

# IMF Working Paper

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## Revenue Administration Reforms in Anglophone Africa Since the Early 1990s

*Prepared by David Kloeden*

**IMF Working Paper**

Fiscal Affairs Department

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**Abstract**

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Despite positive but mixed progress over two decades, most lower income African countries need to enhance their low tax-to-GDP ratios by mobilizing domestic resources to complement debt relief, donor aid and to achieve the MDG and poverty reduction objectives. With these goals in mind, most African countries have undertaken revenue administration reforms and from the early 1990s, 16 of 19 Anglophone Africa countries established some form of revenue authority (RA) for greater governance, financing, and workforce autonomy. Changes in governance and HR practices are evident, but has revenue administration improved overall? Capacity limitations and integrity issues persist. The introduction of VAT heralded self-assessment, but in most instances without being integrated with income tax administration. Rather, VAT administration was assigned to a separate department. Special units for large taxpayers are now common following initial challenges, but programs for other taxpayer segments are still emerging.

JEL Classification Numbers: H20, H24, H25

Keywords: Revenue administration, tax administration, Customs administration, Revenue authority, VAT, self-assessment, taxpayer segmentation, integrated tax administration, Anglophone Africa, revenue mobilization, tax reform, large taxpayer office

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## INTRODUCTION

This paper reviews the revenue administration reforms that have transpired since the early 1990s in sub-Saharan African countries with an Anglophone connection.<sup>1</sup> Many had close links to Britain in the last century, are English speaking—a recent development for Rwanda, and have adopted many business practices common in the Anglophone world.

Nineteen countries are reviewed, and for simplicity, and somewhat arbitrarily, they are categorized into three broad geographic groupings: (1) Southern Africa: Botswana, Lesotho, Mauritius, Namibia, Seychelles, South Africa, Swaziland, and Zimbabwe; (2) Eastern Africa: Kenya, Malawi, Rwanda, Tanzania, Uganda, and Zambia; and (3) Western Africa: The Gambia, Ghana, Liberia, Nigeria, and Sierra Leone.

Several countries emerged from national or regional conflicts in recent or earlier years such as Liberia, Rwanda, Sierra Leone, and Uganda earlier. Others are endowed with significant natural resources (Botswana, Nigeria, Namibia, Liberia, Sierra Leone, South Africa, and Zambia) plus recent discoveries (e.g., oil in Ghana and Uganda). Resource riches have been major economic contributors for some, and for others, a challenge to good governance, and in some instances, a disincentive to instituting effective non-resource tax regimes and administration.

The Fiscal Affairs Department (FAD) of the IMF has provided advice and assistance in both revenue administration and tax policy matters to all 19 countries to varying degrees over recent decades. Some countries have been intensive recipients of FAD assistance (particularly within East Africa).<sup>2</sup> Much of the data, experiences, and lessons that are documented in this paper have been acquired through the provision of this assistance. Technical assistance (TA) has been delivered through various means, including diagnostic missions from IMF headquarters (whose evaluation reports provide much of the historic context and recommended reform strategies), followup missions, expert assignments, either on a long-term basis, short peripatetic visits, or regionally covering several countries, and more recently via the regional TA center (RTAC) model, and through in-country and regional workshops and seminars. Many other bilateral, multilateral, and commercial TA providers have also been active. Extensive British government financing and TA have been extremely influential to reform strategies and priorities in almost half the countries, often transcending many years, and involving millions of U.S. dollars of aid.

This paper is structured around the following sections: (I) context setting background on the revenue structure, performance, and economic characteristics of Anglophone African countries and a synopsis of revenue administration reforms over the period; (II) revenue administration reform developments and drivers, particularly the rise of the revenue authority (RA) model; (III) revenue administration organizational and management trends; (IV) the impact of client segmentation on tax administration and an assessment of core operational functions; (V) the seminal impact of value-added tax (VAT); and (VI) concluding observations.

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<sup>1</sup> Hereinafter referred to as Anglophone African countries.

<sup>2</sup> Revenue administration TA from the IMF in East Africa increased significantly with the establishment of a regional technical assistance center (RTAC) in Dar es Salaam in 2002.

## I. BACKGROUND TO ANGLOPHONE AFRICA

### A. Intraregional Comparisons

Notwithstanding the challenges of making interregional comparisons, in considering revenue performance across the Anglophone African countries, it is informative to place this in the context of developments beyond Africa. Accordingly, Table 1 presents a regional comparison for two periods, each separated by a decade, namely 1993–97 and 2003–07. Along with other developing regions, central government revenue collections across Africa are relatively low, having grown moderately during the decade, although skewed by resource revenues. Two particular points of note for Africa are the high dependence on taxes from international trade (namely Customs duties), and the relatively lower contribution from direct taxes (social contributions are negligible given the broad absence of social security systems). Trade taxes have declined over the decade with an inverse but stronger growth in indirect tax revenues.

**Table 1. Central Government Tax Revenue Structure**  
**Regional Averages: 1993–97 and 2003–07**  
(In percent of GDP)

	OECD		Sub-Saharan Africa		Asia & Pacific		Europe		Middle East & Central Asia		Western Hemisphere	
	97	07	97	07	97	07	97	07	97	07	97	07
Tax Revenue:	34.0	34.4	15.5	17.1	13.7	15.1	34.5	33.4	13.3	15.0	17.1	19.5
Direct taxes	10.9	13.1	5.1	4.7	4.4	5.8	10.9	10.2	4.8	4.6	5.1	5.8
Social contributions	12.2	10.2	0.3	0.8	0.2	0.9	12.6	10.4	0.8	1.3	2.0	3.0
Indirect taxes	10.6	10.9	4.5	6.3	5.3	6.5	10.5	12.2	3.6	7.3	6.1	8.0
Customs duties	0.3	0.2	5.9	5.3	3.8	1.9	0.5	0.6	4.1	1.8	3.9	2.7

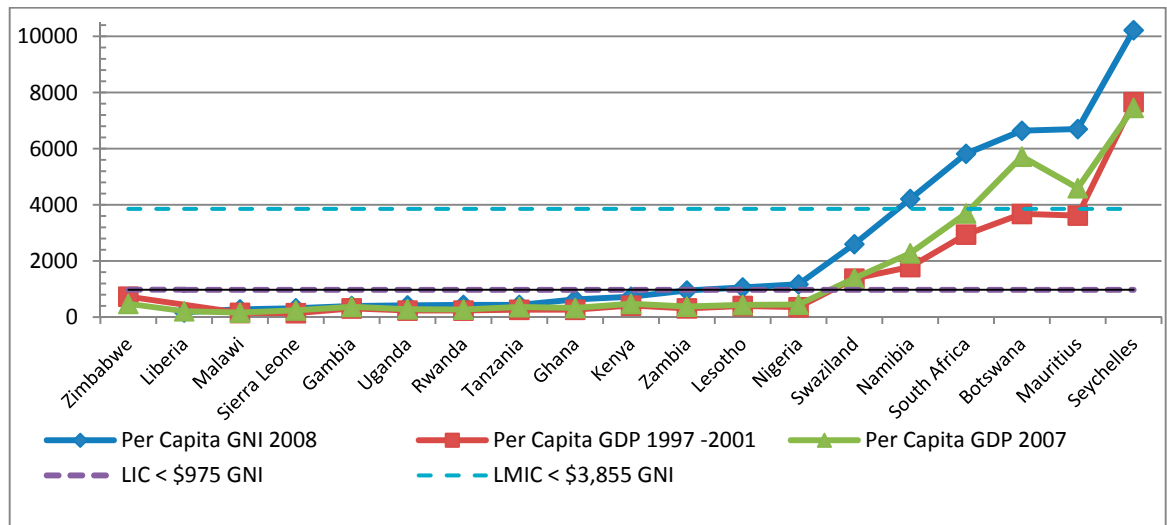
Source: IMF.

1/ Unweighted. For each revenue classification, only countries for which data are available are included.

### B. Anglophone Africa Economic Developments

Much of Anglophone Africa, and more generally, the Sub-Saharan region encompass many of the world's poorest and least developed economies (Figure 1). Ten of the 19 Anglophone African countries are low-income countries (LIC) by World Bank definitions (per capita GNI under US\$975 in 2008). The remainder are split between lower middle-income countries—LMIC (2008 per capita GNI between US\$976 and US\$3,855)—Lesotho, Nigeria, and Swaziland, and upper middle-income countries (2008 per capita GNI between US\$3,856 and US\$11,905)—Botswana, Mauritius, Namibia, Seychelles, and South Africa.

A range of social, economic, security, and development challenges have confronted many of the Anglophone African countries in the post-colonial era, but since 2003, with just a few exceptions, economic growth has accelerated. Figure 1 reflects real per capita GDP developments across the 19 countries over the decade 1997 through 2007. While the rate of growth varies across 17 of the countries, Swaziland has stagnated and only Zimbabwe worsened. Factors that may have contributed to growth included improved democracy and better governance taking root, debt relief, gains from rising prices of natural resource endowments, national economies being liberalized to benefit from world trade, and other important economic reforms, including refined tax policies and improved revenue administration.

**Figure 1. Anglophone African Countries: Real Per Capita GNI and GDP Trends 1/**

1/ Per capita GNI is at 2008 and per capita GDP is in U.S. dollars at 2000 prices, using 2000 exchange rates.

The structure of Anglophone African economies varies. There are several with rich mineral endowments that, depending on the political economy, have ranged from a blessing—Botswana—to what some perceive to be a curse—Nigeria (Sala-i-Martin and Subramanian, 2003), with various points in between. Manufacturing and information-based sectors are relatively underdeveloped with some exceptions (South Africa). Many of the Anglophone African countries have relatively large agricultural sectors with low productivity and large informal sectors, presenting tax policy and revenue administration challenges. A number of landlocked countries additionally face high overheads, poor transportation infrastructure, and difficulty accessing markets. Informal sectors for all countries are large, including the more developed, with the corollary that the formal economies tend to be very concentrated.

Poverty alleviation and achievement of the Millennium Development Goal (MDG) targets are critical social and economic imperatives, including for the middle-income country group. Poverty Reduction Strategy Plans (PRSP) document home-grown road-maps to achieve progress. Burdensome debt is now being relieved to provide fiscal space for these objectives, supplemented by further promises of aid. However, any sustainable solution must ultimately be rooted in national capabilities, particularly the wherewithal to efficiently and fairly collect taxes and other revenue from the domestic economy and international trade. It is in this context that the importance of sound tax policies and capable revenue administration to Anglophone African economic development are so apparent.

### C. Revenue Structures

Table 2 examines tax revenues for the 19 Anglophone African countries over the decade, comparing the year 2008 or 2009 (unless otherwise indicated) and at least ten years earlier. Other than Seychelles and the member countries of the Southern African Customs Union (SACU)<sup>3</sup> with

<sup>3</sup> Comprising Botswana, Lesotho, Namibia, South Africa, and Swaziland. As the world's oldest Customs union, Customs duties and excise taxes are paid into two separate pools with distributions that particularly benefit and inflate collection results for several members with possible distorting implications for averages across the 19 Anglophone African countries.

tax collections above 20 percent of GDP, the remainder is in a range of 10–20 percent of GDP, other than Zimbabwe as a temporary outlier at 5.2 percent of GDP in 2008 before subsequently recovering to pre-crisis levels. Post-conflict countries (Rwanda, Sierra Leone, Liberia, and Uganda earlier) dominate the bottom end of the range. Understated GDP for some countries has inflated past tax-to-GDP ratios shown in Table 2, with possible rebasing of GDP in certain countries (e.g., Ghana, The Gambia) leading to less positive ratios than shown.

**Table 2. Anglophone African Country Tax-to-GDP Changes Since the 1990s 1/**

	Start	Indirect	Direct	Trade	Total		End	Indirect	+/-	Direct	+/-	Trade	+/-	Tax/GDP	+/-
Botswana	1996	1.7	7.7	5.4	14.8		2007/08	3.8	2.1	11.5	3.8	10.5	5.1	25.7	10.9
The Gambia	1997	6.0	4.0	7.1	17.1		2008	7.3	1.3	6.3	2.3	4.0	-3.1	17.6	0.5
Ghana	1997	5.9	4.3	4.5	14.7		2008	8.7	2.8	7.1	2.8	4.1	-0.4	19.9	5.2
Kenya	1996	9.2	8.3	3.8	21.3		2007/08	5.7	3.5	8.4	0.1	4.9	1.1	19.0	-2.3
Lesotho	1997	4.4	5.4	18.7	28.5		2007/08	8.4	4.0	10.0	4.6	33.6	14.9	51.0	22.5
Liberia	1998	3.0	1.6	5.3	9.9		2008/09	3.9	0.9	7.7	6.1	10.5	5.2	22.1	12.2
Malawi	1997	5.1	6.4	2.7	14.2		2008/09	8.9	3.8	7.8	1.4	2.1	-0.6	18.8	4.6
Mauritius	1997	7.5	4.0	5.7	17.2		2007/08	12.1	4.6	4.2	0.2	1.1	-4.6	17.4	0.2
Namibia	1997	8.9	11.8	9.3	30.0		2008/09	6.5	-2.4	15.8	4.0	14.5	5.2	36.8	6.8
Nigeria	1998	1.4	8.8	2.4	12.6		2007	1.5	0.1	12.3	3.5	1.3	-1.1	15.1	2.5
Rwanda	1997	3.9	2.6	3.3	9.8		2008	6.6	2.7	5.1	2.5	1.8	-1.5	13.5	3.7
Seychelles	1999	3.0	14.7	18.3	36.0		2008	10.9	7.9	11.1	-3.6	4.6	-13.7	26.6	-9.4
Sierra Leone	1997	2.2	0.8	2.2	5.2		2008	2.6	0.4	3.4	2.6	4.8	2.6	10.8	5.6
South Africa	1995	6.6	13.7	3.7	24.0		2008/09	8.7	2.1	16.4	2.7	1.2	-2.5	26.3	2.3
Swaziland	1995	3.6	10.0	15.6	29.2		2007/08	0.0	-3.6	12.1	2.1	25.6	10.0	37.7	8.5
Tanzania	1996	5.4	3.4	1.8	10.6		2008/09	7.3	1.9	6.2	2.8	1.3	-0.5	14.8	4.2
Uganda	1997	7.8	1.8	1.1	10.7		2008/09	7.1	-0.7	3.6	1.8	1.2	0.1	11.9	1.2
Zambia	1997	8.7	6.5	3.4	18.6		2008	6.6	-2.1	8.5	2.0	2.5	-0.9	17.6	-1.0
Zimbabwe	1997	5.2	12.0	5.7	22.9		2009	1.9	-3.3	3.0	-9.0	0.3	-5.4	5.2	-17.7

Source: IMF Country and TA Reports.

1/ For an approximate ten-year period depending on available data ending near 2008.

Tax collection patterns over the decade are not uniform, with overall revenues (last column of Table 2) up in 15 countries and down in four (Kenya, Seychelles, Zambia, and Zimbabwe). The increases were less than 1 percent of GDP in two countries; between 1 and 3 percent of GDP in three countries, and more than 3 percent of GDP in ten countries. Thus, more than half of the Anglophone African countries have increased tax collections by at least 3 percentage points of GDP, mostly more, and often from a fairly low base. Revenue declines have been limited to four countries, of which two (Seychelles and Zimbabwe) were sizable given economic crises.

While the revenue improvements in the period from the mid/late 1990s to a decade later are mostly positive, for low income countries generally, this may reflect a return or just a modest increase over a decade earlier—from the 1980s (IMF, 2011). Keen and Mansour (2009) observe that average revenue collection increases across 40 sub-Saharan Africa over the longer horizon of 1980–2005 are mostly, if not entirely, attributed to resource revenues, with collections in countries without resources mostly stagnant.

Improvements in direct tax collections were observed in all but two countries, with notable improvements in resource rich countries such as Botswana, Liberia, Namibia, and Nigeria,



helping to skew averages. Six of the 19 countries had a decline in indirect tax collections. All but eight countries had lower collections from international trade taxes, of which half that had growth in import taxes were SACU members, through SACU transfers resulting from a strong South African economy.

Section II explores some of the direct tax policy and administration developments that may have driven reforms and likely contributed to changes in revenue collections, whereas Section V discusses the impact of VAT, the biggest contributor to indirect tax revenue enhancement in most of the 15 Anglophone African countries that have introduced it so far.

Revenues from international trade are down in 11 countries, an unsurprising trend given tariff reform, trade liberalization, Customs administration modernization, and a shift to domestic revenue sources such as VAT.

