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Zambia Revenue Authority professional performance amidst structural constraints, 1994-2019[1]

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Pockets of effectiveness (PoEs) are public organisations that function effectively in providing public goods and services, despite operating in an environment where effective public service delivery is not the norm. This project, which investigates PoEs in relation to the politics of state-building and regime survival in sub-Saharan Africa, is being led by Professor Sam Hickey, based at the Global Development Institute, The University of Manchester, in collaboration with Professor Giles Mohan (The Open University), Dr Abdul-Gafaru Abdulai (University of Ghana), Dr Badru Bukenya (Makerere University), Dr Benjamin Chemouni (University of Cambridge), Dr Marja Hinfelaar (SAIPAR, Lusaka) and Dr Matt Tyce (GDI, Manchester). It is funded by the Economic and Social Research Council and Foreign, Commonwealth and Development Office with some additional funding from the FCDO-funded Effective States and Inclusive Development Research Centre.
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Abstract

From an initial survey of public sector experts, the Zambia Revenue Authority (ZRA) was regarded as a relatively high performer among public sector institutions in Zambia. This paper utilises a political settlements approach to track how the distribution of power within Zambia's political settlement influenced ZRA's tax policy and administration from its inception in 1994 to 2019. We find that ZRA's performance over the reference period was highly uneven. Broadly, 1994-2005 was a formative period for the authority, with relatively low performance. Then, between 2006 and 2015, due in part to strong political will and external support, ZRA achieved and maintained a favourable level of professionalism and specialisation, held a clear mandate, and established tax targets and internal organisational reforms. But, throughout, ZRA struggled to overcome structural constraints to revenue generation. Policy stability came out of an era of 'technocratic consensus' that emerged in the 2000s. Generally, ideas shared by political rules and leading bureaucrats centred on growth, fiscal prudency and domestic resource mobilisation aimed at gaining more autonomy, namely weaning Zambia off donor support and conditionalities. This push was augmented in 2011 by Patriotic Front's (PF) political commitment to resource nationalism. In contrast, 2015-2019 saw a new political settlement dynamic that affected the role of most economic institutions in Zambia, which exposed ZRA to undue political influence. Ultimately, with a high number of political turnovers amidst the increasingly fractious settlement during the reference period, ZRA experienced episodes of vulnerability to politically motivated institutional reforms and reorganisations at the political expediency of the ruling elite.

Keywords: Zambia, Revenue Authority, tax administration, tax policies, resource nationalism, political settlement, domestic resource mobilisation

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1. Introduction

> 'After ten years of rapid growth and a doubling in size of the economy from 2004 to 2014, Zambia emerged from being a country with a high aid dependency to one where, in 2015, grants provided a meager 1.4% of revenue compared to 98.6% domestic revenue earned largely through taxation. Revenues increased in real terms as the economy grew from the early 2000s and by 2013, with domestic revenue reaching 16.9% of GDP. It rose further to 18.2% of GDP in 2014 and 18.5% in 2015.' (World Bank 2016: 25)

In the past years, renewed interest has emerged around the role of public economic institutions in fostering economic stability, growth and development in developing countries in Africa. The literature in development studies and, to a somewhat lesser extent, development policy has coined the phrase bureaucratic 'pockets of effectiveness' (PoEs), which encapsulates public organisations that are relatively effective in providing the public goods and services that they are officially mandated to provide, irrespective of whether the political economy environment in which they operate is conducive and the norm or not. Bureaucratic PoEs can play an important role in driving development (Hickey, 2019).

Founded on the PoE methodological framework (Hickey, 2019), this paper utilises a political settlements approach to track how the distribution of power influenced the Zambia Revenue Authority's (ZRA) tax policy and administration from the establishment of the authority in 1994 up to 2019. The conceptual framework that helps us to categorise the political elements that shaped ZRA's performance is the *political settlement*. Political settlement is commonly defined as 'a combination of power and institutions that is mutually compatible and sustainable in terms of economic and political viability' (Khan 2010:4). Following Khan's definition, it is expected that a competitive democracy like Zambia is rather unconducive to high levels of state capacity and bureaucratic functioning, since the strength of rival excluded factions will mean ruling elites will be preoccupied with ensuring their own short-term political survival rather than the longer-term endeavour of building state capacity. The political settlement framework has evolved pursuant to numerous empirical case studies, including Zambia, and now incorporates other factors besides power and institutions. Hickey (2019) shows that ideas and vision are important motivating factors for political leaders to carve out PoEs within the state bureaucracy, even if doing so might run counter to the overall incentives of the settlement. The prospects for an institution to emerge as a PoE are also shaped by organisational factors, namely the scope and clarity of its mandate; the strength and political linkages of its leadership; and its internal culture and cohesiveness (Grindle 2012; Roll 2014; McDonnell 2017).

Transnational actors[2] and regional epistemic communities are other identified players in supporting PoEs, with varying outcomes. An underlying proposition is that PoEs are more likely to emerge in relation to core state functions, such as revenue authorities. However, the uneven performance of some of these PoEs shows that other drivers are at play (Hickey, 2019: 39).

Based on the above methodological backdrop, this paper makes a modest contribution to the existing literature on revenue authorities in an African developing country context, through systematically exploring – both qualitatively and quantitatively – ZRA's performance over time, closely tracing this alongside Zambia's shifting political settlement and the volatile, copper-based economy to which the country remains persistently beholden. It is important to emphasise that while government collection of taxes, levies, fees and duties is undertaken by several bodies (ZRA, municipal bodies and specially commissioned agents), ZRA is by far the largest and most important institution.

At the inception of this study, we surveyed a cross-section of subject-matter experts on economic institutions in Zambia. The survey responses offered an initial opinion about ZRA, suggesting, in accordance with the definitions presents to the experts, that the authority was perceived to be a PoE in the Zambian context. The experts' perceptions were broadly corroborated by the systematic application of the PoE approach and the ensuing empirical findings of this study, but only up until the relative decline of ZRA's performance, starting in 2015, following a fractious political regime change.

The paper identified the following periodisation of ZRA's performance over time:

- From 1994 to 2005: a period of enabling tax policy, but *relatively low (tax to GDP) performance*, given this was in the so-called formative years of ZRA, with a strong overarching political commitment towards building the authority as a semi-autonomous institute. The diversity of the tax base was central to keeping tax revenues from collapsing in the face of trade liberalisation (IMF, 2005)
- From 2006 to 2014: a period of enabling tax policy, *relatively good performance* amidst fiscal prudency, economic growth, enhanced professionalism, and ZRA's re-organisation, in an era of technocratic consensus, which involved political backing for domestic revenue mobilisation. In this period, the changes were expected to lead Zambia away from donor support and towards lower middle-income status. A new political regime from 2011 was characterised by a quest for resource nationalism.
- From 2015 to 2019: a period of ad hoc policy making, that showed *relatively weak performance*, yet with relatively high rewards and incentives to ZRA.

[2] Multilateral and bilateral cooperating partners, private (commercial) corporations and creditors.

> The period is characterised by the undermining of ZRA's professionalism through politically motivated appointments of unqualified staff and a controversial commissioner general (CG). The period reflected episodes of 'start-stop' tax policies and reforms.

Given that tax policy formulation rests with the Ministry of Finance (MoF) (and often with State House), this paper looks at the interface between the political environment, the government's tax policies and ZRA's administrative functioning within each of the above sub-periods. Ultimately, we come to the overall conclusion that the high number of political turnovers and fractious settlements during the reference period of the study (1994-2019) had significant influence in exposing ZRA to episodes of vulnerability to politically motivated institutional reforms and reorganisations at the political expediency of the ruling class. Fjeldstad and Heggstad (2011: 52) noted that, while ZRA has always offered considerable rent-seeking opportunities and political patronage potential for the successive regimes, it was by and large able to fulfil its mandate.

The rich secondary literature on ZRA mainly concentrates on the period between 1994 and 2010, coinciding with an era of high donor influence. Given the void of detailed studies in the last decade, we use an analysis of secondary data as well as interviews with 25 subject-matter experts as key informants, including (former) ZRA officials, consultants, cooperating partner representatives and other stakeholders (MoF tax advisors, ministers, State House advisor, corporate lawyers, private sector actors). All of this is used to triangulate key ZRA developments between 1994 and 2019.

The rest of the paper presents the evidence that supports this assertion. It is structured as follows: Section 2 places ZRA in historical and operational perspective, and Section 3 dives into the performance and leadership of the authority. Section 4 utilises quantitative and qualitative methods to explore selected objective indicators of ZRA's performance from 1994 to 2019. In Section 5 we offer an in-depth analysis of how ZRA's performance was shaped by political settlement dynamics as well as by internal organisational culture and leadership. The conclusion (Section 6) summarises the main argument.

2. Zambia Revenue Authority from an organisational and political perspective

The Zambia Revenue Authority was established in 1994 as part of the Structural Adjustment Programme (SAP) wave that unfolded across Africa during the 1990s and ushered in far-reaching reforms in Zambia's public sector. It was set up in the context of falling revenue earnings in Zambia, with tax earnings having dropped from average highs of around 30 percent of GDP per year in the early 1970s, on the back of high copper prices and a highly formalised economy, to an average of only 13 percent of GDP per annum in the early 1990s.[3]

[3] ZRA website: https://www.zra.org.zm/about-us/ (accessed February 2020).

