of taxation.

The tax administration and civil society organizations are fully aware of the sentiments of the population. The notion of tax as contributing to the state began to emerge with the first reforms in the 1990s, when the country realized it could no longer rely on oil revenue. It was incumbent upon the fiscal administration to embark on a new dissemination of the meaning ascribed to taxation. During the reforms of the 2000s, one such step was to substitute the *impot de capitation* – tax on the person – with the *impot libérateur* – tax of liberation.

154 For a detailed account of this period see, among others, Assene Atemengue (2016) and Mbembe (1996).

155 Interview with a citizen, Yaoundé, 12 March 2017.

156 Interview with a traditional leader from the south, Yaoundé, 10 March 2017.

Impot de capitation was quintessentially colonial, a tax levied on most of the adult population. Payment of this tax was necessary to have the freedom to move around or circulate. In the process of breaking from the colonial past, this tax was suppressed and substituted firstly with an income tax, then with the *impot libérateur* – a lump-sum tax based on self-assessment of income, to be paid to local municipalities.¹⁵⁷

The introduction of the *impot libérateur* has not changed the popular perceptions of taxes, especially in the rural areas. Small municipalities, regional tax offices and local tax-collection offices are fully aware of this. A representative of the municipality of Obala, on the outskirts of Yaoundé, puts it this way:

It is very difficult to collect taxes here. The village is not in good financial health and we fully understand that some people do not really have the means to pay taxes. How can I ask a mama that wakes up at 4 a.m. to go sell fruit at the market to pay a tax, even if it is only a symbolic contribution.¹⁵⁸

The reluctance to pay taxes is not only addressed by administrators at the local level. The DGI is aware of the different social meaning of taxation and has strived to facilitate payment of taxes, hoping to gain more legitimacy by making the process more transparent to citizens. However, Cameroonian society has a complex social understanding of the notion of tax, which needs to be unpacked if we are to address tax legitimacy.

Broadly speaking, the world of taxes in Cameroon can be described in two different ways. On one hand, it is the official discourse, which is proposed and endorsed by actors who recognize the meaning of taxes as payment to the state and as a compulsory contributions to state revenue, levied by a government. This idea is acknowledged by those taxpayers who interact formally or informally with tax administrators (among others, these are civil society representatives, public servants, private sector). But recognition of this official meaning of taxes does not necessarily translate into the full support of, and compliance with, the fiscal system.

On the other hand is a plethora of actors who do not acknowledge the world of taxes. Instead, they feel talking about ‘taxes’ means referring to the pervasive presence of an obligation of constant payment in the country; payment that it is not necessarily made to the local governments or to the state at large. This is associated with a dense system of monetary exchange and ‘perceived injustices’ that residents have to deal with or, to voluntary exchanges and circulations of money that are part of the daily lives of citizens.

Cameroonian residents regard themselves as continuously vested in various forms of exchange. A representative of Transparency International put it this way: ‘Cameroonians traditionally are used to exchanging, to giving and not expecting anything back. This is our tradition. We give when we feel like it, we don’t necessarily want to be rewarded for that.’¹⁵⁹

This topic often comes up during discussions about the exchange of money or goods in the Cameroonian context. One respondent said it was necessary to consider this mentality of exchange. Solidarity exists at a local level but not at the national level, which is why people are reluctant to pay taxes. ‘We are citizens of the community, not of the state,’ said a respondent in Douala.¹⁶⁰

Across various strata of society, there is consensus around the idea of the ‘pervasive toll’. Many residents talk about the toll to be paid on the road (referring to it as the manifestation of the dysfunction of the country), but by extension, the toll is also anything that requires a form of payment and, according to many residents, this is widespread and often associated with an extra payment. A resident of Yaoundé declared:

157 The French term ‘*libérateur*’ could be translated into English as ‘freeing’. Arguably, the intention of this tax was that of freeing a section of the population from payment of a compulsory tax, and shifting to a lump-sum tax based on an income of less than CFA10,000,000 (US\$18,500) per annum.

158 Interview, Obala, 16 March 2017.

159 Interview, Yaoundé, 13 March 2017.

160 Conversation, Yaoundé, 28 March 2017.

We pay on a daily basis, and we also pay extra. When we go to the market and we buy plantains at a higher price, we pay a toll. If the mama that brings the plantains overnight is stopped by the police and she has to pay a fine, we will also pay more. It is the same with taxis. If we rush and we want to get on the taxi faster we have to pay more to the driver. ... We always have to pay.¹⁶¹

The toll metaphor exemplifies the idea of pervasive payment. The constant exchanges that characterize Cameroonian society are often accompanied by a powerful sense of national identity expressed by an attachment to the land (Geschiere, 2009), the idea of solidarity and community, and to Cameroon's identity as a peaceful country.¹⁶²

Taxes are regarded as repressive as they undermine some of the founding beliefs of Cameroonian identity, one of which is attachment to the land. With regard to property tax, for example, one respondent asked: 'Why should I pay a tax on my house? It is my land and I built on it. The state didn't do it for me.'¹⁶³

The payment of tax is also perceived as a form of negotiation and exchange through dialogue, often in an unfair way. For example, negotiation may happen at the tax collection offices where individuals go to pay. An administrator tells a taxpayer in Yaoundé: 'Please have a seat and go through these papers, then we see what we can do.'¹⁶⁴ Another taxpayer reported: 'Today I went to try and see how to pay less taxes. We always have to negotiate here.'¹⁶⁵

Negotiation is not always seen as successful. According to Gicam, consultation is scarce; informal traders and small enterprises lament that they are never consulted when new finance law is written.

Many citizens also see taxes as synonymous with repression and an attempt to undermine their dignity. Similarly, traders who are not compliant feel constantly harassed. Tax compliance is not linked to the will to contribute to the state, but rather as a way to avoid harassment. It is exercised passively, as a duty.

Tax is also regarded as unfair and repressive by those who feel they are not represented by current central institutions.¹⁶⁶ In this case, it is synonymous with injustice. Citizens feel there is no return on their payments. Although this is not necessarily linked to formal tax, many individuals believe they make constant payments on a daily basis.¹⁶⁷

In an attempt to reconcile this complex meaning of taxation with the institutional one, civil society organizations, predominantly in the Central and the Littoral regions (respectively in Yaoundé and Douala) have started awareness campaigns based on the principle that citizens should be informed about the relationship between tax payment and provision of services. Among others, Citoyenneté Active and Cradec have run programmes for local municipalities with the aim of fostering dialogue and trust among their citizenry. In doing so, they hope to shape a social understanding of taxes in which the official discourse is not discarded, but positively integrated into the conversation.

161 Conversation, Yaoundé, 15 April 2017

162 As we will discuss later, this picture is complicated by the differences between the Anglophone and Francophone regions of the country.

163 Conversation, Yaoundé, 16 March 2017.

164 Observation, Yaoundé, 26 April 2017.

165 Conversation, Yaoundé, 12 April 2017.

166 See below the Anglophone question and the push for decentralization.

167 This aspect will be further elaborated in the next section, in which the notion of tax is discussed in relation to the perception of corruption in the tax administration.

3.2 Perceptions of state institutions: corruption, political interference and lack of transparency

As we have argued, fiscal legitimacy is related to perceptions of corruption and societal visions about the extent to which the government is accountable to its citizens.

South Africa

In South Africa, the common observation among those we interviewed was that over the years, the relationship between Sars and taxpayers has degenerated, mainly because ‘the legitimacy of the Sars has been compromised... Sars’ image has been tarnished’.¹⁶⁸

The major problem in the current tax system is the credibility of Sars. I think there is a lot of uncertainty with the system. I think we have to have high levels of certainty and I don’t think we have that. Without certainty, I don’t think we can effectively tax people. In actual fact we have to have certainty around a whole range of things that include procurement, mining, legislation or any of those things. I don’t think we have that and if we don’t have that I think there is a problem because you can’t tax people.¹⁶⁹

Originally, Sars enjoyed widespread legitimacy, being considered an example of successful state-building. A study by PARI (2015) echoes this notion. At its inception, Sars was under-capacitated both in terms of systems and of human resources (PARI, 2015:10). However, as discussed earlier, over the years Sars underwent tremendous improvement. As one respondent put it, ‘Sars has always been the golden beacon of efficiency; it has always enjoyed people’s confidence’.¹⁷⁰ According to an analysis of taxpayer compliance conducted by Fjeldstad and Sjursen (2014:828), tax compliance in South Africa was ‘considered relatively high with strong enforcement, risk profiling, tax payer education and services’. A senior official at Sars reiterated that since democracy, the organization made commendable progress that yielded positive outcomes. It is because of the successful collection of taxes that the government ‘has been able to give grants to 17 million people; it has been able to give houses to millions; malnutrition rates have fallen; child mortality rates have fallen, pregnancy deaths have fallen... A lot of positive outcomes have come out of the successful collection of taxes or the success of Sars’.¹⁷¹ Furthermore, government institutions and officials proudly pointed out that ‘the strong character of the tax system helped the government weather the global financial crisis’.¹⁷²

However, most respondents in this project no longer share this perception. There is a great sense of regret among non-governmental organizations and private firms, about what Sars has turned out to be in the current context. The argument put forward by many respondents was that rampant corruption has compromised the system:

With issues around tax evasion in South Africa, I think that people will work harder to make sure that they don’t pay taxes because they no longer have trust in the government. Actually, it is the trust in Sars in particular that has eroded. I mean Gordhan leaving Sars is a major contributor to such. You see, tax is complicated, on one hand it is technical but on the other, it is intensely political. South Africa has to realize that. South Africa needs fair, consistent taxation; this can allow the government to encourage economic growth.¹⁷³

168 Interview, Pretoria, 16 October 2017.

169 Interviews, Cape Town, 13 September 2017.

170 Interviews at the Institute for Justice and Reconciliation, Cape Town, 31 October 2017.

171 Interview at Sars, Pretoria, 25 August 2017.

172 Interview with a senior government official, 25 August 2017.

173 Interview at Cape Town, 6 November 2017

A survey conducted by Afrobarometer in 2015/16 shows that the relationship between Sars and taxpayers has been declining over the years, and that South African tax payers have for some time been sceptical of Sars. The survey found that only a small percentage – 34 per cent of taxpayers – trusted Sars, while 19 per cent having doubts about the organization.¹⁷⁴

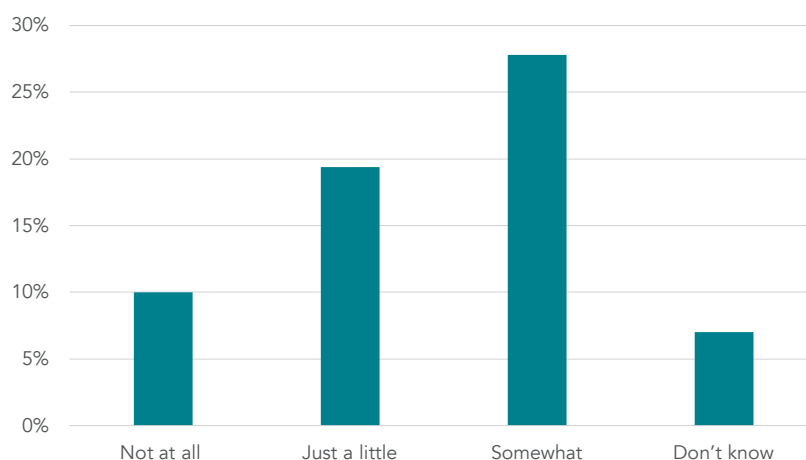


Figure 11: Trust in the tax department

Data source: Afrobarometer

Recently, Sars has found itself in the eye of a bitter corruption storm. In 2017, tax revenue fell short of the budget estimate by ZAR50.8 billion, the largest under-collection since the international financial crisis of 2008/09. This has been mainly attributed to the political contamination of the revenue collection machinery. The general argument is that the country's politics seems to be meddling with operations at the revenue collection machinery. Additionally, there has been a recent exodus of skills at Sars, which puts it in a precarious situation. Some argue that this development has 'undermined Sars' ability to meet its objective,¹⁷⁵ and as result, challenges the ability of the South African state to fulfil its mandate of providing reliable, efficient and effective social services.

According to an official at the Financial and Fiscal Commission (FFC), Sars has been plagued by allegations of state capture and these continued allegations are having a profound effect on tax morale in South Africa.¹⁷⁶ An official from Outa pointed out that

We are fighting against government's mismanagement of funds. Tax payers pay income tax every month and there is a kind of social contract that is entered into when you pay your tax, whether it's VAT. There is a social contract with government that says you will get good education with that tax money, you will get good health care, and you will get a functional state. Not just that, a functional and efficient state. But what has happened is that that tax money that is meant to manage the state is now being used to bail out state-owned entities that should be managing themselves. They are corrupt deals happening there. As a result of all these problems, taxpayer's confidence in the system continues to dwindle.¹⁷⁷

174 Afrobarometer Survey (R6 2014/2015). The standard survey question on trust in government departments is 'How much do you trust each of the following, or haven't you heard enough about them to say?' followed by the specific category, 'The Tax Department'. The disaggregated answers were: Not at all, 11.4 per cent; Just a little, 19.4 per cent; Somewhat, 27.8 per cent; A lot, 34.4 per cent and Don't know, 7 per cent.