#### **D. A Synopsis of Anglophone African Revenue Administration Reforms**

This paper documents and discusses the extensive revenue administration reforms that have unfolded across Anglophone Africa since the early 1990s. Forthcoming IMF Working Papers review Customs administrations reforms in Anglophone Africa (Zake, 2011) and a pair of papers review tax (Fossat) and Customs administration (Montagnat) reforms, respectively, in Francophone African countries. Various drivers have contributed, including widespread political, economic, and public sector reforms, and the impact of globalization more generally. At the start of the period, revenue administration was typically vested in several separately operating government departments, notwithstanding typically common reporting lines to the minister of finance. The ability to recruit, remunerate, and retain professional and ethical revenue administrators was dependent upon characteristically problematic civil service systems. Taxes were administratively assessed, and a service ethos toward taxpayers and traders was undeveloped. Procedures were almost always manual, often unnecessarily cumbersome, and prone to corruption. With high and restrictive tariffs, trade taxes were more important to revenue than today, while domestic indirect taxes were more narrowly based, often with cascading consequences. The traditional gatekeeper role of Customs was yet to begin giving way to the concept of trade facilitation.

*Tariff reform and the introduction of VAT have been two seminal policy developments and the impetus for extensive revenue administration reform.* Regional and wider trade integration has seen the opening up of import markets and the encouragement of exports, such as EU association agreements and an increasing effect from regional free trade agreements (FTA) influencing both tax and trade policies and accentuating the need for greater administrative harmonization and improvements to trade facilitation. Indirect tax reform often accompanied tariff reform given expectations of lower trade tax revenues. Income tax rates generally declined over the period. VAT was at the forefront of these reforms, beginning in the early 1990s with the larger economies (South Africa, Kenya, and Nigeria), followed by a second wave in the latter half of the 1990s, and a third group since 2000 reaching 15 countries by 2010. The four remaining countries have announced plans: Swaziland and Seychelles both in 2012, The Gambia in 2013, and future expectations for Liberia. VAT necessitated many changes, including the need for self-assessment, improved taxpayer services, and streamlined processes, often supported by the first iteration of computer systems. Given external influences and concerns about the adequacy of income tax administration, VAT was launched from new departments/divisions, or in a few instances, within the Customs administration to emulate the then British model.

*The creation of semi-autonomous RAs is a particularly distinguishing development within Anglophone Africa.* The RA model emerged in Uganda in 1991 and has spread widely to 17 countries. Proponents of the RA model have been particularly effective in its proliferation, arguing that greater governance, financial, and particularly human resource (HR) autonomy provided by an RA was the best means to break away from the civil service rigidities that had constrained effective revenue administration (Kidd and Crandall, 2006). While there are many anecdotal claims, there is little hard evidence to support the RA model as superior to other reform approaches to revenue administration modernization and reorganization. Given the extensive later generation of reforms now underway in some of the earlier RAs, there is a fairly compelling hypothesis (to verify empirically) that the RA model may have actually delayed some critical reforms.

*While most Anglophone African RAs appropriately include both tax and Customs administration, they often have other functions that could be argued are not core activities.* Customs and tax administration mostly operate separately given their different business models, although more highly coupled in South Africa and Zimbabwe. Nevertheless, the synergies from common RA management and systems for Customs and tax administration to seamlessly share information and closely collaborate have been disappointingly underexploited.

*Large taxpayer offices (LTO) were created in a few of the 19 Anglophone countries from the late 1990s.* Various objectives were often pursued, primarily to secure the bulk of the revenue from the handful of most important taxpayers, but also to introduce or reinforce new concepts such as integrated direct and indirect tax administration, strengthened self-assessment, and pilot implementation of streamlined procedures and systems. Initial results were mixed, with the model more fully delivering on expectations from about 2004. Reasons included weak political commitment, backlash from large taxpayers, and most commonly, internal tensions caused by separate VAT and income tax departments.

*A third generation of Anglophone African revenue administration reform is emerging.*<sup>4</sup> A model is taking hold of a fully integrated tax administration that merges both VAT and income tax within one functionally structured organization, often with a strong headquarters to develop operational policies and oversee their delivery. An additional dimension to this model is the further evolution of taxpayer segmentation beyond the LTO concept that has only recently begun to reach its true potential as separate “tax type” organizational impediments are eliminated, but complicated in a few cases where separate integrated organizations have been created for large and nonlarge taxpayers, respectively. The new environment of integrated tax administration recognizes segmentation beyond just large taxpayers. To this end, special regimes are increasingly being instituted for small- and micro-size taxpayers, leaving the VAT and “normal” income tax regimes to medium and larger taxpayers who can cope with more demanding accounting and compliance obligations. While new administrative arrangements are beginning to be considered for both small and medium taxpayers, implementation is still in its infancy and limited to just a few countries. However, trends elsewhere (e.g., Francophone Africa) suggest this may be an increasing preference.

#### **E. Anglophone African Revenue Administration Reform—FAD’s Stance and Role**

*FAD advice and TA for revenue administration reform has been consistent but evolving over the period.* As elsewhere, the IMF has advocated a gradual opening of markets and freer trade in

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<sup>4</sup> Assuming that RAs and VAT represented the first two generations of reform.

Anglophone Africa that has encouraged tariff reform and strengthened domestic tax instruments, particularly through the introduction of VAT. The need to mobilize additional revenue beyond anticipated trade tax losses has emphasized the criticality of an effective VAT regime and administration, often accompanied or followed by strengthened direct tax regimes and their administration.

Consistent advice has been given for a broad-based VAT with a single rate, minimal exemptions, and in the case of weak administration, a relatively high threshold. While integrated tax administration is a superior model in terms of reduced administrative and compliance costs, the creation of new organizations to administer VAT in Anglophone Africa was perhaps a risk averse and pragmatic recognition of the fragility and limitations of income tax administration at the time. However, this position did not construe long-term FAD endorsement of a “tax type” administration model as is evident by LTO initiatives from the late 1990s to begin the integration effort. From around 2003, a vision became increasingly clear; namely, a fully integrated single domestic tax administration with a strong and effective headquarters and field operations with taxpayer segment focus, beginning with an LTO fully within the administration, and, over time, development of appropriate policies and administrative arrangements for other taxpayer segments. Several countries are moving in this direction, others have it under consideration, a small group perseveres with the more traditional model, and a handful of latecomers to modernization have the opportunity to leapfrog the historical approach.

*While RAs are now a reality of Anglophone Africa, their creation was not at the forefront of FAD advice for revenue administration reform.* The RA concept developed considerable momentum across Anglophone Africa with the support of many academics and consultants, and underpinned a number of major revenue administration reform programs supported by British Government finance and TA. Only in a few cases did FAD advocate the RA as a critical requirement for revenue administration modernization. In most other instances, governments were already committed to the RA agenda, so FAD advice focused on maximizing its potential benefits, particularly for VAT administration with a view to eventual integration. For the most recent RA launches, FAD has more strongly encouraged critical administrative reforms during the launch of the RA rather than a number of years later as has been observed in recent third generation reforms.

## **II. REVENUE ADMINISTRATION REFORM DEVELOPMENTS**

### **A. Revenue Administration Reform Drivers and Characteristics**

*Revenue enhancement has been a prime motivator behind many revenue administration reforms.* When domestic finances are inadequate, intense pressure often drives revenue agencies to seek ways to increase collections to reduce the deficit. As a result, reforms are sometimes too simplistically judged on their ability to deliver results to the fiscal bottom line, often in an unrealistic timeframe rather than against more comprehensive measures of both revenue and nonrevenue performance indicators over longer horizons.

*Poverty reduction strategies have increased the urgency for more domestically sourced revenue.* The September 1999 announcement of a poverty-focused approach by the IMF and the World Bank provided some impetus for revenue administration reforms. Through a structured process, countries prepare poverty reduction strategy papers (PRSPs) outlining poverty reduction goals and plans for their attainment. Strategic policy intentions for revenue administration reforms have typically included expanding the tax base and improving the tax system to promote equity and provide resources for the poverty alleviation agenda. The PRSP process often provides a public affirmation that revenue reform is an important factor in achieving national goals. The MDGs

agreed in September 2000 also increased pressure for domestic revenue mobilization and reform of related policies and institutions. Modernizing revenue administrations that continue to improve their credibility and effectiveness additionally contribute to the overall state-building process.

*Expansion of the tax base to reduce the burden from just a few taxpayers is increasingly becoming a reform driver.* Large taxpayers in some Anglophone African countries have been quite vocal in this regard, complaining they bear a disproportionate share of the tax burden—that governments and the revenue agencies were not making enough effort to collect all the taxes possible from a wider net. They further argue that a wider net would not only share the burden more equitably, but would create the opportunity to reduce tax rates or provide tax incentives that would reduce the costs of doing business and encourage reinvestment of earnings.

*Reform was also driven by the need to simplify the tax system given complexity and high compliance costs.* Pragmatically, widening the tax base demanded simplification of historically complex requirements given low literacy levels in some countries for an often unsophisticated small business sector that could not cope with complex laws and regulations.

### **Characteristics of reforms**

*Self-assessment and voluntary compliance concepts began to underpin reforms for both tax and Customs administration.* VAT was the trigger given that its feasibility depends on adopting self-assessment. However, outcomes have been mixed as some administrations have struggled to relinquish administrative assessment methods for income tax and have even imposed some for VAT. Acceptance of risk-based approaches has only recently begun to be grasped, with many old 100 percent control habits persevering such as trying to administratively assess every income tax return, trying to inspect every import consignment, or demanding details of every VAT invoice. With a few exceptions like South Africa, effective risk assessment is still in its infancy, but there are indications that the approach has begun to influence compliance management strategies for both tax and Customs.

Most Anglophone African revenue agencies have been supported to some extent by information technology (IT) systems, often coming from a zero or very low base. While some administrators appreciated that routine and repetitive operations could be automated to liberate resources to better value-adding tasks such as audit and enforcement, others were probably just part of a wave that viewed automation as a sign of modernity. VAT generated volumes for returns, payments, and other transactions required IT systems to avoid backlogs. Similarly, increasing international trade volumes necessitated Customs automation. Moreover, the trade community, particularly large businesses were computerized. Outcomes so far have been disappointing with varied and piecemeal approaches to technology projects, with Customs automation possibly marginally more successful than tax administration.

*Donor influence and TA over the period was important.* The British Government was very influential in the establishment of RAs using their development arm, the Overseas Development Administration (ODA) and its successor, the Department for International Development (DFID). These agencies hired and financed many U.K. experts, often from Her Majesty's Customs and Excise (now merged with Inland Revenue to become HMRC), Crown Agents and various commercial consulting firms to provide revenue administration reform TA, thus setting the context in which advice was provided.

With British TA to Anglophone African revenue administration reform predominating, the IMF's role was strategically focused and complementary to the downstream TA and financing from

other bilateral and multilateral donors. As such, FAD advice on issues such as establishing separate VAT departments and RA was more nuanced. Since 2003, the East and West AFRITACs are having an impact on TA delivery by supporting the implementation of reforms to complement FAD's more strategic role. The World Bank has had limited involvement, other than their megarole in Tanzania where they, with a group of other development partners, have funded a tax administration and reform project from 1999–2009 that involves capacity-building TA, infrastructure, systems, and logistic and equipment support to Tanzania RA. GTZ (Germany) has strongly supported tax reform in Tanzania and Ghana; the U.S. Treasury in Liberia (as well as USAID), Nigeria, and Uganda; Norway in Uganda and Zambia; and the African Development Bank (e.g., Liberia, Swaziland) and the European Union (The Gambia, Seychelles) are increasingly financing tax administration reforms.

## **B. The Revenue Authority Model**

*The advent of the semiautonomous RA over the past two decades has been a distinguishing feature of revenue administration reform in Anglophone Africa, perhaps more so than in any other region. This accordingly has been extremely influential in the organizational and management approaches to Customs and tax administration respectively, which the following discussion investigates.*

Leading the RA trend, Ghana established separate semiautonomous revenue services for tax and Customs administration in the mid-1980s that were loosely brought under the auspices of an RA governing board (RAGB) in 1998, followed by Nigeria's creation of separate revenue services for Customs (NCS) and tax administration (Federal Inland Revenue Service (FIRS)) in the early 1990s. However, in 1991, Uganda established the first incarnation of the model that became widely emulated over the next two decades, initially in Eastern and Southern Africa (Kenya, Zambia, Rwanda, Tanzania, and South Africa) during the 1990s, and then a second wave elsewhere in the early years of the new millennium. As illustrated in Table 3, by 2010, 16 of the 19 Anglophone countries had some form of RA with a 17th (Swaziland) formed in early 2011, leaving only Liberia and Namibia with more traditional ministry of finance (MoF) departments.

While previously unobserved elsewhere in Africa, the RA model was adopted in Lusophone Mozambique in 2006 and is being considered by Angola, and has just been extended to Burundi in January 2010.

### **Revenue authority governance**

*The RA model broadly attempts to provide a degree of autonomy through a governance arrangement that is theoretically at a distance from the minister and the MoF unlike the more traditional government department. Several factors may limit this objective. First, the minister of finance usually retains influence and power in several key areas: (1) to make or recommend appointments to the board; (2) through one or more senior ministry officials with ex officio board membership; and (3) legislatively mandated ministerial powers to give broad direction to the board. Second, tax policy determination usually (and desirably) remains the preserve of the MoF, although importantly with inputs of an administrative nature from the RA.<sup>5</sup> Third, like all*

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<sup>5</sup> While an MoF tax policy unit should have primacy in providing tax policy advice to the government given the broader economic outlook required, experience shows that it is important that an administrative perspective is provided, directly from the RA staff through the chief executive. However, given the typical private sector RA board membership, possible or perceived conflicts of interest would suggest that the board should play no role in developing or advising the government on tax policy issues.

spending institutions, an RA is dependent on adequate government funding from the MoF. Even the few RAs with statutory funding formulas instituted to protect their financial independence sometimes find these provisions overridden and subject to the more typical bidding for scarce budgetary resources. Crandall (2010) identifies a spectrum from lesser to greater autonomy potentially achievable by different revenue administration models.

**Table 3. Anglophone African Revenue Authority Features**

Country	Launched/ Planned	Functional Units 1/	Integrated Units 2/	Support Units 3/	Taxpayer Segmentation 4/
Botswana	2005	Taxes, Customs	Legal, R&P	Admin, HR, IA, IT	None
The Gambia	2006	Customs, domestic taxes	Compliance, legal, taxpayer Education	HR, IA, IT, Fin/admin	LTU
Ghana	1986 for 3 services, 1998 for RAGB From 2010 for GRA	Till 2009 separate RAs for: Customs, VAT, & internal revenue Customs, domestic tax revenue	Research & Planning  Customer service, Investigations, IA, legal	At RAGB: finance, IT  Admin, Fin, R&P, IT, HR	LTO at RAGB  LTO, MTO/s
Kenya	1995	Customs, large taxpayers, domestic tax, road transport	Enforcement, legal, R&P	Finance, HR, IA, IT, PR	Separate dept. for large taxpayers (LTD)
Lesotho	2002	Customs, TPS	Legal, revenue compliance	Corporate services, finance & admin, PR	None
Liberia	2012+	-	-	-	-
Malawi	2000	Customs, VAT, income tax	Legal, investigations, R&P	Admin, finance, IA, IT	LTO
Mauritius	2005	Customs, large taxpayers, other taxpayers, registrar-general	Investigations, legal, R&P, operational services, TPS	Admin & Fin, IA, internal affairs, IT	Large taxpayers (LTD)
Namibia	-	-	-	-	-
Nigeria	Early 1990s	FIRS (tax), NCS (Customs)	None	All within FIRS	LTO with 5 offices
Rwanda	1998	Customs, domestic taxes	Legal, revenue protection, R&P, TPS	Fin, HR, IA (QA), IT	LTO within DTD
Seychelles	2008	Domestic taxes, Customs	Recovery/prosecution, Fin. analysis	Accounts, HR, IA, training, services	Large taxpayer
Sierra Leone	2003	Customs, GST, income tax, nontax revenues	Policy & legal, monitoring, R&P	Admin, fin, HR, IA, IT	LTO (excluding GST)
South Africa	1997	Tax & Customs integrated - functional & regional structure	Legal, operations, service	Finance, HR, procurement	Large business center with branches
Swaziland	2011	-	-	-	None
Tanzania	1996	Customs, large taxpayers, domestic revenue	Investigations, legal, R&P, TPS	Admin, finance, HR, IA, IT	Separate dept. for large taxpayers (LTD)
Uganda	1991	Customs, domestic taxes	Investigations, legal, PR, R&P	Admin, fin, HR, int. affairs, IA, IT	LTO and first MTO within domestic taxes
Zambia	1994	Customs, domestic taxes	Investigations, legal, R&P	Admin, finance, HR, IA, int. affairs, IT	LTO, 2x MTOs
Zimbabwe	2001	Tax & Customs integrated - functional & regional structure	Investigations, legal, operations, R&P	Admin, fin, HR, IA, integrity	None

Source: IMF.

1/ Core business functions such as Customs, taxes (integrated or by tax type, for example, VAT, income tax), and nontax activities such as property, road, transport, etc.

2/ Units with core functional activities across Customs and tax administration, including Investigations (and enforcement), legal services, research & planning (R&P), taxpayer services (TPS)/education.

3/ Units providing support services such as for administration, finance, (HR, IT, internal affairs, IA, procurement, public relations/ (PR) affairs.

4/ Special organizational arrangements such as for large and possibly medium taxpayers.

