The London School of Economics and Political Science

States of extraction:
Impacts of taxation on statebuilding in Angola and Mozambique, 1975-2013

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Declaration

I certify that the thesis I have presented for examination for the MPhil/PhD degree of the London School of Economics and Political Science is solely my own work other than where I have clearly indicated that it is the work of others (in which case the extent of any work carried out jointly by me and any other person is clearly identified in it).

I warrant that this authorisation does not, to the best of my belief, infringe the rights of any third party.

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Abstract

This PhD investigates the impacts of taxation on state capacity and accountability through comparative case studies of Angola and Mozambique between 1975 and 2013. Extremes of violence and economic dependency dominate the postcolonial histories of Angola and Mozambique. These cases provide an ideal setting for comparative analysis of how civil war and single resource dependence influence the links between taxation and statebuilding. The thesis demonstrates, in contrast to bellicist notions, that civil war did not strengthen the tax systems or create stronger states. Rather, transitions from the colonial capitalist regimes to socialism and then towards market capitalism, as well as the availability of autonomous income sources, were the central drivers of change in extractive processes.

The research establishes taxation as both a critical explanation for development trajectories and a reflection of state capacity and accountability. Existing research on taxation and statebuilding in contemporary developing countries tends to treat tax as a catalyst for democracy, but I find that it provides political regimes with an equally powerful tool to expand power through neopatrimonial networks and consolidate control over the state. Analysis of the case studies concludes that, driven by extraverted elite accumulation strategies, vast oil resources in Angola and large-scale foreign aid in Mozambique worked similarly to disconnect state finances from society and undermine the potential links between revenue collection and redistribution, thereby reducing the possibility of enhanced state capacity or accountability.

Selected Acronyms

AfDB	African Development Bank
AKZ	Angolan Kwanza
ATM	Mozambique Revenue Authority, *Autoridade Tributária de Moçambique*
BWIs	Bretton Woods Institutions
CEIC	Centre for Scientific Research, Universidade Católica de Angola, *Centro de Estudos e Investigação Científica*
CIA	Central Intelligence Agency (USA)
Comecon	Council for Mutual Economic Assistance
CMI	Ch. Michelsen Institute (Norway)
CRF	Fiscal Reform Committee (Angola), *Comité para Reforma Fiscal*
DfID	Department for International Development (UK)
DNI	National Tax Authority (Angola), *Direcção Nacional de Impostos*
FNLA	National Front for the Liberation of Angola, *Frente Nacional de Libertação de Angola*
Frelimo	Mozambique Liberation Front, *Frente de Libertação de Moçambique*
KfW	German Development Bank ('German Cooperation')
ICTD	International Centre for Tax and Development
IFI	International financial institution
IMF	International Monetary Fund
MDGs	Millennium Development Goals
MPLA	People's Movement for the Liberation of Angola, *Movimento Popular de Libertação de Angola,*
MTS	Mozambican Metical
ODA	Overseas Development Assistance
OECD	Organisation for Economic Cooperation and Development
ONUMOZ	Mission of the United Nations in Mozambique
PARPA	Mozambique Poverty Reduction Strategy Paper, *Plano de Acção para a Redução da Pobreza Absoluta em Moçambique*
PERT	Executive Tax Reform Project (Angola), *Projeto Executivo para a Reforma Tributária*
PRE	Economic Rehabilitation Programme (Mozambique), *Programma de Reabilitação Económica*
Renamo	Mozambican National Resistance, *Resistência Nacional Moçambicana*
SADC	Southern Africa Development Community
SAP	Structural Adjustment Programme
SNA	National Customs Agency (Angola), *Serviço Nacional das Alfândegas*
UN	United Nations
UNDP	United Nations Development Programme
UNITA	National Union for the Total Independence of Angola, *União Nacional para a Independência Total de Angola*
VAT	Value-added tax
ZANU	Zimbabwe African National Union

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Introduction: Revenue collection and statebuilding in postcolonial Africa

1.1. Introduction

This PhD investigates the relationship between taxation and state formation in a contemporary African context. It addresses the central research question of the impact of revenue collection on statebuilding processes through comparative case studies of Angola and Mozambique across the postcolonial period, between 1975 and 2013. The research establishes taxation both as a critical explanation for development trajectories as well as a reflection of state capacity and accountability.

Extremes of violence and economic dependency dominate the postcolonial histories of Angola and Mozambique. These cases provide an ideal setting for comparative analysis of how civil war and single resource dependence influence the links between taxation and statebuilding. The research establishes that, contrary to the traditional conception of the catalytic developmental effect of conflict on extractive and state capacity, civil war was not correlated with enhanced taxation or stronger states because of the availability of autonomous income sources. The case studies argue that large-scale foreign aid in Mozambique and oil income in Angola undermined the potential links between revenue collection and redistribution, and thus between tax and statebuilding. In addition, the PhD compares the use of taxation by elites in each country as a tool to consolidate the neopatrimonial state, and develops the hypothesis that when tax operates through networks of clientelism it is not correlated with enhanced capacity or accountability. Comparative studies of Angola and Mozambique typically emphasise the divergence of developmental patterns, yet analysing statebuilding through the lens of taxation provides an alternative account by drawing attention to fundamental factors that condition the way each state operates.

The thesis presents a wealth of original data collected through fieldwork, including previously unpublished revenue statistics spanning the postcolonial period, a synthesis of all major tax legislation during this time, and interviews with over 100 current and former members of the elite – party bosses, government ministers, members of parliament, guerrilla leaders, diplomats, and lawyers. It uses this original data, collected in two notoriously difficult and closed research environments, to establish an alternative account of the drivers of statebuilding in postcolonial Angola and Mozambique. The PhD represents one of the first comparative studies of taxation and statebuilding in sub-Saharan Africa, and aims to contribute to conceptual understandings of the developmental impact of taxation in settings characterised by conflict and external dependency.

This introductory chapter puts the PhD in disciplinary and empirical context and outlines the research design. It is organised as follows. The second section establishes the relevance of taxation in African history and contemporary development agendas and frames the research puzzle in terms of existing conceptual literature that addresses the relationship between revenue collection and statebuilding. Section 1.3 outlines the research design and methodology of this study. It introduces the central research questions and hypotheses that will be investigated, justifies case selection, and outlines the agenda for empirical research, including specification of data sources and variables. The fourth section outlines the general arguments presented and the logic linking data to propositions. Section 1.5 provides an introduction to the cases of Angola and Mozambique, including a discussion of colonial taxation practices, in order to provide context for empirical research and establish baselines for comparative analysis. The final section outlines the structure of the PhD.

1.2. Research puzzle

The idea that tax builds states is not a new one, but surprisingly little is known about the developmental impact of revenue collection on state formation in postcolonial African countries. There are very few comparative studies of the relationship between taxation and statebuilding in contemporary Africa, despite substantial research that demonstrates links between taxation and development priorities including state-society cohesion (Levi 1988; Moore 1998), economic growth (Collier 2002; Gemmel 1987), and service delivery (Semboja and Therkildsen 1995). This section provides a brief review of existing scholarship and identifies gaps that contextualise the research puzzle of the PhD.

Extraction in history

Revenue collection played a central role in the historical structuring of African political economy and consolidated various modes of political organisation. In the pre-colonial period, revenue collection played a central role in establishing the power of African kingdoms, as obligatory payments (in the form of commodities such as ivory and copper as well as labour) was central to political organisation and trade activities (Englebert 2000a; Gennaioli and Rainer 2005; Kisangani 2004). Under colonialism, taxation became a central pillar of European extraction and oppression. While forced labour is often emphasised as the core mechanism of control in Africa (Mondlane 1969; O'Laughlin 2002), taxation was also a central means of gaining, and demonstrating to Europe, effective control of overseas territories (Forstater 2005; Heywood 2000; Gardner 2002).

Taxation facilitated the consolidation of the colonial 'exchange' system and monetisation of subjects, as taxes constituted an indirect means to coerce participation in the capitalist economy and allowed for greater commerce throughout the territories while generating revenues for the empire. In countries including Angola and Mozambique under Portuguese rule, taxation helped the empire to mobilise sufficient resources "to get an efficient apparatus of exploitation working" within a rural subsistence economy. As such, starting an exchange sector "furnished the primitive accumulation of European colonialism in Africa" (Anderson 1962, 97).

A rich conceptual literature describes the central role of revenue extraction in the establishment of the first nation-states in early-modern Europe, processes that typically began with the imperative to fund protracted violence. Historically, revenue collection is linked to statebuilding through two main processes: First, the revenue imperative catalyses the building and strengthening of extractive institutions, including the enforcement mechanisms and administrative bureaucracies necessary to expand and improve tax collection (Kaldor 1963; Zakaria 1998; Fjeldstad and Therkildsen 2008). Second, increased revenue extraction requires the state to engage with society through debate over taxation, which establishes a platform for revenue bargaining and the emergence of a social fiscal contract (Moore 2008; Centeno 2002).

These two processes have been directly linked to historical statebuilding patterns related to state capacity and representation, respectively.

Revenue collection processes also serve as a valuable analytical tool as a proxy for state capacity and relations of accountability. Schumpeter first argued in 1918 that a state's system of taxation is a critical reflection of its political institutions, and there is a long tradition of thought in political economy and historical sociology that connects state formation processes with a government's capacity to collect revenues through taxation. As Moss et al. assert, "because revenues are necessary to fund the state's activities in a sustainable manner, the size and consistency of government revenues can tell us a lot about the level of capacity that exists within the state apparatus" (2006, 10).

The developmental impact of revenue collection on statebuilding has generally not been observed in postcolonial Africa. Study of revenue collection processes has attracted limited interest within International Relations (IR). Academic literature on the impact of tax on statebuilding is limited, and "the middle ground between grand theory and case studies…remains largely undeveloped" (Bird 2012, 5). However, the thesis contends that revenue collection plays a fundamental role in shaping the structure and strength of the state's administrative procedures and relationship with society.

The 2008 manuscript *Taxation and State-Building in Developing Countries*, edited by Bräutigam, Fjeldstad, and Moore, represents the most significant contribution to scholarship on the relationship between revenue collection and state formation in contemporary developing countries. This work situates this relationship in historical context and assesses traditional theories of taxation and statebuilding in a contemporary context through several case studies. This PhD extends this work to the cases of postcolonial Angola and Mozambique and uses the empirical data presented to generate inductive conclusions about the relationship between tax and statebuilding in Africa.

Developing an alternative theoretical account

Existing literature on tax and statebuilding in the global south has tended to hold assumptions about the nature of revenue collection and development that are based on a Western experience and liberal ideals around formal institutions and state-society exchange. The PhD compares findings from the case research against an alternative account of the impacts of taxation on state formation developed from 'culturalist' notions of state-society relations and accumulation in African politics. While this literature is discussed at greater length in Chapter 2, the concept of extraversion is introduced here alongside ideas about how this approach can be used to conceptualise the relationship between tax and statebuilding.

Bayart argues that African states are characterised by political "extraversion," a strategy of "mobilising resources derived from their (possibly unequal) relationship with the external environment" (2009, 20-21). An important implication of extraversion is that states do not need to rely on mobilising domestic production in order to generate the funds they need to rule. The concept is also a useful way to think about the links between internal and external political interactions, as African states can use the resources they collect externally to insulate themselves from domestic demands and rivals. This dynamic can impact the relationship between tax and statebuilding because the exploitation of external resources, rather than domestic revenue collection, can increase the state's autonomy and reduce reliance on, or accountability to, domestic society.

Because African politics are rarely defined or constrained by boundaries (e.g. state/society, public/private, formal/informal), 'taxation' has little resonance if conceptualised as a formal, public, institutionalised activity that involves an exchange relationship and the mobilisation, allocation, and distribution of resources across these boundaries. Given the imperative of elite accumulation, revenue collection can be seen as part of a strategy of rent seeking that operates through patronage. In the context of easily extractable natural resources or large-scale foreign aid income – replacing the need for domestic revenue mobilisation – tax may become less a formal imperative of the state.

The statebuilding impacts of the evolution of revenue collection are rather different than those envisioned by European theorists. First, the impact of expanded revenue collection consolidates endemic dynamics of the privatisation of the state apparatus for private benefit (Reno 1995) and the extent of informal activity. In contrast to the European narrative, taxation can be used as a political tool to facilitate the consolidation of power within a small elite. Moreover, due to the incompatibility between the common practices of African politics and market-oriented reforms, tax reforms designed to support capitalism are unlikely to result in greater institutional strength.

Second, because of the extent of patronage networks in contemporary African politics, rather than representation, citizens look to political leaderships for distribution of resources. Similarly, instead of using public institutions, society relies on the vertical structure of clientelism as a means of ensuring their fair share. Since the legitimacy of African elites relies on their capacity to foster clientele, revenue collection is not directly related to broad accountability since both function through the networks of patronage. Third, the blurring of boundaries means that revenue collection will not furnish a true platform for debate between 'state' and 'society.' Moreover, as revenue collection is conceived as a system of informal payments between societal groups, rather than across the boundaries of the formal and the informal, it may be unhelpful to impose the analytical separation between state and society when thinking about the impacts of taxation on accountability.

1.3. Research design

This section outlines the research design and methodology of the PhD. It introduces the questions for empirical research, justifies case selection, and explains the agenda for primary research.

Questions and hypotheses

The primary area of inquiry of the PhD is the relationship between revenue collection and statebuilding. The thesis addresses the central research question of: *What is the impact of taxation on state capacity and accountability?* The analysis compares findings about the influence of extraction on each of these dimensions of the state against two sets of hypotheses:

What is the impact of taxation on state capacity?

- H1: Taxation strengthens state capacity because of the imperative for institutional development provided by the need to mobilise domestic revenues.
- H2: Taxation undermines state capacity because its operation through networks of clientelism corrodes institutions.

What is the impact of taxation on accountability?

- H1: Taxation contributes to greater regime accountability by establishing an exchange relationship between state and society.
- H2: Taxation narrows regime accountability because it consolidates the elite's power and legitimacy through clientelism.

The first set of propositions for each question (H1) represents established theories about the developmental impact of taxation on statebuilding in the Western development experience. This pair of hypotheses reflects conceptual accounts of historical statebuilding patterns in established nation-states, as well as theories that apply this framework to analysis of contemporary less-developed states. This perspective is referred to throughout the thesis as 'liberal tax theory.'

The second set of hypotheses for each question (H2) is derived from 'culturalist' notions of state-society relations and accumulation. These hypotheses are based on ideas including political "extraversion" and "instrumentalised disorder." The conceptual framework of the PhD is therefore structured to contrast empirical findings with the liberal tax account, and to develop alternative hypotheses based on culturalist theory.

In addition, the research addresses two secondary questions, each of which represents a major focus of empirical analysis. The first portion of the case research assesses the question of: *How does civil war influence extractive capacity?* The analysis of the civil war period challenges the bellicist argument that "war makes states" (Tilly 1975) and analyses correlations between conflict and taxation in the context of internal civil wars. The second subsidiary question is: *How does external* *dependency impact the relationship between taxation and statebuilding?* The case research explores this question across the civil war and post-conflict periods.

Case definition, selection, and parameters

The PhD investigates the research questions through in-depth comparative case studies of Angola and Mozambique between 1975 and 2014. Postcolonial Angola and Mozambique are treated as cases of the development of taxation in parallel with statebuilding agendas defined by civil war and post-conflict reconstruction. In addition, the research examines two cases in which the expansion of tax revenue (relative to GDP) has not resulted in enhanced state capacity or accountability. The logic of case selection is based on compatibility in terms of the starting point of analysis and factors developed during the civil wars that help to establish correlations between the tax and statebuilding.

First, Mozambique and Angola represent extremes of single-revenue dependency, and the comparison is intended to illuminate differential impacts of the rents and political behaviours driven by aid and oil on revenue collection. Second, the shared experience of internationalised civil wars between the parties that gained the right to rule at independence and externally sponsored insurgency groups provides the context to analyse how taxation contributed to divergent outcomes of the conflicts.

The comparative study is set up to compare the divergent processes of taxation in Angola and Mozambique from a shared post-independence context, and to investigate the impact of these revenue collection patterns on statist trajectories. The research uses taxation as an analytical tool to examine the impact of key features of the post-independence political economies on statebuilding: civil war, socialism, transition to capitalism, external interference, and dependence on oil or aid. Revenue collection processes thus serve as a variable that influences the relationship between these factors and statebuilding, and as a reflection of their impacts on the statist process.

Another rationale for adopting this approach is to suggest that civil war and single resource dependence have had similar impacts on statebuilding in Angola and Mozambique because of the way that they shaped taxation processes. As such, placing revenue collection at the centre of analysis helps to tell a different story than existing comparative or single case studies that emphasise the influence of oil income and foreign development assistance, respectively, as central factors that facilitated the divergence of statebuilding processes.

Among potential alternative cases, Zimbabwe and Kenya could provide interesting comparisons based on their experiences of post-colonial insecurity and conflict and efforts to reform colonial tax systems. However, two Lusophone countries were selected because of the contention that the Portuguese colonial legacy influenced post-independence extraction, war, and statebuilding to a significant degree. Among the other former Portuguese colonies in Africa – Guinea-Bissau, Cape Verde, and São Tomé and Príncipe – Angola and Mozambique share the experience of conflict conditioned by South Africa's "front line" wars; the selected countries are also far larger and present greater potential for access to materials.

The approach adopted by the thesis is to analyse the types of changes that revenue collection processes have had on Angola and Mozambique in terms of state capacity and state-society relations. Similarly, the approach recognises the informal and extra-institutional nature of revenue collection and redistribution. The parameters and conditions of the comparative case study are as follows:

- Temporal: 1975-2013. The cases are analysed and compared across two time periods: civil war, which began in each country shortly following independence in 1975 and lasted until 2002 in Angola and 1992 in Mozambique, and the post-conflict period. This structure helps to organise a large amount of data, but also to address separately and in inter- and cross-case comparisons the specific dynamics at work in each period. This format is also conducive to the general argument developed throughout the thesis that the way political regimes managed revenue collection during the war explains a great deal about how they have developed in peace.
- Statebuilding (dependent variable): Following Bräutigam et al., the research defines statebuilding as "the process of increasing the administrative, fiscal, and institutional capacity of governments to interact constructively with their societies and to pursue public goals more effectively (2008, 2). Impacts on the state as a dependent variable are confined to *state capacity*, understood as institutional strength, effectiveness, and decision-making power; and *accountability*, understood as the political regime's answerability and responsibility to stakeholders in society.
- Revenue collection (independent variable): The PhD defines revenue collection as official tax revenues collected by the government. *Tax revenue* refers to obligatory financial transfers to the government and does not include spending, other non-tax fiscal income, foreign aid or loans, or corporate non-tax payments (such as transfers from the oil industry). *Revenue collection* and *taxation* are used interchangeably, though the former connotes a broader concept rather than the specific fiscal policy represented by the latter. While *taxation* is confined to compulsory transfers, *extraction* refers to state

collection of revenues from all domestic and external sources, including foreign aid.

Theory-building research

The PhD uses the case studies to provide a theoretically informed account about the relationship between taxation and statebuilding. While the presentation of original, previously unpublished empirical data constitutes a significant portion of the PhD, its objective is to generate theory-building research. The goal is not to draw wide generalisations based on these two cases, but rather to establish limited inferences (George and Bennett 2005) and identify correlations inductively.

The empirical research builds heuristic case studies that seek to "inductively identify new variables, hypotheses, causal mechanisms, and causal paths" (George and Bennett, 2005 75; Lijphart 1971; Eckstein 1975). Heuristic case studies are an effective method for analysing the Angolan and Mozambican cases of postcolonial statebuilding and revenue collection due to the divergence of both cases from the outcomes expected by traditional theories linking tax to statebuilding.

The research is based on a set of propositions about the relationship between revenue collection and statebuilding. First, it treats taxation as a central activity of the state. Second, it assumes a mutually constitutive relationship between tax and statebuilding. In practice, this means that shifts in political regime and tax systems are analysed in parallel. Third, it assumes that theories that posit that taxation has a developmental impact on state strength rely on the presence of a revenue imperative as the primary causal mechanism linking revenue collection to statebuilding.

The PhD describes variance in terms of qualitative outcomes. The dependent variable of statebuilding – or the focused components of capacity or accountability –

is not described simply in terms of ‘success’ or ‘failure,’ or ‘stronger’ or ‘weaker.’ The PhD avoids such dichotomies in favour of more nuanced explanation of the types of changes that tax has effected on the state. The research takes this approach for the independent variable of revenue collection processes as well. The presentation of empirical data does not focus just on the volume of revenues collected but also on the types of taxes and their ratio to overall revenues and GDP.

The PhD does not intend to “test” arguments about the relationship between tax and statebuilding, nor draw conclusions about direct causal paths. Because the links between tax, state capacity, and state-society relations are mutually constitutive, the thesis approaches analysis from the broader perspective of identifying the different types of changes that war and external dependency can have on taxation, and in turn of taxation on states. The objective is therefore to unpack two-way relationships between these factors and draw correlations from the case material.

Agenda for empirical research

The current publicly available research on the tax systems in Angola and Mozambique tends to fall into one of two groups. There have been periodic studies undertaken by the IMF, World Bank, and other donor or development agencies, which tend to be technical in nature and either cover a narrow time period for one case, or limited data on either in large-N studies. More recent analyses supported by donors, such as those undertaken by the Chr. Michelsen Institute and USAID, have focused on reform programmes around specific issues, such as broadening the non-oil tax base in Angola or new mining and gas legislation in Mozambique. Research in both groups is policy oriented.[1]

The PhD presents substantial empirical research and original data collected through fieldwork, including revenue statistics spanning the thirty-eight year postcolonial period in each country, and perceptions gathered from over 100 interviews with current and former political elites and other leading stakeholders. The primary aim of empirical research is to provide a comprehensive picture of the tax system in Angola and Mozambique between 1975-2013, and an account of the drivers and impacts of tax reform during this period. In line with these intended outputs, the agenda for primary research involves the following components:

1) Government revenue statistics: Fiscal data spanning 1975-2013, including tax revenue and GDP ratio, composition of tax revenue, tax vs. non-tax income, and autonomous income sources (e.g. foreign aid, oil revenues, loans)
2) Legislation and discourse: Tax laws and reform policy spanning 1975-2013, state, party, and public discourse (e.g. official decrees, political congresses, newspapers) concerning proposed and adopted reforms to tax policy design and structure
3) Elite interviews: Semi-structured interviews with senior government officials involved in tax policy design and economic planning (current and former), representatives from international financial institutions and bodies representing the foreign aid and oil industries

[1] There is also a third group, consisting of a recent proliferation of 'handbooks' on tax in Africa

The empirical research presented in the PhD is the result of extended fieldwork in the case countries as well as Portugal and South Africa. The field research was undertaken according to the following schedule:

- Portugal (Lisbon, July-December 2011: Initial research on Lusophone African statebuilding and economic development including preliminary interviews and archival work; language study;
- Mozambique (Maputo, Beira, Nampula, Inhambane, January-August 2012 and November 2013): Primary data collection including 50 elite interviews
- Angola (Luanda, Sumbe, April-June 2013): Primary data collection including 50 elite interviews;
- South Africa (Cape Town, Johannesburg, July-November 2013): Further research at the University of Cape Town to support the thesis.

The data are comprised of fiscal statistics spanning the period between 1975 and 2013. The descriptive statistics represent government tax collection in absolute terms and relative to GDP. "Tax share" of GDP is a ratio of all taxes collected to gross domestic product. This ratio, a standard fiscal metric, is used throughout the thesis and is important because it expresses the amount of tax revenue available to a government relative to the size of the economy (WEO 2010). While there are numerous factors that can account for trends in the tax ratio (other than a government's success in collecting taxes), such as growth rates and spending, tax share of GDP is useful for comparison of a country's fiscal situation across time and with other countries. The data also present information on the types of taxes collected (for instance, taxes on consumption, trade, and income). Appendices of disaggregated statistical data are included at the conclusion of the thesis.

The research draws on quantitative and qualitative data, and takes a mixed-method approach to analysis. However, statistical measures are used descriptively, and the comparison is informed by inductive and qualitative methodology. The empirical research presented is distinguished from previous studies because of the originality and timeframe of the data itself, as well as the analysis undertaken in parallel. The thesis presents substantial technical discussion, but endeavours to balance this account with a discussion of the political significance of tax policy and procedures. Similarly, the thesis presents the results of statistical analysis of government revenue data, but relates this data to the context of political processes in order to identify drivers of reform and link them to economic and fiscal impacts. Additionally, all empirical data is presented in parallel with a political narrative that addresses how major transitions between economic systems – from extractive capitalism under colonial rule to centralised planning and then to market capitalism – and internal and external influences on the economy and decision making gave way to, and are reflected in, shifts in the fiscal system. The empirical research is also distinguished from previous studies by maintaining a comparative perspective throughout.

Finally, the thesis presents an English-language study of mainly Portuguese primary documents and statistics. Most of the interviews for the thesis were conducted in Portuguese, a language I learned for the purposes of this research. Most of the documents uncovered in fieldwork were written in Portuguese, and all the translations that appear in the PhD are mine.

Fieldwork and analysis has been guided by what Migdal (2001) calls the "anthropology of the state": supplementing macro political analyses with anthropological micro-focused, field-based observations. The state's workings and manifestations in society can be observed on many levels through fieldwork. As Eriksen writes, as a "translocal phenomenon, analyses of the state based on fieldwork…need to combine the use of data collected 'in the field' with theories and concepts from traditional macro-level approaches. Thus, one should move beyond the analyses of formal rules and structures in order to get 'inside the whale,' and grasp the processes of everyday state making" (Eriksen 2001, 304).

1.4. Central arguments

This section introduces the general arguments developed through the case research. Challenging other accounts that draw stark contrasts between the statebuilding and development trajectories in the cases, the PhD suggests that using tax as a lens demonstrates the significant similarity in statebuilding processes, particularly in terms of the way that war, economic transition, and single resource dependence have separated state from society. This has resulted in the disconnection between the imperatives of revenue collection and redistribution, and thus the links between tax and statebuilding.

Case research indicates that divergences in the fiscal systems are in degree rather than qualitatively different. Mozambique has more developed fiscal institutions, driven by donors, but both tax systems are highly centralised, skewed to support investment, and based on the needs of the urban economy; corruption and evasion are abundant, while spending is disconnected from local budgets and participation.

The PhD advances two assertions to challenge binary propositions that envision the catalytic impact of war on taxation, and of tax on statebuilding. First, war did not "make" states through the presence of violence itself, but rather through the extractive and political processes institutionalised by the war economy. The case research demonstrates that the historical development of the revenue and political systems after independence has provided critical conditions for taxation and its relationship to statebuilding after the war.

The second general argument advanced is that the relationship between revenue collection and statebuilding depends not just on the level of extraction but on the types of resources being taxed. Similarly, findings from the case studies suggest that revenue collection typically builds institutions and government accountability in so far as they are required by the tax base, rather than state capacity in general.

Increased tax collection and an array of tax reforms did not lead to greater state capacity or accountability in either case. A central reason why expanded taxation did not have the developmental impact supposed by liberal tax theory is the absence of a revenue imperative: the governments did not rely on domestic tax mobilisation to raise state funds. The thesis argues that aid and oil disconnected state finances from society and the extractive apparatus from a broad domestic revenue base. In conceptual terms, the availability of aid and oil replaced the revenue imperative and precluded the need for revenue bargaining. Foreign aid and oil worked similarly as autonomous income streams for the elite, which disincentivised tax reform and broadening the revenue base. The case research explores explanations for these findings based on the structural context of single resource dependence, as well as political motives to use tax as tool for maintaining power and accumulating wealth.

1.5. Case introduction

This section introduces the cases of Angola and Mozambique from independence in 1975 to 2013. It first presents a brief discussion of the history of colonial taxation and then reviews the most significant bases of compatibility and contrast in terms of analysis of revenue collection and statebuilding processes. The discussion then sets out the logic of case selection and indicates potential contributions to existing studies of these countries.

Colonial taxation

The Portuguese established presences in the territories that are now Angola and Mozambique in the 16th century. During the 19th century 'scramble for Africa' – first marking off the boundaries of coastal possessions and then pressing into the interiors – Portugal negotiated treaties with Germany and Britain that established the general territorial boundaries of modern Angola and Mozambique (Clarence-Smith 1985, 83-85). Portugal consolidated its power in both colonies around the turn of the 20th century, coinciding with the Berlin Congress of 1884-1885, which obliged Lisbon to demonstrate effective command of its colonial entitlements. One of the aims of the Congress was to make the interior of Africa accessible for commerce and, particularly, to drive colonial labour into the international market system (Shillington 2005, 137).

Direct and indirect taxation of the African populations of Angola and Mozambique shaped political and economic relationships between the metropolis and colonies. Beginning in 1910, the rulers of Portugal's first republic "conquered the indigenous peoples of the empire, disarmed them, imposed taxation, forced labour and forced cultivation on them, and granted their ‘vacant’ lands to settlers and companies” (Clarence-Smith, 12).

The development of direct taxation in Angola and Mozambique, through the hut tax, was closely linked to forced labour (*chibalo*). Portugal introduced hut taxes in the early years of the 20th century as a method to integrate subjects into the money economy and mobilise revenues for the Portuguese state. For instance, in Angola, the “native tax” was introduced in 1908. Africans were required to pay the tax in Portuguese currency, rather than through the traditional approach of bartering commodities. In 1928, African males were obliged to pay annual taxes equivalent to earnings from 100 days of contract labour, and by 1945 the levy had increased to 150 days. Many people left for neighbouring countries to avoid paying the duty; “those who could neither pay the tax nor flee were the most likely to be subjected to contract labour” (Shillington, 138).

Taxation was one of the primary drivers of anti-colonial resistance in both countries. Around the turn of the twentieth century, several Mozambican rebellions formed around the issue of oppressive taxes. For instance, following the 1884 Massingire uprising targeting the tax regime, the Cambuenda-Sena-Tonga rebellion of 1897 was catalysed by the Portuguese state’s increase of the hut tax, a regressive tax on every dwelling, by 45 per cent. Resistance to the regime continued into the middle of the twentieth century through peasant resistances and more coordinated efforts in the capitals, but national resistance only coalesced in each country in the 1960s under the liberation movements that led to the wars of independence (Isaacman and Isaacman 1983; Chabal 2002; Birmingham 1992).

While the “hut tax” was the only form of direct taxation on Africans, the colonial governments depended on revenues from import and export tariffs to fund expenditure. Moreover, as Portuguese industrialists found investment opportunities in Angola and Mozambique from the 19th century, protectionist customs duties facilitated the flow of profits from investments in the African colonies back to Portugal. The protectionist tariffs introduced in 1892 created new markets for cotton and wine producers, and encouraged the re-export of colonial goods via Lisbon's ports.

Under the *Estado Novo*, the corporatist authoritarian regime established by António de Oliveira Salazar in 1933, Portugal's colonies were treated as overseas territories, centrally administered by the *Ministério do Ultramar* in Lisbon. Salazar focused on maximising the empire's economic utility to Portugal "by the most thorough and authoritarian methods ever adopted in the history of the third empire" (Clarence-Smith, 16).

The dependence of the republic's treasury on import duties for a significant part of its revenue contributed to the undercapitalisation of colonial rule. For example, reflecting Salazar's hostility to colonial industrialisation during the 1930s, the import tariffs on tobacco – colonial producers had to pay 90 per cent of the high foreign duty – deterred African farmers from producing for the Portuguese market (163). As a result, Portugal's fiscal structure meant that industrialisation and investment was limited to particular sectors and some industries, particularly raw materials, did not develop.

However, Salazar's position changed over the next decade, shifting towards allowing industrialisation in colonial economic sectors that did not pose strong competitive threats to Portuguese domestic industry (165). Portugal supported industrialisation through investment in energy, transport, and communications infrastructure in the mid-20th century, and there was a surge of development in the late colonial period.

While levels of public investment in Angola and Mozambique were "broadly comparable" to those received by other colonies in Africa by the middle of the 20th century, Portugal's approach differed from other European colonial powers. In addition, the impacts of these came at a loss of the authoritarian state control – legacies for the post-independence state. Colonial policies such as media censorship and suppression of popular movements did not foster the development of self-government (Anderson 1962; Nkrumah 1963).