175 Interview at the Institute for Justice and Reconciliation, Cape Town, 31 October 2017.

176 Interview at Financial and Fiscal Commission, Midrand, 17 October 2017.

177 Interview, PARI offices, 25 October 2017

According to Ali, Fjeldstad and Sjørusen (2014), the weakening of tax morale led to a decline in voluntary compliance in South Africa. The Afrobarometer survey established that in South Africa, nearly 40 per cent of the respondents thought paying taxes was either wrong or understandable or not wrong at all.¹⁷⁸ This finding correlates with the general lack of trust in the government and tax institutions:

The current lack of trust in the government is undermining its capabilities to gather enough taxes. As a result, it cannot deliver public services. A lot of progress that needs to be made is not in terms of plans and policies. Rather, it is to try and regain public trust, and not just that, but the implementation thereof and also being relied on and reliable and trusted. In South Africa we need trustworthy institutions that can actually deliver.¹⁷⁹

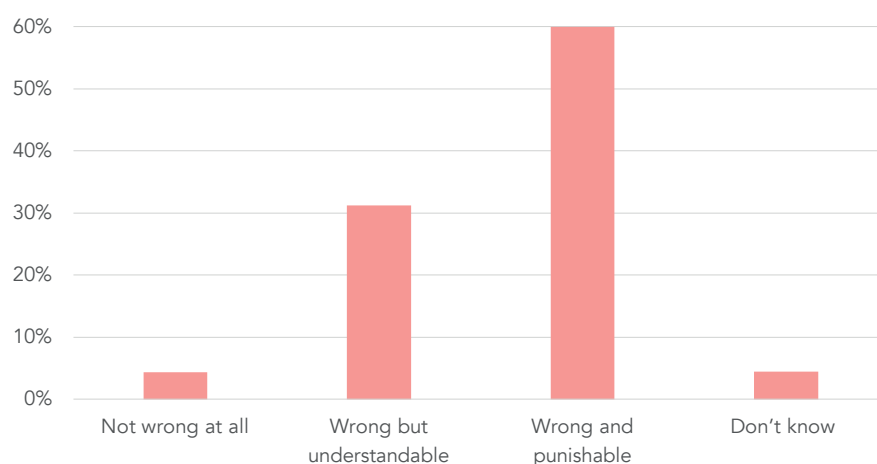


Figure 12: Is not paying taxes right or wrong?

Data source: Afrobarometer

Therefore, in this context of declining tax morality, there is a view that Sars has resorted to force and coercion to ensure that taxpayers comply.¹⁸⁰ Coercion, says Lieberman (2003:40), is an expensive form of authority, and essentially an ineffective undertaking, especially where tax avoidance and evasion are rife. Moreover, coercion contributed to the gradual degeneration of the relationship between the revenue collection machinery and the taxpayers.

Towards the end of 2017, then finance minister, Malusi Gigaba requested an urgent inquiry into governance and tax administration at Sars. He was granted permission to establish the probe, which would look into, among other issues, institutional problems.¹⁸¹ However, the emphasis seemed to be on the individuals purportedly involved in corruption. The way forward for some of those interviewed was as simple as, 'Remove those corrupt officials, the extent of the rot is very high.'¹⁸² Certain individuals at Sars were fingered as central to state capture¹⁸³ and therefore, rebuilding Sars means replacing the leadership. It would be a great way of 'getting rid of large scale systematic corruption and nepotism'¹⁸⁴ but would unfortunately divert attention from the questions of broader institutional challenges.

178 Afrobarometer Survey (R6 2014/2015). The standard survey question on is it right or wrong not to pay taxes? The disaggregated answers were: Not wrong at all, 4.3%, wrong but understandable, 31.2%, Wrong and punishable, 60.1%, Don't know, 4.4%.

179 Interview, Cape Town, 31 October 2017.

180 Interview, SAIT, Pretoria, 16 October 2017.

181 The probe, which still to be undertaken, is an enquiry into the under-collection of tax revenue. But it has been misconstrued in some cases as a probe into Tom Moyane's conduct.

182 Interviews at the Institute for Justice and reconciliation , Cape Town, 31 October 2017

183 The argument here is that taxes are poured into personal coffers by high-profile government officials and some business moguls. For a proper discussion see Swilling et al. (2017), *Betrayal of the Promise: How South Africa is Being Stolen*.

184 Interviews at the Institute for Justice and Reconciliation, Cape Town, 31 October 2017.

Mozambique

In Mozambique, the predominant view was that most tax officials are involved in some sort of corruption. According to the Afrobarometer survey, only 11.3 per cent of the population believe that all tax officials are honest, while a large majority of 60.3 per cent declared that some, most or all of them are involved in corruption.¹⁸⁵ Corruption, according to Mozambicans' perceptions, was not limited to the tax administration. In the same survey, the president and/or officials in his office were considered to be involved in corruption by 49.7 per cent of the people.¹⁸⁶ For the members of parliament, results were not so different, with 53.8 per cent answering that some, most or all of them are involved in corruption.¹⁸⁷ When inquired by government officials in general, the results were even more worrisome: 62 per cent believed that some, most or all of them are involved in corruption.¹⁸⁸

Thus, the above data shows that more than half of Mozambican citizens believed that corruption is present in both the executive and the legislative powers, in the public administration in general, and in the tax administration. While the results of the most recent Afrobarometer round are still not available for Mozambique, it is fair to believe that currently these results are even worse, as trust in the government reached a critically low level after the most recent corruption scandal of the 'hidden debt' in 2016.¹⁸⁹ During the last part of our fieldwork, from August to October 2017, conversations about the topic were widespread, being the topic of academic seminars and countless op-eds in newspapers, magazines and blogs. The corruption scandal was also an unavoidable subject in most, if not all, conversations we had with myriad actors – such as taxi drivers, waiters, CSO members, informal traders and, significantly, those working in the international cooperation.

Data from another perception survey, the Corruption Perceptions Index,¹⁹⁰ confirms that, indeed, societal perceptions that the country is corrupt had grown in the last few years. While from 2012 to 2015 Mozambique's score was generally 31,¹⁹¹ in 2016 it declined to 27 and, last year, the score was 25. This result is even below the sub-Saharan Africa average score of 32, which is the worst-performing region.¹⁹² Although the country never performed well according to the index, Mozambique's position in the survey's rank of countries has been declining since 2012 (when it ranked at 121). In 2016, before the hidden debts were made public, the country had already ranked lower than before (142). In 2017 after the scandal, however, it got the 153 position (the worst being 180).

Although, under the pressure of the donors, an independent inquiry was commissioned, the results were far from satisfactory. The agency in charge of doing the inquiry alleged that it was not granted full access and disclosure. The report was not shared in its entirety with civil society, and the names of those

185 Afrobarometer Survey (R6 2014/2015). The standard survey question on corruption is 'How many of the following people do you think are involved in corruption, or haven't you heard enough about them to say?' followed by the specific category, 'Tax Officials'. The disaggregated answers were: None, 11.3 per cent; Some of them, 28.6 per cent; Most of them 21.4 per cent; All of them, 10.3 per cent; Don't know, 28.3 per cent.

186 Afrobarometer Survey (R6 2014/2015). The question was the same as above, followed by the category, 'The President and officials in his Office'. The disaggregated answers were: None, 19.5 per cent; Some of them, 31.9 per cent; Most of them 9.1 per cent; All of them, 8.7 per cent; Don't know, 31 per cent.

187 Afrobarometer Survey (R6 2014/2015). The question was the same as above, followed by the category, 'Members of Parliament'. The disaggregated answers were: None, 14.8 per cent; Some of them, 31 per cent; Most of them, 14.8 per cent; All of them, 8 per cent; Don't know, 31.4 per cent.

188 Afrobarometer Survey (R6 2014/2015). The question was the same as above, followed by the category, 'Government officials'. The disaggregated answers were: None, 11.2 per cent; Some of them, 29.2 per cent; Most of them 23.5 per cent; All of them, 9.3 per cent; Don't know, 26.8 per cent.

189 See part 2 of this report for details of the debt scandal. This affects not only internal revenue mobilization, but also the relationship with donors, putting a further strain on Mozambique's finances.

190 The index, published by Transparency International since 1995, ranks 180 countries by their perceived levels of public-sector corruption, according to experts and business people. Corruption is defined by the survey as 'the misuse of public power for private benefit'. A country or territory's score indicates the perceived level of public sector corruption on a scale of 0 (highly corrupt) to 100 (very clean). A country's rank indicates its position relative to the other countries in the index (<https://www.transparency.org/cpi2015>)

191 With the exception of 2013 when it had a 30 score.

192 Sub-Saharan Africa is followed as worst-performing region by Eastern Europe and Central Asia (average score of 34). The best performing region is Western Europe (average score of 66).

involved were omitted – with many references to ‘individual A’ ‘individual B’ and so on. Despite that, for many it was obvious to whom those lettered individuals refer: high-level members of the ruling party and the government. Mozambique’s citizens were still waiting for those involved to be held accountable, and the government’s resistance to doing so was further undermining its legitimacy. The general feeling was that, not only is there corruption, but also impunity for those eventually caught ‘with their hands in the pockets.’ The Frelimo government, people said, is prioritizing the protection of the party and its cadres, instead of the wellbeing of the nation. This perspective was articulated by most people we interviewed and talked to, and also constituted the main narrative about the case in social media and the independent press. It was well summarized by a CSO representative we interviewed:

The country is not in a position to arrest the people who did that, because they would have to arrest half of the Central Committee of Frelimo, arrest the president and all the rest, because they were all involved. And you cannot tell who the head is. It’s like the head of Medusa, with all the tentacles. They would have to arrest the whole structure. Too many people are involved. This was not a secret loan to the state or to the party, it was a hidden loan ... they just did not communicate to the people. ... Most of the economic and financial elite of Frelimo and the government would have to go to jail. It takes a much stronger state to be able to do that.¹⁹³

The debate surrounding the hidden debts brought to the surface a central problem in state–society relations – frequently mentioned by various actors in Mozambican civil society – which is the lack of transparency and accountability in the government. Access to information is extremely difficult. Channels through which the government informs citizens about public-resources management, both in terms of revenue collection and expenditures, are limited. For instance, one representative of a CSO – which works on monitoring the transfer to local communities of their legally assigned share of taxes paid by the forestry industry¹⁹⁴ – emphasized the lack of transparency of the Mozambican fiscal system:

We annually request documents proving what logger A, B, and C have paid. We ask those who exploit the logging resources to tell how much they paid, and then we also ask the government. But our tax system, as a rule, is not transparent. You must have followed the recent the scandal of debt, right? So, when we make a letter of request [for information], often it is not answered, even if it is based on a legal instrument, that is the law of access to information. They take the 30 days that they [legally] have to respond, just to answer that they are still collecting the information. It takes them six months to tell us how much a particular investor contributed in taxes, and they do not give us any proof. This is the maximum level of transparency of our government. So, our tax system is not transparent, it takes a lot of time to respond, it is very time consuming, and never, it is never justified enough! It is just a document written in Word that say ‘we have received that’ and period. No one can try to get the proof or the receipts. This is already invading the government too much. The same when the tax returns come, they send money [and say]: ‘we transferred this money to the community’. And when we ask: ‘From which area? for what period?’ no one knows.¹⁹⁵

193 Interview, CSO member, Maputo, August 2017.

194 The *Forest and Wildlife Act* (Law 10/99 of July 7), approved by Decree n.12/2002 of 6 June, established the allocation the 20 per cent of tax funds collected from the forestry and exploration of wildlife resources to the communities from which the resources are extracted.

195 Interview, CSO member, Maputo, August 2017.

This perception of the absence of transparency was far from being an exception. Another CSO member, who worked many years in the IMF, told us:

I worked for many African countries during my career working with the IMF, and for me Mozambique is one of the most formal countries that I know. Especially now being outside the IMF, for us to ask for information is very complicated. The usual way is to submit one letter asking for information, and then you wait, and you wait, and you wait. And usually the information does not come, and then you have to make another letter. Also, the information that is available in the internet here is very limited. Because within the question of how the government is using its resources, we should not look only to the central government, but also to the public enterprises. But to find information about them is very difficult, and even my ex-colleagues in the IMF do not have a clear panorama of the situation outside the central government.¹⁹⁶

Furthermore, mechanisms to hold government officers and public servants accountable are virtually non-existent. An analyst working for the international cooperation highlighted this problem:

The case of the hidden debt is a good example of the lack of accountability in Mozambique. The loans were discovered and, under the pressure of the IMF and other donors, an inquiry was made. However, even if now everyone knows that there were irregularities and that most of the money disappeared. There is not much that one can do to punish those involved in any wrongdoing. We [the international cooperation] try to put pressure by withholding the money, but the organized civil society do not have established channels available to them to hold their representatives accountable. The common citizen is powerless to act, even when the information is available.

Perceptions on corruption and the lack of transparency and accountability make societal trust in the government, and in the tax administration, very low. According to the last Afrobarometer survey, only 28.9 per cent of the population responded that they trusted the tax administration ‘a lot’ – a startling decline from the previous Afrobarometer round two years before, when those trusting ‘a lot’ amounted to 42.2 per cent.¹⁹⁷

196 Interview, CSO member, Maputo, September 2017.

197 Afrobarometer Survey (R6 2013/2014). The question was ‘How much do you trust each of the following, or haven’t you heard enough about them to say?’, followed by the category, ‘The Tax Department’.

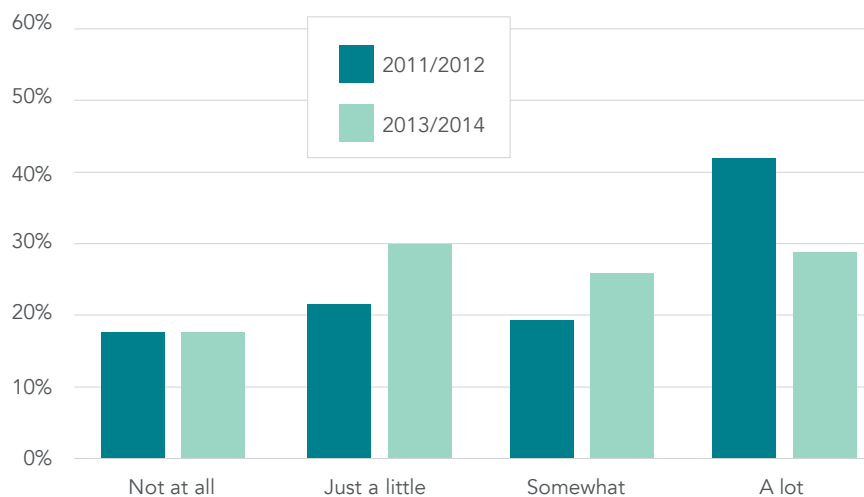


Figure 13: How much do you trust the tax department?