Notwithstanding the fuzziness of defining or measuring autonomy, the existence of a governing board is a typically cited characteristic of autonomy. RA governing boards in Anglophone Africa can be broadly categorized as advisory, operational, or empowered. Except for Seychelles, the other 15 RAs began with a governing board although South Africa subsequently dropped theirs for an advisory board, and from 2002, just has ad hoc advisory committees. Nigeria's FIRS has an operational board, headed by the executive chairman (who is also the FIRS chief executive) with membership approximately split between senior FIRS operational managers and ex officio

appointments of certain government officeholders. The ‘empowered’ board described by Kidd and Crandall predominates, typically comprising a mix of ex officio and private sector appointees, with the latter usually the unilateral choice of the minister of finance (except by the prime minister in Rwanda and in consultation with the president in Zimbabwe). Appointment of the board chairman is the prerogative of the president in Kenya and Mauritius, the prime minister in Rwanda, and the minister of finance elsewhere.

Except in Zambia, boards are generally legally prohibited from operational or case work. However, in practice, the Zambian board acts in essentially the same way as other empowered boards deferring operational decisions and activities to the commissioner-general (CG) notwithstanding the powers conferred upon it by the ZRA Act.

*One of the purported benefits of autonomy of more distant MoF oversight may be illusionary.*<sup>6</sup> The RA model is no obstacle to a finance minister wishing to maintain close control and direction over this critical fiscal institution of government. Some commentators have observed political interference or meddling either directly or via the board in several countries.

*Sound corporate governance calls for a mechanism of assurance to the chief executive that institutional strategies are being followed and systems and procedures are functioning as intended.* This is usually provided via an internal audit function (that sometimes includes internal staff affairs) reporting directly to the chief executive. Given the strategic oversight role that RA boards usually limit themselves to, most RA legislation mandates a role for the board to set the broad internal audit agenda and objectives and to have unfettered access to its reports and findings. Thus, most RA internal audit units have two reporting lines, directly to the chief executive and indirectly to the board. Mauritius is an exception, as the RA internal audit function reports exclusively to the board, suggesting the need for a separate and possibly duplicative assurance function for the chief executive. Some boards have appointed subcommittees mandated to oversee internal and external audit activities. To avoid conflicts of interest and to protect taxpayer confidentiality, the board should not be privy to any taxpayer specific information in internal audit or other reports.

### **Collection responsibilities of RAs**

RAs in several countries with significant natural resource endowments (oil, diamonds, other minerals, lumber, cocoa, etc) collect resource rents through traditional corporate income tax regimes (perhaps tailored to these resources), through special regimes (e.g., petroleum profits tax in Nigeria), through royalties, and export levies (diamonds in Sierra Leone, cocoa in Ghana). Given the fiscal importance of these revenues, some special RA administration units have been established (e.g., an oil and gas office in Nigeria and previously a gold and diamond office in Sierra Leone), or at a minimum, the typically small number of affected taxpayers are subject to heightened audit and compliance attention, often by an LTO.

Establishing resource sector expertise within an LTO is a pragmatic response (Calder, 2010) that FAD has encouraged in Ghana, Malawi, Uganda, and Zambia given the lack of capacity and resources to create separate resource tax administration units.

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<sup>6</sup> Other expected benefits of autonomy included restrictions on political interference; private sector perspectives through the Board; greater HR flexibility than under the civil service; and greater financing predictability.

*The collection mandate of many Anglophone African RAs extends beyond national level tax and Customs administration, including a range of minor revenue handles.* While local governments often assess and collect property related taxes, this is a central government function of the registrar-general's department of the Mauritius RA, and an emerging role in Tanzania. All East African RAs collect taxes and fees associated with motor vehicles, with Kenya having a dedicated department, while Tanzania, Rwanda, and Uganda have units within their tax departments. A few RAs are tasked to collect a multiplicity of government fees and charges, ranging from passport application fees to traffic fines.

*But, is the collection of minor taxes and fees extraneous to the core business of an RA?* A rationale often advanced for their placement in an RA is that assessing, collecting, and accounting for revenue collections is an activity that many other government agencies are poorly equipped to perform. Interdependencies and synergies are claimed to be available to the RA as well as economies of scale, allowing payment, receipting, and accounting systems to service these revenue streams at marginal additional cost. Vehicle ownership may be indicative of relative wealth or commercial activity that can be exploited. Problematic enforcement of small transport operators can be enhanced by linking the tax payment with annual vehicle registration.

These arguments are attractive, but costs can easily exceed the benefits in environments where effective revenue administration is hindered by insufficient capacity and resources, underfunding, and inadequately automated and cumbersome systems and procedures. Risks arise that the core business of securing the major central government revenue sources are relegated or neglected to handle a growing portfolio of responsibilities that are resource-intensive and may pose risks to the agency's reputation. The only interaction of many citizens in some countries with their revenue administration is to obtain a drivers license or pay a minor fee, influencing opinions on the efficiency, transparency, and client responsiveness of the agency, even though it can be argued that the activity is not core to its existence. However, if the risks are recognized and addressed, an efficient RA could have wider collection responsibilities for which its marginal collection costs are compensated.

### **C. Integrated Customs and Tax Administration Functions**

*Customs and tax administrations are indisputably core central government revenue administration functions.* With the exceptions of Nigeria and Ghana (until 2010) that have/had separate tax and Customs services, the Anglophone African RA model brings all major central government revenue collection activities, particularly tax and Customs administration under one organizational umbrella.<sup>7</sup> The revenue collection function of Customs in Africa remains critical despite the declining importance of duties given that a major share of VAT is collected at the time of entry. While the border protection and trade facilitation roles of Customs have increased everywhere, the need for close tax and Customs administration linkages are vital given the continuing fiscal importance of the latter.

Neither South Africa nor Zimbabwe has a clear organizational delineation between tax and Customs administration in their RA structures (particularly at the corporate level) that are functionally and regionally arranged. Conversely, there is a clearly discernable Customs

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<sup>7</sup> While preserving separate revenue services for VAT, income tax and Customs until 2009, Ghana attempted to coordinate their activity and oversight through a governing board that over time added certain corporate support functions and an integrated large taxpayer unit.



department<sup>8</sup> and one or more tax departments evident in all the other RA organizational structures. The tax administration strategies and structures adopted over the years by Anglophone African RAs are discussed in more detail below.

*Customs and tax administration reside together under a single RA in 16 countries.*<sup>9</sup> While Customs and tax administration are much more closely coupled in South Africa and Zimbabwe except at the frontier, the degree of integration of core activities that are common across Customs and tax administration in the other 13 RAs varies (see Table 3). Shared rather than separate functional units/programs within tax and Customs departments, respectively, are found for debt collections, investigations and enforcement activities, and most commonly for legal services (sometimes including appeals), and taxpayer services and education.<sup>10</sup> More strategically focused are units for research and planning (R&P), revenue forecasting, and tax policy at the corporate level.

*A motivating rationale for integrating some Customs and tax administration functions is to avoid duplication and increase efficiency and effectiveness, leading to a single and cohesive image of the RA.* There are however some drawbacks, possibly the diminution of accountability for the broader tax administration and Customs administration programs respectively. Box 1 lists some advantages and disadvantages of integrating tax and Customs functions, drawing on observations from IMF diagnostic evaluations of many of the RAs.

<b>Box 1. Pros and Cons of Integrated Tax and Customs Functions</b>	
<b>Advantages</b>	<b>Disadvantages</b>
✓ Economies of scale and synergies from integration.	× Fragmented accountabilities—incomplete authority and responsibility across the entire tax and Customs administration programs, but ultimately coalescing with the RA CEO.
✓ Increased efficiencies and cost of effectiveness.	× Risk of misaligned strategies for integrated functions (e.g., inappropriate taxpayer services) can adversely impact on effective compliance, audit, and enforcement programs of the tax or Customs administration.
✓ Allows for greater specialization.	× Prone to unbalanced focus, with least challenging activities dominating (e.g., simple Customs investigations to the exclusion of complex income tax transfer pricing).
✓ Avoid duplication of functions, staff, and resources.	× Requires matrix management arrangements (i.e., responsibilities to multiple masters—tax and Customs commissioners and RA CEOs), challenging even for mature and strong administration.
✓ Can minimize the need to coordinate identical programs across administrations.	× Requires strong referral and monitoring programs between integrated and devolved functions (e.g., referral of an audit case for investigation, monitoring outcomes, and possible referral back for collection or prosecution).
✓ Provide a single and strong corporate image.	× Some functions are unique to Customs (e.g., rules of origin).
✓ Better facilitate the sharing of information.	

### **III. REVENUE ADMINISTRATION ORGANIZATION AND MANAGEMENT**

Public and private sector organizational and management trends have been hugely influential in revenue administration developments in recent years, including widely across Anglophone

<sup>8</sup> The term “department” is generically used to refer to the highest suborganizational unit within an RA. However, some countries such as Zambia use different terminology, such as division rather than department.

<sup>9</sup> Including Swaziland where an RA was launched in early 2011.

<sup>10</sup> No country is known to have organizationally integrated both Customs and tax audit functions, although an integrated RA investigation function is commonly observed.

Africa. There has been a clear evolution in revenue administration organizational strategies everywhere, regardless of the governance model employed. Proponents of the RA model advocate that a higher degree of professionalism is possible (indeed necessary) than normally found in the public sector, driven by reformed and more flexible HR regimes. Outsourcing of some or all revenue administration functions is less observed, sometimes a consideration of last resort, or more commonly to emulate private sector examples where noncore functions are expected to be delivered more efficiently and cost-effectively by outsiders.

### **A. Support Services**

*Every organization must manage its staff, finances, physical resources, and image, and therefore needs certain capabilities to operate irrespective of its core line of business.* Although not an exhaustive list, these functions include administration, assurance (i.e., IA and internal affairs), finance, HR management, IT for core and support functions, procurement, and PR. With more mundane activities such as office cleaning and security services often consuming considerable resources, many organizations outsource these activities. Chauffeurs often constitute a significant number of staff in both private and public sector workforces (more so the latter) in organizations in African and other developing economies.

Within the MoFs in Liberia, Namibia, and Swaziland, separate departments or bureaus respectively existed for tax and Customs administration. These departments/bureaus rely upon common ministry support functions, competing with other ministry agencies for these services. In similar situations, the priorities of the supporting ministry agencies may not always be aligned with the needs of the revenue agencies. As an example, a mismatch in IT strategies and services is sometimes observed.

While Anglophone African RAs are mostly self-sufficient in the functions necessary to support their core business, the same result is also achievable in more traditional government departments or agencies if they are mandated and financed to manage these support roles internally (or through outsourcing) without relying on other government agencies.

Other than Ghana until 2009 and Nigeria, support services are corporately delivered and shared across tax and Customs administration within Anglophone African RAs. This should ensure uniformity of policies and practices and maximize efficiency. As a percentage of the total workforce of RAs, resources devoted to support service vary widely. Furthermore, the organizational, accountability, and management framework for support services also varies.

### **B. Management and Reporting Lines**

Every RA has a chief executive, often designated the CG. Alternative titles include the director-general (Mauritius), the commissioner (South Africa and Seychelles), or the chairman (Nigeria), the latter reflecting a dual responsibility as head of the revenue service governing board. As noted, chief executives are answerable to boards (except South Africa and Seychelles) and often either formally or indirectly to the minister of finance.

Six of the 16 RAs (Lesotho, Malawi, Rwanda, Sierra Leone, South Africa, and Tanzania) have (or had) a designated deputy commissioner general (DCG)/deputy commissioner (South Africa). Currently in Rwanda, the DCG is additionally the Customs commissioner, whereas in the other RAs except South Africa, all subordinate managers report to the DCG in the first instance who then has a one-on-one reporting line to the chief executive. As is common management practice, a senior RA official deputizes for the chief executive in his/her absence for those RAs without a

DCG. The span of direct management reports to RA chief executives varies enormously, with as few as five in South Africa to as many as 12 in Malawi and Kenya (Table 4).<sup>11</sup> The key factor is the number of supporting functions that report directly to the chief executive.

**Table 4. Revenue Authority—Chief Executive Direct Reports**

Country	DCG? 1/	As at	Direct Reports to CG/ DCG	At Commissioner (or equivalent) Level	Below Commissioner Level
Botswana	No	2005	7	(1) Customs; (2) internal revenue; (3) finance/admin	(1) IA; (2) IT; (3) legal; (4) HR
The Gambia	No	2010	6	(1) Domestic tax; (2) Customs & excise	(1) IA; (2) public affairs; (3) finance & management services; (4) IT
Kenya	No	2006	12	(1) Domestic tax; (2) large taxpayers; (3) Customs; (4) support services; (5) road transport	(1) Administration; (2) finance; (3) IA; (4) investigations/enforce; (5) regions; (6) HR; (7) IT
Lesotho	No	2010	10	(1) Customs; (2) taxpayer service; (3) fin & admin; (4) revenue compliance; (5) corporate services	(1) IA; (2) internal affairs; (3) PR; (4) legal; (5) executive support
Malawi	Yes	2009	12	(1) Domestic tax; (2) Customs	(1) R&P; (2) legal; (3) investigations; (4) admin; (5) finance; (6) IT; (7) security; (8) PR & taxpayer education; (9) IA; (10) regions
Mauritius	No	2007	11	<u>All at director Level:</u> (1) Customs; (2) large taxpayers; (3) medium/small taxpayers; (4) finance/admin; (5) HR; (6) investigations; (7) operations; (8) IT; (9) R&P; (10) IA; (11) internal affairs	
Rwanda	Yes	2007	11	(1) Customs; (2) domestic tax; (3) quality assurance	(1) Revenue protection; (2) HR/admin; (3) finance; (4) R&P; (5) IT; (6) taxpayer services; (7) legal; (8) regions
Sierra Leone	Yes	2006	9	<u>All at commissioner level:</u> (1) income tax; (2) Customs; (3) gold/ diamonds; (4) nontax revenues; (5) IA; (6) legal; (7) HR/administration; (8) research; (9) PR/taxpayer education.	
South Africa	Yes	2010	5	<u>At general manager level or higher:</u> (1) Chief operations officer; (2) HR; (3) legal/policy; (4) finance; (5) Customs and border management	
Tanzania	Yes	2007	11	(1) Customs; (2) domestic revenue; (3) large taxpayers; (4) tax investigations	(1) Legal/Board; (2) IA; (3) R&P; (4) HR/administration; (5) IT; (6) finance; (7) taxpayer services and education
Uganda	No	2007	7	(1) Customs; (2) domestic taxes; (3) corporate services; (4) investigations; (5) legal; (6) IA/internal affairs	(1) Public affairs/taxpayer education
Zambia	No	2009	8	(1) Domestic taxes; (2) Customs; (3); admin & legal; (4) corporate services	(1) Investigations; (2) R&P; (3) IA; (4) internal affairs
Zimbabwe	No	2009	8	(1) Operations; (2) legal/corporate services; (3) finance/planning; (4) investigations/IT; (5) HR/admin	(1) Loss control; (2) IA; (3) infrastructure development

1/ Whether there is a deputy chief executive officer (CEO), often a Deputy CG.

*Focused organizations tend to emphasize their core business functions over the activities that support them.* Experience shows that a lean RA may have a single senior manager for all or most support service functions. The incumbent may have the rank or title like commissioner—that is on par with the heads of the core business lines, namely tax and Customs administrations. He/she would be responsible for all/most subordinate managers and units providing support services to the core business activities and be accountable to the RA chief executive to deliver these services. For independence and sound governance reasons, assurance functions (internal audit and staff affairs) are normally (and desirably) excluded and report separately and directly to the chief executive.

<sup>11</sup> Covering the 15 RAs that include both Customs and tax administrations. Those RAs that have an office of the chief executive are not counted as a direct report. Similarly, modernization project offices reporting directly to the chief executive are excluded given their transient nature unless tasked with ongoing responsibilities.

Not counting assurance, some RAs have two or even more senior managers with different clusters of support service function responsibilities, sometimes including a mix of core business activities. For example, Zambia had a finance commissioner that included IT and collections functions and a corporate services commissioner covering HR, administration, and legal services. The support services commissioner in Kenya has several functions more aligned with core business activities (legal, R&P), while the heads of IT, HR, and finance report directly to the CG.

*Organizational structures rarely remain static.* In the support functions, changes and experimenting appear more prevalent, sometimes to accommodate particular individuals or skills sets, or at times when certain functions require heightened attention. Examples include the early days after establishing an RA when HR issues dominate or for IT when a major automation initiative is embarked upon.

### C. Human Resources

*Staff costs constitute the largest component of all Anglophone African revenue administration budgets,* beyond even the large share of more advanced administrations. While physical resources like buildings, vehicles, and computers are important, the best equipped administration is meaningless without trained, ethical, competent, and professional staff. Prior to the 1990s, all Anglophone African revenue agencies competed for human resources within broader civil service regimes, constrained by whatever recruitment, remuneration, training, and promotion policies applied to all government agencies. The perceived civil service rigidities were often the most strongly argued rationale to create an RA with sufficient autonomy, including HR independence to overcome these challenges and hence increase professionalism.

