

**Corporatisation as an instrument for improved efficiency and effectiveness in service delivery: The case of the Zambia Revenue Authority (ZRA)**

**By Mateyo Chresta Kaluba**

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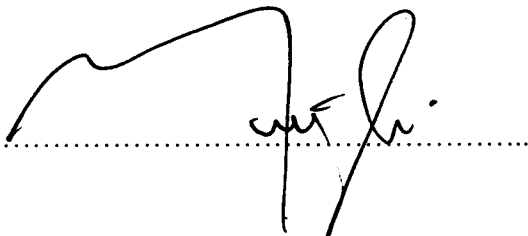


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## DECLARATION

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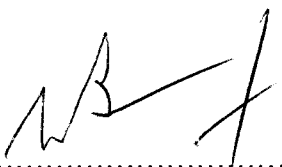
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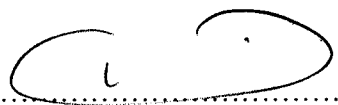
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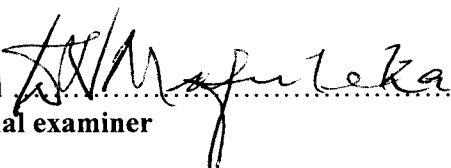
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## CERTIFICATE OF APPROVAL

This dissertation of Mateyo Chresta Kaluba is approved as fulfilling part of the requirements for the award of the degree of Master in Public Administration of the University of Zambia.

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## **ABSTRACT**

As Governments have sought to deliver services more effectively and efficiently to citizens, restructuring government has achieved a new dimension of importance. Traditional government structures organised along hierarchical lines are in some cases viewed as rigid and therefore unable to respond to the changing needs of society. This view to traditional Government structures has led to the introduction of systems and structures in which government functions, responsibilities and powers are being devolved to agencies or statutory bodies that act on their behalf.

One area of Government that has been devolved to statutory bodies has been tax administration. The creation of semi-autonomous revenue authorities has been expected to meet goals of improved tax collections, better service to taxpayers, and more flexible management of tax collection bodies. The argument for revenue authorities has mainly been that they are more effective and efficient than traditional Government structures. However, there have been doubts as to the certainty of these efficiencies especially that their creation has resulted in higher personal emoluments and related costs. The long-term implications of these higher costs on national resources has led to questions being asked on whether or not modern tax collection systems could not be introduced within the mainstream Government system at a cheaper and more efficient cost.

This study therefore, while focusing on the Zambia Revenue Authority, looks into the use of corporate bodies in public service delivery. This is done by analysing key stakeholder perceptions and performance indicators to draw lessons that can be used to make decisions on how appropriate the creation of semi-autonomous corporate structures is as when seeking to improve public service delivery.

## **ACKNOWLEDGEMENTS**

I wish to first and foremost thank God who has been a constant help and guide. This study would not have been possible without his help. I also acknowledge Dr M. C. Bwalya, my lecturer and supervisor who offered invaluable support and guidance which lead to the successful completion of this dissertation.

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Finally I would like to thank my family for their support and encouragement.

## **DEDICATION**

This dissertation is dedicated to my Wife and Son who have been my constant motivation.

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## **LIST OF ACRONYMS**

CG – Commissioner General

GDP – Gross Domestic Product

PAYE – Pay As You Earn

RA – Revenue Authority

VAT – Value Added Tax

ZRA – Zambia Revenue Authority

MOFED – Ministry of Finance and Economic Development

# CHAPTER ONE

## INTRODUCTION AND BACKGROUND

### 1.1 INTRODUCTION

The restructuring of government has been a constant theme since the 1980's as governments have sought to deliver services more effectively and efficiently to the citizens. In some cases, traditional government structures such as government ministries organised along hierarchical lines were viewed as too rigid to respond to the rapidly changing needs of the public and the challenges confronted by government in modern society. This resulted in a trend in which governments devolve power to agencies or statutory bodies that act on their behalf. This is true in both developed and developing countries.

In developing countries, apart from the need to meet goals of improved collections, better service to taxpayers, and more flexible human resource management, there have been additional problems related to low capacity and the need for massive administrative reforms, combined with issues of corruption and non-performance. This made the case for a different form of tax administration structure, convincing to both policy-makers as well as the donor agencies interested in funding tax reforms. This led to the creation and use of Semi-Autonomous Revenue Authorities or agencies.

Revenue authorities have their origins in the Executive Agency model for functions that can be hived off into autonomous agencies. In most developing countries, the model is mainly adopted for central banks. The arguments for the Executive Agency relate primarily to effectiveness and efficiency. An autonomous organization can, in principle, effectively manage its affairs, free from political interference in day-to-day operations and the constraints of Civil Service personnel systems (Delay, Devas & Hubbard, 1998). Semi-autonomous Revenue Authorities are found in many Latin American countries; Bolivia in 1987, Argentina in 1988, Peru in 1988, Colombia in 1991, Venezuela in 1994, Mexico in 1997, Guatemala in 1999 and Guyana in 1999. In African countries Revenue Authorities have been established in Ghana in 1985, Uganda in 1991, Kenya in 1995, Tanzania in 1996, South Africa in 1997, Rwanda in 1998, and Malawi in 2000.

## **1.2 BACKGROUND**

In 1994 the role of tax revenue administration and collection in Zambia was transferred from Ministry of Finance and Economic Development (MOFED) (now Ministry of Finance and National Planning) to a semi-autonomous institution - the Zambia Revenue Authority (ZRA). These functions were transferred from the Department of Taxes, and the Department of Customs and Excise at MOFED. This was done under an Act of Parliament. The Act provides for ZRA to collect customs and excise, direct and indirect taxes. The ZRA was given the responsibility of assessing, charging, levying, collecting and accounting for government revenue in the form of taxes, duties, sales tax and other statutory charges. This is on behalf of the government. The Act established the ZRA as a corporate body with perpetual succession and a common seal capable of suing and being sued in its corporate name, and enjoy all rights and liabilities that the corporate status confers. (Act No 28 of 1993)

The general arguments in favour of these changes were that the hiving off of the two departments from Government and merging them into Zambia Revenue Authority would among others, facilitate improved public service delivery through achieving greater efficiency, cost effectiveness and service quality improvements. The Corporatisation of the departments was intended to allow these bodies to raise wages, shed poor performers while hiring better qualified staff, offer bonuses in return for meeting targets and in most cases operate on a self-financing or self budgeting basis. Other policy makers and tax experts have further viewed the Corporatisation of these departments as being for mere convenience; a way of freeing the tax collection function from the constraints of Civil Service red tape.

The Corporatisation of the Departments of Taxes, and Customs and Excise entailed changing systems from mainstream government to the use of private sector management systems or models and introducing incentives that could not be supported within the mainstream government systems. The expectation was that such an organisation would be better managed and consequently service delivery would be more effective and efficient than the mainstream Government system.

### **1.3 STATEMENT OF THE PROBLEM**

The justification for the approach to corporatise government departments was that such organisations are better managed and provide more effective and efficient service to levels that cannot be replicated or attained within the mainstream Government system. However, concerns have been raised by Government political leaders and parliamentarians and some members of the public on whether or not it is really a worthwhile alternative.

One trend that is raising these doubts has been the growth of salaries and other personal emoluments in corporate entities. These salary increments have been at rates much higher than those for Civil servants. To retain key staff, corporate entities are incurring high personnel related costs which are a source of concern especially with regard to the long-term implications on national resources.

Questions are being raised on the concept of corporatisation and some of the questions being raised include: is the cost of retaining staff higher than that realised through the revenue collection figures? Is the calibre of staff better than that obtaining in Government? Can modern tax collection systems not be introduced within the mainstream Government system? Can the same level of proficiency in tax collection not be replicated within the mainstream Government?

The concerns therefore focus mainly on the costs of corporatisation, both financial and non financial, associated with sustaining these public corporations. These costs have been viewed as considerably high and unsustainable in the long-term. There is, therefore, growing speculation that the same levels of performance can actually be achieved within the mainstream government system at a much lower cost and more effectively.

### **1.4 GENERAL OBJECTIVE**

The main objective of the study was to evaluate the effectiveness and efficiency of Corporatisation of Government departments as a means of enhancing public service delivery.

#### **1.4.1 Specific objectives**

The specific objectives of the study were to:

- (i) Determine whether the creation of the Zambia Revenue Authority has resulted in more efficient and effective revenue collection system for Government.
- (ii) Establish the impediment(s) and benefits (if any) of a Corporatised entity in revenue collection as a public service and how these factors have affected the effectiveness of the Zambia Revenue Authority.
- (iii) Assess the financial and other related costs (if any) of maintaining the Zambia Revenue Authority.

## **1.5 CONCEPTUAL FRAMEWORK**

Corporatisation is a fairly new concept which has developed and grown in use from the late 1990's and its use differs from country to country. Corporatisation has in some cases been interchangeably used to imply commercialisation or privatisation. For the purposes of the study, Corporatisation is understood to refer to a form of economic reform which takes services from the direct control of the government, and places them in the control of semi-autonomous corporations. These semi-autonomous corporations have greater than usual autonomy in areas such as the legal character, corporate governance, budgeting and financing, human resource policies, procurement policy, and accountability affairs.

The rationale for the corporatisation of government departments is to subject Government enterprises to disciplines, incentives and sanctions which are effectively the same as those applying to private business enterprises. Corporatisation as a concept assumes that the private sector disciplines, incentives and sanctions work well and these can equally work well in public service delivery.

To further understand the concept of corporatisation requires identifying and examining factors that could lead to its adoption and use. In understanding the concepts, one would need to consider the theoretical concepts and factors that would lead to the recommendations and use of Corporatisation as a means of improving public service delivery in a country. The focus would need to be on the differences between the Government departments that were responsible for tax collections and the new organisational setups and models that have or may have resulted from the use of private sector models.

In determining the effectiveness and efficiency of the new corporate body or structure developed along private sector models, the parameters within which these two aspects are analysed would have to be predetermined. In this regard, effectiveness would have to be viewed as being the extent to which the establishment of the corporate body has achieved its intended broad objectives as determined when coming up with the organisation. These would include aspects such as whether or not autonomy has been achieved and whether or not the goals of the organisation are being met. Efficiency would relate to the extent to which the establishment of the body corporate has resulted in operations at an optimum cost than what would have been possible in a Government department. It would therefore involve reviewing aspects such as the inputs of human resource, materials, systems, cost structures and the capacity to retain qualified personnel who contribute to organisational efficiency

What could also be important is to observe how the problem of 'Principal versus Agent' is addressed considering that in the case of a public service, such a problem could easily result in a national crisis or loss of political support by those who represent the public, their elected representatives. The approach therefore can be to determine and identify if the 'Principal versus Agent' problem exists and how it can be managed. Thereafter, comparisons would need to be made between the performances of the corporate entity and any performance parameters or measurements that may be in place. A further analysis of the organisational incentives made available to the new organisation and the entire cost structure of the new institution created through corporatisation would be necessary. There would also be need to determine how these cost-structures (both financial and none financial) affect or influence service delivery.

There ought to be recognition that revenue collection is a public service and as a result there are many exogenous factors that come into play from both public and private stakeholders and these factors are likely to have an effect on the effectiveness and efficiencies that may accrue from corporatisation as an ideal for public service delivery. There is need to set aside the exogenous factors that influence revenue collection in general and present a picture in which the focus is the impact of the corporate changes of the organisation resulting from the transformation from a Government department to a semi autonomous institution.

In pursuing the study, it is necessary to take into account the difficulty in obtaining objective public perceptions on the performance of a public revenue collection body as the perspectives are likely to be subjective based on general negative attitudes towards payment of taxes and levies and other matters of personal utility. Thus in addition to presenting information on how corporatisation should be working with regard to the revenue collection function of the state, it is necessary to also present perspectives on whether or not Corporatisation is in itself an ideal concept to be used by all in an effort to improve revenue collection for the state.

## **1.6 LITERATURE REVIEW**

Semi-autonomous revenue authorities may be defined as “tax administrations that have greater than usual autonomy along several organisational design dimensions, including: legal character, corporate governance, financing and budgeting, personnel policy, procurement policy, and accountability relationships” Taliercio (2004:46). This definition presents a generally acceptable definition of semi-autonomy in the sense that it adequately captures what can be observed as resulting from the corporatisation of former Government Departments and constitutes the definition used for this study.

Most of the work that has been done on the study of Corporatisation has focused on the justifications behind the introduction of semi autonomous revenue authorities. Taliercio (2004) in looking at the reasons that forced Governments predominantly in the third world to adopt the corporatisation concept in managing the revenue collection function of Government highlights the pressure from donors as a key influence leading to semi-autonomous revenue authorities. He observes that the issue of political interference in the tax administration seems to be one of the most significant motivations behind donor influence in this area.

Taliercio (2004) further observes that since tax administration oversees all sectors of the economy, having political control over the tax agency can pay high dividends. Politicians could intervene in the agency to grant favours such as tax exemptions to supporters or to harass political opponents through tax audits. The persistent use of the tax agency for political purposes in some countries contributed significantly to eroding taxpayer confidence in the fairness and impartiality of the tax administration in many countries,

which, in turn, undermined compliance. Considering the relative power that Governments predominantly working in one party political environments had on the people, the argument that there was too much political interference on tax administration leading to eroding tax payer confidence is valid. Unabated power by the ruling elite meant that political leaders could use all means available to them to suppress political opponents or merely abuse resources obtained through taxation.

Another argument that Taliercio (2004) cites was the need for broad reforms in taxation aimed at making taxation efficient and effective in terms of improving the calibre of the staff, training prospects and improving systems of taxation. He argues that the broad reforms could not have been achieved without a policy to separate the tax function from the mainstream Government. Taliercio (2004:6) states that "Civil Service systems are often unable to provide the specialized training needed by tax agencies. All of these problems are made worse by the slow, red tape-laden processes and procedures of typical developing country Civil Services. So although the problems of a weak Civil Service affect the whole of government, one can make an argument that those problems are felt much more acutely in the tax administration as compared to most other public agencies". He further argues that the Civil Service is used for political patronage purposes and this necessitates tax administration changes. He cites an extreme example of Bolivia in which it was estimated that three-quarters of the staff of the internal revenue agency were replaced after a change of government in 1997.

This patronage problem, Taliercio argues, is exacerbated in the area of fiscal administration because tax administration, especially customs, is viewed as a prime patronage reward and an important source of revenue for political parties. Patronage-based staff appointments lead to the employment of individuals with little or no experience in taxation, corruption, and high turnover rates. This, to him, is a point very valid for making a case for reforms. Making reference to the Kenya Revenue Authority, which he says implemented staff improvements and reduced corruption, he asserts that various reforms would not have been possible without autonomy. This is a point that must be reviewed carefully before broad conclusions can be made. It may not necessarily be true that without autonomy improvements in staff and reduction in corruption could not have been attained.

Taliercio further contends that in other areas, the more autonomous Revenue Authorities have reasonably low collection ratio (expenditures as a percentage of revenues collected).

Although a fairly valid observation, it is worth noting that the comparison of this ratio between and among countries is fraught with difficulty because of the many exogenous factors affecting the ratio. In the absence of a reasonable premise for comparison across countries, each revenue authority would need to be evaluated first and foremost in its own right, taking on board the situations that are unique to each country.

Kidd & Crandall (2006), in making a case for autonomous revenue authorities, take points of view that are generally in agreement with Taliercio. They point out that the move towards the creation of a Semi-Autonomous Revenue Authority in Zambia and other countries was primarily necessitated by the following:

- (i) The low effectiveness of tax administration and poor levels of compliance.
- (ii) The need for a catalyst to launch broader revenue administration reform such as modernising operations and integrating structures.
- (iii) Impediments caused by poor and rigid Civil Service recruitment, remuneration, promotion, training and discipline policies.
- (iv) Poor communication and data exchange among existing revenue departments [In the Zambian situation, these were the departments of Income tax and Customs and Excise].
- (v) The high perceptions of political or ministerial interference.
- (vi) High levels of corruption.

These observations by Kidd and Crandall are valid to the extent that at the time Governments embarked on these reforms, this was true. For instance, the World Bank (2003) states that in the early 1970s, tax revenue in Zambia amounted to about 30% of GDP, but it had however more than halved over the years and in 1993, the year before the introduction of the semi-autonomous Zambia Revenue Authority (ZRA), it amounted to only 15.3% (: 15). Kidd and Crandall's observation that there was need for a catalyst to launch broader revenue administration reform is therefore valid. Without these reforms, the status quo would have continued unabated and the country would have continued to experience ever decreasing revenue which in turn was affecting the capacity of Government to deliver statutory services. The creation of a semi autonomous revenue

collecting authority was therefore designed to correct the inherent ills in the Departments of Income Tax and Customs and Excise.

In agreeing with Taliercio, Kidd and Crandall (2006:53) observe that “an intuitive leap was made that the Revenue Authority was the best solution to solve these problems and address these deficiencies”. In explaining this intuitive leap, they observe that “the basis of this leap appears to have been, recommendations of bilateral donors and international organizations, practice in neighbouring countries and generic or qualitative evaluations of success in other areas and locations”. This suggests essentially that Governments did not necessarily have to understand what impact revenues authorities would have on their governance systems; rather they merely trusted the views of donors.

Von Soest (2006) contends that the strong case of a semi-autonomous revenue authority was made primarily on the grounds of the poor conditions of service that the officers in the Departments of Income Tax and Customs and Excise had. For instance, he points out that on its inception, the Zambia Revenue Authority (ZRA) paid tax officers on average two- or three-fold the salary they had received while in government. A middle ranking officer at the beginning of 1994 earned K49,000/month and after the launch of the Zambia Revenue Authority, the same employee was paid K140,000. He points out that in addition to increased salaries; the Zambia Revenue Authority provided substantial allowances and benefits. He observes that poor conditions of service in the two departments had dampened the morale of the staff. There was no sufficient remuneration to attract and retain skilled manpower. He cites a Department of Taxes annual report which described the human resource situation as follows: “trained tax officers tend to leave for greener pastures largely because they can be much better remunerated elsewhere or they stand better chances of promotion in other Government organs and hence get higher pay” (Von Soest, 2006:14). He concludes this point by stating that tax officers today belong to the best-paid employees in Zambia and together with the central banks staff, form the administrative elite of the country.

Von Soest makes a further point that another common feature was the constant interference the Tax officials faced in the course of discharging their duties. Interference from Government leaders also added to the inefficiency and lack of effectiveness of the tax administration system. In the 1979 annual report (Cited by Von Soest, 2006:14), the Head of the Department of Customs and Excise noted that “the number of senior people in the

Party and its Government who apparently feel they have immunity to Customs formalities continued to soar... Officers are now working under constant fear of being victimised if they stumble across these officials”. Considering this was a complaint by the department in an annual report, there can be little debate that there was need to put in place measures to clearly separate tax administration from influence of the political leadership.

Von Soest (2006:18) in agreement with other authors also acknowledges the influence that donors had on the push towards revenue authorities and argues that “the creation of the Zambia Revenue Authority not only was a precondition for further donor support but was also in the interest of the new Zambian government. The revenue authority, as other institutional innovations created in the ‘honeymoon period’ of the Chiluba government, acted as a forceful symbol of its commitment to turn Zambia’s public administration around. The addressees of this visible ‘reform barometer’ were both the Zambian population and the donor community”.

Von Soest’s observation that it acted as a forceful symbol for the Chiluba Administration is valid. The policy actions of the Chiluba administration in its early days were characterised by an overwhelming embrace for donor influenced programmes and the implementation of these preconditions by both bilateral and multilateral organisations would have been speedy to prove the administrations capacity to initiate and implement reform. It is generally agreeable that the creation of Revenue Authorities was more an issue driven by donors rather than a concept arising from the realisation by African Governments that they needed to create these structures as the only reform ideal to enhancing the efficiency of the tax administration system.