Data source: Afrobarometer

Trust in the ruling party also declined significantly, from 53.8 per cent to 31.2 per cent.¹⁹⁸ This, in its turn, made tax morale very low. The notion of paying tax as a moral duty, and the resulting intrinsic motivations to pay taxes, are not high in Mozambique. Again, Afrobarometer paints a good picture of the situation. Although 39 per cent of the population considers that not paying tax is wrong and should be punished, a similar amount think it is wrong but understandable, while 10 per cent claimed that not paying taxes is ‘not wrong at all’, and 12 per cent do not know.¹⁹⁹

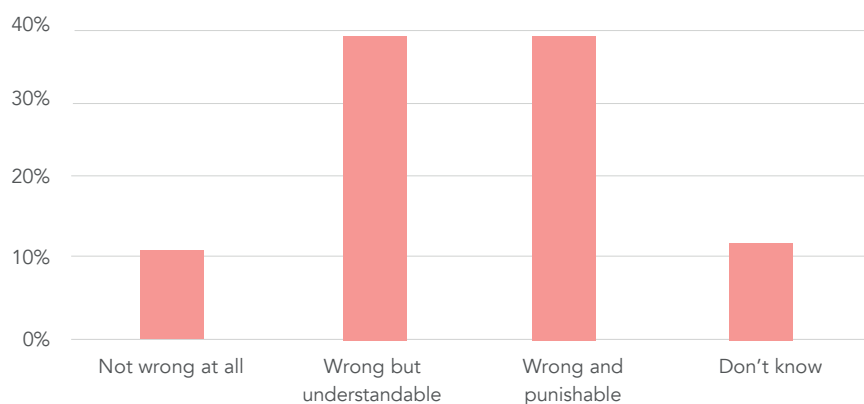


Figure 14: Right or wrong: Not paying taxes

Data source: Afrobarometer

Additionally, while 60 per cent ‘agree’ and ‘strongly agree’ that people must pay taxes, 17 per cent ‘disagree’ or ‘strongly disagree’, and the remaining 23 per cent do not have an opinion. As we can see, in the graphic below, those that consider tax payment to be a duty, declined in the last decade or so.

¹⁹⁸ Afrobarometer Survey (R6 2013/2014). The question was ‘How much do you trust each of the following, or haven’t you heard enough about them to say?’ followed by the relevant category.

¹⁹⁹ Afrobarometer Survey (R6 2013/2014). ‘Right or wrong?: Not paying the taxes’.

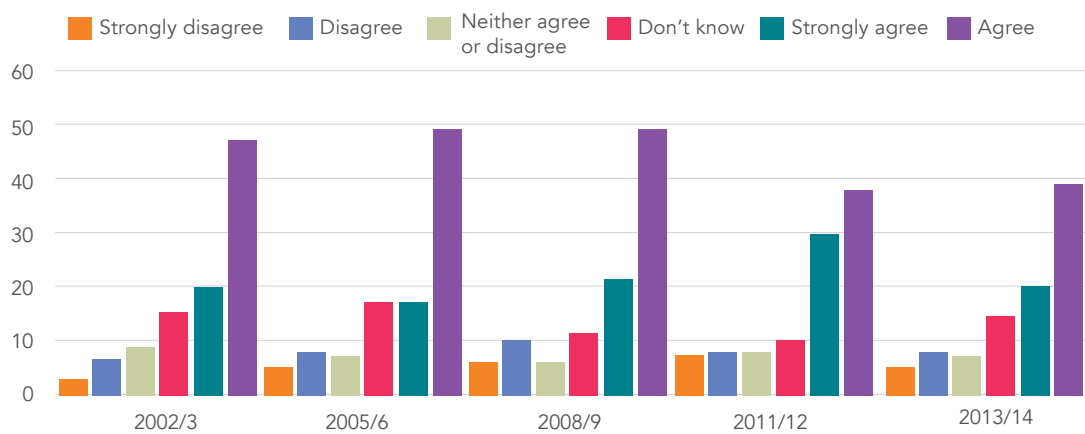


Figure 15: People must pay taxes

Data source: Afrobarometer

The view that there is widespread corruption within the state is definitely a factor in undermining civic values and norms that support the intrinsic motivations to pay tax. For the Mozambican society, tax evasion by ordinary citizens is mostly seen as something wrong but widely justifiable, given the behaviour of its leaders. These feelings were expressed by many people during our fieldwork. In one opportunity, for instance, a market seller asked me if I want to pay ‘with VAT or without VAT’. When asked if that was not illegal, he answered: ‘Why should we pay taxes? There is plenty of money out there, if only the government did not eat all of it among themselves!’ A representative of the private sector also pointed out that there is a misuse of tax money:

In this country we [the private sector] pay a lot of taxes, and this makes the person run out of resources because he is feeding the state. He is feeding the civil servants with these taxes, he is often feeding these parasites because there is too many who are in there. And I do not know if I need 300 thousand civil servants, for example. I have no idea!

A final data from Afrobarometer survey confirms this feeling. The notion of tax payment as a civic duty is not widely shared across the country. Even before the latest crisis, when confronted with two statements²⁰⁰ and asked with which they agree, 58 per cent agreed that the citizens’ duty is to contribute to the development of the country through the payment of taxes, while 37 per cent believed that resources could come from somewhere else. It is worth noting that, here again, we can see a decline in those defending the payment of tax. The graphic below illustrates this.

200 Statement 1: Citizens must pay their taxes to the government in order for our country to develop. Statement 2: The government can find enough resources for development from other sources without having to tax the people.

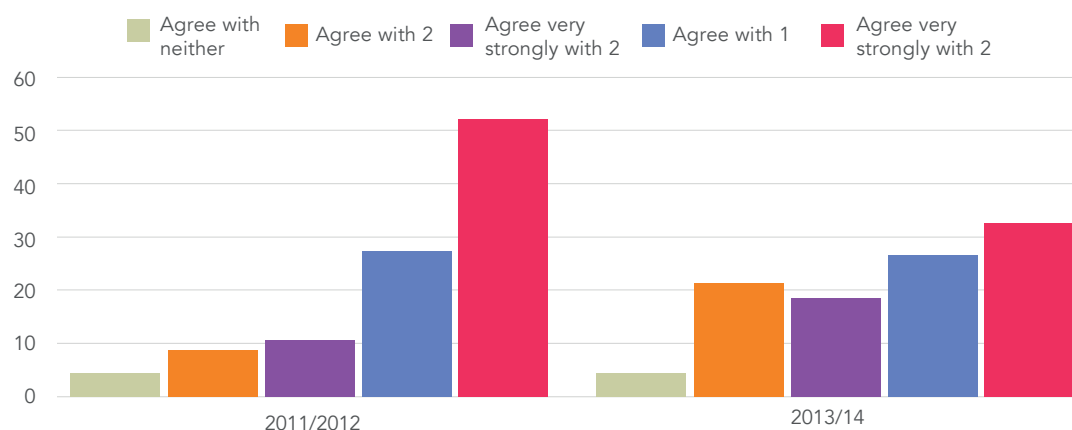


Figure 16: Citizens must pay taxes vs no need to tax the people

Data source: Afrobarometer

As we can see, a decline in tax morale is no doubt in motion. The data from our fieldwork not only confirms the Afrobarometer findings but also suggests an even more troubling scenario.

Cameroon

Similar to Mozambique and South Africa, in Cameroon both the government and tax administration are perceived to be highly corrupt and incompetent in their work. Indeed, this reflects a general idea that Cameroon, as a whole, is a very corrupt country. One respondent explicitly said: 'Maybe you don't know, but here, we are the most corrupt country in the world.' A report published by Transparency International in 2015 (analysing data from Afrobarometer) shows that more than 57 per cent of the population interviewed thought that the government was doing badly in fighting corruption. The corruption perception index, published on a yearly basis by Transparency International, shows that in 2017, Cameroon was ranked at 153 (out of 180 countries), with a low score of 25.²⁰¹

Perceptions on corruption have worsened over the years. In 2008, Cameroon was ranked 141, while in 2014, it was ranked 136; the scores have always been very low scores, ranging from 27 to 25. The low scores indicate that there is the perception of a highly corrupt public sector. From 2000, a series of corruption scandals have hit Cameroon and international donors have increased the pressure to fight corruption. In order to meet these requests, in 2006 the minister of justice launched *Operation Sparrowhawk* and created the *Commission Nationale Anticorruption* (Conac).²⁰² Operation Sparrowhawk saw the arrests of relevant people from government implicated in corrupt activities, yet the government's efforts in fighting corruption did not seem to yield significant results in terms of the population's perception of corruption. Indeed in 2008, motivated by a lack of transparency in the process and by a severe economic collapse, a series of strikes (known as the 'ghost cities') hit the major cities of the country.

The notion of corruption is very present in Cameroonians' imaginary and was the very first thought that came to mind when they described the country. An analysis of the Afrobarometer survey confirms that corruption is one of the main concerns, both with regards to the tax administration and other social milieus. The survey round of 2013/14 shows that on average, 80 per cent of respondents believed that administrators, politicians, business executives and traditional leaders are involved in corruption. Highest

²⁰¹ A country or territory's score indicates the perceived level of public sector corruption on a scale of 0 (highly corrupt) to 100 (very clean). A country's rank indicates its position relative to the other countries in the index (<https://www.transparency.org/cpi2015>)

²⁰² For a more detailed account of the corruption saga since 2000, and its direct implication on perceptions of corruption, see Orock and Mbuagbo (2012).

ranking were tax officials, believed to be involved in corruption by 87 per cent²⁰³ of the respondents. 84 per cent responded that government officials²⁰⁴ are also corrupt, 50 per cent that the Office of the Presidency is corrupt²⁰⁵ and 79 per cent that members of parliament are corrupt.²⁰⁶ However, corruption is seen as something that is spread wider than the political apparatus *stricto sensu*. In fact, 78 per cent claimed that traditional leaders²⁰⁷ are also involved in corruption, as well as business executives (78.9 per cent).²⁰⁸

Corruption is overall seen as a paralysing feature of the country. Because of this and because of the political situation, change is desirable but not realistic (a good indication of this is that data on the perception of corruption did not change significantly over time). To better understand the meaning of these data and to unpack them, we will see how different actors mobilize different resources to navigate the situation. This will give us an overall picture of the perception of corruption in the tax administration, both from the perspective of the tax administration and from that of the population. Finally, this will provide a deeper meaning to the notion of the ‘pervasive toll’ described in the previous section.

The ways in which corruption is seen and the way in which people engage with tax administration varies greatly depending on class position, profession and space – for instance, perceptions and interpretations differ between urban and rural spaces, and in different regions of the country. What happens to tax morale when there is such a prevalent idea of corruption and what are the implications for tax compliance? In other words, do beliefs about corruption affect people’s motivations to pay taxes? According to Torgler (2007), tax morale is the intrinsic motivation to pay taxes. When taxpayers feel that there is fairness between them and government, motivation to pay taxes increases, and the assumption is that taxpayers will feel guilty and ashamed if they are caught being non-compliant. Conversely, if the system is perceived as unfair, tax evasion is seen as a form of self-defence. In what follows, we are going to analyse tax morale and we will start with a closer look at perceptions of the functioning of the tax system.

Not surprisingly, Cameroonians have a low level of trust in the tax department.²⁰⁹ As the graph below shows, 61 per cent of respondents have no trust in the tax department, in line with the high perception of corruption of tax administrators.

203 Afrobarometer Survey (R6 2014/2015). The standard survey question on corruption is ‘How many of the following people do you think are involved in corruption, or haven’t you heard enough about them to say?’ followed by the specific category, in this case, ‘Tax Officials’. The disaggregated answers were: None, 4 per cent; Some of them, 33.3 per cent; Most of them, 26.4 per cent; All of them, 28.5 per cent; Don’t know, 7.7 per cent.

204 Afrobarometer Survey (R6 2014/2015). The question was the same as above, followed by the category ‘Government officials’. The disaggregated answers were: None, 5.1 per cent; Some of them, 38.6 per cent; Most of them, 29.4 per cent; All of them, 15.6 per cent; Don’t know, 11.2 per cent.

205 Afrobarometer Survey (R6 2014/2015). The question was the same as above, followed by ‘The President and officials in his Office’. The disaggregated answers were: None, 6.6 per cent; Some of them, 44.2 per cent; Most of them, 20.5 per cent; All of them, 13.4 per cent; Don’t know, 15.2 per cent.

206 Afrobarometer Survey (R6 2014/2015). The question was the same as above, followed by ‘Members of Parliament’. The disaggregated answers were: None, 6.1 per cent; Some of them, 44 per cent; Most of them 21.9 per cent; All of them, 13.1 per cent; Don’t know, 14.7 per cent.

207 Afrobarometer Survey (R6 2014/2015). The question was the same as above, followed by ‘Traditional leaders’. The disaggregated answers were: None, 14.0 per cent; Some of them, 51.3 per cent; Most of them, 16.6 per cent; All of them, 13.3 per cent; Don’t know, 7.8 per cent.

208 Afrobarometer Survey (R6 2014/2015). The question was the same as above, followed by ‘Business executives’. The disaggregated answers were: None, 8.5 per cent; Some of them, 27.3 per cent; Most of them, 21.8 per cent; All of them, 29.7 per cent; Don’t know, 12.5 per cent.

209 Afrobarometer Survey (R6 2013/2014). The question was ‘How much do you trust each of the following, or haven’t you heard enough about them to say?’, followed by the category, ‘The Tax Department’.

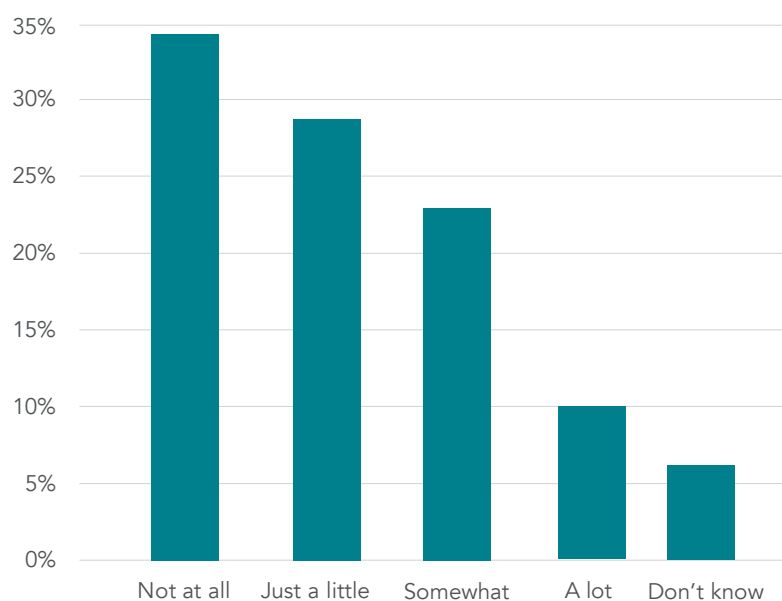


Figure 17: How much do you trust the tax department?