In reviewing purported HR characteristics of the RA model, Crandall and Kidd found many cited advantages but scant empirical evidence to substantiate or refute the observations, such as:

- Improved quality and timeliness in staff recruitment, lower attrition, and improved retention of quality staff
- Increased and more competitive remuneration and scope for incentive schemes
- Flexibility in internal organizational structures and staff grading schemes
- Enhanced staff training and development
- Better staff integrity and reduced corruption—greater ability to discipline and dismiss within appropriate safeguards.

The absence of hard data before and after establishment of almost every Anglophone African RA necessitates reliance on anecdotal observations, not at all robust, but nevertheless still insightful. Various trends and developments can be drawn from a wealth of FAD TA experience across virtually all countries, including in 17 of the countries at least as recently as 2004, and often going back to the early 1990s through various missions, expert assignments, and other TA events. Box 2 provides a selection of observations that have been drawn from some RAs although not necessarily concurrently all together.

*An increase in revenue administration professionalism is relatively evident.* Although lacking data to attribute these improvements to the RA-model, the anecdotal evidence suggests HR improvements have been observed, sometimes however only temporarily.

## Box 2. Revenue Authority HR Observations

Positive	Negative
✓ Increased professionalism, particularly senior management	× Depth of expertise in shallow, particularly at middle management and staff levels.
✓ Staff incentive schemes—performance-based pay, senior management term contracts.	× Insufficient focus on indicators to measure performance beyond collections.
✓ Remunerations more competitive, able to recruit and retain competitively from strong comparators like finance sector, central banks.	× Decline in remuneration competitiveness over time with failure to review scales and maintain relativity with comparators.
✓ Wages to support a sufficient standard of living without needing supplementation.	× No wage level is high enough to fully deter corruption.
✓ Ability to independently recruit staff with the appropriate skills sets and experience.	× Recruitment flexibility negated by some RAs that inherited entire former workforce.
✓ Enhanced integrity and ethics—codes of conduct, internal affairs units, etc.	× Corruption still endemic inside and outside some revenue agencies.
✓ Organizational flexibility to adjust as necessary to developments.	× Some RA Acts prescribe the organizational structure (e.g., VAT department).
✓ Training programs tailored to needs of revenue administration.	× Training often no higher priority and as poorly funded as pre-RA situation.

### D. Planning, Forecasting, and Reporting

Perhaps most reasonable reforms will generate an initial positive outcome, including improved tax collections and stakeholder perceptions. Sustaining and building upon the improvement however has been a challenge for some administrations.

In the experience of FAD working with many revenue administrations worldwide, the challenges of implementing a new HR regime and adopting the RA governance model often dominated the reform agenda, including at times, overwhelming and distracting away from the modernization requirements of the underlying core revenue administration business. Consequently, a new round of reforms is now underway, addressing issues like tax administration integration and segmentation, genuine self-assessment, automation based upon streamlined procedures, and adoption of risk-based methodologies.

*Every revenue agency is closely focused on collection outcomes.* Close monitoring of collections against forecast expectations is required to spot emerging issues and trends that can help explain performance and variances. MoFs play a similar role, but from a more macroeconomic perspective. Revenue agencies need systems to accurately record and reconcile collections in a timely manner and to analyze outcomes. In turn, this provides the data for analysis and development of inputs into future forecasts.

While program heads will closely oversee their own revenue streams, monitoring and forecasting responsibilities almost always coalesce at the corporate or RA level in a planning and research unit. Specialist economics expertise is often located in these units given their important relationship with the MoF for revenue monitoring, analysis, forecasting, and provision of tax policy inputs.

*Strategic and corporate planning is increasingly widespread.* Leadership and vision are prerequisites, and importantly input and “buy-in” from all parts of the organization. R&P units are often tasked to coordinate the process, facilitating intra-agency dialogue that leads to a final

product that needs to be strongly owned by the institution as well as endorsed more broadly by the government.

South Africa is a leading example of clearly articulating the corporate vision, mission, and objectives of SARS, and then reporting progress in detailed and publicly published annual reports. In the past 6–7 years, several other RAs have developed and publicized corporate plans with horizons of 3, 4, or 5 years. A few (Kenya, Rwanda, and Uganda) have advanced to second or even third iterations of their plans. Various methodologies have been employed to score performance, with the Balanced Score Card (BSC)—a strategic performance management tool popular in both the private and public sectors—adopted by a few.

Except for South Africa, revenue administration corporate and strategic planning is still in its infancy, with valuable lessons still being learned. A few of the weaknesses observed in early iterations of corporate plans include: (1) excessive rigidity for the plan duration rather than a rolling approach where it is updated annually; (2) lack of budget linkages; and (3) not harmonized or modified to reflect modernization and reform initiatives. Nevertheless, the experiences to date have been invaluable and a reflection of increasing professionalism in revenue administration management.

### **E. Outsourcing**

*With some exceptions, revenue administration outsourcing is relatively uncommon.* In the pursuit of savings and efficiency gains, many private and public sector entities worldwide have outsourced certain activities, often support functions, and occasionally core functions. Outsourcing is now common for functions where the task is generic and the retention of an internal workforce is costly, such as earlier noted for cleaning and security services.

A paucity of skilled technical staff may, in some cases, have been the impetus for outsourcing. Development, implementation, and support of IT systems pose big challenges to revenue agencies everywhere, and particularly in Africa where the supply of personnel is limited and demand is strong. Accordingly, many revenue agencies rely on contractor assistance to varying degrees, with far fewer now undertaking bespoke development of core systems, and relying more on off-the-shelf packages and follow-on vendor support.

*Core tax administration functions are rarely outsourced.* As a critical fiscal function, tax collection is normally the exclusive domain of government. Tax administration outsourcing ventures have been considerably circumscribed. Elsewhere, experiments have been tried, such as outsourcing tax debt collections, although at a risk to the reputation of the revenue agency and the government. In Anglophone Africa, the only known example of an outsourced core tax administration function has been taxpayer audit in Namibia, initially on a pilot basis given insufficient internal capacity. Despite challenges of avoiding conflicts of interest, client poaching, and ensuring taxpayer confidentiality, an expansion of the program eventuated. In a more limited manner, refund claim certification by public accountants is supposed to result in expedited refund processing (e.g., Kenya).

*Private sector support in Customs administration has been more widespread.* Support to Customs administration in the valuation, classification, and origin determination of imports has been the most commonly observed example of private sector involvement. For several decades, the provision of pre-shipment inspection (PSI) services has been quite common, particularly for low capacity administrations. These arrangements are increasingly being discontinued or replaced by destination inspection (DI) services. More radically, and while not part of the Anglophone group, wholesale outsourcing of the entire Customs function occurred over a lengthy period from the

mid-1990s in Mozambique given its post-conflict circumstances, weak capacity, entrenched integrity problems, and generous donors seeking a sustainable solution.

### **F. Operational Policy Design and Monitoring**

*In Anglophone African countries, far too many revenue administrations have previously had insufficiently developed operational policies and procedures* with very centralized management practices requiring all approvals and decisions to be referred upward to the highest levels of the organization. It was therefore not uncommon for commissioners to personally sign and adjudicate virtually every case file, exacerbated by the absence of effective self-assessment. Such an approach leaves little time to manage in a visionary and strategic manner.

Developments that have reversed these undesirable practices have included: (1) increased professionalism of management and staff (see above); (2) adoption of modern management practices, particularly delegation; (3) application of self-assessment (Section IV); (4) simplification and automation of processes; and (5) clearer delineation between operations and the role of developing policies and monitoring their application.<sup>12</sup>

Commercial activity in many Anglophone African countries is highly concentrated in one or just a few economic centers, often corresponding to the location of the revenue administration headquarters. Frequently the busiest and greatest revenue generating tax operations are co-located in the same facilities as occupied by the senior tax administration officials, although less commonly observed for Customs administration given the real-time nature of goods clearance at frontiers and ports. In these circumstances, it is not surprising how easily senior managers are drawn into day-to-day operations, particularly with inappropriate organizational arrangements that blur the lines of management and operations.

*Modern revenue administrations have a clearly defined headquarters that develops operational policies and monitors their delivery.* A headquarters structure that is tasked to develop, define, and document the operational revenue administration policies and procedures can ensure their consistent application throughout the organization. As a general rule, headquarters should not undertake operational work in its own right. Using appropriate performance indicators, headquarters has a key role to monitor operational performance and report to senior management the achievement against corporate objectives that are normally reflected in annual plans and possibly corporate strategic plans. Monitoring also provides feedback to facilitate enhancement of policies and procedures as necessary.

Experience has shown that the most effective headquarters arrangement is achieved through small teams of very experienced and competent administrators with responsibility for a specific tax or Customs administration function or grouping of related functions. Accordingly, a functional organizational model can be applied at two levels, namely in headquarters for operational policy development and monitoring as well as in the field where these policies are actually delivered. Thus, if operational units are structured along functional lines (e.g., with staff groups responsible for taxpayer services, returns and payment processing, taxpayer audit, and debt and filing compliance enforcement), headquarters would similarly be organized. This produces a simple matrix management arrangement as illustrated in Figure 2. While managers of field offices report vertically to the chief executive for the performance of their unit, there are also functional

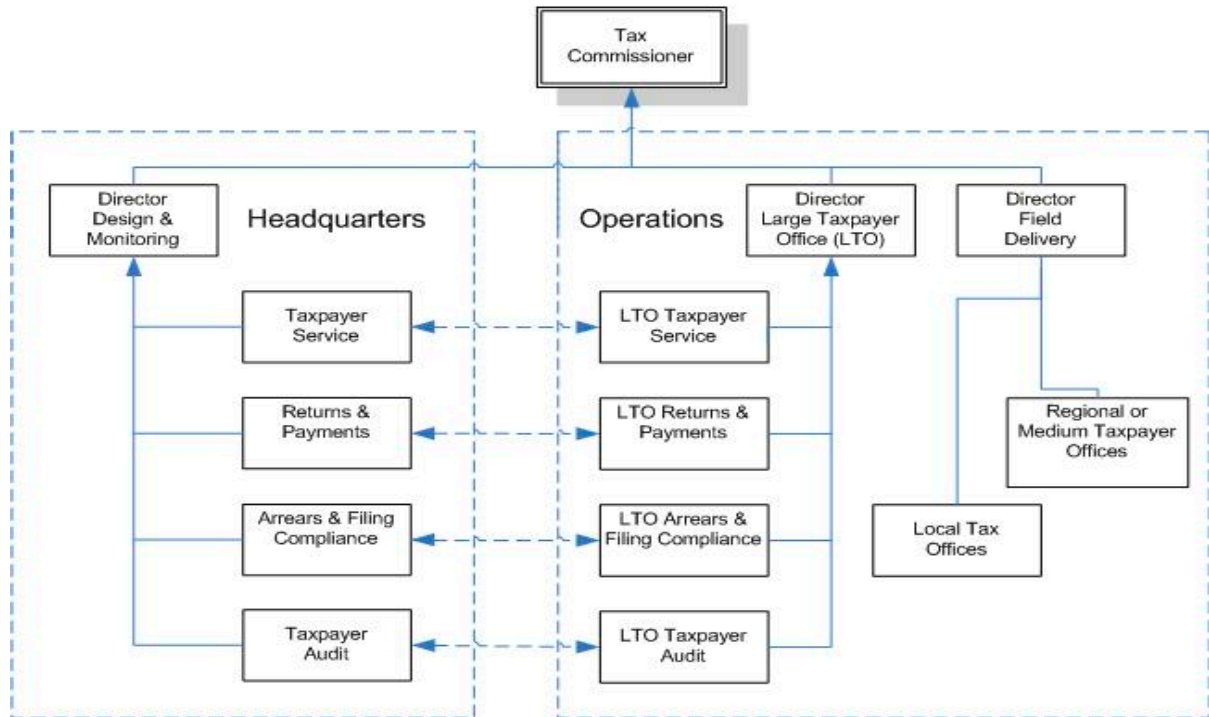
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<sup>12</sup> In this context, these are not “tax policies” but (tax) administration policies.

horizontal reporting relationships with headquarters for technical guidance and direction. This approach brings two views to the chief executive: by office and function. For example, a complete picture of the large taxpayer segment and office is presented through traditional vertical reporting lines, while a complete picture of each function such as taxpayer audit is provided “horizontally” through the headquarters *Design and Monitoring* unit.

The concept of an effective, functionally organized headquarters applies equally to tax and Customs administration. Although the model represented at Figure 2 relates to tax administration, the model is similarly relevant to Customs administration, modified to functions specific to Customs.

**Figure 2. Tax Administration Operational and Functional Reporting Lines**



#### IV. TAX ADMINISTRATION REFORM DEVELOPMENTS

##### A. Tax Administration Organizational Developments

The organizational evolution of tax administration has been widely and well documented, from a historical tax type approach, shifting to a functional model across various taxes before recently transcending to a client or taxpayer segment model.

**By tax type.** Historically, separate departments or divisions existed for indirect taxes (sales tax or VAT) and direct taxes (personal and corporate income tax), sometimes even further subdivided with units for excise taxes, and for withheld, personal, or corporate income taxes. Although VAT is a relatively recent initiative, with few exceptions, it was implemented across Anglophone Africa in a department/division separate from income tax, and in some instances, as a Customs department unit reflecting the British approach at the time. Administration of each tax or subtax often occurred in isolation and without coordination or sharing of resources or information.

**By function.** Tax administration functions are universal, albeit sometimes described differently or grouped or subdivided in various permutations. Beyond the degree of modernization achieved,



the emphasis and resources directed to certain functions is usually a product of whether an administrative or self-assessment system exists, or some variant in between. A nonexhaustive list of functions includes registration, returns and payments processing, accounting, taxpayer services and education, compliance enforcement including collection, taxpayer audit and investigations, and dispute resolution (objections and appeals). Under the traditional tax type approach, these functions (to the extent they exist) would be duplicated and uncoordinated, increasing the costs of administration and compliance and failing to provide a single view and management of the taxpayer. Just as there was a shift in the commercial world away from product-based organizations (akin to tax type) to functional approaches across products (such as marketing, sales, accounting, etc.), so too was there a shift in tax administration, delivering spheres of functional expertise and efficiency gains through economies of scale with costs driven down.

***By segment.*** More recently, recognition has emerged that taxpayers are not homogeneous. Segmentation recognizes varying needs across taxpayer groups in terms of revenue importance and risks, degree of sophistication and record-keeping capability, and demand for services and assistance. Taxpayer size in terms of turnover has become the most common and best developed method for categorizing and segmenting taxpayers. So far, organizational responses in Anglophone Africa have mostly focused on the large taxpayer segment through the establishment of LTOs.

*Examples of tax type, functional, and segmented organizations currently exist across Anglophone Africa.* Each is not mutually exclusive of the other, with examples existing along a spectrum as illustrated by Figure 3, with some cases exhibiting elements of all three models. Functionality has not been abandoned in the move toward segmentation, with large and other taxpayer segment offices functionally structured. This however reintroduces the duplication of functions observed with the tax type approach, but allowing the functions to be geared specifically to the targeted segment. Most importantly, the segment model provides for a single point of taxpayer contact, and internally, a single view of the taxpayer.

Specific country circumstances may make the sharing of certain functions across segments preferable while other functions are desirably duplicated. While it may be optimal to have common payment and returns processing if they are highly streamlined and automated, the benefits of separate audit, enforcement, and taxpayer service functions that are segment tailored may outweigh the cost of duplication. In any case, and as discussed in Section III, all functional operations should be in accordance with clearly defined strategies and policies that are centrally defined, managed, and monitored.