Mudenda, Ndulo and Wamulume (2005) also agree with other authors on the concerns over inefficiencies in Government departments. They contend that Civil Service procedures inhibited the senior tax officials from being innovative and impaired their ability to make independent decisions. Mudenda *et al* (Ibid) conclude that what prompted the government to set up the semi autonomous Zambia Revenue Authority (ZRA) was the fact that the Government did not invest in the two departments and this resulted in inadequate capacity to collect revenue, administrative bottle necks, poor conditions of service, the low level of discipline enforcement, poor transport and communication facilities, rampant fraud and corruption in the revenue collecting process. While Mudenda *et al* may have a point with regard to the state of tax administration system of the country

at the time; it is unlikely that the issues listed had in their own right a strong influence on the drive towards the establishment of the Zambia Revenue Authority.

It is worth noting that the situation described with regard to the state of the two departments involved in revenue collection was also true of all other Government departments. The issue that arises then is why the two departments were singled out. The justifications on the attention paid towards the revenue collection function may hinge on the fact that the collection of tax function embodies a major government function. It is large in scope being a major employer of civil servants; it enables the funding of expenditure programmes and hence is crucial to the sustainability of any developments in government expenditure; it is the means by which much policy on interpersonal equity, poverty and gender is implemented and it implements the government's monopoly power on the coercive taking of assets from individuals and companies.

Once the case for revenue authorities had been made, the next focus is what is involved in creating revenue authorities and what it entails. Kidd & Crandall (2006) identify the following actions that result from the creation of a revenue authority:

- (i) Pay higher, more competitive salaries in order to attract and retain staff.
- (ii) Have flexibility over pay structures and have freedom to hire and fire, in order to tackle both incompetence and corruption.
- (iii) Have autonomy to manage their operations and their budget in a businesslike manner.
- (iv) Take legal action against defaulters directly rather than waiting for the state prosecutors.
- (v) Integrate tax operations and organise them along functional lines where appropriate.
- (vi) Have a degree of protection from political interference and from budget cuts.

The creation of revenue authorities was seen as a panacea for the revenue collection ills that had dogged tax administration systems. Salaries of tax officials went up; there was most likely a lot of zeal in pursuing defaulters and there were most likely significant donor support in upgrading and computerising systems. However, deciding whether or not revenue authorities are successful is not without its challenges.

Kidd & Crandall (2006) in acknowledging that there are challenges in assessing revenue authorities note that assessments of the performance of Revenue Authorities would need to rely on qualitative inputs and subjective criteria, such as perceptions. The problem with both the qualitative inputs and perceptions is that they can be influenced by factors that may not necessarily be immediately apparent. Kidd & Crandall point out that there are many impediments to this kind of approach and list some of these impediments as follows:

- (i) Data required would be extremely hard to obtain. A very large data set would be needed, and data for the pre-reform period would be particularly difficult to obtain. There is limited scope for a before-Revenue Authority and after-Revenue Authority comparison of the same indicators.
- (ii) Broad indicators used to assess revenue administration performance can be impacted by many exogenous factors. A good example is total revenue collections, where the precise effects of the quality of the revenue administration are difficult to isolate and attribute. That is, one would have to correct for the impact of factors such as the economy in general, the quality of national statistics used, tax policy changes, regional growth trends, oil prices, population demographics, level of political commitment and resources available.
- (iii) The complications to the requirement to exercise considerable judgement about how to isolate the impact or outcomes of the particular governance model that the tax administration is using. Even if performance data, such as revenues collected, audit coverage, debt collected, taxpayer services, and so on, could tell us something specific about the quality of the revenue administration, such data would likely tell us very little about how having a particular governance structure might or might not have led to different outcomes.

The observation that pre-reform data would be hard to obtain is particularly significant as an impediment to making an effective comparison on the performance on Revenue Authorities. Without pre-reform data, the qualities that can be directly attributed to the revenue administration are difficult to separate and ascribe between the old and new organisation, especially that many factors influence revenue collection. Another important consideration in making comparisons is the element of exogenous factors which Kidd and Crandall allude to. For instance, in determining performance vis-à-vis tax collection, issues of the tax base need to be taken on board. If the tax base decreases as a result of

Government policies in other areas of economic policy making or by lowering of taxes, the comparison of revenue collection levels between the former and new organisation would be impossible to make objectively. These challenges indeed make the evaluation of revenue authorities complicated and places evaluations at the mercy of perspectives of organisations or persons undertaking or contributing to the analysis.

Delay, Devas and Hubbard (1998) in reference to the creation of Revenue Authorities observe that there has been little to no cost-benefit analysis undertaken, the disadvantages of the Revenue Authorities are often not considered, and evaluations are seldom undertaken after implementation. It is generally agreed that prescriptions from the International lending agencies espoused in the Structural Adjustment Programmes (SAP) were not subjected to any cost-benefit analysis. Governments had no option but to undertake prescribed reforms and these were normally dictated on a one-size-fits-all basis. Because these measures were dictated to Governments and implemented speedily, it is expected that the changes to the organisational structure and systems were not comprehensive and neither were they designed to address the pitfall of the previous Government tax departments. Furthermore, as indicated earlier, the primary motivation towards the creation of RA's was not primarily that of the Government, but largely a product of the influence from lending agencies and western Governments. With this in mind, cost-benefit of these organisations was never a priority. It was assumed they would work and as such they were expected to work.

The revenue authority concept is not without criticisms. Delay *et al* (1998) highlight a concern on the use of Corporatisation as a public service reform measure. They indicate that using the Executive Agency model has an impact on the wider Civil Service and state that one consequence is the fragmentation of the public service. This has consequences in terms of inter-agency co-ordination and cooperation. In the case of the revenue authorities, this can bring some specific problems. One specific problem that is pointed out is that the higher remuneration within the Revenue Authority "may create jealousies on the part of those within the Civil Service with whom the Revenue Authority has to work: Ministry of Finance, police, immigration, courts, etc, and may lead to a reluctance to co-operate, Delay (1998:43). This reluctance to cooperate, they argue, can jeopardise the performance of the revenue authority, and the pay differentials may make that problem worse.

Delay *et al* also argue that picking off particular institutions may reduce the incentive for wider Civil Service reform, and make the process more difficult. While this concern by Delay and his co-authors is sensible, rather than reduce the incentive for reform, perhaps the problem that is most likely to arise is one where other Government departments agitate to create semi-autonomous structures similar to the revenue authorities but whose primary motivation is the liberty to effect conditions of service outside and superior to those in the Civil Service.

Delay, Devas and Hubbard (1998) also add that revenue authorities can simply fail to deliver on their primary objectives due to the very autonomy that they receive. They illustrate this by using the case of Uganda. The autonomy which protected the organisation from political interference and allowed management to improve performance, also allowed corrupt practices to re-emerge, thereby undermining the performance of the organisation. As a result, the Ugandan Minister of Finance had to step in and remove the Board and some senior staff, in order to get the organisation back on track. Thus, autonomy does not guarantee anything, and an appropriate regulatory environment is still required.

Taliercio (2004) contends that one key challenge in implementing revenue authorities is the Principal Vs Agent problem which also comes into play. He points out that some people have expressed concern that autonomy would reduce accountability and undermine the authority of the Ministry of Finance. He acknowledges that in certain circumstances this might be a legitimate concern and advises that accountability mechanisms need to be built in from the start to safeguard against administrative malfeasance. While a clear distinction of roles greatly assists and reduces tensions based on 'whose job is this', inter-agency politics and power struggles normally transcends simple clarifications on roles. This, he states, is a situation that can lead to undermining of one agency by another. Taliercio (*ibid*), after assessing the experience of Bolivia, Mexico, Peru and Venezuela, accepts that semi-autonomous revenue authorities have been less sustainable than expected but he attributes this to the fact that their autonomous features are undermined, if not eliminated. He argues that the main challenge to the autonomy of the revenue authorities has been the government itself (working through the ministry of Finance) since the very design of semi-autonomous Revenue Authorities gives rise to "dynamic of conflict and competition between the government and the Revenue Authority". While one may argue that the Revenue Authority is primarily a mere collector of revenue that the Government wants collected, it must be appreciated that the interpretation and implementation of tax

measures can be a source of conflict between the Ministry of Finance and the Revenue Authority.

Kidd and Crandall (2006) in adding to the criticism against revenue authorities observe that initially the transition to Revenue Authorities did not appear to have been precipitated by organisational change with the exception of the creation of a board with certain management responsibility for the organization and the creation of common service organizations. They observe that the shift to the revenue authorities model did not appear to lead to new reporting lines, organisational layers or even new types of organization, e.g., functional. Thus with the exception of the creation of the Board and the creation of common support services, there was little real change to the organisational structure with Revenue Authority implementation.

On the other hand, authors such as Mann (cited in Kidd & Crandall, 2006) have taken a more extreme view against revenue authorities by describing them as “unnecessary” organisations whose tax collection functions, given the political will and resources, could be upgraded within already existing departments of the Ministry of Finance. This position by Mann is very plausible considering that as indicated earlier, the revenue authorities were never subjected to cost-benefit analysis and neither were any other options seriously considered by the implementing Governments after the donor conditionalities. It is therefore reasonable to presume that if internal reforms could work for other Government functions, it follows that given the right environment, measures to improve tax administration were feasible outside the use of revenue authorities. Questions on what other countries use therefore arise and perhaps it would have been possible to emulate such countries that do not use the revenue authority model. Taliercio observes that Chile is often cited as the example of this strategy. Chile’s tax administration is among the best in the developing world, yet it is not autonomous. He argues, however, that Chile’s exceptionalism extends far beyond its tax administration since Chile has had a tradition of a more professionally-oriented Civil Service dating from the 19th century, and its tax administration reform program began in earnest in the 1960s.

Another example referred to by Kidd and Crandal (2006) is the Federal Tax Administration of Brazil (SRF) which also operates within the mainstream public service. The SRF is required to apply salary scales that are previously approved by the country’s Ministry of Planning and Budget Management. However, there is a special pay scale that is

higher than the regular Civil Service pay scale that applies only to the SRF and other departments that conduct tax audits. In addition to this basic wage, SRF staff also receive a bonus linked to performance (both individual performance and the collective attainment of revenue targets). This system differentiates the SRF remuneration system from the rest of the Civil Service, and enables the department to recruit and retain quality staff. The SRF staff are hired on the basis of an open competitive exam and as a result the SRF has traditionally had a well established corps of employees, the service has been able to create a culture of professionalism, and has eliminated the practice of political appointments within the organization over the last decade. (Kidd & Crandall, 2006)

While it is true that there are workable alternatives to establishing revenue authorities, Taliercio concludes by advising that the issue of autonomy should not be analyzed as if it were a question of principle. Whether autonomy is desirable or not should be based on an analysis of the expected costs and benefits of autonomy. His position is that if autonomy improves performance, then autonomy yields positive benefits. If autonomy also creates costs, then the benefits should be weighed against the costs. Therefore, the decision that governments must take on the autonomy question should be based on the expected net present value of the revenue authorities' reform. While agreeing with Taliercio on the basis on which revenue authorities should be evaluated, it is, however, establishing this net present value that poses the biggest challenge as mentioned earlier. The basis of establishing this net present value would have to be subject to many factors that are exogenous to the tax collection function such as Government policies and the socio-economic and socio-political environments.

Delay, Devas and Hubbard (1998:49) in their conclusion contend that "while revenue authorities have much to offer (especially where Civil Service management inhibits proper Human Resource management) they are not a panacea, do not prevent political interference, and are no guarantee against incompetence or malpractice, nor is the revenue authority model always necessary, or even the best approach to some of the problems of tax administration, and could inhibit wider Civil Service reforms". Mann (2006) takes a more moderate view to this position and observes that while revenue authorities have not lived up to expectations, they cannot be categorised as having failed. They do, however, he adds, provide a platform from which tax administration efficiencies can be generated although their mere establishment offers no guarantee of success. The view confirms the

need for each revenue authority to be evaluated in its own right taking into account the various socio-political and economic conditions within which they operate.

The conclusions of the various authors add credence to this study. Each country must undertake a cost-benefit analysis of the revenue authority and use that as the basis for whether or not the revenue authority model and indeed Corporatisation is worth holding on to. In view of the inability by previous studies to show a general direct link between the revenue authority governance model and better performance, it follows that this evaluation of the Zambia Revenue Authority was undertaken.

## **1.7 SIGNIFICANCE OF THE STUDY**

The study produced vital information on the suitability of Corporatisation in public service delivery and will assist policy makers in future decision-making on whether or not Government departments should be corporatised as a means to improving service delivery and performance.

## **1.8 RESEARCH METHODOLOGY**

Both primary and secondary Data were collected for the study. This was done in order to receive first hand information on the views and perceptions of key stakeholders and clients as well as obtain performance related information. The study sought to evaluate the efficiency and effectiveness of the Zambia Revenue Authority by obtaining the views and perceptions of key stakeholders on the nature of the organisation; types and level of services or products offered; appraising the annual costs and revenue collected since the establishment of ZRA; and the changes in operations, structures, personnel and systems used in revenue collection.

### **1.8.1 Method of sampling and sample size**

Judgemental and stratified random sampling was used in the study. The total population of the sample was ninety (90) and the respondents were selected using judgemental sampling based on the following criteria:

- (i) Senior and Middle Management officials were targeted in the Zambia Revenue Authority. A list of senior and middle managers was obtained and from this list thirty five (35) respondents were randomly selected but ensuring that not more than 3 officers were selected from each unit. This was done to ensure that the views obtained involved a cross section of officials and they had basic knowledge of the reforms or at least understood the implementation of the reforms.
- (ii) Senior Government officials at Cabinet Office and Ministry of Finance and National Planning. These were restricted to officers that either analysed policies, were directly involved in fiscal planning and/or tax policy formulation. Selective sampling targeting fifteen (15) relevant officials was then used. This was done to ensure that the views obtained were from officials that could competently respond to issues of tax administration and policy.
- (iii) The respondents from members of the public were randomly selected but restricted to the City of Lusaka. Forty (40) respondents were selected for the study.

### **1.8.2 Methods of data collection**

The primary data were collected using three sets of questionnaires, one for each category of respondents i.e. ZRA officials, Policy makers and implementers and tax payers. The responses were solicited either by handing the questionnaire to the respondent where it was not possible to sit and interview the respondent or by personal interviews.

### **1.8.3 Primary data**

The study involved collecting primary data from; Senior Zambian Government officials involved in tax policy reforms and administration; the views of selected tax payers on the effectiveness of tax administration systems in the country; and the views of Zambia Revenue Authority management on the benefits, challenges and constraints of operating as a Semi-autonomous institution.

### **1.8.4 Secondary data**

Secondary data was collected through desk research on the performance of ZRA both in terms of revenue collection and other strategic objectives of the organisation since its inception and the costs and cost structure(s) of the Zambia Revenue Authority, especially with regard to operating as a corporate entity.

### **1.8.5 Data analysis**

This involved analysing the responses obtained through the questionnaires to form conclusions on both the facts obtained and the views of stakeholders. It also involved reviewing and analysing data obtained from secondary sources. Information collected from secondary data was analysed manually whereas the results of the primary data were analysed using the SPSS software.

## **1.9 LIMITATIONS OF THE STUDY**

The study was limited by the absence of pre-1995 data both at the Zambia Revenue Authority and at the Ministry of Finance and National Planning. The study could have been strengthened by presenting comparisons between the pre-ZRA and post-ZRA eras but this information was not forthcoming. However, since the study focused on the performance of a Corporatised entity, the period during which ZRA has been in existence provides a strong basis on which valid conclusions could be drawn. The other encumbrance to be noted which had an effect on the study was the challenge of overcoming bureaucratic red tape in which obtaining data or interviewing senior Government officials proved to be a challenge and the general tendency towards secrecy both in ZRA and Government.

## **CHAPTER TWO**

### **THE ZAMBIA REVENUE AUTHORITY**

#### **2.1 INTRODUCTION**

This chapter gives a background to the public service reforms as they relate to the establishment of the Zambia Revenue Authority and gives detailed insights into the mandate, legal nature, organisational structure and institutional framework, main challenges faced by ZRA, mode of financing and overview of the staffing levels of the ZRA.

#### **2.2 BACKGROUND TO THE TAX ADMINISTRATION REFORMS**

The public sector represented by the executive and its bureaucracy at the national, provincial and local levels, together with the various statutory and parastatal bodies that perform regulatory, monitoring, production and service delivery functions, is the key apparatus for the execution of the functions of the Government. Reforms have been implemented mainly as a result of the failure of this key apparatus to meet the demands of the changing times and foreign influences. These reforms have been implemented largely through extensive programmes generally referred to as Public Sector Reforms.

From the 1980s, most of the public sector reforms that took place in developing countries were introduced as part of the Structural Adjustment Programmes (SAPs) of the International Financial Institutions such as World Bank and the International Monetary Fund (IMF). In Africa for instance, lending conditionalities and the increasing emphasis on good governance where a key influence in the public service reforms (ECA: 2003). Another key influence was the dissatisfaction of the general public with the public service system. Dissatisfaction with public services tends to make most people distrust and discount the promises made by governments. For example, when repeated visits have to be

made to a government department to get a new connection or to restore a faulty line of a utility such as electricity or water; or when the payment of a tax is made arbitrary and complex, people become cynical about the services. This cynicism was compounded if the person had to pay a bribe to get a service he/she had already paid for. The callousness and lack of accountability rampant in many public offices raised question on why Government leaders were unable to cleanse the system (Paul, 2003).

Public service reforms therefore sought to make Government affordable and lean through cost reduction and containment measures, especially by way of rationalising the machinery of Government, divesting non-core operations, retrenching redundant staff and adopting measures to control the wage bill and other personnel-based expenditures. The reforms involved stabilization or reduction of the wage bill, reorganization of ministries, administrative decentralization, strengthening of economic planning instruments, improvement of systems for the control of expenditures, fiscal management reforms, management of foreign debt, personnel training, etc. It can be said that primarily, the reforms sought to change the role of the State to that of an enabler rather than a doer.

In line with this desire to see the State as an enabler rather than a doer came the belief that public sector provision was inefficient and often ineffective; that it led neither to cost containment nor to quality improvement. (ECA, 2003). Tied closely to this reasoning was the belief that the public and private sectors did not have to be organized and managed in fundamentally different ways and it would therefore be better for the public services to be organized and managed as much like the private sector as possible. The new focus therefore was premised on the views that public delivery of services is inherently inefficient; there were few (core) services which the Government needs to directly produce or deliver; there are many redundant functions and services which government bureaucracies continued to perform, from which the Government should divest; and a corporate (results-oriented) culture was necessary for efficiency and effective management of public services (Kiragu, 2002). The creation of the Zambia Revenue Authority was therefore one of the first actions under the Public Service Reforms for the Zambian government led by President F.T.J Chiluba as a bold statement of its commitment to public service reforms and the need to have a results oriented culture.

The Zambian Government embarked upon Public Service Reforms which among other things involved the devolution of administrative power away from Central Ministries by way of rationalising the structures of Ministries and Departments. This rationalisation

exercise resulted in the identification of thirty five (35) government institutions or functions for hiving off from government either by Corporatisation, privatisation or abolition. Among the departments identified for corporatisation were the Department of Customs and Excise and the Department of Income Tax, the Department of Technical Education and Vocational Training, the Department of Wildlife and Natural Resources which resulted in the creation of the Zambia Revenue Authority (ZRA), Technical Education Vocational and Entrepreneurship Training Authority (TEVETA) and the Zambia Wildlife Authority (ZAWA) respectively.

The Department of Customs and Excise and the Department of Income Tax were headed by Directors reporting to the Permanent Secretary at the then Ministry of Finance and Economic Development (MOFED) now Ministry of Finance and National Planning. The two departments were responsible for the collection of all taxes and tariffs in the country including Income and Corporate taxes, Excise duties and various custom levies. In the early 1970s, tax revenue in Zambia amounted to about 30% of GDP, a value that was predominately caused by the high copper price on the world markets. Since 1975, however, it more than halved and in 1993, the year before the introduction of the semi-autonomous Zambia Revenue Authority (ZRA), it amounted to only 15.3% of GDP (World Bank 2003: 15). The decline in tax revenue was mainly attributable to the ineffectiveness and inefficiencies of the Departments of Tax and Customs and Excise. One result of this ineffectiveness was that a significant proportion of the potential tax take remained uncollected. In 1992, the Minister of Finance stated that the tax administration only tapped on one third of formal sector incomes (Republic of Zambia 1992: 19). The Department of Taxes never managed to significantly broaden the tax base and the government refrained from capturing 'difficult' taxpayer groups with intimate connections to the ruling elite. Self-employed individuals such as physicians and lawyers remained largely outside the tax net (Von Soest, 2006; DTZ 1976: 4).