Data source: Afrobarometer

However, when asked whether not paying taxes is right or wrong, 70 per cent of respondents declared that not paying was wrong and punishable.²¹⁰

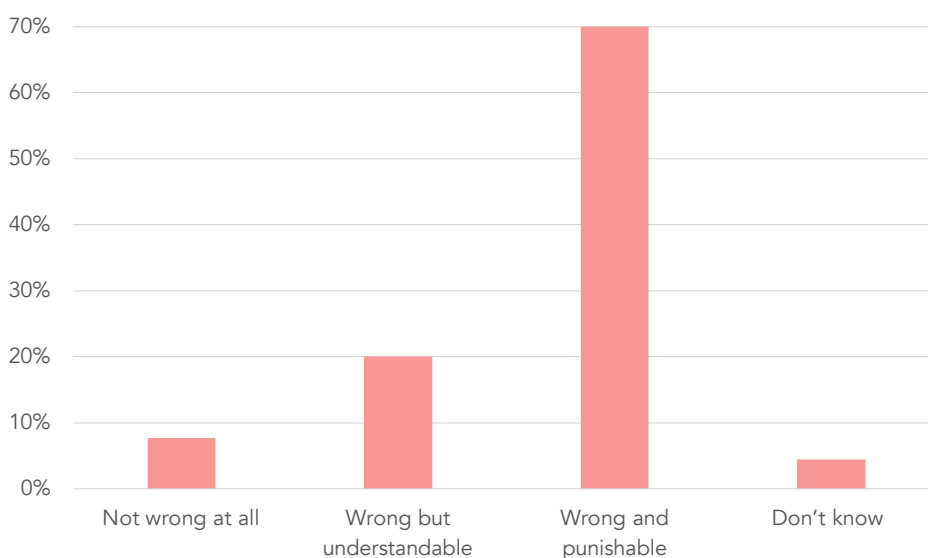


Figure 18: Is not paying taxes right or wrong?

Data source: Afrobarometer

On first analysis, this might seem to clash with the previous responses. However, when further elaborated, we find that the conviction that non-payment of taxes is punishable is detached from the idea that payment of taxes is important for development of the country. Given the high level of corruption, it is fair to believe that respondents are referring to the need for a much fairer judicial system. This picture is in fact complicated

²¹⁰ Afrobarometer Survey (R6 2013/2014). 'Right or wrong: not paying the taxes'.

by the responses to the question of whether people should pay taxes for development.²¹¹ From 2011 to 2013, there is a decline of almost 10 per cent (from 50 per cent to 40 per cent) in the strong conviction that citizens must pay taxes for development. There is simultaneously a slight increase in the idea that the government should not tax people, and find other resources for the development of the country.

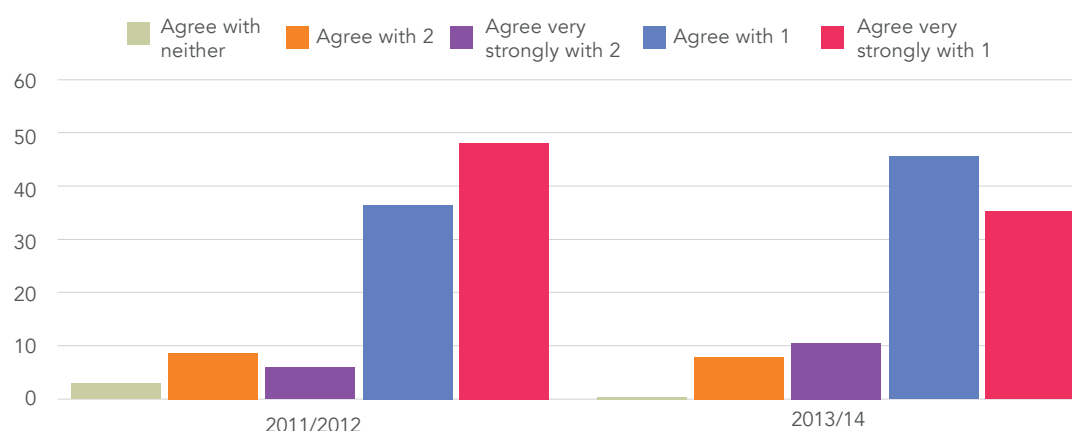


Figure 19: Citizens must pay taxes vs no need to tax the people

Data source: Afrobarometer

In the same line of questioning, when people were asked whether they would pay more taxes to increase health spending, 47 per cent of respondents said they would not.²¹²

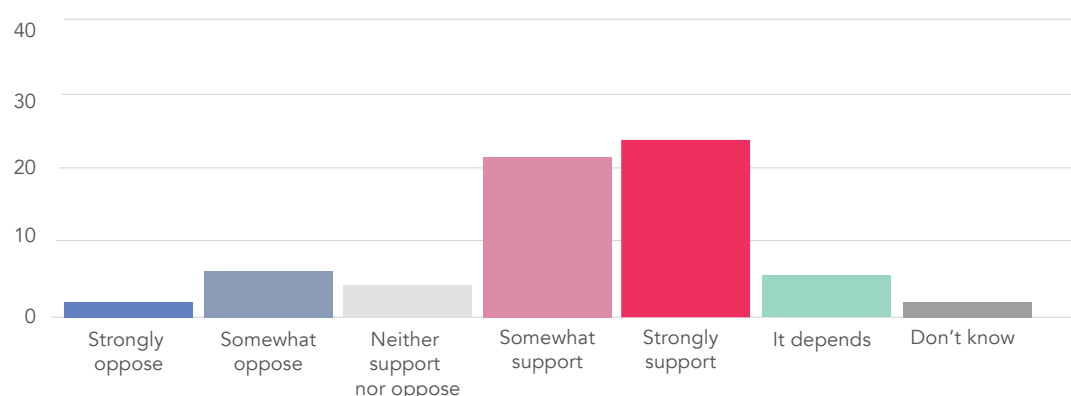


Figure 20: If the government decided to make people pay more taxes or user fees in order to increase spending on public health care, would you support this decision or oppose it?

Data source: Afrobarometer

The interviews conducted during fieldwork provided some elements to elaborate on this. The data presented above show a lack of trust in institutions and a general sentiment of wariness with regard to taxation. They also inform on the various layers that need to be considered when tackling the will to pay taxes. Considering most of the political and tax administration as being a highly corrupt apparatus affects tax morale. In this

211 Afrobarometer Survey (R6 2013/2014). The question was: 'Citizens must pay taxes vs no need to tax the people'. Statement 1: 'Citizens must pay their taxes in order for our country to develop'. Statement 2: 'The government can find enough resources for development from other sources without having to tax people'.

212 Afrobarometer Survey (R6 2013/2014). The question was: 'Pay more taxes to increase health spending. If the government decided to make people pay more taxes or user fees in order to increase spending on public health care, would you support this decision or oppose it?'

regard, Torgler (2007) claims that when the system is seen as unfair, citizens do not feel any pressure to pay. Furthermore, if they have concerns of mismanagement or corruption, tax compliance is not seen as a social norm. Moreover, Henrich et al. (2001) found that tax morale varies among groups and that it is affected by institutions, perceptions of fairness and cultural norms. In the previous section we addressed how, in Cameroon, there is no shared understanding of the notion of tax. While tax morale assumes that there is a shared and defined view of what taxes are, in what follows we will unpack tax morale according to the different perspectives.

According to some representatives of the upper class,²¹³ Cameroon is yet to be built in its entirety. One particular respondent told me many times: ‘I always tell my kids that Cameroon is to be built, I am happy to support their studies abroad, but I tell them that they should come back, there are opportunities here, and they should take them up.’ Among the upper class, and especially in the business sector, corruption remains a topic of conversation and it is taken as something that cannot be changed or challenged. Instead, there is a general sense that spaces of corruption could be penetrated to achieve positive outcomes in terms of business. When dealing with the tax administration, the general idea is that a process of negotiation needs to be started, as this extract suggests: ‘If I want to build a new building I will have to make plans on my own and I will have to activate my contacts. Now, especially with the property tax, everything is different and we need to negotiate accurately.’²¹⁴

In this process of negotiation, corruption disappears from the discourse and it is merged with a set of concerns pertaining to the capability of negotiation to achieve a desired outcome. In this case, ‘building the country’ is possible despite the high level of corruption as, for members of the upper class, it is easier to mobilize their networks, and the ‘pervasive toll’ becomes a mix of exchange determined by both payment of the official tax and other forms of exchanges – these could be monetary or favours. In addressing the above issues, the CEO of a large enterprise declared:

We pay taxes and we are highly taxed. I think that we do enough for the country. But despite our efforts to abide to the law, sometimes we find ourselves having to pay something to the tax inspectors. The tax collection system is heavy and often not much transparent. Tax inspectors visit our factory for controls very often. It is a waste of time for us and of course, they always find something not in order. It is sometimes easier to settle any minor issues with them directly instead of resorting to the central administration.²¹⁵

On the other side, representatives from small businesses and the informal sector saw corruption as something that affects their lives in a much deeper way. Corruption in the tax administration was seen as robbing the population; something that prevents a dignified life and potential personal growth. The relationship to the fiscal administration is characterized by interactions with tax collectors at the municipal level and it is seen as a negotiation in which there is little gain for the taxpayer. The perception of corruption from this segment of the population is certainly much stronger, as paying of bribes or of ‘something’ to tax inspectors is incorporated into their daily routine. Often though, the mere payment of taxes is seen as a bribe. It was not unusual to have conversations with small business owners commenting on the constant demand for money. As one of them put it: ‘They (tax inspectors) come to us and they ask for money, or we have to go and pay. It is too much.’

The process of negotiation is difficult for tax inspectors as well: ‘We need to talk to people to collect money. They will never come to us, they think that we are corrupt and we eat their money. ... We need to

213 Note that this data is gathered at the national level and that in this section, we are using qualitative data from fieldwork to interpret and give meaning to them.

214 Interview with a real estate developer, Yaoundé, 25 October 2017.

215 Interview with the CEO of a multinational firm, Douala, 5 November 2016.

show them that we care, so we have to go and talk with them at their workspace.’²¹⁶

Indeed, often tax inspectors negotiate purposely with the taxpayers in order to collect some money. In this case, from the point of view of the taxpayer, he is paying a tax and something to keep his business going at the same time. Here, tax administration is seen as corrupt and malfunctioning. The fact that government is not able to deliver basic services to the population proves it. The informal sector and small business, due to their positions of greater vulnerability, experience their payment as yet another form of repression and unfair contribution to the state, which is seen as corrupt. The ‘pervasive toll’ here represents the constant and incessant requirement to pay something, which is directed, in the eyes of taxpayers, to their immediate and short-term possibility of pursuing their business. These concerns are confirmed if we look at the Enterprise survey conducted by the World Bank Group: in 2016, 45.6 per cent of firms declared that they needed to give public officials gifts to get things done. More specifically, 20 per cent of them said that the gifts are directed to tax administrators.

The DGI is well aware of the feelings of the Cameroonian population vis-à-vis taxation and their work. Indeed, many reforms are put in place to address this issue. Furthermore, while there is some consensus among the tax administration that corruption should be tackled as a key issue, a certain level of unevenness regarding this perception across the country should be noted as well. To the eyes of local municipalities and of some of the regions of the country (notably the North- and South-West, and the North), the central administration is corrupt; their failure to collect taxes and provide services to their population is largely due to this centralization. Here, corruption takes a different shape and is linked to broader structural factors. Administrators at the central level have tried to tackle these issues by implementing stricter and more transparent processes.

In this context, it is worth mentioning, briefly, two examples. Interestingly, citizens of the Far North – an economically depressed and mostly rural area – do not necessarily see their tax inspectors as corrupt. On the contrary, they see the central administration of Yaoundé as the main source of the problems. Local administrators and inspectors deal very carefully with taxpayers, and are aware of their economic difficulties and their inability to pay even very minimal taxes. To their view, the real issue lies at the level of the DGI and with government in general, as they are not able to provide the region with sufficient resources. On the contrary, the population of the Anglophone regions see the tax administration as corrupt with regards to their own condition. The South-West province is rich in resources. In fact, a major parastatal, the Cameroon Development Company (CDC) has headquarters there, and they contribute greatly to the overall state revenue. Yet the region does not benefit from the revenue that it generates.²¹⁷

Finally, civil society organizations and citizens denounce the lack of transparency in connection to bids and contracts with international companies, and in the extractive and forestry sector. A member of a fiscal justice association reports the following concern:

You see, we do not know what goes on in government, especially with regards to contracts in the forestry sector. These contracts are not public and we have no clue of the terms and conditions. Our country is rich in wood and this could potentially be a very good asset for us. But we are not informed on the details of the contracts. How do we know how much money we are losing with tax exemptions and with other illicit activities?²¹⁸

Corruption here is seen as the inability of the population to benefit from these resources. These last examples show how the ‘pervasive toll’ is the one that it is unfairly paid to the central government, and as a deprivation

216 Interview, tax inspector, Yaoundé, 4 November 2017.

217 The situation at CDC was discussed with the Financial Manager of the company, but we were explicitly asked not to report the details of this conversation.

218 Interview, member of a fiscal activism organization, Yaoundé, 8 November 2017.

of the potential local resources. Tax morale, understood as the intrinsic motivation to pay taxes, is affected both by the high perception of corruption and by the lived experiences of the different strata of the population. Overall there is a common idea that corruption is a pillar in contemporary Cameroon. However, the ways in which corruption is perceived, interpreted and dealt with differs depending on the region, on the profession and on the social background of the various actors. Briefly, the country needs to work towards a pedagogy of taxes, both simplifying the processes of declaration and collection and by starting a process of divulgation of the importance of taxation. This raises important questions on who pays taxes and to what aim. We will explore this in the following section.