When Movement for Multiparty Democracy (MMD) came into power in 1991, Minister of Finance, Emmanuel Kasonde, announced tax reform in the first (1992) MMD budget speech. Parliament subsequently enacted the Zambia Revenue Authority Act in 1993 and in 1994 ZRA was formally established as a semi-autonomous agency.[4] External donor support had already started when the revenue authority was still a fiscal affairs department within the Ministry of Finance, prior to the establishment of ZRA. For instance, the IMF and World Bank provided technical assistance from 1991, followed by the British government through the Department for International Development (DIFD) in 1992. When the Authority was formed, DIFD's support became significant in ZRA's day-to-day operations and extended to providing for an expatriate commissioner general and four of its directors (von Soest, 2008: 29-30).

A key driver for the revenue reform was to remove the tax and customs administrations from the constraints of normal civil service rules; thus, for instance, allowing for the hiring and remuneration of staff on a more competitive market basis and the use of modern management methods that would lead to a more professional institution with greater effectiveness in collecting taxes.[5]

By the time of the reforms in the early-to-mid 1990s, however, the state's capacity to collect taxes had been weakened by privatisation, as tax now had to be negotiated with individual firms instead of state-controlled entities. The process of privatising the mining industry during the late 1990s and early 2000s proved to be an especially challenging exercise for MMD. In the context of depressed world copper prices, the increasingly deplorable state of the mines, and the pressure on the Zambian government to sell the mines as part of the conditionalities attached to debt relief by the IMF, buyers were in a very strong negotiating position, leading to substantial tax exemptions in the formulation of mining sector development agreements.

Copper mining always had considerable influence on Zambia's tax revenue collection performance. In fact, industrial copper extraction has dominated the country's economic and political development since the first European exploration of the region in the late 1880s, under the British South Africa Company (BSAC). A classic example of a mineral-rich country, until 1975, when copper prices plummeted, Zambia has always counted on its vast copper reserves to carry it to the status of a fully industrialised and 'modern' state (Bebbington et al., 2018). Many decades later, Zambia is still highly dependent on mining as its major productive industry, as it makes large contributions to exports and foreign investment, but steadily lower contributions in other areas, such as government revenues, GDP and employment (ICCM Report 2014:, 6). Mineral revenue as percentage of state revenue declined significantly from the mid-1970s, but picked up from 2008 onward (see Figure 1), for reasons we explain in more detail below. In 2008, mining revenue contributed 2.8 percent and doubled to 6 percent in 2012 (16 and 32 percent, if counting total revenues from mining companies) (ibid: 7).

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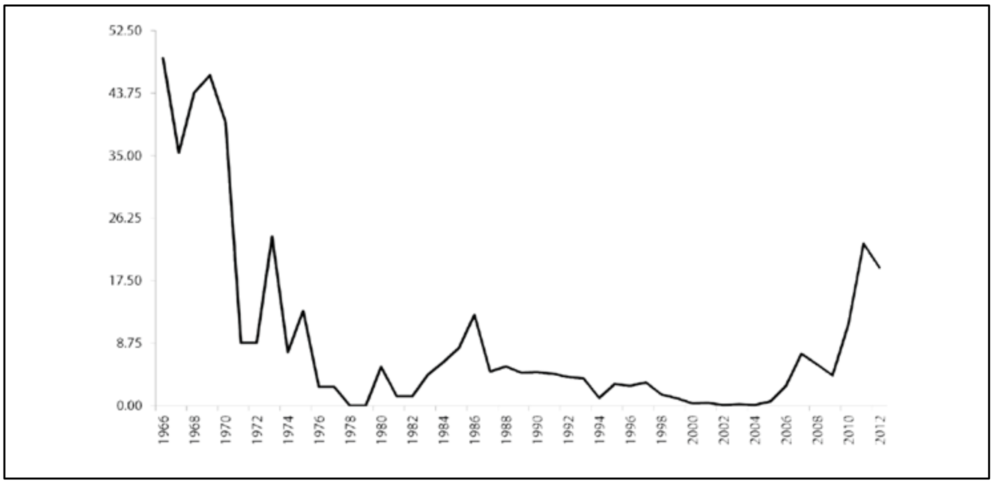
[4] ZRA website: https://www.zra.org.zm/about-us/ (accessed February 2020).
[5] ZRA website; former senior official MoF interview, 4 March 2020.

Figure 1. Mineral revenue (percent of total revenue)



Source: Adopted from Simpasa et al. (2013: 6).

This confirms Di John's (2010) assertion that one of the characteristics of the Zambian tax system has been the (surprising) diversity of the revenue base, as all four major types of tax (trade, personal income, corporate and consumption) make some contribution to tax collection (ibid: 3)

Tax governance in Zambia is guided by MoF, which preserves political responsibility and policy oversight. Parliament has to approve and enact taxation laws, while ZRA administers or implements tax policies and laws. ZRA is set up as a semi-autonomous agency, with the clearly defined mandate of collecting tax revenue on behalf of the government, whilst operating within the tax policy remit established by MoF. ZRA is headed by a commissioner general, who is appointed by the president, without the need for approval from the National Assembly. ZRA has a governing board of directors that regulates it;[6] its tasks are to oversee the organisation and administration of the Authority and management of its resources, services, property and personnel and to develop the corporate strategic plan and other such administrative policies. The commissioner general is deputised by four commissioners, each of whom heads one of four operating divisions. Directors of the various technical, administrative and support divisions of ZRA serve one level below the commissioners. The commissioner general, commissioners and directors make up the top management of ZRA. ZRA has undergone several restructuring exercises since being established,[7] as we will detail below. In principle, there is strong external oversight of ZRA, with audits carried out by the Office of the Auditor General (revenue and operational performance, internal controls) as well as a yearly financial audit of the financial statements by a private audit company (TADAT, 2016).

[6] The membership of this board includes the Secretary to the Treasury, the Permanent Secretary of the Ministry of Justice; the Governor of the Bank of Zambia, representatives from the Law Association of Zambia, the Zambia Association of Chambers of Commerce and Industry, the Bankers Association of Zambia, the Zambia Institute of Chartered Accountants, and two other members appointed by the Minister of Finance. The chairman and vice-chairman of the board are elected from amongst its members.

[7] This is the reason the authors have left out the organisational organogram.

ZRA did not evolve in isolation, at it is an active members of the regional and international epistemic community (Fjeldstad and Heggstad, 2011: 77).[8] The role of traditional donors and foreign technical experts in reforming economic institutions in Zambia waned over time, particularly since the onset of the commodity price super cycle in 2004 and Zambia's graduation from HIPC (heavily indebted poor countries) in 2005. The emphasis on domestic resource mobilisation in the late 2000s, particularly in the mining sector, was augmented by Norwegian and EU support.

3. Tax in Zambia: Performance and leadership

As explained above, tax governance in Zambia is guided by MoF, which preserves political responsibility and policy oversight. While the tax policy is set by the MoF's tax policy unit (set up in 2001), ZRA typically makes parallel assessments of the proposed policies based on its own data and offers its perspective as advice to the tax policy unit. If the two institutions do not agree on policy direction, higher-level discussions take place between the commissioner general and his commissioners on the ZRA side and the permanent secretaries, the secretary to Treasury and/or the minister on the finance ministry side. ZRA's superior knowledge base, by virtue of it having a professional research unit and specialised staff is recognised by the MoF. A good working relationship between the MoF and ZRA's commissioner general is therefore crucial.[9]

In principle, a number of arrangements have been put in place to ensure that the revenue authority does what it is designated to do. Some of these include: quarterly revenue reports detailing revenue sources, revenue yields and regional offices, as well as changes over time; annual economic reports covering the central government's annual tax and non-tax revenue performance relative to targets; and audited financial accounts, revenue included. The commissioner general of ZRA reports to the minister of finance, and also interacts with the Permanent Sectary (PS) frequently, including briefings and monthly statements of revenue performance (TADAT, 2016).