Another key factor was the poor conditions of service in the two departments which had dampened the morale of the staff and there was no sufficient remuneration to attract and retain skilled manpower. Trained tax officers tended to leave for greener pastures largely because they could be much better remunerated elsewhere or they stood better chances of promotion in other Government organs and hence get higher pay. (Von Soest, 2006).

Over and above the ineffectiveness and inefficiencies of the tax administration system, the main trigger for the reforms was the influence of donors and cooperating partners. The newly-elected MMD government led by Fredrick Chiluba, quickly liberalised Zambia's fiscal and economic policy and negotiated new loan agreements with the donor community. One key aspect in these loan agreements especially with International Financial Institutions was the inclusion of the strengthening of internal revenue collection to its conditionalities for the provision of new loans (Von Soest, 2006). It was argued that reform of the tax collection regime was inevitable for the strengthening of both internal and external state revenues. In 1992, the British government funded initial studies, which recommended the establishment of a semi-autonomous revenue authority. The arguments for taking the revenue generation out of Zambia's mainstream Government structure were two-fold. The first was to increase revenue performance through the business-like collection of taxes and the second reason was to insulate the tax administration from political interference.

The Zambia Revenue Authority (ZRA) started operations on 1 April 1994 replacing the ministerial Departments of Taxes and Customs and Excise. The Zambia Revenue Authority at inception was heavily funded by and closely monitored by donors. For instance, until 2004, the British Department for International Development (DFID) provided technical assistance worth £15.8million to the project. The most prominent aspect of this support was the provision of an expatriate management team for the Zambia Revenue Authority. In the beginning, all the four most senior managers of ZRA were non-Zambian. The three Commissioners, including the Commissioner General, were from the United Kingdom and one from Tanzania. Foreign personnel were thought to be less integrated into local social networks and less responsive to political interference (Delay et al. 1999). Their task was to instil a new sense of professionalism in Zambia's tax administration. Only in February 2002, almost nine years after the creation of the tax agency, the expatriate Commissioner General as the last manager from abroad left and was replaced by a Zambian. The donors' strategy therefore was to insulate the revenue authority from political interference by bringing in foreign managers.

The creation of the Zambia Revenue Authority (ZRA) as a semi autonomous revenue collecting authority was designed to correct the inherent ills in the Departments of Income Tax and Customs and Excise.

The Zambia Revenue Authority (ZRA) was established on 1<sup>st</sup> April 1994 as a corporate body, under the Zambia Revenue Authority Act, Chapter 321 of the Laws of Zambia, enacted in 1993. The Zambia Revenue Authority Act, defined the functions and powers of the Governing Board of the Authority, transferred from the Government to the Authority the functions and powers of the Department of Taxes and the Department of Customs and Excise and transferred from the Government to the Authority the assets and liabilities of the Departments. The Authority was established as a body corporate with perpetual succession and a common seal, capable of suing and of being sued in its corporate name.

### **2.3 MAIN RESPONSIBILITIES AND OBJECTIVES**

The main responsibilities of the Authority are to:

- (i) Properly assess and collect taxes, duties, levies and fees at the right time. These being Value Added Tax, Customs Duties, Excise Duties, Income Taxes, Property Transfer Tax, Mineral Royalty, Medical Levy, and Motor Vehicle Fee;
- (ii) ensure that all monies collected are properly accounted for and banked; properly enforce all relevant legislation and administrative provisions;
- (iii) provide statistical information on revenue to the Government;
- (iv) Give advice on tax policy to Government; and facilitate international trade.

The Authority accomplishes its objectives through five major outputs i.e. Tax policy support; management of revenue collection; compliance initiatives that support revenue collection; services to Government in general and to the Ministry of Finance and National Planning, in particular; and managing public confidence.

The Authority plays a significant role in designing, developing and implementing tax policy. It contributes to policy advice and legislative design by providing timely and quality input to the lawmaking processes through the Ministry of Finance and National Planning. This advice encapsulates the Authorities administrative, compliance and interpretive experience and aims to ensure that the impacts of new policy on taxpayers and their representatives are adequately considered throughout the policy and legislation making process. There is a strong institutional linkage between the Ministry of Finance and

National Planning and the Zambia Revenue Authority that enable it provide technical advice, on policy, to policymakers on tax matters.

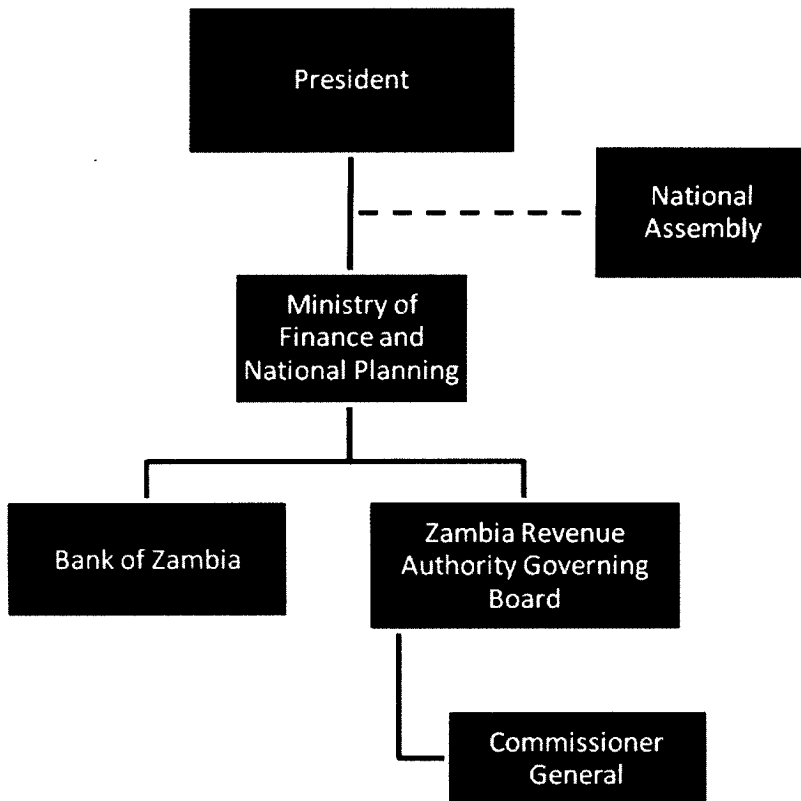
## **2.4 INSTITUTIONAL ARRANGEMENT AND ORGANISATIONAL STRUCTURE**

The Zambia Revenue Authority is headed by a Governing Board comprising the Secretary to Treasury, Governor of the Bank of Zambia, Permanent Secretary at the Ministry of Justice, a nominee of the Bankers' Association of Zambia, a nominee of the Lawyers' Association of Zambia, a nominee of the Zambia Institute of Chartered Accountants, a nominee of the Zambia Association of Chambers of Commerce & Industry and two (2) Members appointed by the Minister of Finance and National Planning. The Chairman and Vice-Chairman are elected by the Governing Board from among its members (Annual Report, 2004).

The Minister of Finance is empowered to give directives to the Governing Board with respect to the carrying out of its functions as he/she considers necessary or expedient. The Governing Board provides strategic guidance and exercises oversight functions on the operations of the Authority. The Governing Board is not an executive board nor does it have any executive members. The Board delegates these functions to the Commissioner-General (CG) who is appointed by the President. The Commissioner-General is the chief executive officer of the Authority, and is responsible for the execution of the functions of the Governing Board and the implementation of Board decisions. The Commissioner-General is removable by the President.

The Zambia Revenue Authority works closely with the office of the Accountant General and Budget Office in the Ministry of Finance and National Planning in the management of state revenues. The Bank of Zambia is the recipient of all revenue collected by ZRA while the National Assembly approves tax laws and appropriates funds to the revenue authority in addition to providing parliamentary oversight. Figure 1 is a diagrammatic representation of the institutional arrangement described above.

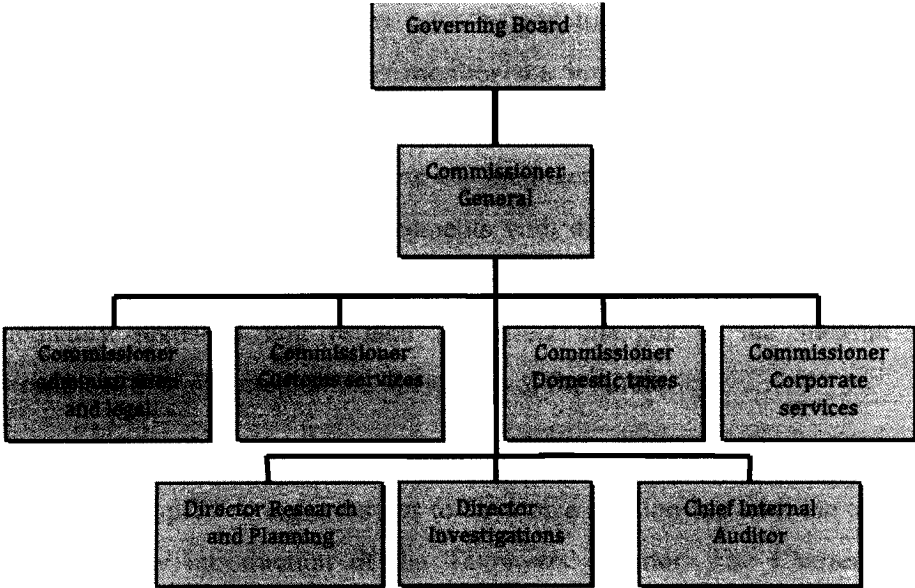
FIGURE 1: ZAMBIA REVENUE AUTHORITY INSTITUTIONAL FRAMEWORK



Since its establishment in 1994, ZRA has undergone significant structural changes all designed to improve organisational efficiency and reflect changing demands. The Authority created the Corporate Support Services Division, headed by a Commissioner reporting to the CG within which previous stand alone Divisions of Human Resource, Administration and Legal now fall. The Information Technology Division was co-opted under the Finance Division which is headed by a Commissioner while a new Investigations Division, headed by a Director was created. This involved consolidating the investigations units that operated under Customs and Excise, Direct Taxes, VAT and the Corporate Investigation Unit. Another significant change was the creation of the Research and Business Development Division, headed by a Director which would provide strategic planning services to the organisation. The Direct taxes Division was also merged with the VAT division to create one division and it was also given the responsibility of collecting domestic customs revenue while the Customs and Excise division was renamed Customs Services Division. The Authority now operates with only four (4) divisions and two (2)

Directorates in an effort to streamline operations and improve efficiency (ZRA Annual report, 2006). See Figure 2.

FIGURE 2: ORGANISATIONAL STRUCTURE OF ZRA



Source: Zambia Revenue Authority

The Zambia Revenue Authority is decentralised in all districts of the country with the concentration of large operations mainly at entry border towns such as Chirundu, Livingstone and Nakonde. The mode of decentralisation has essentially remained along the lines established by the Department of Customs and Excise and is thus tailored around tax collection points rather than regional decentralisation of operations. The organisation decision-making has remained largely centralised implying that most operational and staffing decisions have to be made by senior officers at the ZRA headquarters. The decentralisation of tax collection decisions has however significantly increased tax collection by reducing tax evasion. Whereas in the past, most taxing decisions were to be made in either Lusaka or Ndola and importers could bring in goods with a view of paying at a later date, they are now required to honour their tax commitments at the port of entry. The collection of taxes and levies at points of entry is more effective. Only goods placed

under bond and stored in bonded warehouses are allowed to pass through border points without honouring tax obligations.

The organisation also began developing corporate plans to guide the operations of the Authority. To improve delivery of tax services, action plans, with specific and quantifiable performance indicators, were developed for each division, department and unit of the Authority. Performance indicators have helped to measure performance across a wide range of objectives. Strategies to monitor the implementation and performance of the Corporate Plan were also developed. Towards this end, all divisions, departments and units submit quarterly exceptional reports on their action plans and performance which are enforced through performance agreements with divisions and staff. All divisional action plans are drawn from the Corporate Plan (plan was for the period 2005-2007) and were periodically reviewed and refined to reflect changes in the internal and external environment that impacted on the operations of the Authority.

Another major change was the shift from focusing on taxes to focusing on the tax payer. This entailed implementing measures to develop a relationship with the tax payers and key to this was the introduction of the Taxpayers' Charter. The Charter helps taxpayers understand their rights under the law, the service and other standards they can expect from ZRA, their important tax obligations, and what they can do if they are not satisfied with the decisions, actions or services of ZRA, or if they wanted to make a complaint. This has entailed linking the relevant aspects of ZRA's performance to the principles outlined in the Taxpayers' Charter. The Taxpayers' Charter provides that the taxpayer is entitled to impartial and equitable treatment by the Zambia Revenue Authority in all dealings with it.

The Zambia Revenue Authority has introduced and implemented several technologies to enhance its efficiency. These include the use of the Very Small Aperture Terminal (VSAT) communications systems and the computerisation and modernisation of the revenue collection process. The Authority also established a Customs and Excise intelligence database system and the Authority has a website which acts as an online taxpayer information centre (ZRA Annual report, 2006).

## **2.5 FUNDING TO ZRA**

The Authority is funded through funds appropriated by Parliament as well as grants or donations subject to the approval of the Minister responsible for Finance. The Authority also raises some revenue through charges for some of its services to the public. Upon the establishment of ZRA in 1994, ZRA was given five percent (5%) of its total revenue each year as funding for its operations. This however was changed in 1999 and ZRA now operates using a grant appropriated by Parliament.

This change in funding policy reduced the funds available to the Authority for its operations. For instance, in 2005, the Authority operated within an income of K137.2 billion of which K127 billion was funding appropriated by Government (ZRA Annual report, 2006). Considering the Authority collected net tax revenue of K5, 521.8 billion in 2005, the previous system of allocating 5% of total revenues would have entailed the Authority receiving K276bn, a difference of K149bn.

The reasons for the policy decision by Government to change the funding mechanism was primarily that tying ZRA funding to revenue did not reflect the needs of ZRA and was a recipe for wastage for resources.

## **2.6 STAFFING IN THE ZAMBIA REVENUE AUTHORITY**

Upon the establishment of ZRA, the following changes were made:

- (i) Initially, it operated with a hybrid of old experienced and new qualified technical staff mainly to manage the transition with minimum disruptions.
- (ii) In areas covering new taxes introduced after the establishment of ZRA such as Value Added Tax (VAT), new graduates were recruited.
- (iii) Technical members of staff were engaged on contract basis while support staff were on permanent basis. This was done to facilitate different conditions of service so as to make it possible to attract highly qualified personnel.
- (iv) The introduction of minimum qualifications and the offer of competitive remuneration. (ZRA Annual report, 2005)

These changes were made to ensure there was an improvement in the calibre of staff recruited by the ZRA.

The Zambia Revenue Authority has an approved staff establishment of 1,610 employees and the actual number of employees as at 31<sup>st</sup> December 2007 stood at 1, 247 (ZRA, 2007), a variance of 363 employees. Over the years, the Zambia Revenue Authority has improved the conditions of service of its staff to ensure they are competitive within the scope of the economy. This was accompanied by considerable increases in the staff establishment. 68% of the staff were male with most of the female employees working primarily in support services. Female employees holding management positions stood at 20% in 2006. The majority of the technical staff operated from district offices and border posts where most the revenue collection activity took place (ZRA Annual report, 2006).

The factors leading to the establishment of the Zambia Revenue Authority clearly indicate that consistent with the observations of authors such as Taliercio, Crandall and Von Soest, donor influence played a key role in the establishment of revenue authorities and Zambia was not an exception. While the leadership in Government acknowledged the need for public service reforms, the exact mode of the reforms were mainly donor driven. This is confirmed by the level of interest donors had in ensuring the establishment and success of ZRA. Donor countries such as the United Kingdom went as far as paying the salaries of top managers and directly supplementing the operations of the authority.

The establishment of the Zambia Revenue Authority as a body corporate under the law was a key step in facilitating the autonomy of ZRA in terms of its operations. The changes that have taken place since the establishment of ZRA have generally resulted in a system significantly different from what is obtaining in Government with regard to the operations of the organisation. The existence of a Governing Board ensures that organisational policy is developed along private sector models and significantly limits the role of Government in the operations of ZRA. The ability of ZRA to define its own recruitment standards and recruit staff in line with these standards also confirms a key departure from the Civil Service norms. The main dependence of ZRA on Government is with regard to funding for its operations. Since the authority receives an appropriation from Government, there is a dependence on the national Treasury for its operational efficiency and effectiveness.

## **CHAPTER THREE**

# **EFFECTIVENESS AND EFFICIENCY OF ZAMBIA REVENUE AUTHORITY AS A REVENUE COLLECTION AGENCY**

### **3.1 INTRODUCTION**

This chapter presents the findings and analysis of the data collected during the course of the study on the subjects of the effectiveness and efficiency of the Zambia Revenue Authority (ZRA) since its establishment. The chapter is presented in two sections, the first dealing with effectiveness of the Zambia Revenue Authority and the second addressing issues pertaining to the efficiency of ZRA. Each section is further presented as subsections detailing the findings on each issue as it relates to either effectiveness or efficiency.

Effectiveness is viewed as the extent to which the establishment of ZRA has achieved its intended broad objectives of greater than usual autonomy and the extent to which it has been successful in the assessment and collection of various taxes, duties, levies and fees. The key parameters used in the study included perceptions on the level of autonomy that ZRA has in carrying out its mandate, quality of service, reporting relationships between Government and ZRA, working environment and conditions within ZRA and the annual collection of taxes.

Efficiency in the study is viewed as the extent to which the establishment of ZRA has resulted in taxes being collected at an optimum cost than what would have been possible in a Government department. In determining efficiency, the study focused on the perceptions and views on the factors that influenced efficiency such as inputs of human resource, materials, systems, cost structure of running ZRA, and the ZRA's capacity to retain qualified personnel who contribute to efficient collection of tax revenue.

Three categories of respondents were identified. These were: Senior Zambian Government officials involved in tax policy reforms and administration from whom data on the benefits, challenges and constraints of overseeing and working with the Zambia Revenue Authority

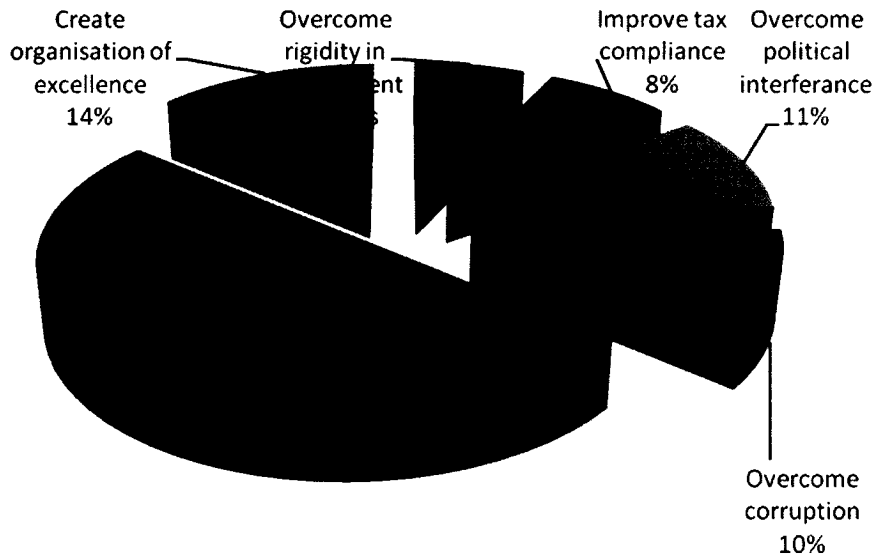
was obtained; Selected tax payers from whom views on the effectiveness of tax administration systems in the country was obtained as they are the targeted beneficiaries of a more effective and efficient tax regime; and the views of ZRA officials on the benefits, challenges and constraints of operating as a Semi-autonomous institution. The study was carried out in the city of Lusaka.