Portugal's domestic financial situation limited investment in public works, and the empire made no investments in health or education until 1959, when a new development plan allocated 6 per cent of public funds to Angola and 14 to Mozambique for these purposes. Additionally, the regime made limited investments in human capital in the colonies with policies that employed white workers in a significant share of skilled and semi-skilled jobs. Additionally, the empire enforced restrictions on private investment to limit non-Portuguese capital inflows (Clarence-Smith 166-167).

Moreover, Portugal expected the colonies to contribute to financing development programmes with internally generated revenues, and made no outright payments to the colonies. The Salazar regime's strategy to raise taxes to fund social development included the introduction of the cotton tax in 1946. However, Portugal paid very low prices to peasants, which were further decreased after deduction of the tax. Moreover, "the tax for social services…was rarely spent on the needs of African cultivators" (184). In the 1950s, COTONANG, the large cotton concession in

Angola, called for higher prices amid growing dissent. Peasants in the concession area waged the first major uprising of peasant violence in 1961.

After the Angolan uprisings, Portugal set out a plan to abolish all tariff barriers on trade in the *escudo* zone by 1971. However, new consumption taxes replaced many of the levies on imports from the colonies (196). With international criticism mounting against colonial labour policies, Portugal reformed set out reforms in the early 1960s. While revised legislation eliminated compulsory work, the trade-off was a hike in the basic tax rate, and in practice, forced labour continued into the 1970s.

Independence context – fiscal and statebuilding environments

By the mid-twentieth century, Portugal, a military dictatorship, was less politically developed than its European neighbours, and was the "least willing" of any European empire in Africa "to relinquish [its] colonies," (Bauer and Taylor, 146). Consequently, war was the last and only resort of Angolan and Mozambican people to gain independence. Beginning in 1961 and 1962, respectively, and lasting until 1974, the anti-Portuguese liberation wars in both countries were the most violent of all the colonial rebellions on the continent (Chabal 2002).

At independence, nearly all of the Portuguese settlers in Angola and Mozambique – previously numbering 400,000 and 250,000 respectively – emigrated en masse. This far-reaching human capital flight resulted in a significant reduction of skilled personnel, widespread abandonment of private businesses, and the halting of industrialisation (Isaacman and Isaacman 1983; Kyle 1991). The combination of liberation warfare, the mass exodus of skilled workers, and widespread abandonment and sabotage of businesses by their previous European owners undermined the bases of both economies.

In each country, “the post-independence government took charge of economies in a state of collapse” (Minter 1994, 24). Like other African polities, independence was not accompanied by effective sovereignty or unconditional legitimacy. In addition, Angola and Mozambique inherited a strongly authoritarian form of government with closed markets and socialist, single-party politics and especially inefficient bureaucratic administration.

The economies of newly independent Angola and Mozambique were fractured by two of the most destructive liberation wars in Africa and the mass exodus of Portuguese settlers. The extractive apparatus in each country quickly eroded as the large-scale emigration of trained public sector workers shattered the fiscal administration, while capacity shortages widened the potential for evasion within the complex tax structure. Moreover, the abandonment and sabotage of enterprises and productive assets by their former owners resulted in a dramatic drop in production, which narrowed the tax base and diminished revenue levels.

In the post-independence context, the People's Movement for the Liberation of Angola (*Movimento Popular de Libertação de Angola,* MPLA) and the Mozambique Liberation Front (*Frente de Libertação de Moçambique*, Frelimo) both sought to abrogate the more perverse elements of the colonial system, as well as simplify revenue collection processes and mobilise adequate public funds to finance their ambitious development programmes. As noted above in relation to case selection, the newly independent governments of Angola and Mozambique both adopted Marxist-driven strategies for constructing the new state. The policies, plans, and instruments of control used by both regimes associated economic "modernisation" with the party-state's centralised planning (Hall and Young 1994; Newitt 2002).

Liberation movements to parties

Another important element in case compatibility is that all Portuguese colonial liberation movements consciously worked together, along with the Portuguese communist party (Birmingham 2002; Chabal 2002). The MPLA and Frelimo formed in 1956 and 1962, respectively, as liberation movements against Portugal's *Estado Novo* regime. As liberation movements, MPLA and Frelimo were both highly motivated, well-structured political organisations with substantial military experience. Relative to many other nationalist parties that emerged as the independent governments of postcolonial in Africa, MPLA and Frelimo also had robust political resources developed through experience in complex crisis management at the forefront of the wars of liberation against the Portuguese.

The visions for constructing the new states emerged out of post-independence debates in each country between 1975 and 1977, in which more radical agendas took hold in each country. Both parties adopted a distinct socialist ideology based on Marxist-Leninism that provided them with linguistic and practical management tools that guided the party's state formation plan after independence. For both parties, Marxism provided a roadmap for the future and a framework for understanding their oppressive colonial past in a way that gelled with experiences in armed conflict (Hall and Young 1997; Wolfers and Bergerol 1983).

Colonial and liberation themes are also interlaced in the paradox that elites in each country confronted in formulating a vision for their societies: While the Portuguese empire was oppressive and exploitative, it was also seen as 'progressive.'

Colonial rule therefore engendered both reverence and hostility from its subjects in Angola and Mozambique. Party leaders in both countries felt compelled to 'catch up' with the rest of the modern world.

The MPLA and Frelimo adopted strategies for socialist development that prioritised the identification of the state with the party. Centralised party rule formed the basis for the political and economic systems in both countries, but excluded wide participation in the post-independence future. In addition, nationalist economic strategies had disastrous economic consequences and failed to stimulate growth or production near late-colonial levels (Ennes Ferreira 1999; Pitcher 2002).

While MPLA failed to achieve national unity in its armed struggle against the Portuguese, Frelimo was more effective in achieving nationalist agreement. Frelimo gained status as the sole nationalist movement with the right to rule in Mozambique at independence. In Angola, an agreement by the MPLA, UNITA, and FNLA to form a tripartite government collapsed almost immediately into civil war. Frelimo established a coherent and effective organisation, while the MPLA failed to come to nationalist agreement. It was politically fragile and less structured and homogenous. The degree of popular support achieved by MPLA and Frelimo in turn influenced their relative abilities to exercise coercion and violence, with Frelimo employing violence to a greater extent to combat internal dissent.

Civil war

The leadership and right to rule of the MPLA and Frelimo were contested by post-liberation insurgency movements soon after independence. As armed insurgency movements, UNITA (*União Nacional para a Independência Total de Angola*, National Union for the Total Independence of Angola) and Renamo (*Resistência*

Nacional Moçambicana, Mozambican National Resistance) represented grievances against the incumbent regimes. In both cases, external support protracted guerrilla opposition to the fledging governments, and both insurgencies were also sponsored, to varying degrees, explicitly and overtly by South Africa as part of its 'Total Onslaught' strategy. Angola and Mozambique are therefore positioned cases of internal armed conflict with non-state actors taking on a distinctly transnational character with substantial ties to other states but also claims to domestic legitimacy.

Armed conflict and state formation in Angola and Mozambique were intertwined with the Southern African security environment, including battles across the "front line" between white and black rule. South Africa's apartheid regime lent support to both Renamo and UNITA. Because of the country's regional hegemony, South Africa's shifting alliances to rival combatants was a salient feature of the civil wars (Minter 1994). In addition, the strategic and ideological context of the Cold War and its end also exerted important influence in each case, as superpower rivalries played out as proxy wars in each territory.

Divergent war economies

The war brought about major shifts in the Angolan and Mozambican economies. The nature of these shifts constitutes two major points of contrast between the cases that are particularly relevant to questions of revenue collection: the high degree of external economic involvement in Mozambique, and Angola's vast natural resource wealth. The Angolan government established Sonangol, the state-run oil company, in 1976, gained rights to production throughout the country two years later, and expanded petroleum extraction swiftly and enormously.

Angola's natural resource endowments are well-known, and "the wealth of the country is now legendary" (Campbell 2000, 159). Oil production constitutes approximately 85 per cent of GDP (WB 2012), and non-oil tax revenues make up only 7.5 per cent (GOM 2011). Natural resource fuelled civil conflict by providing an alternative source of income for MPLA and the insurgency groups (Cilliers 2001), allowing "war to continue as long as it did – on the one hand providing a powerful loot-seeking motive for fighting to win or to hold on to power…and on the other hand providing the means by which both sides could finance their war efforts." As a result, "access to resources allowed the government to become and remain fully unaccountable to its people" (Bauer and Taylor, 142; Collier and Hoeffler 1999). As le Billon argues, "rents generated by narrow and mostly foreign-dominated resource industries allow ruling groups to dispense with economic diversification and popular legitimacy, often resulting in rent-seeking, poor economic growth, and little social mobility outside politics and state patronage…Indeed easily taxed or looted primary commodities increase the likelihood of war by providing the motivation, prize, and means of a violent contest for state or territorial control" (2001, 56).

Mozambique, on the other hand, lacked a comparable endowment in natural resources or fungible commodities that could have funded continued fighting (Bauer and Taylor, 117). The combined effects of intensified conflict, economic collapse, and the rejection of its bid to join Comecon, the Eastern bloc economic organisation, led Frelimo to seek resources from the West in the mid-1980s. From this point, foreign aid increased dramatically and came to dominate Frelimo's war economy while donors exercised commensurate influence over domestic policy and budgeting. In exchange for aid, donors and the Bretton Woods institutions demanded a shift towards the West and acceptance of two rounds of structural adjustment. Whereas natural resources isolated Angola from international pressures and allowed the MPLA to make an independent transition to economic liberalism in the 1990s, donors' influence pressured the nature and timeline of this transformation in Mozambique during the height of hostilities in the mid-1980s. Foreign aid now accounts for half of the government's budget and, totalling nearly US$2 billion a year.

Much has been written about how aid donors and oil contributed to statebuilding. Mozambique is seen as a successful case of post-conflict reconstruction and democratisation (Newitt 2002; Hanlon and Smart 2008), while the narrative on Angola is shaped around how oil has allowed the elite to accumulate vast amounts of wealth and consolidate its centralised rule through patrimonialism (Vidal 2008; Messiant 2008; Hodges 2001; Chabal 2008). The dominant narratives of these cases draw stark contrasts in their development trajectories. This PhD focuses on an aspect of these process that has received limited attention – taxation – and suggests that this lens helps to tell a different story about Angola and Mozambique.

1.6. Structure of the thesis

The thesis is organised into seven chapters. Chapter 2 reviews relevant literature and evaluates theories related to conceptualising statebuilding and revenue collection processes in the postcolonial contexts of war and post-conflict reconstruction.

The next four chapters present the case research and analysis of empirical primary data. Each case is divided between the civil war and post-conflict periods. Chapters 3 and 4 address the civil war period in Mozambique and Angola, respectively. They trace the development of the tax systems in parallel with shifts in political regimes following independence, focusing on how Frelimo and the MPLA adapted the tax systems to support their post-liberation development strategies. The primary aim of these chapters is to investigate the impact of civil war on extractive capacity. Each chapter highlights the reforms that Frelimo and the MPLA made during the war and assesses their relationship to shifting economic strategies, the imperatives of single revenue dependence, and conflict.

This historical analysis is important for at least three reasons: to establish a baseline understanding of the systems at independence in order to identify the drivers and impacts of later reforms (such as the transition to capitalism); to provide insight into the challenges and dynamics of the post-conflict tax reform projects by reflecting on the legacies of the socialist and colonial systems; and to establish a comparison between the cases around the implications of the presence or absence of external interference and natural resources.

The Mozambican case demonstrates the efforts of Frelimo to reform the extractive apparatus into a tool to support centralised planning with a fiscal basis on profit transfers from state-run and mixed enterprises. Chapter 3 also traces the emergence of foreign aid as the major contributor to Mozambique's economy during the war and the influence that the Bretton Woods institutions exercised on fiscal policy, budgeting, and transition to capitalism, throughout the war and the peace process that culminated in 1994. Supported by an empirical demonstration of the inverse relationship between aid inflows and tax revenue, the chapter argues that the main impediments to enhanced taxation in Mozambique during the war were rooted in integration into the international market economy.

While Angola experienced parallel transitions from the Portuguese system of extractive capitalism to post-revolutionary socialism and then to market capitalism during the civil war that followed independence, the shifts in Angola occurred without a comparable degree of external interference, and perhaps in part as a result, without a similar degree of monitoring and evaluation. Chapter 4 concentrates on the MPLA's strategy to rapidly develop the petroleum industry in Angola following independence, and how the subsequent windfall of income provided income that helped to perpetuate the conflict. It claims that, in addition to facilitating the centralisation and insulation of power in a small elite, oil wealth prevented the regime from needing to reform the extractive apparatus, which remained largely based on colonial legislation until after peace in 2002.

Chapters 5 and 6 address the post-conflict periods in Mozambique and Angola, respectively. They focus on the development of taxation after the conflicts ended, maintaining the approach of the previous chapters to analyse shifts in political regime in parallel. The chapters pay particular attention to how dynamics that characterised the war economies operated after the conflicts ended. Both analyses highlight uneven development in the post-conflict period and advance the idea that impressive macroeconomic achievements are disconnected from the wellbeing of most citizens because they are driven by political agendas focused on ensuring a continued stream of aid or oil income, rather than broad-based domestic taxation.

The Mozambican case research indicates that the pervasive involvement of donors in tax policy and implementation has not had as beneficial impacts on the fiscal system as the growth in revenues suggests. Rather, donors have introduced complexity and bias to the system, including contradictory and inconsistent legislation and a variety of exemptions, while neglecting to focus on revenue impacts. However, Chapter 5 highlights the recent development of tax revenues increasing relative to aid, and identifies the political elites' motivation to undertake a major overhaul of the system in a desire to reduce donor dependence and influence. At the same time, consideration of the ownership debate reflects an elite strategy to maximise revenues without implementing broad-based taxation, which has meant that while tax has strengthened extractive institutions, it has continued to separate state finances from society.

Chapter 6 frames Angola's soaring but distinctly inequitable post-war growth in the context of soaring oil revenues but a lack of attention to developing other sectors of the economy. This has resulted in a narrow and skewed tax base, with the institutional strength of the revenue apparatus mirroring this concentration on the oil sector. The chapter presents an empirical argument to demonstrate how tax effort in the oil sector has increased as it has declined in the non-oil sector, while efforts to reform the system have not created major changes outside oil and customs. It argues that oil provides a disincentive to reform the tax system and broaden the tax base, but also that there are powerful political interests that have resulted in the maintenance of a tax system based on extraction from, and accountability to, a narrow base.

Chapter 7 provides comparative analysis and a return to theory. The discussion summarises findings from the case research, draws conclusions across and between cases, and assesses the implications of this study for theories linking taxation to statebuilding.

Chapter 2
Concepts and approaches: critical literature review

2.1. Introduction

This chapter situates the research questions in theoretical context and critically assesses relevant debates around conceptualising processes of statebuilding and extraction in contemporary postcolonial Africa and in International Relations. It aims to identify salient features of African states and taxation processes and to specify conceptual tools to answer the PhD's central inquiry of the impact of taxation on statebuilding in postcolonial Angola and Mozambique. This discussion considers the relevance of tax for development priorities in Africa, the construction of statehood on which taxation has the potential to act, the structure of state-society relations, and the relationship between war and extraction.

The chapter is organised as follows: The second section addresses literature on tax in Africa. This discussion addresses political economy theories of taxation, the relationship between tax, capacity, and state-society relations, and structural constraints. The third section shifts focus to the relationship between war and taxation and considers the challenges to applying European grand theory to a contemporary African context. Section four then discuses conceptualisations of state-society relations, concentrating on the civil society, culturalist, and historical-sociological approaches. Section five evaluates discourses around 'failed' states and sovereignty in IR theory and the relationship between insecurity and statehood.

Finally, the chapter concludes by drawing on the theories analysed to set out the conceptual framework used to approach the PhD's research questions in subsequent chapters.

2.2. Literature review: tax in Africa

This discussion of relevant literature concerning taxation in Africa is divided into five sections. The first reviews political economy theories of taxation and their application to Africa. The second section shifts focus to the relatively new body of literature that addresses the relationship between tax and statebuilding in Africa. The third part discusses the influence of single resource dependency – large-scale aid and oil – on taxation, and the fourth reviews the current global tax reform agenda and tax as a policy priority. The fifth section situates taxation in Africa in the context of structural constraints.

Political economy theories of tax

Conceptual literature on the political economy of taxation has largely focused on advanced capitalist states and explanations for levels of taxation and the design of tax systems (Bräutigam 2008, 4). This section briefly reviews four political economy theories about taxation that are useful for understanding tax in Africa. These literatures address two main questions: what accounts for levels of taxation, and what factors explain the design of tax systems?

The first set of relevant contributions address taxation in terms of economic development and economic structure. This literature has a long tradition in public finance economics, and has tended to analyse the relationship between taxation and development in terms of levels of revenue collection (Bird 2012; Newberry and Stern 1987). In this line of thought, the emergence of new 'tax handles' such as formal manufacturing, oil resources, and international trade benefit governments' tax collection efforts. Scholars working in this tradition conceptualise the impact of revenue collection on statebuilding as part of a straightforward developmental process, expressed in the quotation, "ability to tax is closely associated with administrative capability and this is likely to improve with economic development (Burgess and Stern 1993, 774). The literature also involves the concept of "tax effort," which compares governments' tax collection with potential revenues given by a country's economic structure. However, research on African countries has largely been limited to determining whether tax effort is high or low (see for instance IMF 2012).

Other scholars have found that levels of tax collection and designs of tax systems can differ between states with similar economies, and argue that political institutions explain these variations. This work has included studies of the influence of various political structures on states' capacity to collect taxes, using tools that code institutions such as elections and parliaments. These studies focus on tax and representative government and revenue bargaining, as well as elections. This work includes studies focused on the hypotheses about the exchange between representation and taxation, which look at the impact of regime type on taxation. Studies about the relative tax collection capabilities of autocracies and democracies have found mixed results. Thies (2004), for instance, finds that democracies tax more, but Cheibub (1998) argues that differences in taxation are not due to regime type.

In addition to economic and political structures, ideational and societal factors influence tax systems and collection. A third line of scholarship analyses how variables such as culture and trust impact compliance, tax morale, and ultimately governments' tax take. As part of this work, scholars such as Levi (1988) have focused on how ideology influences citizens' willingness to pay taxes independently from state-society relations, while Cummings argues that historical state-society relations contribute to forming these attitudes (2004). Another similar strand of research has explored how societal perceptions of government legitimacy, the equity of the tax system, and fairness and integrity of redistribution influence taxation influence compliance (Fjeldstad and Heggstad 2012). Additionally, research in this area has analysed the links between the size of informal economies and taxation (Meagher 2013; Auriol and Warlters 2005). Alm and Torgler (2004) argue that countries with large informal sectors tend to have lower levels of tax compliance, based on citizens' perceptions of widespread evasion taxation.

A fourth strand of literature focuses on taxation and the operation and establishment of a social fiscal contract. These studies look at factors that influence revenue bargaining, such as conflict or the presence of economic rents. Moore (2009) analyses conditions under which governments are likely to engage in coercive tax practices and circumstances in which tax can encourage political development through processes of revenue bargaining. Studies by Fjeldstad and Therkildsen (2008) and Prud'homme (1992) on East Africa and Nigeria, respectively, found that governments are more likely to extract taxes coercively when there is a scarcity of alternative revenue streams and in the absence of constraining political institutions. Moore also argues that many states' dependence on rents, rather than taxes, plays an important role in shaping patterns of state-society relations because they "reduce the scope for revenue bargaining" (2008, 61; 1998).

Tax and statebuilding in Africa

This section discusses research on the relationship between taxation and statebuilding that focuses on two central processes of state formation: state capacity and state-society relations.

Bräutigam argues that tax has a "core governance function": "well-designed tax systems can consolidate stable institutions in developing countries, increase revenues, refocus government spending on public priorities, and improve democratic accountability" (Bräutigam, 1). The notion that efficient and equitable tax systems contribute to good governance rests on the idea that citizens tend to hold their governments accountable in exchange for paying taxes. Fjeldstad, Jensen, and Orre argue, "a substantial 'governance dividend' can be gained from mobilising domestic financial resources from citizens and businesses through the tax system. A virtuous circle may be generated whereby the generation of tax revenues leads to improved service provision, which in turn increases citizens' willingness to pay their taxes" (2012, 4).

Within this line of thinking, development scholars argue that taxation plays an important role in shaping the responsiveness of government to society for several reasons. Most fundamentally, taxes can provide a basic platform for public debate and bargaining between various political and economic stakeholders. Such negotiations over taxes can provide the basis for enabling a "credible social contract to develop between the state and its citizens" (Moss et al., 14). In turn, through the process of revenue bargaining, taxation practices can facilitate establishment of a *social fiscal contract*. In another sense, such debates are critical for establishing the balance between taxpayers and tax collectors that Adam Smith described as essential to a well-functioning tax system. The idea of the social fiscal contract relies on the idea, in the words of Fjeldstad and Heggstad, taxation is "felt" broadly by citizens: the "experience of paying taxes…[is] share[d] sufficiently to secure that taxation issues become prominent on the public political agenda" (1).

Debate over revenue collection can work to bind state to society while creating an "exchange relationship between the rulers and ruled" (Thies 2009, 466). This helps to create "relations of accountability between state and citizens based on mutual rights and obligations" (Fjeldstad and Heggstad 2012, 1); it also provides a platform for interest group formation. In this Lockean approach to state-society relations, domestic revenue collection can enhance a government's accountability to its citizens, while its capacity to respond to societal demands through effective allocation and spending influences its legitimacy (Di John 2010).

In terms of the links between tax and capacity, Rubin argues that "the central state institution that co-ordinates mobilisation of resources, provision of services and legitimation of state power is the budget. And it is the process of mobilising these resources domestically, and particularly the struggle over the budget, which is at the centre of the process of state formation and legitimation" (2006, 182). These processes lead to the development of extractive bureaucracies and the forging of unity between warlords and nascent "citizens" (Krause 1996; Herbst 1990).

Similarly, Moss et al. assert, "the ability of the state to collect revenues is critically linked to state capacity, while the central role of revenue collection in political development and statebuilding has long been accepted" (10). Thies explains the critical role of taxation in statebuilding because "as the state increases its share of revenue it may also be building (however imperfectly) administrative capacity, augmenting its military and internal police institutions, and so on. If a state failed to institutionalise these other aspects of state building, then its future revenues would likely decline" (2009, 468). Additionally, revenue collection can contribute to a state's territorial control and the extent of its authority across sectors and regions, for example through property and land taxes and collecting customs and border duties.

Other scholars sharing this approach argue that revenue "can be a catalyst for system-wide change:" "Administratively demanding improvements in tax administration may spillover to other areas of public administration by introducing improved practices, necessitating improvements elsewhere and providing data for other government activities" (Pritchard and Leonard 2010). Evans even suggests, "for poor countries the capacity to tax can be the difference between chaos and development" (Bräutigam et al. 2008).

Single resource dependence and taxation

The reliance of many countries on foreign aid income and natural resource rents is a central element that frames taxation processes in contemporary Africa. As such, the impact of international aid donors and oil wealth on the relationship between taxation and statebuilding is another major area of literature with relevance to this thesis.

In part because of the linkages between a government's tax performance and the foreign aid it receives, tax policy in many contemporary African countries is heavily influenced by external agendas. This is the case in countries that rely heavily on aid, such as Mozambique, and the impact of external actors is compounded by the dominant role of donors in economic policy, budgeting, and development. Even in countries that are not reliant on foreign aid, the ideas and normative agendas promoted by the international financial institutions have an enormous and widespread impact on tax reform in contemporary Africa. As Bräutigam writes, "tax policy is now globalised" and reflects a powerful orthodoxy promoted by the Bretton Woods institutions. There is now an identifiable global tax reform agenda with three main elements: simplified and streamlined tax policy design, improved administration, and the establishment of broad-base taxes on consumption, such as VAT (Fjeldstad and Moore 2008b, 235-238; 2008a).

Beyond analyses of the influence of the international community on the content of tax reforms, another strand of research looks at the impact of external actors and large-scale foreign aid in terms of its impact on extractive capacity. First, scholars addressing government tax effort demonstrate that international aid or natural resource rents (as a share of GNI) typically reduces the tax share of GDP (Ghura 1998; Bräutigam and Knack 2004). A 1999 World Bank study found that foreign aid inflows to African countries reduced tax collection by 10 per cent on average (Devarajan, Rajkumar and Swaroop 1999). Several cross-sectional time-series analyses support the argument that aid reduces tax shares in the short term because it provides alternative resource streams, and that international aid reduces incentives for governments to collect taxes and enhance public domestic extractive institutions in the long term.

In addition, by providing an autonomous revenue source, large-scale aid can increase the independence of government from society, and therefore minimise a need to promote taxable capacity (for example through diversification) or engage in fiscal negotiation (Di John 2010; Moss et al. 2006). As a result, large-scale foreign aid can supplant the need for expanding domestic revenue collection or reforming the tax system because state financing is not dependent on taxation, widespread bargaining, or the efficiency of fiscal processes for ensuring continued income (Bauer 1976).

The fact that many developing countries depend on natural resources for the majority of their tax revenues has attracted a substantial volume of research. Shafer argues, "sectors mould state institutional capacities to tax" (1994, 35), and that a state's "leading sector" sets the limits on their authority and capability to tax. His analysis of the Zambian mining sector concludes that reliance on copper explains challenges to diversification. Scholars such as (Guyer 1992), Odusola (2006), and Sandbakken (2006) have extended this argument to other oil-rich states on the continent. Other researchers have extended this idea to suggest that countries can tax one type of resource differently, with different impacts on governance and institutions (Snyder and Bhavani 2005).

A related strand of literature is organised around rentier state theory, a framework to explain common characteristics – such as a lack of accountability, authoritarianism, and patronage – in the development trajectories of countries that rely on natural resource exports. Taxation is a particular focus of research on how oil wealth is associated with weaker and less democratic states. As Sandbakken argues in a study of Nigeria, Algeria, and Libya, "rentier states do not rely on taxation for income and are thus released from democratic obligations to their taxpayers" (2006, 135).

Ross identifies a "taxation effect" in rentier states: "Resource-rich governments use low tax rates and patronage to relieve pressures for greater accountability…When governments derive sufficient revenues from the sale of oil, they are likely to tax their population less heavily or not at all, and the public will in turn be less willing to demand accountability from – and representation in – their government" (327-332). As a result of the availability of easily extractable tax revenues from foreign companies, "resource-based states never needed to penetrate their outlying societies and organise them to raise revenues. They did not need to bargain with their producers over taxes, establish fiscal accountability towards taxpayers or build autonomous, capable bureaucracies that could make policy and direct resource to support autonomous producers" (Bräutigam, 19).

Like foreign aid, a government's access to and control over petroleum production revenues in oil-rich countries such as Angola can serve as a disincentive to expanding taxation (le Billion 2003). Primary commodities including oil "typically generate high location-specific rents which governments can tax heavily without killing the activity. African governments have relied disproportionately for revenue upon the taxation of primary commodities, either directly through export taxes, or indirectly, through taxing the imports that such exports finance." As Collier highlights, "rents get taxed" (2002, 144), but taxation of primary commodity rents does not have equivalent effects to broad-based taxation and domestic extraction because it does not lead to pressure on governance or establishing effecting administrative bureaucracies.

In the context of government access to autonomous revenue sources, it is therefore the mobilisation of the domestic tax base – rather than reliance on unearned income, aid, or natural resource rents – that has the potential to promote the government's accountability to its citizen taxpayers as well as enhanced management of public finances, which strengthens its legitimacy (Moss et al. 2006; Fjeldstad and Heggstad 2011). This thesis will explore Fjeldstad and Therkildsen's hypothesis that "to the extent that states (central and local) do not depend on domestic resource mobilisation to obtain revenues" because of the available of foreign aid or other autonomous resource streams, "controllers of the state may not need to enter into reciprocal agreements with citizens about provision of services in exchange for tax contributions" (2000, 7; Moore 1998).

Tax as development policy

In recent years, mobilising domestic revenue collection, expanding the tax base, and improving compliance has become a policy priority for many economies in sub-Saharan Africa, pursued both by governments and an increasingly tax-focused donor and multilateral community. Since the 2002 Monterrey Consensus there has been "growing pressure on partner countries to enhance their tax systems' performance in order to justify continued increase of ODA[2] funds" (KfW 2009, 4).

However, the idea that taxation is a crucial engine of economic growth is not new (Due 1963; Gemmel 1987; Kaldor 1963; Di John 2006). Since the middle of the twentieth century, economists and economic historians have argued that in order to promote sustainable growth, governments must invest in human capital, institutions, and infrastructure. They must also work to enhance transparency and improve the private sector and commercial environment to create jobs and attract investment. At the same time, contemporary governments need to work globally to curb capital flight, illicit flows of finance, and tax havens to ensure that scarce resources remain in the country. Expanding revenues through tax collection is central to realising all of these goals, particularly to avoid crowding out the private sector and inflationary spending (Owens and Carey 2010; Ghura 1998; Bird 2012).

Donors expect tax policy to contribute to growth and development by increasing a country's autonomy and opening "the way for other market and state

[2] Overseas development assistance

reforms that would promote economic, social, and environmental development" (Carter and Cebreiro 2011, 1). The international financial institutions also promote the idea that taxation is an important means to enhancing the effectiveness of the public sector, including diversifying public revenues and improving transparency. Development scholars emphasise the link between taxation and the public sector because a "healthy public finance system is needed for rapid, equitable, and sustainable growth: government revenue should adequately finance basic security, education, health services and public investment while avoiding inflationary financing" (AfDB et al. 2012, 1; Di John 2010). Furthermore, taxation is considered critical for enhancing service delivery (Semboja and Therkildsen 1995; Tanzi and Zee 2001), and government discourses increasingly make explicit reference to expanding taxation as a means to delivering basic services throughout the population and eliminating poverty (ATM 2012; Angola Ministry of Finance 2011).

However, the discourses and strategies promoted by the international aid community tend to neglect that taxation does not always necessarily give way to more equitable growth and redistribution. As Due argues, "tax systems employed to finance government activities may have very substantial influence, for good or bad, upon the rate and pattern of growth" in African economies (1963). The liberal development discourses do not sufficiently consider the potential for taxation to promote not just 'positive' development outcomes but also perverse effects. As the International Centre for Tax and Development (ICTD), a recently-established research programme, argues about a country's tax system,

> "If grounded in organised political processes based on openness, deliberation and compromise, it can generate trust, compliance, legitimacy and effectiveness. There can be mutual gains for individuals and society collectively. The potential synergies between the tax system, economic growth, equity and political legitimacy are likely to emerge. Conversely, the potential for coercion, corruption and self-seeking that exists in any tax system

> may come to dominate, especially in an environment where decisions about policies and practices are made covertly or without wide public or professional scrutiny. For a range of historical reasons, many tax systems in poorer countries are of this latter type" (ICTD 2012a, 2).

In addition, because of its policy orientation, much of the research and ideas generated by the international financial institutions has been oriented around policy, it has focused on issues such as how to expand non-oil taxation or assessment of performance against donor tax agendas. This focus has neglected the more fundamental issues of the politics of economic dependency and how they relate to tax capacity and accountable government.

Policy-oriented research, especially studies funded by international institutions and donor agencies, tends to rest on an implicit teleology corresponding to the dominant development model of the day (currently, the post-Washington Consensus neoliberal strategy oriented around the UN Millennium Development Goals). The impact of the ensuing policy prescriptions is reinforced when the discourses invoke another, stronger, watchword of these debates – 'weak' states, presumably in need of saving. Finally, as Bräutigam argues, the global tax reform agenda is "driven by economic and fiscal considerations and by the perceived problems and needs of the richer parts of the world. A reform agenda focused on issues of state-building in poorer countries would look substantially different" (Bräutigam, 33).

Structural constraints

Within this context, there are important structural factors that limit African governments' capacity to collect taxes and constraints on the development potential of doing so. These include the high proportion of output and employment from subsistence agriculture, large informal sectors, the predominance of small and microbusinesses, the relatively low proportion that wages make in total national income, and the small share of consumption spending in modern, large businesses.

Moreover, low-income countries in Africa face challenges including large non-tax revenues, a skewed geographic base (generally focused around the capital), dominant shares of taxes from trade, and evasion (Di John 2009). Additionally, in fiscal structures such as those found in Angola and Mozambique over the last few decades, in which revenue collection is extremely centralised, budgeting and spending can become disconnected from their geo-social bases so as to prevent a direct link between service provision and taxation. Similarly, the tax base in many African economies is extremely narrow; indeed, in Mozambique and Angola the large majority of taxes are paid by a small segment of the economy, a small group of firms or '*grandes contribuintes*.'