3.3 Fairness, equality and justice: Who should pay what?

As discussed in the literature review, considering the fairness of the tax system is also central to its legitimacy. These considerations usually are associated with two related elements: perceptions of how the tax burden is distributed among different groups of society, which, in its turn, is deeply embedded in opinions of what the role of taxation should be. In the three countries of our research, we identified massive differences in perspective of what the role of taxation should be, what a fair tax regime looks like, and on how fair the current distribution of the tax burden is.

The highly unequal South African society often provoked conflicting perceptions from different sectors of the society on who should be taxed and why. Some take a purely economic standpoint, arguing that taxation equips the government to intervene in market failures, while some take a normative standpoint and argue that the role of taxation in a highly unequal society like South Africa is purely to redistribute wealth. The normative standpoint strongly advocates for increasing the taxation of the wealthy. Describing South Africa as a comprehensive developmental state, the issue of using taxation to redress past injustices features quite substantially in conversations regarding tax expenditure.

On this front, there are also vast differences in perspectives on government's ability to achieve the goal of wealth redistribution. The central state's ability to redistribute resources through the fiscus is an on-going, heated debate. There are strong positions from civil society that the South African government has dismally failed to redistribute wealth:

The role of taxation is to fund government activities. I am talking about health care, education, infrastructure. ... The will to pay depends with your view of the state, I personally believe there are a lot of market failures where the government should intervene, so that includes social spending on education, the grant system – which I think the grants are not enough – the defense, police, that kind of thing. The government should ensure that these basics are well funded, guiding even the private sector and incentivizing them. So all of that obviously needs funding and that is my idea of why we need taxation. In a country like South Africa, the redistributive purpose of taxation which I think is also very important. ... I believe if we didn't have the social wages things in the form of grants, things will be a lot worse for many South Africans. ... But I can't say the government through taxation will reach a point where we can say we have redistributed wealth. We could be on the right track but the problem is the very high level of government spending for both public goods and corruption-related activities.²¹⁹

The other perspective does not directly blame the government for the failure, rather it identifies the neoliberal ideology as a stumbling block to the state's execution of its duties:

But with the neoliberal notion of the state playing a minimal role in the economy, our

219 Interview at the Institute for Justice and Reconciliation, Cape Town, 31 October 2017.

understanding of the role of the state is repressed. I think we are at a quandary now, especially in Africa, on the role of the state and the purpose of tax. While the state is always implicated in the redistribution of wealth, the neoliberal ideology comes in the way and incapacitates the state.²²⁰

However, stronger diagnoses of the problems lie in the belly of corruption:

You see the problem is not with the lack of capacity and capability of the state, the problem lies with public trust on the institutions that should be serving the people, corruption lies at the root of all these problems. I think it is with corruption that we suffer from as a country.

The general argument is that it is not the poor who benefit from the supposed redistribution of wealth. Using the recent SOE-capture saga, in particular the South African Airways (SAA) and Eskom debacles and the subsequent bailout of SAA by the government, this school argues that it is the affluent who benefit more, because the government is directly subsidising the rich.

One of our major concerns is the fact that state-owned entities over the last 10 years particularly under Zuma's administration have drastically increased their asset values without real backing for those asset values. In increasing their asset values they also increased their ability to acquire debt, to take out loans. So SOEs have increased their debt to extreme levels and that's why they are now in positions where they are not able to meet those debt obligations, they are not able to pay their bills and now the state has to keep bailing them out. Look at the SAA for instance; SAA since 2008 has had ZAR23.8 billion in bailouts, that's ZAR23.8 billion in tax payer's money that is used to bail them out. SAA was supposed to be a private company and yet they can't turn out profits. So why is the state, you know when we have children without proper schools, why is the state paying ZAR23.8 billion to an airline that is being mismanaged? And they are not really being held accountable for that.²²¹

Meanwhile, private sector companies that participated in this study expressed that South Africans in general feel that they are highly taxed, that Sars is squeezing the private sector and that they 'are at breaking point'.²²² The shared disgruntlement is that the revenue collection machinery completely ignores the informal economy and it is too focused on, and intimidating for, the formal sector. This has led some companies to resort to underestimating their taxable income as a way of evading tax (Naiker and Gavin, 2017).

At the other end of the spectrum, Sars has been accused of resorting to quick revenue measures, that is, getting money from 'the weak' and 'not getting to where the real money is'.²²³ Recently, there have been growing calls for wealth tax. The underlying point is that wealth tax will increase the progressivity of the state tax system. Furthermore, speaking to an official²²⁴ at the Institute for Justice and Reconciliation on questions around taxation and the elites, he highlighted that elites have a lot of influence on issues around taxation and government accountability. According to him, 'A small majority of elite have the monetary power to keep the government accountable, especially if the elite's interests are aligned with the government's'.²²⁵

He went on to emphasize that further taxation of the general masses in the form of VAT increases will

220 Interview, University of Cape Town, 15 September 2017.

221 Interview at PARI, Johannesburg, 25 October 2017.

222 Interview, Pretoria, 16 October 2017.

223 Interview, Johannesburg, 17/09/2017. According to the respondent, the real money is found in the wealthier sectors of the society.

224 He was speaking in a personal capacity and did not represent the views of the Institute.

225 Interview at the Institute for Justice and Reconciliation, Cape Town, 31 October 2017.

exacerbate inequalities in an already highly unequal society. Lieberman (2003:16) rightly observes that ‘in the absence of cooperation, or ‘quasi-voluntary compliance’ from upper groups, the state will seek out other forms of revenue that may be less reliable, more complex, and may exacerbate inequalities within society’. The recent increase of VAT by 1 percentage point to 15 per cent is but one example of the complexity that arises when the relationship between the tax state and the elite deteriorates.

While most civil society organizations, private firms and government institutions presented that it is problematic for the informal sector to be completely excluded from taxation, conversations with informal traders in the city of Cape Town pointed in a different direction. The informal traders were of the idea that increasing a form of wealth tax would solve South Africa’s problems and they perceived the government as authoritarian and unfair: ‘Here we don’t pay taxes for selling these things, but if the government had to instruct us to pay, there is nothing we can do, we will just pay, my sister. You know, the government makes rules, we just follow the system because it’s like that.’²²⁶ They lamented that VAT is a very unfair tax as it a regressive tax and the rich are having it easy in South Africa.²²⁷ One cautioned that ‘working-class poverty is real; they should ensure that it is not regressive.’²²⁸

However, concerns were highlighted on the dangers of additional taxation of high net individuals and companies. The argument against this was that it could have adverse effects on the tax system, and on the economy in the form of capital flight. The rationale was that ‘for high net-worth individuals to be taxed in South Africa, they have to be resident in South Africa,’²²⁹ but as the South African Institute of Tax Professionals (SAIT) argues, this criteria is not necessarily as straightforward as it seems. The ‘so-called residence test is a highly complex area of tax law’, and it compels Sars to conduct two complex processes, which are the ‘ordinarily resident test’ and the ‘physical presence test’.²³⁰ SAIT argues that these are often contested processes, which can stimulate ‘tax flight’,²³¹ that is, the elite’s migration from high tax to low tax states, draining state revenues and undermining redistributive social policies (Young et al., 2016:421).

226 Interviews, Cape Town CBD, 14 September 2017.

227 Interviews with informal traders in Cape Town, 2 November 2017.

228 Interviews with informal traders in Cape Town, 2 November 2017.

229 Interview, CSO, Johannesburg, 17 September 2017.

230 Because the South African tax system is residence-based, the revenue authorities would have to ascertain if the potential tax payer is a resident of South Africa through the physical presence test. This concept is time-based and only applicable to a natural person who was not, at any stage during the relevant tax year, resident in South Africa. This test is based on the number of days a potential tax payer is physically present in South Africa. The physical presence test must be performed annually to determine whether the person concerned is a resident for the tax year under consideration. The test consists of three requirements, that is, the person must be physically present in South Africa for a period or periods exceeding: i) 91 days in aggregate during the tax year under consideration; ii) 91 days in aggregate during each of the five tax years preceding the tax year under consideration; and iii) 915 days in aggregate during the above five preceding tax years. A potential tax payer has to meet all three requirements before he or she will be regarded a resident. For further clarification see: <http://www.sars.gov.za/AllDocs/OpsDocs/Guides/LAPD-IT-G02%20-%20Guide%20on%20the%20Residence%20Basis%20of%20Taxation%20for%20Individuals%20-%20External%20Guide.pdf>

231 <http://www.thesait.org.za/news/105618/When-Are-You-A-Tax-Resident.htm>

Mozambique

As in South Africa, there are lively debates in Mozambique about who should pay taxes and why – a debate marked by different perceptions of who is carrying the tax burden. Some of those in the formal market who pay direct taxes, mainly medium and small enterprises, cooperatives and those with waged jobs, complain that they carry a disproportionate share of the tax burden, which they perceive as being too high.²³² A representative of the private sector and member of the Confederation of Business Associations of Mozambique (CTA) put it plainly: ‘We are all very pressured because of this 32 per cent; we think it is a huge violence from the income point of view.’²³³

Besides seeing the tax burden as extremely and unnecessarily high, there is also a perception among those paying direct taxes that most of their fellow citizens are contributing their fair share to the fiscus. In Mozambique, direct taxes are paid by an even more reduced portion of society than in South Africa. As we discussed previously, the number of registered taxpayers amounts to only 17 per cent of the population, and the fact of being registered does not mean that they are paying taxes. They are only ‘potential taxpayers’, with the number of people actually paying estimated at around 20 per cent of those registered.²³⁴ As in South Africa, most citizens contribute to the state only through the VAT.

Now, as we discussed previously, views on the fairness of the tax system are fundamentally connected with the perception that everyone is paying their share (Bräutigam2008:6). Indeed, those paying direct taxes in Mozambique repeatedly called attention to the unfairness of the tax system, and the absence of tax justice. Thus, one of the ‘big challenges’ of the fiscal system in Mozambique, according to most of those that pay direct taxes, as well as to the government, is that ‘we have more and more taxpayers, that all pay the bills according to their income.’²³⁵ A representative of the private sector explains,

Tax justice clearly means that each one [pays] according to his income. ... This is the challenge we have, of how to include in the system all those who have an economic activity. The government, through the [tax] codes have an exemption that the individual who receives a salary up to certain amount of Meticaïs should not pay the tax, and I think this is wrong. Even if it was 5 or 10 Meticaïs, he should pay. He has to learn that he has to pay, everyone, each according to his income, and this do not exist in the country.²³⁶

In this debate, one of the main sectors accused of not doing their part and paying their share was the informal sector. Thus, as a way to expand the tax base and create a more equitable and fair distribution of the tax burden, some actors defended including those operating in the informal economy. The government is among these actors and, as we discussed before, the ATM had implemented tax reforms to attract those in the informality to becoming registered taxpayers. The creation of the ISPC is a clear example of this effort that, however, failed.²³⁷

Meanwhile, those in the informal market disagree that they do not contribute to the state’s revenue, and that they are in conditions – and therefore have the duty – to contribute even more. As one representative of the informal sector explains:

When we have a stand in the market, we generate employment, we move the economy... and besides, we do pay taxes, we pay at the border as most of the products come from South

232 For the amounts paid on direct taxes, please refer to section 2 of this document. In fact, personal and corporate income tax together contribute to 45 per cent of tax revenue, a high tax burden given the fact that they also pay VAT.

233 Interview with the Confederation of Business Associations of Mozambique (CTA), Maputo, 25 August 2017.

234 <http://opais.sapo.mz/nakhare-acredita-num-orcamento-mais-sustentavel>.

235 Interview with the Confederation of Business Associations of Mozambique (CTA), Maputo, 25 August 2017.

236 Idem.

237 For details on the ISPC please refer to section 2.2 of this document.

Africa. ... So, we already pay from the border, and when we arrive here at the market the municipality charges us again, I mean, there is a tax overload.

Additionally, and on this point agreeing with those that pay direct taxes, he points out that the conditions on the formal sector do not offer enough advantages to convince those in the informal sector to migrate to it. On the contrary, the tax burden is so high that he sees an opposite process – of those on the formal sector coming back into the informal ‘world’:

For us today, it would not make sense that we [the informal sellers] would appear and stay for a long time when they [the formal sellers] exist, if the situation were good. Because they would say, look my dear, for you to have your business good, strong, you have to follow the path that I’ve walked, do this, do that, become formal, because in the formal [sector] you have these and that advantages, you have to show gains. Now they do not say this, they just say: we cannot sell because of the ‘informals’, and while we cannot sell, we cannot pay the necessary taxes. You have to tell me what’s there in the formal sector so I can come to it, but on the contrary, many of those who are there have one foot in the informal, others run away completely from the formal and return to the informal. Because they are there suffocated with taxes, there are several! This is what causes many people to have no desire to move to the formal. I always say: ‘Government, put there a bait for people to have reason to go to the formal; go to the formal only to pay many taxes, and high? No, hold on!’ Like that, they will be left without anyone.²³⁸

A second perception, shared by the majority of the population, was that the tax system in Mozambique is unfair as a result of more than generous, and unnecessary, tax exemptions granted to private actors – mostly multinationals in the extractive industry or involved in ‘megaprojects’. Double taxation and other international agreements, such as the SADC trade agreements, are also met with wide criticism. Thus, the question of elites and the taxation of wealth, differently from South Africa, acquired a distinctive, transnational flavour: it is foreign elites, not national ones, who are benefitting, not only from the country’s resources, but also through benefits from the tax system.