Seventy percent (70%) of the respondents from ZRA were males and 30% were female. This distribution of respondent's corresponds with the staff distribution across gender as indicated by ZRA in their annual reports. In the respondents from the public, seventy percent (70%) of the respondents were individual members of the general public and 30% were corporate entities. This distribution of respondents generally represents the type of taxes the respondents considered when responding to the questionnaires. The individual respondents had in consideration taxes such as VAT, Customs duties and PAYE whereas the corporate respondents took into consideration a broader range of taxes including corporate tax and excise duties. The chapter presents both the primary and secondary data collected on the issue of effectiveness and efficiency of the ZRA in tax administration.

### **3.2 EFFECTIVENESS OF ZAMBIA REVENUE AUTHORITY**

The ultimate measure of how effective a programme or project has been is its delivery on the objectives. To this effect, it was important to establish the level of respondents' knowledge of the reasons for the establishment of the Zambia Revenue Authority. When the respondents from ZRA were asked to state the main reasons for the establishment of ZRA, 50% of the respondents were of the view that the main reason for the establishment of ZRA was to facilitate the modernisation of tax collection operations in the country (see Figure 3). This indicates that there was an understanding by employees of the expectation which stakeholders had over the role ZRA was to play in the tax reforms.

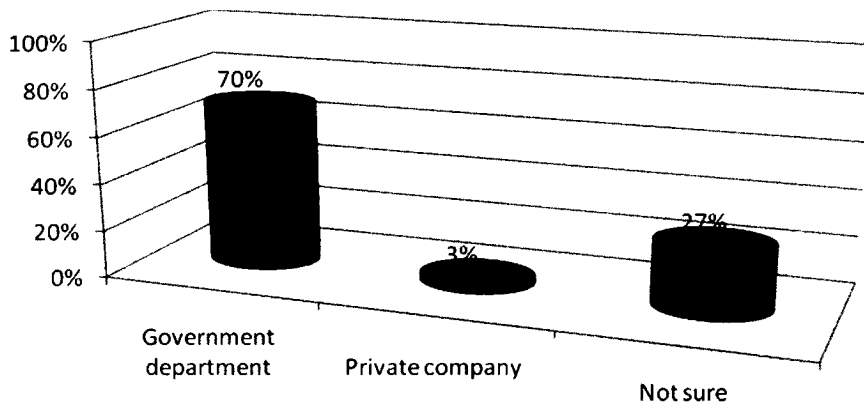
FIGURE 3: VIEWS OF ZAMBIA REVENUE AUTHORITY OFFICIALS ON MAIN REASONS FOR ESTABLISHMENT OF ZRA



Eight percent of the respondents associated the establishment of ZRA to addressing poor tax compliance. 14% felt that the establishment of ZRA was intended to achieve an organisation of excellence within the public service whereas 10% felt it was intended to overcome political interference. Eleven percent felt that it was designed to mitigate against high corruption levels respectively, 7% of the respondents linked the establishment of ZRA with the need to overcome rigidity of Government systems such as the Human resources policies. This suggests very few officials in ZRA view the Zambia Revenue Authority systems as being significantly different from the Government systems in terms of rigidity.

A notable connection to the above observation is that when asked to describe the operational style of ZRA, only 3% believed that the ZRA operational style was similar to that of a private corporation. 70% suggested the organisation was run in a manner that was no different from a Government Department or Ministry. This could be attributed to the continuing levels of bureaucracy within the organisation both in terms of the decision making process and its operational structures (see Figure 4).

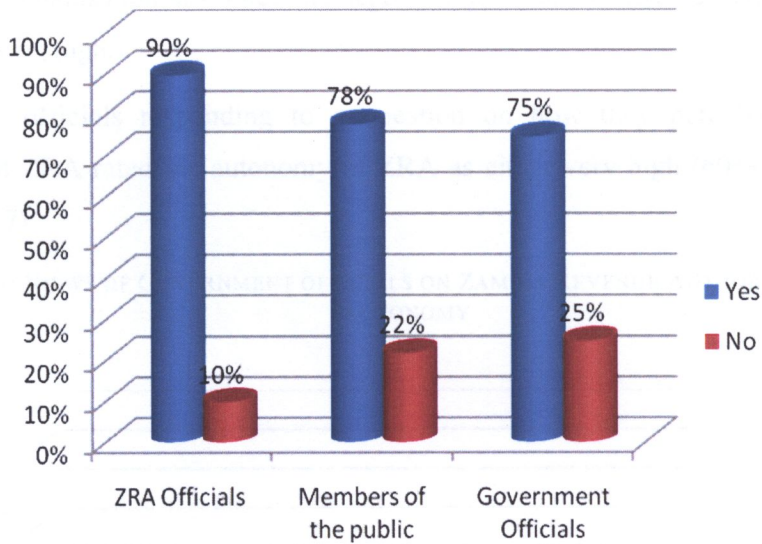
FIGURE 4: VIEWS ON OPERATIONAL STYLE OF ZAMBIA REVENUE AUTHORITY



Despite this view on the comparative rigidity of Government versus Zambia Revenue Authority systems and style of operation, when asked if tax administration in the country had improved since the merger of the Department of Customs and Excise with the Department of Taxes, 72% of the ZRA officials agreed and an overwhelming 90% of the respondents believed ZRA was a better tax collection body than the fore-runner departments. Only 3% held the view that nothing or little had changed.

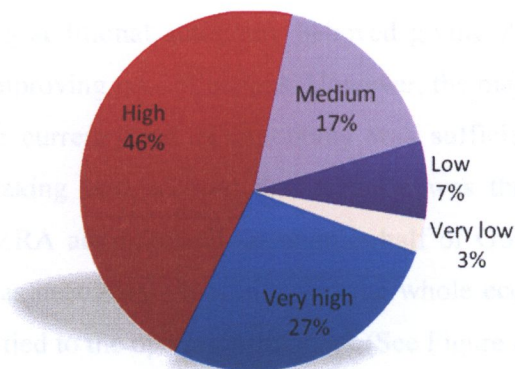
Autonomy was one of the key objectives in the establishment of the Zambia Revenue Authority. The delinking of tax administration from mainstream Government provided the bedrock on which the tax reform project was designed. Respondents in all three categories felt that tax administration reforms could not have been achieved had tax administration remained within the mainstream Government. Ninety percent (90%) of ZRA employees held that autonomy was the key to the success of the tax reforms programme embarked on by Government. Seventy eight and seventy five percent of the public and Government officials respectively, agreed with the officials from ZRA (see Figure 5 below). The strong agreement from Government officials was particularly important in light of concerns on the principle vs. agent problem that is to be expected in situations where a public service function is delinked from Government.

FIGURE 5: RESPONDENTS HOLDING VIEW AUTONOMY WAS KEY TO SUCCESS OF REFORMS



Responding to a question on how they perceived the level of autonomy the ZRA had, 46% of the respondents from ZRA were of the view that the level of autonomy in ZRA was very high and 27% felt it was high. 17% indicated that it was medium. This was significant in the sense that 90% of the workers perceived the ZRA as an autonomous institution and the majority of these workers viewed it as very high. Only 10% of the respondents felt that ZRA was not autonomous (see Figure 6).

FIGURE 6: VIEWS OF ZAMBIA REVENUE AUTHORITY OFFICIALS ON LEVEL OF AUTONOMY

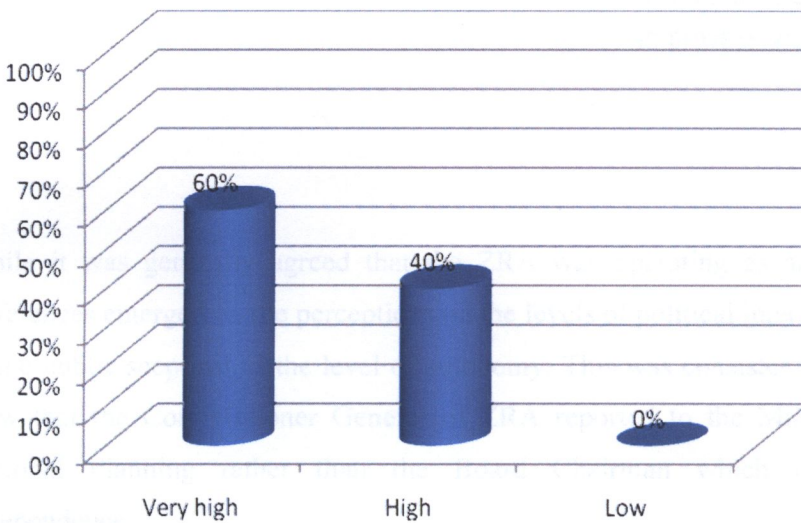


When members of the public were asked if they thought the Zambia Revenue Authority was independent of Government in its operations, most people interviewed (87%) viewed

ZRA as an organisation independent of Government. 35% of those who viewed ZRA as an independent organisation also rated the degree of autonomy of ZRA as very high and 40% rated it as being high.

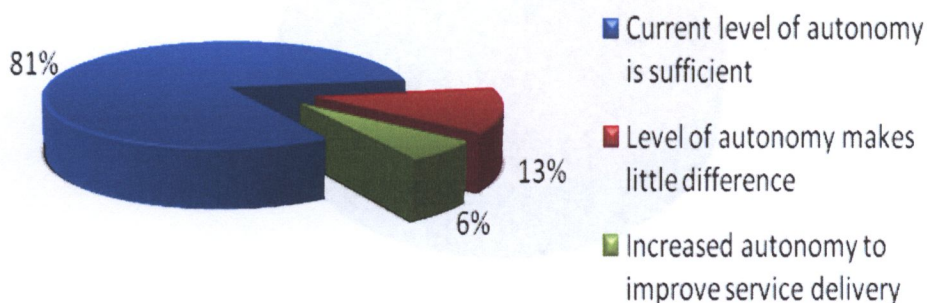
Government officials responding to a question on how they perceived the level of autonomy of ZRA rated the autonomy of ZRA as either very high (60%) or high (40%). (See Figure 7)

FIGURE 7: VIEWS OF GOVERNMENT OFFICIALS ON ZAMBIA REVENUE AUTHORITY LEVEL OF AUTONOMY



All the respondents held the view that revenue administration should remain semi-autonomous as this would facilitate effective and efficient tax administration. Six percent of the respondents believed additional autonomy would enhance the performance of ZRA. These officials proposing additional autonomy believed giving ZRA financial autonomy would further assist in improving tax collections. However, the majority of the respondents (81%) believed that the current level of autonomy was sufficient for an effective tax administration system taking into account that taxation was the sole responsibility of Government and since ZRA administered taxes on behalf of Government some level of influence and control was necessary especially that the whole economic performance for the country was directly tied to the operations of ZRA (See Figure 8)

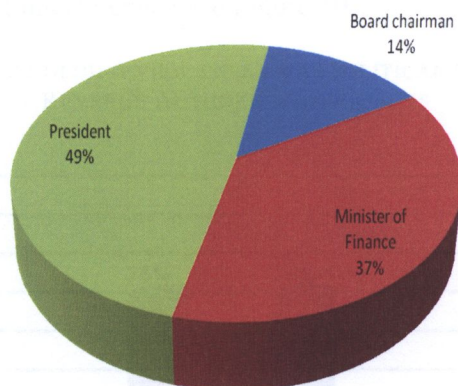
FIGURE 8: VIEWS OF GOVERNMENT OFFICIALS ON AUTONOMY OF ZAMBIA REVENUE AUTHORITY



While it was generally agreed that the ZRA was operating as an autonomous entity, differences emerged on the perceptions on the levels of political interference with members of the public sceptical of the level of autonomy. This was consistent with the widely held view that the Commissioner General of ZRA reported to the Minister of Finance and National Planning rather than the Board Chairman which compromised his/her independence.

When ZRA officials were asked whom the ZRA Commissioner General (CG) reported to, only 14% believed he reported to the Board Chairman who according to the law is the person to whom the CG is supposed to report on the operations of the Authority. 49% of the respondents were of the view that the CG reported directly to the President whereas 37% felt the CG reported to the Minister of Finance and National Planning (see Figure 9). This would suggest that officers in ZRA have experienced very little or no interference in the carrying out of their duties from Government officials and therefore associated all the decisions and influences that directly affected their work as being internal to ZRA. It could however also be more of an indication of how much interference they experienced in the discharge of their duties rather than their views on interference of the operations of ZRA as a whole. This can be seen from their responses to a question on whether or not there was political interference in the work of ZRA.

FIGURE 9: VIEWS OF ZAMBIA REVENUE AUTHORITY OFFICIALS ON WHOM THE CG REPORTS TO



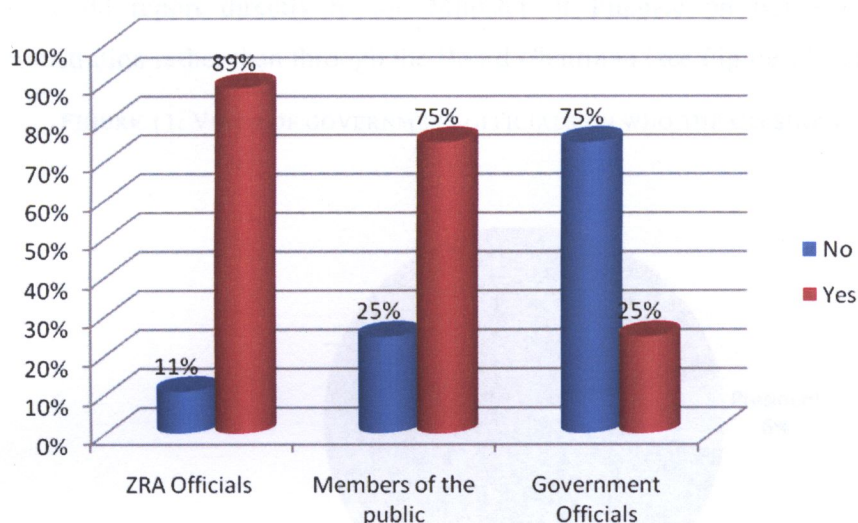
In response to a question about whether or not the appointment of the Zambia Revenue Authority Commissioner General by the President affected his effectiveness as a Chief Executive Officer, 94% of the respondents from the public felt it did and this was consistent with the 75% believing there was political interference in the operations of ZRA.

There was however disagreement with this view by Government officials the majority of whom felt that the nature of tax administration required not only a direct reporting relationship between the Government and ZRA but constant interactions between the Minister of Finance and the CG and this did not imply interference into the operations of ZRA. Since freeing tax administration of political interference was one of the key areas of the reforms; the views of the respondents on this issue were significant. With Government officials opting for a more direct reporting relationship between the Commissioner General and the Minister of Finance and National Planning, the perception of interference would grow resulting in a decline in public confidence in the ZRA. However, in terms of tax policy implementation, a direct reporting relationship between ZRA and the Minister of Finance would facilitate for a more effective implementation network between the implementers and the policy makers.

It is worth noting the significant difference in the responses from Government officials on the issue of political interference. Whereas 75% believed political interference had reduced, 89% of ZRA officials and 75% of public respondents disagreed with this view.

One key reason for this major difference in views could lie in the difference of perceptions about what was and wasn't interference (See Figure 10).

FIGURE 10: RESPONDENTS HOLDING VIEW THERE WAS POLITICAL INTERFERENCE IN ZAMBIA REVENUE AUTHORITY OPERATIONS

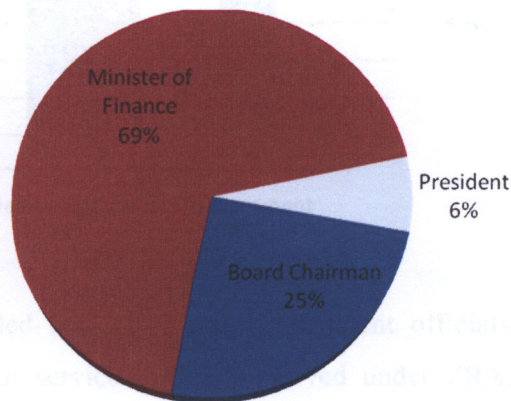


In the case of ZRA officials and the general public, their responses however, were not consistent with the responses on how much autonomy ZRA enjoyed. Whereas they both felt that ZRA was autonomous, also felt there was interference was rife.

When ZRA officials were asked if the Zambia Revenue Authority Board was performing its role, 90% of the respondents felt that the ZRA Board was indeed performing its role. This perception may be attributed to the distinction respondents made between the CG's role in the tax collection process as against the Boards role. The Boards role was mainly considered as being attributable mainly to issues such as conditions of service and other issues to do with the work environment, which, are mainly attributed to the Board whereas tax policy and tax administration issues are associated with the President and the Minister. This reasoning corresponds with the fact that when ZRA officials were asked if the Government interfered with the work of the CG, 92% of the respondents felt that there was interference. One influencing factor worth emphasising that greatly influenced perspectives on the issue of interference is that since the President appoints the CG; respondents therefore associated the reporting lines and loyalties of the CG to the political leadership. This is in agreement with the fact that when asked if the Presidential appointing powers affected the effectiveness of the CG, 90% of the respondents felt that since the CG is appointed by the President, it affected his/her effectiveness as the Chief Executive Officer.

The views of the ZRA officials and the public on the President appointing the CG had a strong influence on their perceptions about interference. For Government officials on the contrary, most respondents (69%) did not believe the reporting structure of the CG had in any way caused problems for the Government and a similar number held the view that the CG should report directly to the Minister of Finance on issues of tax policy and administration rather than through the Board Chairman (see Figure 11 below).

FIGURE 11: VIEWS OF GOVERNMENT OFFICIALS ON WHO THE CG SHOULD REPORT TO

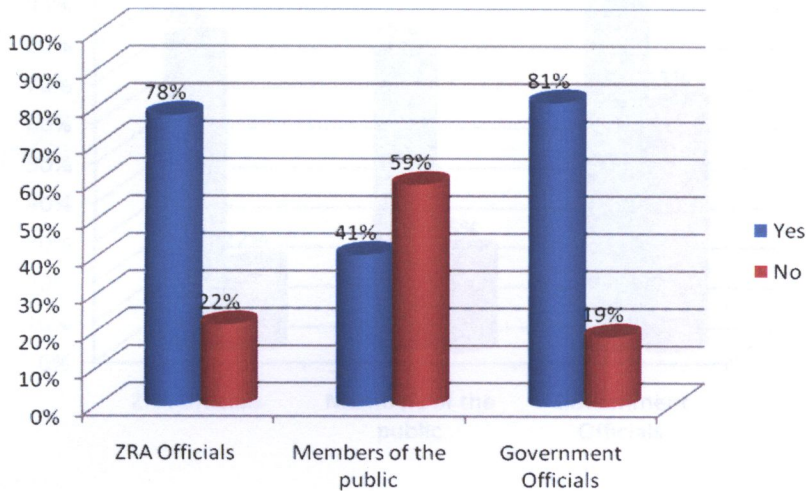


It was generally felt that reporting to the Minister would make decision making easier as the CG would be better able to advise the Minister on tax issues than reporting through the Board Chairman. It was felt that the relationship between ZRA and the Minister of Finance did not cause any problems and it facilitated constant consultation between Ministry officials and ZRA so as to ensure that the revenue collection process was smooth and efficient. They further observed that since the CG operated on the basis of annual targets given by the treasury, there were no complications on the reporting structures between ZRA and Government. 50% of Government officials thought the Board was effective. This was mainly attributable to limited information on the Boards performance.

With regard to the quality of the service offered by the Zambia Revenue Authority, 59% of the general public respondents did not believe that the creation of ZRA had resulted in improved quality of service. The reasons for these negative perceptions are attributable mainly to the fact that the tax base had hardly changed over the last ten years thereby entrenching the belief that those that were getting away with not paying taxes before the creation of ZRA had continued to do so. This could be further explained by the fact that

when asked how they had been affected as tax payers since the creation of ZRA, 78% indicated that the taxes they paid had considerably increased.

