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

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Luanda, 6 June 2011
Talking points:

I. Taxation and state-building

II. Taxation in Africa and Angola

III. Weaknesses of the current tax system
    - The national tax system
    - The local government tax system

IV. Towards a state-building approach to reforming the national and local tax systems
I. Taxation and state-building

Tax is not an end in itself, but a means towards a well-functioning state:

1. Governments dependent on taxes will be inclined to pursue policies to expand the economy and thus the tax base

2. Dependence on taxes requires states to develop tax raising capacities

3. Bargaining over taxes is central to building relations of accountability between state and citizens based on mutual rights and obligations

4. Rising tax revenues combined with economic growth are the exit strategy out of volatile, single resource dependency
Characteristics of a ‘good’ tax system

- Economically efficient
- Effective
- Equitable

- These objectives frequently conflict: trade offs

- It matters how taxes are raised

- Extending the reach and inclusiveness of the tax system requires tax cooperation across levels of government (national – provincial – local)
II. Taxation in Africa and Angola

All income groups have seen their tax revenues increase as share of GDP.
II. Taxation in Africa

Africa: Domestic revenue mix as share of GDP

<table>
<thead>
<tr>
<th>Year</th>
<th>Direct taxes</th>
<th>Indirect taxes</th>
<th>Non tax</th>
<th>Resource tax</th>
<th>Trade tax</th>
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<td>5.7</td>
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<td>8.3</td>
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<td>2006</td>
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<td>2007</td>
<td></td>
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</table>

Graph shows the domestic revenue mix as share of GDP from 1996 to 2007.
Revenue developments in Resource-Rich and Other Countries, 1980–2009 (in % of GDP)

Source: IMF staff estimates
Africa: Fiscal revenue per capita 2008 (USD)

Source: AEO 2010
Large differences in Tax-to-GDP ratios between African countries

Tax revenue and other revenue in selected African countries (2006)

Source: AEO 2010
Angola: Public revenues (in % of GDP)

Source: AEO 2010
External financial inflows to Africa

1. Foreign aid (2007):
   - USD 104 billion (from OECD-DAC countries)
   - USD 8 billion (from non-OECD-DAC donor countries)

2. Foreign direct investments in Africa (2008)
   - USD 88 billion
   - Mostly to extractive industries
   - Most to Nigeria, Angola, Egypt, South Africa

   - USD 41 billion

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


GFI (2010)
Chart 2. Distribution of Illicit Flows
Cumulative 1970-2008

- North Africa
- Horn of Africa
- Great Lakes
- Southern
- West and Central
## Estimated capital flight from Angola, Nigeria, Tanzania, Mozambique and Zambia

<table>
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<tbody>
<tr>
<td>Angola</td>
<td>2 156</td>
<td>24 062</td>
<td>29 500</td>
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</tr>
<tr>
<td>Nigeria</td>
<td>5 135</td>
<td>169 871</td>
<td>217 738</td>
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<tr>
<td>Mozambique</td>
<td>178</td>
<td>1 121</td>
<td>5 450</td>
<td>8.9%</td>
</tr>
<tr>
<td>Tanzania</td>
<td>597</td>
<td>2 545</td>
<td>7 356</td>
<td>2.9%</td>
</tr>
<tr>
<td>Zambia</td>
<td>72</td>
<td>5 120</td>
<td>9 348</td>
<td>7.6%</td>
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<tr>
<td>Sub-Saharan Africa</td>
<td>21 808</td>
<td>323 577</td>
<td>532 926</td>
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</tbody>
</table>
III. Weaknesses of the current tax system

1) Taxation generally *not* high on the domestic political agenda

2) The political and economic elite not part of the tax base

3) Illicit financial capital flows facilitated by tax havens entrench an inefficient tax system

4) Extremely narrow tax bases

5) Large untaxed informal sectors

6) The local government tax system almost absent
Why local government taxation is important in a state-building perspective

- Local taxation can play a crucial role in promoting citizen participation, accountability and government legitimacy

- Local taxation has potential to foster positive linkages between taxation, responsiveness and accountability

- Local taxes are generally more visible and broad based:
  - Property tax
  - Business licences

- By taking more tax and expenditure decisions to the local level, fiscal decentralisation potentially can strengthen connections between what people pay and what they get in return
Local government taxation in Angola:
Lack of local fiscal autonomy

➢ There has been little advancement in the Government’s decentralisation plans – at least what regards fiscal decentralisation

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

(Experienced município employee, 2010)
The vicious circle

- Low taxation of citizens
- Poor service delivery and increased poverty
- Low accountability of Government and low scrutiny of public spending efficiency
IV. Towards a state-building approach to reforming the tax system in Angola

❖ ‘Build the social fiscal contract’

➢ A major fiscal challenge for Angola is to develop a domestic tax-system that simultaneously facilitate:

✓ Revenue growth to reduce the current overwhelming reliance on volatile and non-renewable petroleum and mineral resources

✓ Build tax administrative capacity at the national, provincial and local government levels

✓ Build accountability by encouraging constructive state-society engagements around taxes
IV. A state-building approach to reforming the tax system (cont.)

Engage with the political process:

a. **Politics matters!** Understand the history and political-economy context of taxation

b. Address **capital flight as a domestic and international political challenge**

c. **Strengthen the political rationale for broadening the tax base,** in ways that explicitly encourage citizen groups as taxpayers to seek political ‘voice’

d. **Conduct ‘citizen surveys’** to identify peoples’ attitudes towards the tax system and their willingness to pay
IV. A state-building approach to reforming the tax system (cont.)

Promote:
Accountability, Responsiveness, Transparency, Capacity

1. Accountability

➢ Strengthen Parliamentary and other institutional oversight of the tax system

➢ Encourage media and civil society attention to tax, especially the importance of a sound tax system for poverty reduction and development
   • Make tax ‘rock’ on the domestic political arena

➢ Greater visibility of direct taxation – income and property taxes – which are particularly important in promoting political representation

➢ Improve the link between taxes paid and benefits/services received
IV. A state-building approach to reforming the tax system (cont.)

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

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

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

THANK YOU FOR YOUR ATTENTION!