Where both business representatives and those in the informal market agree – along with CSOs, academics, and the population at large – is that international capital is getting it too easy in terms of taxation. Indeed, tax exemptions are the most popular topic in the debate about taxation in the country, and for some it is at the very origins of the tax awareness of Mozambicans:

The main moments in which the citizens actually intervened in a lively way took place in the early 2000s. What happened in the first decade of 2000? The emergence of the so-called extractive industry, large multinationals that extract mineral and other resources, and the Mozambican state granted incentives, which were very large tax exemptions. The state said it did so because a country that coming out of war needs to give investors a more attractive image, and one way to attract them was to actually provide meaningful tax exemptions. The civil society was very energetic in this, and made very strong campaigns to eliminate the tax exemptions – the so-called fiscal incentives – which were said to be exaggerated, and made it so that the country did not gain anything from that. And so, this debate has brought, let us say, another level of citizen’s perception of taxation.²³⁹

238 Interview with a member of an informal sector association, Maputo, August 2017.

239 Interview with CSO member, Maputo, August 2017.

Other CSO members called attention to the unfairness of tax exemptions, as those benefitting from it are the already privileged, wealthy members of society:

Mozambique taxes more the poor people than the people who can afford to pay. We have seen a lot of this mainly because of the tax exemptions, which is closely linked to political parties, many people of the political elite benefit from tax exemptions. Many megaprojects investments have tax exemptions, and there is also double taxation agreements that usually harm very much the country. I think there is need for the government to renegotiate the contracts with megaprojects, in order to reduce these tax exemptions. The other point is the issue of free zones. ... If an economic agent is going to do business in this zone already he benefits from certain tax exemptions, but we do not understand very well what is the benefit in terms of revenue that these free zones has for the tax revenue in general.²⁴⁰

National entrepreneurs also resent the exemptions given to the megaprojects, usually of foreign capital. As one representative of the business sector highlights,

There is an aspect that today concerns us greatly, which is tax exemptions. These big projects that came in here, the carrot that the Mozambican government puts in front of all of them is always the exemption, when it should not be. And we feel that these major projects have had little input from the point of view of taxation. We, in the private sector, recognize that in order to attract investments to Mozambique we have to give something so that it does not go to Mauritius, to South Africa, not go to Zimbabwe or to Zambia. We have to make our offers too, of attraction. But these attractions cannot be total exemption, and for a period that nobody knows what they are, we often do not know what period each of these projects has in terms of exemption. There is little publicity on this, it does not have, in many aspects, transparency.

Thus, many people called attention to the fact that the promises of development, industrialization, employment generation and so on, which are mobilized to justify such exemptions, were never fulfilled. In fact, that was the impression we had when we visited two of the Special Economic Zones (SEZ), the SEZ of Nacala, and the Crusse and Jamal Integrated Tourist Development Zone, both located in Nampula Province, in the north of the country. The tourist zone was non-existent, despite that in the last year, not only exemptions but also substantive resources from donors were given to the zone. There was no road to reach the place and once we were there, no infrastructure; no water, electricity, school or medical centre, no installations at all. The small community living there still hoped that the project would one day materialize and bring jobs, infrastructure and economic resources to what is an extremely poor village. Our guide there, however, was more sceptical: 'They keep saying that one day there will be nice hotels, a golf course, and people will come. And that we will be able to get jobs, sell the tourists the fish we get, but you saw the way here. There is no road, there is no electricity, I don't think people will come.'

In Nacala, besides the port to ship the coal production of Vale do Rio Doce, not much had been done. There was a brand new airport, but it was closed most of the time as there were only two flights a week. Unemployment had not reduced in the town, and even those that benefitted from tax exemptions complained of the absence of progress and the failed promises of the government. One Portuguese developer, who invested in a condominium in Nacala, remained there on his tidy but empty property. He lengthily narrated to us his struggle to get the business going, as the influx of people that was supposed to have taken place, never happened. Promises of the government to start major developmental projects – the

240 Interview with CSO member, Maputo, August 2017.

building of a power plant, the expansion of the port – were time and again cancelled. According to him, what good could tax exemptions do for him if there was no one there to rent his units?!

The government, however, defends the centrality of the tax exemptions in promoting the development of the country. The director of the Agency for the Promotion of Investments and Exports (Apiex) highlighted that, given the characteristics of Mozambican economy and its history, tax incentives are a fundamental tool:

An economy depends very much on its competitive capacity. ... Mozambique is a country that was born in 1975, after 10 years of war, two years later started the civil war, for 16 years, we are talking about a country that was reborn in 1992. So when you analyse the Mozambican economy you have to take this into account. ... And not only that, you have to understand that it is a country that emerges from an anti-colonial, anti-capitalist, anti-imperialist war. Therefore, the first fiscal policies were policies aimed at a planned economy. It was only in the 1980s that we began to make the shift, to move from a pro-communist state to a free market-economy state. So our business class is still in its infancy, and that is why we have this opening for foreign direct investment; it is to close the gap that we have. ... This is an economy in which you have 60 per cent of the economy informal... and we do not have infrastructure! So we need these cushions [the exemptions]. The reason why a lot of people come here is because we have the cushions, because we have agreements to avoid double taxation, and we need to attract foreign investment that is fundamental to the structural transformation of our economy.²⁴¹

Thus, as in South Africa, some actors raise concerns that increasing taxation of multinational companies would have adverse effects. But in Mozambique, the concern is not so much with tax evasion, but that higher taxation will drive foreign direct investments out of the country. Given Mozambican conditions, without tax exemptions the so-much needed international capital would not come to make business in the country. Moreover, given the absence of a national capitalist class, the only way to develop Mozambique, according to the government, is at least for now, to attract them.²⁴²

Cameroon

The debate about taxation in Cameroon is deeply embedded in the idea of ‘just tax’, which is shared all across Cameroonian society. However, there are different understandings of what this entails. Understanding what the just tax is, according to the various actors, is crucial if we want to unpack the challenges linked to the low tax morale in a more in-depth manner.

A more linear interpretation is given by the Certified Tax Consultants working in certified management centres. These are partners of the tax administration and their role is to assist companies as consultants; to settle tax disputes, to organize taxes and to process payroll. In their view, the just tax is determined by the finance law and, by all means, is what companies are supposed to be paying in a non-negotiable process. The fiscal administration, on its side, claims to work towards a just and equitable tax system. The finance law is produced at the office of the Study and Fiscal Reforms of the DGI.

A representative from this division explains how the finance law is the result of a long process of negotiation with the main stakeholders, namely, the big and medium enterprises and the twelve fiscal regions of the country:

241 Interview at Apiex, Maputo, October 2017.

242 Some public servants expressed the hope that one day, there will be a national business class in Mozambique that will then take the place now occupied by foreign actors. Most of them, however, see this as a very long term change.

We at the DGI fully understand the importance of dialogue with the taxpayers and we try to launch as many opportunities of dialogue as possible. We share the draft of the finance law with the big companies every year and we value their feedback.²⁴³

Groupeement Inter-patronal du Cameroun (Gicam) is the union of private companies most involved in negotiation processes and it often proposes two types of reforms, in order to make the system more just for the companies: on the one hand, the reduction of VAT and of the fiscal pressure in general,²⁴⁴ and on the other, procedures to make the process of taxation more transparent, notably through the digitalization of tax records and of the implementation of tax transaction through the internet, to grant their traceability.

Conversations with two CEOs of international companies²⁴⁵ bring to surface an idea of the just tax, which resonates with Gicam's position. They are fully aware of their massive contribution to the overall revenue of the state – which accounts for 80 per cent of the total revenue of income tax – and they see it as a 'social injustice'. They back up their perception by arguing that they are subject to an incredible number of controls – up to two or three per year – conducted in a disorderly and inaccurate way, during which it is very common to incur fines. The CEOs see the system's injustice both at the high level of taxation and in the ways in which taxes are implemented and collected – they find the systems not transparent enough. One of them comments:

We are always subjected to controls, it is not that we do not want to pay taxes, we do it in conformity with the law, but this is a social injustice, we pay a lot and we also pay benefits for our workers and our work is sometimes distracted by these controls. The injustice is also elsewhere, you see, new companies are tax exempt for the first two years of activity, to incentivize business. But what happens to us older companies? We did not get incentives when we started and now we keep paying while others enjoy exemption.²⁴⁶

There seems to be a consensus, from the administration to the big firms of the private sector, that the skewed contribution to the overall revenue is to be attributed to the prominence of the informal sector. The Director of Small and Medium Enterprises laments that most of the small enterprises have a very high mortality rate:

We fully understand the difficulties of the small entrepreneurs and we are trying very hard to help them formalize, but this is not an easy task. People are reluctant to fill the paperwork and they think that they will lose profit by entering into the formal market. But I truly believe that it is the contrary. If they are formally embedded in the system, they do not have to resort to informal, and sometimes dangerous, means to keep their business going. This is not good for them. This is why we are trying to promote artisanal activities in the villages. We hope that products could be sold in the various artisanal centres around the country.²⁴⁷

As explained by the director, this division adopted a series of incentives for small and medium enterprises, namely, not paying taxes for the first two years and giving contributions to those that employ young people. Yet most of the companies 'shut down' after two years, to migrate to the informal sector where taxes are not

243 Interview at the DGI, Yaoundé, 1 October 2016.

244 The debate on the VAT and fiscal pressure is a very heated one among the large companies' taxpayers. The sentiment is that there are very long delays in the VAT return and that this is detrimental to the health of the companies.

245 Respectively, Yaoundé on 3 November 2016 and Douala, 9 November 2016.

246 Interview, Yaoundé, 3 November 2016.

247 Interview, Director of Small and Medium Enterprises, Yaoundé, 31 October 2016.

contemplated. One of the main programmes of this centre had been to promote small enterprises, not only in the cities, but in the villages as well. One such example was ‘1 village, 1 product’: a programme aimed at creating cooperatives specializing in the production of one product in the villages – where the payment of taxes should not only come to be perceived as just, but as worth it as well. This would be possible when the workers of the cooperatives realized that going through the formal market allows them to cut costs – mostly transport. In this case, the tax paid to the local municipality would be lower than the costs that the producer would have incurred if he had to produce and distribute the product alone.

On the other side, a representative from the *Association Nationale des Sauveteurs du Cameroun* (Anescam), claimed that the prominence of the informal sector, especially in the centres of cities like Yaoundé and Douala, was to be ascribed to the absence of a proper tax policy for individual entrepreneurs that work for themselves under conditions of poverty:

The informal sector is constantly blamed for the lack of state resources, but I think that this is appalling. There is no fiscal justice in this country. The informal workers are indeed workers, and they should not be harassed constantly by the tax collectors. People who have more money should contribute more, financially, to the country and those that pay, even if not a lot, should be treated with dignity.²⁴⁸

Not denying that a lot of work had been done, he complained about the policy makers’ lack of interest vis-à-vis street vendors, who are the object of constant harassment by inspectors. Furthermore, Anescam pleads for a broader meaning of the ‘just tax’. In 2000, a reasonable flat rate (*impôt libérateur*) was approved. Thanks to this, all street vendors that pay this tax have the right to sell, but at the same time, they have not been given a space in which to work and the Cameroonian law requires the payment of a land occupancy tax. This makes the taxation for street vendors heavy and often forces them to operate in the informal sector. Anescam suggests that, in order to give dignity to this category, a healthy and safe environment should be created in the form of official stalls – to be allocated to those who pay the flat rate. For Anescam, the ‘just tax’ is thus about granting dignity to workers.

Lastly, the vision of the *Centre Régional Africain pour le Développement Endogène et Communautaire* (Cradec) was more oriented towards the idea that residents are not aware of the relationship between the taxpayer and the state (in the form of the local municipality) that is implied in the taxpaying process. According to Cradec, many citizens do not know that it is precisely through paying tax that they have the right to advance demands, and that this is the reason why the whole notion of taxation is considered unjust.

Each of these actors had a different view on what a fair system would look like. The fiscal administration worked on the assumption that increasing the number of taxpayers will lead to a healthier fiscus. To this effect, in September 2017, it launched a new campaign to register taxpayers. As a result, 4,000 new taxpayers were registered in five different tax centers. It is still impossible to venture an analysis of the result of this campaign, so for now we maintain that from an organizational perspective, the DGE is the highest collector of taxes. While the private sector feels unjustly treated by the fiscal administration – as explained at the beginning of this section – and sees in the massive presence of the informal sector the source of the problem. The informal sector, in turn, sees the private companies as fully embedded with the state and at times, with the political party in office.

As in Mozambique, there is a clear opinion that the presence of multinational and international companies contribute to fostering an unequal economy. For instance, recently, within the framework of Vision 2030 (vision and planning for the growth and development of the country) and in view of the upcoming Africa Cup of Nations in 2019, Italian companies and the Cameroonian government signed a set of business deals, especially in the construction sector in the city of Yaoundé. These are regulated by

248 Interview, Douala, 11 November, 2016

tax exemptions and again, lay citizens see in these deals a missed opportunity for national growth, and for building a fair fiscal system.²⁴⁹

In this regard, the Cameroonian population at large sees a collusion of the national and international elite to prevent a fair economic system. The requests of the fiscal administration on the informal sector, or on small business, are interpreted primarily as an unfair interference in people's daily endeavours.

3.4 Taxation, citizenship and the provision of public goods: why pay and for what?

As we argued before, perceptions on the quality of the 'fiscal contract' also has an impact on tax compliance (Bråutigam, 2006:6-7; Cummings et al., 2005:1). The notion of the payment of tax being related to some kind of contract between a state and its citizens is approached in the literature in two ways: the notion of exchange, and the idea of belonging to a broader political community. Let us explore both meanings in the countries of our study.

South Africa

In South Africa, the relationship between taxpayers and the state is, to a significant degree, driven more by fear rather than by a contract relationship. The findings of this study demonstrate that the relationship between Sars and taxpayers is anything but romantic. According to one CSO interviewed, 'Sars is dictatorial; people feel Sars doesn't understand that tax payers have rights. Taxpayers pay out of fear.'²⁵⁰ This sentiment was echoed by most of the actors we interviewed in South Africa. Furthermore, the finding in this study indicated that generally people do not understand why they pay taxes:

I wish not to pay taxes like in other countries; you know in Saudi Arabia people do not pay taxes. I wish I stayed in those Islamic countries, you know they do not pay taxes and everything is fine. I just hear that we pay taxes for the government to keep the country running. That is what we hear; there is no proof for that. My sister, these things you never know. We just pay but we do not know what the money is used for.²⁵¹

The Afrobarometer survey conducted in the 2014/15 year found that only 28 per cent of respondents agreed that citizens must pay their taxes for the country to develop, while almost 98 per cent expressed that, in as much as citizens must pay taxes, they believed that the government can find other alternative sources of revenue without having to tax people.²⁵²

249 These deals have been struck towards the end of our fieldwork and there has not been enough time to further investigate on them. In addition it should also be noted that the project of a new port in Kribi is also under people's scrutiny. The official narrative is that the new port will create new jobs and will expand Cameroonian economy. This has also not been investigated in depth, due to time constraints.