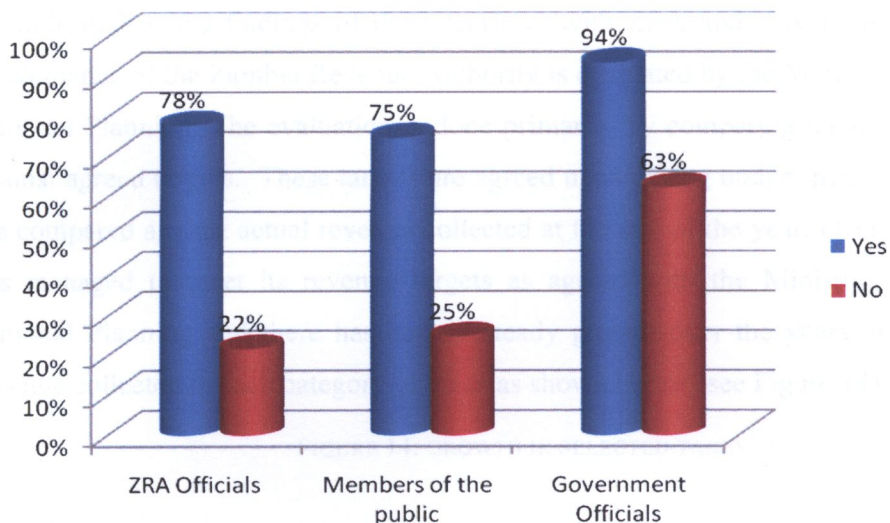
FIGURE 12: VIEWS ON WHETHER OR NOT QUALITY OF SERVICE HAD IMPROVED



The study generally revealed that ZRA and Government officials were essentially in agreement on the quality of service having improved under ZRA, a view which was contrary to public who are the targeted beneficiaries. As earlier indicated, this could be explained by the negative views on the tax rates and the tax base in the country in which tax payers are more inclined to consider quality tax service as that which is fair and equitable. In a tax system where the informal sector largely goes untaxed, those paying taxing in the formal sector tend to view the tax system as being unfair and are therefore unlikely to appreciate the tax services as they feel overburdened. The views of Government officials were primarily influenced by the perceived improvements they were aware ZRA had embarked upon in terms of investments in Information Technology and other services related programmes as well as the changes in the conditions of service for ZRA employees.

With regard to its core responsibility of collecting taxes, all the respondents when asked their views on whether or not ZRA had been a success in revenue collection, were agreed that the Zambia Revenue Authority had been successful in increasing revenue collection for Government. Government officials were particularly emphatic in holding this view with 94% stating in the affirmative (see Figure 13).

FIGURE 13: VIEWS ON WHETHER OR NOT ZAMBIA REVENUE AUTHORITY HAD BEEN A SUCCESS IN TAX COLLECTION



The strong views of Government officials can be attributed to the fact that the performance of ZRA in tax collection is easily measurable and ZRA had consistently met its agreed targets in the years it had been operational. The variances in the categories of ZRA respondents and members of the general public can mainly be attributed to limited basis on which to make a firm conclusion on the performance of ZRA, as this is a question that was best answered on the basis of one's knowledge about the Zambia Revenue Authority's performance.

On the question of critical success factor for the Zambia Revenue Authority, members of the public listed the three key factors as being; simpler tax laws, modern technology and motivated staff. Respondents from Government believed the three factors critical to the success of ZRA were improved public awareness and education on taxes (80%), improved tax compliance (72%) and equity in the tax system (60%).

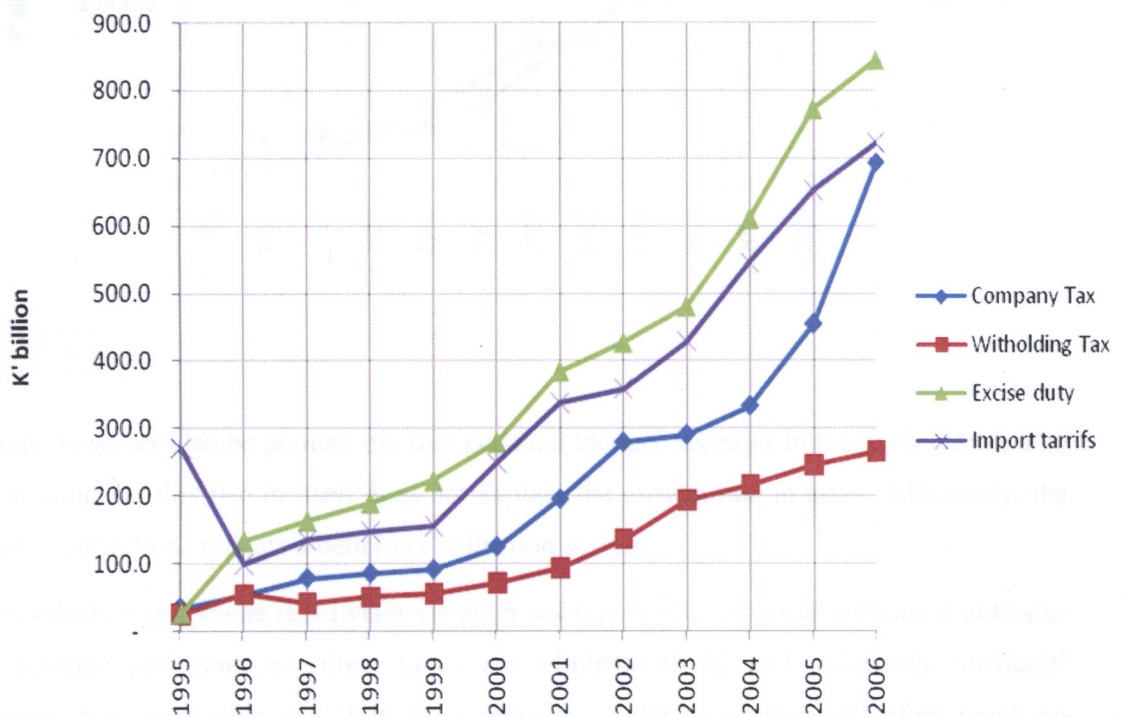
The study also revealed that the Ministry of Finance and National Planning regularly evaluated the performance of ZRA against the set target for the year. Revenue collection in each category of tax as measured against targets was generally the only measure used to determine the performance of the Zambia Revenue Authority.

The key measure to how effective a tax administration has been is the extent to which the tax administration is able to fulfil its core task, which is the collection of revenue generally measured by 'how much' it is collecting. As the collection of taxes is its ultimate goal, a

revenue collecting institution can only be termed to have a high effectiveness in raising revenue if it generates a significant output, the output being the taxes it collects.

As indicated in the findings of the interviews with ZRA and Government officials, the performance of the Zambia Revenue Authority is evaluated by the Ministry of Finance and National Planning. The evaluation is done primarily by comparing annual tax collections against agreed targets. These targets are agreed upon during budget period and the targets are compared against actual revenue collected at the end of the year. Over the years, ZRA has managed to meet its revenue targets as agreed with the Ministry of Finance and National Planning and there has been a steady growth over the years in the amount of revenue collected in each category of taxes as shown below (see Figure 14).

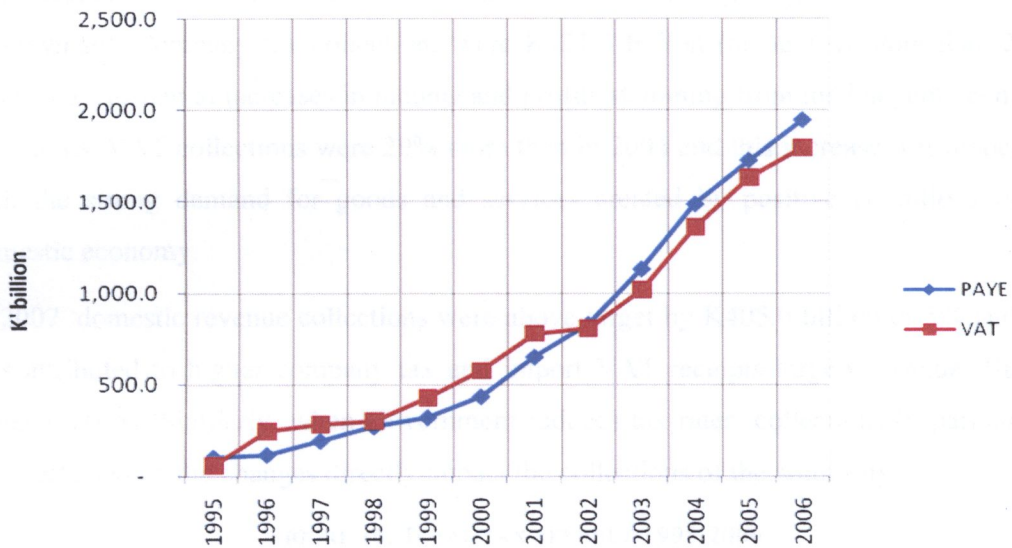
FIGURE 14: GROWTH IN SELECTED TAXES



This growth in taxes collected suggests a higher compliance level on the taxes for each category of tax. This is consistent with findings that most respondents believed that the level of compliance from tax payers had increased since the establishment of ZRA. The most significant growth has been in the collection of P.A.Y.E tax. This is attributable

mainly to the fact that as a payroll tax, PAYE is the easiest tax to collect and it is easily varied as tax rates change depending on Government policy. It is worth noting that the tax base for PAYE has remained steady growing by less than 10% over the last ten years but the collections from PAYE have grown by over 2000% in that same period. (See figure 15 below).

FIGURE 15: GROWTH IN VAT AND PAYE 1995-2006



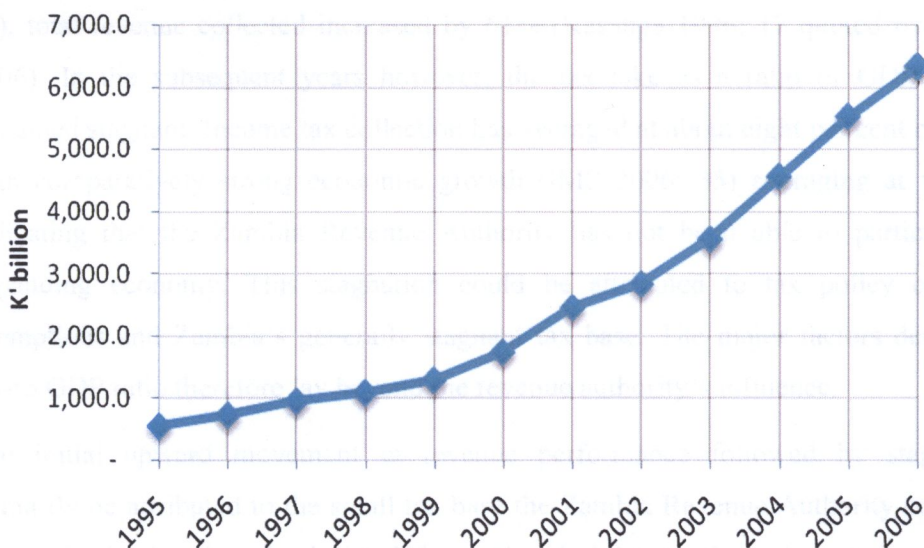
It must however also be pointed out that personal income tax rates in this period have also been rising but this rise in itself does not explain the growth rate in taxes. Ultimately, the level of collections reflects a better tax collection system.

The collection of income taxes vis-à-vis other tax type's also serves as additional indicator for revenue performance. Direct taxes are administratively and politically 'difficult' because they are visible and 'felt' by a majority of the population and often touch on powerful political actors. It is commonly seen that during election campaigns, most of the taxation issue border around direct taxes and political leaders tend to fall prey to political pressures. Similarly, taxation on corporate entities that may have strong influences on the economy can resist direct taxation policies. A case in point is the resistance to windfall taxes by mining companies after the announcement of the 2008 annual budget in Parliament.

The success in tax collections is subject to the extent that the circumstances are within the control of the Authority. An analysis of annual performance reveals that there are usually external factors at play which contribute to the amount of tax revenue collected each year. In 2005 for instance, the Authority collected net tax revenue of K5, 521.8 billion in 2005, an increase of K967.5 billion (or 21.2%) over the 2004 collections (budget speech 2006). The increase in collections were largely from Pay As You Earn (PAYE), VAT, excise duty; import duty, company tax, and collections from other individuals. PAYE collections were K238.9 billion or 16.1% more than 2004, reflecting a growth in wages and employment. Company tax collections were K121.3 billion (or 36.4%) more than 2004, reflecting substantial increases in income and profits stemming from the buoyant economic conditions. VAT collections were 20% more than in 2004 and this increase was associated with the strong demand for goods and services created by positive conditions in the domestic economy.

In 2007, domestic revenue collections were above target by K405.0 billion or 5% and this was attributed to higher company tax and import VAT receipts largely (Annual Budget Speech, 2008). Similarly, when Government reduces tax rates, collections in particularly taxes affected by the changes directly impact the collections of the Authority.

FIGURE 16: TOTAL TAX REVENUE 1995-2006



On the whole, in terms of its main purpose, the Authority has succeeded in collecting targeted revenues year after year and this can be credited to an efficient and effective tax collection system. The table above also shows that with time, the collections of revenue have been increasing with the performance of the economy in general terms. While economic growth between 1995 and 2000 was steady at around 2% growth in GDP, the growth rate in taxes collected was equally steady. However, the growth rate in total taxes since 2001 has been significant. This corresponds with the average GDP growth of about 5% between 2002 and 2006. During this period taxes collected grew significant. This clearly shows a direct relationship between economic performance and tax collections. Caution must be made however not to link the growth in taxes collected only to economic growth but rather to merely indicate a causative relationship between the two variables. It may also be a reflection of the rise in tax rates over the period. On the whole however, there is a clear growth in the amount of taxes collected and this is higher than the growth in the other economic indicators such as GDP growth and inflation. This point's to an effective tax collection system.

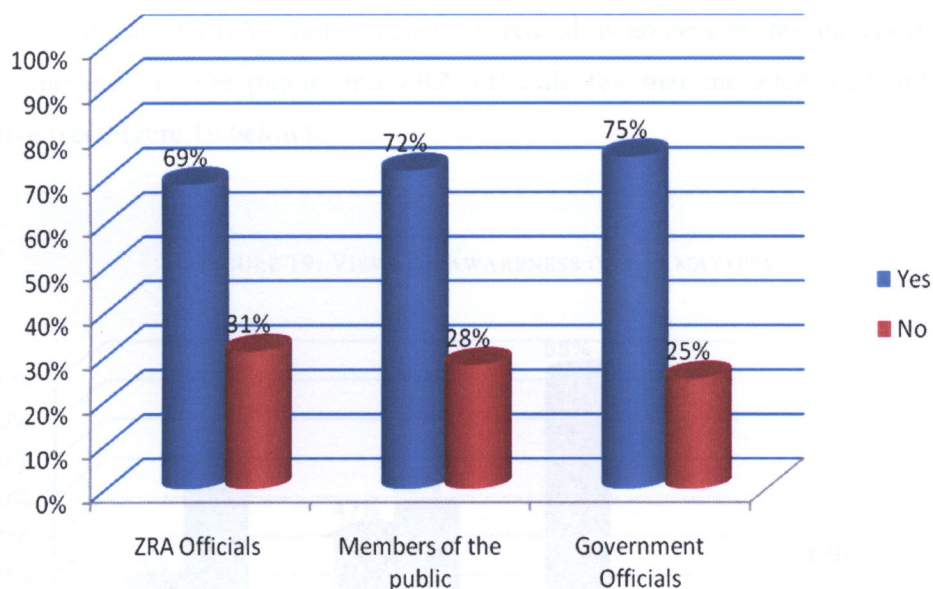
One other key measure of a tax administrations performance is the tax-to-GDP ratio. The comparison of a country's tax as a ratio of GDP only indicates whether it is above or below average in relation to other countries and whether it has changed over time. Upon the establishment of the Zambia Revenue Authority, the tax-to-GDP ratio went up significantly from 15.3% to 18.7% in the first year of ZRA's operation (World Bank 2003: 15), total revenue collected increased by 61% (Kasanga 1996: 17 quoted by Von Soest, 2006). In the subsequent years however, the tax take as a ratio of GDP has largely remained stagnant. Income tax collection has averaged at about eight per cent of GDP even with comparatively strong economic growth (IMF 2006: 35) averaging at 5% of GDP indicating that the Zambia Revenue Authority has not been able to participate in the expanding economy. This stagnation could be attributed to tax policy changes, tax exemptions and Zambia's generally stagnant tax base. The major factors depressing the tax-to GDP ratio therefore lay beyond the revenue authority's influence.

The initial upward movement in revenue performance followed by stagnation can primarily be attributed to the small tax base the Zambia Revenue Authority collects from. The authority has largely desisted from the administratively and sometimes politically challenging task of expanding direct taxation. With formal sector employment at less than 20% of Zambia's labour force (Central Statistical Office 1999: 40), the burden of income

tax falls on the few workers working for registered companies and the public service. Despite the remarkable initial improvement of revenue performance, this focus on easily accessible taxpayers inherently restricts the scope for increased revenue collection in Zambia.

Two factors that greatly contribute to the effectiveness of revenue administration is tax compliance and public confidence. In an environment where the public harbours negative perceptions about the operations of a revenue authority, compliance falls. When asked whether or not the establishment of ZRA had resulted in higher public confidence in the tax administration system, 75% of Government officials and 72% of the public felt that this had been achieved. The responses from the public are particularly important as they indicate the confidence levels of the public in the tax collection body. This is a positive reflection of the positive light within which Zambia Revenue Authority is held in the public. This view is consistent with other views on the autonomy of the institution.

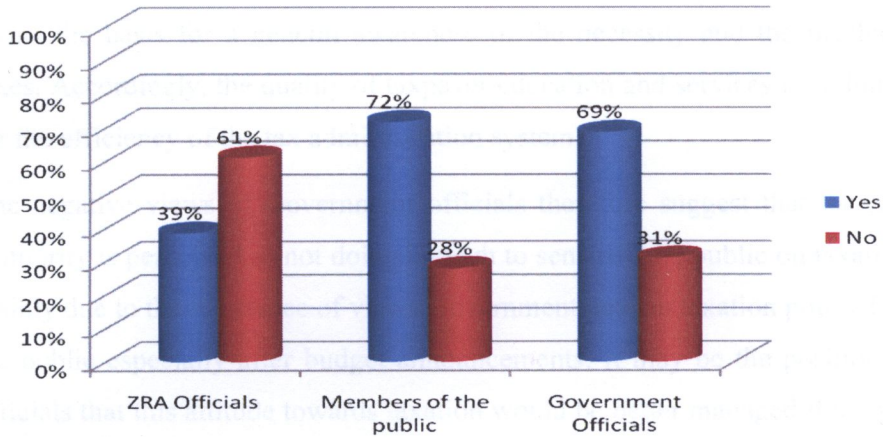
FIGURE 17: VIEWS ON WHETHER OR NOT THERE WAS INCREASED PUBLIC CONFIDENCE



Closely tied to the issue of confidence is the compliance level. 72% of the public felt that their compliance to paying taxes had improved with the establishment of ZRA. Curiously however, ZRA officials felt that the public's compliance in paying taxes was poor with only 39% holding the view that it had actually improved (see Figure 14 below). This view by ZRA officials can largely be attributed to the fact that the tax base was low and many informal sector players did not pay their tax obligation or that registered taxpayers had a

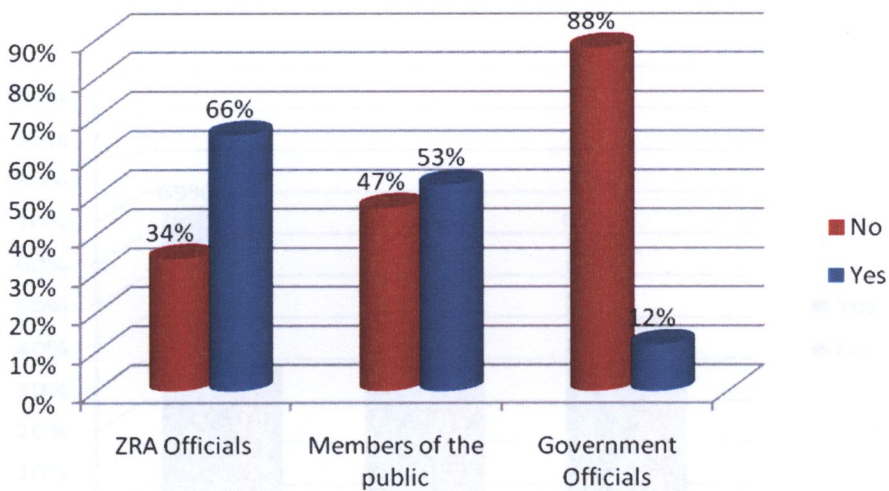
tendency to default on taxes forcing the ZRA to impose sanctions and penalties to coerce compliance.