Another significant contextual factor is the lack of a taxpaying culture. While it could be argued that state-makers in early-modern Europe had to contend with a similar situation, the difference (in addition to the absence of the threat of inter-state warfare) is the association in post-independence African societies of taxation with the oppressive and coercive practices of colonial regimes. Combined with factors including large non-taxable informal economies, pervasive evasion, and capital flight, the underlying political-economic context in many African polities may make the establishment of a social fiscal contract a far more complex task than envisioned by conventional conceptions of the link between taxation and state-society relations. Even if taxes are not collected coercively, the absence of a taxpaying culture in many postcolonial African polities means that paying taxes is not automatically associated with societal benefits. Relatedly, as Chabal and Daloz (1999) argue, it may be the case that African citizens, rather than demanding representation or participation, expect from their governments a share of available resources – in which case the reciprocity underlying these arguments can promote rent-seeking (further undermining the economic basis of the state) rather than democratic consolidation.

Historical legacies shape taxation, and as a result state capacity and accountability. Scholars who have researched the impact of colonialism on post-independence revenue collection in Africa have highlighted that colonial tax practices were largely characterised by coercion rather than consent (Fjeldstad and Therkildsen 2008). The tax systems European settlers brought to African colonies reflected different revenue collection systems at home and different needs of the metropole. In addition, the extent to which taxation practices of the metropole were transferred to colonies varied and sub-national pre-colonial tax systems interacted with colonial policy in ways that influenced post-colonial extractive capacity (Gardener 2012; Kohli 2004; Okibo 1965).

2.3. War, extraction, and state formation

> "Revenue is the chief preoccupation of the state. Nay more it is the state"
> – Edmund Burke[3]

This section shifts focus to another aspect of the PhD research: the relationship between war, tax, and statebuilding. The impact of civil war on revenue collection processes constitutes half of the empirical research presented, and this discussion is intended to frame this analysis by assessing theories that conceptualise the links between extraction, violence, and state formation. It analyses grand theory based on observations of the role of extraction in establishing the first nation-states in

[3] Cited in Dietz 1964, 213.

early-modern Europe, and considers challenges to the application of these theories to contemporary African polities.

These discussions draw attention to the need to broaden analysis beyond a direct correlation between threat levels and tax collection, towards a focus on the different types of changes that war can have on a state. In addition, the critique highlights challenges of applying a framework for analysis based on the European experience to the cases of postcolonial Angola and Mozambique. However, the central emphasis of engagement with these literatures is that by identifying characteristics of historical patterns in the relationship between tax and state formation informs an understanding of contemporary processes.

Despite widespread consensus over the developmental impact of war in early-modern Europe, and refurbished interest in the state and conflict in Africa, there have been few focused attempts to analyse the relationship between war and state formation in contemporary setting. Moreover, relatively little is known about how taxation operates in the context of violent conflict and ongoing statebuilding processes in postcolonial Africa. Given the long tradition of conceptually rich historical scholarship that positions domestic revenue extraction as the critical link between war and statebuilding in developed nation-states, the gap in recent research on taxation in Africa that addresses the relationship between conflict, revenue extraction, and state formation in postcolonial polities is particularly surprising. Moreover, "despite good reasons to believe that taxation should be a central component of post-conflict reconstruction in Africa, surprisingly little is known about the particular challenges associated with rebuilding tax systems in post-conflict environments, nor about the potential for tax reform to contribute to broader processes of state building" (ICTD 2012b, 1).

European grand theory and application to Africa

Theories linking tax to the establishment of statehood often begin with war or the threat of violence. This discussion first focuses on the operation of extractive processes as the mechanism that links conflict to state strength, and then assesses the application of arguments about the developmental impact of war on statebuilding to contemporary African cases.

Extraction as a catalyst

Pioneered by bellicist scholars, the causal links between the financial imperatives of war and formation of the international system's first states in European has been widely noted, captured in Tilly's famous aphorism "war made the state and the state made war" (1975, 42).[4] Extraction of domestic revenues serves as the central causal force in the bellicist, or predatory theory, account of early-modern European statebuilding: a state's extractive capacity is linked directly to violent conflict and is the critical engine of statebuilding. Tilly argued that of the state's primary activities – state making, war making, protection, and extraction – the last is the most fundamental because it is a prerequisite of all the others (1992, 96-97; 1985; Ertman 1997; Taylor and Botea 2008).

The basic bellicist argument that that "war was the great stimulus to state building" (Huntington 1968, 123) in early-modern Europe rests on the idea that the imperatives of armed conflict required rulers to adopt strategies for mobilising domestic resources that also worked to strengthen the state. It was the preparation for, and actual fighting of, wars that proved critical to the establishment of the first

[4] For others, compare Tilly; 1985; 1992; Hintze 1975; Finer 1975; Downing 1988; Rasler and Thompson 1989

nation-states in early-modern Europe because they required the state to efficiently extract revenues from the population and resources within its territory, construct administrative structures, and forge unity with nascent 'citizens" (Krause 1996), (Herbst 1990). The causality of Tilly's theory's is based on the observation that war's requisites led to state-strengthening extractive, productive, protective, and distributive processes, because only states with a sufficient base of capital and labour from which they could efficiently draw were capable of funding their survival (Tilly 1985; Tilly 1992; Ertman 1997; Taylor and Botea 2008).

The efficient extraction of domestic resources required rulers to construct administrative structures to mobilise and manage funds, as well as build a social contract in which the population was guaranteed security in exchange for accepting taxation. Embedded in dynamics related to the need to enhance socio-political cohesion, the financial imperatives of warfare have important implications for taxation through a phenomenon known as the "displacement" or "ratchet" effect that causally links war to increased extraction (Thies 2009). War provides a legitimate basis for the state to increase taxes because existential security threats increase the population's propensity to pay more for their survival. As tax revenues accelerate during war, "they set a new, higher floor beneath which peacetime expenditures [do] not sink." War thus establishes a new baseline for taxation levels and provides the state with an opportunity to restructure the fiscal system for its own benefit, both of which augment public revenues and extractive bureaucracies as a consequence. As Tilly writes, ''war, state apparatus, taxation, and borrowing advanced in tight cadence" (1985, 180).

Application to Africa

The idea that warfare drives state formation in postcolonial Africa is both contested and controversial. Among proponents of bellicist applications to cases outside Europe, Cohen, Brown, and Organski made the influential argument that "many of the new states of today are engaged in struggles whose logic is similar to that of the European period of primitive state power accumulation" (1981, 902). As Tilly observed, state formation processes in Europe "cost tremendously in death, suffering, loss of rights, and unwilling surrender of land, goods, or labour…Building differentiated, autonomous, centralized organizations with effective control of territories entailed eliminating or subordinating thousands of semiautonomous authorities…Most of the European population resisted each phase of the creation of strong states" (1975, 71). Cohen et al. conclude that, just as in early-modern Europe, "instead of indicating political decay, violence in [new] states is an integral part of the process of the accumulation of power by the national state apparatus" (909). According to Mann's vivid account, "in their ineffectual violence, the warlords of Somalia, Liberia, or Zaire resemble the vast majority of political regimes throughout pre-modern history. They are not monsters but reflections on our own past" (Mann 1993a, 136).

Echoing this point, Ayoob observes remarkable similarity in the logics of statebuilding in the early-modern Europe and ongoing processes in developing countries, asserting, "violence inevitably accompanies the process of state formation and consolidation" (2002, 43). In his theory of Subaltern Realism, Ayoob draws rather directly on Tilly's work and maintains, "the applicability of [Tilly's] description to the present reality within most Third World states is too uncanny to be purely coincidental" (1991, 269). He views the compatibility in statebuilding logics to be most acute in terms of elites' preoccupation with internal security, imposing domestic order and concentrating coercive power. Ayoob contends that, given sufficient time, elites can come to mimic the European model and consolidate authority through coercion, but they are confronted by "a ridiculously short timetable" (1995, 32).

Cramer's recent contribution to this debate lends support to the application of Tillyian logic to contemporary Africa, drawing evidence from cases including Angola and Mozambique. His analysis of civil war in contemporary developing countries develops the argument that war and violence are "central principles for understanding institutions, politics and economic development" (2006, 21-22). Cramer draws and builds on Tilly's account, arguing that war, coercion, and violence-related changes in social structures continue to form a foundation of state formation in contemporary civil conflicts. He also takes aim at the idea – set out by the World Bank in a 2003 report – that "war is development in reverse." Contra the liberal perspective of war, Cramer argues that war is not only about destruction; it can also be a critical driver of development.

One of Cramer's main concerns is how the ways that contemporary conflicts are financed influences statebuilding trajectories. He argues, "much of the institutional apparatus of modern government and economic management has its origins in this compulsion to finance wars… If the financing of late-twentieth- and early-twenty-first-century wars and violence is potentially linked to a trajectory of societal transformation or longer-term social and economic development, then there may be clues to this potential in the history of war finance" (179).

Cramer situates civil war within the political-economic context in which direct taxation of the population is not the only available source of state funds, and in which the capacity of governments to do so is limited. He argues that the way governments of contemporary developing countries pay for warfare is likely to be different than European trends in which rulers relied on mobilising tax revenues. He identifies a set of constraints on the range of options for rulers of developing countries to finance wars: First, a narrow tax base restricts potential tax take, which is only exacerbated by the negative impacts of the war on domestic production and infrastructure. Similarly, war has a negative impact on the balance of payments by destroying export capacity while increasing import demand. Additionally, many of the conflicts in contemporary developing countries are 'internal,' which means that governments "have to negotiate delicate coalitions to remain in power – and this may mean facing a trade-off between raising more tax revenue and securing political backing" (188). Moreover, the combination of low incomes and relatively under-developed markets and financial instruments means that there is minimal scope to use innovative capital-markets tools to fund the war. Because contemporary developing countries typically produce minimal amounts of wartime war materiel, there is minimal possibility for paying for the war through deferred wage payments (189).

In this context, how do contemporary African governments finance civil war? Given these constraints, Cramer argues that the range of options is limited to three: "predation and rent finance, inflation, and foreign finance through borrowing or aid" (189). However, his historical argument asserts "there is no reason why recent war finance mechanisms should have a lesser chance than previously mechanisms of generating (unintended) consequences of more progressive change" (197).

Cramer critiques the idea that free markets pave the path to development and peace, arguing that growth can actually cause war. Cramer argues, "contemporary wars are rooted in the transition to capitalism" (165). For instance, he identifies the beginning of Angola's civil war in the anti-colonial rebellions of the 1960s, which coincided with rapid late colonial growth and one of the most rapid manufacturing booms on the continent. He argues that civil war contributed to dependence on oil, rather than the other way around (the direction presumed 'resource curse' literature): "in some ways war and economic policy after independence created a *new* dependence on mineral resource exports" (150).

Cramer's account of Mozambique's civil war shows that the emergence of capitalism was accompanied by series of forced labour, coercive taxation, dispossession, and rebellion. He also argues against the liberal argument that a post-conflict political situation provides a blank slate for market and democratic reforms. In Mozambique, "when the post-conflict makeover fantasists hijacked post-war policy the signals on the tracks of development were switched. A class that accumulated assets during the war [through wartime taxes, displaced labour, and corruption] and in the war-to-peace transition was effectively routed toward becoming the kind of rentier class that aid agencies and economists loathe" (270). Moreover, after the supposed success of the peace process, "Mozambique is a more corrupt place than it used to be: it is a gangster economy characterised by sharp inequalities (269).

On the other side of this debate, Herbst provided one of the first critical attempts to investigate the "changes that war could potentially effect on a state" (1990, 118) in a primordial setting. Making explicit reference to European processes to explore whether the historical analogy holds for Africa, Herbst's analysis of the theoretical links between war, extraction, and state formation illuminates the salient shifts in environmental and historical context that prevent the working of processes observed in Europe. For example, the lack of a "truly competitive state system," the "presence of permanently weak states," in the absence of external threats, societal fragmentation, and weak state power. He concluded, "it is doubtful that, if African countries do start fighting wars, they will undergo exactly the same processes of state consolidation that war engendered in Europe." Given the near absence of traditional interstate war in post-independent African states, Herbst also explores whether they can achieve the statebuilding outcomes that war caused in Europe in times of peace. He reflects that African states are unlikely to "accomplish in times of peace what war enabled European countries to do…because fundamental changes in economic structures and societal beliefs are difficult, if not impossible to bring about when countries are not being disrupted or under severe external threat" (136-138).

Dramatic shifts in the threat environment of postcolonial African states are particularly important because both predatory theory and bellicist approaches are underpinned by the core logic that "strong threats to the state enable increased extraction" (Thies, 470). Numerous factors moderate the security environment of contemporary African states. First, territorial conquest and interstate war are practically absent in postcolonial Africa, and few African states have the capacity to project force across borders. Second, the geostrategic environment is defined by fixed colonial borders that have subsequently been legitimised by the Organisation of African Unity (Herbst 1990). Additionally, the legal sovereignty regime has made geopolitical expansion almost obsolete, while the international community's preoccupation with supporting "fragile" or "failed" states prevents the ability of states to "die" (Fazal 2004). More recent scholarship challenging the war-making/state-making link in a contemporary context also includes Sørenson (2001), who has argued that while *internal* wars often had a strengthening effect on statebuilding in Europe, they no longer have this influence, or function, because they are not accompanied by existential *externa*l threats such as war or conquest. Atzili (2006/07) makes a similar argument, emphasising that fixed borders significantly reduce the potential for internal civil wars to strengthen contemporary developing states.

Under these conditions of a mitigated external security environment, African governments do not "have to confront either the military threats or revenue demands that gave earlier generations of rulers' incentives to persuade those who earned private incomes to pay the costs of the government" (Bates 2001). Moreover, the post-colonial African environment of externally-endowed, fixed borders and negative sovereignty makes governing regimes less legitimate in the eyes of the population and thus impedes the development of state-society relations required to expand tax collection. Jackson (1990) discusses how European states gained sovereignty after establishing control over a territory and subject population, while in the Third World juridical sovereignty is actually a *precondition* for a state's establishment of effective sovereignty. Moreover, the expansion of international society and evolving norms of statehood, intervention, and human rights exacerbates the contemporary challenge because they require governing regimes to behave humanely to violent domestic rivals while simultaneously expecting the state's demonstration of effective control. Thies argues that, as a result, this contemporary international context has "prevented the African state from taking advantage of the ratchet effect successfully used by European states to increase extraction" (471).

Another challenge for application of bellicist models to postcolonial states is that in Europe nation-states emerged as the unintentional, incidental result of the cyclical processes of war, extraction, and repression; Tilly writes that "state structure appeared chiefly as a by-product of rulers' efforts to acquire the means of war" (1992, 14). Shifts in geopolitical context and the implications of guaranteed sovereignty mean that in contrast, contemporary statebuilding projects are much more conscious, but also less independent, activities.

The substantial changes in the structural and internal environments of African states as compared to early-modern European polities mean that we should expect that the state's extractive apparatus – its fiscal policy, revenue collection institutions, and relation to taxpayers – to develop along distinctive paths and influence wider processes of statebuilding differently as well. However, we should not dispense with the question of the relationship between conflict, revenue collection, and state formation all together. Rather, we should adapt the focus of analysis in order to capture the varied types of influence that conflict and economic transition can have on extractive capacity, and how distinct modes of revenue collection can effect different types of changes on the state.

Sørensen's (2001) analysis of the effect of internal conflicts on state capacity concluded that the relationship is skewed due to insufficiently high threat levels characteristic of civil wars. This analysis is representative of the limited contributions to the war-making/state-making debate in Africa, which have tended to concentrate on extractive capacity as a function of threat level. Rather than circumscribing analysis to such a binary relationship, this project adopts a broader approach in order to investigate the nuanced types of changes that war can effect on a state's extractive capacity. As will be discussed in later empirical chapters, a focus on the level of threat as a cause of extractive capacity only tells part of the story.

Summary

It is worth noting that in his later writing, Tilly reflected that "the fact the European states formed in a certain way, then imposed their power on the rest of the world, guarantees that non-European experience will be different." However, he suggests that the exercise of historical analogy is valuable because "if we pinpoint the durable characteristics of the system Europeans first built, and identify the principles of variation within European experience, we will be better placed to specify what is distinctive about contemporary states, under what historically-imposed constraints they are operating, and what relationships among characteristics of states are likely to hold in our own time" (1992, 16).

The case research will explore the complex relationships between war-makers, state-makers, and citizens. However, profound differences between the contemporary African and early-modern European contexts fundamentally undermine a strategy of "history by analogy" (Mamadani 1996, 9). Therefore the references to bellicist historical sociology are mainly used to highlight how a focus on statebuilding and warfare can frame a meaningful analysis of divergent state trajectories in relation to the dynamics of resource extraction.

2.4. State-society relations

This section and concentrates on questions about internal constitution and dynamics of state-society relations. It assesses a set of approaches to analysing the relationship between state and society in Africa, comparing two prominent conceptualisations in political science – civil society and culturalist – before considering insights from outside the discipline in historical sociology. The thesis situates taxation as a fundamentally social activity in the context of on-going postcolonial state formation processes. Analysing the impacts of taxation on the state requires an understanding of the structure of state-society relations, and the literature reviewed in this section is used to form a conceptualisation of the relationship between state and society, as well as the links between extraction, state institutions, and accountability. This critical assessment focuses particularly on conceptualisations of an exchange relationship between state and society, the form and nature of elite bargains, and the purpose of revenue collection in society. The discussion is not intended to provide a comprehensive review of any of these well-developed literatures, but rather to highlight features of alternative analytical perspectives that help to frame the PhD's conceptualisation of state-society relations in the context of taxation and statebuilding.

The approaches discussed below all, either implicitly or explicitly, challenge the wide and long-enduring influence of modernisation theory and dependency theory. Modernisation theory is based on the idea that all societies follow the same development trajectory, and contends that economic development directly causes positive political and social change. In this linear teleology, underdeveloped societies are perceived as primitive forms of industrial ones, passing through similar stages of development. Dependency theorists argued that this situation is more complex because of the way in which underdeveloped states are integrated into the world economy, structured by the flow of resources from the poor periphery to the industrialised core. Thus the development experience of peripheral societies is not analogous to that of the core because the latter societies were never in a position of structural weakness.[5] These literatures are not treated in depth here, in part because they do not acknowledge internal dynamics, but are referenced to frame the following discussions of state-society relations in Africa.

[5] For comparison see, for instance, Lipset 1959; Rueschemeyer, Stephens and Stephens 1992; Acemoglu and Robinson 2005; Frank 1970; Cardoso and Enzo 1979.

Civil society

Underlying discourses around post-apartheid and post-Cold War 'African renaissance,' the Civil society approach emerged as a trend in the early 1990s. In contrast to dependency and modernisation theory, the civil society perspective shifted focus toward non-state dynamics. This approach, and particularly debates around the role of the role of civil society and NGOs, came to dominate that decade's literature on political development in Africa and had a notable influence on 'real existing' politics in Africa, evidently internalised and expressed in policies adopted by goverments, donors, and multilaterals.

Chazan's (1994; Harbeson, Rotchild and Chazan, 1994) influential work concentrates on voluntary organisations and their potential to emerge as the foundation for civil society. She sees the growth of voluntary asociations as a reaction to the state's "dissociation from society" and resulting gap in social services. After they are consolidated, such social groupings can form an autonomous concentration of power that acts to contstrain the state and pressure democratic reform. Similarly, Diamond (1998) and Bratton (1994) focus on the role of a strong middle class as the central, requisite agent of democratisation. An autonomous middle class, separate from the state, is viewed as critical for functioning democracy and a force to pressure the state to curtail its power and provide expanded rights. For instance this leads Diamond to explain the challenges establishing democracy in Africa through the end of the twentieth century in terms of how the state's control over resources thwarts the emergence of a strong bourgeoisie.

This framework is helpful for conceptualising taxation as a process embedded in state-society relations because it highlights how revenue collection can serve as an issue around which societal groups can come together and a basis for making demands on the state. As Di John writes, taxation "provides a focal point around which interest groups can mobilise to support, resist, and even propose tax polices. In other words, taxation is as constitutive of state formation as it is of interest group formation" (2010, 1).

However, civil society approaches imply the role of taxation as part of liberal reform processes, and assume that the societal exchange relationship for taxation is based on demands for democratic reforms and representation. These approaches are therefore aligned with liberal tax theories based on the Western experience, which assume that taxation provides a platform for debate over the collection and spending of public resources, and the basis of a transparent exchange relationship. This neglects alternative outcomes of revenue colleciton processes. Moreover, it confines taxation to the formal realm of the state.

In addition, these approaches also typically view the state as a source of weakness of the economies, civil societies, and democracy in African polities. For instance, the state's overbearing control and regulation of the economy is seen as the cause of patrimonialism, as state elites' exclusive access to the means of accumulation undercuts state power and democracy. This perspective therefore helps to conceptualise taxation as an activity in society because it highlights how state policy can undercut governance.

Evidently, the civil society perspective relies on a model in which state and society are opposed and relatively autonomous. This analytical separation therefore cannot adequately recognise the nature of civil society organisations' links to the state or how in practice non-state groups may not operate independently from, or in a different manner than, the state. Additionally, the primary focus on political development 'from below' neglects the fact democratisation (including liberal fiscal reforms and taxation measures to support transition to market capitalism) has taken place in African countries through external support, including alliances between state elites and foreign donors, rather than driven by internal pressure. Moreover, to the limited extent that external dynamics are recognised in this perspective, the role of international actors is constrained to supporting reform and development programmes that facilitate positive outcomes for democratisation and civil society (Eriksen 2001).

In a normative sense, civil society arguments such as Chazan's and Diamond's rest on a problematic liberal teleology (shared by meainstream theorists of the failed state), in which all states are assumed to be navigating the path towards the shared goals of pluralist democracy and free market economics. Because this trajectory is viewed as natural, challenges to its course are seen as road blocks. With the removal of these contraints (often located in the nature of the state) and institutionalisation of liberal reforms, a strong civil society will emerge as the foundation for democracy. This line of thinking lends itself to liberal policy prescriptions to reform the inefficient state, limit its control over the economy, and disconnect the link between the means of accumulation and establishment of social classes through international institutional solutions such as those promoted by the World Bank.

Regardless of one's perspective of the state, it is unhelpful to construct civil society as a realm of freedom and equity, independent and in contrast to the state's regime of exploitation and oppression (Eriksen 2001; Clapham 1998). This is borne out by considering the authoritarian control exercised by leaders of clans or traditional societal structures or competition and cooperation between nominally 'non-governmental' organisations and the state for external resources and bribes.

Culturalist

An alternative framework for state-soceity relations in Africa, refrerred to here as the 'culturalist' approach, was introduced in Chapter 1 in the context of conceptualising the potential impacts of revenue colleciton on states. This discussion focuses on state-society relations and returns to the issue of tax later in the chapter. This approach to state-society relations similarly rejects modernisation and dependency theories and focuses on internal dynamics. However, scholars in this line of thought fundamentally contend that rather than through a conceptual lens informed by theories based in Western philosophy – the approach of neoliberal, modernisation, and Marxist theorists alike – the African state should be interpreted only in its own terms.

This literature is relevant to the PhD because it helps us to grasp the nature of the exchange relationships, or elite bargains, that operate in society and underpin the social nature of taxation – that is, its links between the imperatives of revenue collection and redeistribution. In addition, this approach encourages analysts of African polities not to assume a given form of revenue collection processes or a set of implications of taxation for state-society relations. Furthermore, this approach allows for the conceptualisation of tax as a tool of patronage and as operating through networks of clientelism. Highlighting the basis of elite legitimacy in nourishing clientele further indicates that the exchange relationship/redistributive element of tax will operate to to the extent required to nourish the elite's clientel.

This approach is notable for its concentration on the specific power dynamics of politics and accumulation at work in African states, in Bayart's words, "to speak of States in Africa with precisely the aim of being able to identify their particular trajectories and their schemes of *gouvernementalité*" (1993, 36). Another central feature of culturalist scholars' work is the position that African states can only be understood in the context of historical continuity across the markers of colonisation and decolonisation, in what Bayart (following Braudel) calls political development's *longue durée*.

While African states may appear to be structured along the Western model of formal institutions, Bayart argues that society has appropriated, or "domesticated," the state: the logic of politics dynamics is a product of society, rather than the formal rules of the state. Sharing Bayart's emphasis on the informal, Chabal and Daloz (1999) argue that the state has become "de-institutionalised" in post-independence processes to the extent that formal state structures are so overrun by informal activities that they have little intrinsic meaning.

Culturalist scholars underline dominance of patronage networks in politics and African states' dependence on clientelism for political survival. Chabal and Daloz characterise post-independence processes in Africa as "the instrumentalisation of disorder" and argue that "the legitimacy of the African elite, such as it is, derives from their ability to nourish the clientele on which their power rests…It is therefore imperative for them to exploit government resources for patrimonial purposes" (15). In Bayart's interpretation, African politics are dominated by "the reciprocal assimilation of elites" – the convening of potential rival elites into a unified dominant political class characterised by privileged access and control over the state's resources (1993). Thus, through processes of "reciprocal assimilation," the state is an integrating force in African societies as state, private sector, and ethnic leaders convene to maximise profit from their dominance over the state and control of its resources. This assimilation process is based in patronage networks, which in turn rely on the state's acquisition and distribution of resources. Chabal and Daloz argue that such a system is beneficial for both the elites who control the state and for the ordinary members of society who do not, because everyone is someone elses's client.

As such, rather than representation, citizens look to political leaderships for distribution of resources, and instead of through public institutions, society relies on the vertical structure of clientism as a means of ensuring their fair share. This perception informs an understanding of taxation as a social process in African polities, providing an alternative to the traditional account of the exchange relationship being based on demands for democracy. Moreover, this approach allows us to conceptualise taxation as embedded in patronage networks, rather than assuming that the exchange relationship takes the form of transparent bargaining through formal state structures.

Underlying this line of thought is the assertion that African politics are rarely defined or constrained by boundaries (e.g. state/society, public/private, formal/informal), the customary neglect of which Bayart calls "straddling." This is reflected, for instance, in the extreme privatisation of the state and its institutions, in which politics are conducted more like business and socio-political capital is focused on the extraction of economic resources. Reno (1995) conceptualises the private state as a case of "shadow statehood," in which political leaderships rule officially constructed states through manipulation and autonomous control over informal economies either behind the false cover of, or without, public statehood.

In another influential work emphasising the lack of boundaries between state and society, Bayart, Ellis, and Hibou (1999) concentrate on the major features of African public life and radical privatisation of state political and economic activities. Following Migdal's pioneering analysis (1988) of the "politics of dirty tricks," the authors argue that the state's 'public' activities, including elite predation, widepread fraud and smuggling, ravaging of natural resources, increased use of private armies and employing war for economic profit, indicate that the African state “is becoming a vehicle for organised criminal activity.” As a result, “Africa remains economically unproductive and…the pursuit of rents or unearned fees is becoming ever more extensive” (Hibou 1999, 102). In Angola and Mozambique, research and interviews idicate that this endemic situation is representative of far more than corruption, or the classic combination of positions of official power and private accumulation. The conventional notion of statehood is fundamentally based on the state’s public role; in contrast, the arguments of Bayart et. al can be seen in line with Clapham’s argument that “the management of the ostensibly public powers of internationally recognised states has been so radically privatized as to render statehood an entirely inapposite formula for understanding either their domestic politics or their external relations” (1998, 154). This conception has resonance when considering the scale of corruption and centralisation of one-party rule in Mozambique, or the commitment of Angola’s Presidential regime to convert the state into a “personal fiefdom” in Clapham’s terminology (1998).

Organised around his concept of “extraversion,” Bayart suggests that African leaderships’ skillful manipulation of international donors, diplomatic relations, and multilateral organisations provides the basis for patronage networks and elites’ reciprocal assimilation. Bayart, Ellis, and Hibou emphasise “the exploitation by dominant social groups, or by the dominant actors of the moment, of a whole series of rents generated by Africa’s insertion in the international economy in a mode of dependence” such as rents generated from the state’s control of imports and natural resource (especially oil) exports, foreign military alliances, diplomatic relations, and managing international funding (1998, 102).

Through contructing a history of governmentaility, Bayart emphasises that this situation is nothing new in African politics. Since the advent of long-distance commerce, including the slave trade, in pre-colonial African societies, "the relationship with the external environment became a major resource in the process of political centralisation and economic accumulation" (2009, 23). He traces processes of extraversion through colonialism, arguing that both periods perpetuated political extraversion. In the pre-colonial era, rulers managed their unequal external partnerships so in order to gain the resources they needed to control society. Bayart asserts that extraversion allowed for the growth of colonial institutions, and can work similarly to facilitate the management of postcolonial structures.

Bayart emphasises pragmatism in the motives for elites' interactions with external actors and stresses that the relative weakness of African states compared to their external partners does not signal subordination. Bayart's analysis of the *longe durée* argues, "Africans here have been active agents in the *mis en dépendance* of their societies, sometimes opposing it and at other times joining in it" (24). Bayart, Ellis, and Hibou echo this point, in contrast to liberal accounts, that "dependence" of African actors is "constructed and…maintained as much by African societies themselves as by the foreign actors who profit from these relationships" (1998, xvi). This "extraverted" stance is beneficial for elites and their clientele and ultimately further consolidates state power. He writes, "far from being the victims of their very real vulnerability, African governments exploit, occasionally skilfully, the resources of a dependence which is, it can never be sufficiently stressed, astutely fabricated as much as predetermined" (25-26).

These Culturalist works made tremendous contributions to thought on the state and workings of power in sub-Saharan Africa. As highlighted at the top of this section, this approach offers valuable insights and tools to conceptualise taxation and its relationship to state-soceity relations. This approach thus provides a strong counter-narrative to theories about taxation that are embedded in a liberal notion of state-society exchange and political processe in Africa.

However, their emphasis on the blurring of boundaries neglects reflection on how the informal/formal or public/private are distinct realms and thus how they are related to each other through links such as conscription and taxation. Similarly, formal institutions are nearly written off in these authors' more reductionist arguments that depict the state as a realm of informal competition over power and resources. In addition, the normative tone of Bayart and Chabal and Daloz tends towards approbation of African elites' successful manipulation and sabotage of formal institutions and practices. With subtle poststructural theoretical referents (Eriksen 2001), their analyses of the state's illicit activities and private/public profiteering are represented as rebellion against external precepts, though alternative interpretations could reasonable characterise elites' "normal" behaviour as driven by compulsive avarice. At the same time, while emphasising that African politics are completely understandable and operate according to unique logic, the theories developed by these authors are fundamentally framed by rationalism.

Historical sociology

To complement these contributions from IR theory, the final part of this section draws on insights about state-society relations from historical sociology. The approaches discussed here highlight the construction of the state through the distribution and type of power relations in operation. These analyses allow for an understanding of the relationship between taxation and statebuilding in terms of the type of power exercised by political leaders and the distribution of social control.

The "state-in-society" model pioneered by Migdal disaggregates state and society analytically, but establishes a nuanced view by looking not at their interactive, but mutually-constitutive relationship. This framework conceptualises the state as only one organisation vying for social control in society – one that encounters steep resistance to be *the* institution that provides and enforces rules for society (2001, 36). Applying this model to contemporary developing countries, Migdal argues, "the failure of states to have people in even the most remote villages behave as leaders want ultimately affects the very coherence and character of the states themselves" (1988, 5).

Migdal conceptualises state strength in terms of states' "capabilities," to "achieve the kinds of changes in society that their leaders have sought through state planning, policies, and actions" and to "determine how social life should be ordered" (4-9). The distinctiveness of this approach is that Migdal takes neither state autonomy nor state capabilities as given, so the key condition on which modern statebuilding processes depend is the structure and distribution of social control. This approach contributes to an understanding of the statebuilding impacts of revenue collection in terms of their influence on the structure of power in society. Through extractive and redistributive processes, taxation can then be understood as a mechanism that structures power relations. Moreover, Migdal's analysis indicates that revenue collection processes can be analysed as a reflection of the distribution of social control.