250 Interview, SAIT Pretoria, 16 October 2017.

251 Interviews, Cape Town, 14 September 2017.

252 Afrobarometer Survey (R6 2014/2015). The standard survey question on whether citizens must pay their taxes to the government in order for our country to develop, and if they think the government can find enough resources for development from other sources without having to tax the people. The disaggregated answers were: Agree very strongly, 32.8 per cent; Agree with 1, 28.3 per cent; Agree with 2, 17.2 per cent; Agree very strongly, 17.1 per cent; Agree with neither, 2.9 per cent; Don't know, 1.7 per cent.

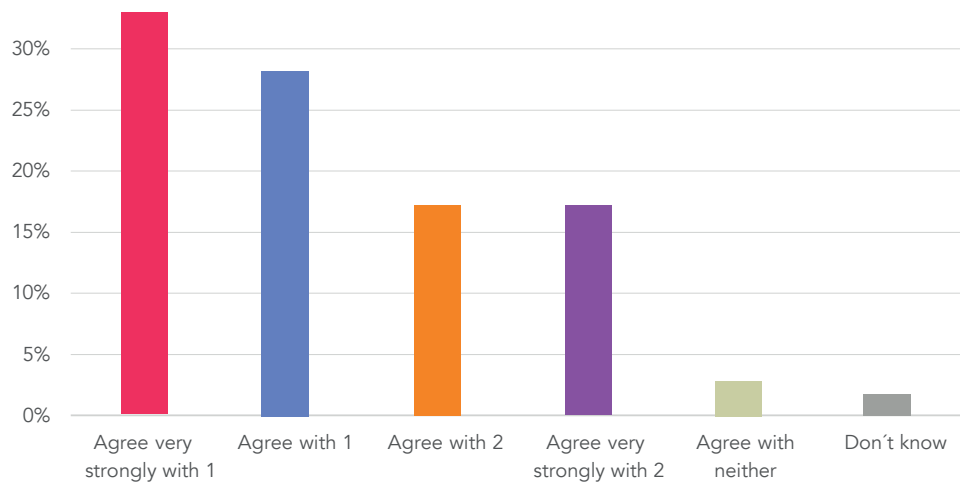


Figure 21: Citizens must pay taxes vs. no need to tax the people

Data source: Afrobarometer

This study also found that, generally, people do not understand why they must pay taxes.

People with an understanding of the role of the state do not have problems with being taxed. If there is an agreement between the state and the citizens or if we had a real welfare state. For example, Norway, Sweden, Scandinavia, and people understood the role of the state as to provide these basic services like health, education, housing, you know, a state that is very much involved in the wellbeing of the people – then I think the legitimacy of having taxation is justified.²⁵³

The complication that arises in the South African case is that, as different CSOs argue, there is a perception that the largest population of South Africans are not taxpayers just because they do not pay direct taxes.²⁵⁴ That leaves out the majority of South Africans who contribute through indirect taxation. In South Africa, only a small percentage of South Africans pay direct taxes.²⁵⁵ Therefore, there is a tendency to conflate ‘tax payers’ with income-tax payers, comprising the elite – those who bring in the bulk of revenue and the majority of whom are recipients of the taxes through cash transfers such as social grants and other public services. Such perceptions strip the majority of taxpayers of the motivation and bargaining power to hold the government accountable, resulting in vulnerability and resignation:

We [are] already paying VAT. The problem is that it is only the politicians that are benefitting. No one of our people is benefitting from the taxes. We do not have anything. It’s politics, my sister, it’s politics. If we were given an option, we were not going to pay taxes.²⁵⁶

Some have predicted that people are getting frustrated with the system and that this exasperation will have adverse consequences. By the end of 2017, some organizations like the Organisation Undoing Tax

253 Interview, Cape Town, 15 September 2017.

254 This point is made, for instance, by the Organisation Undoing Tax Abuse (Outa), Oxfam, Development Action Group (DAG) and SAIT.

255 According to Coomer’s data, currently only 13 per cent of South Africans are paying direct taxes, with the remaining 87 per cent contributing only through VAT. Moreover, on the basis of income tax, the top 1 per cent of taxpayers pay 61 per cent of the total income tax bill. Some have argued that this is, by any standard, an extraordinary burden that is borne by a very small portion of the population. See for example, Business Tech ‘This is who is paying South Africa’s tax’ <https://businesstech.co.za/news/finance/207631/this-is-who-is-paying-south-africas-tax/>. (accessed 26 October 2017).

256 Interview, Cape Town, 14 September 2017.

Abuse (Outa) have predicted a tax revolt by South African tax payers in response to political and economic woes. According to Outa this could be mainly driven by the rising frustrations with state capture, credit downgrades and stunted economic growth. Some civil society organizations have forecasted severe service delivery protests when the government eventually feels the pinch of revenue collections.²⁵⁷

However, the argument that a large number of South African citizens engage in protests over poor service delivery as disgruntled taxpayers is highly problematic. Service delivery protests have, since the dawn of democracy, become part of South Africa's culture. Service delivery failures, poor governance and corruption have occurred against the backdrop of substantial revenues that were collected by the revenue-collection machinery. This has not been met with delight by the poorest communities in the country. The massive protests that have ensued have been construed as the taxpayers exercising their agency. However, this perception was vehemently rejected by an official from a well-known civil society organization. He sums this up very well: 'South Africans' entitlement stems from their status of being South African citizens, not as taxpayers'.

Mozambique

In Mozambique, the effort to link tax payment both with the provision of public goods, and with notions of belonging – where being a good citizen means contributing to the common good – is central in governmental efforts to increase revenue collection through tax education. In 2010, the ATM launched the campaign 'Together We Make Mozambique', with the objective of familiarizing all citizens with tax matters, so that they understood their obligations and the importance of paying taxes. The campaign explained the different forms of fiscal contribution and highlighted the direct and indirect benefits of taxation to the citizens. Here, the paradigm of fiscal exchange was adopted. Through different vehicles – such as songs highlighting the importance of the payment of tax in different national languages, cartoons and theatre – the ATM tried to disseminate the message that taxes paid by citizens would provide the state with resources for providing for public goods. As the communications office of the ATM explained,

To attract those who do not pay taxes, we had to explain to them why they should pay tax. It [the payment of taxes] was a new thing in Mozambique, and it was not correct and we would not be able to start a new thing without explaining the population, explaining to the citizen, that it is with this tax money that the state will build schools, hospitals, roads, health, it was this communication that we used and [still] use with the citizen. Because unfortunately in Mozambique we have this suspicion mania: people are very suspicious, and they suspect a little bit about everything, we are a very suspicious people lately. ... So we had to interact, we had to attract the people. ... We launched a campaign of tax education, and the objective was precisely this, to sensitize the citizen about the need to pay tax, voluntarily, where we use various strategies to achieve this goal.²⁵⁸

Civil society campaigns also appeal to the revenue-for-service paradigm. For instance, one of the components of ActionAid Mozambique's campaign for tax justice was tax education, where the potential benefits of taxation were presented to Mozambican citizens in creative ways, such as through theatre. They also created a system of service delivery evaluation, seeking to create a culture of rights and ownership in relation the provision of public goods. However, given the appalling condition of the provision of public goods in the country, it was not surprising that this kind of discourse did not echo with a population which had no access even to the most basic services, such as water, sanitation and electricity. The idea of paying for improving services is a difficult one to take root where no services are to be found in the first place.

257 Outa has been instrumental in highlighting the possibility of such incidents, as well as of a tax revolt.

258 Interview at the ATM, Maputo, October 2017.

Additionally, government actions contradicted the tax campaign rhetoric. While tax revenues increased significantly in recent years, expenditure in the social sectors has concomitantly declined. In the 2016 budget, social expenditure was reduced by 13 per cent, with some sectors getting even higher cuts, such as education which was reduced by 24 per cent and agriculture, 35 per cent. Thus, as the *Centro de Promocao da Integridade Publica* (CIP) pointed out,

The government, at least last year, assured that even if the country is in a difficult period, in period of austerity, the social sectors would not be affected, but they actually cut it. The tendency is that state expenditure, especially in the social sectors, has decreased in the last two, three years, and the totality of revenue goes to pay the costs of the state machinery. So the population asks: What is the priority?²⁵⁹

For some of the people we interviewed, there had been some change, with a recent and still shy incorporation of the fiscal exchange perspective that, however, was at least and increasingly taking place. As one CSO member told us,

There was a rising of citizenship in [relation to] the notion of taxation, it is a new process in our country, it is not so old, but I believe it is growing fast, and today there is already a more informed debate about taxation, about the duty to pay tax, but especially, about the right to monitor how the tax resources are used, this is getting stronger in the society, and I think that this now got more 'on fire' since the new debts were revealed.²⁶⁰

He gave as an example of this change in the case of one community in Nampula, where citizens stopped paying their municipal taxes, as they were not receiving public services of quality:

There was a story that struck me as very interesting. ... The residents of the municipality of Nacala decided that they would no longer pay taxes ... because the municipality is dirty, and I believe this is a sign of citizen awareness. I pay tax for something! They told the mayor: 'No, the city is dirty, it's full of holes, the water does not come out, we do not have the energy as it should, so we'll stop paying the tax.' This shows an already growing level of awareness of rights: yes, I have a duty to pay taxes, but in return I have to see the benefits of fulfilling my duty.²⁶¹

These instances, however, are still isolated occurrences. Now, the 'Together We Make Mozambique' campaign also appeals to the notion of the 'good citizen', who contributes to the overall wellbeing of his political community. The slogan exemplifies a common appeal from the ATM to the citizens, that they should contribute to the development of the country through paying taxes; an appeal that mobilizes social norms and is framed in the language of social solidarity, recognition and nationalism. They try to stimulate intrinsic motivations to pay taxes by framing tax compliance as an important civic duty, the fulfilling of which brings pride, and failing to do it, shame.

In the popularization material of the ISPC, for instance, when listing the 'advantages' of paying this tax, the ATM starts by claiming that, 'The first major advantage is that you who engage in an activity without paying taxes, starting to pay you would become proud to contribute actively to the development of your country, because the government would now have more money to build schools, hospitals, improve roads,

259 Interview with CIP, Maputo, August 2017.

260 Interview with Sekelekani, Maputo, August 2017.

261 Idem.

bridges, buying more buses for public transport, paying better salaries to teachers, doctors and police to better serve the people.²⁶²

Another way in which the ATM tried to frame tax compliance in a collective way, and to stimulate individual compliance through social influences, was adopting the figure of the 'tax disseminators'. According to the communications office, through their influence these disseminators were better positioned to communicate the ATM education-campaign messages:

One of the strategies we used in our fiscal-education campaign was the training of disseminators. Who are the disseminators? We walk all over the country training disseminators. The disseminator is the normal citizen but that has some influence in his zone of origin. For example, we go to a district, there is the *régulo* – the *régulos* are those traditional leaders – there are the market leaders, chief of posts, the administrator, they are all leaders in their communities. These are the ones that we have formed all over the country. The idea is that these disseminators are who would pass the information to the population, would help the tributary authority to pass this information to the population, because they have influence, because at some point we felt that [the message] was not reaching [the people]. ... We also used opinion leaders, athletes, musicians, and so on. ... It is easier for an opinion leader to pass messages to his followers than us. If I come and say 'look pay the tax', they will not listen, but if a famous musician arrives and says, 'look, pay the taxes', their followers will listen, the message will be passed to the citizens.²⁶³

If there is a general understanding that the good citizen is the one that contributes, for the population a caveat should be included, which is that of equity: Yes, everyone should contribute, but according to their capacity. As we saw above, those that agree with the importance of paying tax usually claim that those who should pay are other people. Here again, the transnational dimension of the debate is present: Why should Mozambican citizens pay taxes when citizens from other countries, benefitting from the country's resources, are not? Thus, as in South Africa, Mozambicans' do not see their rights as citizens as deriving from the payment of taxes. It is as members of a post-colonial, 'liberated' community that they are entitled to rights which were once denied to them by foreign powers. These foreign actors, still present and benefitting from the country, should be the ones involved in the payment side of fiscal exchange, while the national population is the rightful recipient of revenues resulting from the country's natural resources.

Cameroon

The Cameroonian case resonates, to a very large extent, with some of the major debates on taxation and the public good that have been presented for the South African and Mozambican cases. As hinted at in the previous sections, the relationship between the citizens and the state, or more specifically with the tax administration, it is not a linear one. Several attempts have been made by both civil society organizations and some municipalities, to promote the idea of tax as form of exchange for services, and also as contribution to the creation of the public good.

As in the South African case, in most cases, the relationship of citizens to taxes is based on fear. The president of Anescam suggests, 'Tax inspectors see themselves as cops. They play a repressive role. They do not let people understand why they ask for money. This should change.'²⁶⁴

The sentiment of Anescam's president is shared by many informal traders, small business and big enterprises. Thinking of taxes, for the average population, means thinking of the threat of having their

262 ATM tax popularization material.

263 Interview at the ATM, Maputo, October 2017.

264 Interview, Yaoundé, 11 November, 2016

business shut down if they are found non-compliant.²⁶⁵ Or for big enterprises, having to pay big fines if their audits are not in place. As discussed earlier, the relationship of exchange, seen from the side of the citizen, is not linear, where the payment of taxes leads to services or contributes to the common good. Rather, it is seen as a broader monetary exchange that is at the basis of the sustainability of their business. Additionally, the average interaction with inspectors is usually a very difficult one. Civil society organizations warn against the perception that tax inspectors have of themselves. A member of such an organization reported that many of them see themselves as policemen, and see their role as a punitive one vis-à-vis taxpayers. This trend should be inverted and inspectors should be trained as educators of the existing and potential taxpayers. One respondent put it as follows:

Tax inspectors are not only corrupt, they also do not know how to do their job very well. They think of themselves as cops and they enforce their authority with force, especially when they deal with vulnerable people. This should change. How can a citizen feel such when he is bad treated by representatives of the state? We need a new pedagogy of taxes, both simplifying the processes of declaration and collection and by starting a process of divulgation of the importance of taxation.²⁶⁶

The question of tax being linked to the idea of public good and citizenship has notably been addressed by four civil society organizations in Cameroon.²⁶⁷ All of them have been operating in Cameroon since the 1990s, and they are all interested in finding ways for the citizens in Cameroon to feel this link. They thus support a bottom-up strategy to influence fiscal policies. They strongly believe that the lack of interest in taxation from the bottom up is associated with a double dynamic: on one hand, a lack of knowledge, and on the other, the idea that paying taxes is not a rewarding act, as there is nothing in return.