FIGURE 18: VIEWS ON WHETHER OR NOT TAX COMPLIANCE HAD IMPROVED



Compliance levels in tax administration are largely influenced by the levels of awareness by members of the public on taxation issues. In responding to a question on whether or not the establishment of ZRA had resulted in increased awareness by tax payers of taxation issues, members of the public and ZRA officials felt that the ZRA had indeed been effective (see Figure 19 below).

FIGURE 19: VIEWS ON AWARENESS OF TAX MATTERS

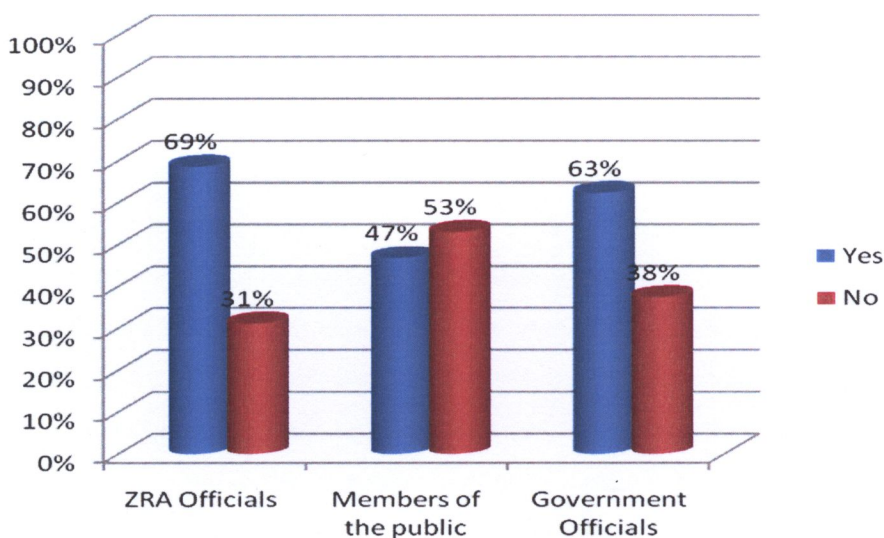


There were sharp contrary views from Government officials (88%) who disagreed with the other respondents, indicating an expectation gap between the Principle and the Agent (ZRA). Taxpayer education and services, i.e. information and assistance rendered to the tax payer, are instrumental for lowering compliance costs. Taxpayer education furthermore forms the basis for a general awareness of the necessity and the mechanism of paying taxes. Accordingly, the quality of taxpayer education and services is an important indicator for the efficiency of the tax administration system.

The negative views of Government officials therefore suggest that the Zambia Revenue Authority is perceived as not doing enough to sensitise the public on taxation. This may be mainly due to the resistance of views Government gets on taxation policy from members of the public especially after budget announcements. It may be the position of Government officials that this attitude towards taxation would be better managed if tax payers had more knowledge on the issue.

One major hindrance of the effectiveness of revenue collection is the prevalence of corruption within the tax administration system. When asked to give their views on the effect establishing ZRA had on reducing corruption in tax administration, Government and ZRA officials were agreed that the incidence of corruption had declined since ZRA's establishment. On the other hand, the majority of respondents from the public (53%) held the view that corruption had remained unabated even with the establishment of the Zambia Revenue Authority (see Figure 20).

FIGURE 20: VIEWS ON WHETHER OR NOT CORRUPTION HAD REDUCED

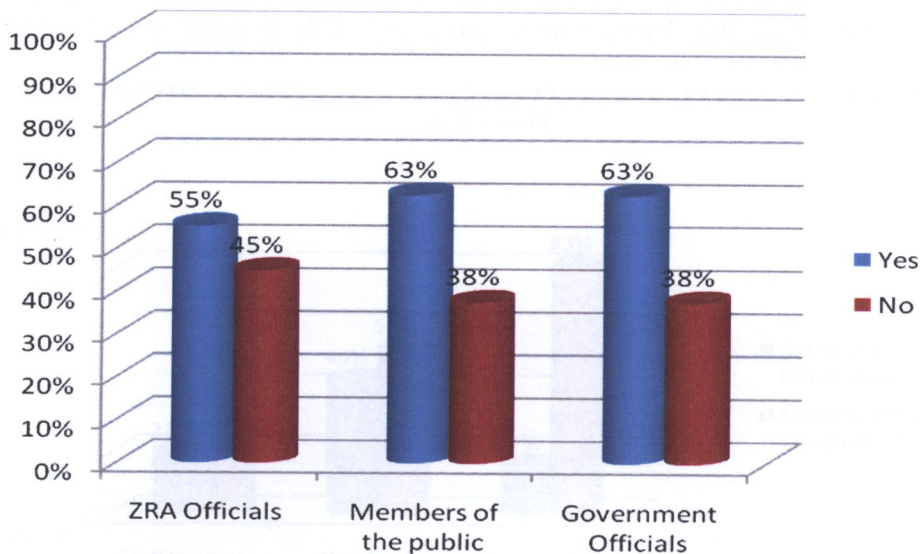


A high incidence of corruption among tax officers is likely to reduce tax compliance especially that it leads to tax payers perceiving the tax administration to be unfair i.e. does not treat every taxpayer equally and concerns on misusing money. More importantly, corruption within the tax administration system directly reduces Government revenue. The perception of corruption within the tax administration system therefore provides a valid measure for effectiveness in tax collection. While it is not very clear why the public viewed the incidence of corruption in ZRA as high especially whether or not members of the public had actually experienced acts of corruption, it could be said to be largely a factor of the general perception of corruption being seen as high in the country. Zambians generally perceive corruption as being high in the country especially after the advent of the Chiluba Government and the anti-corruption campaign led by President Mwanawasa in which several Government officials were undergoing trials on accusations of stealing public resources.

### **3.3 EFFICIENCY OF THE ZAMBIA REVENUE AUTHORITY**

The role of staff in the efficiency of an organisation is immense. Unless the organisation has a high calibre of staff, efficiency is elusive. The perceptions of respondents on the calibre of staff were therefore critical in the evaluation of efficient delivery of services by ZRA. When asked whether or not the calibre of staff in tax administration had improved with the establishment of the Zambia Revenue Authority, all three categories of respondents were in agreement.

FIGURE 21: VIEWS ON WHETHER OR NOT THE CALIBRE OF STAFF HAD IMPROVED

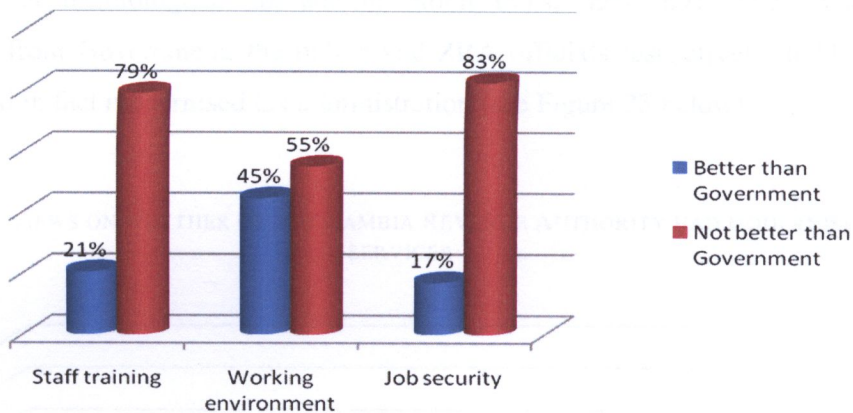


Although the number of respondents holding views that ZRA had improved the calibre of personnel in tax administration was not overwhelming across respondent category, it is however worth noting that ZRA officials were the least satisfied with the status quo on this issue. This could be as a result of internal perceptions about the calibre of fellow workers especially with regard to the respondent's views on their supervisors. If the supervisors or colleagues were viewed as being less capable, this would have led to reluctance to endorse in general the calibre of their workmates.

Despite this strong view by respondents that the calibre of staff in ZRA was good, other data indicated a cause for concern. For instance, the number of employees at the Authority has been on the decline over the years from 1,602 in 2001 to 1,247 in 2006. This can be attributed to a high staff turnover. In 2002, the Authority registered a loss of 122 employees against 179 recruited the same year. The staff turnover in 2001 was 11%. In 2005, 212 employees left the Authority 19% of these through resignations with the majority leaving due to expired contracts, dismissals and non offer of new contracts. These statistics point to poor job security in the Authority (ZRA Annual report, 2006). This scenario shows that whereas there is commitment to improving salaries for staff when a Government department has been corporatised, this is not necessarily accompanied by a similar improvement in the working environment and other conditions of service. The staff turnover can be attributed to some dissatisfaction in either the other conditions of service

or the working environment. This is confirmed by findings from respondents in ZRA who felt that there was poor job security in ZRA and that apart from salaries and performance pays, little else was better in ZRA than in Government (See Figure 22 below).

FIGURE 22: VIEWS ON JOB SECURITY, WORK ENVIRONMENT AND TRAINING IN ZAMBIA REVENUE AUTHORITY

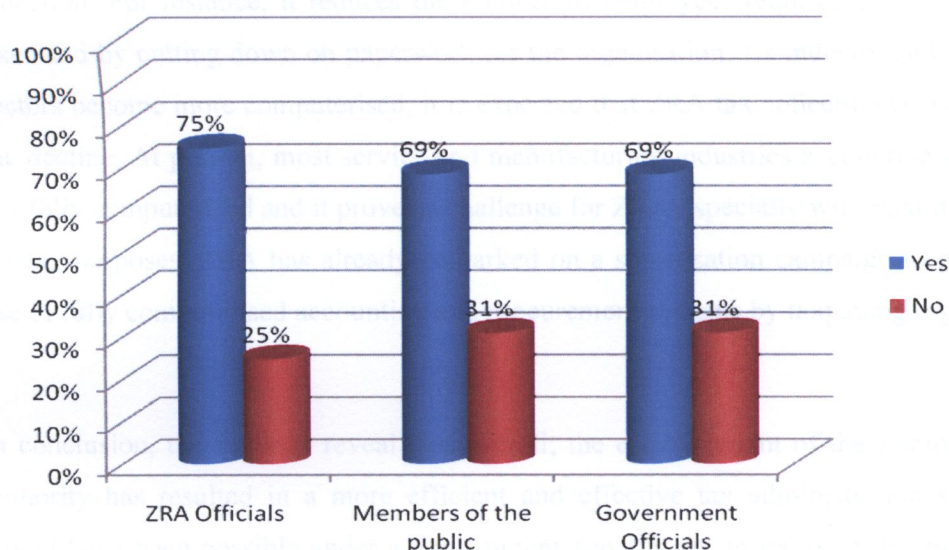


Only 45% of the respondents saw a difference in the working environment from that obtained in Government; this could be attributed to factors such as the offices they operated in had not improved much and issues such as transport and other work related tools were lacking. The mind frame of ZRA officials on these key issues has a direct bearing on the efficiency of the workers. A worker not sure of the security of his/her employment is more likely to be on the lookout for a steadier job and their dedication to duty would thus be negatively affected thereby affecting their productivity or outputs.

Training within ZRA has focused on developing competencies specific to the jobs done by employees. This has mainly consisted of short courses such as Tax Inspector course, transfer pricing, prosecution, computer auditing and debt collection. The Authority has not made significant investments in long term training for its employees which ordinarily would be the main priority for most employees beyond the confines of their present jobs. Most of the ZRA officials (80%), felt that training opportunities were better in Government than in ZRA. It is important to note that the training the workers receive which is tailored towards their jobs is more important to their on-the-job performance and contributes more effectively to improving their outputs than long term training designed to improve the individual academic qualifications of the employees. The investment into short courses therefore suggests that ZRA is investing in improving efficiency of its workers.

The efficiency of tax collection efforts are also dependent on the rate at which tax services are modernised. The essence of any modernisation programme is to improve the efficiency levels and the rate at which ZRA was modernising services was crucial to improving the revenue collection efforts as well as the quality of the service. In response to questions on whether or not the Zambia Revenue Authority has modernised its services through the introduction of technological tax administration tools, 69%, 69% and 75% of the respondents from Government, the public and ZRA officials respectively, held the view that ZRA had in fact modernised tax administration (see Figure 23 below).

FIGURE 23: VIEWS ON WHETHER OR NOT ZAMBIA REVENUE AUTHORITY HAD MODERNISED TAX SERVICES



This particular measure is important in determining efficiency especially that tax administration is particularly dependent on data; the three main responsibilities of a tax administration, i.e. the identification of taxpayers, the assessment of tax liabilities and the collection of taxes require adequate data. This information has a strong influence on the revenue authority's capacity to for instance detect tax evasion and compliance. In order to use information properly, the use of computers and special tax administration software are key indicators. The perceptions of the respondents therefore indicated there was a definite improvement in the efficiency of the tax administration process.

The use of information technology, i.e. computers, is a critical feature of successful tax administration reform. Information technology is seen as a necessary tool for reducing

customs officials' discretion. Accordingly, the computerisation of the Customs Division has been one of the first priorities of donors and the Zambia Revenue Authority management. The computer programme ASYCUDA ('Automated System for Customs Data'), which standardises the customs clearance process, became fully operational in April 2001 (ZRA, 2002). Computerised systems are also in place for processing VAT. They allow ZRA officials to disaggregate revenue performance by income group, occupation and gender and to predict future risks for revenue. In 2004, Zambia Revenue Authority introduced the computer programme 'Integrated Tax Administration System' (ITAS) which merged the old VAT software with the database of the Taxes Division. The ZRA actively collects information and processes it through modern information technology. The use of computerised systems also significantly reduces the cost of tax collection. For instance, it reduces the number of employees required to collect various taxes and by cutting down on paperwork for the organisation. As industry and the service sectors become more computerised, it is expected that ZRA tax collection costs will be on the decline. At present, most service and manufacturing industries accounting systems are not fully computerised and it proves a challenge for ZRA especially with regard to auditing for tax purposes. ZRA has already embarked on a sensitisation campaign to promote the use of fully computerised accounting and procurement systems by taxpaying organisations.

In conclusion, the findings reveal that overall; the establishment of the Zambia Revenue authority has resulted in a more efficient and effective tax administration system than would have been possible under a Government department. In terms of its objectives, the Zambia Revenue Authority has consistently achieved its targets on annual tax collections with taxes collected going from K500bn in 1995 to K6.2trillion in 2006. The findings showed that ZRA has on average met its targets each year despite the many exogenous factors that influence tax revenue collection such as the annual changes in tax policies as well as the global and local economic conditions that have an impact on tax collection. This performance is also confirmed by the perceptions of both the members of the public and Government officials the majority of whom agree that ZRA has resulted in a more public confidence, better tax systems and higher collection of taxes. There has also been a significant improvement in the calibre of staff working in tax administration and the systems used in tax administration were modern and more efficient than in previous tax administration structure. The most significant cause of concern from the findings was that

members of the public were generally dissatisfied with the quality of service they were receiving from the Zambia Revenue Authority.

The study further revealed that there was improvement in the confidence that the public have in the tax administration system and in the calibre of staff at ZRA. There had also been technological and process improvements made but these improvements in service delivery systems are hindered by the limited finances annually available to ZRA because most expenditure goes to staff costs. Significantly however, the study showed that the quality of service however had fallen short of public expectations.

## **CHAPTER FOUR**

# **BENEFITS, COSTS AND IMPEDIMENTS OF THE ZAMBIA REVENUE AUTHORITY**

### **4.1 INTRODUCTION**

This chapter presents the findings and analysis of the data collected during the course of the study on the aspect of the benefits, costs and impediments if any that arise from the establishment of the Zambia Revenue Authority.

The findings are presented in three sections. The first section covers the analysis of data obtained from respondents with regard to their views on the benefits of having the Zambia Revenue Authority. The second section compares highlights the costs of maintaining the ZRA and the third section provides the findings of the study on the aspect of what impediments arise from using ZRA in tax administration.

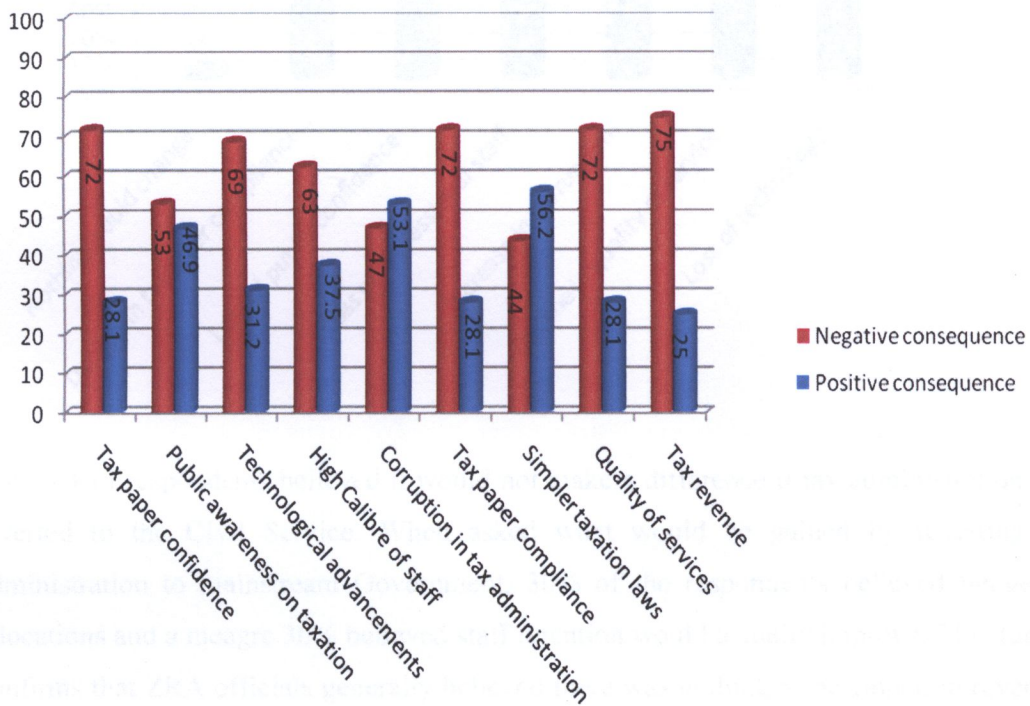
### **4.2 BENEFITS OF THE ZAMBIA REVENUE AUTHORITY**

In Chapter Three, the study establishes that the establishment of the Zambia Revenue Authority has generally been a success although shortcomings are identified from the views of respondents. To determine how beneficial respondents viewed ZRA, the study looked at the perspectives on how they viewed tax administration in country if the Zambia Revenue Authority mandate was to be reverted to mainstream Government. The responses to this question were a strong indicator of the benefits that ZRA was perceived as providing and also the benefits that they felt would no longer accrue to the tax system if ZRA ceased to exist.