Although Zambia's tax regime has changed over time, its direct taxes are basically manifested as personal income taxes ,with a tax credit of 3,300 kwacha a month (a result of 'pro-poor' policies of PF in 2011), followed by tax bands of 25 percent, 30 percent and 37 percent (income tax above equivalent of roughly 6,200 dollars a year). The corporate tax is 35 percent, except for the agricultural sector, manufacturing and non-traditional export (taxed at 10 percent). A turnover tax of 4 percent for smaller companies (yearly turnover below equivalent of 50,000 dollars) is also in place. VAT was introduced in the 1990s and currently stands at 17.5 percent. Some exports are zero-rated and a range of goods and services are also exempted

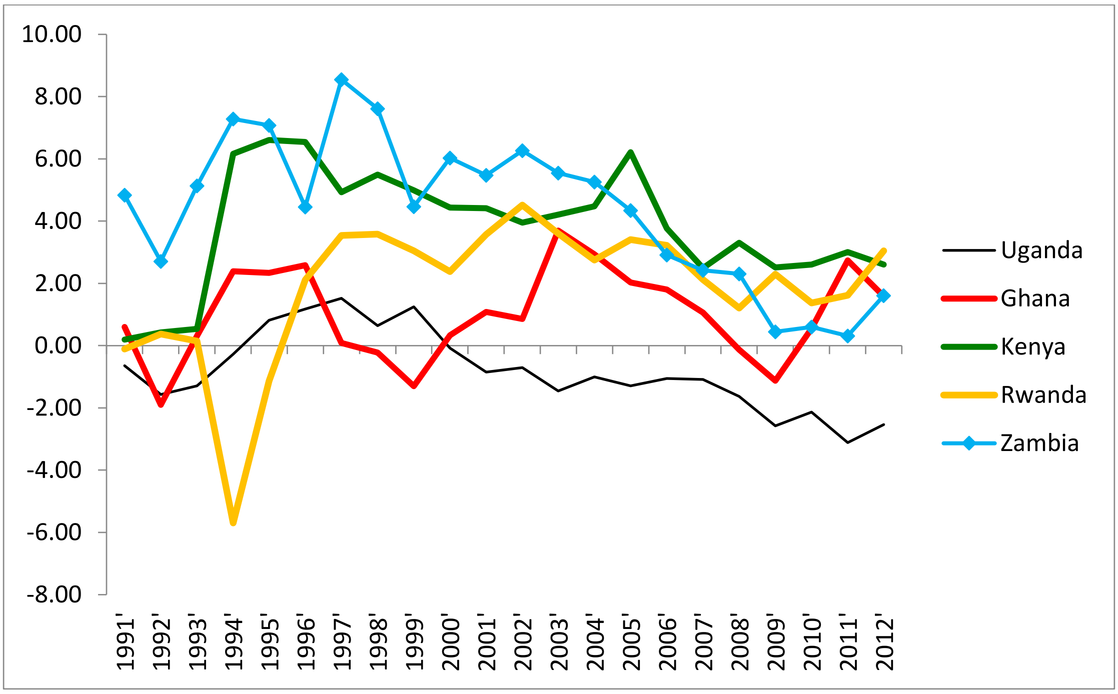
[8] That is communities of practice and knowledge-sharing) that has become established around taxation. Membership of African and international revenue organisations like the Tax Justice Network, the Commonwealth Association of Tax Administrators (CATA) and the Global Financial Integrity (GFI) kept ZRA up to speed with continental and international best practices and emerging issues, and these have become influential forums

[9] Former senior official MoF, 4 March 2020 and von Soest, 2007:33.

from VAT. The tax effort has always been dampened by a weakness in collecting arrears and in dealing with transfer pricing in the mining sector, but this capacity was also strengthened over time (JTCR, 2014).

As this working paper is part of a comparative study that includes the Rwandan, Ghanaian, Ugandan and Kenyan revenue authorities, reference is made to Yohou and Goujon's (2017) comparative tax effort graph (Figure 2). This is a time-series index that ranks 120 countries according to how close they come to meeting their potential tax takes, once structural vulnerabilities are taken into account. Key structural factors measured include the nature of a country's economy – with emphasis on important features such as openness, sophistication and sectoral composition – as well as overall levels of health and education amongst the population.

Figure 2: Zambia's tax effort 1991-2012 in comparative perspective



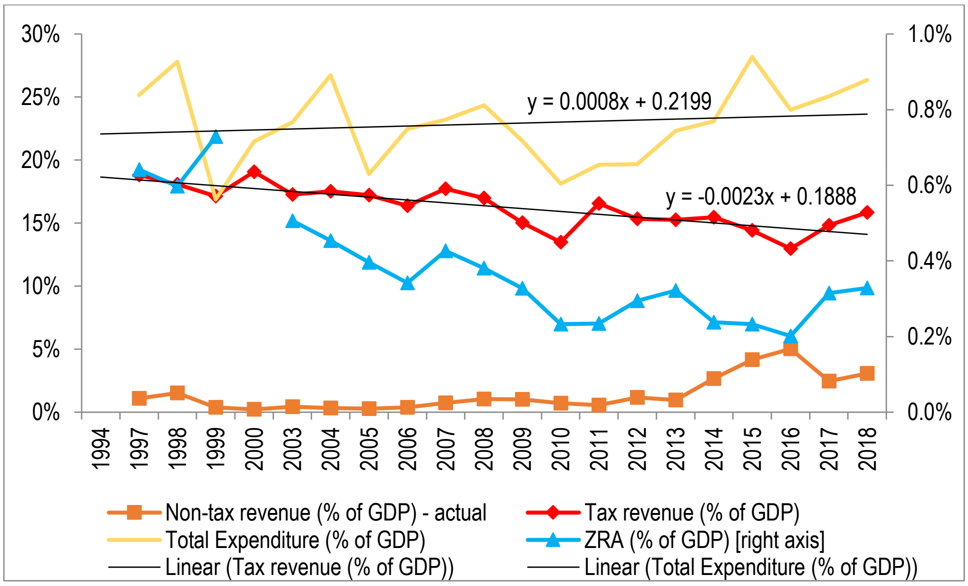
Source: Yohou and Goujon (2017).

For the purposes of studying ZRA, the graph shows a high effort shortly after its formation, followed by a steep decline. The emphasis on domestic resource mobilisation, and the accompanied building of specialised capacity of ZRA from 2006 onward, resulted in an improved, but initially unsteady output, for reasons we will detail below. This lasted until at least 2015, which is outside the scope of Figure 2. We complement Figure 2 with other indicators, not only to ensure coverage of the period from 2012 to 2019, a crucial era in the development of ZRA, but also to put more granularity to our analysis.

Thus, in this paper, the tax revenue-to-GDP ratio interacted with other ratios, notably: the *expenditure-to-GDP ratio*, a proxy for the amount of fiscal pressure that public spending places on revenue authorities to raise tax revenue; the *non-tax revenue-to-GDP ratio*, a proxy for the amount of fiscal relief in terms of an alternative fiscal revenue source aside from taxes; the *ZRA grant-to-GDP ratio*, a proxy for the amount of aggregate financial incentive to the author for it to raise tax revenue; and the *public debt-to-GDP*, also a proxy for the amount of fiscal relief through alternative fiscal revenue source aside from taxes. The main point is that ZRA performance was significantly influenced by expenditure policy, public debt position, non-tax revenue performance and grant rewards going to ZRA.[10]

Figure 3 shows the various GDP ratios or shares for the period 1994-2018. The tax revenue-to-GDP ratio generally gradually declined over the period, despite occasional rebounds in some years. Similarly, expenditure on ZRA (i.e., the ZRA grant-to-GDP ratio, read off the right axis of the chart) also declined quite markedly, although with some interim rebounds, suggesting a similar trajectory between the amount of grant support to ZRA and the ratio of tax-to-GDP. Non-tax revenue was a small share of GDP during most of the period, but started to reflect an increasing share in 2014; this is explained more in terms of an administrative change in the way the MoF collected

Figure 3: Fiscal expenditure and revenue ratios (% of GDP)



Source: Constructed by the authors from data in Annual Economic Reports and Fiscal Tables.

and retained non-tax revenues than a policy shift towards non-tax revenue preference.[11] Non-tax revenues are mainly collected outside the jurisdiction of ZRA, so a strong emphasis on non-tax revenue takes pressure off ZRA to raise resources.

On the other hand, total public expenditure as a percentage of GDP experienced a gradually increasing trend, though with notable slumps in the interim (e.g., from 1998

[10] Interview former MoF senior official, 8 March 2020.
[11] Interview former senior MoF official, 8 March 2020.

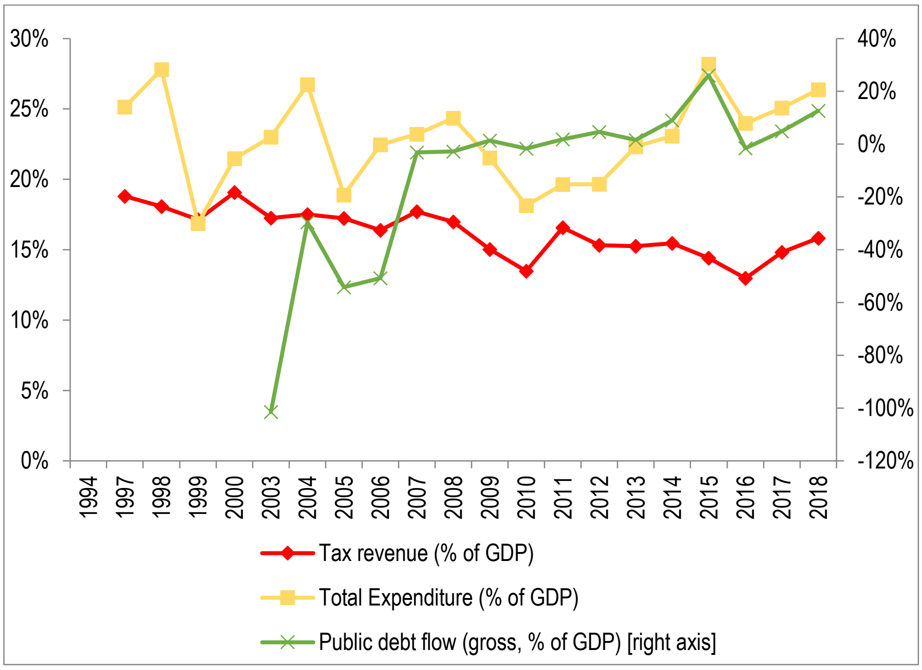
to1999, from 2004 to 2005, from 2008 to 2010 and from 2015 to 2016. Over 2011-2018, a trend of increasing expenditure-to-GDP settled in. Interestingly, this sharp rise in expenditure did not consistently exert commensurate pressure on tax revenue, in particular during 2010-2015, although evidence of strong co-movement between the tax revenue and expenditure trends was exhibited in the last three years (2016-2018). Similar, and arguably stronger, co-movement between non-tax revenue and expenditure is also observed over 2013-2018.