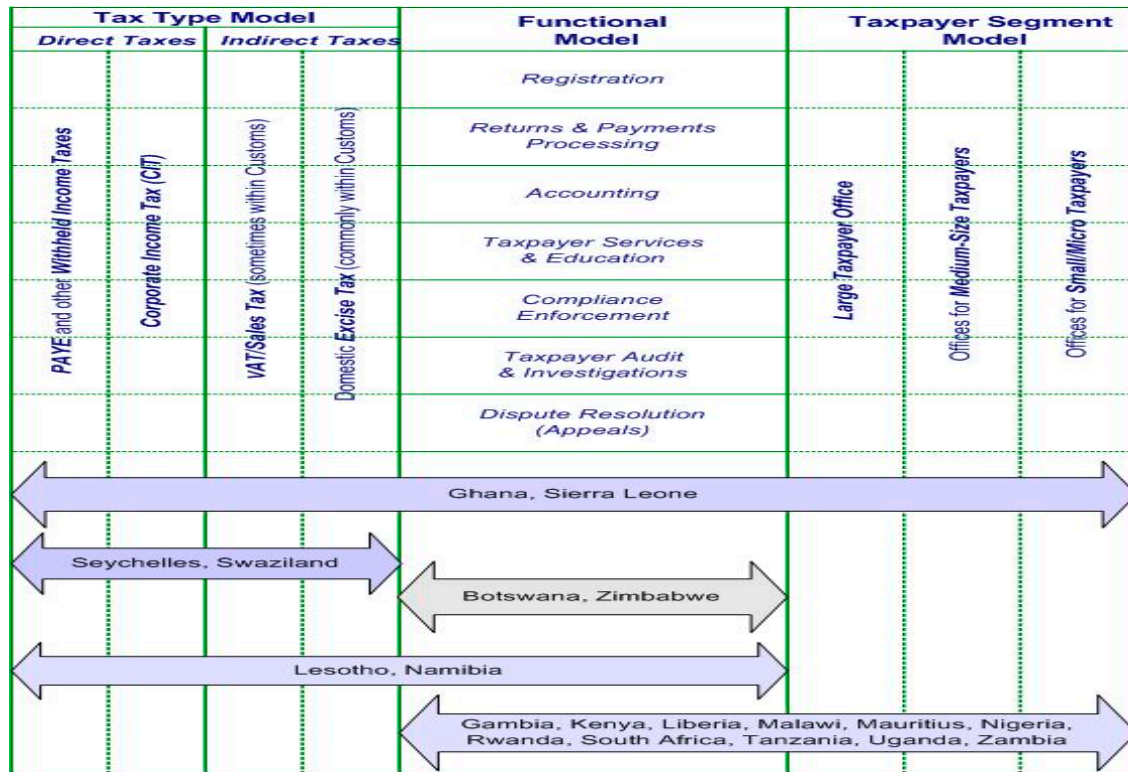
## **B. Segmentation**

### **Taxpayer segment characteristics**

*In the past decade or more, many tax administrations have developed organizational structures and compliance strategies to address specific taxpayer segments.* Knowledge about the structure, characteristics, and the geographical distribution of the taxpayer population is critical to effective tax administration. It is vitally important for a tax administration to understand its taxpayer base, particularly the different segments that constitute the taxpayer population.

While a functional approach to tax administration leads to a more efficient utilization and deployment of scarce resources than unintegrated tax type arrangements, it is also important to recognize the different taxpayer segment characteristics. Increasingly, and as illustrated in Box 3, tax administrations categorize their taxpayer population into three main segments: (1) a small number of larger taxpayers contributing in excess of 70 percent of revenue; (2) a moderate

Figure 3. Tax Administration Organizational Evolution



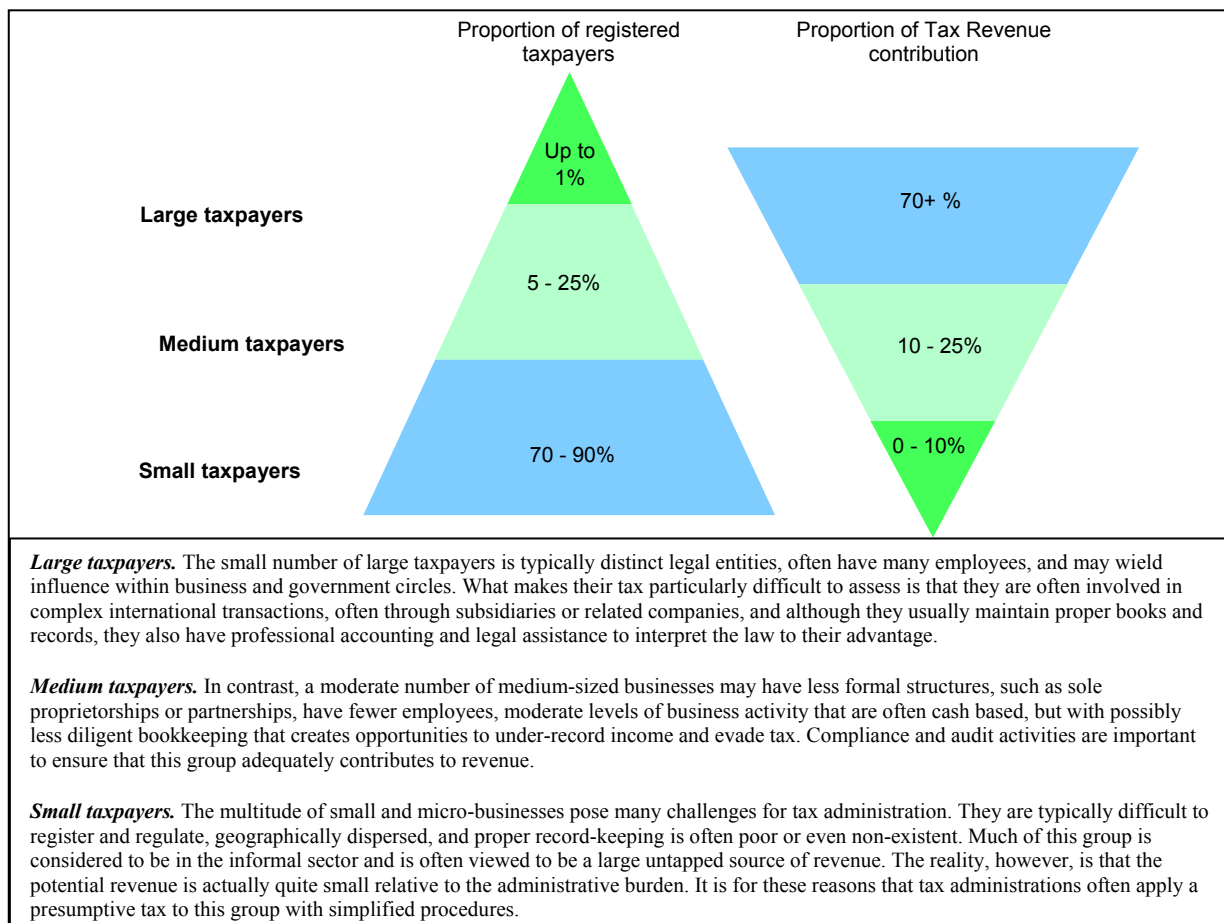
number of medium taxpayers who are above the registration threshold for VAT (if set appropriately); and (3) a large number of small taxpayers who contribute relatively little to overall revenue collections. Size is country specific. A medium-size business in one country could be considered a large taxpayer in another.

While the Box 3 illustration focuses on businesses, there is usually an additional large group of employee-taxpayers who typically have relatively small tax obligations individually although are often large collectively, they have little scope for evasion when subject to well administered pay-as-you-earn (PAYE) arrangements. In this case, the compliance risks shift to the employers who are already included within the segmentation model given their other tax obligations. There may however be additional challenges to properly tax an employee's income from other sources, akin to the difficulties associated with small businesses. This is an important but small group for revenue and system integrity reasons.

### Taxpayer stratification examples

Taxpayer stratification analyses by IMF missions in recent years have drawn on turnover and payment levels of registered VAT taxpayers, with Table 5 summarizing the VAT taxpayer populations in eight Anglophone African countries, all but one that now have an LTO. It clearly shows a typical three-layer perspective of VAT taxpayer population, namely large, medium, and small segments. This generally is a reasonable proxy for other taxes and the broader taxpayer population, recognizing the following limitations: (1) VAT-exempt sectors like banking; (2) large employers (such as government agencies and NGOs) that must withhold PAYE but have no other tax obligations; and (3) a considerably larger small and microsize taxpayer segment below the VAT threshold that chooses not to voluntarily register for VAT, plus a possibly even larger informal sector that is entirely unknown to the tax authorities.

### Box 3. Taxpayer Segments—Their Population and Revenue Contribution Characteristics



**Table 5. Stratification of VAT Taxpayer Populations for Selected Countries**

Country	Year 1/	Large Taxpayers (LT)		Medium Taxpayers		Small Taxpayers	
		Threshold 2/ No. Taxpayers	% of Rev % Taxpayers	Threshold No. Taxpayers	% of Rev % Taxpayers	Threshold No. Taxpayers	% Rev % Taxpayers
Botswana 3/	2004	BP 25 m (x100)	58 %	BP 250,000	39 %	BP 250,000	3 %
		240	3.1 %	3,934	51.0 %	3,535	45.9 %
Ghana 4/	2009	GHS 3 m (x300)	63 %	GHS10,000	26 %	GHS 10,000	1 %
		275	1.2 %	8,400	38 %	13,305	61 %
Kenya	2006	K Sh 1 b (x200)	50 %	K Sh 5 m	43 %	K Sh 5 m	7 %
		243	0.01 %	7,883	14.6 %	45,876	85.0 %
Malawi	2007	MK 100 m (x17)	79 %	MK 6 m	20.5 %	MK 2 m	0.5 %
		297	9.4 %	1,761	55.6 %	1,109	35.0 %
Mauritius	2004	MUR 100m (x33)	62 %	MUR 3 m	36 %	MUR 3 m	2 %
		430	5.9 %	3,180	43.7 %	3,663	50.4 %
Rwanda	2009	RF500 m (x25)	86 %	RF 20m	13 %	RF 20m	1 %
		268	8.3 %	1,150	35.7 %	1,811	55%
Uganda	2004	U Sh 5 b (x100)	71 %	U Sh 50 m	28 %	U Sh 50 m	1 %
		210	2.6 %	1,966	24.5 %	5,320	66.2 %
Zambia	2006	ZK 100 b (x500)	79 %	ZK 200 m	20 %	MK 200 m	1 %
		454	8 %	3,844	71 %	1,121	21 %

Source: IMF.

1/ Year of analysis: VAT data analyzed from 1–3 years earlier.

2/ Turnover threshold for inclusion in an LTO also stated in multiple terms of the VAT threshold.

3/ Turnover threshold proposed for establishment of an LTO.

4/ The Ghana VAT threshold is nominally GHS 10,000, but for many taxpayers it is effectively zero, particularly retailers. The threshold was due to increase to GHS 90,000 in late 2010.

For each segment, percentages of overall taxpayer numbers and contribution to VAT collections are shown. The VAT threshold provides the cut-off between the medium and small segments provided it is set at a reasonable level (which was not the case in Ghana). Turnover is often the key determinant for LTO management, typically struck at a level to secure about 70 percent of collections from all domestic taxes, although not always achieved. Expressed as a multiple of the VAT threshold, the LTO threshold varies widely, from as low as 17 times the VAT threshold in Malawi to a factor of approximately 500 in Zambia.

Two factors distort the VAT taxpayer population makeup and make it challenging to keep inactive taxpayers off the register. First, several countries override the VAT threshold mandating compulsory registration for certain sectors irrespective of turnover. Second, voluntary registration accounts for the small taxpayer segment, and is accordingly understated in the rare cases when not allowed. For example, Kenya, Mauritius, and Uganda have high percentages of taxpayers below the registration threshold from overriding it, while Zambia conversely has the least given that voluntary registration was only recently reintroduced. Ghana also has a high proportion of small VAT taxpayers given a very low threshold and compulsory registration of all retailers.

### **Large taxpayer administration**

*Tax administration strategies and structures are increasingly based on a segmented view of the taxpayer population.* So far, LTOs are the most common manifestation of this development, with a

slight majority of Anglophone African countries having implemented some form of LTO.<sup>13</sup> The Fund has strongly advocated the importance of focused attention on large taxpayers (Baer, 2002) particularly with dedicated LTOs that have become an increasingly universal feature of tax administrations in all regions and levels of development. Turnover is the commonly used criterion for LTO inclusion such that qualifying taxpayers account for 70 percent or more of tax collections. Furthermore, most countries also mandate LTO administration of all taxpayers in a small number of key sectors like banking, telecommunications, or mining, regardless of turnover provided the numbers are small. In implementing an LTO, multiple reform objectives were/are often pursued, including:

- Enhancing revenue by securing the major source of payments through better compliance of the very small group of the most important taxpayers.
- Using the LTO as a vehicle and pilot environment for organizational reform, shifting away from a tax type to a functionally structured and integrated approach.
- Streamlining procedures and pilot implementing automated systems.
- Introducing other major reforms such as self-assessment or as a prelude to VAT.

*Early LTO initiatives were not entirely successful.* Although South Africa had a successful LTO from the early 1990s, expansion of the concept began around 1998 with LTOs implemented in Ghana, Kenya, and Uganda. None of this group however fully met initial expectations, and in Uganda's case, the LTO was disbanded. Forces favoring the status quo contributed to initial disappointing results. There were insufficient incentives to properly empower LTO managers, and the rationale for its creation was not fully understood. Lacking a thorough stratification analysis

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<sup>13</sup> Countries without an LTO are Botswana, Lesotho, Namibia, Seychelles, Swaziland, and Zimbabwe, although a few have formed audit groups focusing on large taxpayers for some taxes.

of the population, not all of the largest taxpayers were transferred to the LTO, exacerbated by the continued existence of separate income tax and VAT departments and commissioners with specifically vested statutory powers. Difficulties to disrupt entrenched rent-seeking opportunities may have constrained some LTO initiatives. Harassment accusations in some countries by some influential taxpayers undermined political support and legitimacy. Important lessons from these early initiatives suggest that the role and place of the LTO must be clearly articulated within a broader modernization strategy that entails a single, fully integrated tax administration, with additional reform phases addressing all taxpayer segments to avoid an appearance that the large taxpayer “cash cow” is being exclusively milked to exhaustion.

More recently established LTOs (Malawi, Rwanda, Zambia) and earlier ones that have been re-launched (Uganda) or reinvigorated (Kenya, Tanzania) are considerably more effective. Fewer have critical large taxpayers missing from their client base; capacity has been enhanced; industry specialization is being developed; and IT systems are improved. Integrated LTOs are now the norm following the establishment of an LTO that attempted to transcend the separate VAT and internal revenue services in Ghana since 2004, and with an enhanced role of the Nigerian LTOs that includes VAT since 2005. Resource-rich countries (e.g., Nigeria, Zambia, and since recent discoveries of oil in Ghana and Uganda) are creating resource sector capacity within their LTOs as pragmatically suggested by Calder (2010) given the capacity and resource constraints that precludes building separate units devoted to resource tax administration.

*An effective LTO is often a single, integrated, and functionally structured office within a single, integrated domestic tax department.*<sup>14</sup> More Anglophone African countries are moving to integrate formerly separate VAT and income tax administrations. Many are also taking a taxpayer segment approach, beginning with an integrated LTO. However, the path to achievement of these objectives varies. For example, the reconstituted Ugandan LTO was created concurrently in 2005 with the formation of an integrated Domestic Tax Department (DTD). The Kenyan LTO that had existed outside the VAT and income tax departments since 1998 was brought together with the merger of these two departments under a DTD in 2005. Tax administration integration in Tanzania began with the creation of a large taxpayer department (LTD) in 2001 separate from the former VAT and income tax departments. In 2005 when administration of medium and small taxpayers was integrated in Tanzania, a domestic revenue department was established alongside the LTD. The Mauritius experience was similar, with a new LTD in 2002, and the merger of the former VAT and income tax departments in 2006 to administer medium and small taxpayers. Again, this approach was taken in Rwanda with the 2004 concurrent transformation of the VAT and income tax departments into an LTD and an Internal Revenue Departments (IRD). In 2006, Rwanda brought all tax administration together with the former LTD becoming a subordinate office (LTO) of the DTD (renamed from IRD), while in the same year, Kenya went the other way by moving the LTO out of the DTD in 2005 to become a separate department (LTD).

*The LTO model adopted by several countries has created new challenges.* Fewer problems arise when an LTO resides fully within one domestic tax department under single management. The challenges with two separate departments administering the same tax laws and regulations for different taxpayer segments (i.e., large and all other taxpayers) are: who is in charge and who is determining operational policies and overseeing their delivery? Does each department create, and hence duplicate a headquarters function as described in Section III? If so, how are consistent and

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<sup>14</sup> In large dispersed countries where the population of large taxpayers is not geographically concentrated (e.g., Nigeria), LTO operations may need to be regionalized but under centralized control.

uniform policies determined? Alternatively, do both departments share or split certain headquarters responsibilities? Both options seem suboptimal compared to just one tax administration under common leadership with a headquarters that creates common policies and monitors performance of all operations, regardless of taxpayer segment.

### **Medium and small taxpayer administration**

*A reasonable definition of the medium taxpayer segment is the population of VAT taxpayers not under LTO administration (including voluntary registrants and assuming an appropriate registration threshold).<sup>15</sup> For consistency, the segment would also include non-LTO taxpayers exempt from VAT with turnover above the registration threshold, and possibly non-LTO tax exempt organizations with only withholding obligations above a certain level. Taxpayer stratification analyses completed by FAD for several countries have typically shown a concentration of medium-size taxpayers in the main economic center and a small number of larger provincial locations. Given the greater compliance and record-keeping obligations for the medium taxpayer segment that partly parallels the large taxpayer segment, FAD advice has increasingly been for the establishment of a pilot medium taxpayer office (MTO) in the main economic center with the later possibility of several provincial MTOs (examples include Francophone Africa, North Africa, and the Middle East).*

This strategy aims to emulate the LTO model, maximize the effectiveness of limited resources where there is enough critical mass, and improve the level of taxpayer services that are targeted specifically to the medium taxpayer segment needs. In so doing, the remainder of the tax administration office network could then focus predominantly on small taxpayers where considerably different approaches are needed. This would not, however, preclude a local office providing some services and support to medium or even large taxpayers such as filing and payment facilities and some taxpayer services, but retaining account management, particularly compliance activity at the LTO or respective MTO.