A representative from Anescam pointed out that street vendors do not see themselves as citizens, as they are fully neglected and disrespected by the state apparatus, and extremely criminalized by fiscal policies. The president of Freedom's Service²⁶⁸ stressed that the concept of the public good had been lost in Cameroon in the last thirty years and that at that moment, the difficult conditions in which most of the population lived created a vacuum for state institutions. Finally, a representative of Africa Development Interchange Network,²⁶⁹ claimed that the distance between the lay citizen and state institutions could be bridged by promoting participatory democracy, especially by creating a public dialogue around taxation and developing local municipalities' budgets.

Many organizations have started awareness campaigns, with the aim of making explicit and fully understandable the connection between the public good, payment of taxes and citizenship. Citoyenneté Active, for instance, is vested in promoting fiscal justice via a renewed idea of citizenship:

In fact, we really need to build the notion of citizenship in this country, and after that we should work on the notion of public good. We need to push the citizens to be interested in the national budget. We have to educate them to question it and to give suggestions. In fact, we need to promote participation and engagement which is lacking in Cameroon.²⁷⁰

Citizens, however, are often resistant to such initiatives, as they do not see the positive outcome of this potential engagement. A politically active citizen explains: 'The payment of tax is an act of solidarity to

265 Please see part 3.2 for further discussion on tax, corruption, and the 'pervasive toll'.

266 Interview, Yaoundé, 11 November 2016.

267 Cradec, African Development Interchange, Freedom's Service and Anescam.

268 Interview, Yaoundé, 11 November 2016.

269 Interview, Yaoundé, 4 November 2016.

270 Interview, Director of Citoyenneté Active, Yaoundé, 13 March 2017.

solve the problems of the community. We, as citizens, pay taxes on a daily basis, but we do not see this solidarity at the national level.²⁷¹ The solidarity mentioned by this respondent is associated with an existing feature of society at the communitarian level, but absent in the relationship with the state. In this case, the reference is precisely to the lack of services and infrastructure.

The DGI recently started to adopt a new vocabulary, which sees the question of citizenship and common good at the core of the discussion on taxation. In his opening letter to a quarterly report (April 2016), he points out that the mission of the DGI and its commitment to collect more taxes is part of a broader fight against unemployment and towards a better provision of social housing, to finally address the challenges of citizenship.

All of these ideas, promoted mostly by civil society organizations, take as a consolidated assumption the fact that the public good could be produced and promoted by a stronger relationship between the citizens and the fiscal administration. Initiatives have been undertaken in this regard by some organizations (see previous paragraph), and the promotion of taxation towards the creation of the 'public good' has also been attempted by some municipalities. The municipality of Maroua, for instance, is fully aware of the economic difficulty of the population, but still tries to promote a positive idea of the public good:

We know that people feel left out here up north, and that we have a very different social system (referring to the influence of Islam), but we still try to convey the message that everyone should contribute somehow to some common good. It is very difficult and we do not have a plan yet. But we think that it is really important.²⁷²

There is, however, another meaning to be ascribed to the public good and it is linked to that of natural resources. A representative from Cradec explained that there is a thread between the lack of knowledge about taxation, the lack of understanding of the notion of the public good and the wild exploitation of natural resources – notably in the mining and forestry sectors. According to his experience, both local municipalities and residents are often not aware of the fact that natural resources are state owned and that any profit made on those resources should be taxed. Resources are then seen as a public good that can be very easily be privatized by private individuals.

Big private companies are unconcerned about working towards a new perception of taxation. The two CEOs felt that they contribute significantly to state finances, and they were willing to follow the fiscal rules with the sole interest of being able to keep their businesses running peacefully. Yet, being employers of large numbers of workers, they felt that they contributed to the creation of civic citizens, that is, citizens that pay taxes – that are directly deducted from their salaries.

Nonetheless, the population struggles to believe that a shared good could be achieved via state intervention. To start with, some of the basic resources such as water and land are considered to be 'a gift from God'. In fact, many feel deprived of these resources (for instance, when foreign multinationals mine without compensating the community) and see the government as being responsible for this loss.

To conclude, in Cameroon, the question would be to understand where the public good lies, and if it should in fact be created collectively, via mediation by the state.

271 Interview, Yaoundé, 11 November 2017.

272 Interview with administrator, Maroua, 29 October 2017.

Conclusion

Throughout this report, we have inquired about the extent to which the institutions and practices of taxation in South Africa, Cameroon and Mozambique contribute to strong tax systems that in turn can promote the development of these states. In the course of our inquiry we explored two sets of conditions that we claim are central in enabling taxation to contribute to a country's development: formal institutions and the design of tax policies and administration; and, the societal aspects that underlie taxation practices and frame the character and dynamics of state–society fiscal relations. In particular, we analysed the societal perceptions of governments and collective understanding of taxation that provide the basis for tax morale, voluntary compliance and enhanced extractive capacity, on the one hand, and the basis for the establishment of a social fiscal contract, on the other.

Of relevance to the topic of institutional designs, is the fact that the current tax systems and the structure of tax administrations are the result of successive reforms since the 1990s in the three study countries. These reforms followed the prescriptions of the global agenda of tax reforms promoted by IFIs, with the cooperation with local actors inserted in a global epistemic community of taxation. It should be noted that in the three countries we analysed, the process of restructuring in the fiscal domain has not always been fully independent and has often been affected by external actors and factors.

In Cameroon and Mozambique, reforms were initiated in the context of structural adjustment programmes and the conditionality these imposed. The push for tax reforms also emanated from the third wave of democratization, which reached Africa in the late 1980s and early 1990s. In South Africa and Mozambique, for instance, the end of the apartheid regime and the civil war, respectively, and the redemocratization of these countries brought renewed hope. However, with this hope came demands for the newly instituted democratic governments to reduce poverty and inequality and provide public goods for all citizens. The only way to respond to these demands was to mobilize more revenue. Taxes were promoted as a privileged way to collect it. Thus, it is the broader context of democratization, on the one hand, and of neoliberal orthodoxy, on the other, that the recent trajectory of taxation in Cameroon, South Africa and Mozambique unfolded.

The global agenda of tax reform had three main elements: introducing broad-based consumption taxes, simplifying tax designs and improving tax administration and enforcement, usually through the creation of semi-autonomous tax authorities. Although the first two elements were adopted in all three study countries, the creation of a semi-autonomous revenue authority only happened in South Africa and Mozambique. In Cameroon, revenue collection activities are still performed by different departments within the Ministry of Finance.

Our research revealed that these reforms were to some extent successful. Over the years, in the three study countries, the percentage of domestic revenue accounted for by tax has increased in tandem with the number of registered tax payers. In Mozambique and South Africa, the tax to GDP ratio has increased, while in Cameroon it has remained stable.²⁷³ However, it should be noted that in 2016 this ratio showed slight decreases in both Cameroon and Mozambique. Cameroon and Mozambique recorded an increase in the collection of consumption taxes, which accounts for the biggest portion of their tax revenues. Distinct from Cameroon and Mozambique, South Africa is considered to have a very good tax system because it does not rely extensively on consumption taxes. In South Africa income tax constitutes the main tax handle in terms of revenue collection.

We identified challenges in all three countries. In terms of tax policy and administration, expansion of the tax base is still urgent, as most of the economic forces are still outside the formal world of taxation despite initiatives to incorporate them into the informal economy. In all three countries, growth in the number of registered taxpayers did not translate into a substantial increase in the number of people actually paying taxes.

273 However, in 2016, it decreased slightly both in Cameroon and in Mozambique.

Further institutional hurdles to overcome in order for taxation to contribute to development are the policies of tax exemptions. In both Cameroon and Mozambique, the most dynamic sectors of the economy – the extractive industry and megaprojects – enjoy a variety of exemptions, special regimes, double taxation agreements and extended tax holidays along with other forms of tax expenditure that deprive the countries of what could be a major injection of revenue. Furthermore, these policies typically benefit a global elite of capitalists, which has a significant impact on societal perceptions of the fairness of the tax system and, as such, weakens tax morale. While governments succumb to international pressures and claims that tax incentives are a *sine qua non* condition to attract foreign direct investment, academics and CSOs alike highlights that this is not always the case, especially when it comes to the extractive industry, since the inherently territorial specificity of natural resources makes threats of relocation an empty exercise.

Finally, still in the realm of the formal institutional aspects of the tax systems and administrations, another challenge exists in the capacity of tax administrations to effectively collect what it is due to the fiscus. This results from both internal and external dynamics. On the one hand, the global phenomena of increased mobility of capital and the parallel growth of the offshore finance industry have made tax evasion easier than ever. However, in the three study countries tax evasion is not only a result of this global phenomenon, but also of low monitoring and enforcement capacity of their tax administrations. Taxpayer databases are frequently outdated, and staff under-resourced and/or overloaded.

In addition, collusion between economic and political elites and political interference in tax administrations makes corruption, in general, and tax evasion in particular, not only difficult to identify but also difficult to prosecute. Recent problems at the South African Revenue Service (Sars), the hidden-debt scandal in Mozambique and the financial scandals in Cameroon since the early 2000s tackled with the help of ‘Operation Sparrowhawk’ raise new questions about the importance of political considerations in enabling governments to tax more effectively, more equitably and more sustainably.

The obstacles to development of a strong tax system are not only a matter of tax-policy failure. The standard economic approaches to taxation and development correctly draw attention to the fact that the characteristics of the economic structure have a central impact on a state’s capacity to tax. Some of the features of the economic systems in the three study countries constitute constraints to the development of a strong tax system. For instance, high levels of unemployment, a massive informal sector and, in the case of Mozambique and Cameroon, the concentration of most of the working force in subsistence agriculture, all contribute to a very small tax base. In a context such as this, any tax policy is doomed to failure unless it is articulated with other economic reforms, initiatives and policies oriented to promote sustainable growth in sectors that will generate employment and a measure of redistribution. So far, however, tax reforms have been implemented without such articulation.

Although we identified both structural and institutional aspects that constitute obstacles to the consolidation of a strong tax system in South Africa, Cameroon and Mozambique, our findings indicate that the central challenge lies in the character of state–society fiscal relations. After an in-depth analysis of the current dynamics of state–society fiscal relations in the three countries, we concluded that the status quo in the three countries contributes neither to tax morale and resulting voluntary compliance and enhanced extractive capacity, nor to the establishment of a social fiscal contract, which can lead to improved accountability and good governance.

Currently, societal perceptions do not contribute to tax morale in the three countries. Shared, collective understandings in all three cases are that governments and tax administrations are corrupt and that the tax system is unfair, given the highly unjust distribution of the tax burden. Additionally, public trust in governments to make good use of tax revenues is low. The governments of the three countries have systematically failed to provide public goods, a failure that, as we showed, is acknowledged by their citizens and has a negative impact on the fiscal contract further erodes any intrinsic willingness to pay taxes and therefore, weakens tax morale, fiscal legitimacy and compliance.

This, together with a long-term historical perception of taxation as a colonial tool of oppression, make any notion of fiscal contract in these countries problematic, at the very least. Both versions of fiscal contract, the one based on the notion of fiscal exchange – tax-for-services or tax-for-representation that derive from a liberal understanding of citizenship – and the other that sees the payment of taxes as a moral and civic duty to contribute to the common good of the broader political community to which one belongs, are not able to take root. The result is that the potential links between taxation and citizenship and, accordingly, to democracy, are missing in the countries of our study. Thus, while in the social imaginary taxes are seen as a potential tool to redress the injustices of the past, the payment of tax as a constitutive and positive aspect of citizenship, is nowhere to be found.

It is worth noting that our research focused mostly on central government. As such, the ambit of this report is limited in that we were not able to explore questions pertaining to taxation in other levels of governance, as well as the fiscal relationship between these different levels. The quality of the formal institutions of taxation and the character and dynamics of state–society fiscal relations, the two sets of conditions identified as fundamental to an efficient tax system with the capacity to contribute to development, could not be accessed at local level in the three countries. However, the institutional designs of fiscal decentralization and the structures of provincial and local government taxation are politically, economically and socially relevant topics in South Africa, Cameroon and Mozambique.

More research is needed, not only in relation to institutional designs of local government taxation but also into the dynamics of state–society fiscal relations at a local level. Decentralization champions have long claimed that local governments are more prone to accountability, transparency and citizens’ participation in the political life. It would be interesting to determine whether this is indeed the case in the realm of local state–society fiscal relations and to look at societal perceptions about taxation at this level. Finally, practices of informal taxation by competing authorities at a local level – mainly chiefs and/or kings – pose central questions about fiscal legitimacy and the monopoly of taxation usually associated with the modern state. In order to have explored these dynamics, however, more extensive fieldwork at a range of municipalities in the three countries would have been necessary.

To conclude, we would like to argue that, based on the previous considerations and in the data we presented in this report, there is still room in the political agendas of each country for policy changes that will serve to enhance the formal institutions of taxation, especially in relation to the capacity and autonomy of tax exemptions and tax administrations. However, these should be tackled in the context of broader economic measures. Economic and social development and their translation into economic growth, the creation of jobs and a reduction of poverty and inequality cannot be achieved by taxation alone; and the various policies need to be harmonized to get the best use from of each of them.

Most importantly, unless the quality of state–society fiscal relations is improved, formal institutional designs will fall short of achieving their objective of increasing domestic revenue mobilization, since compliance is largely a result of these relations. A strong tax system cannot be created by only reforming the state and its institutions. It is in the dynamic, mostly informal aspects of the interactions between governments and their citizens and in the realm of societal perception about these interactions that the foundations of a successful tax system are located. As such, future interventions should focus on this dimension.

As Bird (2012:10) points out, ‘tax morale’, ‘tax culture’, and ‘the level of trust between people and their government’ are important but ‘nebulous’ factors in assuring the best tax system for a country. While there is now a widespread recognition that societal factors affect people’s attitudes towards taxation and, therefore, the quality of a tax system, we still know very little about them. By analysing the current dynamics and substantive aspects of state–society fiscal relations in South Africa, Mozambique and Cameroon, we hope to have increased what is known about these factors and to have dissipated some of the misconceptions that surround them.

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