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Will Tax Reform Drive Equitable Development in Oil-Dependent Angola?

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RECOMMENDATIONS

- In order to diversify the economy, the government should focus on promoting growth capacity in key industries such as manufacturing and agriculture in parallel with reforms to improve taxation of the non-oil sector. Fiscal incentives should be considered carefully to ensure that the tax system plays a balanced role in creating a business-friendly environment for investment, while generating required resources to reduce oil dependence.
- Tax officials should propose to the executive the establishment of a semi-autonomous revenue authority, independent from the Ministry of Finance, as a means of driving through reforms and minimising political interference.
- The tax reform agenda should include a greater focus on fiscal decentralisation, including implementing new systems and training programmes for local tax administrations as part of a wider strategy of granting municipal governments greater autonomy.
- Parallel internal and external campaigns are required to establish a robust taxpaying culture, reduce evasion, and curb corruption. These should aim to significantly increase public consultation and education over fiscal rights and obligations.

EXECUTIVE SUMMARY

Angola is currently implementing a major tax reform programme, which aims to boost non-oil tax revenue as a means to diversify its economy. Broadening the tax base will play a critical role in reducing natural-resource dependence and vulnerability to international commodity price and demand volatility. Improving revenue collection and redistribution mechanisms also has the potential to strengthen the state's institutions and relationship with society. However, the government has not used its tremendous oil wealth to develop other sectors of the economy or promote social development, leaving the country with a narrow taxable base and an exiguous taxpaying culture. The government faces several other challenges including limited fiscal decentralisation, widespread evasion and corruption, and lack of institutional and legal foundations. Political will for reform is manifest in the administration, but the question remains whether enhanced taxation will help to reconcile the disconnection between Angola's extraordinary macroeconomic achievements and persistent underdevelopment.

CRISIS-DRIVEN REFORM

The 2008/09 financial crisis and subsequent collapse in oil prices is widely viewed as the principal driver for Angola's current tax reform programme. Between 2002 and 2008 GDP growth averaged 14.9% a year,[2] driven by oil revenues that reached $37 billion in 2008. As oil income decreased by over half and GDP growth collapsed to 2.4% in 2009,[3] Angola was forced to rely on $1.4 billion in loans from the IMF, at the time the largest package for any country in sub-Saharan Africa during the financial crisis.

Angola's sudden descent into macroeconomic and fiscal instability exposed the country's acute single-resource dependence and precipitated the establishment of the Executive Tax Reform Project in 2010. The

reform project, which has a budget of $18 million and 300 employees this year, principally aims to boost non-oil tax revenue as a means of diversifying the economy. In addition to reducing dependence on oil revenues, reform targets also include modernising the tax administration and legislative framework to promote private investment.

Since the end of the 27-year civil war in 2002, Angola's outstanding economic environment has generated significant expansion in tax revenues, increasing from $4.3 billion to $46.9 billion in 2012. This growth was predominantly due to oil income, which has constituted an average of 33.9% of GDP over the last decade. However, during this period non-oil taxes have averaged only 6–9% of GDP.[4]

The top-line quantitative goal of the reform project is to increase non-oil tax revenues to 20% of GDP by 2017, up from 6.4% in 2012.[5] This objective is particularly ambitious in its drive for efficiency, given declining growth capacity in the non-oil economy. Although non-oil GDP growth is projected to stabilise at around 6% a year until 2017, the domestic economy is also not currently large enough to support diversification.[6] In this context, the government's fiscal target also implies an intention to undertake significant institutional and administrative reforms to strengthen the capacity of the tax system as a whole.

DIVERSIFICATION AND INEQUALITY

The government has not used its enormous oil revenues – bringing in $18.1 billion in the first half of 2013[7] – to diversify the economy. Oil revenues currently account for half of Angola's budget, and in February 2013 Maplecroft ranked Angola as the riskiest country in the world in terms of economic diversification.