The analysis generates two interrelated sets of explanations: "the sources of resistance to the designs of state leaders" and "the factors that make state leaders unable or unwilling to overcome such resistance" (9). Migdal analyses the acute rivalries for social control between state and society, arguing that "the major struggles in many societies, especially those with fairly new states, are over who has the right and ability to make the countless rules that guide people's social behaviour … The very purposes for which leaders employ the state in seeking predominance … automatically thrust it into conflict with other organisations over who has the right and ability to make those rules" (31).

External dynamics are integrated within the state-in-society model, due to the "driving compulsion to establish state social control within society, for that was the key that could unlock the doors to increased capabilities in the international arena." Structural pressure has increased "in the last generation by its set of widely shared norms – especially those put forth by the UN system and others that have assumed the state's domestic hegemony" (23-24). As such, Migdal's approach breaks out of the confines of the European statebuilding model by injecting "potential state-makers into a sociological milieu in which they must contend with other potential rule-makers, inside and outside the state organisation, and in which the struggle itself transforms the participants" (2001, 21).

Mann theorises the state as partly functional and partly institutional. As particular configurations of power relations institutionalised through politics, he emphasises *"the state need have no final unity or even consistency*" (1993b, 55-56). States "crystallise at the centre" of power networks, but each case has a different centre. However, Mann maintains that there are fundamental social underpinnings of all states, and that "polities can be more or less state-like," by which he means "cohesive and enduring" (2005, 544). Mann conceptualizes the 'polymorphous state' as taking two main forms. The modern form of established states, which developed in early-modern Europe and later expanded across the developed world, is 'infrastructural,' representing the state's "power to penetrate and centrally co-ordinate the activities of civil society through its own infrastructure" (1984, 190). A state characterised by 'despotic power' refers to "the range of actions which the elite is empowered to undertake without routine, institutionalised negotiation with civil society groups" (188). He reflects that many states of the global 'south' that "lack control over parts of their territories and even parts of their own state apparatuses" are often "despotically powerful" (2005, 542).

The concept of despotic power helps to form an alternative conceptualisation of the way that revenue collection operates within society, challenging the traditional notion that taxation implies responsive policy and negotiation. Mann's analysis also highlights the fact that a state can exercise despotic power throughout its territory, as well as in the fiscal administration. Mann's multi-disciplinary work has stimulated debate in IR particularly around his conceptualisation of power, the "thick dynamics" of state formation and its relation to war. Mann, in his distinctive IEMP model, conceptualises how the sources of ideological, economic, military, and political power relations come together in different constellations. Because none is ultimately determining, this framework allows for identification of change in "neo-episodic spurts" (Mann 1986, 32) when new patterns of organisation emerge through the interstices of these power networks Mann's conception of state-society relations provides a useful corrective to some accounts discussed above that tend to overemphasise the lack of social boundaries, and his idea that societies are not "caged in" by state power is a more useful description of African polities (1993a).

Summary

This section has assessed relevant literature that addresses the structure of state-society relations in contemporary Africa in order to identify elements of a conceptual framework that will be applied to the case research. It has highlighted approaches that help to conceptualise taxation as a social and political process, and frame analysis of the nature of state-society exchange, bargaining, and the impacts of tax on state capacity and accountability.

Grounded in empirical observations and perceived policy imperatives of postcolonial African states, the first two approaches are more directly comparable, yet the inclusion of Mann and Migdal's theoretical models in this discussion demonstrates a compatibility with their alternative epistemology and the potential benefits of integrating elements of both IR and historical-sociological approaches. While all the accounts considered here move beyond the work of the modernisation school and dependency theory, the culturalist and historical sociology approaches provide more useful tools to analyse postcolonial African state-society relations than the perspective of civil society scholars and practitioners. Culturalist frameworks analyse African politics in their own terms, highlighting salient dynamics of power, accumulation, and politics in historical context, and avoid the Western, liberal, and contemporary biases of mainstream civil society approaches.

Echoing the normative teleology of failed state theorists, the civil society scholars discussed in this section are optimistic about prospects for democratisation in Africa. In contrast, Bayart, Ellis, and Hibou assert that "efforts to combine the requirements of a market economy with the demands of popular sovereignty have ended in failure" (1998, 5). Similarly, Chabal and Daloz assert that the prospects for economic development are meagre given its incompatibility with the instrumentalised disorder of African states. Moreover, Bayart notes that tagging a state as 'poor' or 'underdeveloped' can facilitate access to international resources, but that these process have an ambiguous and generally more detrimental impact on state trajectories.

By investigating the nature of the state beyond its formal and public activities, culturalist scholars highlight patronage networks as the central mechanisms through which the state exercises control and the critical explanation for African states' persistence with a degree of stability. These networks, particularly rent-seeking highlighted by Bayart et al., are of particular relevance for the analysis of wartime and transiton political economy in Angola and Moazmabique.

Mann and Migdal's contributions to historical sociology provide a valuable complement to these IR frameworks. Particularly relevant to analysing state formation processes, the epistemological commitments of historical-sociological work "most basically ask questions about social structures or processes understood to be concretely situated in time and space…They address processes over time, and take temporal sequences seriously in accounting for outcomes" (Skocpol 1984, 1). Thus these approaches provide tools to investigate continuity and change and focus our attention on salient features of historical context to understand the environment structuring the possibilities of state formation.

Historical sociologists such as Mann and Migdal also provide compelling justification to retain a focus on the 'state' and 'statebuilding' in postcolonial Africa. Their position of the primacy of the state is based not on normative or analytical preocupations, but on its enduring relevance as the predominant ordering principle of the international system (Migdal 1988, 17, 44). At the same time, with a focus on the configurations and distribution of social control in historical context, these analyses highlight that "the configuration of power in one period, and the political arrangements set up to institutionalise it, become inappropriate as the subsidiary forms of social power reorganise" (Hobden 1998, 122). Finally, historical sociology is the only approach discussed here that recognises the historical relationship between war and statebuilding, an essential element to consider given the focus of this thesis on taxation as it developed through economies of warfare. The next section focuses on this issue.

2.5. Failed states and sovereignty in IR theory

The discussion provides a critique of failed state discourses and then discusses notions of relative statehood in a postcolonial context. Seemingly guarded by shibboleths of state failure and collapse, dominant discourses in IR refer to African states, variously, as "decayed into crisis," "criminal," "vacuous and ineffectual," or in a state of "instrumentalised disorder" (Young 2004; Bayart, Ellis, and Hibou 1999; Chabal and Daloz 1999). Africa is portrayed as an environment of extreme anarchy "in chaos," even "statelessness" (Ayittey 1998; Kaplan 2000). This critique of the literature questions this conceptualisation and seeks to identify how IR theory can be meaningfully employed to explain states and processes in Angola and Mozambique that do not conform to the discipline's standard reference points.

The literature assessed here is relevant to the PhD for four main reasons: first, the discussion of quasi-states and relative statehood helps to frame the independence context of Angola and Mozambique, which forms the starting point for the case studies. Second, the role of taxation in the construction of internal sovereignty means that revenue collection processes can be analysed as part of elites' statebuilding strategies, and also that they represent a lens through which to view state capacity. Third, the discussion of sovereignty highlights that tax evasion constitutes a means for society to resist state power. Fourth, considering the state-like qualities of insurgencies, specifically in terms of their taxation activities, indicates that revenue collection is not the sole prerogative of the state, nor does it always take the form of a formal institutionalised process.

Failed states

The recurrent inability of postcolonial political leaderships to exercise control over their externally endowed territories and the societies within them became a frequent observation with the mid-20th century wave of European decolonisation and end of the Cold War. These global shifts resulted in the mass entrance of new states into the international system. Most of these newly independent polities entered, and remain, weak states; in more rare cases, some have completely collapsed. Extreme crisis and insecurity experienced by a growing number of states has given rise to renewed interest in conceptualising the state in Africa and a concern for 'failed' states in academic discourse and policymaking agendas.

Economic and political imperatives have also stimulated a refurbished interest in the state. In the wake of the underwhelming achievements of structural adjustment, advocates of the neo-liberal economic order such as the World Bank[6] pointed to weak state institutions as a critical obstacle to development, calling for the necessity of strong states with watchwords such as *good governance* and *capacity building*. In another sense, increased concern for weak states also emerged from the West's post-

[6] See especially *World Development Report*, 1997

9/11 preoccupation with preventing state collapse in discourses of national security and the war on terror (Clapham 1996; 1998, 156-157).

Mainstream academic and policy-oriented approaches have developed around the language of state 'failure' or 'collapse' with the focus of many prominent accounts on weak states and how to make them strong (Keller 1997; Deng and Zartman 2002). Analyses of states in need of "saving" call for the "restoration of legitimate authority" and propose strategies to "reaffirm the validity of the existing unit and make it work" (Zartman 1995, 268) or solutions such as multilateral "conservatorship" (Helman and Ratner 1992/93). As such, the mainstream intellectual and policy-making response to the system's new members has been to reaffirm the preeminence of a certain ideal of nation-statehood modelled on the Western experience (Clapham 1998).

One influential feature of failed state discourses is the conceptualisation of statehood in terms of services (e.g. upholding the rule of law, protecting political rights, eliminating violence from private life) and thus to analyse states in terms of the services they are and are not able to provide. For instance, Zartman defines "collapsed states" as those in which "the basic functions of the state are no longer performed" (5), while Rotberg (2003; 2004) calibrates statehood according to provision of a hierarchy of services in which security is predominant.

Naturally, some states fare better than others against such measurement frameworks. Underlying these analyses is not just a strong teleology of nation-statehood, but an implicit normative position on the most desirable form of political organisation. As such, these conceptualisations inherently regard as lamentable a state's inability to provide any of a given set of services. Therefore, as Eriksen writes, "the gap between ideals and empirical reality is treated as justification for interventions which aim to close this gap, and make empirical reality conform to the model." Rather than grounds to reassess conceptual tools, a failure to meet the given requirements of states "constitutes an argument for changing the world to make it fit the concept of statehood" (Eriksen 2011).

Another dominant characteristic of mainstream IR approaches to African states is the implicit assumption that eventually they will come to replicate the Western model of nation-statehood and trajectory of statebuilding. This not just reflects analytical predilection, but also expresses the wider normative concerns with states as the legitimate guarantors of order in the international system and for strong statehood as a requirement for the security and representation of society. A related problem with applying the externally-oriented ideal model of statehood to relatively new postcolonial states is that analysis tends to neglect internal dynamics and the acute harm that states regularly inflict on the societies within them (Herbst 2000). While some scholars have recognised the moral issue and empirical reality of states often being the main source of insecurity to the populations within them (Migdal 1988; Buzan 2007; Job 1992), many mainstream arguments are part of an academic legacy that has cemented a particular unit and form of international political organisation to which policy-makers and donors have become accustomed. As Clapham writes, "in the process, much of the analysis of African international relations has become an essentially ideological devise for protecting African statehood and the interests of those who most benefitted from it" (1998, 146).

When thinking about states and the related concepts of statebuilding and security in Africa, this dominant line of thinking raises several questions. First, even if a strong normative argument might be made in favour of the Western model of nation-statehood, how helpful is the application of this model to states that do not conform to it, if our goal is to understanding the actual nature of African states? If we dispense with the issue of whether this is the most desirable form of organisation, we still must ask whether it is reasonable to assume that the nation-state is an eminently attainable model of political organisation. These questions are not addressed in analyses that *a priori* assume the state to be both desirable and practically achievable. Moreover, IR scholars of the developing world and Africa must "take account of the fact that states are not the building blocks from with the subject is constructed. States, like other political institutions, are not to be taken for granted" (Clapham 1998, 156).

Postcolonial sovereignty and relative statehood

Critical investigations of the relationship between postcolonial polities and the evolving sovereignty regime sheds light on the nature of African statehood in historical context and implicitly challenges the assumption that they are moving (or, are able to proceed) along the trajectory established by strong western states. Jackson's influential conceptualisation of 'quasi-states' (1990; 1987) starts from the fact that all states emerged from decolonisation as international equals: all states were constructed through their recognition as such by all others. Juridical sovereignty is constituted foremost through recognition but also in practices such as non-intervention, membership in formal international institutions, and official diplomacy. The notion of 'quasi-states' captured the twentieth-century reality of polities that were conferred the status of states through universal recognition of their juridical sovereignty, yet did not demonstrate "substantial and credible statehood by the empirical criteria of classical positive international law" (1990, 22).

Quasi-states, lacking the "positive sovereignty" of strong established states, are characterised by fragile political institutions, minimal domestic legitimacy, and an inability to exercise control over their territories and populations or implement policy. Without a monopoly over the use of violence, quasi-states are unable to defend themselves militarily against other modern industrial states and are vulnerable to internal threats such as those posed by insurgency movements. Despite their lack of empirical sovereignty, quasi-states exist due to their recognition in the international system which, Jackson and Rosberg (1983) have argued, allows weak African states to persist because it provides a route to extraction of considerable external resources and foreign aid.

Krasner (2004) shares Jackson's approach to statehood through the structural-normative lens of sovereignty and classification of "collapsed and failing states" in terms of their inability to monopolise violence and exercise control over territory. After the tremendous quantitative and qualitative shifts in statehood in the intervening twenty-plus years since the publication of *Quasi-states*, Jackson's sharp delineation between states characterised by either positive or negative sovereignty can seem exaggerated. It would perhaps be more reasonable to view states as constituted through the interplay of international norms and domestic capabilities. Krasner conceptualises the contemporary sovereignty regime as composed of three elements: legal (formal recognition of independence and ability to enter voluntary contracts); rights to non-intervention and non-interference from external authority; and domestic (ability to define and enforce rules over the state's territory and population). Failed states are thus designated as such when they do not meet one or more of these elements of sovereignty. This expanded conceptualisation is helpful to grasp the influence of the internal and external aspects of sovereignty on statehood, but if this perspective can be used as a corrective to Jackson's starker model, the first two elements – legal sovereignty and non-intervention – must not be taken as given. Read in this way, variations in, rather than presence or absence of, each feature of sovereignty can be understood in relation to each other and to statehood.

Rather than relying on a classification of all political entities either as states or not, Clapham conceptualises statehood as a relative concept. He suggests that IR theorists should regard a variety of entities, regardless of formal status, as "meeting the criteria for international statehood to a greater or lesser degree" (1998, 143; 1996). Clapham demonstrates how post-Cold War dynamics have undermined the notion of quasi-statehood as newly-independent African states became increasingly drawn into international affairs – in part to obtain resources to combat domestic rivals, political insecurity, and economic underdevelopment. The negative sovereignty regime "always rested on the contradiction that states could retain their independence *of* the international system while remaining dependent *on* the international system" (Clapham 1998, 146-147, (emphasis in the original)) and such dependence became clear as African states faced any meaningful external or internal challenges to their rule. For instance, economic and, later, political conditionalities attached to international support represented an external challenge and tested the idea of quasi-statehood. Domestically, the decline of any support enjoyed by regimes at independence and emergence of interval rivals eroded the normative foundation of quasi-statehood (namely that the states accorded and protected by such legal recognition were legitimate representatives of their populations). As these processes unfolded, quasi-statehood "was converted into a mechanism by which those who controlled governments, regardless of the means by which they had attained power or by which they exercised it, claimed the right to external support with which to repress their own populations" (1998, 147).

Thinking about political entities in terms of meeting the requirements of statehood by degree, rather than binary categories is a helpful insight, particularly in light of the observed qualities of insurgency groups such as UNITA and Renamo that are assumed to be the preserve of states. Insurgencies often fulfil many of the standard criteria of statehood, including the core requirement of control over population and physical territory. Especially when they exercise control over the countryside and production of resources on which the capital relies, insurgency movements can gain control over the state's domestic economic surpluses, as well as the global economic network to which it is channelled. While insurgencies often exercise considerable power in informal trade, they can be just as active in formal state-like global economic activities as well as beneficiaries of international aid from NGOs as well as foreign states. For instance, UNITA exercised extensive control over trade in diamonds but also, via South African firms, activated concession arrangements with major global international companies to export products and benefited directly from their royalties.

In addition, insurgencies enjoy external recognition and conduct international diplomatic relations to varying, but significant and even formal, degrees with foreign states. Insurgencies craft and pursue foreign policy and operate diplomatic corps from headquarters based in states and "foreign ministries" around the world (e.g. Renamo's conduct of diplomacy from Nairobi). As Clapham points out, since external sponsorship and resources are critical to insurgent political and military objectives "these foreign policies are often more intensely (and indeed competently) conducted than those of formally constituted states. If international recognition is to be regarded as an essential element of statehood, insurgent movements may well enjoy it to a greater degree than the governments against which they are fighting" (151).

Most studies of insurgencies' taxation activities in Angola and Mozambique concentrate on the use of extraction in terms of solidifying the control and increasing the funds of UNITA and Renamo. It is also important to consider insurgencies' taxation as an affront to the state's sovereignty, and its impact on taxpaying culture.

In the Angolan and Mozambican cases, Cold War rivalries gave way to intense, pervasive international involvement in African "proxy wars," part of post-independence conflict, with great powers variously lending formal or implicit support to the insurgencies, at times conferring more legitimacy on the insurgents than the incumbent regimes.

Cold War bipolarity constrained the extent of external intervention – the normative basis of juridical sovereignty. That era's normative environment also structured a clear distinction between legitimate 'government' – the political leadership in the capital – and their 'illegitimate' opponents – regarded as rebels. With the end of the Cold War and accompanying shifts in international sovereignty, however, the diplomatic status of insurgencies was tremendously advanced: rather than armed bandits, insurgency movements were seen as legitimate representatives of domestic society and deserving of international recognition. This evolution was evident in Angola and Mozambique in the early 1990s as the international missions to mediate ceasefire and transition in each country sought to construct elections between parties with claims to represent society and the right of participation in pluralist politics (Alden 2002; Alden 2001; Pearce 2010).

As Clapham reflects, "as a result, first, of the emergence of effective insurgent movements capable of sustaining prolonged opposition to African governments and, second, of the increasing absorption of these movements into international politics, the dividing line between 'states' and 'non-states' has become so blurred as to be virtually imperceptible…It often has little if any connection with the actual power relations which must be at the core of any political analysis, whether domestic or international" (147).[7]

Considering the relative statehood of non-state groups and, conversely, how states often act like armed guerrilla movements, also undermines the assumed functional and conceptual classification of weak governing regimes as states. One reason for this is the trend toward privatisation of state control – an important development given that the concept of statehood is founded on its 'public' nature that will be discussed in the next section.

Statebuilding in the context of insecurity

The question of the relationship between civil war, tax, and statebuilding, discussed in Section 2.3, indicates a connection between conflict and statehood in practical and conceptual terms. This section addresses how internal and external security contexts are bound up with statebuilding processes from the perspective of political motivations as well as analysis. The discussion draws on the work of Ayoob and Buzan to assert that security conditions are relevant to understanding of the impacts of taxation because they define the statebuilding agenda.

Ayoob characterises contemporary developing states in terms their lack of "a balance of coercive capacity, infrastructural power, and unconditional legitimacy," which prevents them from "imposing a legitimate political order at home and from

[7] The actual effect of these shifting norms was more complex and subtle in Angola and Mozambique than Clapham's representation of African transition politics, however. For example, US support for UNITA lingered until President Clinton formally barred it in 1993, and reports on UN peacekeeping missions to each country demonstrate implicit favouritism of the de facto governments in each country.

participating effectively in the international system" (1995, 4). Ayoob's central emphasis that "the internal dimension of security, which is inextricably intertwined with the process of state making, is the core variable that determines the Third World state's security problematic." His definition of statebuilding broadly refers the ability of a "state to accumulate power" in terms of "political legitimacy and integration" and "institutional coherence" as well as in national material terms (21). Situating security perceptions and priorities within state formation processes, Ayoob contends that "the primary objective of state elites is…to reduce the deep sense of insecurity from which Third World states and regimes suffer domestically and internationally" (3).

The inability to establish and enforce order over the state's population and territory and combat domestic rivals – what Ayoob calls a "lack of adequate stateness" – turns regimes' primary security focus internally. External threats to the state do exist, but "they often attain saliency primarily because of the insecurities and conflicts that abound within" such states. The internal dimension becomes even more important because of the geographic proximity of states that share similar internal vulnerabilities. In this environment, "internal conflicts and insecurities frequently get transformed into interstate conflicts because of their spillover effects into neighbouring states that often suffer from similar domestic insecurities" (1991, 263). As such, Ayoob argues that for contemporary developing countries, "security-insecurity is defined in relation to vulnerabilities—*both internal and external*—that threaten or have the potential to bring down or weaken state structures, both territorial and governing regime" (1995, 9).

Ayoob's theoretical referents in historical sociology provide important insights into the nature of weak state security and contextualise its relationship to decolonisation and ongoing statebuilding processes. This complex security environment “is generated largely by the twin pressures of late state making and their late entry in to the system of states” (xiii). Leaderships are thus concerned equally with their status and sovereignty, and their predicament is that they must simultaneously maintain their juridical sovereignty in the system while attempting to reduce internal and external insecurity by consolidating the state (1989, 70). Comparing the processes that led to the establishment of the first states in early-modern Europe, contemporary differences “in the pace of state making and nation building and the telescoping of these two processes into a drastically shortened process….combined with the initially low level of state power from which state making takes place, provide the primary explanation for the sharp internal challenges to the centralising state structures in the developing countries and for the high level of violence endemic in the current phase of state making” in the contemporary developing world (1991, 269-270).

The tension between the conditions of “weak” statehood and security leads Ayoob to conclude that “the level of security enjoyed by a state has a positive correlation with the degree of stateness achieved by that state—the later, in turn, being a function of the state elite’s relative success in the state-making enterprise” (1995, 20-23). Similarly, Buzan writes that “weak states simply define the conditions of insecurity for most of their citizens” and that “the building of strong states is only a necessary, and not a sufficient condition for improved international security” (99).

Buzan conceptualises states in terms of their degree of socio-political cohesion (2007, 93), which provides a more nuanced framework for analysing states’ relationships to specific sets of threats and vulnerabilities. A low level of socio-political cohesion, characteristic of “weak states,” indicates that threats to security arise primarily internally as the governing regime faces contests to its internal legitimacy, domestic rivalry, and is often the main source of insecurity for the population within its territory.

While these scholars have made significant contributions to debates about how to think about security in different types of states and move well past the concept's traditional confines, their view of security-as-statebuilding reduces this relationship to a straightforward positive correlation. Rather, we should view the security dynamics of the state in inter-relation with historically-contingent processes of statebuilding in a dynamic process. Therefore the approach adopted in this thesis follows Krause's position that "any study of security policies and practices in the developing world must be sensitive to historical processes of state formation that these are part of, and more importantly, must not *a priori* reduce the condition of security strictly to the security of states and regimes" (1996, 327).

In another analytical sense, the central role of leadership in Ayoob and Buzan's concepts of weak state security highlights the difficulty in disaggregating the political security and security interests of leaders from the concept of state security "because the state structures of weak states provide such targets of opportunity, governmental security and national security become hopelessly confused" (Buzan 2007, 135). However, while recognizing that the state is often the primary source of insecurity for the majority of the world's people, "it need be neither unusual nor paradoxical to find individuals dependent on the state for maintenance of their general security environment, while at the same time seeing the state as a significant source of threats to their personal security" (1983, 24).

The historical-sociological accounts of Mann and Migdal undermine the teleological views of state building reviewed in this chapter, including Ayoob's resolute position that, given enough time, late developing states will come to replicate the European trajectory. Mann's distinction between despotic and infrastructural state power implicitly questions this notion, and he observes that states in the "less developed world" are not following the European process of military development. While Ayoob argues (1991, 280) that the challenge of state-making through primary reliance on the military for coercion is characteristic of the relative historical stage of development, Mann (1986) provides a richer explanation: the difficulty of approximating the European infrastructural state through violence is not purely conditioned by primordial setting, but by entry to an international system in which this constellation of political-military power is no longer appropriate. Ongoing statebuilding processes consist in a markedly different constellation of power than in early-modern Europe, and the contemporary struggle to consolidate the state is marked by the "absence of a genuinely diffused modernism in their civil societies" (1993a, 136).

Migdal posits that strong, capable states can only emerge with a "tremendous concentration of social control," a redistribution that relies on exogenous shocks that "rapidly and deeply undermine existing strategies of survival" (1988, 262). Like European societies prior to the great wave of state formation in the 16-17th centuries, societies in contemporary Africa have experienced such shocks, but they have not facilitated the same concentration of social control. Migdal explains the difference in experiences in the highly fragmented structure of social control in relatively new states that has become sufficiently sedimented to resist state penetration (36-37). This environment creates a dilemma for state-builders: leaders must "weigh their need to create effective agencies for political mobilisation and security against the risks to political stability and their own survival, which come in creating potential power centres they cannot control." The problem of political mobilisation in societies with highly fragmented social control has led to a "pathological style at the apex of the state, the politics of survival" (263-264). While state leaderships are vulnerable to self-defeating relations of accommodation, the strands of state organisation are at risk of capture by groups with competing organising ideologies, and state resources may be expended in a way that bolsters rival forces. This environment of fragmentation is thus self-reinforcing because it facilitates political processes that further disintegrate social control.

Based on the experiences of relatively new states that have successfully concentrated previously-fragmented social control, Migdal argues that "a series of wrenching social dislocations" – specifically war, revolution and large-scale migration – is a "necessary, but not sufficient condition for the emergence of strong states." Post-Second World War history also indicates that world historical timing, foundation for autonomous bureaucracy, military threat, and skilled leadership are sufficient conditions that increase the likelihood of state strengthening (263-275). Migdal reaffirms Tilly's logic, concluding that "in brief, war itself and the threat of war induce state leaders to take unusual risks to consolidate social control, creating a strong state" (274). The existence of an external military threat is of particular importance if this formula is to hold in a contemporary setting; Migdal contends that persistently weak states can be explained by a general lack of external war, while those that have emerged as strong, such as South Korea, Vietnam, and Israel are so because they have faced military invasion.

Summary

While there has been renewed interest in conceptualising the particular nature of contemporary African states, dominant discourses have tended to retain the

Western nation-state model as the default reference point. Combined with the assumption that this is the model of international organisation to which all states are, or should be, moving, such analytical commitments often easily transmute into the normative foundation for arguments advocating intervention. Critical reflection on how regimes of sovereignty construct states in the international system highlights the importance of external recognition and cautions against taking states as given. However, all of the conceptions discussed above, though to a lesser extent in the more nuanced accounts of Clapham, Jackson, and Krasner, fundamentally provide frameworks to analyse postcolonial African statehood in terms of their lack, or relative degree, of adherence to an assumed model. Thus, taken alone, these approaches do not provide sufficient analytical flexibility to fully grasp the actual nature of these states or the processes that make them weak or strong.

2.6. Orientation of the thesis

This chapter has reviewed a diverse set of literatures in order to situate the thesis in theoretical context. The objective of this discussion has been to set out the relevant literature on tax in Africa, how it relates to statebuilding, and structural constraints in a contemporary development context. It has also identified approaches to analysing three sets of issues – the relationship between tax and statebuilding, the internal and external construction of African statehood, and the links between war and extraction – that help to frame the empirical investigation presented in the PhD. The discussion has identified parallel themes and contradictions that help to frame empirical analysis while making reference to more general processes of statebuilding in the international system. Based on this discussion, the thesis will adopt the following principles to situate the case research within academic and historical discourses.

Critical investigation of failed state discourses and conventional approaches to security has demonstrated that African polities do not easily conform to concepts developed for analysis of established, strong Western states, and that approaches in these terms are unhelpful for understanding the particular nature of postcolonial states in Africa. Mainstream scholarly and policy-oriented discourses have reaffirmed the primacy of the nation-state not just because of intellectual-analytical preoccupations, but also due to teleological and normative assumptions that all polities recognised as sovereign states are and should be (and are able to be) progressing along the path to statehood set by the West – just on a different timescale. As suggested in the previous section, the 'liberal tax' theories that view taxation as a catalyst for democracy can be seen in parallel with these discourses. The framework adopted here will dispense with such assumptions (championed in the work of civil society analyses, advocates of neoliberal reform, Ayoob's subaltern realism, and security studies concerned with how to make weak states strong).

Many of the accounts discussed here tend to regard weak statehood as a regrettable, negative condition, marked by the inability to meet a set of criteria. These analyses of African states are constructed in the language of failure or a lack, rather than actual constituent properties. Since so many states in the international system, particularly in Africa, do not meet many of the criteria of strong statehood, we must reconsider the effectiveness of using such a framework as a starting point. The aim of this research is not to document the experiences of two Southern African states in terms of the degree to which their state formation trajectories confirm to the path set out for them.

The thesis conceptualises the state in relation to shifting normative and material imperatives on structural and domestic levels. The epistemological commitments of historical sociology (Mann 1993a; Migdal 1998) and Buzan's (2007, 378) concentration on states between the nexus of threats and vulnerabilities allows us to see that while these realms can be meaningfully disaggregated analytically, it is equally important to investigate their reciprocal constitution and dynamic links.

While the analytical approach adopted in the PhD will not assume a given endpoint of state formation, it takes into account the ontological reality of a certain model of strong statehood and normative relevant to the nation-state ideal type. This is an essential component to include in order to analyse how the idea of strong statehood is expressed in political leaderships' goals, expectations of international and domestic society, and the state's internal and external extractive processes. In another sense, it is also necessary to identify the core components of what states "are" as a basis for investigating processes of historical change, specifically dynamics of statebuilding, taxation, and conflict.

Following Buzan (2007, 57-69), most basically, the "state" will refer to three elements: the "idea" of the state, its institutions, and its physical base in territory and population. This flexible concept of the state will be integrated with contingent discursive elements to analyse the state in Angola and Mozambique: the nature of the state as expressed by political leaderships, demands from the domestic society over which they make claims, and international expectations of statehood. Furthermore, the "idea" of the state involves a sense of purpose and organising ideology constructed in societal consciousness and implies that the state is based in an understanding of morality rather than simply force (Eriksen 2011; Clapham 1996; Buzan 2007). Taxation is a constitutive element of these dimensions of the state, shaping legitimacy, infrastructure, capacity, control over society and territorial sovereignty

Just as the approach adopted by this thesis does not take the endpoint of statehood as given, it avoids delineation of a particular statebuilding trajectory or the role of taxation in one. Discussion of state-society relations highlights how domestic dynamics (such as the post-independence institutionalisation of colonial rule systems, subordination of economic priorities to regime survival, and predominance of endemic patronage networks) present significant obstacles to state consolidation according to the Western model. Similarly, postcolonial African states' structural environment (such as regional insecurity, fixed borders, and normative demands) suggests that contemporary state formation will unfold along a different trajectory. These conditions will not be treated simply as constraining or enabling causes of the developmental impact of tax, but constitutive of the objectives and practice of state formation processes.

Relatedly, the idea of the state should be treated, in Bourdieu's terms (1987), as a category of practice rather than of analysis (Eriksen 2011). This shifts the lens away from static concepts towards the constitutive interrelations of actors through the processes of constructing visions for the state and invoking security. In contrast to analysing states in terms of "degree" or attainment of certain criteria, this approach helps to explain the processes that strengthen and weaken states according to the goals of state-makers as well as international and domestic norms of what form the state should take. Thus, instead of reporting on a series of observed differences between a certain state and the ideal-type Western model, and contemporary divergences from the path set by established states, we can start by looking at particular practices in relation to particular states.

Chapter 3
Conflict-driven revenue collection: Mozambique 1975-1994

3.1. Introduction

This chapter examines revenue collection processes in Mozambique during the civil war. Its primary aim is to assess the impact of war on extractive capacity. This empirical analysis investigates the application of the rich historical and conceptual tradition, discussed in Chapter 1, that links war to expanded and improved taxation. The case study investigates and challenges the central hypothesis derived from this account, namely that protracted violence catalyses the establishment of a stronger and more efficient revenue collection system. Drawing on discursive and quantitative data collected in Maputo during fieldwork in 2012, the research demonstrates that Frelimo's fiscal policy was not driven by an imperative to raise funds from a broad domestic base to fund conflict, and that tax collection did not correlate with threat levels.

The case study widens the scope of analysis beyond the threat of violence, addressing the question of the impact of Frelimo's *war economy* on revenue collection. The analysis traces the evolution of Frelimo's systems of mobilising resources to fund conflict in parallel with changes in the revenue collection system. This analysis investigates the politics and motivations underlying Frelimo's strategy to finance its security and administration across the 17-year civil war, during which Mozambique underwent fundamental social and political changes while transitioning between three distinct economic systems. These shifts, from the Portuguese system of extractive capitalism to post-revolutionary socialism and then to market capitalism – marked, respectively, by independence in 1975 and accession to the Bretton Woods institutions in 1984 – demanded corresponding reforms to the public financial apparatus and, as part of these changes, distinct approaches to fiscal policy and administration.