During the period between 1997 and 2008, tax-to-GDP was fairly flat, around 17-18 percent per year on average, because expenditure was fairly flat over the period, exerting relatively little pressure to raise taxes. It can be argued that Zambia's technocracy thereby, perhaps unintentionally, avoided the 'resource curse', as it was not able to rely on mineral revenues when the copper prices rocketed.[12] The copper prices had started to rise from the mid-2000s onward, but mining tax revenue only played a role after 2008, after a change in the mining tax regime. The next period, 2011-2018, starts when Patriotic Front (PF) came into power with expansionary fiscal policies to support nationalist ideas; and the World Bank classified Zambia as a lower-middle-income country, eligible to borrow commercially. Initially (2012-2013), Zambia's increased spending was financed out of borrowing (2012 and 2013 Eurobonds) and non-tax revenue adjustments (2013-2016); so there was relatively little pressure on tax-to-GDP/ZRA. In 2015, as Lungu came in, an economic crisis hit Zambia and commercial debt service payments also started to escalate, eroding the fiscal space that PF had inherited in 2011. This started to exert pressure on tax revenue, hence reflecting a marginal increase in tax-to-GDP over 2016-2018, in an attempt to keep pace with a massive and growing expenditure appetite. Figure 4 incorporates the debt-to-GDP ratio, and this offers part of the explanation for the divergence between the (declining) tax revenue and (increasing) expenditure.

During the period we have designated as the formative years of ZRA (1994-2005), the authority received annual average grant releases that were 8.5 percent above ZRA's annual budgetary allocation. Over the same period, tax efforts in terms of over-performance on tax collections relative to targets, at 1.7 percent per year on average, was relatively modest, underpinned by equally modest over-expenditures (1.6 percent per year on average) relative to expenditure targets. In the period we anticipated as a high performance episode (2006-2014), tax collection over-performed on average by 4.9 percent of the annual budgetary target, while rewards to ZRA in terms of overpayments on the authority's grant (at 2.1 percent of the grant target) were very modest and expenditure variances were, on average, negative (-1.8 percent per year), reflecting the conservative, IMF-driven fiscal policy stance during most of that period.

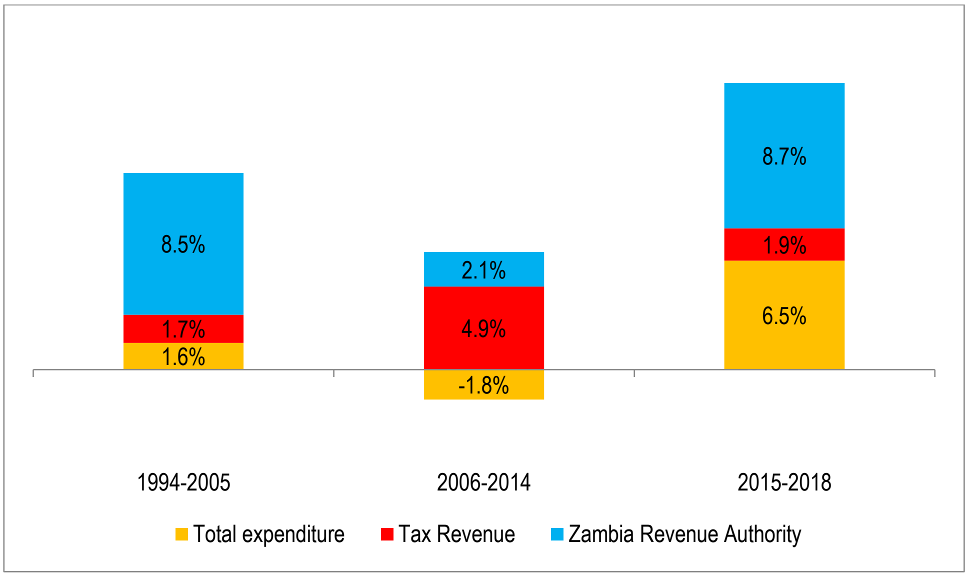
[12] Avoiding resource curse was corroborated by many confounders, notably the HICP completion point and resultant fiscal space and the conservative (expenditure-side) fiscal policies of the time.

Figure 4: Fiscal expenditure and revenue ratios (% of GDP)



Source: Constructed by the authors from data in Annual Economic Reports and Fiscal Tables.

Figure 5: Variance between targeted and actual outcome (% of target)



Source: Constructed by the authors from data in Annual Economic Reports and Fiscal Tables.

In the 2015-2018 (Lungu) era, the considerable over-expenditure on ZRA (8.7 percent above target per year on average) was coupled with significantly higher over-expenditures relative to budget targets than in any other sub-period and relatively low over-performance on tax revenue; the over-spending averaged 6.5 percent per year of the budget target and the over-performance on tax revenue was only 1.9 percent per annum on average during the period. Therefore, the Lungu period saw the largest expenditure effort and reward effort to ZRA, coupled with the second weakest tax revenue collection efforts among the three sub-periods.

Drawn from the above objective indicators and the processes described above, we summarise the three episodes in ZRA, thus:

- From 1994 to 2005: a period of *relatively low tax revenue, uneven performance*, given this was in the so-called formative years of ZRA, with a strong overarching political commitment towards building the authority as semi-autonomous institute. This was also a period marked by expatriate leadership in ZRA until 2002, followed by technocratic appointments of successive Zambian commissioner generals (CGs) and directors. The diversity of the tax base was central to keeping tax revenues from collapsing in the face of trade liberalisation (IMF 2005), tax/GDP ratio varied from 17.2 (1994) to 13.7 (2005).
- From 2006 to 2014: a period of *relatively good performance* amidst fiscal prudency, economic growth, enhanced professionalism, ZRA's re-organisation, in an era of technocratic consensus, which involved strong political backing for domestic revenue mobilisation. In this period, the changes led Zambia away from donor support, and instead towards lower-middle-income status. A new political regime from 2011 was characterised by a quest for resource nationalism, and was expected to maintain continued high performance, but was somewhat undermined by increased fragmentation of tax policies. Tax/GDP ratio started low at 14.08 percent (2006) but increased to 15.7 percent (2014).
- From 2015-2019: a period of *relatively weak performance*, yet with relatively high rewards and incentives to ZRA. The period was characterised by undermining of ZRA's professionalism through politically motivated appointments of unqualified staff and a controversial CG. The period was also reflected episodes of 'start-stop' policies and reforms, such as the shift of policy influence from the MoF to ZRA over the failed proposed reform from VAT to sales tax in 2018/2019. Tax/GDP ratio remained uneven, and stagnated to an average of 15 percent of GDP.

3.1 Leadership and performance over time

The first two CGs of the Authority were from Britain and New Zealand, respectively. As for the other economic institutions, international donors were an intrinsic part of the structural adjustment reform programme. The UK's Department of International Development (DFID) was instrumental in assisting in the operationalisation of the Zambia Revenue Authority, by sourcing through international competitive advertisements and hiring experts to run the organisation, among other actions. The subsequent recruitment of CG was based on the principle of Zambianisation and professionalism, with the next two appointments adhering to the same principle.

Because ZRA is a corporate body, it reserves the right to directly recruit and dismiss its employees in line with its internal policies and procedures, which are, in turn, legally governed by the laws of Zambia, particularly the Employment Code Act No.3 of 2019. This arrangement is not like those for mainstream government ministries, provinces and spending Agents (MPSAs), whose civil service employees are hired by the public service management division (PSMD) on permanent and pensionable contracts. The only exception is for the CG, who is directly appointed by the president. Commission General contracts were based on a three-year contract period.

ZRA attracted Berlin Msiska from the private sector, Chriticles Mwansa came through the World Customs Organisation, and Kingsley Chanda by way of internal promotion. The role of commissioner general is crucial, as a good CG holds the institution together.[13] The appointment is usually based on the following criteria: skills, experience in private and public sector, professional background, experience in management. Crucial in the CG's functioning is the support from the president and MoF, as we will see with the case of Berlin Msiska, who was let go ahead of time, and was replaced by the MoF's choice of candidate. The functioning of a CG is vulnerable and open to intimidation. For instance, the sidelining of the governor of the Bank of Zambia, Caleb Fundanga, by Sata created a culture of fear and consequently caused CGs to spend energy to appease the president. All CGs had a professional background; the appointment of Kingsley Chanda in 2016 was controversial, but in line with the political settlement at the time. For a full list of the CGs and their performance, see Annex 1.