Despite its World Bank classification as an upper-middle-income country and GDP expected to grow at 7% in 2013, exceeding a level of $5,700 per person,[8] Angola remains one of the most unequal societies in the world. Its Gini coefficient – an income distribution measure in which zero represents perfect equality – is 0.586, one of the highest rates of inequality in the world and above the 0.488 rate of Nigeria, Africa's largest oil producer.[9]

In the context of single-resource dependence, enhanced taxation will be imperative for driving diversification to mitigate vulnerability to global oil price and market volatility. Improved fiscal procedures can also help to address persistent underdevelopment, given that tax plays a decisive redistributive role in society. It therefore could serve as a critical means for Angola to effectively address the disconnection between impressive macroeconomic achievements and the well-being of Angola's approximately 19 million citizens, over two-thirds of whom live on less than $2 a day.

However, overhauling the tax system is a politically and administratively challenging task, still considered by the government to be 'ineffective, obsolete, and an obstacle to development'.[10]

ADMINISTRATIVE INTEGRATION

By far the most significant administrative reform process is the merger of the national tax and customs agencies, which are currently separate entities within the Ministry of Finance. This push for efficiency includes modernisation of both revenue bodies, and has already seen integration of common departments, including IT and human resources. Following this, key budgeting and planning processes will be merged and the semi-autonomous offices that manage oil taxes and large taxpayers will be integrated. The second major stage, planned to be completed by 2017, will entail the incorporation of all internal revenue and customs functions into one integrated revenue authority.

The shape that this administration will take currently remains to be seen. However, it appears unlikely that the new administration will take the form of a semi-autonomous revenue authority, a model that has been successfully adopted by over 15 countries in Africa. Although recognising the potential benefits of adopting such a model, including minimising political interference from the Ministry of Finance, leadership in the tax reform project indicates that the possibility of implementing it in Angola is limited by the lack of enabling legislation or a constitutional imperative. The establishment of a semi-autonomous revenue authority in Mozambique, unique in Lusophone Africa, was critically supported by the president, and it appears that determining the best option for

the revenue authority will be a question of political power in Angola as well.

Other administrative reforms that have been implemented recently include a new IT system to enhance compliance and efficiency, 40% growth in the number of human resources, and a comprehensive training and recruitment programme for employees in the tax administration. The project is also preparing for the launch of the Tax Training Institute to address severe human capacity gaps.

In the customs system, administrative reform is part of a wider shift away from capturing trade duties towards more robust border control, and will involve an increase in staff to 2 250 from 1 700. Enhanced enforcement procedures include the introduction of a canine unit and network of laboratories to identify and examine illicit flows of arms, currency, drugs, and livestock. Additionally, with the introduction of scanners and licensing for import–exporters, goods are now moving across the border within 48 hours.[11]

TAX JUSTICE

In terms of legislation, an immediate priority of the tax reform project is to address existing structural inefficiencies and biases, including a distorted incentives regime. Three new tax codes, which were approved by the President's Cabinet Council and passed to parliament on 13 June 2013, introduce significant revisions to the legislation governing the general tax code, procedure, and enforcement – amending laws that date back as far as 1948. The council also recommended the passage of revisions to streamline income taxes and a reduction of corporate taxes to 30% from 35%.

In the last 18 months, a new urban property code has also been passed, which along with other related reforms resulted in $251 million in property tax revenues projected for 2013, more than a five-fold increase from $48.6 million in 2010.[12] In addition, the government is currently executing a new capital gains tax, which extends the scope of the previous law to include previously untaxed securities transactions. Other legislative reforms include a revised stamp duty, which eliminates 80% of previously taxed activities, and a new consumption tax, part of a wider move to establish value-added tax in Angola by 2015.

Reforms to customs legislation indicate a decisively protectionist shift with increased import tariffs for the non-oil sector. For instance, the top rates on imports such as livestock, water, and beer will increase to 50% from 30%. Moreover, incentives for national production will provide full exemptions on consumption and import taxes for priority domestic areas such as primary materials and industrial products. It is expected that a review of customs duties for the oil and gas sector, due to be completed by the end of 2013, will result in a revised exemption schedule and more stringent procedures for companies to file and complete border procedures.

CHALLENGES

One of the greatest challenges to achieving tax reform targets in Angola, and equitable growth more generally, is a severely narrow tax base. As an autonomous source of income for the government, bringing in over $40 billion and constituting 80% of tax income in 2012, oil revenue reduces incentives to broaden the taxable base.