The case research argues that Frelimo made revenue collection reform a priority to fund the onset of civil war and its socialist development strategy, and that the measures it adopted resulted in greater extractive capacity and a fairer tax system. It then establishes that the security imperatives and financial exigencies of insurgency warfare precipitated Frelimo's abandonment of socialism and reorientation towards the West in the mid-1980s. It argues that transition to capitalism and integration of a donor-driven development model involved a high degree of external interference and the influx of large-scale foreign aid, which came to dominate the Mozambican economy.

Through tracing Frelimo's conflict-driven shift from centralised planning to transition to a market economy, the chapter argues that warfare did not have a catalytic effect on revenue collection in Mozambique due to the availability of aid, which functioned as an autonomous revenue stream. The chapter argues that large-scale foreign aid undermined extractive capacity by substituting the need for broad-based taxation, disincentivising the politically challenging task of fundamental reform of tax policy and enforcement, and by introducing biases and exemptions that skewed the system as a whole. Moreover, during this period, Mozambique's tax policy was subjugated to structural adjustment programmes, which largely neglected institution building, and altogether ignored the question of the bearing of elite accountability on policy.

The case research is structured into four main sections. Section 3.2. introduces the post-colonial fiscal context and assesses Frelimo's first revenue collection policy reforms designed to support construction of the socialist economy from independence in 1975 to 1984. Section 3.3 traces the evolution of Frelimo's war economy through the transition to capitalism, and analyses tax reforms adopted in the context of structural adjustment between 1985 and 1991 and the peace processes between 1992 and 1994. The central themes of the implications of large-scale foreign aid inflows and external policy interference are also introduced here. The objective of each of these sections is to address the question of how first the socialist and later donor-driven capitalist model influenced taxation.

Section 3.4 investigates how the negotiations and peace processes that took place between the end of the war in 1992 and Mozambique's first multi-party elections in October 1994 influenced the operation of conflict-driven political economic and fiscal dynamics. It contends that the peace process formalised and institutionalised features of Mozambique's war economy, and contends that these negotiations represent a missed opportunity to institutionalise a more effective tax system. The fifth section then presents statistical data analysis to assess the revenue impacts of tax reform undertaken in the context of warfare, aid, and transition to market capitalism. The final section provides a summative conclusion of the case study.

Data collection, sources, and labels

This chapter presents original data collected during fieldwork in Mozambique between January and September 2012 and on a follow-up trip in November 2013. The source of the tax statistical data presented in this chapter is the Mozambican Revenue Authority (ATM). ATM officials provided the author with government two bulletins (published in 2012 and 2013) after numerous meetings and requests for data. The 2012 edition was the first statistical compendium published by the ATM and was intended for uses of "evaluation, consultation, research, and study" for the "totality of active and passive fiscal actors, from public and private institutions, diverse organisations and associations, academies, taxpayers, and the general public" (ATM 2012, 6). The data labels in this chapter refer to:

- Taxes: all compulsory revenues transferred to the Mozambican government for public purposes (excluding aid, loans, and spending)
- Income taxes: National reconstruction tax (progressive income tax on monthly salaries, non-household agriculture and farming cooperatives, until 1987), Labour income tax (proportional income tax, from 1987) Complementary tax (capital, non-salary incomes, and private property), Industrial tax (corporate profits, starting in 1982
- Goods and services: Circulation tax (consumption tax on state and private enterprise incomes), Consumption tax (tobacco, beer, alcohol, and other products not specified), Customs duties, Special fuel tax (introduced in 1990), and motor vehicles tax (introduced in 1990)
- Other taxes: Not specified other than public housing rents

The international financial institutions have not published publicly accessible data with continuous statistics for this time period. The source materials do not provide details on accounting methods for this time period, and government officials interviewed could not provide information on how the calculations were made. This is an obvious weakness of the data and poses challenges to how it can be meaningfully interpreted and compared.

The main strength of this data is its continuity in the sense of the consistency of a single source. While there is limited information available on accounting methods, it can be assumed that the way the government calculated categories and levels was similar throughout the period. In addition, there is consistency in the categories used across the time period; both of these factors strengthen the basis for comparison. Data validity is strong in terms of the relevance of the categories used (income and goods and services) to the research questions because they reflect the impacts of the war on taxation, and indicate how the relationship between tax, capacity, and state-society relations might have changed during this period.

However, the data is limited in terms of its reliability. The lack of information on accounting methods and of other sources with which to compare the government data decreases confidence in these figures. In addition, the government data does not provide GDP figures for the years between 1975 and 1979. The source of the statistics used for these years is IFM data. IMF GDP data for the remaining period, for which government figures are used, is generally consistent, suggesting that the author's calculations of tax-GDP ratio in the first years of independence should be comparable to those after 1980.

In addition, in terms of discursive material, this chapter presents tax legislation gathered from the archives of *Diário da República*, the state gazette, held at the National Press and in the archives of the Ministry of Finance library. Finally, the chapter complements these sources with interview material that was gathered through meetings with current and former political elites.

3.2. Revenue collection under socialism: 1975-1984

This section assesses the postcolonial fiscal context and addresses the question of how Frelimo adapted the revenue collection system to support its socialist development strategy and finance civil war. It first discusses major elements of late colonial political economy and tax system and then demonstrates the role of taxation in the party's statebuilding vision and then outlines major reforms adopted under centralised planning, building the case that these measures enhanced the revenue collection system.

Late colonial political economy and taxation

For the majority of the 20th century, Mozambique's revenues were mainly comprised of agricultural exports – notably sugar, cotton, cashews, copra, and tea – as well as income from transit trade with South Africa. The colonial state intervened in the economy to supervise and regulate industries, underwrite investments, and supply credit (Pitcher 2002, 28-31). Colonial and foreign investors funded industrialisation around the capital in the south of the country and, to a more limited extent, in the central and northern cities. The number of registered businesses grew from 1,073 to 1,675 between 1964 and 1972, and Mozambique was the eight most industrialised country in Africa by the 1970s (31-32).

The reliance of the colonial state economy on agricultural exports made customs a major tax base. Before 1978, most tax revenue from expenditure in Mozambique was been collected from import duties and excise consumption taxes (primarily tobacco, beer, and alcohol) (Byiers 2005). Large agricultural and agro-industrial firms such as the Entreposto Group, Madal, Boror, and Sena Sugar Estates dominated production of many export crops and imported a range of materials from vehicles to electrical parts (Pitcher, 28-29). These powerful companies thus provided significant volumes of government revenue through trade tariffs in the late colonial period. In addition, from 1968, the colonial tax regime imposed a fixed proportional rate on industrial tax contributions; this tax also granted incentives and exemptions to private property and capital incomes (Byiers 2005).

The colonial state also taxed African Mozambicans in both urban and rural areas (Pitcher, 31). After the reform of the *prazo* system in Mozambique in 1919, all the people who lived in these large landed estates had to pay tax in labour (Clarence-Smith 1985, 139). Until 1961, individual taxation was closely related to forced labour; taxes compelled people to work in mines and on farms and contributed to increased crop production. The colonial income tax system levied particularly high taxes on earnings from employment, professional salaries, and earnings from small-scale agriculture and forestry. The association between taxation and forced labour was a continued source of dissent and resistance into the middle of the twentieth century through peasant movements and more coordinated efforts in the capitals. Salazar's introduction of the cotton tax in 1946 on already low prices squeezed producers; Clarence-Smith writes that "the success of the liberation movement in the north of the territory owed a great deal to memories of the hated cotton system" (184).

Reflecting disparities in production and industrialisation between the more developed south and rest of the country, colonial revenue collection was geographically skewed (Mkandawire 2010, 6). Of state institutions remaining in the wake of liberation warfare and decolonisation, Mozambique inherited dysfunctional extractive infrastructure featuring a regressive and discriminatory benefits regime designed to support the colonial economy as well as the metropole. The colonial tax regime had been characterised by heavy burdens on employment and a distorted incentives structure, which reinforced the negative effects of Portuguese extractive capitalism on social justice (Ibraimo 2000; Rêgo 2010; Fjeldstad et al. 2012).

According to Frelimo discourse, "on the eve of independence, the prevailing tax system was essentially…designed to respond to the needs of the Portuguese state. Expenditures were minimal compared to the period before independence, when the objective was to respond to the needs of the Portuguese state" (ATM 2012, 107). However, "the system was incapable of generating sufficient revenues to cover budget costs" (Author interviews, ATM officials, Maputo 2012).

Post-revolutionary context

At independence Frelimo, Mozambique's most influential and unified anti-colonial movement, gained recognition as the country's sole legitimate government. Consolidating strategy developed during the liberation struggle, the party commenced a national development plan inspired by Marxist-Leninist ideology. Frelimo's socialist programme for construction of the new state, policies, and instruments of control and planning continually associated economic "modernisation" with the party-state's centralised planning (Hall and Young 1994; Newitt 2002). This strategy nationalised previously privately owned land and services and made provisions for comprehensive social programmes focused on establishing free education and health services (Chabal 2002; Hanlon and Smart 2008).

A post-revolutionary spirit of national liberation and enthusiasm for the government's socialist development framework characterised the immediate post-independence period. However, the period of peace following the anti-colonial struggle proved interstitial, as civil war broke out between Frelimo and the Renamo, the Rhodesian-backed insurgency created to destabilise the newly independent government of Mozambique, in 1976. Frelimo's support for liberation movements in neighbouring countries – ANC in South Africa and ZANU in Rhodesia – was seen as threatening by their white-ruled governments. Ian Smith's intelligence service created Renamo as a counter-insurgency movement to gather intelligence on the new Frelimo government as well as on the activities of the Zimbabwe African National Liberation Army (ZANU's military wing) in Mozambique. By 1977, Renamo gained cohesion around the mission to "sabotage, to disrupt the population and to disrupt the economy" (Vines 1996, 16).

Both Frelimo's ambitious socialist development plans and the intensification of conflict created financial imperatives for domestic revenue mobilisation. Reforming the colonial tax system formed a pillar of Frelimo's socialist statebuilding plan, but bureaucrats faced heavy obstacles.

The context in which Frelimo began to implement centralised planning was characterised by economic fracture following one of the most destructive liberation wars in Africa and the escalation of internal conflict. Mozambique gained independence as an exceptionally poor and underdeveloped country, and the sudden, mass exodus of Portuguese settlers at decolonisation exacerbated decline. After decolonisation only 20,000 of the original population of 250,000 Portuguese nationals remained within the territory. This far-reaching human capital flight resulted in a significant reduction of skilled personnel, widespread abandonment of private businesses, and the halting of industrialisation (Isaacman and Isaacman 1983; Kyle 1991).

Mozambique's extractive apparatus swiftly eroded with the large-scale emigration of trained public sector workers. According to the Mozambique Revenue Authority, (*Autoridade Tributária de Moçambique*, ATM) the "mass exit of qualified staff from the country weakened the tax administration and facilitated evasion during the post-independence period" (108). The structural complexity of colonial legislation and procedures exacerbated the effect of capacity shortages to weaken fiscal administration, as newly inserted technocrats struggled to make sense of the regime. Moreover, the sabotage of enterprises and productive assets by their former owners resulted in a dramatic drop in production, which in turn narrowed the tax base and diminished revenue levels.

Frelimo set out independent Mozambique's first fiscal policy at the Third Party Congress in 1977 and in Resolution 5/77 of that year, which "made clear that the economic model to follow was that of centralised planning" (ATM, 108). Recommendations from the Central Committee's report on tax reform were written into law in 1978, which stated:

> "This is a complex task, the realisation of which we cannot dissociate from the successes, on various fronts, of the revolutionary process. The gains of the revolution… allow movement forward towards radical transformation of the tax system while at the same time creating conditions for effective mobilisation of the people" (Law 2/78).[8]

[8] My translations except where noted.

Frelimo's rhetoric in the period between 1975 and 1978 makes clear that reforms were also driven by a desire to simplify and correct biases inherited from the Portuguese-era tax system, as well as to overturn the association of taxes with colonial exploitation (Frelimo 1977; ATM 2012). For example, Law 2/78 states:

> "At once, the incorrect idea of 'tax,' impressed through the repressive nature of the colonial fiscal system – capitalism – remains in our society, [and] must be destroyed. Taxation constituted one of the main tools that the colonial administration had to reinforce its domination, consolidate feudal structures, and recruitment of forced labour, and it was a means of accumulation and exploitation for the privileged minority. In the Popular Democratic State, by contrast, tax is a way of materialising the duty of every citizen to contribute according to their abilities to fund the programmes of the Popular State in order to create the conditions for the transition to Socialism" (Law 2/78).

Frelimo's commitment to a socialist development strategy was manifest in the content and discourse surrounding these measures. Phrases such as the objective to "aggravate the tax burden on corporate profits" and "eliminate the accumulation of capital in businesses" (ATM, 108) were written into legislation into the late 1970s. Similarly, Frelimo leadership emphasised the "the necessity of revolutionising the fiscal system in order to turn it into an effective instrument of guaranteeing the direction of the economy by the state" with a plan for "a new fiscal policy that makes the interests of the working classes a priority" (Frelimo 1977; Law 2/78). The revisions adopted during this period aimed to "fight capitalism" and impose a "burden on corporate profits…and financial surpluses…with the purpose of redirecting the funds raised to the so-called socialist sector (state enterprises, farms and stores of the people)" (ATM, 108).

Tax reforms under socialism: 1975-1984

Frelimo's first reforms to the revenue collection system were passed into law in 1978, which included the introduction of more progressive taxes and elimination of some of the inequalities built into the colonial system. In addition, the legislation stipulated that the post-independent tax system should reduce the complexity of the former Portuguese apparatus and should include measures to combat the loss of particular revenue streams in light of a changed economic environment (Decree 4/78; Resolution 5/77).

A significant element of the first wave of reforms was the introduction of a National Reconstruction Tax (*Imposto de Reconstrução Nacional*, Law No. 2/78). A comprehensive progressive tax on income, it aimed to reduce both the complexity and heavy burdens of income taxes in the previous system. This tax was applied to monthly salaries, starting at rates of two per cent (a fixed rate for all public sector salaries) up to a cap of 60 per cent on annual income. Rates for non-household agriculture and peasant farming cooperative incomes were between four and eight per cent on, while the Minister of Finance determined obligations for non-organised peasant work.

The second main element during this period was the introduction of the Circulation Tax (*Imposto de Circulação*, Law No. 3/78), which took the essential form of a turnover tax.[9] At this time, revenue collection on both state and private enterprise incomes was declining due to the combined effects of the large-scale abandonment of businesses by European settlers and the bottom-line impacts of the disintegration of the previous colonial capitalist system (Byiers 2005, 7). The Circulation Tax was levied at a flat rate of three per cent for all companies run by the

[9] Turnover taxes in Mozambique are typically applied ad valorem to gross revenues at the transaction stage to capture intermediate goods

state or as public-private or cooperative ventures, while rates for other firms were set separately.

Building on the successful implementation of the National Reconstruction Tax, Frelimo then restructured the Complementary Tax (*Imposto Complementar*, Decree 4/78), which had previously been collected all incomes but represented minimal revenue collection (0.3 per cent of GDP in 1978), into a targeted tax on capital and non-salary incomes and private property. While this measure eliminated colonial-era exemptions and incentives on industrial earnings, it also granted exemptions for Frelimo and state-related activities. Other notable reforms introduced during this period include the replacement of the Capital Tax with a revised 'Industrial Contribution' (*Contribuição Industrial*) on company margins in 1982. Finally, the government revised the Industrial Contribution to be levied as progressive tax, rather than the fixed proportional rate that had been in force since 1968 (Byiers, 11-13).

In sum, Frelimo's primary intentions during this period were to abrogate the more perverse elements of the colonial tax system, simplify revenue collection processes and policy, and mobilise adequate public funds to finance its ambitious development programmes. The reforms adopted during centralised planning also merged the various piecemeal taxes on income on labour to make the system more progressive and turned industrial and complementary contributions into more effective corrective taxes.

3.3. War economy and transition to capitalism: 1985-1994

This section first establishes the origins of Frelimo's abandonment of socialism and transition towards a market economy in the escalation of civil war. It introduces the themes of a high degree of external interference, large-scale foreign aid, and the conditions of structural adjustment as the major political-economic consequences of transition, and the factors that had the greatest bearing on taxation during this period.

The second part then addresses the question of how transition towards capitalism impacted the revenue collection system, both in terms of the content of policies and decision-making environment. Through examining tax reforms undertaken between Mozambique's accession to the World Bank and IMF in 1984 through the peace process, the discussion asserts that integration into a donor-driven development model undermined the extractive apparatus by narrowing the tax base and increasing complexity.

Origins of wartime economic transition

The intensification of warfare in the early 1980s precipitated another major shift in Frelimo's statebuilding strategy. When Rhodesia became Zimbabwe in 1980, South African military intelligence assumed sponsorship of Renamo. Civil war intensified rapidly and dramatically with South Africa's apartheid regime supporting Renamo as a tool of terrorism and destruction in its "Total Onslaught" strategy. This transition marked the beginning of the "war of destabilisation" in Mozambique, during which Cold War rivalries compounded regional dynamics to exacerbate the conflict, with the United States and its allies supporting the South African government's campaign against Frelimo's socialist regime (Vines 1991; Geffray 1991; Minter 1994).

As civil war escalated, Mozambique faced economic collapse. Increasing interest rates and declining exports exacerbated the crisis, and average household consumption plummeted from $268 in 1981 to $176 by 1985[10] (World Bank 2014). Bereft of resources to fund an amplified military effort against Renamo, Frelimo sought international assistance and was eager to gain the United States as an ally to end Western support of South Africa's destabilisation campaign.[11]

In exchange, the United States and its allies demanded a "turn towards the West" and definitive termination of the relationships Frelimo had built with China, Cuba, the Soviet Union, and other Eastern Bloc countries after independence (Hanlon and Smart 2008). After signing the successful non-aggression Nkomati Accord with the apartheid South African government, Frelimo joined the IMF and World Bank in 1984, marking the beginning of large-scale international aid inflows to Mozambique (Hanlon 1996; Newitt 2002; Mhone 1992).

As Table 1 demonstrates, Mozambique received relatively minimal foreign aid before independence, averaging about $2 million a year between 1960 and 1974. Aid flows increased steadily in the early 1980s and accelerated in 1984, reaching a peak of $1.46 billion in 1992.

[10] Household final consumption per capita (constant 2005 USD).
[11] Notably, Renamo set up offices in Washington, DC, to lobby for a similar degree of support enjoyed by UNITA.

Table 3.1: **Foreign aid to Mozambique, 1960-1994** (current US$ millions, annual averages)

Time period	1960-1974	1975-1980	1981-1986	1987-1994
Net annual ODA	1.99	97.51	253.64	1,035.45

Source: World Bank 2012. Total net official development assistance and official aid (ODA) received by Mozambique.

The tremendous influx of international aid entailed several conditions in addition to a reorientation to the West. First, donors demanded a shift towards capitalism and abandonment of socialism. Second, the United States required that Mozambique reverse its policy blocking international non-governmental organisations. Five years later there were 180 INGOs operating in the country. Third, Mozambique was compelled to adopt the voguish structural adjustment programmes (SAP), part of the Breton Woods institutions' "Washington Consensus" formula for economic development and integration into global market capitalism (Hanlon 1991, 207; Hanlon and Smart 9-12; Wuyts 1996). The mid-1980s thus marked the ending of Frelimo's effort to construct a socialist state, the party's identification as a Marxist-Leninist vanguard, and the previously indubitable association of economic modernisation with the expansion of centralised planning (Bowen 1994, 144; Hall and Young 1994, 95-96).

Government officials and analysts interviewed cited economic decline as the central driver of this transition. According to senior officials in the Ministry of Finance, the "deepening conflict, which grew more intense each year, dramatically narrowed the tax base." Frelimo elites indicated in interviews that with the intensification of war, it became clear that "the socialist economy was ineffective in meeting the state's needs for development" (Author interviews, ATM and Ministry of Finance, Maputo, 2012, 2013).

After 1980, the intensified conflict destroyed infrastructure, drastically curtailed mobility throughout the country, and cut aggregate output by nearly a third (Kyle 1991, 637; Hanlon 1991, 28). The global oil crisis and natural disasters (severe floods in 1977-1978 followed by acute drought in 1981) further exacerbated the crisis, while Mozambique's non-acceptance to Comecon (the Eastern-bloc Council for Mutual Economic Assistance) critically circumscribed the state's access to financing.

As Hanlon has documented (1991, 113-125; 1996), negotiations between the government and the IMF and World Bank over the types and extent of reforms were contentious as the Bretton Woods institutions refused to compromise on the explicit conditions surrounding membership and access to financing. For instance, by the early 1980s, Frelimo leadership had acknowledged the role of the market and advanced plans for a mixed economy soon after joining the Bretton Woods institutions in 1984. However, the institutions demanded the state's complete retreat from the economy. The World Bank was not satisfied with the government's broad economic recovery programme (*Programa de Reabilitação Económica*, PRE) of devaluation, deregulation, and price liberalisation, issuing the following briefing note in 1985:

> "Mozambique is also going to require increased cooperation and support from the international donor community. But the extent of assistance that can be expected will depend to a considerable extent on the perception that the Government is making bold and determined efforts to solve the country's problems… Adoption of a comprehensive programme would serve as a convincing demonstration of the Government's willingness to undertake reforms to revive production... This would almost certainly improve the prospects for inflows of concessional aid, both from the Bank and other donors. It could also provide the basis for regularisation of Mozambique's external debt situation, facilitating the resumption of normal commercial credit relationships" (World Bank 1985, quoted in Hanlon 1991).

The Bank's position, in other words, was that critical aid and debt restructuring was subject to the government's unconditional compliance to the terms set by the Bank and the IMF. On two other occasions, donors exercised a heavy hand by withholding food aid in 1983 during an extreme drought and in 1986 at the height of the civil war, which resulted in the government's accession to the IMF and the World Bank and acceptance of structural adjustment, respectively. In this context, Hanlon asserts: "Truly, Mozambique had no choice" (1991, 117).

The majority of analyses, both academic and journalistic, from this period have emphasised the dominance of external forces – primarily the heightened threat from Renamo, as well as natural disasters and global economic shocks – in catalysing the collapse of the socialist state. Frelimo's reports from the period similarly emphasised these factors rather than internal variables (Pitcher 2002, 103).

However, it is also important to note that on-going expenditures on costly social programmes and economic mismanagement contributed to the decline. As Pitcher argues, "ultimately, the effects of a repressive authoritarianism coupled with an intractable war brought about the conditions for a transition to a market economy and a nominally liberal democracy" (2002, 106). She argues, "while international processes and actors have affected the timing, direction, and intensity of outcomes" of transition in Mozambique, "they have not determined those outcomes" (14). Rather, it was "the persistence of colonial practices and relations, the endurance of institutions of power, not the ubiquity of international forces" (xii) that account for transition processes and their outcomes.

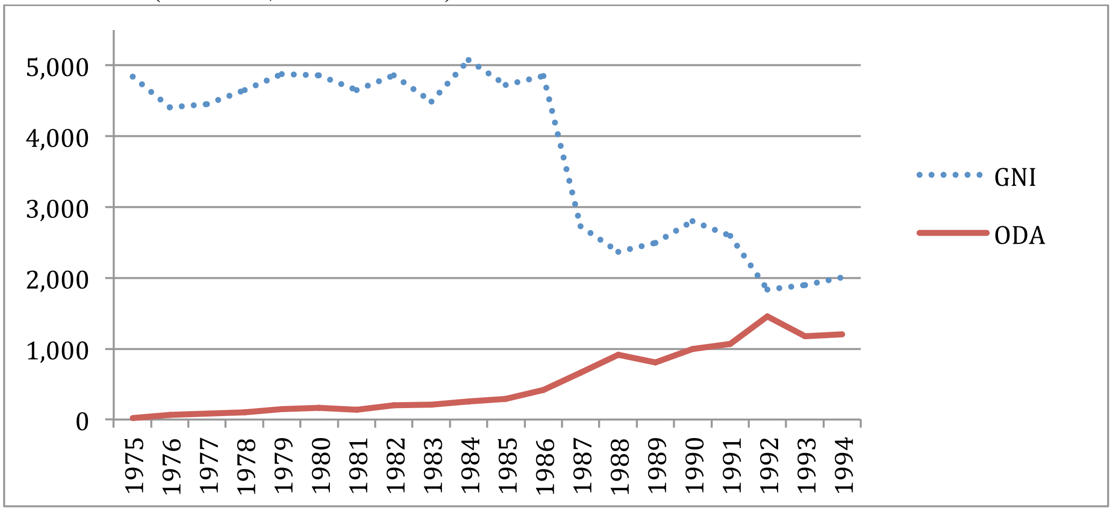
Moreover, economic advisors and officials party to the transition consider Frelimo's decision to abandon Marxism, adopt market capitalism, and embrace the great associated upheavals was the outcome of "both internal and external forces" (Author interviews, SECO, UP, Maputo, 2012). Later, Frelimo, in a 2006 report, Frelimo recognised "the ineffectiveness of the centrally-planned system in promoting economic development" (ATM, 109). A report published by the Ministry of Planning and Development states that "recognising the need for greater economic flexibility and more reliance on market forces and also motivated by a need for external finance, Mozambique joined the IMF and World Bank in 1984" (Byiers, 9).

Structural adjustment involved the state's total retreat from the economy, privatisation, dramatic cuts in government expenditure, currency devaluation, deregulation, and other free market policies to liberalise trade, end subsidies, and attract foreign investment. The 1987 SAP was intended to support the PRE, nominally developed by the Mozambican government but designed with close IMF guidance. The PRE constituted a broad programme of liberalisation, monetary restriction, exchange rate manipulation, and fiscal adjustment and aimed to turn around the economic decline of the first half of the decade (during which GDP was reduced by nearly a fourth) (IMF 2004, 5).

The first round of adjustment in 1987 restrained inflation and stabilised the currency and led to increased industrial production and economic growth. The IMF was not satisfied with the extent of reforms, however, and imposed a more stringent round with the Enhanced Structural Adjustment Programme (ESAP) in 1991, which further increased external influence on Mozambique's economic policy. The ESAP involved harsh caps on credit, drastic cuts in government expenditure including public services, and further privatisations. It was after several years into the twenty-first century that Mozambique's economy began to recover from the profound damage wrought by conflict and structural adjustment (Hanlon and Smart 2008; Brück 1997).

Foreign aid flows increased significantly beginning in 1984, accelerating through the first round of structural adjustment in 1987 and peaking during the peace process. Chart 1 depicts the steady increase of foreign aid relative to the rapid decline of GNI during the war and peace periods, with the values nearly converging by the end of the war in 1992.

Chart 3.1: Gross National Income and Net Overseas Development Assistance, 1975-1994 (millions, current USD)



Source: World Bank 2012

Several aspects of this transition are important to highlight in terms of their potential implications for revenue collection processes. First, as a result of Mozambique's integration into the global capitalist system and the introduction of large-scale foreign aid, donors and international financial institutions shifted the state's socio-economic base. Second, the commanding constellation of power shifted from the party-state bureaucracy under socialism (which itself followed the liberation-era basis in the peasantry) to the privately-owned, profit-driven sector (Bowen, 143-4). Third, Mozambique's adoption of a donor-driven growth model based on the Washington Consensus framework facilitated an increasingly dominant role for external actors and financing, altering the government's structure of incentives. These factors will be discussed in more detail in the next section, which examines how revenue collection processes were adapted to support the transition.

Revenue collection under structural adjustment: 1985-1993

Transition to market capitalism and the imperatives of structural adjustment required attendant reforms to revenue collection processes, while the increasing role of external actors in Mozambique's economic policy and budgeting introduced new elements in tax policy design and implementation. In the space of ten years, policymakers within the government and external advisers implemented a second substantial overhaul of the revenue collection system, refining not just tax policy but also the underpinnings of the fiscal apparatus in its entirety. Continuing analysis of shifts in revenue collection processes from the socialist period discussed in section 3.2, this discussion addresses how Mozambique's transition towards a market economy and a donor-driven development model influenced the tax system.

The reforms adopted during the second part of the war reflect an increasingly dominant role of external actors as well as specific fiscal measures to support liberalisation and attract investment. For example, tax reforms introduced to support the PRE economic modernisation programme (Decree 20/88; Decree 24/88) reduced customs duties and granted additional tariff exemptions to promote foreign direct investment. The influence of transition is also evident in the legislation package that revised regulations on the Circulation Tax. Decree 1/87 stated that while the previous Circulation Tax aimed at "targeting only company profits indirectly…today, in practice and in general, it impacts the consumer uncontrollably." This measure raised rates from three per cent to ten per cent on retailers and five per cent on wholesalers; these increases covered both internal trading and imports and as a result had a waterfall effect. The decree also granted exemptions to certain small enterprises (measures which were justified by the administrative challenges of collecting revenues from small-scale trading).

Despite the language cautioning "uncontrollable" impacts on consumers, the same decree stipulates "the increase in the tax should not have a significant impact on general price levels, given that it is simply a way of correctly redistributing profits." This contradictory and confusing phrasing suggests multiple, competing interests and pressures in the policy-making process as a result of increasing external involvement (Byiers 11-12).

The 1987 Tax Law was the major piece of legislation passed during the first year of structural adjustment. This law states that the tax code that had been introduced in 1978 "consecrated the principles of social justice… and revealed itself to be effective in permitting, within the prevailing economic conditions of the time, the concentration of increasing amounts of resources in the state budget." However, the law states that by 1987 there was an accumulation of "huge legal and illegal profits…in the economy." The weakness this caused was exacerbated by a "strong focus on direct taxation of incomes," which rendered the tax structure insufficiently flexible to react adequately to shifts in the economy (Law 3/87; Byiers 2005). As such, the new law of 1987 represented a concerted effort to justify reversal from previous socialist-era fiscal reforms. The law set out measures to "renew and reinforce indirect taxes" and "refine the direct taxes on incomes in order to more effectively personalise the system, and reach higher incomes, in particular those from capital" (Law 3/87).

Reforms passed in relation to the 1987 Tax Law included the establishment of the 'Labour Income Tax' (*Imposto sobre Rendimentos de Trabalho*) in place of the National Reconstruction Tax, which became a poll tax. The Labour Income Tax, which essentially amounted to a proportional personal income tax, was introduced and applied progressively to professional incomes at either zero, six, or 15 per cent (with exemptions built in for salaries dispersed from the state budget as well to personnel of international institutions and diplomatic missions); and to incomes derived from small-scale agricultural, cooperative, or individual activities at a rate between one and 30 per cent set by the Minister of Finance. The law made further revisions to the Industrial Contribution Tax, which was expanded to cover state-owned companies (thus eliminating the former socialist system of directly transferring profits); the progressive rate was also replaced by a universal tax of 50 per cent on profits and 55 per cent on share earnings distributed by dividends or other options. The Tax Law also included more progressive alterations to the Complementary Tax, which became a surtax on overall and capital incomes at rates ranging from zero to 70 per cent, corresponding to eighteen brackets.

Implemented in 1990, the Enhanced Structural Adjustment programme built upon and consolidated reforms introduced with the PRE, particularly the extension of liberalisation on price controls. Fiscal reforms adopted to support this second round of structural adjustment included the motor vehicle ‘Compensation Tax’ (*Imposto de Compensação*) and the 1990 Special Fuel Tax (*Imposto Especial sobre Combustíveis*) on domestic consumption. In addition, the ESAP involved tariff reforms, including the abolition of individual import duties and a simplified tariff structure with maximum rates of 35 per cent. As such, these revisions continued the trend established after 1985 of refining tax policy to support market- and private sector-oriented growth.

The ESAP was in effect from 1990 until 1995 and continued to drive comprehensive price liberalisation, withdrawal of the state from the economy, and a fully market-driven exchange rate. As they had since 1987, on-going structural adjustment programmes further influenced taxation reform and capacity in

Mozambique through the end of the war and settlement negotiations that began in 1992. A significant part of legislation passed during this period was the Investment Law in 1993 (Law 3/93). Free market economic strategy is clearly built into this revision in tax policy, which stipulated ten objectives for the legal framework surrounding investments. These guiding principles can be grouped into four broader strategic areas: expanding human capital, advancing technology, attracting infrastructure investment, and enhancing balance of payments through import substitution as well as exports (Decree 14/93, later modified by Decree 26/96).