4. Evaluation of ZRA performance over time

This section examines ZRA's performance since being established in 1994 up until 2019, in the three episodes that set out above. These developments are set within the wider policy domain of Zambia's tax regime.

4.1 Building institutional capacity during an era of economic reforms (1994-2005)

4.1.1 Tax policy

A far-reaching tax policy reform programme in 1992 preceded the establishment of ZRA. (DiJohn, 2010) and led to a significant increase in tax effort (Figure 2). The reforms were geared towards attracting foreign capital investment, in competition with other countries in the region who went through similar reforms. Of the ministers of finance, Ronald Penza (1993-1998) famously (or notoriously, depending on your perspective), implemented economic reforms to the fullest and was seen as one of the leaders who completely broke down the policies that had underpinned the state-led economy under Kaunda, a regime that was defeated by a large margin in 1991.[14]

[13] Former senior official MoF, 4 March 2020.

[14] In 1994 Penza was nominated by the financial magazine, *Euro Money*, (World Bank and IMF) as the second best finance minister in the world.

Importantly, Penza had the political backing of President Chiluba, as well as the support of the IMF. Expatriate staff were planted within the economic institutions like MoF and Bank of Zambia. ZRA was led by DFID, by way of leadership and external technical expertise.

Within this context, the tax regime saw the following changes. In 1995, the tax base was broadened, with the introduction of a value added tax (VAT) replacing the sales tax. This was part and parcel of the trade liberalisation efforts, as VAT was seen to be a virtual replacement of import tariffs and, to a lesser extent, excise duties. Tax reforms also included a simplification of trade tariffs and a reduction in property-transfer tax. As a result of these reforms, Zambia boosted domestic revenues, contributing in equal measure via income taxes, trade taxes and other indirect taxes, including VAT (Fagernäs and Roberts, 2004: 10).

From 1993 onward, the MoF put in place mechanisms through which non-state actors could submit tax and expenditure proposals to be considered in the national budget (Bwalya, et al., 2009 422). This platform was initiated following the recommendations of the Tax Policy Review Committee, which was established

> 'to review and recommend tax policy and tax administration reforms that needed to be undertaken in order to increase tax revenue collections, while at the same time providing for a competitive business environment to attract investment in the economy' (ibid).

Inevitably, interest groups used informal means to channel their lobbying efforts to influence the policy decision-making process (Bwalya, 2011). Tax policies for the mining sector, which was in the process of being privatised, were guided by the Mining Act of 1995. The new legislation simplified licensing procedures, placed minimum reasonable constraints on prospecting and mining activities and created a favourable investment environment.

Mwanawasa, Chiluba's handpicked successor, came into power at the 2001 elections, winning by a very narrow margin (29 percent of the vote, in the first-past-the-post electoral system). MMD had lost popularity, due to its handling of the privatisation process and the high levels of corruption in the upper echelons of the party. Once in power, Mwanawasa distanced himself from this legacy by announcing a 'New Deal' government and immediately appointed a cabinet of technocrats, many recruited from outside the party. He also started an anti-corruption crusade. This had an immediate effect on ZRA's functioning and standing, as there was a widely shared perception that President Mwanawasa's administration managed to reduce these incidents of tax harassment. The reduced 'neo-patrimonial profile' of the country after 2001 was mirrored in the autonomy of the ZRA (von Soest 2006: 98). Despite this development, the tax effort remained flat, largely as the result of an excessively investor-friendly copper-mining tax regime, persistent and even tolerated tax evasion among very high-income earners, a low corporate tax take generally, and the suspected purposeful neglect of taxing the gemstone sector (Di John, 2010: 19).

Because the mining sector did not contribute significantly (or at all) in the period under consideration, emphasis was placed upon broadening the tax base by applying

> 'a range of informal sector taxes, including a base tax on marketeers, a turnover tax on businesses with turnover falls below a certain threshold, a tax on minibus and taxi drivers, and an advance income tax on imports by cross-border traders who are not registered with the ZRA'[15] (Resnick, 2018: 2).

Overall, their tax contribution was very limited.

4.1.2 Tax administration

The political backing and donor support for ZRA is reflected in the level of funding. Between 1996 and 2008, funding for ZRA, which included operation cost, wages and other expenditures, such as capital investments in technical equipment, ranged between 3 to 4 percent of tax revenue, even though in the initial development agreement between government and DFID. It was agreed that ZRA would receive 1.9 percent of total tax revenue (Von Soest, 2008 and Fjeldstad and Heggstad, 2011: 10). Internally, ZRA motivated its staff by operating an annual bonus system as an additional financial incentive for its workers.[16]

While technical support and expatriate leadership of ZRA by DFID and IMF partially served to mitigate political intervention with the revenue authority's operations (Von Soest et all 2011), this was only partially accomplished. As pointed out above, prior to the liberalisation period, economic rents were being acquired through state-owned enterprises and state controls on marketing boards. Liberalisation and privatisation had undermined these sources, and authorities like ZRA were often targeted as an alternative source of patronage and party finance (DiJohn, 2010: 14). ZRA became entwined in the new ways in which economic rents were distributed in the polity (Rakner and Gloppen, 2003); for example, the Chiluba government at times singled out 'special cases' of firms which the ZRA was told not to tax. This included businesses owned by ruling party politicians, which allegedly had not been subject to a tax assessment and had never paid tax (ibid.) Meanwhile, opposition politicians and former government members were subject to frequent tax audits and harassment from the tax authorities (Afronet report, quoted in Fjeldstad and Heggstad, 2011: 52).

Tax reform programmes tend to produce an initial spike in tax effort and then flatten out. This is mirrored in the Zambian case as well. The situation was not helped by the fact that between 1997 and 2001, the mining industry was privatised and almost fully tax exempted, with tax contributions close to 0 percent. This posed a challenge for Mwanawasa, whose first priorities, besides fighting corruption, were to revamp public revenue collection, given the budget deficits (Magande, 2018: 302). Mwanawasa and

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[15] To give an idea of the scale: 72 percent of Lusaka works in the informal sector (Resnick, 2018: 2).
[16] Interview former ZRA official, 29 November 2018.

Magande noted little consultation and coordination among the economic institutions and thus moulded an executive team at the MoF and related departments, which included Secretary to Treasurer, PS Budget, the accountant general, governor of the Bank of Zambia, Caleb Fundanga, Berlin Msiska (ZRA) and the director of Central Statistics Office (CSO), among others. These economic committees would meet on a regular basis and would align themselves ahead of cabinet meetings. The purposefulness of this group of economic technocrats came to fruition later in Mwanawasa's reign and beyond. The improved relations between ZRA and MoF laid a foundation for organisational reforms and improved tax effort after 2006.

4.2 Domestic resource mobilisation and resource nationalism and the specialisation of ZRA (2006-2014)

4.2.1 Tax policy

Having achieved HIPC completion status in 2005, Zambia qualified for debt relief, which led to the opening up of fiscal space from 2006 onwards. Revenue collection, on the other hand, remained relatively low, despite the rapid rise in copper production and record high copper prices. Mining tax reforms were urged by civil society, the media and the opposition parties, all of whom rallied around the 'windfall tax'. This call gained even more traction when the public became aware of what was contained in the secret Development Agreements after these were leaked and posted online.[17] The realisation that PAYE and VAT made larger contributions to revenue compared to the booming mining businesses caused public outrage. MMD shifted its tax policies, as a result of two developments. One, a shift in the role of donors in development countries with the debates around Aid Effectiveness and Domestic Resource Mobilisation (DRM); this fitted Mwanawasa's agenda to gain more autonomy from donor support. Two, the rise of opposition party PF, which won most of the urban seats in the 2006 general election and confronted MMD's neoliberal policies. MMD responded by abrogating the Development Agreements and announcing a radical new mining tax regime in 2008. The mining tax changes were coded in the Mines and Minerals Development Act of 2008, which ruled that no special agreements should be entered into by the government for the development of large-scale mining licences. A new tax, coined the windfall royalty tax, was levied on gross proceeds at a rate of 25 percent when the price of copper exceeded US$ 2.50 per pound, at a rate of 50 percent when the price of copper exceeded US$ 3.00 per pound, and at a rate of 75 percent when the price of copper exceeded US $3.50 per pound.