Responding to questions on what would be lost or enhanced if tax administration was reverted to a Government department; members of the public were generally in agreement that this would have more negative impacts than positive. 75% believed there would be a

decline in tax revenue, 68% believed tax payer confidence would decline and 71% believed the quality of service would decline (see Figure 24 below). This negative perspective could be as a result of associating Government systems with ineffectiveness and inefficiency.

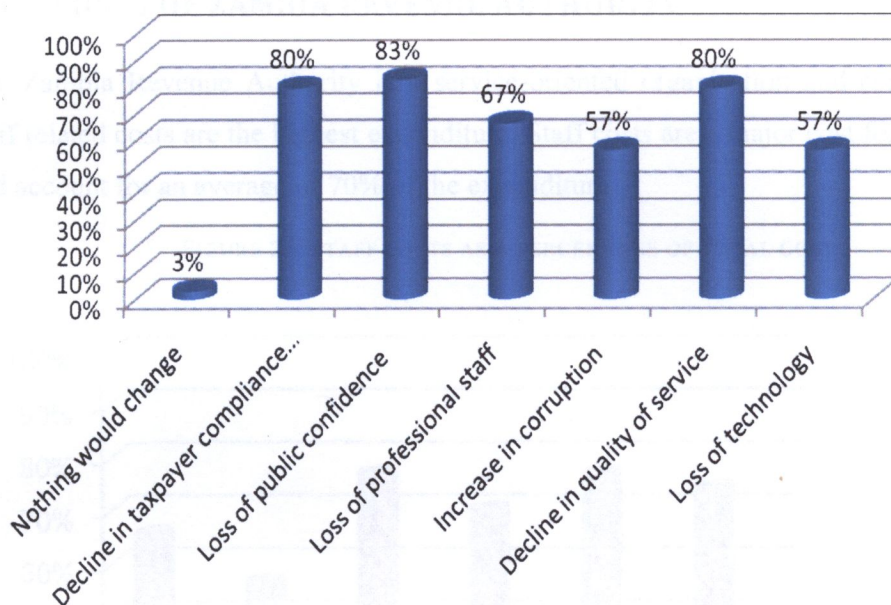
FIGURE 24: PUBLIC VIEWS ON CONSEQUENCES OF REVERTING TAX ADMINISTRATION TO A GOVERNMENT DEPARTMENT



The only areas respondents felt would have a positive impact were in simplification of tax laws (56%) and corruption (53%). This may be attributed to respondents associating a Government department with law making.

When asked what aspects of the reforms would be lost if the Revenue Administration was reverted to mainstream Government, the majority of ZRA officials held a general view more would be lost than gained (see Figure 25). Eighty percent (80%) of the respondents believed in the event of tax administration reverting to Government, tax revenue and compliance, and the quality of service to the public would decline. 83% felt that public confidence in tax administration would wane and 66.7% of the respondents believed key staff would be lost.

FIGURE 25: ZAMBIA REVENUE AUTHORITY VIEWS ON CONSEQUENCES OF REVERTING TAX ADMINISTRATION TO A GOVERNMENT DEPARTMENT



Only 3% of respondents believed it would not make a difference if tax administration was reverted to the Civil Service. When asked what would be gained by reverting tax administration to mainstream Government, 30% of the respondents believed budgetary allocations and a meagre 30% believed staff retention would actually improve. This further confirms that ZRA officials generally believed there was nothing to be gained in reverting to Government and were satisfied with the status quo.

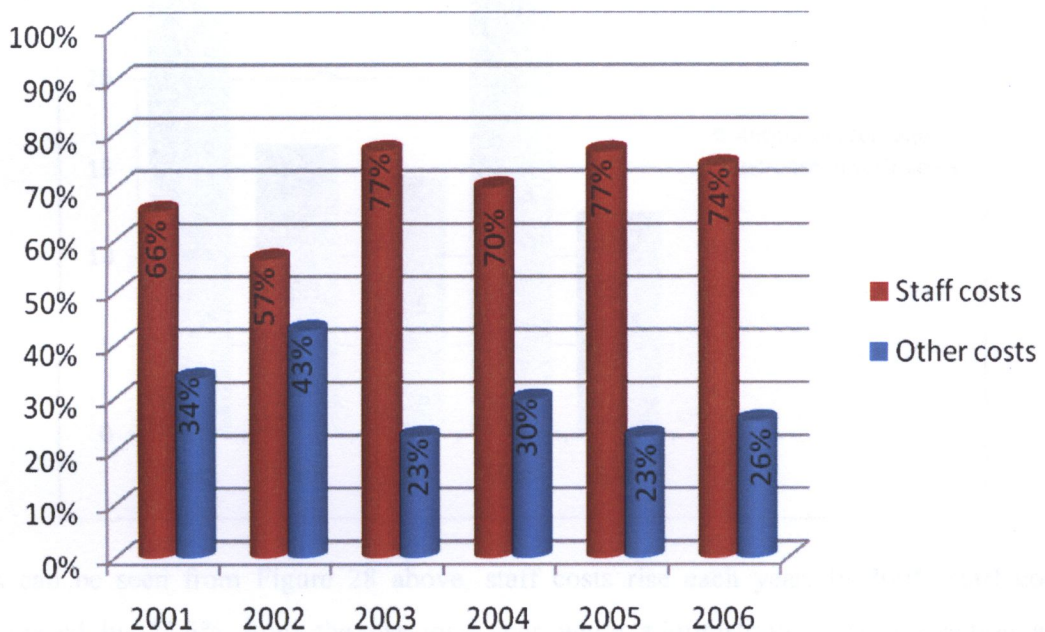
Amongst Government officials, the views were generally similar on the question of what would be lost if tax administration reverted to mainstream Government. Eighty percent (80%) of the respondents believed that the tax administration reforms could not have been achieved had tax administration remained within the mainstream Government. Apart from staff retention and the use of technology in tax assessment and collection, the majority of respondents (90%) felt that reverting tax administration to Government would result in a reduction on tax collections, poor public confidence in tax administration systems, loss of qualified human resources and a general reduction in the efficiency of the tax administration systems. 70% of the respondents however did not believe the merging of the Department of Customs and Excise with the Department of Taxes had resulted in an improvement in tax administration. This was mainly attributed to the absence of

information or a clear linkage between tax administration and the merger considering the two still operated fairly independently as separate Divisions within ZRA.

### 4.3 COSTS OF ZAMBIA REVENUE AUTHORITY

The Zambia Revenue Authority is a service-oriented organisation and consequently, its staff related costs are the highest expenditure. Staff costs are a major cost for the Authority and account for an average of 70% of the expenditure.

FIGURE 26: STAFF COSTS AS A PERCENTAGE OF TOTAL COSTS

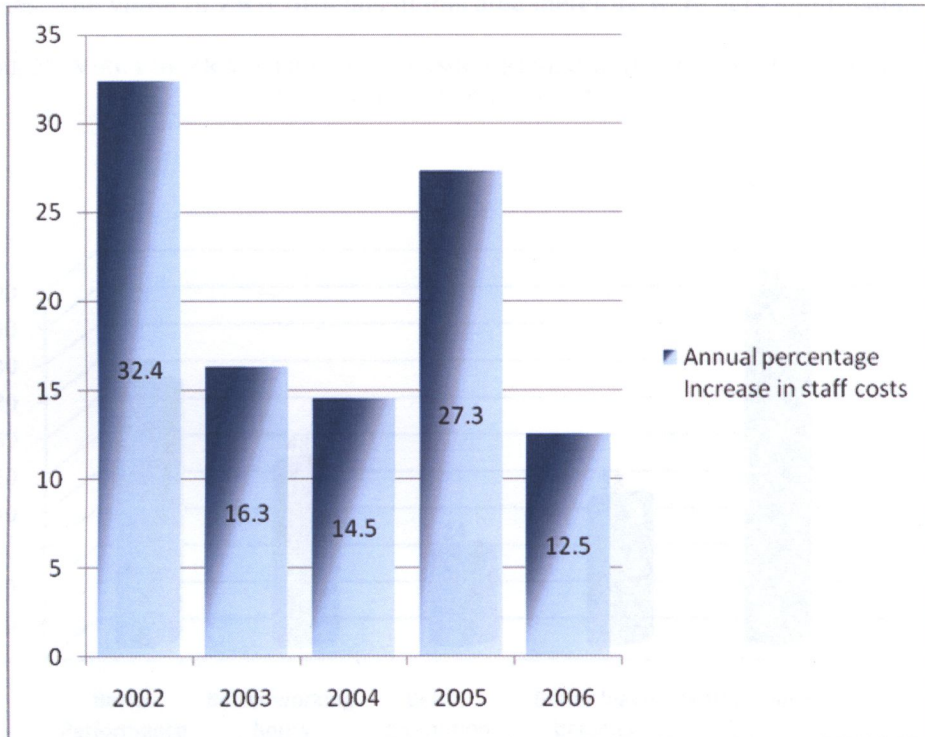


In 2005, staff costs accounted for 77% of the total operational budget followed by administrative costs, which accounted for 13%. Inspection and enforcement costs accounted for only 10% of the budget. Over the years, staff costs have increased while other costs as a proportion of total expenditure have decreased. This scenario adds credibility to concerns that when government departments are corporatised, most of the funds are channelled to staff costs rather than investments in improving the quality of service.

This information also suggests that there is limited investment into service delivery thereby raising questions on the issue of efficiency in tax collection. This could be a likely explanation for the views by the public and Government officials that there is limited

public awareness in taxation and taxation related issues. It could further explain the views expressed by respondents from the public who felt that the quality of service had not necessarily improved. In the absence of significant investments into other aspects of service delivery, the capacity of ZRA to respond to service demands is constrained

FIGURE 27: ANNUAL PERCENTAGE INCREASE IN STAFF COSTS

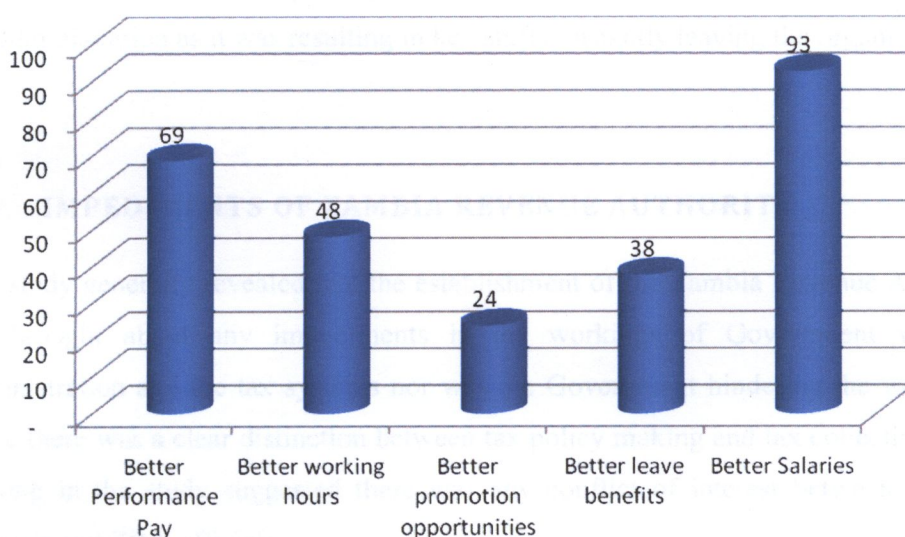


As can be seen from Figure 28 above, staff costs rise each year. In 2005, staff costs increased by 27.3% from the previous year while administration and inspection and enforcement costs decreased by 15.7% and 2.9% respectively. The pressure to keep conditions of service competitive probably forces the Authority to maintain very high staff costs. The average amount spent on an employee at ZRA is K100.9m/employee as per the 2006 number of employees versus the total staff related expenditure for the year (ZRA annual report, 2007). Compared to an average estimated cost of K30m/employee in management in the Civil Service, the expenditure for ZRA on an employee is at least nearly four (4) times higher than in Government. This confirms observations that the costs of maintaining staff in a corporate entity are significantly higher than those of maintaining a similar compliment of staff in Government.

This seemingly high input of resources into conditions of service is consistent with the fact that a fundamental feature of revenue authorities is the expectation that it will have a merit-

oriented recruitment and promotion system which facilitates an ‘organisational culture’ which focuses on performance. Instituting, implementing and sustaining a merit-orientated culture attract significant proportions of an organisations budget. Through its policies on recruitment, promotion, remuneration and organisational culture, it is possible to measure whether the tax administrations’ human resource management predominately follows merit principles. The views of ZRA officials in this area therefore were very significant.

FIGURE 28: VIEWS OF ZRA OFFICIALS ON ZAMBIA REVENUE AUTHORITY WORKING CONDITIONS VERSUS GOVERNMENT



When asked to compare issues of salaries, leave benefits promotion, job security, working hours, working environment, performance related pay and training opportunities with those obtaining in Government, 93.1% of the respondents from ZRA felt that salaries were better under ZRA when compared to mainstream Government and similarly 69% felt performance pay was better. The indicator on performance pay in which 69% of the respondents felt was better than that obtaining in Government suggests strongly that ZRA is tailored towards performance and merit therefore is a key component of the work culture. 37.9% felt leave pay was better and only a dismal 24.1% felt promotion opportunities were better. On average, analysis shows that 70% also felt that in terms of training and promotion opportunities, mainstream Government conditions were much better.

When Government officials were asked to compare the conditions of service between Government and ZRA, the majority of respondents generally agreed with ZRA officials that whereas ZRA had improved and was better than the Civil Service in terms of salaries, performance incentives and other conditions of service, on issues such as job security and staff training, the situation had actually worsened since the establishment of ZRA. This again could be in relation to the fact that it was easier to lose ones job in ZRA than it was in Government. There was agreement between Government and ZRA officials that whereas the establishment of the Zambia Revenue Authority had resulted in better salaries and other conditions of service, it had also resulted in poor staff retention and job security. And this was negatively impacting the effectiveness of the Zambia Revenue Authority in tax administration as it was resulting in key staff constantly leaving the organisation.

#### **4.4 IMPEDIMENTS OF ZAMBIA REVENUE AUTHORITY**

The study generally revealed that the establishment of the Zambia Revenue Authority had not brought about any impediments in the workings of Government vis-à-vis tax administration and the tax systems nor was the Government hindering the work of ZRA. Since there was a clear distinction between tax policy making and tax collection functions, nothing in the study suggested there was any conflict of interest between Government officials and ZRA officials.

Data obtained from Government officials who were the most likely to raise concerns over a semi-autonomous revenue authority revealed that they were mostly very satisfied with the operations of the Zambia Revenue Authority with 93.7% indicating that the reforms had been a success in the area of tax collection and 75% on the issue of ensuring there was no interference in tax collection operations. They further indicated that ZRA's existence did not pose any challenge or obstacles to them in the discharge of their functions. In the view of Government officials, the Principle versus Agent problem was overcome by the de facto direct reporting relationship between the commissioner General of ZRA and the officials of the Ministry of Finance and National Planning, in particular the Minister which they preferred to be formalised. The majority of Government officials felt that the nature of tax administration required not only a direct reporting relationship between the Government and ZRA but constant interactions between the Minister of Finance and the CG and this in

their view did not imply interference into the operations of ZRA; rather it facilitated the better management of the tax administration system. Similarly, although the reporting relationship between the CG and the top Government officials involved in Treasury management and manner of appointment of the CG gave way to concerns of political interference, they did not indicate they were in any way hampered in the discharge of their duties. The study revealed that many ZRA officials enjoyed autonomy in their work as evidenced by 73% of them stating that ZRA's autonomy was either very high or high.

Since freeing tax administration of political interference was one of the key areas of the reforms; the views of the other respondents from the public and within ZRA on this issue were equally significant. The option preferred by Government officials of a more direct reporting relationship between the Commissioner General and the Minister of Finance and National Planning would result in the perception of interference growing and further resulting in a decline in public confidence in the ZRA. However, in terms of tax policy implementation, a direct reporting relationship between ZRA and the Minister of Finance would indeed facilitate for a more effective implementation network between the implementers and the policy makers.

One important issue however that was identified as hampering the operations of ZRA was the matter of financing. The Ministry of Finance and National Planning controlled the annual budget allocations to ZRA and the annual budget appropriations were considered inadequate to facilitate the optimum operations of the Authority. It was noted that whereas at the establishment of the Authority, its budget was a percentage of its collections, the use of pre-determined appropriations had reduced the financing to the authority. During interviews with Government officials while acknowledging there might be a strong case by ZRA on the issue of funding, showed a strong reluctance to revert to the old system of financing because tax collections were a function of many other factors beyond ZRA and in cases of high tax collections say arising from high tax rates, the percentage funding to ZRA would not reflect the needs of ZRA but rather result in excess income to ZRA at the expense of other national priorities.

The other issues emerging as impediments to the success of the reforms were essentially internal to ZRA. These covered issues discussed in chapters three and four particularly the failures on staff retention. The constant loss of key staff was an obstacle to the efficiency of the authority. This had a direct bearing on the staff costs annually and in turn on the

quality of service. As the staff costs went up each year to address staff related concerns, the funds available for investment and re-investment in services became more and more limited. In the same vein, constant recruitment of professionals to replace others who had earlier been trained and attained the desired proficiency in the discharge of their duties, meant that the organisation needed to re-invest in the new staff to bring them to the desired proficiency levels and this took time.

In conclusion, the findings show that ZRA is viewed as a beneficial organisation by members of the public, Government officials and employees of the Zambia Revenue Authority. The key benefits are that it has resulted in higher public confidence in the tax administration system and it facilitates the modernisation of tax systems and processes without the difficulties presented by a Government bureaucracy and red tape. This position is presented by all three categories of respondents interviewed in the study.

The use of ZRA does result in a 'Principal versus Agent' problem, as can be seen by the strong views by both members of the public and ZRA officials on the issue of interference in ZRA operations and objections to the CG being appointed by the President. This situation however does not create a problem in managing the tax authority provided the lines of reporting are clearly determined and the institutional framework makes it clear that issues of tax policy are the responsibility of the Ministry of Finance and furthermore, the Minister of Finance does not interfere with the day to day operations of the organisation. The existence of a corporate entity therefore does not provide a challenge in supervision for the Government provided the power and authority of the Minister of Finance on issues of tax policy and administration are not challenged by the revenue authority.

The main impediments to the operations of the Zambia Revenue Authority are the limited resources available annually for its operations and the high staff attrition rate. This had a direct bearing on the quality of service and the capacity of the authority to deliver on its mandate. The study also established that the costs of maintaining ZRA were significantly higher than those of maintaining a Government Department. The costs of personal emoluments were at least four (4) times higher than in the Civil Service and this affected the efficiency of the tax administration system with an average of 70% of the Zambia Revenue Authority budget going to staff related costs at the expense of improving service delivery systems. This cost structure also reduced funds available for investments in

programmes to improve service delivery such as computerisation of systems, improving the working environment and administrative efficiency. The study also showed that apart from the staff related costs of a corporate entity, there are no other significant costs that are created by the establishment of a corporate body from a Government department.

# **CHAPTER FIVE**

## **CONCLUSION AND RECOMMENDATIONS**

### **5.1 INTRODUCTION**

Based on the data collected and analysed in the preceding chapters of this study, the following are the conclusions:

### **5.2 SUMMARY OF CONCLUSIONS**

#### **5.2.1 Efficiency and effectiveness of the Zambia Revenue Authority**

The establishment of the Zambia Revenue Authority (ZRA) has resulted in a more effective and efficient tax administration system. This is confirmed by the following:

- (i) There has been an annual increase in tax revenue over the last eleven years from K500billion in 1995 to K6.2trillion in 2006. ,
- (ii) There has been, on average, an on target performance each year despite the many exogenous factors that influence tax revenue collection such as the annual changes in tax policies as well as the global and local economic conditions that have an impact on tax collection
- (iii) There has been improvement in the confidence that the public have in the tax administration system. 69% of the public and 75% of Government officials felt that ZRA had resulted in more public confidence in the tax system and 83% of the ZRA workers felt there would be a decline in public confidence if tax administration was to be placed in a Government department.
- (iv) There was improvement in the calibre of personnel working in tax administration. This was agreed upon by all three categories of respondents with public agreement at 63%, ZRA officials at 55% and Government officers at 63%.