Corresponding to on-going and increasingly broad liberalisation, the Investment Law's objective was "a more open and objective economic policy which fosters greater participation and equal treatment of national and foreign investments" (Law 3/93). Essentially, this created a legal framework to provide guarantees and security for national and foreign investments, property rights and international remittances. Building on the previous tax laws of 1988 related to promoting foreign direct investment, the Investment Law included measures to provide broadened incentives and benefits schedule for taxes and customs duties. Undertaken during the wartime transition period, the package of reforms also included similarly liberalisation-driven revisions to the Industrial Contribution, reducing the tax from a universal rate of 50 per cent to between 35 and 45 per cent (IMF 2001).

Frelimo's strategies leading up to the introduction of the Investment Law in 1984, which was intended to attract foreign direct investment (FDI), is a good example of the party's efforts to court international actors and financing. The law had direct implications for taxation (detailed above in relation to the 1987 tax law), and imply the consequences of Frelimo's extraversion for tax, and its links to statebuilding. The decision to seek greater FDI involved an array of tax exemptions for both foreign capital and national investors (Pitcher 108; Decree 7/87 and 8/87), which skewed the revenue base in favour of specific businesses and economic actors.

3.4. Peace process: consolidating transition and the war economy

This section investigates how the negotiations and peace processes that took place between the end of the war in 1992 and Mozambique's first multi-party elections in October 1994 influenced the operation of conflict-driven political economic and fiscal dynamics. The analysis asserts that the peace process consolidated political processes and economic structures that emerged during the war. It assesses the main outcomes of the negotiations in order to identify factors that influenced taxation up until the settlement in 1994. A key objective of this discussion is to reflect on the implications of the war economy in order to assess their impact on revenue collection processes in the post-conflict period.

Peace and the war economy

As the Cold War and apartheid came to an end, regional and international support for insurgency warfare waned. By the early 1990s both Frelimo and Renamo faced declining external support and, bereft of resources, their leaders sought an end to hostilities (van den Bergh 2009, 31-33).

The "war-to-peace process of democratisation" was implemented alongside structural reforms to consolidate free market economics in Mozambique (Manning 2002). As Mozambique's shift to capitalism advanced in the last years of the war, the peace negotiations can be seen as a process that consolidated this economic transition that emerged as a direct result of conflict. Just as the peace process brought a lasting end to conflict through the demobilisation of 93,000 soldiers, it also reinforced the permanence of market capitalism and external influence in Mozambique's economy. In the words of Castel-Branco et al., "military demobilisation and political transition [were] accompanied by 'demobilising' the state's role in the economy" (2001, 1).

Frelimo managed a war economy for 17 years of civil war in order to mobilise resources to fund its security and military campaign against Renamo. Peace did not bring an end to the war economy; rather, it institutionalised the practices and strategies Frelimo developed during the war. As Manning argues, "establishing a lasting settlement in such cases means separating the main political players from their wartime sources of revenue and establishing new, mutually acceptable procedures for the allocation of resources. Where socioeconomic advancement has historically been tied to access to or control of the state, the situation is further complicated" (4). Rather than being forced to rebuild its resource extraction strategy through dialogue with its former enemy and new political opposition, or with society, Frelimo was allowed to continue to rely on the extractive processes that it developed to fund the war.

In addition to consolidating Frelimo's war economy in the post-war period, the settlement process also perpetuated external aspects of conflict-driven dynamics in Mozambique. Aid inflows reached new heights during Mozambique's peace process, peaking at $1.46 billion in 1992. Demobilisation was facilitated by an efficacious package that provided former combatants with two years' of salary and relocation to anywhere in Mozambique, the majority of which was financed by a $35.5 million UN fund. ONUMOZ, the UN peace-keeping and election-monitoring mission, was also responsible for the implementation of most of the key parts of the peace agreement (Alden 1995). Thus there was a tremendous degree of international involvement in the peace process that, together with a dramatic increase in aid and the ongoing role of Bretton Woods in determining development trajectory, formalised external influence in Mozambican economic policy.

On the other hand, while recognising the influence of external actors in the timing and intensity of transition, Pitcher's embeds these processes and their outcomes in Mozambican politics. She argues, "the relationship that has emerged between the state and the market is one that the participants have consciously negotiated and managed in a contested and unstable context. It is a political process with political consequences" (2002, 5).

Consolidating transition

Privatisation, as well as deregulation and liberalisation, formed a pillar economic transition. Privatisation is important in the context of the peace process because it "interacted with demobilisation and political transition since military officers, together with Frelimo and Renamo party members, were amongst the buyers of state assets. Private businessmen who had profited from the war economy also found a new outlet for their capital through privatisation" (Castel-Branco et al., 1). As such, the peace process resulted in the reinforcement of wartime power relations and the consequent unequal distribution of resources. The peace process also involved a high degree of informal bargaining between elites during post-conflict negotiations and the establishment of institutions that would govern post-war systems (Manning 2002). This is important to note because such practices that spanned the public/private and business/political spheres were not just consolidated as modes of behaviour but were integral to the institutions that they set up to govern post-conflict life in the public and private domains.

Pitcher argues that Frelimo and state officials “have been amongst the major beneficiaries of the sales of assets and co-participate in many joint-ventures” (20120, 155). The state and Frelimo have maintained a presence in almost every sector of the economy, from agriculture to telecommunications, electricity, and tourism. Pitcher argues that Frelimo’s strategic management of the privatisation process meant that the restructuring of Mozambique’s economic proceeded within limits set by the party and, as a result, strengthened the its power over the state.

Additionally, the establishment of institutions that would support sustainable growth in this key period did not support the formalisation of Mozambique’s transition to capitalism after the end of the war. As Hanlon and Mosse write, “the formal transition to multi-party democracy in 1994 was not accompanied by other mechanisms normal in democracies. There was no conflict of interest regulation, no asset reporting and other transparency requirements, and no reforms to the justice system. Thus the elite came to understand that ‘democracy’ and ‘capitalism’ meant that they were allowed to use their privileged positions to accumulate wealth unobserved” (2009, 4).

A major consequence of economic transition and the war itself was the acceleration of corruption. As Hanlon writes, “corruption came with war and a shift to a new form of capitalism” (Hanlon and Mosse 2009, 4). It is important to note that large-scale corruption only emerged during the war. Hanlon writes that the post-independence decade was characterised as an era of “exceptional integrity” in which “enthusiasm for building a new country created a collaborative spirit that militated against private enrichment.” Mozambique under Samora Machel’s leadership “was quite puritanical and any corruption was harshly punished…Corruption, misuse of state property, and commerce outside the tight state regulations was treated politically as actions against the state" (Hanlon and Mosse 2009, 3).

War created opportunities for corruption among military elites, while the conditions of structural adjustment, including privatisation and massive cuts to spending and public sector wages, led to growth in informal trading and overlap between government employees' public and private sector interests. These trends were exacerbated during the war by large-scale privatisations in Mozambique, pressured by Bretton Woods and donors beginning in the late 1980s. During the war, Frelimo members gained ownership of small firms, generals were given ownership of companies as an incentive to leave the army, and foreign companies took ownership of larger firms.

As the war intensified, Frelimo had attempted to control corruption and unofficial trading through strict regulation and other repressive policies. However, the intensification of the war made such control completely unfeasible. The government's measures to constrain illicit trading, unofficial markets, and fix prices failed. War corroded the government's ability to curb prevention. As Hanlon writes, "every war has profiteers," and civil war "inevitably created corruption among senior military figures" (Hanlon and Smart, 103; Hanlon 2009, 4).

Hanlon and Smart argue that the dramatic increase in foreign aid also contributed to this situation during the war. "The international community created the conditions – held open the door – that allowed Mozambicans to become corrupt…Mozambicans had hands out for bribes and hands in the pot of aid money. But donor attitudes made the corruption of Mozambican life much more rapid. They created a climate in which corruption became reasonable and safe; it seemed stupid to be honest" (Hanlon and Smart, 104).

Furthermore, the World Bank, IMF, and donors actively supported the privatisation process and tacitly endorsed the extremely opaque process through which ownership was transferred to the private sector. With minimal expectations of loan repayment from new business owners (many of them Frelimo elites), including money from World Bank loans and foreign aid, Bretton Woods practices made clear an attitude that “even a corrupt privatisation was better than state ownership.” Donors “were so anxious to promote Mozambique as a free-market aid success that they entered into a tacit agreement with the elite that corruption would be permitted so long as ‘market-friendly’ policies and all other donor demands were accepted and publicly praised” (Hanlon and Mosse 2009, 4). This context facilitated increased overlap between elites’ public and private interests as Frelimo leaders “used their state links for acquiring land (often left unused) and explicit rent-seeking through loans which were not repaid, commissions, and interests in foreign investments designed purely to receive a share of profits” (6).

Pitcher criticises accounts such as Hanlon’s that cast Mozambique “as the victim of orchestrated destabilisation…the history of Mozambique should not be written as a narrative about a poor dependent country overrun by imperialism, globalism, capitalism, or any other ‘ism’” (14). She writes, “the efforts of political elites to secure greater legitimacy, retain power, enhance state capabilities, and expand political influence have combined as well as clashed in the transition…The transition has reinforced and created tendencies towards factionalisation and fragmentation, and these tendencies may weaken, not strengthen, the prospects for democratic consolidation” (5).

Pitcher calls Mozambique’s post-independence process of political and economic change “transformative preservation.” Alluding to Frelimo’s strategy of political extraversion, she argues, “where the ruling party in power survives the transition, as it has in Mozambique, state institutions and party elites have taken advantage of restructuring to fashion new constituencies of supporters and to maintain some of the political and economic control they have exercised since independence in 1975” (6).

The implications of these processes of privatisation and limited institutionalisation on corruption in Mozambique were tremendous. Corruption not only increased in this period, but became further institutionalised in Mozambican public and private life. As le Billon argues, “the shift from a political economy of war to one of peace is in itself a propitious moment for corruption as new economic activities emerge in a context of persisting violence and a weak regulatory environment…People in power see peace as well as democratic elections as a political and economic risk and indulge in corruption. Using corruption to reward the winners and co-opt or punish the losers often follows war, but the resulting alliances can prove unstable.” In Mozambique’s peace process, “the unstable liberalisation undertaken in the context of a structural adjustment and a return to peace has created conditions for greater corruption” (2003, 423).

3.5. Revenue impacts: 1975-1994

This section examines fiscal data to address the question of the impact of wartime taxation processes on revenue levels. This analysis is based on the assumption that the level and type of revenues collected through taxation provide a tool to reflect on the capacity of the revenue apparatus. As such, these data are used to indicate the impact of taxation, and particularly the modes of revenue collection defined by each socialism and transition to capitalism, on extractive capacity.

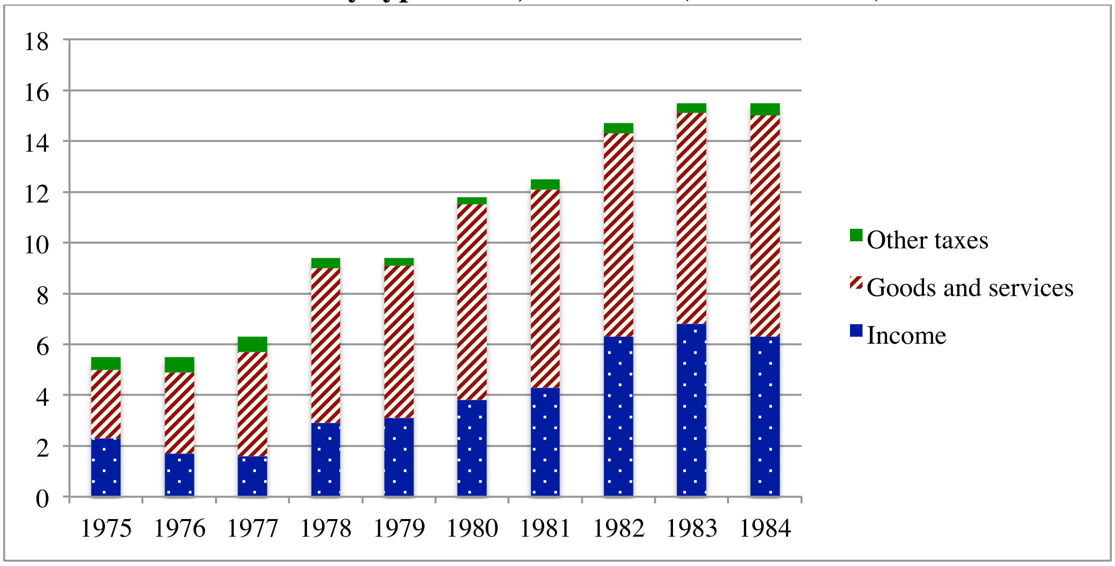
Revenue analysis

The data suggest three main findings: civil war did not catalyse increased taxation; transition to capitalism and the role of external development actors exerted greater influence on taxation than did the civil war itself, and introduced challenges to expanded taxation; and the peace process represents a missed opportunity to institutionalise more efficient and fairer taxation processes.

Frelimo's first reforms to establish a new fiscal regime in the post-independence period led to substantial increases of tax revenue, which had constituted only 5.75 per cent of GDP in 1975 (ATM 2012; 2013). In 1977, before the new measures were introduced, tax share (the standard fiscal metric of revenues as a proportion of GDP) was still only 6.01 per cent, but jumped to 8.69 per cent by 1978 and then reached 11.91 per cent in 1983.

Taxes on goods and services (consumption) constituted the largest share of the tax base during the post-independence period, averaging 59.28 per cent of fiscal revenues a year between 1975-1984, while income taxes constituted an annual average of 35.59 per cent (ATM 2012).

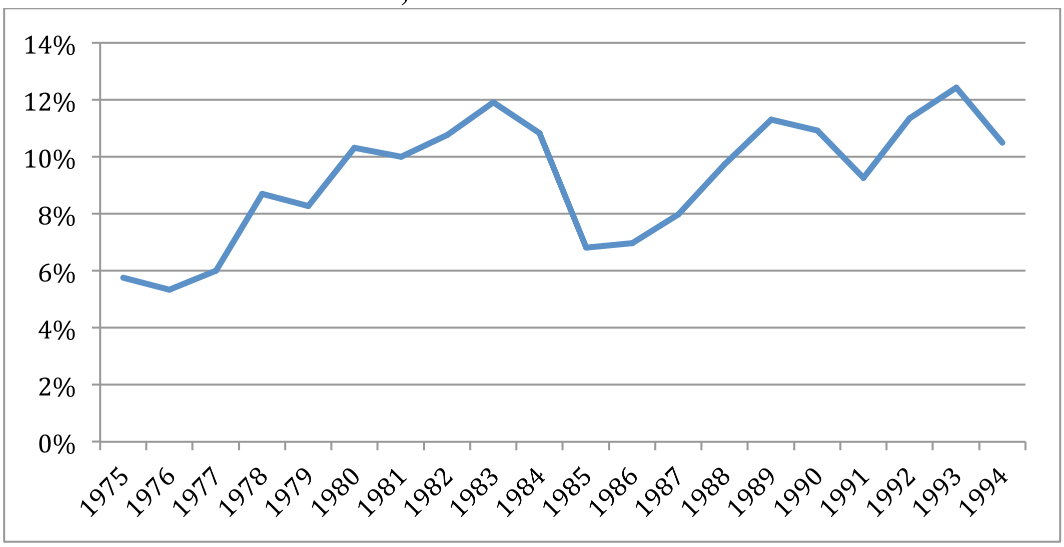
Chart 3.2: Tax revenue by type of tax, 1975-1984 (MTS millions)



Source: Data compiled by the author from ATM bulletins (2012, 2013).

However, as Chart 3 shows, this strong tax revenue growth was reversed in the mid-1980s, dipping slightly in 1984 and then dropping to under 10 per cent in 1985 and 1986.

Chart 3.3: Tax share of GDP, 1975-1994



Source: Tax data compiled by the author from ATM (2012, 2013); GDP data for 1975-9 is from IMF (2002) and for 1980-94 from ATM (2012).

This drop coincides with the escalation of violence in Mozambique because of South Africa's heightened support for Renamo and increased international involvement in the Cold War proxy conflict. The major implication of this data is that civil war did not have a catalytic effect on extractive capacity in Mozambique as bellicist and predatory theories would predict (Thies 2009; Tilly 1975; North 1981). Moreover, heightened threat levels did not result in greater tax collection. Intensified conflict destroyed infrastructure and drastically curtailed mobility throughout the country, which, combined with on-going expenditures on costly state social programmes and socialist mismanagement, contributed to marked economic decline. The devastation of warfare and national economic collapse thus dramatically circumscribed potential taxable income and extractive capacity.

The decline and fluctuations of revenues after 1983 reflects several factors, as noted by a discussion paper published in 2005 by the Ministry of Planning and Development, including "a varying tax base, variations in compliance control and administration, alterations in tax rates and exemptions" as well as the "economic crisis suffered as a result of a combination of the intensifying internal conflict in the early eighties, expensive socialist Government programmes and inappropriate economic policies" (Byiers, 4-5).

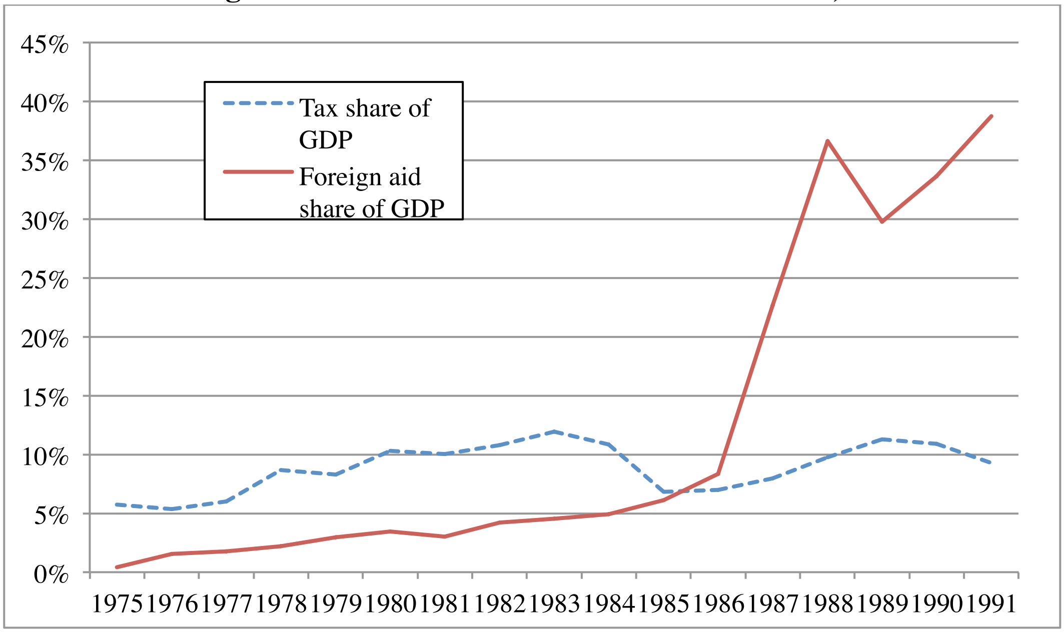
This period also represents the beginning of a period in which tax reforms were driven and carried out under the guidance of external actors to support neoliberal transition. The second major finding of the data is to suggest that transition to capitalism, and the attendant conditions, had a greater bearing on taxation than did the war.

Tarp et al. (2002) argue that the tax reforms during this period were introduced under significant influence from the IMF and the World Bank, which "exerted massive influence on the policymaking process." During this period of transition to market capitalism, it is important to note that economic growth in Mozambique was very low; in fact, real GDP decreased. This combination of tax expansion alongside weak growth is worth highlighting because it suggests potential unintended consequences of the Bretton Woods growth agenda and could indicate dynamics with further implications in the long term. The indication from this data is that transition to a new style of economic governance had a more consequential impact on taxation than war itself.

As such, it is also important to reflect on the data comparing tax share to foreign aid flows. As Chart 4 shows, Frelimo's successful expansion of tax revenues peaked before the influx of foreign aid began in the mid-1980s. The subsequent drop in tax share coincides with Mozambique's accession to the Bretton Woods institutions in 1984 and the rapid increase in large-scale foreign aid.

The analysis demonstrates a general inverse relationship between aid levels and tax take. While these trends plausibly reflect the natural and global macroeconomic disasters of the late 1970s and the combined consequences of intensified warfare and five years of economic mismanagement, it seems reasonable to suggest that the dramatic shifts in Frelimo's wartime economic and revenue-generation strategy in the early 1980s can account for fiscal fluctuations as well.

Chart 3.4: Foreign aid and fiscal revenues as a share of GDP, 1975-1991

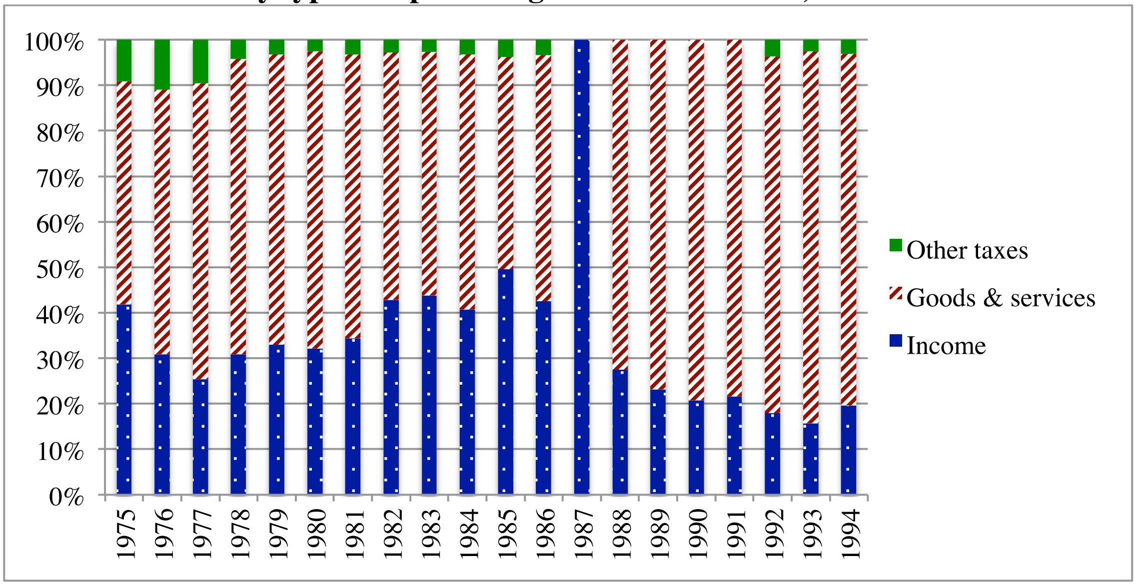


Source: Tax data compiled by the author from ATM (2012, 2013); GDP from ATM (2012); World Bank (2012); IMF (2001).

Between 1985 and 1991, tax revenues increased from 6.8 per cent to 9.26 per cent of GDP. However, it should be noted that during the period of intensified conflict and major wartime economic shifts, the government's extractive capacity was slow to recover from the dramatic fall in 1985 and did not reach 1983 levels again during this time.

Several factors account for this increase in revenues during the second part of the conflict. First, income taxes increased only slightly, from 1.9 to 2.3 per cent of GDP. This increase mostly reflected taxes on expenditure (increasing from 3.6 to 7.6 per cent of GDP), which was in turn due to doubled levels of collection through the Circulation Tax (higher tax levels and the cascade effect extended through the value chain, impacting consumers disproportionately). Increased tax share also reflects expanded collection of receipts on foreign trade, import taxes, and customs duties. This outcome is surprising given that reforms adopted during this time granted greater tariff exemptions (IMF 2001). The IMF's explanation is that expanded revenue collection was due to rising levels of domestic consumption, driven by the stabilising effects of liberalisation and structural adjustment, which cut inflation from 160 per cent to 35 per cent between 1987 and 1991 (IMF 2004). This point is reasonable in light of the Mozambican economy's heavy reliance on imports (and their link to consumption). At the same time, these results could also be explained by the depreciation of the real exchange rate, which would have augmented the relative size of the import taxation base compared to GDP (Byiers, 12).

Chart 3.5: Taxes by type as a percentage of fiscal revenues, 1975-1994



Source: Data compiled by the author from ATM (2012) absolute figures of tax collection by type.

The tax reforms adopted during the peace process reversed the trend of slightly increased revenue collection during the second part of the conflict. Tax share declined from 11.36 per cent of GDP in 1992 per cent to 10.49 per cent in 1994 (later dropping to 8.72 per cent by 1996). As such, the revenue growth that had resulted from the previous set of reforms, in 1987, was partially reversed, in spite of the stability brought by peace. As Byiers argues, "despite the peace accords after seventeen years of armed conflict, positive economic growth and lower inflation, this was not reflected in revenues to the Government. Taxes on incomes remained relatively low and a proliferation of ad-hoc benefits on expenditure taxes, possibly resulting from the introduction of the Investment Law and its ‘specific incentives,’ led to an overall decline in revenues” (14-15). An IMF report notes that these reductions were caused by the introduction of tax policies in 1993 that “aimed at reducing the tax burden on companies and individuals” and administrative “deterioration” (Varsano et al. 2006, 14). Furthermore, both customs duties and circulation receipts declined, possibly due to inadequate customs control as well as the revenues lost due to exemptions. It is also reasonable to assert from the data that this decline resulted in the room for exploitation (or simply the implementation) of “specific incentives” built into the Investment Law that aimed to stimulate and attract investment. As in previous periods, income taxes had a small role in revenue collection during this period, accounting for only about two per cent of GDP.

While the international community promoted privatisation and promotion of market-friendly policy vigorously in the transition period, donors paid much less attention to reforming the tax system, which was manifestly “haemorrhaging with evasion, corruption, and maladministration” (Sachs 1996, 20). The peace process thus represents a missed opportunity for the establishment of enhanced tax systems and other structures to realise a greater revenue stream and enhancing public financial management to increase efficient collection and allocation of these revenues. Such reform measures involve sustained effort to build institutions and commitment of time and investment, and these tasks were “underemphasised by the donors” in this period. Privatisation, on the other hand, consumes few resources and allows donors to report on their “impact” in the short term with privatisation numbers. Lamentably, the establishment of institutions to enhance the state’s extractive capacity and tax revenue levels did not occur during peace (Castel-Branco et al. 2001, 5). In addition, the data indicate that a spike in aid flows accompanied the dip in tax share during the peace process during this period.

The data indicate increased revenue collection during this period and reflect Frelimo's need to raise revenues to fund the war and development programmes. The types of taxes collected also reflect Frelimo's adoption of a socialist statebuilding strategy. The "income" and "goods and services" categories of data reflect new types of income, consumption, and production taxes introduced to support centralised planning and the state-run economy. Taxation therefore reflects the regime's statebuilding vision and served as a tool to implement it.

The categories reflect the types of taxes in the tax base so are meaningful as indicators of the relationship between tax and statebuilding during this period. Collection of taxes on income had been declining prior to the 1978 reforms, but the new measures did not reverse the trend. However, expenditure taxes (represented by "goods and services"), which before during the late colonial period had primarily been collected through excise duties (tobacco, beer, etc.), increased during this period and reflect a broader base. The Circulation tax introduced during this period is mainly responsible for this trend, and the broadening of the tax base can be interpreted as a reflection both of the state's increased capacity to tax different sectors and engagement with a broader section of taxpayers. Declining levels of taxes in the "income" category is meaningful in terms the question of how the civil war impacted taxation, as they reflect the destruction of infrastructure and limitations of mobility.

3.6. Conclusion

This chapter has examined the nature of revenue collection processes during the civil war in Mozambique, analysed drivers of change in tax policy and procedures, and investigated their impacts on extractive capacity. The analysis challenged the conventional idea that war or the threat of violence leads to increased taxation levels, resulting in greater extractive capacity. Data was used to support the alternative hypothesis that war did not catalyse increased taxation or the establishment of a stronger tax system because of the availability of foreign aid, which functioned as an autonomous source of revenue. In addition, the civil war devastated the economy, and the subsequent collapse severely circumscribed potential taxable income and extractive capacity. Moreover, the data suggest that transition to capitalism had a more consequential impact on taxation than war itself.

Large-scale aid income replaced the need for mobilising revenues through domestic taxation, while disincentivising the politically challenging task of fiscal-institutional reform. In addition, the extractive practices implemented in partnership with the IMF and World Bank – tax reforms to support transition to a market economy and structural adjustment – undermined the extractive apparatus by skewing the tax system and introducing incentives and biases. Moreover, Frelimo's international partners neglected measures to build institutions in the tax apparatus (as they did in general with the transition multi-party politics and capitalism) for most of the war and peace period. Given that the impacts of donors and foreign aid on taxation has received limited attention, these findings serve as important conclusions regarding the role of international assistance on statebuilding.

Kaldor (1963) argues that the central determining factor of whether a state's economy can transition from external dependence to self-sufficiency is the extent to which it develops a system of structures and practices that allow it to collect domestic taxes that can replace reliance on aid and foreign finance. However, because international aid and free market agendas inhibited robust reform and improvement of the state's extractive institutions, Mozambique confronted a paradoxical situation in 1994.

While the discussion levelled substantive criticism of Bretton Woods policies implemented in Mozambique in relation to structural adjustment, political agency also explains the shifts and consequences of revenue collection during the war. The debate over ownership (Castel-Branco 2001; Hanlon and Smart 2008) in Mozambican politics in the context of high degrees of international interference highlights Frelimo's ultimate direction over decision-making during this period. As such, Frelimo's policies reflect strategic management of international actors in order to gain the most from their involvement. In other words, while Frelimo was in desperate straights when first courting the West, the decisions and policies implemented during the war and peace process periods of pervasive donor periods should be considered the regime's own.

For example, just as the peace process can be viewed as a missed opportunity for donors and the IMF to implement measures to meaningfully enhance and improve the tax system, it also reflects the Mozambican government's attitudes and capacity for fiscal reform. On one hand, due to the dominance of external actors in fiscal and economic policy and the lack of institution building during the war and peace processes, the Mozambican government had neither the policymaking autonomy nor the institutional capacity to undertake reforms that would strengthen the tax system.

But on the other hand, Frelimo did not take advantage of the dramatic changes and opportunities represented by the peace process because it did not face a need to undertake the politically challenging task of tax reform to ensure continued state revenue streams for post-conflict life in Mozambique.

This idea raises a new concept of tax as a key element of the peace dividend, a theme that will be addressed further in the conclusion. Chapter 5 continues the analysis presented above to the post-conflict period, and investigates the bearings of processes that were consolidated through the war and peace processes on taxation into the twenty-first century.

Chapter 4
Wartime extraction: Angola 1975-2002

4.1. Introduction

This chapter examines revenue collection processes in Angola during the civil war that began soon after independence and concluded 26 years later in 2002. The case study is organised around the same primary question as the analysis of Mozambique presented in Chapter 3, addressing here the impact of civil war on extractive capacity in Angola. Like the Mozambican civil war case, the Angolan experience runs counter to the bellicist hypothesis that warfare leads to increased revenue collection and the establishment of an efficient broad-based domestic tax system. This chapter similarly broadens the scope of analysis of the impact of conflict on revenue collection to the operation of the war economy. Original statistical, interview, and legislative data are used to investigate the bearing of wartime shifts in political and economic policy on taxation, and to demonstrate that tax collection was not correlated with threat levels.

The chapter traces the development of the MPLA's strategy for mobilising resources during the war in parallel with changes to the tax system. The MPLA's strategy to expand the oil sector and consolidate its control over both the sector and the state was the central element of its war economy, and analysis focuses on how these dynamics influenced extractive capacity during the conflict. However, unlike

Frelimo, the MPLA made limited reforms to the tax system during the war. The chapter argues that the MPLA did not face an imperative to raise domestic revenues through taxation of a wide domestic base due to Angola's enormous natural resources wealth.