*The extent to which clearly discernable differences exist in the treatment of medium and small taxpayers depends upon what type of regime exists, if any, for small businesses. VAT is mandatory for those above the registration threshold (and for certain sectors in some countries), although many businesses below the threshold often opt-in (except Zambia where it was until recently not permitted). Income tax regimes often apply universally, particularly for corporations regardless of size or turnover on the assumption that a business that is able to satisfy corporate compliance obligations can similarly meet more onerous tax requirements. This rationale is perhaps questionable for many Anglophone African countries, given corporate oversight is often extremely weak and not enforced.*

Some countries have simplified regimes for small businesses, often limited to unincorporated entities, and typically those outside the VAT regime. Specific regimes exist in Liberia, Kenya, Rwanda, Tanzania, Uganda, and Zambia, usually as a simple turnover tax, or presumptively determined for a few industries like transportation. Pragmatically, these regimes could be open to any type of entity outside the VAT regime and below the threshold given the often faulty premise that small corporations can easily comply with a “real” income tax regime provided progressivity is preserved by using turnover to determine taxable or assessable income and then normal rates

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<sup>15</sup> Alternatively, where VAT does not exist (or the threshold is very low), the medium taxpayer segment could be approximately based on those contributing up to about 25 percent of domestic tax revenue after taking into account the large taxpayer contribution of the first 70 percent of domestic collections.

applied. Otherwise, small corporations are overly favored by small taxpayer regimes in addition to their “limited” liability status.

*Dedicated administrative arrangements for medium-size taxpayers have not yet taken hold.* Local Anglophone African tax offices usually manage a mix of medium and small taxpayers, and also large businesses in the absence of an LTO. While a few are considering the concept, only Liberia and Uganda have taken the step of establishing a dedicated MTO. While the MTO model is gaining momentum in other regions, including Francophone Africa, the uptake in Anglophone Africa has been muted. Some of the reasons may be similar to the subtle opposition and impediments observed with a few LTO initiatives. The majority of tax administration staff in many Anglophone African countries is located in local offices away from the main city. By concentrating large and medium taxpayer administration in just two or a few offices, the remaining office network may account for less than 10 percent of collections, and sometimes considerably less.

There may be incentives for local offices to hang on to a few larger taxpayers who account for the bulk of their collections. Rent seeking opportunities may be great, or more benignly, the motivation may simply be for the local office managers to be perceived with greater stature within the organization by virtue of their collection contribution. Concentrating large- and medium-size taxpayer administration is likely to expose inefficiencies and generate questions about the cost effectiveness of some offices. This may be particularly sensitive if offices have been established for political or social reasons rather than on the basis of sound business needs. However, this reality may unavoidably necessitate offices in certain locations even if their justification on a cost/benefit basis may be questionable.

*The suitability of the MTO model therefore depends greatly on country specific circumstances.* For example, Uganda created an MTO in Kampala in 2009 to administer the largest medium-size taxpayers. However, rather than rolling-out the MTO model across Uganda, a transformation of local offices into front-office service centers and fewer back-office compliance centers is planned to cater to any taxpayer for the former and those not under the LTO or MTO for the latter. The planned Ugandan approach capitalizes on recent computerization efforts and business process simplification.

### **C. Tax Administration Operational Issues**

The following brief discussion examines the state of selected tax administration operational issues across Anglophone Africa, drawing on observations from the most recent FAD diagnostic missions. Given gaps in both timing and coverage of these missions, the observations are generalized, and may have subsequently changed. Nevertheless, the overall pattern is fairly consistent, with significant deficiencies in operational approaches and outcomes very common. Even the more advanced reformers still have considerable distance to travel to reach their often espoused aspiration of being a world class tax administration.

#### **Taxpayer identification and registration**

*A robust system of taxpayer identification is at the heart of good revenue administration, but still eludes many Anglophone African countries.* Multiple taxpayer identifiers have been and continue to be common place, exacerbated by the unnecessary widespread introduction of special VAT identifiers. Many attempts to overhaul taxpayer identification have been made, but with mixed

results. Even where a well designed TIN has been introduced,<sup>16</sup> old identifiers have often been retained, or the TIN register has degraded over time through poor policies or careless practices.

*Increasingly, multiple identifiers are being replaced by a universal TIN whose design and structure follows best practice, but insufficient vigilance and poor registration practices have often thwarted TIN primacy and effectiveness. For some administrations, the integrity of their TIN register has been seriously degraded, often associated with lax registration procedures, or the failure to institute robust proof of identity requirements. This is particularly observed where TIN usage is mandated for many noncore tax activities, such as the payment of minor fees or fines, obtaining a license, opening a bank account, or bidding for a government contract. Without tight vetting, individuals or entities often obtain multiple registrations, usually with slightly differing or incomplete information.*

Other government registration schemes create both opportunities and challenges for taxpayer registration. The utilization of social security identifiers by individuals for tax purposes is fairly standard practice in developed economies, but unobserved in most of Africa given the lack of broad government social security or pension schemes. Alternatively, national citizen or electoral identification systems may provide a suitable alternative for individual tax identification if the number and system is sufficiently robust, but requires very close collaboration and systems integration between the system operator (often the interior ministry) and the tax administration. Given that this is rarely observed in Anglophone Africa, most tax administrations assume responsibility for registering physical persons as required.

Corporate and business registers often differ widely from taxpayer registers, sometimes with a far larger pool than known or active taxpayers. Often this is from a failure to keep the corporate register current, but in other instances because of a lack of coordination between the corporate or business registrar and the tax administration. Given the criticality of a robust taxpayer register, most administrations do not rely on another agency for taxpayer registration, a position supported by FAD. In any case, the taxpayer universe is typically slightly different to the client base of other registration organizations that would lead to gaps.<sup>17</sup> Another option that has not been observed yet in Anglophone Africa is for the tax administration to be tasked to maintain a single register for all business and tax purposes, along the lines of the Australian Business Number.

*Mass taxpayer registration campaigns to widen the tax base have sometimes undermined taxpayer register integrity. Well intended base broadening motives of large scale taxpayer recruitment drives have sometimes overemphasized quantity over quality of taxpayers. Most new registrants are either small or microsize business, a problematic segment even at the best of times, given their transient nature and dynamic formation and failure patterns. Performance targets to register a certain number or percentage of new taxpayers each year would be better measured by the continued tax activity and compliance of the new registrants one year later. This would strengthen the quality of recruitment drives to ensure that all tax administration functions, including taxpayer services, audit, and compliance enforcement contribute to a growing taxpayer*

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<sup>16</sup> Good TIN characteristics advocated by FAD include an all-numeric identifier with the fewest digits possible, no meaningful information embedded within the TIN, the use of a check-digit for security and validation purposes, only one TIN assigned to each taxpayer for all purposes, and the TIN is never reassigned or reused.

<sup>17</sup> For example, some withholding agents such as Non Government Organizations (NGOs) and diplomatic missions need to be registered only for tax purposes.



register rather than the often simplistic objective of growing a list of taxpayers with little regard to their activity and compliance after initial registration.

### **Self-assessment, filing, and payment**

*While absent before the introduction of VAT, self-assessment<sup>18</sup> still only exists in limited circumstances.* The VAT phenomenon introduced Anglophone African tax administration to self-assessment. However, not all of the features usually associated with self-assessment are observed, even for those countries with a VAT. Deficiencies or weaknesses are common for one or more of the following prerequisites for truly effective self-assessment:

- *Simple tax laws* that facilitate easy compliance and administration.
- *Services to taxpayers* that enable them to understand and meet their obligations, including binding rulings and interpretations for consistency and predictability.
- *Simple and convenient filing and payment procedures.*
- *Collection enforcement* mechanisms that ensure noncompliant taxpayers are promptly identified and action is taken to secure returns and arrears.
- *Effective but selective taxpayer audit* to detect and act against noncompliance.
- *Penalties* that are effective for deterrence and punishment, with a clear distinction between punitive penalties and interest for the time value of money.
- *Access to independent review of decisions.*

*Most Anglophone African VAT regimes and many income tax regimes are described as self-assessed, even within the legislation, although the reality is often otherwise.* VAT filing frequencies necessitate a greater degree of self-assessment simply to keep up with transaction volumes, but some administrative assessment practices are common. Several countries require detailed lists of all purchase and sales invoices with VAT returns that are scrutinized to disallow particular transactions at the time of lodgment. All refund claims are often audited irrespective of risk or relevance. Computer-generated estimated assessments have been extensively used by some administrations in response to VAT nonfiling, often leading to a large inventory of uncollectible debt, particularly where the integrity of the VAT taxpayer register is questionable. While an important tool, estimated assessments should be issued judiciously and only with an expectation and capacity to enforce compliance.

*Most income tax regimes entail many administrative assessment features.* The review of all income tax returns is common, with the liability determined by an assessor. This practice often extends to provisional or advance payments during the assessment period. Rather than require the taxpayer to calculate the installment amount based on a simple formula of the prior or current year tax liability that is readily verified against the final return, some administrations devote

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<sup>18</sup> Under a system of *self-assessment*, taxpayers, with access to information and assistance from the tax administration, calculate their own liabilities, file returns, and pay the tax that they themselves assess. If they fail to make accurate assessments and pay the correct amounts, they run the risk of being detected, audited, and penalized. In an environment of self-assessment, the role of the tax administration is to, first, assist taxpayers to understand and meet their obligations and, second, to take action against noncompliers—particularly those exhibiting the highest revenue risks.

considerable efforts and resources to make these “assessments.” Some administrations rely excessively on *Best of Judgment* income tax assessments, seriously compromising self-assessment and enforcement of accurate record-keeping. The reliance on administrative assessment has been detrimental to the advancement of more modern tax administration practices. More front-end and lower-skilled staff is needed for administrative assessment, even for the few administrations that have attempted to automate these processes. In such environments, taxpayer audit is often restricted to desk review based on the books and records that the taxpayer has been instructed to deliver to the tax office. By attempting to review every return, the concept of risk-based audit selection has been slow to take hold.

*Payment and filing processes can still be considerably improved.* Except for South Africa and a few other small scale pilot schemes, there is very little electronic filing of tax returns and payment of taxes. Approximately half of the countries receive tax payments through the banking sector, often accompanied by a tax return. Procedures are not always streamlined or simple, sometimes requiring several trips between the bank branch and tax office to obtain or deliver certain documents, such as a tax office receipt in addition to the bank receipt. Other administrations have cashier facilities staffed by the accountant-general or tax officials. FAD has encouraged the outsourcing of the cashier function to the banking sector given its comparative advantage, and more recently, FAD has supported electronic filing and payment if the back-office tax administration and financial sector systems are sufficiently developed and robust to support this approach. Outsourced cashier services require close oversight and effective mechanisms for the transmission of funds, information, and returns. Corrupt banking practices and weak internal controls in some West African countries have resulted in the large scale illegal diversion of tax revenues.

*Most Anglophone African countries require all VAT taxpayers to file and pay monthly, irrespective of their activity or size.* The exceptions that accord with general FAD advice are South Africa, Mauritius, and Botswana where monthly filing is limited to large taxpayers and bimonthly or quarterly filing for others. Universal monthly VAT filing overburdens some administrations that struggle with poor filing compliance and excessive returns processing that yields little if any additional or earlier revenue, especially in an unautomated environment.

Unlike many industrialized countries, the number of personal income taxpayers (PIT) in most Anglophone African countries is relatively small, and of course limited to the formal economy. Fortunately, most PIT taxpayers with a single source of employment income are not required to file an annual return, with their PAYE withholdings effectively final. This is an appropriate policy for both taxpayers and administrations in this environment. However, in recent years, a few administrations have instituted universal mandatory filing for all PIT taxpayers to inculcate a greater appreciation of the tax system as well as an expectation that additional income will be declared. Workloads to process the extra returns have grown significantly, but collection and compliance outcomes have been disappointing given insufficient assessment and audit resources. Under these circumstances, the goal of heightened taxpayer awareness may have actually been compromised when some taxpayers begin to comprehend that the administration cannot adequately manage the extra workload and that nonfiling and under declaration of income is going undetected or without action.

### **Audit and compliance**

*The issues of taxpayer audit and self-assessment are inextricably linked.* The notion of selectively identifying a taxpayer on the basis of their risk and undertaking a field audit of their accounts was virtually unknown in Anglophone Africa prior to the 1990s. Unfortunately, it still remains an

unfamiliar or rare practice in some countries. Historically, assessment and audit were synonymous, often with outdated laws mandating the examination and assessment of every (income) tax return. Recent international experience has clearly demonstrated that this is neither a sustainable nor a desirable model.

As with self-assessment more broadly, the introduction of VAT has seen the emergence of a new approach to tax audit in Anglophone Africa. A new department was typically created to launch VAT, with new staff recruited, including graduates and others with private sector experience. To some extent, this mitigated against old income tax assessment habits, and allowed the introduction of new concepts like issue-oriented audits. The downside however was the lack of integration between VAT and other tax audit activities until explicit integration initiatives like an LTO were attempted. Although VAT led to improved audit approaches, over time these dissipated in many countries as audit effort and resources increasingly were directed to processing and validating VAT refunds, sometimes to the exclusion of all other audit. Risk-based methods have been adopted by some administrations to address this problem, recognizing that 100 percent verification of every refund claim is unnecessary, particularly for taxpayers with a history of satisfactory compliance.

*Improved audit outcomes require more effective management practices beyond just additional and better trained auditors.* Some outdated beliefs still persist that effective taxpayer compliance can only be achieved with sufficient resources for blanket audit coverage. This is unachievable in any environment, let alone in Africa where human capacity is particularly constrained, and where competent and experienced personnel are quickly poached. This is increasingly comprehended by the more progressive revenue administrations that are professionalizing and better managing the audit function by developing audit strategies, annual audit plans, audit manuals, and standardized procedures.<sup>19</sup> In turn, close headquarters oversight is essential, including the monitoring of outcomes against expectations, and adjusting future plans on the basis of results achieved. Huge capacity gaps remain, with shortages of competent auditors observed in almost every Anglophone African country in FAD's experience. Some countries have only a few staff capable of performing serious audit activity. In such constrained circumstances, it is important to maximize the impact of the very limited pool of resources and capacity. Taxpayer segmentation provides an obvious solution so that the best audit resources are targeted where the risks and revenue are greatest, namely the large and medium taxpayer segments. It is illogical to deploy qualified accountants and experienced auditors to local offices dealing with very small businesses at the expense of underresourced and inexperienced LTO staff, a situation that is unfortunately all too often observed.

*Weak filing compliance and arrears management are relatively common, subject to a few large taxpayer administration exceptions.* The best examples of filing compliance and debt management are found in the more effective LTOs where very high rates of filing have been achieved when taxpayer accounts are proactively managed. More broadly however, on-time filing rates are typically poor, often under 50 percent. FAD experience points to many causes, beginning with outdated taxpayer registers that cloud the true situation of which taxpayers are required to file. Excessive filing requirements, particularly for VAT, exacerbates the problem, as less frequent filing for nonlarge taxpayers would liberate more resources to pursue genuine nonfilers. Administrative assessment of income tax often results in large backlogs of unassessed

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<sup>19</sup> Amongst a series of technical notes and manuals (TNM) published by FAD on topical revenue administration issues and best practices, *Revenue Administration: Taxpayer Audit—Development of Effective Plans TNM/10/03* (Biber, 2010) is particularly pertinent for strengthening taxpayer audit capacity.

returns from prior years that distract staff from securing a return for the most recent period. Furthermore, late filing often goes unpunished even though most legislation includes adequate penalty provisions.

IT systems often fall short, in that some do not have the functionality to adequately monitor and react to nonfiling and arrears. Conversely, such system features are often suppressed or ignored following the generation over successive months of many demand letters for missing tax returns of dubious merit or when the administration simply cannot handle the workload. For arrears, common problems include the inability of the system to consistently apply penalty and interest in accordance with the law, and the creation of spurious new debt from automatically generated estimated assessments in response to nonfiling.

*The absence of a single taxpayer account is the greatest impediment to effective arrears management.* Traditional organizational and procedural arrangements have not facilitated a single taxpayer view. Even if tax type departments had effective systems and procedures (which typically were not the case), there was no simple way to consolidate this information. The impact could be embarrassing, with the risk that one part of the revenue administration was pursuing a debt while another was processing a refund for the same taxpayer.

### **Taxpayer services and support**

*There is a growing recognition of the importance of quality taxpayer services.* Earlier beliefs that taxpayers were simply expected to know their tax obligations and how to meet them are giving way to improved services delivered through multiple channels. However, these developments are in their infancy in Anglophone Africa, and the resources deployed for this purpose are often a tiny fraction of the tax administration staff, facilities, and budget resources compared to more advanced administrations. The launch of VAT was often accompanied by higher quality and better designed brochures, guides, and publications. This momentum was hardly sustained, with the credibility of some administrations suffering when stocks were not replenished or when content was superseded. Updating of tax information has generally been inconsistent, particularly as new legislation or other requirements were introduced.