The new tax regime had the support of all cabinet ministers,[18] but was met with some resistance by some of the MoF technocrats – most notably the Secretary to Treasurer, Musokotwane, who argued that the taxation would completely stifle the profits of the mining companies. As it turned out, the windfall tax was never fully implemented, as it coincided with two events. On the domestic front, the passing

[17] http://minewatchzambia.blogspot.com/%20...%20Copper%20Mines%20Plc
[18] Interview, former minister of mines, April 2018.

away of President Mwanawasa not only led to an intraparty power struggle, but also the departure of many cabinet ministers championing the windfall tax, notably Minister of Finance Magande. Crucially, on the international front, the new tax regime coincided with the global financial crisis of 2008, which led to intense pressure (and leverage) from the mining companies to modify the taxation. One year later, in 2009, many of the new incentives that would ensure larger government revenue from the mining sector were revised under the guidance of Musokotwane, who was appointed as the minister of finance under President Rupiah Banda. The windfall tax was replaced by a variable tax and even though the tax regime changed, it was an improvement from what was in place prior to April 2008 (Fjeldstad and Heggstad, 2011: 73). This was borne out by the spike in tax revenue (see Figure 4).

Zambia underwent another political turnover following the general elections in 2011, when Sata's PF defeated Banda's MMD. Taxation had been a central theme in PF's campaign, using the slogan of 'More jobs, lower taxes, more money in your pockets', with a touch of resource nationalism towards the mining industry.[19] The 2008 Mining Act was maintained, but included additional regulations to boost Zambia's economy. The commitment of PF to improve revenue collection was set out in their manifesto:

> 'The MMD government has over the years been administering a tax regime which is punitive, discriminatory and narrow. This has given rise to high levels of tax evasion, loss of revenue, reduced the disposable income for individuals, loss of employment and increased poverty. Consequently, the narrow tax base has led to unrealistic budget planning and implementation and overall dependency syndrome on donor pledges and loans' (PF, 2011).

While not all pledges came to fruition once PF came into power, notable changes were made: the tax threshold for PAYE was increased, aimed at improving the disposable income for individuals and families, as well as encouraging saving, and a review of the VAT refund scheme, in order to make it more efficient. The gemstone industry was also tackled, by auctioning and capturing the proceedings in Zambia, instead of India. It also started taxing gold, which was a by-product of copper.

While promising to 'engage the mining houses in arriving at an equitable and enforceable mining tax regime in order to promote rapid investment and employment in the industry' in the 2014 Budget Speech, the Minister of Finance, Alexander Chikwanda, announced that mineral royalties on the norm value of base metals produced would increase from 6 percent to 20 percent on open cast mining and to 8 percent on underground mining. The corporate income tax rate applicable on the mining operations, with the exception of mineral processing, was revised from 30 percent to 0 percent. The Ministry of Finance took the recommendations of the Mineral Value Chain Monitory study commissioned by the ZRA, in order to justify a

[19] Actual nationalisation was never on the cards, the second wave of resource nationalism was geared towards effective mining taxation, improved regulatory oversight and the cultivatation of productive linkages to mining (Caramento and Saunders (2019)).

royalty increase without acknowledging or acting on the other recommendations in the report.[20] These changes, effective from 1 January 2015, changed the mining tax regime from a profit-based tax to a revenue-based tax system, in an attempt to tackle tax avoidance. The mineral royalty rates were amended following a lobby by the mining houses, down to 9 percent and 6 percent, respectively.

4.2.2 Tax administration in 2005-2014

As we see in Figure 4, ZRA's tax performance during the early 2000s, vis à vis expenditure, was close to parity. While tax effort was not very high, expenditure was low, as it was still bound to SAP's fiscal discipline. The 2008 tax regime and the overall economic growth of Zambia's economy caused a spike in revenue between 2009 and 2011, which we describe in more detail below. Within the same period, ZRA Zambianised all positions of CG and directors and embarked on further organisational reforms.

In 2006, the Zambia government had asked donors for a review of their tax policies and administration in 2006, which led to an IMF-backed project that run from 2008 to 2010, aimed at strengthening the revenue administration (Kloeden et al. 2006). These reforms were premised on three pillars that included the integration of the fragmented elements of tax administration within a single, functionally organised Domestic Taxes Division falling under a single commissioner, and the reorganisation of field offices on the basis of taxpayer segments, with separate functionally organised offices focused on large, medium and small taxpayers, respectively. These reforms saw the merger of the Direct Taxes Division and VAT Division, to create a single Domestic Taxes Division. ZRA therefore now has two operating divisions, namely the Domestic Taxes Division and the Customs Services Division. Each of these divisions is headed by a commissioner (ZRA website, Kloeden et al. 2006, Fjeldstad and Heggstad, 2011: 86). The Large Tax Payers Office (LTO) department was perceived to be prestigious, with a particularly strong work culture, protected space, staff working longer hours and a high regard for process and skills.

A new method to capture the informal sector and the small and medium business sector in Zambia was established in 2004, involving the introduction of base tax (set amount per year) and turnover tax. The latter was the most successful of presumptive tax measures, but only contributed between 0.51 percent (2008) and 0.33 percent (2010) of the total income tax collection.[21] Overall, ZRA staff remained reluctant to work with the informal sector, so they instead targeted the medium-sized companies operating within the formal economy.[22]

[20] Tellingly, this study was not made public. The content became known as it leaked out (authors' personal observation).

[21] https://www.taxjustice-and-poverty.org/fileadmin/Dateien/Taxjustice_and_Poverty/Zambia/JCTR/JCTR_2014_taxstudy.pdf. By 2010, the contribution of the Medium Taxpayer Office (MTO)/113 staff was 18-23 percent, Small Taxpayer Office (STO)/155 staff –2 percent, the rest was carried by the LTO/ 36 staff, 75-80 percent (ZRA, 2011, https://www.theigc.org/wp-content/uploads/2014/08/Christopher-Mulenga-SME-Taxation-in-Zambia.pdf)

[22] Interview, former ZRA official from the MTO office, 28 November 2018.

Part of the 2008 tax regime reforms, at the instigation of IMF, was the formation of a mining tax audit unit within ZRA to enhance capacity to effectively tax the mining industry. In 2009, ZRA and the Norwegian revenue authority signed a Memorandum of Understanding (MOU) to assist ZRA in building capacity to tax mines. The project was responsible for carrying out an independent assessment and verification of the levels of production in the entire mining industry in Zambia and for reviewing, developing and implementing a mechanism for monitoring the exports of these minerals (Fjeldstad et al., 2016). The investment in the auditing capacity over the years yielded results, as Glencore's Mopani Mine was found liable in a case of $200 million in unpaid taxes in 2011.

The period under Rupiah Banda saw an 'overperformance' on tax effort. While the transition from Mwanawasa to Banda caused frictions within MMD, little changed regarding the technocratic space. Magande, who stood against Banda, was replaced by Musokotwane, Fundanga stayed as BOZ governor and when CG's contract came to an end, he was replaced by Kingsley Chanda (internal promotion). He was consequently fired in 2010 for corruption.

The Mineral Value Monitoring Project (MVCMP), another Norwegian initiative, started in 2013 and was aimed more holistically at monitoring the mining and mineral value chain from extraction to exportation. Its primary task was to design and implement a multi-purpose and multi-stakeholder scheme. The project not only resulted in building more capacity within ZRA, but also helped allied institutions as well (i.e. Ministry of Mines, a historically weak ministry). In all its evaluations, Zambia was seen as one of NORAD's flagship programmes. Zambia's experience with the mining industry translated to an overall higher capacity than that of other regional revenue authorities.[23]

Despite these reforms, however, the tax administration was hindered in its performance because of non-compliance, exemptions and leverage of the mining industry. The promised consultation between the government and the industry on the new mining tax legislation was missing. In response, some mining companies announced plans to reduce operations and postpone new investments. For example, Barrick Gold announced plans to shut down operations at its Lumwana mine, and Konkola Copper Mines (KCM) announced a sharp cut in operations at the Konkola mine. Mineral royalties in 2015 were 41 percent below the government's target. The cause of this underperformance is attributed both to the new fiscal regime, and also to lower copper prices (IMF 2015).

Overall, the period between 2006 and 2015 saw an improvement in tax-to-GDP ratio, as well in terms of tax effort. Some of the positive outcomes came in after delays in payments. For instance, the achievement of a tax-to-GDP ratio of 20.1 percent in 2011 was largely due to the collection of mining tax arrears. If mining tax arrears are

[23] Interview international tax consultant, 17 December 2018.

removed, the tax-to-GDP ratio is 18.2 percent (JCTR 2015). While copper prices went into decline, tax collection remained rather robust.