The chapter demonstrates that the oil tax system became the MPLA's central conduit for collecting revenues from petroleum activities during the civil war. This analysis builds on previous research focused on the implications of oil for the Angolan civil war and statebuilding processes by examining its impact on the tax system. It argues that Angola's oil wealth provided an autonomous revenue stream that, as well as funding the war and bolstering the ruling elite's power, replaced the need for broad based taxation. Oil disincentivised tax reform because ensuring a continued revenue stream did not rely on broad based and equitable taxation but rather the strategic management of the country's natural resources and the state's interests in them. Further, the case research argues natural resource wealth undermined extractive capacity because it narrowed the tax base and skewed the structure and capacity of the revenue collection system towards collecting receipts from oil to the neglect of other sectors.

Moreover, oil functioned as an autonomous revenue stream that separated state finances from society and inhibited the leverage of international actors to pressure for tax reform. As such, the chapter develops a thematic argument in contrast to the Mozambican case based around the effect of oil wealth to insulate Angola from external interference.[12]

[12] External actors provided a decisive impetus for tax reform in the Mozambican and other Southern African cases such as Zambia and Tanzania, both by providing a framework and encouraging reform by tying it to aid.

The chapter is organised as follows. The second section assesses the post-liberation development of the MPLA's war economy, focusing on two central elements: centralised planning and expanding income derived from hydrocarbon exploitation. Section 4.3. examines revenue collection processes between 1975 and 1990, marking the first half of the conflict and the MPLA's socialist development strategy. It assesses the impact of each war, the socialist regime, and oil on the extractive apparatus by tracing the content of reforms and their impacts on revenues. The research argues that the MPLA did not face an imperative to mobilise a large volume of revenues through domestic extraction due to the availability of oil.

The next two sections continue this analysis in to the second half of the conflict, between 1991 and 2002. Section 4.4. discusses the drivers and political dynamics underlying the transition to capitalism and trend of increasing oil dependency. This discussion identifies salient features of transition and increasing oil dependency in order to determine the impact of this period of the war economy on taxation. The fifth section then evaluates the tax reforms undertaken during this period and their impacts on revenues and extractive capacity. This section pulls together insights from the Angola wartime case to argue that the MPLA's oil-based war economy undermined the revenue base and skewed the tax system during the conflict. The final section provides a summative conclusion of the case study.

Data collection, sources, and labels

Because there are currently no existing databases containing tax statistics or fiscal legislation for Angola across the period between 1975 and 2002, the tax data presented here was collected from numerous government sources in Angola. The goal of collecting statistics to build a continuous dataset across the postcolonial period required persistent effort during fieldwork conducted in Luanda between April and June 2013. The Angolan research environment is notoriously challenging; officials initially denied requests for meetings and information and later repeatedly said that the relevant data did not exist, was stolen during the war, or perished in a fire in the Ministry of Finance. Relationships cultivated with librarians and mid-level officials at the Ministry of Finance, Ministry of Planning, National Statistics Institute, National Library, and National Press eventually yielded results. The raw material consists of photocopies of statistical bulletins, hundreds of photographs of these where photocopying was prohibited, and copies of government publications intended for public consumption.

The source of all tax data presented is government publications from the government offices mentioned above and (OGEs). The years between 1980-1987 are the only exception; tax data for this period were located in a confidential report for the government prepared by an UNDP/World Bank mission to Angola found in the Ministry of Planning (though the report cites the Ministry of Finance as the source). GDP statistics for this period were generally included in the same documents as the tax data; where they were not, the analysis uses IMF or World Bank figures that most closely match the currency and price standards used by the government.

The relationship between data collected from the government and published by the international financial institutions and national accounts is not always clear. For the years that data is available from the IFIs, the statistics do not always match government information. A preliminary stage of data analysis compared government statistics with those provided by the IFIs, and in cases where there are severe discrepancies the data is omitted or flagged in the text.

The tax data are presented in categories organised by type of tax. The first major division is between oil and non-oil taxes. The oil category includes all taxes, transfers, and obligatory payments from petroleum activities. The second major division is between types of non-oil taxes. For the period between 1975 and 2002, labels of types of taxes denote:

- Taxes: all compulsory revenues transferred to the Angolan government for public purposes (excluding aid, loans, and spending)
- Oil taxes: oil income taxes, oil transaction tax, royalties (petroleum production tax), and transfers from Sonangol
- Income taxes: profit transfers from public enterprises, corporate income taxes, individual income taxes, capital gains tax, and taxes on labour contracts
- Domestic consumption and production: tariffs on goods and services produced and consumed; stamp duty; excise taxes (e.g. beer, automobiles, tobacco)
- International trade: import and export duties
- Other taxes: These include the urban property tax, stamp tax, and taxes on light vehicles.

The early post-independence budgets demonstrate similarities in accounting methods with the colonial state. These budgets divide government income between tax and non-tax revenues; the former is dived between direct and indirect taxes.

The government does not adequately state the types of revenues that are included in each category. The reliability of this data is challenged given a lack of transparency in budgeting procedures and the concern that there are significant un-reported revenues and expenditures. Validity is also limited by variation in the way that different types of tax revenues are grouped between categories during this period. Wherever possible, the fiscal statistics presented here were compared with data in secondary sources and IFI publications; the author also sought the advice of local and foreign academics, lawyers, and multilateral officials in Angola about the best way to represent the data and reconcile discrepancies.

In addition, the chapter presents tax legislation gathered from archives of *Diário da República*, the state gazette, held in the National Library, the National Press, and from restricted collections located in the Ministry of Finance and Planning. One key source of fiscal legislation is the reference book *Legislação Fiscal*.[13] The chapter complements these sources with interview material that was gathered through approximately 50 meetings with current and former political elites in the capital. These officials include current and former senior-level bureaucrats in the Ministries of Finance, Economy, and Planning (including a former Minister of Finance and current Minister of the Economy) as well as officials from the IMF, lawyers, and local academics.

Note: While this chapter addresses the same set of questions as the Mozambique case study presented in Chapter 3, it is structured somewhat differently. The analysis of revenue impacts divided between two time periods, due to different sources for the data for the 1975-1990 and 1991-2002 periods.

4.2. Post-independence political economy: socialism and the rise of oil

This section introduces the postcolonial economic context and investigates the MPLA's socialist statebuilding plan adopted to recoup losses from the liberation struggle. Before proceeding, it briefly reviews the colonial tax system as it related to

[13] Following a recommendation to consult this publication from an Angolan lawyer, government officials, university data librarians, and staff in two Luanda bookstores assured me that the book did not exist. I eventually found a copy being sold on the street.

late colonial development in Angola. The section then investigates the emergence of natural resource dependence, tracing the MPLA's strategy of expanding the oil sector and the state's control over it. The objective of the discussion is to identify central elements in the MPLA's statebuilding vision and its management of Angola's natural resources that will be analysed in terms of their impact on taxation in subsequent sections of the chapter.

Late colonial taxation

There were major shifts in Angola's economy in the late colonial period, with enormous growth in production of diamonds, iron, and other manufacturing activities between 1965 and 1974. In the late 1960s and early 1970s, Angola had one of the biggest manufacturing booms in Africa. Output in the manufacturing sector grew by 6.9 per cent in 1972 and 14.3 per cent in 1973 and contributed a quarter of GDP just prior to independence (Cramer 2006, 150). Coffee and cotton production were also key elements of the late colonial economy; the share of coffee in Angola's exports grew from 30.9 per cent in 1948 to 51.9 per cent in 1967 by value (152).

First discovered in 1912, diamonds were Angola's main export until the coffee boom after the Second World War. DIAMANG, the Angolan diamond company, was the largest investment of the Société Général de Belgique in Angola and production increased from 150,000 to over one million carats between 1926 and 1960. While DIAMANG was exempt from paying taxes in Angola, it paid significant taxes in Lisbon. Salazar's strategy to "squeeze as much as possible" from the company involved a contract in 1937 that made the company transfer 50 per cent of profits to the Angolan treasury. DIAMANG was an enormous source of revenue through these profit transfers, and "as profits rose, government revenue derived from DIAMANG's profits came to equal that obtained by taxing the African population" (Clarence-Smith, 1985, 173).

Following discovery of oil in Benfica in 1955 by Petrofina, Petrangola, the Angolan petroleum concessionary, was formed in 1957, with the Portuguese administration holding a one-third stake. By the mid-1970s, exploration was taking place in over thirty wells in northern Angola. In 1966, Gulf Oil discovered significant deposits off the coast of Cabinda, and five years later, oil production from Cabinda was nearly 10 million tonnes a year.

Oil played an important role in the late colonial economy, particularly after discovery in Cabinda. Between 1969 and 1973, oil rose from Angola's fourth to top export, replacing coffee. By 1973, oil constituted 30 per cent of all national exports (Zenha Rela 2005, 29-42). Revenues from petroleum made up more than 40 per cent of Portugal's foreign earnings from Angola between 1971 and 1974 (Shantz 2005, 82). In the early 1970s, oil taxes and royalties made up nearly half of the military budget of the Portuguese administration in Angola. Data available for 1972 indicates that in that year alone, oil accounted for 60 per cent of Angola's military expenditures and 13 per cent of the provincial budget. During the late colonial period, oil therefore "provided Portugal with a major source of revenue to finance its wars against the independence movements in the colonies (Shantz, 82).

Civil war and socialist state-building strategy

Unlike Frelimo, which gained recognition as the sole legitimate government of Mozambique after the war of liberation, independence left Angola in a political struggle between several former anti-colonial groups: the MPLA, UNITA, and FNLA. The Alvor Agreement, signed by the leaders of the each liberation movement-turned political party and the government of Portugal on 15 January 1975, set the date for independence in November of that year and established the framework for a tripartite transition government. However, reflecting the parties' failure to achieve a unified liberation front, Alvor was more significant as a marker of the transition to civil war.

Without achieving nationalist agreement, Angola collapsed into civil war almost immediately following its recognition as a sovereign state. The situation was basically characterised by a lack of trust or willingness to come to a power-sharing agreement, and soon the agreement dissolved as all the parties attempted to stake claim to the territory with force (Tvedten 1997, 30-37). In July of 1975, the MPLA successfully drove FNLA out of the capital, while UNITA retreated to the south, its traditional stronghold. By the next month, the MPLA had taken over all but four of Angola's 15 provinces, including the oil-rich Cabinda enclave (separated by a strip of land belonging to the Democratic Republic of the Congo north of the border). The civil war erupted with MPLA holding control of the capital and much of Angola's territory, with support from Cuba and the Soviet Union, and UNITA positioned itself as an insurgency group backed by apartheid South Africa (Malaquias 2007; Birmingham 2002; James 1991).

The new MPLA government of Angola, like Frelimo in Mozambique, designed the post-independence economy based on Marxist-Leninist ideology. As set out in Angola's first Constitution of November 1975 and further iterations, this vision for post-independence life was essentially based on two elements: the construction of a "socialist society based on a single party political system" and "a planned and centralised system of economic leadership." An MPLA slogan from the period read, "Most important is the resolution of the problems faced by the people" (51-53). Partly as a reaction to the enormous flight of Portuguese settlers, which undermined trade networks (which they had previously monopolised) in both cities and rural areas, the MPLA took control of the goods and means of consumption in the territory they controlled, as Frelimo was doing in Mozambique.

The goal of the MPLA's centralised-planning strategy for statebuilding was initially to recoup production losses wrought by the liberation struggle. The government saw the state-run centralised economy as a means to achieving national self-sufficiency through production growth and continued trade, particularly with socialist allies. The 1979 state budget, the first published by the MPLA following independence, states, "The national objective should be…the establishment of a solid material and technical foundation for socialism" (Ministry of Finance 1979, 12).

In addition, the MPLA nationalised all state assets including the financial system, enterprises of all sizes, industrial and agricultural productive assets (such as farms and factories). All land became property of the state. In effect, this strategy introduced the new model for Angola's centralised economy. Under this regime, MPLA positioned the state as the owner and collector of all public funds. In line with the guidelines of the First Congress of MPLA-Workers' Party, the 1979 budget report asserts:

> "The state seeks to centralise the maximum level of revenue, concentrating all resources available into state hands. During this phase of national reconstruction, this will enable the creation of a financial system to be an effective instrument to direct and control production, allowing for better distribution and redistribution of national income" (9).

Economic devastation and stagnation

While Angola's economy had expanded steadily during the late colonial period – with annual real GDP growth rates averaging 4.7 per cent between 1961 and 1974 – independence and the onset of civil war reversed this trend (Ennes Ferreira

1991, 143). After the transition to independence in 1975, Angola's economy fell stagnant after an era of expansion and growth.

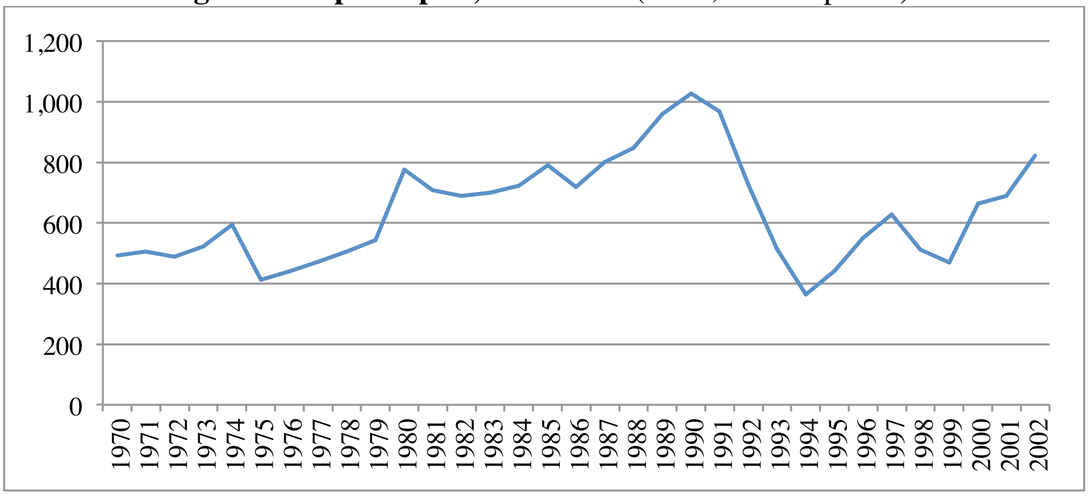
Angola's economic stagnation during the first period of civil war was caused by several factors. Ennes Ferreira argues that, rather than the internal military situation, "the failure of the industrialisation strategy" was the main cause of the poor performance of the economy after independence (1999, 485). The MPLA's nationalist economic strategies, undertaken to support centralised planning, ultimately failed to stimulate growth and development after independence. The Central Committee meeting in 1976 on the national economic plan stated imperatives to "stimulate and plan stagnant sectors of the economy, extend and consolidate the state sector of the economy (through confiscation of assets, nationalisations, state intervention or acquisition), and subject the private sector to rigorous control" (185, my trans.). As a result, the MPLA's socialist economic strategy amounted to widespread state ownership and state's control of prices, foreign exchange, and imports.

The MPLA's nationalist strategy had terrible consequences for the economy and resulted in the decline of both urban and rural economies. By 1980, industrial production had dropped to 40 per cent of its value in 1973, and by 1991 it was less than twenty five per cent (468). At the same time, the MPLA's agricultural policies met dissent and evasion, and its control over prices increased the bottom line for consumers while lowering prices paid to producers.

While the party's 'Industrial Transformation Strategy' aimed to stimulate the economy by substituting domestic production for imports, it actually did the reverse, and increasing imports resulted in decreased domestic production. Ennes Ferreira argues, the MPLA's "industrialisation strategy, based on the policy of import substitution, was the decisive factor in the failure of industrial performance" between 1975 and 1991 (484). The average value of industrial production declined by two thirds between 1975 and 1991 (2006, 25). On the other hand, exchange rate policy that overvalued the national currency, far from supporting national industry, rendered domestic production of transferable goods uncompetitive and increased imports. Moreover, economic and political industrial policy proved incompatible with growth (1999, 472-485).

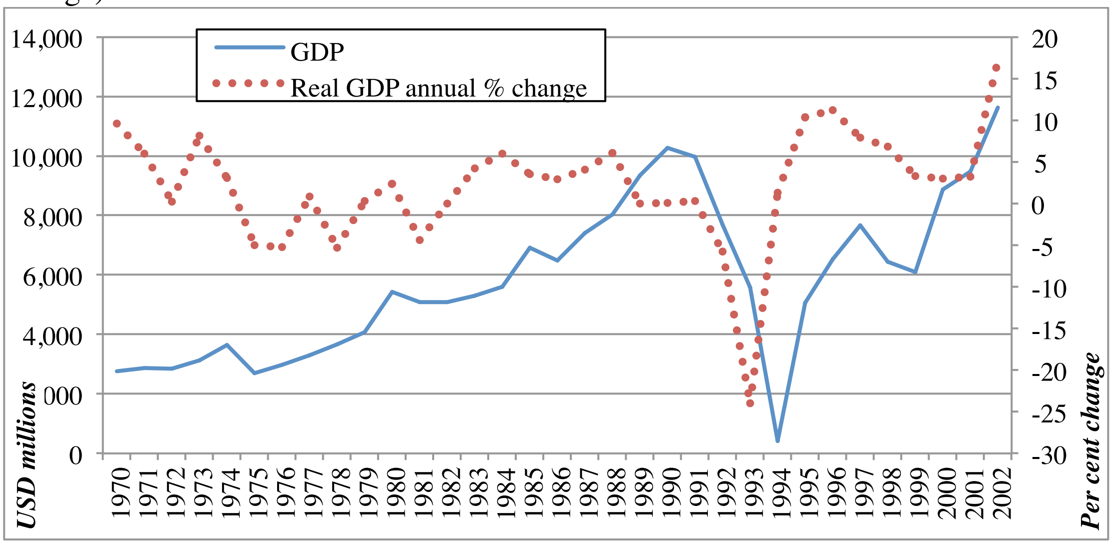
Moreover, the incoherence and inappropriateness of the MPLA's strategy contributed to decline throughout the first two decades of independence. Ennes Ferreira argues, "at no point was there a stable and coherent economic policy" (2006, 25). While the state confiscated capital assets, it ran the companies it owned inefficiently. The MPLA also neglected to revive key economic sectors following independence: "except for the oil and diamond sectors, the private sector was edged out" (Ennes Ferreira 2006, 25).

Chart 4.1: Angola GDP per capita, 1970-2002 (USD, current prices)



Source: IMF WEO 2003 (2003 current prices).

Chart 4.2: Angola GDP trends and growth, 1970-2002 (USD millions and per cent change)



Source: IMF WEO 2003 (2003 current prices).

In addition, as independence soon led to a return to armed struggle, 400,000 Portuguese settlers left Angola in what was considered "the biggest airlift in history" (De Carvalho et al. 2011, 46). With this massive human capital flight, Luanda transformed into a ghost town and Angola became, almost overnight, bereft of the trained technical and administrative workers (traders, farmers, bureaucrats, doctors, teachers) who had propelled Angola's growth in the colonial period. It is estimated that at least 85 per cent of the population was illiterate at the end of colonialism (Oyebade 2007, 9).

Stagnation also occurred as a result of the sabotage and abandonment of the productive activities that had fuelled growth during the colonial period, namely agriculture, as well as a lack of capacity to redress this deterioration. The government reported that by 1976 more than 2,500 companies in the productive sector were "paralysed," largely because 30,000 senior and mid-level technical workers had abandoned the country. Moreover, as a result of violent guerrilla conflict as well as the war of liberation that preceded it, Angola's infrastructure – including energy and utilities posts, industrial installations, and roads – was systematically destroyed. In a 1987 report, President dos Santos wrote, "dozens of bridges that secured links between the provinces were demolished, commercial channels were destroyed, and the education system became disorganised." With the departure of many trained civil servants, state institutions similarly eroded, as "administrative structures did not transition systematically" (MPLA 1987, 4).

The final interconnected factor was steady growth in hydrocarbon exploitation. The increase and growing dependence on revenues from petroleum production and diamond mining created a war economy in which "most investments by the state were primarily directed towards defence and the war." Much like neighbouring countries, Angola's colonial economy had always been dependent on international trade dynamics, particularly export markets (from the slave trade to coffee, iron ore, diamonds, and oil). Therefore in another sense, with this growing dependence on a narrow range of primary commodities, Angola was highly vulnerable to the global economic shocks of the late 1970s and early 1980s (De Carvalho et al., 38, 51). Table 4.1 below demonstrates that relative stagnation of other economic sectors compared to oil.

Table 4.1: Angola national production, 1973 and 1993-1997

	Unit	1973	1993	1994	1995	1996	1997
Agriculture & Fisheries							
Maize	1,000 tonnes	854	274	201	211	398	370
Coffee exports	1,000 tonnes	213	2	5	2	3	3
Fish (Angolan ports)	1,000 tonnes	467	129	135	137	170	---
Mining							
Crude oil	1,000 barrels/day	172	504	550	617	689	713
Diamonds	1,000 carats	1,940	295	537	628	917	1,212
Iron ore	Million tonnes	6	0	0	0	0	0
Manufacturing							
Beer	Million litres	120	27	28	39	72	---
Cloth	Million metres^2	18	5	3	2	3	---
Cement	1,000 tonnes	748	135	251	186	204	---
Refined petr. products	1,000 tonnes	743	1,522	1,710	1,769	1,776	1,776

Source of data: OSISA 2011, 55; Hodges 1994, 94.

Rise of oil

Shortly following independence, the MPLA adopted a focused strategy to expand the oil sector and the state's interests in it. The roots of Angola's single resource dependence lie in the wartime period, as the civil war intensified the government's drive to expand petroleum exploration and the state's interests in it. On one hand, Angola's hydrocarbon wealth provided the government with the revenues necessary to fund protracted warfare as well as the enormous post-liberation public sector socialist bureaucracy. On the other, one of the most noticeable effects of oil resources on the structure of the economy was that during the war Angola reversed previous trends and began to import basic food items during the socialist period.

Moreover, as Ennes Ferreira argues, "the attractiveness of crude-oil production to finance military needs and imports of consumer goods led the MPLA to neglect its duties toward the nation as a whole" (2006, 25).

It is important to note that oil production did not begin in Angola until the 1960s. As table 4.1 above shows, production in most industries declined in Angola following independence. However, the oil sector was the great exception to the general regression of Angola's productive sectors. Oil production did not suffer negative consequences as a result of independence or human capital flight, and grew steadily throughout the post-independence years.

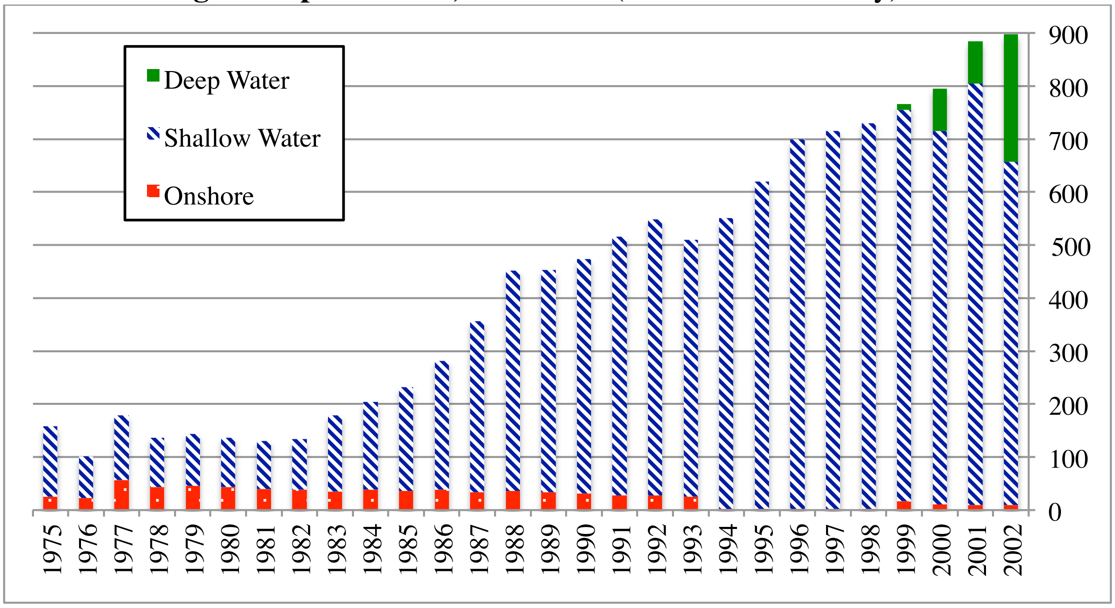
Oil became the MPLA's dominant income source with the arrival of independence and its establishment of Sonangol, the state oil company, in 1976. This strategy became especially effective, an important part of which was Sonangol's execution of negotiating significant agreements for petroleum exploitation throughout the country's productive regions. This was particularly true for those accessible from Cabinda, and in 1978 the government acquired 51 per cent of the enclave's concession (while they remained under foreign management) (De Carvalho et al. 2005; Hodges 2001).

Under Angola's bourgeoning petroleum empire, the state became the "sole owner of the country's oil resources," and remodelled Sonangol into the country's "single and exclusive concessionaire for oil research and exploration." The government created the company with the mandate to manage the entire petroleum process in Angola, from exploration and production to distribution. Sonangol's transformation also empowered the company to manage negotiations with international partners and garner the critical resources – filling a vast need for infrastructure from technology to transport and human capital – required for production as well as the development of the sector. The government maintained the oil sector separate from other areas of the economy from the beginning; during the socialist period, nationalisation was not considered (Cilliers 2001; Soares de Oliveira 2007).

Sonangol succeeded almost immediately in managing all upstream processes and domestic downstream operations. Gulf Oil, which had been the largest operator before 1975, swiftly returned to Cabinda via the Cabinda Gulf Oil Company, and was soon followed by other producers including Petrofina and Texaco. According to a report published by OSISA, "through the successful negotiation of contracts and ventures, Sonangol grew in capacity and prestige for responding to the oil companies' needs and providing the important lifeline of revenues to support the newly independent Angolan Government" (De Carvalho et al., 55-65).

Between independence in 1975 and 1990, oil production expanded from 158,420 to 453,460 barrels a day. This was largely due to the expansion of offshore drilling, with shallow water production increasing from 133,700 to 419,770 barrels a day during this period. By the end of the war in 2002, production reached nearly 900,000 barrels a day. This growth resulted from the continued expansion of offshore shallow water as well as the growth of deep water exploration, which began in 1999 and reached production of 240,000 barrels a day by 2002 (Chart 4.3 below).

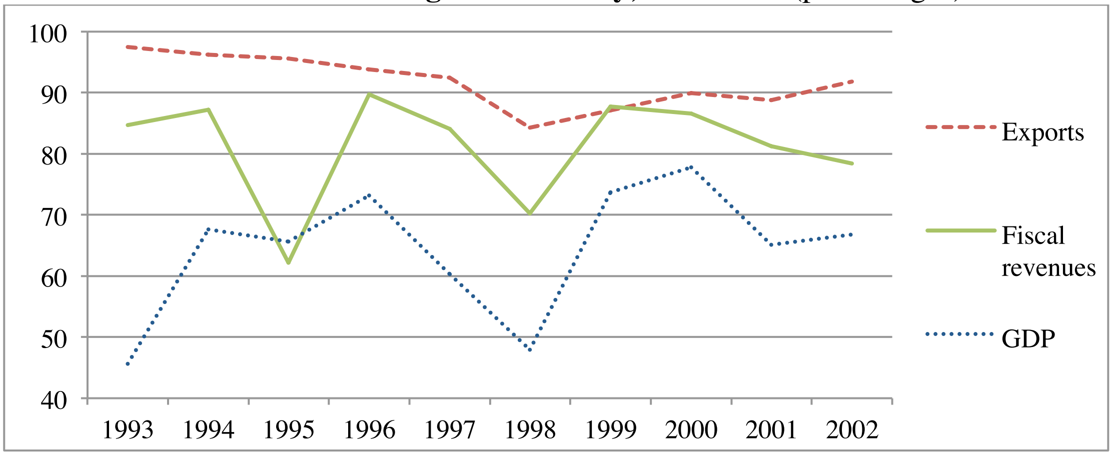
Chart 4.3: Angola oil production, 1975-2002 (thousand barrels/day)



Source: Konig 2013.

During the latter two decades of the civil war, the oil constituted a dominant share of Angola's overall economy and exports, as well as fiscal revenues (Chart 4.3 below). Between 1993 and 2002, the weight of oil was strongest in exports, averaging 91.7 per cent of annual totals. Its share of GDP grew from 45.6 per cent to 66.8 per cent, while it fluctuated as a percentage of fiscal revenues with dips in 1995 and 1988, averaging 81.2 per cent throughout the period.

Chart 4.4: Role of oil in the Angolan economy, 1993-2002 (percentages)



Source of data: OSISA 2011.

As oil prices increased in the late 1970s and early 1980s, petroleum revenues provided the government with a reliable stream of income to fund the civil war and cumbersome bureaucracy created to manage the socialist state. Income from petroleum – collected through taxes, fees, and royalties – also propelled Angola from its colonial-era orientation as an autonomous self-sustaining producer of critical products to an importer of almost everything, including basic consumable items.

Between 1975 and 2002, 94 per cent of oil exploration took place offshore (Konig 2013). Much of Angola's oil wealth derived from production in the enclave of Cabinda, separated from the rest of Angola by a tapered band of territory belonging to the Democratic Republic of Congo. This meant essentially that the decades of protracted civil war did not impact the majority of petroleum operations. Cabinda's isolation facilitated the development of an enclave within Angola's economy.

There were limited connections between the extractive industries and other areas of the economy, and as a capital-intensive industry the hydrocarbon sector generated a relatively limited number of jobs, exacerbating the inequality effect. As such, bounded relationships between Angolan communities, other sectors, and oil companies, effectively produced two parallel socio-economic spheres: one a hub of investment, hotbed of technology and research, and centre of export activity; and the other, comprising most other productive sectors, characterised by relative inactivity and lack of investment.

The reliance of the MPLA and UNITA on oil and diamonds, respectively, generated parallel war economies that financed violence and prolonged the conflict (Cilliers and Dietrich 2000; Hodges 2001; Soares de Oliveira 2007). Given that war effectively provided a means for rival combatants to enrich themselves, the "perpetuation of war…[served] as an alternative way of gaining income. Organised violence [became] an economic means of accumulation" (Cilliers 2001, 2-5). UNITA's control of diamond mining, ruled largely by informal, illegal prospectors (known as *garimpeiros*), persisted through the 1990s. More than a decade after the civil war ended, the government had still not fully gained access to the mines, despite the creation of Endiama, the National Diamond Company (*Empresa Nacional de Diamantes de Angola*). A senior Finance Ministry official indicated in an interview that the government's US$1 billion in diamond revenues in 2013 accounted for a small share of the productive value of Angola's mines (Author interview, Ministry of Finance, Luanda, 2013).

Throughout the civil war period, the economy was markedly undiversified, indicated by Table 4.2 below.

Table 4.2: Contribution of oil to the Angolan economy, 1993-2002 (per cent)

	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
GDP	45.58	67.61	65.65	73.14	60.33	47.96	73.75	77.76	65.12	66.81
Exports	97.45	96.19	95.6	93.82	92.47	84.24	87.08	89.89	88.8	91.77
Fiscal revenues	84.7	87.2	62.18	89.68	84.05	70.23	87.77	86.62	81.2	78.44

Source of data: OSISA 2011.

In addition, the attractiveness of oil MPLA's use of oil to fund the conflict and consumer imports led to the government's neglect of other sectors and wider Angolan society. As Ennes Ferreira argues, beginning in the mid-1980s,

> "A rigid hierarchical network of vested interests emerged inside the state and party. Private appropriation of public assets and massive rent-seeking began. The existence of state monopolies in external trade and domestic marketing facilitated privileged access and acted against the national interest of domestic industries. The war certainly conditioned Angola's economic performance but the main obstacle was utterly inappropriate economic policy and a political system that fostered a rent-seeking elite" (2006, 26).

4.3. Revenue collection system: 1975-1990

This section introduces the postcolonial fiscal context and assesses the MPLA's revenue collection processes during the first half of the conflict. It first addresses the question of how the party adapted the extractive apparatus at the onset of war to fund its socialist development strategy and security. This discussion asserts that unlike Frelimo in the post-liberation era, the MPLA did not face an imperative to mobilise a large volume of revenues through domestic extraction because of the state's control over vast natural resource assets. The analysis intends to demonstrate the influence of the MPLA's dual strategies to construct a socialist state and develop the oil sector on the revenue collection system. This discussion implies that the determinants of Angola's tax policy during the conflict were driven primarily by these factors, which originated from armed struggle. Following an examination of the nature of revenue collection processes, the section presents fiscal data analysis to address the impact of wartime revenue collection on revenue levels.