- (v) While in the view of the public, the quality of service had not significantly improved with only 41% holding the view that the quality of service had significantly improved; in the views of Government and ZRA officials, 90% and 83% respectively, felt services had improved. The key issue however was that the improvement in quality of service had fallen short of public expectations.
- (vi) There had been technological and process improvements made in the tax administration system. This was confirmed by 75% of the public respondents who are the beneficiaries of these improvements. However, the improvements in service delivery systems are hindered by the limited finances annually available to ZRA because most costs go to staff costs. This is confirmed by an average of 70% of ZRA finances being used on staff.
- (vii) The creation of ZRA as a body corporate and semi-autonomous from Government has had a major influence on the success of the tax reforms pursued by the Zambian Government and had tax administration remained within the Government the level and rate of success would have been significantly lower. This was confirmed by 75% of Government officials, 78% of the public and 90% of ZRA officials.
- (viii) The establishment of ZRA has resulted in a more effective tax collection system which has contributed significantly to the increase in tax revenue for the Government. This is confirmed by the higher growth rate in taxes averaging 23% over the last five years as compared to the growth of other economic indicators such as GDP. However, Zambia Revenue Authority had failed to expand the tax base so its effectiveness was limited to a stagnant tax base and this had negatively affected the public's evaluation of the revenue authority especially on issues of equity in taxation.

### **5.2.2 Benefits of using a corporate body in revenue collection**

There were identified benefits in using corporate entities in the delivery of public services. These included:

- (i) Higher public confidence, better performance and calibre of employees; and
- (ii) It facilitates the modernisation of tax systems and processes without the encumbrances of bureaucratic red tape.

This was confirmed by the views of all three categories of respondents who felt that the establishment of ZRA had resulted in better and modern systems of tax collection which would not have been possible in a Government department due to bureaucratic rigidities. They also agreed that in the absence of the revenue authority, most of the progress made and achievement attained in tax administration such as tax payer confidence, tax payer compliance, increased tax revenue and modernisation of services would be lost. The authority had therefore proved beneficial in improving the tax system of the country.

### **5.2.3 Costs of maintaining a corporate body vs. Government department**

The costs of maintaining ZRA are significantly higher than those of maintaining a Government Department. The costs of personal emoluments are at least four (4) times higher than in the Civil Service and this negatively affects the efficiency of the tax administration system with an average of 70% of the Zambia Revenue Authority going to staff related costs at the expense of improving service delivery systems. This reduces funds available for investments in programmes to improve service delivery such as computerisation of systems, improving the working environment and administrative efficiency.

Apart from the staff related costs of a corporate entity, there are no other significant costs that are created by the establishment of a corporate body from a Government department. All the other costs associated with the operations of Government department exist in a corporate entity subject to the priorities and policies of the Board and management of the institution.

### **5.2.4 Impediments of using corporate bodies in revenue collection**

- (i) There are socio-political impediments such as ‘Principal versus Agent’ problems that arise from the use of a Corporatised entity in revenue collection as a public service. This, however, does not create a problem in managing the tax authority provided the lines of reporting are clearly determined and the institutional framework makes it clear that issues of tax policy are the responsibility of the Ministry of Finance and furthermore, the Minister of Finance does not interfere with the day to day operations of the organisation. This is clear from the findings since all respondents agreed that ZRA was an autonomous organisation and ZRA officials felt that the Zambia Revenue Authority Board was effective.

- (ii) The existence of a corporate entity does not provide a challenge in supervision for the Government provided the power and authority of the Minister of Finance on issues of tax policy and administration are not challenged by the revenue authority.
- (iii) The main impediments to the operations of the Zambia Revenue Authority were the limited resources available annually for its operations and the staff attrition rate. Both issues had a direct bearing on the quality of service and the capacity of the authority to deliver on its mandate.

## **5.3 RECOMMENDATIONS**

Based on the conclusions made above, the following are the recommendations:

### **5.3.1 Efficiency and effectiveness of the Zambia Revenue Authority**

Since the ZRA has been both efficient and effective, in cases where a Government department has a direct public service delivery function such as a revenue collection, the establishment of a corporate organisational structure should be considered. This will ensure that through the use of corporate principals, a more effective and efficient service delivery system can be put in place. Necessary performance targets can be established that would be used to measure the performance of the new organisation

### **5.3.2 Successes of Zambia Revenue Authority**

Although ZRA has been a largely successful corporate body, its operations should be further strengthened. There is need for ZRA to pay particular attention to improving the quality of service to members of the public. One key issue that needs to be tackled in this regard is the expansion of the tax base so as to broaden it to include the informal sector. This will result in a more equitable tax system and thus improve the success of the Zambia Revenue Authority.

### **5.3.3. Benefits of using a corporate body in revenue collection**

There are clear benefits to using a corporate body in revenue collection and the use of this approach should be explored in other public service deliverables which do not involve policy making provided the particular service(s) can be easily measured and separated from mainstream Government operations. This model of reforms should therefore be explored in areas of industry or sector regulation and other services which can be provided on a cost effective basis.

### **5.3.4. Costs of maintaining corporate body vs. Government department**

The costs of a corporate organisation should be balanced between staff related costs and operational as well as investments costs so that a significant portion of the budget should

be directed towards improving the quality of service. This will ensure appreciation of the services by the public whom the corporation is created to serve.

#### **5.3.5. Impediments of using corporate bodies in revenue collection**

To avoid Principle versus Agent problem, the management of a corporate structure performing a function on behalf of Government should report to its Board on issues to do with the internal organisational policy and daily operations. However, the management must also have a direct reporting line to the policy makers on issues related to the performance of the function on behalf of Government. This is to ensure that both the Government Ministry and the corporate body clear any suspicions and foster a conducive working relationship. There must also be a deliberate policy framework to keep Government officials away from interfering with the day to day operations of the organisation by restricting their interests to the performance targets and policy implementation monitoring.

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## APPENDICES

**APPENDIX I: QUESTIONNAIRE FOR ZAMBIA REVENUE AUTHORITY  
OFFICIALS**

University of Zambia

School of Humanities and Social Sciences

Department of Political and Administrative Studies

Questionnaire ID No.....

Dear Respondent,

This questionnaire is for a Post graduate research project in the department of Political and Administrative Studies. The aim of the project is to evaluate the effectiveness and efficiency of Corporatisation of Government departments as a means of enhancing public service delivery.

The information obtained from you will be treated with optimum confidentiality and will be used exclusively for academic purposes.

Your cooperation will be highly appreciated

(√)Tick where appropriate unless specified.

Sex...

Male	<input type="checkbox"/>
Female	<input type="checkbox"/>

Years of Service:.....

Rank:..... Department/Unit:.....

1. How would you rate the degree of autonomy of ZRA?

Very high	<input type="checkbox"/>
High	<input type="checkbox"/>
Medium	<input type="checkbox"/>
Low	<input type="checkbox"/>
Very low	<input type="checkbox"/>
None	<input type="checkbox"/>

2. In your view what is the reason ZRA was established? Rank them according to your view starting with the highest using numbers 1-7 (with 1 being the highest).

To eliminate Poor compliance by the public	<input type="checkbox"/>
To overcome impediments caused by Government Human resource policies	<input type="checkbox"/>
To overcome political inference	<input type="checkbox"/>
To overcome high levels of corruption	<input type="checkbox"/>
Create an organisation of excellence within the public service	<input type="checkbox"/>
To facilitate modernisation of tax Collection operations	<input type="checkbox"/>
Other (Specify)	<input type="checkbox"/>
Other (Specify)	<input type="checkbox"/>

3. What reforms were and have been introduced with the establishment of ZRA?  
(Tick appropriate boxes)

Internal Performance Appraisal	<input type="checkbox"/>
Tax payers segmentation	<input type="checkbox"/>
Improved taxpayer compliance measures	<input type="checkbox"/>
Improved services to the public	<input type="checkbox"/>
Change in organisational structure	<input type="checkbox"/>
Improved use of technological advancements in tax assessment and collection	<input type="checkbox"/>
Improved budgetary allocation	<input type="checkbox"/>
Staff retention measures	<input type="checkbox"/>
Introduction of anti-corruption measures	<input type="checkbox"/>
Improved tax administration procedures	<input type="checkbox"/>
Increased awareness by the public on tax matters	<input type="checkbox"/>
Simpler tax legislation and regulations	<input type="checkbox"/>
Improved calibre of human resources	<input type="checkbox"/>
Other (specify)	<input type="checkbox"/>
Other (specify)	<input type="checkbox"/>

4. Has the merging of the Department of Customs and Excise and Department of Taxes resulted in improved tax administration?

Yes	<input type="checkbox"/>
-----	--------------------------

No	
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5. Why do you say so?

.....

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6. How effective would you say the tax collection exercise is at ZRA compared to when it was at Ministry of Finance?

Very effective	
Effective	
Same	
Not effective	
No at all effective	
Don't know	

7. How would you describe the role of the Commissioner General?

Full responsibility of operations and management	
Coordinating role only	
Organisational policy making role only	
Responsibility for operations only	
Other (specify)	

8. In your view, to whom does the Commissioner General report?

Republican President	
Board Chairman	
Minister of Finance	
Don't know	
Other	

9. What in your view is the role of the ZRA Board?

.....

.....

.....

10. Is the Board performing its role as described in (9) above?

Yes	
No	

11. Is the Board effective as a decision making organ within ZRA?

Very effective	
Effective	
Ineffective	

Very ineffective	
Not sure	

12. Why do you say so?

.....

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.....

13. Is the Board adequately empowered to fulfil its role?

Yes	
No	
Don't know	

14. How would you describe the operational style for ZRA in terms of organisation category?

Private sector	
Government Ministry/Department	
Other (specify)	

15. Do you think there is any political interference in the operations of ZRA?

Yes	
No	

16. In your opinion does the appointment of the ZRA CG by the President affect his/her effectiveness as a CEO?

Yes	
No	

17. Why do you say so?

.....

.....

.....

.....

18. List the top three things you consider as critical success factors for ZRA.

- i.....
- ii.....
- iii.....

**(Question 19 & 20 are for senior Managers only or other officers knowledgeable on the issue. Others may proceed to answer Q 21 & 22)**

19. Has the performance of ZRA ever been evaluated by any of the following? (Tick appropriate boxes)

Ministry of Finance	
Donor agencies	

National Assembly	
Civil society organisations	
Internal assessment by ZRA	
Other (specify)	
None	

20. How and when was/is this evaluation undertaken?

.....

.....

.....

.....

.....

.....

.....

.....

21. How do you rank the conditions of service in ZRA compared to those obtaining in the Civil Service?

	Salaries	Job autonomy	Staff Training	Annual Leave benefits	Job security	Working hours	Internal promotions	Performance pay	Working environment
<b>Much better</b>									
<b>Better</b>									
<b>Same</b>									
<b>Poor</b>									
<b>Very poor</b>									
<b>Not Sure</b>									

**For questions 21 & 22 see table below**

22. What aspects or outputs of the reforms would in your view be lost if the Revenue Administration was reverted to mainstream Government? **(Multiple mention possible)**
23. In your view what aspects or outputs of the reforms would be enhanced if the Revenue Administration was reverted to mainstream Government? **(Multiple mention possible)**

	Q21	Q22
More tax revenues		
Internal Performance appraisal		
Taxpayer compliance		
Quality services to the public		
Organisational structure		
Technological advancements in tax assessment and collection		
Public confidence in the tax system		
More budgetary allocation		
Retention and Recruitment of Professional staff		
Transparency within ZRA		
Anti-corruption measures		
Improved Tax administration procedures		
Public awareness on tax matters		
None		
Other (specify)		

**You may provide any other comments you may consider relevant to the study below (Optional)**

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**Thank you for your cooperation.**

## APPENDIX II: QUESTIONNAIRE FOR GOVERNMENT OFFICIALS

University of Zambia

School of Humanities and Social Sciences

Department of Political and Administrative Studies

Questionnaire ID No.....

Dear Respondent,

This questionnaire is for a Post graduate research project in the department of Political and Administrative Studies. The aim of the project is to evaluate the effectiveness and efficiency of Corporatisation of Government departments as a means of enhancing public service delivery.

The information obtained from you will be treated with optimum confidentiality and will be used exclusively for academic purposes.

Your cooperation will be highly appreciated

Ministry:.....

Position:.....(Optional)

24. How do you rate the degree of autonomy of ZRA?

Very high	
High	
Medium	
Low	
Very low	
None	

25. What reforms were introduced with the establishment of ZRA?

Institutional Self assessment	
Tax payers segmentation	
Improved services to the public	
Change in organisational structure	
Improved use of technological advancements in tax assessment and collection	
Improved public confidence in the tax system	
Improved budgetary allocation	
Improved staff retention measures	
Reduced corruption within ZRA and introduction of anti-corruption measures	
Improved tax administration procedures	
Increased awareness by the public on tax matters	
Simpler laws	
Improved calibre of human resources	
Not sure	
Others (specify)	

26. Have the objectives of the reforms been achieved?

Yes	
No	

27. What is the explanation for answer to (3) above?

.....

.....

.....

.....

.....

28. Has the merging of the Department of Customs and Excise and Department of Taxes resulted in improved tax administration?

Yes	
No	

29. What in your view is the reason(s) ZRA was established?

To eliminate Poor compliance by the public	
To overcome impediments caused by Government Human resource policies	
To overcome political inference	
Overcome high levels of corruption	
Create an organisation of excellence within the public service	
To facilitate modernisation of tax Collection operations	
Other (specify)	

30. Have the objectives of the establishing ZRA been achieved?

Yes	
No	

31. What is the explanation for answer to (7) above?

.....

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.....

.....

.....

32. Does the reporting structure for the Commissioner General cause any problems for Government decision making?

Yes	
No	
Unsure	

33. Give reasons for answer to (9) above.

.....

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34. To whom should the ZRA Commissioner General report?

Republican President	
Board Chairman	
Minister of Finance	
Other	

35. Explain/Give reasons for answer to (11) above.

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.....  
.....  
.....

36. What was the main role of the Board as envisioned by Government?

.....  
.....  
.....  
.....

37. Has the ZRA Board fulfilled its role as envisioned by Government?

Yes	
No	

38. Is the Board effective as a decision making organ for ZRA?

Very effective	
Effective	
Ineffective	
Very ineffective	
Not sure	
Other (Specify)	

39. What is your reason for your answer to (15) above?

.....  
.....  
.....  
.....

40. Is the Board adequately empowered to do fulfil its role?

Yes	
No	
Not sure	

41. The operating style of ZRA may be categorised being modelled on which type of organisation?

Private sector	
Government Ministry/Department	
Other (specify)	

42. Does ZRA experience political interference in its operations?

Yes	
No	
Not sure	

43. Does the appointment of the ZRA CG by the President affect his/her effectiveness as a CEO?

Yes	
No	

44. List the top three things you consider as critical success factors for effective Revenue Administration.

.....  
 .....  
 .....  
 .....

45. Has the performance of ZRA ever been evaluated any of the following:

Ministry of Finance	
Donor agencies	
National Assembly	
Civil society organisations	
Internal assessment by ZRA	
Not sure	

46. How do you rank the conditions of service in ZRA compared to those obtaining in the Civil Service?

	Salaries	Job autonomy	Staff Training	Leave benefits	Job security	Working hours	Internal promotions	Performance pay	Working environment
Way better									
better									
Same									
Poor									
Very poor									
Not available									

47. Couldn't the above reforms been achieved within the Government system?

Yes	
No	

*For questions 25 & 26 see table below*

48. What aspects of the reforms would in your view be lost if the Revenue Administration was reverted to mainstream Government?

49. What aspects of the reforms would in your view be enhanced if the Revenue Administration was reverted to mainstream Government?

	Q25	Q26
Increase in tax revenues		

Institutional Self assessment		
Tax payers segmentation		
Improved taxpayer compliance		
Improved services to the public		
Change in organisational structure		
Improved use of technological advancements in tax assessment and collection		
Improved public confidence in the tax system		
Improved budgetary allocation		
Improved staff retention		
Reduced corruption within ZRA and introduction of anti-corruption measures		
Improved tax administration procedures		
Increased awareness by the public on tax matters		
Simpler laws		
Improved calibre of human resources		
None		
Other (specify)		

50. Should the revenue administration function remain semi autonomous?

Yes	
No	

51. What is reason for answer given for (27) above?

.....  
.....  
.....

52. Would additional autonomy enhance the performance of ZRA?

Yes	
No	

53. What is reason for answer given for (29) above?

.....  
.....  
.....

### **APPENDIX III: QUESTIONNAIRE FOR GENERAL PUBLIC**

University of Zambia

School of Humanities and Social Sciences

Department of Political and Administrative Studies

Questionnaire ID No.....

Dear Respondent,

This questionnaire is for a Post graduate research project in the department of Political and Administrative Studies. The aim of the project is to evaluate the effectiveness and efficiency of Corporatisation of Government departments as a means of enhancing public service delivery.

The information obtained from you will be treated with optimum confidentiality and will be used exclusively for academic purposes.

Your cooperation will be highly appreciated

**Questionnaire  
number**

**Gender**

Female	
Male	

**Organisation:**.....  
**Tel:** .....

(√)Tick where appropriate unless specified.

Individual tax payer	
Corporate Tax payer	

City of residence:.....

54. Do you think the Zambia Revenue Authority (ZRA) is independent of Government in its operations?

Yes	
No	
Don't know	

55. If your answer to (1) is YES, how would you rate the level of independence of ZRA?  
**Read Out**

Very high	
High	
Medium	
Low	
Very low	
None	

56. In your view, has the establishment of ZRA achieved any of the following? **Read Out**

RESPONCES	YES	NO
Eliminated Poor compliance by the public		
Better and professional staff in ZRA		
Removed political interference from tax collection operations		
Overcome high levels of corruption in tax administration		
Created an organisation providing an excellence public service		
Facilitated modernised tax Collection operations/procedures		
Nothing		
Other (Specify)		

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**ACC. No. 275236 CALL No.**

57. Since the introduction of ZRA, how have you been affected as a tax payer? **Read Out**

	YES	NO
Your taxes have increased		
Experienced less corruption when paying taxes		
Seen improved tax procedures		
Increased awareness on tax matters		
Experienced improved services from ZRA		
Change in organisational structure		
Improved use of technological advancements in tax assessment and collection		
Your confidence in the tax system has improved		
The tax laws and regulations are simpler		
The Calibre of staff at the tax office has significantly improved		
Other (Specify)		

58. Has the merging of the Department of Customs and Excise and Department of Taxes resulted in improved tax administration?

Yes	
No	
Don't know	

59. Why do you say so?

.....

.....

.....

60. In your view, does the existence of a Board of Directors at ZRA have any influence on the way taxes are collected and on how the tax system is managed?

Yes	
No	

61. Why do you say so?

.....

.....

.....

62. In your view, does the appointment of the ZRA Commissioner General by the President affect his/her effectiveness and independence as a Chief Executive Officer?

Yes	
No	

63. Why do you say so?

.....

.....

.....

64. List the top three things you consider as critical to the success of the Revenue Authority.

- ...1.....
- ...2.....
- ...3.....

65. What aspects of effective and efficient tax administration would in your view be lost if the Revenue Administration was reverted to a Government department? **Prompt Multiple Mention Possible**

66. What aspects of effective and efficient tax administration would in your view be enhanced if the Revenue Administration was reverted to mainstream Government? **Prompt Multiple Mention Possible**

	Q9	Q10
Increase in tax revenues		
Improved taxpayer compliance		
Improved services to the public		
Improved use of technological advancements in tax assessment and collection		
Improved public confidence in the tax system		
High Calibre of Staff		
Reduced corruption within ZRA		
Improved tax administration procedures		
Increased awareness by the public on tax matters		
Reduction in the cost of maintaining the tax collecting organisation		
Simpler laws		
None		
Other (specify)		

**Respondent may provide any other comments he/she may consider relevant to the study (Optional)**

.....  
 .....  
 .....  
 .....

**THANK THE RESPONDENT.**