4.3 ZRA's weakened performance amidst erratic tax policies (2015-2019)

4.3.1 Tax policies

Change in Zambia's political settlement, following the death of President Sata in 2014 impacted ZRA in many ways. Under PF, which called itself a 'vanguard party', technocrats were side-lined for political expediency. Increased intolerance of critique under Lungu resulted in the muzzling of the civil service and allied institutions. Under the new regime, ZRA was increasingly politicised, with several consequences. It was now used as a tool for the repression of perceived political opponents. It controversially closed and seized properties of the erstwhile independent *The Post* newspaper in 2016. This closure took place in the context of the intra-PF succession struggle that followed Sata's death, in which *The Post* opposed a faction led by Edgar Lungu, PF's secretary general, one that was supported by Minister of Finance, Alexander Chikwanda. In a leaked recording, it was heard that the minister of finance had directed ZRA to 'fix the newspaper' (The Post, 2014: 26). The tactic of using ZRA's punitive investigations is currently being employed against the popular independent television station, Prime Television.[24] The appointment of Kingsley Chanda as CG in 2016 was very controversial, as Chanda had been fired from ZRA in 2011 on account of corruption in the customs department. ZRA was also affected by a weakened Ministry of Finance, which saw an unusually high turnover of ministers of finance between 2016 and 2020 (three ministers in four years), reflecting factionalism within PF (Hinfelaar, Sichone, 2019). All of this resulted in an erratic tax policy environment

There was also an ideological shift, as PF's erstwhile turn to resource nationalism had somewhat waned. This in turn led to changes in the mining taxation regime. Mining companies had started to renegotiate the new tax regime a few months after the presidential by-elections in April 2015, seeing an opportunity for change. The new tax regime, known as the Mineral Act and Mineral Development Act 2015, reverted to the previous corporate income tax structure and reduced the mineral royalty rate from 20 percent to 9 percent for open cast mines, and from 8 percent to 6 percent for underground mines, as from 1 July 2015. Instead of the revenue-based tax, it increased the corporate income tax on mining operations from 0 percent to 30 percent; and introduced a maximum 15 percent variable profit tax on mining operations. Moreover, the new tax regime undermined the previous attempt to diversify the tax base away from the copper mines: i.e. 15 percent export tax on precious metals and manganese negatively affected the emerging gold and manganese sectors – two nascent sectors.

[24] *Newsdiggers*, 2020. https://diggers.news/local/2020/04/07/zras-tax-audit-on-media-houses-within-its-mandate-but-wrongly-timed-misa.

The politicisation of the economic institutions, fiscal indiscipline and rampant corruption caused friction between the government, IMF and the donors. In 2016, the Norwegian government closed its embassy in Zambia. While the Norwegian Tax for Development Programmes were hailed before, they halted in 2015. The closing remarks of the Norwegian ambassador when leaving Zambia are telling:

> 'There has been a debate there's a feeling that Zambia did not do enough itself in order to mobilise its own resources with taxing, not only in mining industry but also other rich people and then you have so many opportunities to increase your tax yourselves and if you do not do that yourselves why should we fund your activities […] secondly there was a feeling that although there was high growth of the economy in the last 20 years, with stagnation only last year, you didn't see sufficiently active policies and redistribution of resources and making that sure everybody gained from it. So why should we continue to fund you when even the resources that you collect yourselves are unequally distributed?'[25]

As we detail below, ZRA's maladministration of VAT tax refunds (ZRA owing $600 million to the mining companies), combined with mounting fiscal pressures, led to a drastic tax policy proposal by the newly appointed Minister of Finance, Margaret Mwanakatwe. This controversial move was eventually disbanded in 2020 under the new Minister of Finance, Bwalya Ng'andu, the former deputy governor of Bank of Zambia, who was able to undermine ZRA CG's increased influence.

4.3.2 Tax administration in 2015-2019

At the macro-economic level, government expenditure grew exponentially from 2015 onward. The budget deficit in 2015 exceeded 12 percent of GDP, fully entrenching the trend of excess expenditure over revenue (IMF 2017). Persistent fiscal deficits over the following years increased general government debt, standing at 88 percent of GDP in 2019.[26] As we saw in Figure 4, the increased expenditure exerted pressure on tax revenue, which translated into a marginal increase in tax-to-GDP ratio over 2016-2018. The increase in budgetary allocation to ZRA must be seen as a result of the need to prop up the budget deficit, which includes a plan to boost ZRA's human resources by 200 to 300 members of staff.[27]

Until 2015, ZRA's recruitment process was considered to be fairly transparent, fair and merit based. It had pursued its own recruitment policy, under which recruits for the well-paid positions at the authority were hired on the basis of interviews and aptitude tests. The introduction of minimum qualifications in the 1990s, meant that

[25] https://www.zambiawatchdog.com/norway-closes-embassy-because-of-corruption/ and verified by former Ambassador Ofstad to authors in email.

[26] https://www.fitchratings.com/research/sovereigns/zambia-2019-debt-rise-highlights-fiscal-challenges-05-03-2020

[27] Interview ZRA consultants, 19 February 2020.

every middle-level tax officer must hold a diploma or university degree. The ZRA's merit orientation enabled managers to resist the recruitment of unqualified staff due to political pressures. It has been the ZRA's biggest achievement that it is a professional body run by qualified personnel, with a minimum qualification standards acting against political interference in the recruitment and progression of staff (Von Soest, 2007: 634: interview former ZRA official, 28 November 2018). However, political interference in ZRA's appointment processes has increased in recent years, as exemplified by the appointment of the CG in 2016. According to one former ZRA official, the professional appointment system has fallen into disarray and is no longer as transparent as before.[28] Whereas in the past the filling of a ZRA vacancy started with a public advert, this is no longer being strictly followed. Moreover, the interview process of constituting a panel of internal (supervisory-level) and external interviewers is no longer being followed.[29] The duration of training of new ZRA members of staff has been cut short as well. This period has been paired with increased pressure on ZRA to turn a blind eye on tax evasion by politically linked traders.[30] At the same time, ZRA managed to maintain a core of highly competent staff, as witnessed by their input into the annual tax policy review committee at the Ministry of Finance.[31] The widespread corruption impacted on ZRA's functioning, as reported by the auditor general's office and the Financial Intelligence Centre (FIC). In 2018, FIC analysed 176 suspicious transaction reports, of which 80 were disseminated to law enforcement agencies on suspicions covering: tax evasion, fraud, corruption and money laundering. The total value of the suspected offences in the disseminated cases was estimated at ZMW 6.1 billion (or about USD 520 million).

The mounting fiscal deficits led to an attempt by government to invalidate the outstanding VAT refunds to the mining companies. It became a highly political debate given the continued distrust of mining companies and suspected tax evasion. During the late 1990s, consumption taxes, led by VAT, made the largest contributions to tax revenues in Zambia. This waned in the early 2000s (DiJohn, 2010), as it replaced other sources (import tariffs and excise duties). It then deteriorated significantly from 2010, mainly due to the proliferation of discretionary VAT exemptions, which lowered the tax yields, particularly on domestic VAT (Nalishebo and Banda-Muleya 2019; Phiri 2019). In addition, a two-fold VAT refund payments problem emerged from around 2015, as ZRA increasingly began to treat VAT collections as part of its actualised tax revenue targets and the fiscal authorities continued to neglect the fact that these funds were not for the treasury and needed to be refunded to value-adding claimants. Thus, over 2015-2019, net VAT collections far surpassed refund payouts, mainly reflecting ZRA's tax administration inefficiencies and MOF's weak fiscal discipline. The practice of delaying VAT refund payments and using the tax takings as a cheap source of short-term financing became so recurrent that VAT refund arrears were estimated at equivalent to 2.8 percent of GDP in 2017 (IMF, 2017,

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[28]Interview, 29 November 2018.
[29] Interview former ZRA official, 13 February 2020.
[30] https://diggers.news/local/2019/06/06/how-suspended-zra-employees-implicated-their-boss-in-smuggling-allegations/
[31] Interview advisors to MoF, 8 March 2020 and personal observation by authors.

TADAT, 2016).[32] By 2018-2019, the Zambian government was buckling under the pressure of the legal obligation to settle the VAT refund arrears (Mwape, 2018, quote in IGC 2019; Phiri 2019). It was in this context that the then finance minister and the ZRA C, along with a group from State House, took the decision, without much consultation with anyone else, to abolish the VAT regime; the intention was to eliminate the VAT refund challenge and secure a quick win (IGC 2019) or quick escape from future refund obligations. This not only led to an outcry by the Chamber of Mines, the mining companies being the largest recipient of VAT refunds, but other private sector actors and donors alike. Internally, at both MoF and ZRA there was resistance as well, although within these institutions people could not voice criticism, out of fear of losing their positions or being redeployed.[33] Due to widespread private sector pressure, the introduction of the sales tax was postponed and subsequently abandoned with the appointment of Dr Bwalya Ng'andu (former deputy governor of BOZ) as minister of finance. Ultimately, the power and influence of the ZRA chief to shape tax policy was checked and the revenue authority was re-oriented to its administrative function.

5. Analysis

Despite the varying outcomes in terms of tax effort/performance, we have established that between 1994 and 2015, ZRA was able to grow and specialise, while maintaining a good level of professionalism. Below we consider the different aspects that determined ZRA's functioning.

5.1 Organisational factors

The establishment of ZRA as a separate entity from MoF was designed to give the institution a greater level of autonomy and tax collection efficiency, as well as to offer access to institutional incentives that could attract and maintain professional skills. ZRA's aim and targets as the main collector of government revenue have always been clear, but in practice the authority's functioning largely depends on cooperation and consensus with the policy makers in MoF (and State House). This relationship worked especially well during the technocratic consensus of the Mwanawasa and Rupiah Banda years, in which all economic institutions and State House were aligned, (with the exception of some internal disagreement on the windfall tax), but was not sustained thereafter. The re-organisation of ZRA in 2005 eventually led to a higher capacity and was borne out by increase of company taxes. Since 2015, the ZRA appointment process has become more opaque. It is accompanied by a lack of transparency and accountability (no access to ZRA's research data, lack of production of yearly reports) and an intolerance of expert advice from economic think tanks such as the Zambia Institute for Policy and Research (ZIPAR) and International Growth Centre (IGC). The absence of a productive interaction with other economic institutions and organisations is linked to the increased political interference and

[32] The enforcement of VAT Rule 18 in 2014 and then its subsequent amendment in 2015 also likely contributed to the backlog.