While the English language is a common denominator across these countries, domestically, many countries are obliged to produce material in multiple indigenous languages. Diverse literacy and education levels necessitate innovative methods to deliver key messages that some administrations have become quite adept at, including through the use of school curricula, workshops, road shows, and electronic media such as radio and television.

Many administrations now have websites, varying from outdated static general information through to more dynamic tools, but with very few examples that support online taxpayer interaction for electronic filing, payment, or account visibility. A few countries have instituted toll free call centers to respond to taxpayer questions. Provided taxpayer confidence can be secured, this channel has considerable potential given the explosive growth in mobile telephony across Africa which also provides opportunities for enforcing filing and debt compliance such as sending reminders to file or pay by text message.

*New channels will not fully displace the importance of face-to-face taxpayer services delivered by local office staff.* Many administrations have invested heavily in sprucing up taxpayer service facilities given the “face” this provides of the administration. While improved facilities and a professional office environment are conducive to better taxpayer relations, the most critical component is the quality of the advice and information dispensed, and the adequacy of the systems and procedures that make it possible. To this end, consistent policy and messages are

needed, necessitating an effective head office taxpayer service function. In practice, the approach varies. Many Anglophone African RAs treat taxpayer services and education as a corporate function along with public affairs, typically reporting to the chief executive. However, there is a stronger argument for the tax and Customs administrations to have full responsibility for their own taxpayer/trader service function within their respective organization. As poor taxpayer services have adverse consequences on compliance, audit, dispute resolution, and other tax administration functions, the best way to ensure full accountability is to have all functions reporting to the tax and Customs commissioners, respectively.

*Disputes are inevitable in all tax regimes, but their effective resolution in Anglophone Africa is relatively poor.* For a few West African countries, there is no functioning dispute resolution mechanism, even when provided by law. In some other countries, the mechanisms are in place, but remain unutilized, either through administrative hurdles or perceptions of insufficient independence or relevance. Some administrations even criticize the external appeals function for lack of competence and objectivity. These shortcomings may simply reflect perceptions of the legal system and judiciary more broadly in the respective countries.

Internally, there is much that a tax administration can do to bolster the first stage of dispute resolution. Depending on local laws, objections, or requests for administrative review should always be considered by tax officials independent of the original assessment or audit, although their input and views must of course be included. Despite the obviousness of this point, quite a few administrations allow the case to be considered by the original officials. Within reason and limits, findings in favor of the taxpayer should be considered normal, otherwise taxpayer confidence in impartiality and objectivity will remain elusive. Objection outcomes provide important feedback for tax administration. They point to interpretive, administrative, and procedural deficiencies with an opportunity for corrective action. Where recurrent shortcomings are found in taxpayer services, audit, or compliance enforcement, management has an opportunity to rectify the detected problems. Advance tax rulings and interpretations provide a preemptive measure to minimize future disputes and to provide greater predictability and certainty for taxpayers, but are not particularly developed in Anglophone Africa with a few exceptions like Mauritius and South Africa. A rulings and interpretation program could best be piloted in an LTO where the demand and need is likely to be greatest.

## V. VAT IN ANGLOPHONE AFRICA

This section briefly describes the journey since the early 1990s along the road of VAT implementation and administration in Anglophone Africa. VAT swept the continent as it has elsewhere around the world, with 15 of 19 such countries now depending on VAT as a major revenue source, with expectations of its adoption in the remaining four countries. As Kreyer observes (2008), *the modern VAT can provide an ideal environment for establishing a modern efficient tax administration.*

### A. History of VAT in Anglophone Africa

*Of 19 Anglophone African countries, 15 have implemented a VAT, the earliest in 1990 (Kenya), the most recent in 2010 (Sierra Leone).* The three major economic powerhouses of Africa were the first to introduce VAT, namely Kenya (1990), South Africa (1991), and Nigeria (1994). Zambia and Ghana can be considered with this group of early adopters, both launching VAT in 1995. However, Ghana's first attempt was short-lived with its repeal three months after its March 1995 implementation for reasons discussed later, but successful on its second attempt in 1998.

A second wave of countries benefited from the experiences of the first group, including Uganda (1996), Mauritius and Tanzania (1998), and Namibia and Malawi (2000). Given the trend and relatively positive outcomes, usually by regional neighbors, the third and most recent wave of VAT implementations comprised Rwanda (2001), Botswana (2002), Lesotho (2003), Zimbabwe (2004), and Sierra Leone (2010).

*A move to VAT is anticipated in the four remaining countries.* Swaziland has announced intentions to launch VAT, but first aims have its RA operational that was intended sometime in 2010. Seychelles has plans for a 2012 VAT launch, and to meet its regional ECOWAS obligations, The Gambia expects to launch VAT in January 2013 leaving only Liberia to begin its expected moves toward VAT implementation.

A revenue mobilization objective often underpinned the move from narrowly-based predecessor sales or turnover taxes to a more broadly-based VAT. Furthermore, trade liberalization through expanding bilateral and multilateral arrangements often accompanied by tariff reforms necessitated a greater emphasis on domestic revenue. Given the attractiveness of its economic efficiency, VAT was usually seen as the ideal vehicle for this purpose, notwithstanding challenges to launch and sustain its effective administration. A few countries such as South Africa sought revenue neutrality in the adoption of VAT, as does Seychelles for their forthcoming VAT given a relatively high tax-to-GDP yield. In many instances, revenue enhancement resulted, sometimes impressively so. Revenue outcomes in a few countries were disappointing, with considerable potential for improvement by addressing design deficiencies and from strengthening administration.

### **B. VAT Rates and Productivity**

*A single VAT rate is now standard, varying from 5 to 18 percent, and averaging 15 percent* (Table 6). A doubling of Nigeria's 5 percent rate was contemplated but unsuccessful. Some of the early VATs had multiple rates, but this is now uncommon following rate rationalization. A few countries currently include zero-rating of some domestic consumption, and with the exception of Nigeria until recently, exports are universally zero-rated. The use and abuse of exemptions varies widely.

*As a percentage of GDP, the yield from VAT (see Table 6) ranges from 1.2 percent in Nigeria to 7.7 percent in Lesotho.* Given the differences in rates, exemption and zero-rating policies, and administrative effectiveness, the productivity ratio<sup>20</sup> provides a better comparator, ranging from 21.8 for Uganda to 53.8 for South Africa, and 54.7 in Lesotho. The developed-economy characteristics (at least with respect to VAT) probably account for South Africa's performance in terms of both GDP and productivity ratios. Lower performing VATs typically suffer from both design and administrative deficiencies. Excessive exemptions and weak administration clearly reduces productivity. Conversely, measures such as withholding mechanisms (particularly pervasive in Kenya) and unavailability of refunds (Nigeria) increases productivity, but to the detriment of the design intentions of a "good" VAT.

### **C. Organizational Approaches to VAT Administration**

*A slight majority of countries implemented an RA prior to VAT launch.* The exceptions were Botswana and Mauritius who implemented VAT in 2002 and 1998 respectively but launched their

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<sup>20</sup> The VAT productivity ratio, sometimes also called the efficiency ratio indicates from a backward-looking perspective the percentage yield in revenue for each 1 percentage point of the VAT rate. For example, a ratio of 50 implies a 1 percentage point of the VAT rate produces revenue of 0.5 percent of GDP.

**Table 6. Selected Anglophone African VAT Statistics**

Country	Year Launched	Standard Rate	Threshold (local)	Threshold (US\$) 1/	Registered Taxpayers	06 Yield (% GDP)	Productivity Ratio-2006
Botswana	2002	12	P 250,000	34,014	10,250 (2005)	3.5	44.0
Ghana 2/	1998	15	GC 100 m	9,453	21,980 (2009)	5.6 (2004)	45.2 (2004)
Kenya	1990	16	K Sh 5 m	62,775	54,002 (2006)	5.6	35.0
Lesotho	2003	14	M 500,000	57,564	1,500 (2003)	7.7	54.7
Malawi 3/	2001	16½	MK 6 m	42,673	4,825 (2009)	5.6	32.0
Mauritius	1998	15	MUR 2 m	68,291	7,273 (2004)	7.1	47.3
Namibia	2000	15	N\$ 200,000	23,026	17,453 (2005)	6.2	41.5
Nigeria	1994	5	Zero	-	136,000 (2004)	1.2	24.3
Rwanda	2001	18	RF 20 m	34,826	3,229 (2009)	4.3	23.9
Sierra Leone 4/	2010	15	SLE 200 m	51,948	1,500 (2010)	-	-
South Africa	1991	14	R1 million	117,673	578,138 (2005)	7.5	53.8
Tanzania	1998	18	T Sh 40 m	30,180	9,318 (2005)	4.4	21.9
Uganda	1996	18	U Sh 50 m	26,251	8,217 (2010)	3.9	21.8
Zambia	1995	16	ZK 200 m	38,596	8,660 (2008)	4.6	26.1
Zimbabwe	2004	15	US\$60,000	-	7,350 (2009)	-	-

Source: IMF.

1/ Converted at annual moving period average for 2009.

2/ Attempted VAT launch in 1995 repealed three months after start. Second attempt in 1998 successful.

3/ Predecessor surcharge transformed to a VAT and extended to retail level in 2001.

4/ Introduction too recent for yield and productivity results.

RAs in 2005, and the first wave countries of Kenya (VAT in 1990, RA in 1995) and South Africa (VAT in 1991, RA in 1997). The lag between establishing an RA and launching VAT ranges from one year (Lesotho, 2002; Malawi, 2000; and Zambia, 1994); two years (Tanzania, 1996); three years (Rwanda, 1998, and Zimbabwe, 2001); five Uganda (1991); to seven years (Sierra Leone, 2003). VAT is planned for 2012 in Seychelles (RA in 2008); in 2013 in The Gambia (RA in 2006); and at some future point after Swaziland's RA that was established in early 2011.

*A new organizational entity usually accompanied the introduction of VAT.* The administration of VAT and income tax was never fully integrated from the start in any of the 15 countries. Possible reasons may have included concerns about the ability of more traditional and administratively-assessed income tax administrations being able to cope with the self-assessment requirements of VAT with filing and payments occurring far more frequently. New concepts and tools, such as computer systems were needed for a successful VAT, which may have been perceived to be more safely introduced by a new entity (often with a mostly or entirely new workforce) rather than the transformation of an existing one.

With the exception of Zimbabwe, a new VAT division or department was created each time, including within the department responsible for administering income tax, such as the Inland Revenue Departments in South Africa and Namibia. Those that implemented VAT after first establishing an RA created a new VAT department/division from scratch (Lesotho, Rwanda, Tanzania, Uganda, and Zambia).

Malawi and Botswana however chose to initially emulate the British model by vesting VAT administration in a division of their Customs departments. More recently, the VAT division was moved to the Internal Revenue Division after the creation of the Botswana Unified Revenue Service (BURS) in 2005, and VAT administration was moved from Customs to a new RA department in Malawi when the VAT was extended to the retail sector in 2001.

*Maintaining separate VAT and income tax administrations is costly and inefficient.* Even where VAT and income tax administration sits under the same roof of an RA, coordination of activities, resources, or information is often weak or nonexistent. As discussed in more detail in Section IV, separate VAT and income tax departments resulted in a duplication of facilities, offices, and systems, causing considerably higher administrative costs to government and a greater compliance burden and cost to taxpayers. Information was rarely shared and activities such as audit and enforcement occurred in isolation without coordination, perhaps from a lack of appreciation of the benefits and cost savings. Operating in isolation, there was little impetus to provide a holistic picture of the taxpayers. As a result, IT systems (where they existed) were islands, a serious problem that continues to bedevil many tax administrations, even those that have moved to integrate.

The “tax type” organizational model that has been so prevalent in Anglophone Africa has provided exploitation opportunities for unscrupulous taxpayers, and has been a reputational risk such as from refunds being released for one tax while a debt for another tax is outstanding. Audits were often uncoordinated, or even concurrently instituted against the same taxpayer for taxes administered by different departments of the same organization.

*Full integration of VAT and income tax administration is the “way of the future.”* Few other regions of the world exhibit the Anglophone African penchant for separate VAT and income tax administrations.<sup>21</sup> However, this model is now changing, perhaps accelerating since the United Kingdom, the source of much of the reform inspiration in Anglophone Africa moved to integrate its tax administration in 2004. The move to integrate is often challenging given that the VAT and income tax operations are often based in physically different facilities and locations. Several countries have now moved to a single domestic tax administration that incorporates an integrated approach for both VAT and income tax, including Kenya (2004), Uganda (2005), Nigeria (2005), and Rwanda (2006). Notwithstanding this clear trend, Sierra Leone launched its VAT (called GST) in January 2010 in a separate administrative unit but with plans to integrate at least within their LTO (initially) once VAT administration has stabilized.

#### **D. VAT Registration Thresholds and their Administrative Impact**

*Although registration thresholds apply in all countries except Nigeria, they vary significantly.* Several countries have comparatively high registration thresholds (Kenya, Mauritius, Lesotho, and South Africa) in U.S. dollar terms. Many thresholds have declined since being set or adjusted through depreciation of local currencies to the US dollar, but a few outliers remain very low (Ghana until late 2010). Notwithstanding the absence of a registration threshold in Nigeria, administrative capacity constraints limit VAT registration and compliance enforcement of the smallest traders. This is exacerbated by a division of tax administration responsibility between the

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<sup>21</sup> Except perhaps Anglophone Caribbean countries where VAT implementation since the mid-2000s has mostly followed the Anglophone African approach of initial administration by a new VAT organizational unit separate from income tax, notwithstanding the small scale of most of the island economies and administrations.



federal and state jurisdictions. Most unincorporated entities (likely to be the majority of small traders) are subject to state income tax administration, while VAT is administered by the FIRS for all businesses.

An excessively low threshold contributed significantly to the failure of VAT on the first attempt in Ghana (1995) at an initial level of Ghanaian cedis (GC) 25 million (then around US\$14,000). A similar outcome almost arose in Uganda in 1996 when the initial threshold of U Sh 20 million (then around US\$20,000) was quickly raised to Uganda shillings (U Sh) 50 million (then around US\$50,000) where it has remained unchanged since, but is now equivalent to US\$26,251. Registration thresholds of most of the longer standing VATs have been increased, however sometimes not even managing to maintain parity in U.S. dollar terms. A few examples and the relative impact in U.S. dollar terms include:

- South Africa's 1991 threshold of R 150,000 previously doubled and then was increased to R 1 million (around US\$118,000) in March 2009.
- Learning from the mistake of its first attempt to introduce VAT in 1995 with a threshold set too low, Ghana began with a much higher threshold of GC 200 million (then around US\$80,000) in its 1998 implementation, but in 2001 reduced it to GC 100 million (then US\$14,000) to broaden the tax base, which has now further depreciated to around US\$9,453 but was due to rise to GHS 90,000 in late 2010.
- Beginning at K Sh 200,000 (then about US\$ 8,300) in 1990, Kenya has raised its threshold several times, including from K Sh 3 to 5 million in 2009 (now US\$62,775).
- While equivalent to US\$30,000 in 1994, Zambia's original threshold of ZK 40 million had eroded to just US\$8,000 by 2001 when it was raised to ZK 200 million (now US\$38,596).

Most of the second and third wave of countries have not adjusted their VAT thresholds since implementation with the exceptions of Tanzania (doubled from T Sh 20 to 40 million in 2004, but changing in relative terms from US\$20,900 to US\$30,180) and Rwanda (from RF 15 to 20 million in 2009 (now US\$34,826)).

*Some countries mandate VAT registration for certain sectors regardless of turnover.* Turnover thresholds do not apply in Ghana, Kenya, Mauritius, and Uganda for certain categories of professional services and some industries that obligate any active person or business in such a prescribed sector to be registered for VAT. The rationale is typically that a viable business in one of these fields will have turnover above the registration threshold and a belief that the nature of the activity will facilitate reasonably easy record-keeping and compliance. Experience has however shown that overriding the threshold can lead to a bloated VAT taxpayer register, lesser taxpayer compliance than expected, and considerably greater administrative effort for little revenue gain. Risk-based audit strategies may be a more appropriate response to deal with notoriously noncompliant sectors rather than blanket registration obligations irrespective of turnover.

*Voluntary registration is usually permitted, and often accounts for a large portion of the VAT register.* Legislation in all countries stipulates the rules of the game in terms of record-keeping and invoice issuing. Businesses below the compulsory registration threshold are usually allowed to register if they commit to meet these requirements. Zambia however was an exception where voluntary registration was eliminated in 2001 in conjunction with a threshold increase but

reintroduced in 2007.<sup>22</sup> On the other hand, some countries may impose a minimum turnover level for voluntary registration, such as R 50,000<sup>23</sup> in South Africa. If set at a reasonably low threshold, the administrative cost savings probably outweighs the discriminatory practice of excluding a group of the very smallest businesses from VAT.