On another level, limited progress in fiscal decentralisation will also inhibit strengthening taxation in Angola. Local authorities have minimal fiscal autonomy, while all municipal tax revenues are collected in the treasury's centralised 'Single Account.' The income these authorities receive from the government to spend on public services is entirely disconnected from the level of taxes they collect.

In practice, the lack of fiscal decentralisation implies an effective disconnection between taxes collected and services provided on a local level. This plays into a further challenge – a weak taxpaying culture – because Angolan citizens need to receive services if they are going to start paying taxes. The government's ballooning oil income over the last decade is incommensurable with progress in service provision, evidenced by one of the highest infant mortality rates (98 per 1 000 live births) and lowest rates of secondary education (31% of the population) in the world.[13]

Furthermore, broadening the tax base requires integrating more citizens into the formal economy and registering taxpaying businesses, which in turn relies on the government putting the case for the value of paying taxes to the Angolan population. The

government's current initiatives to this end have made minimal impact on taxpayer expansion, while the tax reform project's public consultations are limited to 20 people invited to attend twice-yearly meetings overseen by an international consulting firm.

A taxpaying culture is lacking within the government itself as well, as endemic corruption continues to plague public administration and fuel fiscal evasion. Angola is ranked 157 out of 176 countries on the 2012 Transparency International corruption index, while an October 2012 poll showed that 87% of the population considers government corruption to be widespread.[14]

CONCLUSION

Of these challenges, building decentralised fiscal capacity and a taxpaying culture will be imperative for strengthening the tax system as a whole. Most Angolans are not informed on what their rights and obligations are, and the government needs to engage in debate and education. Given that there exists an analogous problem within the government in terms of enforcement and corruption, broad internal and external campaigns should be implemented in parallel to reduce evasion and improve accountability.

Furthermore, the challenges of local taxation would be significantly mitigated by the establishment of *autarquias*, semi-autonomous local governments with a degree of fiscal autonomy. Although Angola's constitutions have conceptualised *autarquias* for over two decades, they have never materialised owing to capacity shortages and the threat that decentralisation poses to the MPLA party's control throughout the country.

In assessing the potential for tax reform to strengthen state capacity more broadly, it is important to consider the extent to which Angola's current legal-institutional framework can leverage the execution of new legislation and administrative procedures. An illustrative example of the environment the government faces is the effective absence of fiscal tribunals, which, like *autarquias*, exist in legislation but have never been implemented. As a result, individual and corporate taxpayers have minimal recourse to make known or rectify fiscal disputes.

Political will for driving through the reform agenda is manifest in numerous arms of the administration, allaying predictions that momentum would wane following economic recovery and the return of oil prices to pre-crisis levels in 2011. However, the availability of easily extractable oil revenues – which are easier to tax than those from other sectors – reduces the urgency to undertake the sweeping reforms needed to diversify the economy and redistribute new income streams to the population.

ENDNOTES

1. Emily Jean Anderson is a PhD Candidate at the London School of Economics, where her research focuses on taxation and statebuilding in Southern Africa.
2. CEIC (Centro de Estudos e Investigação Científica, Universidade Católica de Angola), *Relatório Económico de Angola 2012*. Luanda: CEIC, 2013, p. 216.
3. Angola, MinFin (Ministry of Finance), *Recietas de Petróleo* and *Orçamento Geral do Estado*. Luanda: MinFin, 2008–13.
4. Statistics compiled from MinFin (2005, 2013) and Ministry of Planning (2008).
5. Personal interviews, MinFin, Luanda, 2013; MinFin, 2013, *op. cit*.
6. CEIC, *op. cit*., p. 231.
7. MinFin, 2013, *op. cit*.
8. CEIC, *op. cit*., p. 60.
9. UNDP, *Human Development Report 2013*, http://www.undp.org/content/dam/undp/library/corporate/HDR/2013GlobalHDR/English/HDR2013%20Report%20English.pdf.
10. Diário da República, *Decreto Presidencial 50/11*, I Série, 49, 15 March 2011.
11. Personal interviews, *op. cit*.
12. MinFin, 2013, *op. cit*.
13. UNDP, 2013, *op. cit*.
14. Gallup, *Global States of Mind*, October 2012, http://www.gallup.com/strategicconsulting/158555/global-states-mind-new-metrics-world-leaders.aspx.

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