[33] Interview former MoF senior official, 4 March 2020.

political appointments. The CG's role in the VAT/sales tax saga pointed to a shift in political alliances and an increase in the political power of ZRA, but this seems short-lived.

5.2 Leadership

The leadership roles of the CG and the directors of the various tax units are very important for the administrative functioning of ZRA. Two pitfalls were noted: one was the direct appointment of CG by the president, which makes it more vulnerable to patronage and political interference; secondly, while the CGs all had the right professional qualification, their functioning can be overridden by the more powerful minister of finance and State House, as we saw during the first PF regime (2011-2015). Berlin Msiska was the longest-serving CG. Widely well regarded for his professional skills and enforcing discipline in the different tax units, during his second tenure under PF he had to work under very different circumstances and as was less effective as a result. The re-appointment in 2016 of a CG who had been fired for prior misconduct was a sign of further exposure of ZRA to political interference and patronage.

5.3 Political settlement type/dynamics

As we have seen above, ZRA's tax performance is strongly linked to Zambia's political settlements. The tax revenue policy function lies mostly within MoF, which in turn is dependent on the functioning of its minister and his/her relation with State House. With rapidly changing ruling coalitions from 1990s onward, and the varying influence of the IMF, Zambia's taxation regimes have veered from one extreme to the other. They have varied from prudent, a policy direction that ultimately undermined MMD's ruling coalition, to populist resource nationalism, which was an important platform for opposition party PF (Caramento, 2019). But in all cases, taxation has always been closely linked to the politics of copper (Bebbington et al., 2018).

Constrained by IMF conditionalities linked to the ongoing privatisation process of the mining companies in the 1990s and early 2000s, ZRA built up internal capacity, with a modest return. Within the context of the copper boom, the desire for donor autonomy, as well as political pressures from civil society and an opposition party who gained seats in the urban areas, led Mwanawasa to abrogate the Development Agreements. This saw the emergence of a new tax regime, which translated into an increase in tax effort. PF, the ruling party from 2011 onward, used the expansion of fiscal space to fulfil its populist mandate, namely an increase public expenditure (civil servant wages, social cash transfers, infrastructure), and started to acquire loans (notably Eurobonds). The steep rise in debt accumulation led initially led to a reduced pressure on ZRA to collect revenue, until the election years of 2015 and 2016, when the budget deficit became unsustainable. Moreover, political interference by the 'vanguard' party led to a decline in technocratic influence on tax policy, political appointments and high staff turnover in ZRA. From an ineffectual CG during the Sata/Chikwanda era, to an influential CG under Lungu/Mwanakatwe, in both cases it undermined a productive relationship between MoF and ZRA. As a result of

Zambia's particular political settlements, tax efforts have gone into LTO, with an uneven effort to tax either the elites (notably on properties and procurement/contracts) or the informal sector. Because of the emphasis on mining companies, this is where most capacity within ZRA was built, with varying results.

6. Conclusion and implications for policy actors

In this paper, we set out to determine the extent to which the performance of ZRA in undertaking its administrative function of collecting taxes can be described, both qualitatively and quantitatively, as having been effective during 1994-2019, taking into account the evolution of the political settlement in Zambia. The apparent contradictions between the perception of tax consultants and economic specialists in assessing ZRA's performance as a 'pocket of effectiveness' and actual tax collection effort indicators are possibly an artefact of differences in analytic perspectives. They show the limitations of overly relying on quantitative approaches without due regard to the qualitative context when assessing national revenue authorities. By using a mixed method, we observed that although the revenue authority was a relatively high-performing organisation among its peer economic institutions in Zambia, its effectiveness over time since its inception in 1994 has not been without political and technical economic challenges. That is, during most parts of the reference period, ZRA sustained a favourable level of professionalism and leadership, and established a concerted tax collection effort, albeit temporarily from 2006 to 2014. The organisation saw a decline in both adherence to professionalism and ability to meet its mandated administrative functions in the later part of the review period, particularly during 2015-2019. The outcome was very erratic revenue collection. This broad observation generally fits the assessment that, overall, the capacity of Zambia's civil service and regulatory authorities has been negatively influenced by the politicisation and corruption of Zambia's institutions in the recent decade (expert survey 2017).

ZRA can therefore be described as a 'thwarted PoE', where we can identify a brief period, from 2006 to 2011, during which genuine efforts were made to build its capacity and ensure it functioned as a PoE, with a credible and connected leadership and efforts to build an esprit de corps. Any success within Zambia's revenue mobilisation efforts thereafter seems more likely to have come from a carry-over of some good organisational practice, combined with policy shifts resulting from a stronger effort to capture revenue from mining. Beyond this brief five-year period, ZRA has been heavily undermined by both the country's political economy (reliance on mining and rents from this) and politics (personalised forms of competitive clientelism and, currently, vulnerable authoritarianism). The fractious and populist nature of Zambian politics has translated into inconsistent and ad hoc tax policies. Consequently, ZRA's potential in fulfilling its primary mandate of tax administration was impeded.

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Annex 1: Overview ZRA Commissioner Generals

Commissioner General	Period	Qualifications	Performance
Jim Scott (UK)	1994-1997	(Not available)	(Not available)
Kelvin Donovan (New Zealand)	1997-2001	(Not available)	(Not available)
Berlin Msiska	2002-2006	Private sector background (SGS, logistics company)	First Zambian DG, appointed by Mwanawasa, professional but mixed record. At the beginning of 2007, Mwanawasa terminated the contract of the CG.[34]
Chriticles Mwansa	2007-2010	Former Development Bank of Zambia and World Customs Organisation (WCO) Director of Tariff and Trade Affairs (2004 to 2007).	Rose through the ranks. Former colleague of Minister of Finance Magande in Brussels. Was supposed to become deputy CG, but after Msiska's contract was terminated by State House, became CG. In 2010 he was moved to Ministry of Science, Technology and Vocational Training as Permanent Secretary by President Banda
Wisdom Nhekairo	2010-2011	Former ZRA Commissioner for Domestic Taxes	Appointed by President Banda, but suspended after 2011 elections, pending Commission of Inquiry into the Operations of the Zambia Revenue Authority.
Berlin Msiska	2012-2016	Former CG, Permanent Secretary for Financial Management and Administration at the Ministry of Finance and National Planning. Thereafter IMF resident advisor at the Mauritius-based Africa Regional Technical Assistance Centre [ARTAC] representing 13 African countries.	Brought back as CG to support PF's high commitment to tax collection, but CG had little power, as control was with Minister of Finance Chikwanda.
Kingsley Chanda	Sept	Former ZRA	Politically influential, strong ties to

[34] *Times of Zambia* 3 January 2007.

Commissioner General	Period	Qualifications	Performance
	2016 to date	Commisioner-Customs, controversial appointment as he was fired from that position.	State House. Brought back as part of Rupiah Banda influence on Lungu's PF.

Source: Authors' own construction.

Pockets of effectiveness

A major challenge for achieving poverty reduction is that the capacity of states to deliver development is in short supply, particularly in Africa.

However, ‘pockets of effectiveness’ (PoEs) offer important clues concerning how developmental forms of state capacity might emerge and be sustained in difficult contexts.

Pockets of effectiveness (PoEs) are public organisations that function effectively in providing public goods and services, despite operating in an environment where effective public service delivery is not the norm. Recent research on PoEs has suggested that both external (e.g. political context) and internal factors (e.g. organisational leadership) shape their performance. However, this emerging subfield of governance research lacks a comparative study which systematically identifies how PoEs emerge and are sustained in different contexts and sectors, and the role that domestic and international actors can play in this. Specifically, we are seeking to understand the political and bureacratic logics that shape the emergence and performace of PoEs. Our research questions are:

1. How do pockets of effectiveness emerge and how are they sustained within different types of context and sector?
2. What role has been and could be played by domestic and international actors in support of this?

Pockets of effectiveness (PoEs) are public organisations that function effectively in providing public goods and services, despite operating in an environment where effective public service delivery is not the norm. This project, which investigates PoEs in relation to the politics of state-building and regime survival in sub-Saharan Africa, is being led by Professor Sam Hickey, based at the Global Development Institute, The University of Manchester, in collaboration with Professor Giles Mohan (The Open University), Dr Abdul-Gafaru Abdulai (University of Ghana), Dr Badru Bukenya (Makerere University), Dr Benjamin Chemouni (University of Cambridge), Dr Marja Hinfelaar (SAIPAR, Lusaka) and Dr Matt Tyce (GDI, Manchester). It is funded by the Economic and Social Research Council and Foreign, Commonwealth and Development Office with some additional funding from the FCDO-funded Effective States and Inclusive Development Research Centre.
http://www.effective-states.org/research/pockets-of-effectiveness/