### **E. Selected VAT Administration Issues**

*VAT administration was usually organized along functional lines.* This was particularly evident where TA was provided prior to VAT implementation, often through British assistance from the DFID (and its predecessors) such as in Ghana, Malawi, Rwanda, Tanzania, Uganda, Zambia, and most recently, in Sierra Leone. Although there are variations that emphasize different functions and combinations of functions, most administrations are organized by the core functions or activities of: (1) taxpayer services; (2) tax accounting, namely payment and filing processes; (3) management of nonfiling and debt compliance; and (4) taxpayer audit.

For most countries, taxpayer services and audit typically received heightened attention in the lead up to VAT implementation and in the first few years. Development of brochures and educational material was necessary along with advisory visits to inform taxpayers about record-keeping and invoice requirements, and the self-assessment obligations that usually did not apply for existing income tax regimes. Over time, a diversion of resources and emphasis eventuated in some countries. As the VAT bedded down, taxpayer services sometimes slipped to the relatively low importance enjoyed (or suffered) by income taxpayers. A diversion of audit resources to refund verification and processing is commonly observed and probably symptomatic of insufficient audit capacity for effective administration, and as filing compliance deteriorated, particularly due to unreliable and outdated taxpayer registers, resources increasingly had to be devoted to pursuing non-filers, and in some countries, to the generation of estimated assessments.

*Customs administration has had a pivotal role in VAT administration.* The majority of net VAT revenue in most Anglophone African countries is collected against imports by Customs. Given that refunds are typically netted from domestic collection results, the contribution from imports is typically overstated versus a percentage of gross collections, but nevertheless is still very significant. The role of Customs is crucial in the collection of both revenue and information about importers, the value of their imports, and the VAT collected. Equally, or perhaps even more important is the collection of export information needed for the verification of refund claims. A well functioning VAT regime requires a synchronization of procedures and systems to facilitate the sharing of information between the Customs and tax administrations. This normally entails use of a common identifier and the exchange of data between the IT systems of each administration referenced by the identifier. While standard taxpayer/trader identifiers are common, the automated exchange and cross-matching of import/export data against VAT returns is surprisingly uncommon notwithstanding the relative ease of establishing such an interface between generally used IT systems such as ASYCUDA. Most countries have failed to properly exploit the benefits of having both the tax and Customs administrations under the single roof of an RA, and the failure to systematically exchange Customs and domestic VAT information has even existed in the few countries that initially vested Customs with the entire VAT administration.

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<sup>22</sup> Denial of voluntary registration especially for firms that can demonstrate adequate record-keeping and compliance with VAT requirements could penalize exporters who are below the threshold and those firms supplying to registered traders.

<sup>23</sup> Increased from R 20,000 in March 2009.

*VAT workloads and staff and other resource needs are dictated by filing/payment periodicity and taxpayer numbers*, which are dependent on the registration threshold and the proclivity for voluntary registration when allowed. With just a few exceptions, taxpayers are obliged to file and pay monthly, with no differentiation for taxpayer size, turnover, or revenue contribution that many VAT regimes outside the region provide. Except for Nigeria and South Africa which have VAT taxpayer populations greater than 100,000, VAT registers in the other countries range from a few thousand to tens of thousands (Table 6). Given exemptions for small business (via a threshold) and for certain sectors (e.g., banking and finance), the wider taxpayer population is often several multiples more than the VAT population. Additionally factoring the greater complexity of income tax regimes that are often administratively assessed, it is not unusual to observe ratios of 1.5 to 2 times more staff to administer income tax compared to VAT in the absence of integration.<sup>24</sup>

*VAT often heralded the first major use of tax administration IT systems*. Prior to the 1990s, few tax administrations in Anglophone Africa had IT systems, or where they existed, their functionality was limited, such as to a taxpayer register or generation of revenue statistics. Both hardware and software were expensive luxuries few administrations could then afford. However, most administrations believed an IT system was a critical requirement for a successful VAT launch to provide a reliable taxpayer register and the tools to process and monitor a steady stream of monthly self-assessed VAT returns. For resource constrained and inexperienced administrations, the start-up costs and technical challenges were often mitigated by donor support and TA. The *VAT Information Processing System (VIPS)*, a proprietary software package of the British firm *Crown Agents*, was implemented to support the start of VAT in Ghana, Lesotho, Malawi, Tanzania, Uganda, and Zambia, although most of these countries have now shifted to alternative IT platforms. Bespoke systems have been utilized by Mauritius, Kenya, initially Rwanda, Seychelles, and South Africa, and more recently in Uganda.

*Special purpose VAT registration numbers are the norm*. Notwithstanding the advantages of using a single TIN to identify a taxpayer for all taxes they are registered for, every country with one exception uses a separate VAT identifier in addition to at least another universal TIN, or in some instances, separate registration numbers for each tax type. A separate VAT identifier was necessitated by VIPS that was typically implemented in conjunction with British support and TA. Never being a VIPS user, Botswana uses a single TIN for all tax types including VAT.

## F. VAT Refunds

*The importance of VAT refunds is critical to ensure that only final consumption is ultimately taxed*. The need for refunds arises when a taxpayer's VAT obligation on their outputs is less than the VAT credit for their inputs for the period. This occurs when the VAT rate on inputs exceeds the output rate, a situation that should usually be limited to zero-rated exports (and occasionally local consumption, but depending on the markup), and desirably not from multiple domestic rates. Businesses that export their production are invariably always in credit and hence in need of regular refunds. In the long run, businesses that do not predominantly make zero-rated supplies should on average have debit balances and hence VAT liabilities rather than credits. Otherwise credit balances may result during periods of inventory buildup when purchases exceed sales, or when major capital assets are acquired.

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<sup>24</sup> In a sample of countries where VAT and income tax administration was not integrated, the ratios of staff for the former against the latter were: Botswana, 150:260 (2004); Kenya, 454:712; Malawi, 146:273 (2007); Mauritius, 208:396; Rwanda, 86:170 (2004); and Zambia, 191:334 (2006).

*Although refunds are a critical component of an effective VAT regime, the volume and value of refunds by most African countries is relatively low.* Harrison (2005) noted that refund levels vary from region to region, being highest in advanced economies where the refund of 40 percent or even more of gross collections is common. For various reasons, levels are much lower in developing countries, and for Africa generally (excluding South Africa at 39.5 percent, Zambia at 38 percent, and Mauritius at 21.5 percent) averaging only 6 percent of gross VAT collections over the period 1998–2001, and at the extreme, zero in Nigeria.

Various factors contribute to low refund levels in most of Africa, some by design, and others by default or practice. First, a country's economic characteristics are critical, with the need and demand for refunds greatest in the more open trading economies, particularly those with significant exports. Tax and administrative policies may limit the need and availability of refunds. Two pragmatic measures commonly observed are: (1) a system to defer the collection of VAT on imported capital goods to avoid the need for an immediate refund of the VAT collected; and (2) requiring taxpayers other than exporters (who may be eligible for immediate refund) to carry-forward credit balances either indefinitely for offset against future debits, or until a qualifying period when a refund application may be considered.

*Refund volumes are dependent on available financing and the mechanism for release.* A few countries (e.g., Zambia) that finance refunds directly from gross receipts tend to have a more efficient refund apparatus than the majority of countries where refunds are made against an annual appropriation. To avoid disincentives against making timely and legitimate refunds, it may be prudent to measure tax administration performance against gross rather than net revenue targets to minimize the risk that refund flows will be artificially suppressed to meet flagging collections. This would have to be balanced against the counter-risk of insufficiently addressing fraudulent refund claims and credit balances. To ensure the robustness and efficacy of the system, separate quantity and quality performance measures are needed for the refund process.

When the demand for refunds exceeds the supply of finance, administrative measures are often employed, sometimes instinctively to ration the scarce funds. On the other hand, and quite perversely, excessive credit balances sometimes attract little or no scrutiny but have the same adverse impact on government revenues as the issuance of refunds. Sometimes the rationing mechanisms go well beyond the measures necessary to validate the legitimacy of refunds, often calling for excessive documentation requirements to support every transaction, and mandatory audits regardless of the risks involved and the past compliance history of taxpayers. With such measures contributing to refund paralysis, some Anglophone African tax administrations are increasingly applying risk-based refund processes, with at least an initial emphasis on expediting the claims of exporters with sound compliance patterns.

*For some countries, the VAT audit program has been dominated by refund processing.* With audit capacity constrained in most Anglophone African administrations, coverage needs to be targeted. Audit strategies and plans should be developed on an assessment of the greatest risks to compliance and revenue and where maximum effectiveness of the audit resources can be achieved. Policies that necessitate the scrutiny and audit of every VAT refund claim however severely undermine sound audit programs, often degenerating into a function that is exclusively limited to examination of refund claims to the detriment of broader audit objectives.

*While relatively uncommon, VAT withholding mechanisms have had an insidious impact in a few Anglophone African countries.* Inspired by poor taxpayer compliance and perhaps an inability to administratively address them, a few countries have employed VAT withholding arrangements,

where the payer of goods or services withholds the VAT from the invoice payment and is then liable to remit it to the tax administration, for which the supplier may claim a credit.<sup>25</sup> These have sometimes begun with the VAT being withheld from payments made for services and goods provided to government, and then extended more broadly to many commercial transactions. Such arrangements have progressively been expanded in Kenya in recent years with impressive improvements in gross VAT collections. Consequently, the demand for VAT refunds has ballooned, with the financing of refunds (via appropriation) and the verification and approval process struggling to keep pace. Over time, such arrangements can transform the VAT from a tax on consumption to a tax on production, and result in administrative efforts being diverted to credit verification, refund processing, and compliance enforcement of withholders rather than the core administrative functions of an effective VAT regime.

### G. Some VAT Observations

*Anglophone Africa joined the VAT phenomenon gradually in the early 1990s, building up momentum over the decade, and reaching wide coverage within 15 years.* Two key VAT administration features dominate the Anglophone African experience, namely: (1) the universal creation of separate VAT departments/divisions for its implementation and administration; and (2) the prevalence of the RA model to house the VAT administration along with income tax (separately) and often Customs administration. For the former, English may provide the common thread, and ties to a British legacy of separate administration, particularly given the complete absence of this model in Francophone Africa.

*Many positive VAT design features are observable across the 15 countries, including an emphasis on a single rate and zero-rating in most instances limited to exports.* Exemption policies vary widely along with productivity. While capacity and organizational factors significantly impact administrative efficiency, inappropriately set or overridden thresholds and excessive filing/payment obligations stretch tax administrations unnecessarily. With the exceptions of Mauritius, South Africa, and Zambia, VAT refunds levels are very low in Anglophone African countries, in some cases intentionally through deferral mechanisms on imported capital goods and quarantining of credits for nonexporters. Inadequate financing for refunds also accounts for this phenomenon, either directly with long waiting lists of approved claims, or indirectly by rationing through administrative measures that go beyond the verification of claim legitimacy. The pressure for refund increases from VAT withholding, in addition to undermining the characteristics and advantages of a VAT regime.

*VAT has proven to be an important revenue source for all countries that have adopted it, often being generated from a relatively small pool of taxpayers.* Closer examination of VAT taxpayer populations reveals a common pattern that a very small pool of the largest taxpayers in turnover terms contributes the lion's share of revenue. As previously noted, many countries have grasped the importance of this concept by instituting special administrative arrangements for large taxpayers to secure and safeguard this critical revenue source as well as to pilot new arrangements

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<sup>25</sup> While there may be a logical argument in favor of withholding and remitting VAT on the margin (i.e., only on the difference between the supplier's outputs and inputs for the transaction) for example, with a 10 percent VAT and a VAT-exclusive input price of 100 and a VAT-exclusive sale price of 150, the VAT withheld by the purchase could be 10 percent of the markup ( $150 - 100 = 50 \times 0.10 = 5$ ), rather than 10 percent of the sale price ( $150 \times 0.1 = 15$ ). VAT withheld at the full sale price will invariably lead to a credit situation for the supplier similar to an exporter given that credits will arise from both the supplier's inputs as well as outputs, particularly if the withholding arrangements are widespread.

such as integrated administration, simplified procedures, and modern IT systems. Accordingly, the legacy of separate VAT and income tax administration is breaking down, usually beginning with an integrated LTO that leads to full integration of the entire administration, of which the LTO is an important component.

## VI. CONCLUSIONS

*Since the early 1990s, almost every Anglophone African revenue agency has pursued some type of modernization program.* VAT was the impetus in many countries, in areas such as self-assessment, process simplification, and the first major automation attempts.

*Revenue enhancement has been a dominant reform objective for most Anglophone African countries.* Tax collections across Africa have risen from 15½ to around 17 percent of GDP over the decade, mostly attributed to resource sector revenues, with considerably flatter outcomes in their absence. For Anglophone African countries specifically, overall collections were up in 15 of the 19, with more than half growing by at least 3 percent of GDP. Two of the four countries with lower tax collections were due to economic crises.

*Progress in revenue administration reform in Anglophone African countries since the early 1990s has been positive albeit mixed, but coming from a generally low base.* Countries with stronger economic and resource capacity such as South Africa have made considerable progress. Rwanda additionally stands out as a success story, even more so in its post-conflict nation rebuilding efforts.

*The use of TA, including FAD guidance, and downstream donor reform financing has been important.* With the exception of a major multidonor project led by the World Bank in Tanzania, Britain has been the largest donor and provider of TA for revenue administration reforms. Other important contributions have been made by Denmark (DANIDA), Germany (GTZ), Ireland, the Netherlands, Sweden (SIDA), and the United States (USAID, the U.S. Treasury, and the Millennium Challenge Corporation).

*The dominant RA model has been broadly perceived as positive.* Whether this has contributed, distracted from, or even hindered enhanced revenue mobilization is an issue for further research. The drive since the 1990s to launch RAs seemed predominantly targeted at endemic HR problems and staff productivity and integrity. The anecdotal evidence supports this contention, which in many cases, has been confirmed through FAD observations. Conversely, some RA initiatives have been disappointing, and in many cases, important reforms were still to be addressed several years after most RAs had been launched.

*Domestic tax administration integration was not an initial priority, but is increasingly underway.* This is vital given the cost and inefficiency of separate VAT and income tax administrations, even within a RA. This contrasts with Francophone Africa where integration is the norm. All Anglophone African countries initially administered VAT through organizational units separate from income tax, but many are now moving to eliminate this inefficiency.

*Modern management practices are increasingly evident.* Senior managers in many administrations are becoming more strategically focused and less reactive to day-to-day operations. This is demonstrated in the development of strategic and corporate plans, and the gradual adoption of performance measures beyond tax collections. An ongoing priority in FAD assistance to strengthen revenue administration has been the emphasis on the need and capacity of an effective headquarters that is functionally structured to give operational direction and oversight. More administrations are addressing this critical issue and challenge.

*Taxpayer segmentation has been an increasingly important tax administration principle.* The majority of Anglophone African countries have instituted some form of office or program focused on large taxpayers, although the early examples had limited success. Reinvigorated and new efforts since around 2003 have had a more positive impact. Further strengthening of the approach is still needed by some countries, while several are yet to even embrace the LTO model despite its near universal adoption elsewhere.

*Segmentation efforts beyond large taxpayers are relatively underdeveloped.* While many countries have a simplified regime or administrative procedures for small and microsize taxpayers, effectiveness is often poor with considerable scope for improvement. Special arrangements for the medium taxpayer segments are in their infancy.

*Self assessment effectiveness varies for VAT, and is particularly weak for income tax.* This is unsurprising given that the critical prerequisites for its success are often absent or underdeveloped.

*Tax administration operations are much improved, but usually from a very low base with substantial strengthening still required.* IT has been mostly overpromised but underdelivered in most reform programs. While most administrations have introduced a well designed TIN, effectiveness has often been compromised through careless practices and poor policies, with many administrations struggling with a taxpayer register with unreliable integrity. Separate VAT identifiers are almost universal. VAT has led to the development of taxpayer audit capacity and modern practices, often from a near zero base. An area for future concerted effort is to strengthen dispute resolution mechanisms that are particularly weak and in some cases nonexistent.

*The VAT phenomenon has unfolded over two decades across 15 of the 19 Anglophone African countries.* VAT was predominantly a response to an anticipated and realized decline in international trade tax revenue as well as an opportunity to improve the collection and inherent inefficiencies of the indirect taxes that it replaced—resultant administrative streamlining and its knock-on effects in domestic tax administration were a bonus.

A single VAT rate is the norm, although a few countries converged much later from earlier implementation of multiple rates. VAT productivity ranges from weak to average with the exception of South Africa (and other SACU countries), indicating that the tax has not yet reached its full potential. Causes are due to design issues (e.g., low thresholds, many exempt supplies) and administrative deficiencies (e.g., poor identification and registration of taxpayers, and enforcement). Properly functioning VAT refund systems are the exception, with audit resources often disproportionately devoted to refund verification with insufficient focus on risk. Notwithstanding the positive contribution that VAT has made to the region over the period in revenue terms and administrative impact, considerably more needs to be done, with untapped revenues and benefits still to be realized. VAT regime improvements and more effective administration and better compliance in many Anglophone African countries can potentially contribute materially to the revenue mobilization agendas being pursued by these nations.

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