Extraction under centralised planning

Like Mozambique, Angola inherited an ineffective tax system from the institutional remnants of the colonial regime following the liberation struggle and decolonisation. The Portuguese colonial revenue collection system in Angola had been typified by excessive burdens on labour, a biased benefits structure that was oriented towards the interests of Lisbon and domestic exacerbated inequality. Reflecting on the post-independence period, Augusto Matos, Angola's Minister of Finance between 1982 and 1991, said in an interview "with the independence of the state, the tax system failed to produce. The revenue system was fragile and we lacked capacity" (Author interview, Luanda, 2013). However, in contrast to Frelimo's directed initiatives to overhaul the tax system at independence to mobilise revenues to fund the civil war and its socialist development agenda, the MPLA made few adjustments to Angola's tax system in the 1970s and 1980s. In fact, much of the colonial-era legislation remained in place when Angola's civil war finally concluded in 2002.

However, the MPLA's socialist regime influenced the revenue collection system in terms of its base. Under the party's new strategy, implemented beginning in 1977, the majority of public revenues were derived from profit transfers from state-run companies. The 1979 state budget elaborates on this plan, making clear that the "state budget constitutes one of the fundamental instruments for consolidating the economic and social policy of the MPLA-Workers' Party." The budget report[14] states: "Revenue from state-run and mixed enterprises occupies the prominent place

[14] The 1979 state budget provides the first available source of budgetary data or discourse following independence. State budgets for the years 1976-1978 do not exist in Ministry of Finance or Planning archives (nor in those of the state gazette *Diário da República*, or the national library), most likely owing to the upheavals relating to independence and the immediate onset of civil war.

in the budget, marking a genuine U-turn from previous budgets." For this year, profit transfers, or taxes, from mixed and state-run enterprises accounted for the majority of budget revenues, the latter constituting 36.6 per cent of government income (Ministry of Finance 1979, 9). Public enterprises were required to remit the majority of their profits to the state. Table 4.3 below outlines the data available for profit transfers during the socialist period.

Table 4.3: Profit transfers to the state from selected public companies, 1984-1986 (percentages)

	1984	**1985**	**1986**
Central Bank	30	11	12
National Lotteries	11	8	10
Cafangol	2	15	10
Edipesca (Namibe)	5	5	7
Edipesca (Luanda)	5	5	1
Expeição conjunta	--	3	5
Emprotel	--	6	--
Frescangol	--	--	4
Other public enterprises	47	47	51
Total	100	100	100

Source: World Bank/UNDP 1988 (Confidential report to the Angolan government collected by the author from Ministry of Planning archives).

In addition, the MPLA's strategy placed the collection of taxes on petroleum as the central source of public revenues immediately following independence. The 1975 budget (set out by the imminently departing colonial administration) indicated taxes from oil production and income to amount to AKZ 11.073 billion and consumption of petroleum-derived products to be AKZ 250 million. By 1978, the state had collected AKZ 14.816 billion from taxes on oil production and income and AKZ 776.8 million from oil-derived products. In 1977, oil sector taxes provided 85 per cent of tax revenue, and continued to be the overwhelming contribution to the main tax base in state-owned enterprises in subsequent years (Ministry of Finance 1975; Ministry of Finance 1979).

Structure of the revenue collection system

This section presents an analytical account of Angola's revenue collection system and the MPLA's reforms to it during the first half of the war. It addresses the question of how socialist statebuilding and the rise of oil impacted the extractive regime before examining fiscal data to determine revenue impacts.

During the first decades of civil war, Angola's tax revenue was extracted from four principal sources: income, oil exploration, production and consumption, and international trade. It is worth noting that there were no local or provincial taxes. The discussion below will address each of these areas, highlighting any reforms the government adopted during this period while providing a full picture of the system as a benchmark for comparison with the future systems discussed later in this chapter and in Chapter 6.

Income taxes

The MPLA's primary motivation for adjusting the tax system was to "diminish external dependence, in particular on private capital" (Ministry of Finance 1979). As such the reorientation towards profit transfers focused on generating revenues from income taxes, including revenues derived from corporate, individual, and capital income, which provided the main source of non-oil tax revenue through the end of the 1980s. Reflecting centralised planning, profit transfers from public enterprises constituted the largest share of these taxes during this period. Taxes on income and property averaged 11.7 per cent of total government revenues annually between 1977 and 1990, providing an annual average of 41.99 per cent of non-oil revenues. However, with an average rate of annual nominal growth of 2.5 per cent between 1980 and 1987, overall these taxes did not perform particularly well. This was largely due to a lack of growth in profit transfers, as during this period in Angola these provided the majority of income 'taxes'. These taxes can be grouped as followed:

- *Profit transfers from public enterprises*: Public enterprises were required to remit a portion of their profits to the Angolan government. Until 1986, the rates applied were 98 per cent of profits from companies in the service industries, 97 per cent for firms in the petroleum sector, and 90 per cent for those in productive sectors. Between 1977 and 1979, taxes averaged between 41.23 and 45.57 of total revenues (Ministry of Finance 1979). Reforms implemented in 1986 overhauled this system and reduced the transferable share to 50 per cent across all sectors. As a result, the proportion of profit transfers of all income taxes decreased from about 80 per cent in the early 1980s to 62 per cent in 1986.
- *Corporate income taxes*: The MPLA collected a basic rate of 35 per cent on private sector enterprises' income, which included "mixed enterprises in which the state has a share." In addition, the code (established in 1972) included a progressive surtax of rates ranging between 2 and 30 per cent under the banner of 'Popular Resistance'. Under this regime, the top corporate tax rate was 65 per cent, though during this time, transfers averaged about 50 per cent of profits. Between 1980 and 1986, the proportion of corporate income taxes in total income taxes increased from 14 per cent to 28 per cent.
- *Individual income taxes*: A complex tax regime governed personal incomes, and the system faced severe problems in terms of collection and enforcement as well as administration, indicating the colonial legacy association of taxation

with oppression. The taxes for salary and wage earners ranged between one and 40 per cent and were extracted at the source, while the rates for individuals with independent employment ranged between three and 60 per cent. Despite the complex and highly problematic regime, personal income taxes increased by the late 1980s. Still, in 1986, total taxes collected accounted for just six per cent of non-oil taxes and three per cent of the government's entire salary bill (UNDP-WB 1989, 219-220).

Taxes on petroleum and mining

Fiscal data from as early as 1977 makes clear the MPLA's prioritisation of oil revenues in the revenue base. The regime collected revenue from petroleum exploitation through taxes on profits, including an allocated portion of Sonangol profits and royalties. Dating back to the beginning of the colonial state's governance of oil operations in the years before independence, two types of agreements remained in place throughout the civil war that regulated the relationship between the government and oil companies. The regimes established through these contracts contrast in their effect on state revenue. Under *joint ventures*, the oldest form of these agreements, Sonangol (as the exclusive concessionaire) divides investment in exploration and production with its foreign partners. This regime imposed three types of taxes on joint ventures:

- The oil income tax (*Imposto de rendimento de petroleo*), which was created in 1957 and revised in 1978, stipulated taxes on oil companies' profits. This was applied at a basic rate of 50 per cent; a surtax of 15.75 per cent was added to total 65.75 per cent. This regime provided deductions for companies with risk contracts, allowing for deduction of up to half of the oil produced from the taxable base as an investment cost (Decree 41-357).

- The oil transaction tax (*Imposto de transação do petroleo*), which at a rate of 70 per cent, was essentially a tax obligation on gross profits from joint venture production in Cabinda, after adjustment for fiscal incentives. Importantly, this legislation narrowed the tax base with incentives for both investment and production (Decree 5/85; Decree 29/86).
- Royalties, under the name of the oil production tax (*Imposto de produção de petroleo*), which set out rates for the taxes imposed on the value of oil of companies with joint venture agreements in Sonangol. In Cabinda, production tax was levied at 20 per cent; in all other regions it was 16.67 per cent (Decree 41-356/57; Decree 68/70; Law 167.13/78).

Under the more modern *production sharing agreements* (PSAs), Sonangol negotiates subcontracts with foreign partners to carry out upstream operations in exchange for a portion of the outputs of exploration and production. Each barrel of oil is essentially divided into three parts: 'Cost oil,' in which the partner oil company keeps possession of up to half of the output to offset costs, and 'Profit oil,' the balance of the output on which it pays income taxes of 50 per cent. Finally, Sonangol distributes a portion of its profits derived through these agreements directly to the government (Author interviews, oil and gas attorneys, Luanda 2013).

In terms of their fiscal effects, these two agreements differ primarily due to the revenues they produce over time. PSAs generate lower revenues in the short term compared to joint ventures, as high initial costs lead to retention of the maximum allowance of cost oil. Additionally, PSAs tended "to provide Sonangol, rather than the treasury, with the largest part of Angola's share, while in joint ventures the bulk of the revenue accrues directly to the government in the form of taxes" (UNDP-WB 1989, 217). As a result, by 1986, joint ventures produced approximately 80 per cent of the MPLA's revenues derived from oil.

Table 4.4: Oil taxes by type, 1980-1988 (AKZ billions)

	1980	**1981**	**1982**	**1983**	**1984**	**1985**	**1986**	**1987**	**1988**
Royalties	6.4	9.1	6.8	7	11.2	10.2	6.4	8.7	9
Income tax	17.6	26.6	10.7	14.6	14	11.8	7.9	12.5	9.4
Transaction tax	8.3	8.4	3.5	5	17	19.7	6.7	11.7	13.7
Transfers from Sonangol	1.6	1.1	0.1	--	--	--	9	2.9	3.8
Total	33.9	45.2	21	26.7	42.3	41.7	30.1	35.8	35.8

Data source: World Bank/UNDP 1988 (Confidential report to the Angolan government collected by the author from Ministry of Planning archives).

In the 1980s, the trends in oil output and price diverged in Angola (Table 4.5 below). Following the relative stagnation from independence through 1982, production increased significantly and more than doubled by 1986. While government income is less dependent on price volatility than production changes, greater production balanced the impact in the oil price decline and supported Angola's otherwise failing economy into the mid-1980s.

Table 4.5: Variation in price and output of crude oil, 1980-1986 (1980=100)

	Price	Output
1980	100	100
1981	110	95
1982	86	96
1983	86	132
1984	86	151
1985	81	171
1986	45	208

Data source: World Bank/UNDP 1988 (Confidential report to the Angolan government collected by the author from Ministry of Planning archives).

However, it is important to note that fluctuations in output and price have different impacts on revenue because of the structure of Angola's tax regime. Variations in price impact the government's oil-derived income more sharply than do those in production, owing to the fact that oil profits provide the main share of oil taxes, and large profits are heavily taxed. In addition, large transfers from Sonangol in 1986 (AKZ 9 billion) provided a substantial cushion on the revenue impact of the oil price decline in that year.

Consumption and Production

During this period, while there was no sales tax, the MPLA collected indirect taxes on consumption and production of about one hundred products, whether imported or produced locally. These included stamp tax, duties on consumption of petroleum, and a diamonds royalty. Together, these taxes accounted for about 22 per cent of non-oil taxes and 6.5 per cent of total government revenues during the 1980s.

Stamp duty (*Imposto do Selo*) was the most significant of these, and was put into new legislation in the late 1970s. Notably, the 'National Reconstruction Stamp" tax, created by Law 19/77 of 15 September 1977, revised taxes on a broad range of documents and acts. The second most important source was tax on production and consumption of beer. However, production of beer is vulnerable to the supply of imported inputs, which explains the fall in tax levels in 1986. The indirect tax base was significantly narrow during this time; important reasons for this were payment in-kind and theft, both of which were widespread during the civil war (Author interview, Ministry of Finance, Luanda 2013).

International trade

During the first half of the civil war, Angola's relatively high import volume presented a substantial potential revenue base in import taxes. However, by the mid-1980s, the effective customs duty of imported merchandise dropped to less than 10 per cent, from over 15.5 per cent in 1982. Overall, import duties contributed between 15 and 25 per cent of non-oil taxes in the 1980s (World Bank 1991, 233).

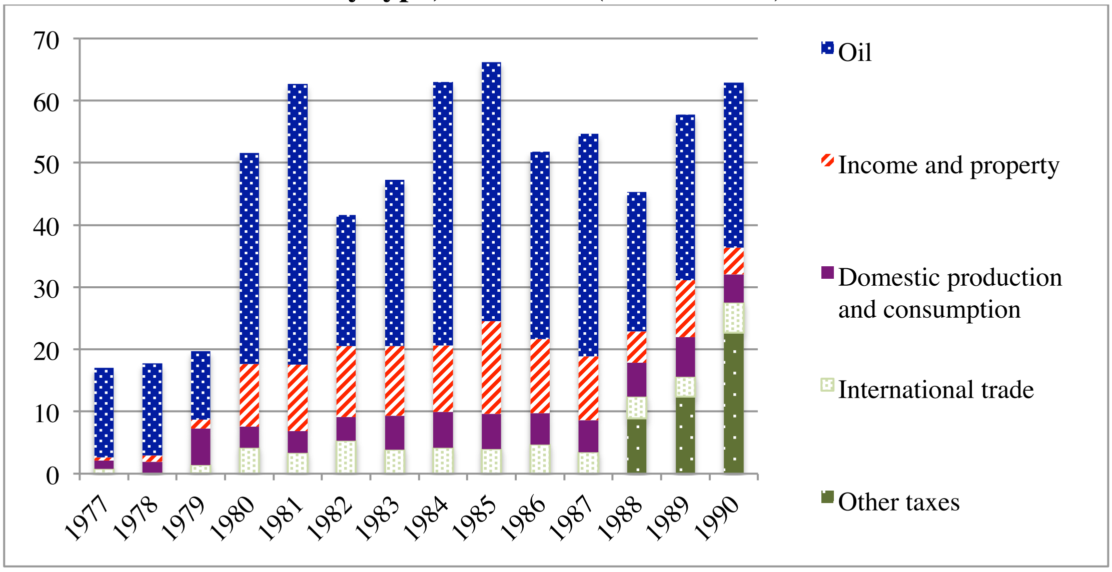
The problems faced by the MPLA in terms of collecting taxes on international trade was caused by a variety of factors: an out-dated and complex import tariff, which dated to 1953 and contained an abundant array of specific duties and special conditions was never modernised and continued to hinder implementation in this time. As a result, the application of duties was skewed and many imports had low customs rates. In addition, severe human capacity and skilled labour shortages in the customs administration exacerbated problems with collection and a declining taxable base. Moreover, there was inadequate transport, office, and communications infrastructure, and as a consequent of the war, communication was hindered and border surveillance rendered hazardous. Furthermore, the decline in import volumes hurt tax collection, while a complicated and ad-hoc exemptions regime narrowed the base and evasion was very common. Evasion was facilitated and exacerbated by the contested authority on customs' staff at borders and the port. As people took advantage of the loose enforcement of implementation and clearance regulation, "unauthorised imports were a major source of supply of the parallel market" (Author interviews, SNA, Luanda 2013).

Revenue analysis 1975-1990

This section analyses revenue collection trends in Angola during the first half of the conflict to assess the impacts of reforms on extractive capacity.

Between 1977 and 1990, the Angolan government's tax revenue increased from 17 billion AKZ to 62.93 billion AKZ in nominal terms. Tax revenue grew largely in line with the economy, as tax share of GDP remained relatively stable, averaging 36.98 per cent annually between 1980 and 1990.

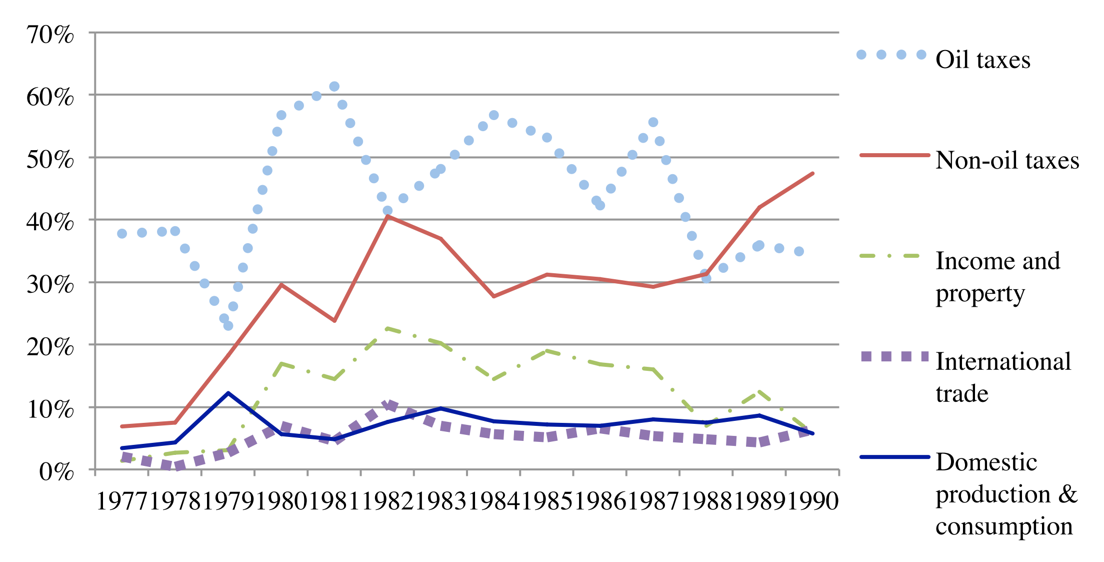
Chart 4.5: Tax revenue by type, 1977-1990 (AKZ billions)



Source: Tax data compiled by the author from statistics on revenue collection by type collected from Ministry of Finance (1979); Ministry of Planning/INE (1991).

This nominal growth primarily reflects capture of revenues from the expanding oil sector. During this period, oil taxes comprised the largest share of revenues, increasing from 14.39 billion AKZ in 1977 to 26.55 billion AKZ in 1990, averaging 43.94 per cent of total government revenues. According to government data, oil taxes constituted a similar share of total fiscal revenues during the late 1970s as the late 1980s: 32.95 per cent between 1977 and 1979 compared to 33.69 per cent between 1988 and 1990. The data therefore indicate relatively constant extractive capacity in the oil economy during the first part of the conflict.

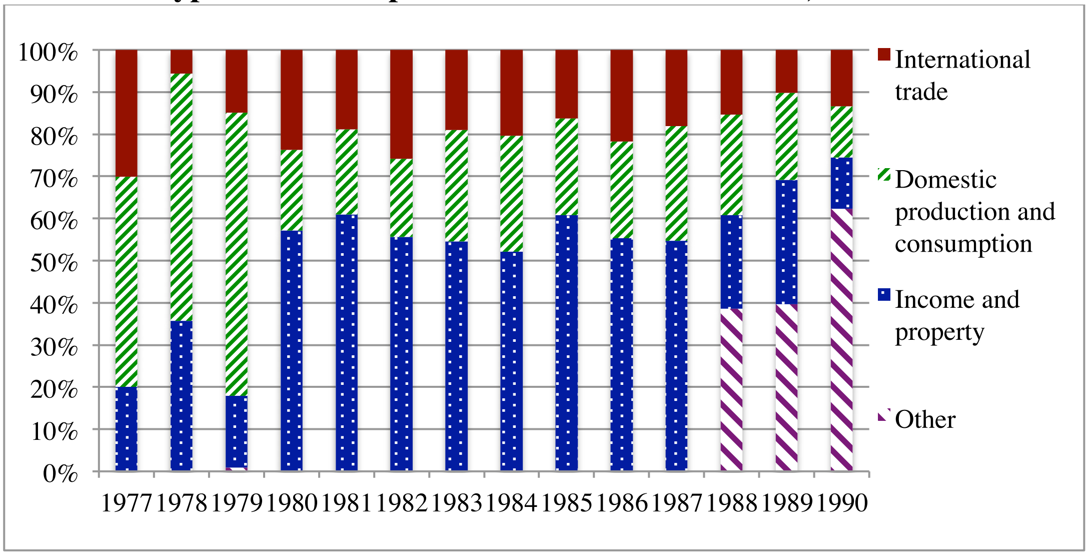
Chart 4.6: Taxes by type as a per cent of government revenues, 1977-1990



Source: Tax data compiled by the author from Ministry of Finance (1979); Ministry of Planning/INE (1991); calculations made from absolute figures of tax type and total revenues.

At the same time, non-oil taxes grew strongly in real terms, increasing from 2.61 billion AKZ to 36.38 billion AKZ, averaging 28.7 per cent of fiscal revenues annually between 1977 and 1990. Taxes on income and property provided the dominant share of non-oil revenue, averaging 12.33 per cent of revenues a year in this period. Taxes on domestic production and consumption averaged 7.11 per cent and those on trade averaged 5.16 per cent. The striking growth of revenues collected from income and property reflects the MPLA's directed strategy towards the goal of self-sufficiency, based on the revenues of state-owned and mixed enterprises, rather than reliance on levies on trade or consumption. During the late 1970s, taxes on domestic production and consumption accounted for a far greater share of non-oil taxes than in later years, averaging 58.53 per cent between 1977 and 1979. During the remaining years, these taxes accounted for less than 22 per cent of non-oil taxes. Income and property taxes, which averaged 24.26 per cent of non-oil taxes in the late 1970s, averaged over 56 per cent between 1980 and 1987. The narrow contribution from domestic production and consumption also reflects the largely unproductive manufacturing and agricultural sectors, while the war inhibited border control and thus collection from trade taxes.

Chart 4.7: Types of tax as a per cent of non-oil tax revenue, 1977-1990



Source data compiled by the author from: Ministry of Finance (1979); Ministry of Planning (1991); World Bank (1991); calculations made by the author from statistics on tax type and total non-oil taxes.

4.4. Politics of transition to capitalism

This section investigates the origins and motivations behind the MPLA's transition to capitalism during the second part of the conflict. The aim of this discussion is to identify the salient features of the transition, both in terms of the content of economic policy and the process of decision-making, in order to assess their implications for taxation. The argument establishes that transition was delayed compared to Mozambique because Angola did not face a similar degree of external influence.

Origins of transition

By the end of the 1980s, the MPLA's socialist-informed statebuilding strategy had failed to recoup losses from the liberation struggle and was proving incapable of overcoming the severe limitations on production created by the intensifying civil war. According to a former party official who held senior roles in the Ministry of Planning during the 1980s, as the war raged on, "there was a situation of disequilibrium, and a great need for revenues generated internally, since agriculture and manufacturing were not contributing to the economy" (Author interview, Ministry of Finance official, Luanda 2013). Under the MPLA's post-independence regime, the state was the country's main employer and private enterprise all but ceased to exist in Angola. Without private businesses, the fiscal system continued to rely primarily on revenues from state-owned and mixed enterprises. As explained by Augusto Matos, Angola's Minister of Finance between 1982 and 1991: "With the war, the tax system disappeared. The system died. State companies were obliged to contribute taxes, modelled on a Soviet or Cuban system. But the businesses did not succeed, so the state did not receive revenues" (Author interview, Ministry of Finance, Luanda 2013).

MPLA members report that by this time, some in the party had begun to recognise Angola's vulnerability to global oil markets. The 1984-1985 price collapse strengthened the weight of this view, highlighting Angola's severe exposure to international oil price and demand volatility.[15] In addition, generalised economic decline in the mid 1980s became clear with the sharp downturn of critical segments of the economy, particularly agriculture and infrastructure. In effect, the MPLA's post-independence programmes for stimulating the economy – primarily aiming to return

[15] However, perceptions among elites interviewed did not indicate that this realisation included awareness of the risks of Angola's *dependence* on oil as such.

growth to pre-1975 levels – could not combat the stagnation and decline of the non-oil economy, which would persist until the end of the war. According to an official who at the time held senior posts in the Ministry of Economy, the MPLA confronted the reality that "the socialist economy was unable to support development" (Author interview, PERT official, Luanda 2013).

As early as 1983, at MPLA's Second National Congress, critics stood up from within the party's ranks aiming to punch holes in the ideological clout and conceptual appeal of centralised planning within the party (MPLA 1987). While non-supporters of centralised planning under MPLA's single-party regime had previously been marginalised as opponents of the system, scepticism of the capacity of MPLA's socialist-inspired model spread through the ranks of government elites in the mid-1980s. By 1986, the failure of the economy to produce at adequate levels entered more mainstream political debate, while Angola's dreadful performance in terms of national production became a social issue (Author interviews, Ministry of Finance, Luanda 2013).

Concerns over the MPLA's organisation were another important factor in the shift of support away from socialism. At the party's first national seminar organised around overhauling economic policy in the 1980s, President Dos Santos stated his view of the causes of economic stagnation:

> "Namely, a lack of coordination and delivery between the National Plan, the State Budget, and exchange system; excessive centralisation in socialist planning methods; the consequent bureaucratisation of the Economic Directorate and failure of the pricing system; disorganisation and mismanagement of companies; rampant indiscipline and corruption; and insufficient protection of social property" (MPLA 1987, 5-6).

The socialist economic strategy effectively had no over-arching direction, and while the party set a five-year timeline, it was not realised. Similarly, the "centralised plan" was limited to annual goals for each sector, which could be seen as "essentially a series of wish lists" (Zehna Rela 2005; De Carvalho et al. 2011). These issues gave weight to the lobbying of factions within MPLA for economic liberalisation and privatisation. "The transfer to private ownership of state-owned infrastructure became a meaningful issue," according to a Ministry of Planning official. As Hodges (2001) and Zenha (2005) argue, private interests within the party provided substantial support for privatisation.

Economic 'Clean up'

The government's economic reform package was first implemented through the Economic and Financial Clean-up Programme (*Programa de Saneamento Económico e Financeiro*, SEF), introduced in 1987. Augusto Matos, the former Minister of Finance, said "when the SEF was introduced in 1987, it marked the moment of transition to capitalism in Angola" (Author interview, Ministry of Finance, Luanda 2013). According to Alves da Rocha, a former party manager and currently director of the country's preeminent economic research institute, "The Ministry of Planning had the main responsibility for dealing with the SEF. It was the central organisation for economic planning during this time." Da Rocha said that, in contrast to Mozambique, the SEF "involved no consultation with the World Bank or IMF; it was driven entirely internally. The government presented the SEF to the party" (Author interview, CEIC, Luanda 2013).

As in other African economies enduring adjustment in the 1980s, Angola's reform programme centred on restoring macroeconomic stability and promoting economic expansion and efficiency through structural and institutional reforms. In contrast to these cases, the latter aspect in Angola (and Mozambique) involved profound transitions given the state's predominant role in the economy (MPLA 1987;

Hodges 2001, 102). The SEF also outlined the government's privatisation strategy and restructured the state's assets across a number of sectors, marking the beginning of a complicated and challenging shift from the socialist economy to market capitalism.

The implementation of liberal market-transition programmes, such as the post-SEF Economic Recovery Programme (*Programa de Recuperação*, PRE) enabled Angola to meet accession criteria to join the IMF and World Bank in 1989. While both of these programmes set out measures to guide Angola's transition from centralised planning to a market economy, neither was implemented in full. It was only a subsequent plan, introduced in 1990, the Government Action Programme (*Programa de Acção do Governo*, PAG), that devalued the Kwanza, privatised state assets, froze accounts held in state-run banks, and reduced subsidies. The government's decision to seek debt finance from these institutions was propelled by the economy's unsound credit worthiness in global wholesale banking markets (a result of the oil price decline), as well as the shifting geopolitical imperatives brought by the end of the Cold War.

While the SEF represents the beginning of transition to a market economy, the MPLA introduced nine distinct economic programmes between 1987 and 2002. The purpose of most of these was to introduce or implement reforms: reducing the state's role in the economy, while liberalising the system and opening up the economy to international markets. However, two programmes (the Government's Emergency Programme, 1993-1994, and the New Life Programme, 1996-1997) represented anti-reform efforts to overturn previously adopted changes, representing efforts to restore the state's role in the economy (Hodges 2001, 201-210). Angola initiated this enormous and complex reform project in the context of "severe macroeconomic disequilibria" with the fall in oil prices, coupled with high borrowing costs for Angola's expanding international debt and the resulting balance of payment deficit. As a result, the next 15 years were characterised by "a series of trial and error reforms with uneven results, with grave consequences for the population and contributing further to uneven economic development, which benefitted a few but left out the majority" (De Carvalho et al., 58-59).

The trends of these reforms reflected complex factors, including the intensification of the civil war in 1994 and later in 1997. Another important factor was the steady process of the centralisation of power in a narrow hierarchy around President Dos Santos and the small group he worked with, known by the location of the Presidential offices (*Futungo de Belas*). This practice was detrimental to other arms of government, including the Ministries of Finance and Planning. The relative weakness of other institutions to the presidency, as well as a general lack of coordination in implementing reforms, resulted in a culture in which political calculations prevailed over technical proposals (Personal interview, MPLA official, Luanda 2013).

Further complicating the reform context was the way in which Angola's oil revenues were used and managed. Various arms of the government, including Sonangol, the central bank (*Banco Nacional de Angola*, BNA), and the Ministry of Petroleum held various and overlapping roles in managing Angola's primary income stream. In addition, the government's extra-budgetary spending (facilitated by these conflicting roles and lack of transparency) was not accounted for in official public-financial documents.

By 1990, the MPLA had abandoned the idea that Marxist-Leninist statebuilding would stimulate societal and economic development for the new state.

This transition reflected internal political decision making as well as major shifts in the geopolitical and global economic international context. Having failed to successfully introduce the socialist state in Angola and other African countries, including Mozambique, the Soviets withdrew from the continent in the late 1980s. Soviet reform provided conditions for the signing of the Brazzaville Protocol in 1988, which was signed by Angola, Cuba, and South Africa, and mandated the withdrawal of Cuban troops from Angola. The final collapse of the Soviet Union wiped out ideological and financial support for socialism in Angola and Mozambique.

The MPLA began to adopt the tenets of market economics and multiparty politics, beginning a formal process of opening the political-economic system: “economic liberalisation that remained in line with the phenomenon of globalisation” (Neto and Jamba 2006, 3). The government publicised a revised Constitution in September 1992, two weeks before the date for which it had scheduled the country’s first presidential and parliamentary elections. The changes enacted by the Constitution of 1992 were the product of a series of economic reforms the government had been implementing since the introduction of the SEF in 1987. In general, these were focused on establishing the conditions to reintroduce a market economy and implementing reforms to promote growth in the non-oil sectors.

This new Constitution formally enshrined the principle of “coexistence of different types of property: public, private, mixed, cooperative, and family, all enjoying equal protection” (art. 10). In addition to this delimitation of economic sectors, the economic framework set out in this Constitution was based on fundamental principles of equality and just relations between economic actors. This set the economic system in line with the new political framework set out in the Constitution, which was based on multi-party politics and democratic ideals. Thus, the Constitution represented a formal end to Angola's socialist-envisioned one-party state and centralised economy (Law 5/02; De Carvalho et al., 58-60).

However, while the Constitution curbed the state's absolute command over the economy, the state continued to control key areas including financial activities related to the BNA, arms production and trade, and management of infrastructure such as the telecom network, airports, and ports. In addition, while it passed into law multi-party politics and transitional steps towards a market economy, significant elements of the socialist system remained, and continued to remain after the war ended a decade later.

The scale of oil income allowed the MPLA's consolidation of power to persist despite the introduction of numerous reform packages to shift from a one-party, centrally planned system to a market economy and multi-party democracy. (Though this was beset by conflict and strained by a lack of autonomy of the parliamentary and judiciary arms, as well as the funnel-like decision making structure focused on Dos Santos and the *Futungo*). In the post-war period, an OSISA report concluded that "the transition from centralised to mixed economy continues to be shaped by conflicting public and private interests and influenced heavily by the oil sector and its revenues" (2011, 67) and more recent accounts suggest these processes continue (Marques De Morais 2011; Marques De Morais 2012). As a result of this political regime, the institutional and legal foundations of the state were not strengthened during the war.

According to IMF representatives in Luanda, even during Angola's severe disequilibrium during the last decade of the armed struggle, oil wealth "limited [the organisation's] leverage" (Author interviews, IMF, Luanda 2013). The effect of Angola's oil wealth worked the other way during the war as well, as one of the reasons cited for the IMF's unwillingness to exceed its 'Staff Monitored Programmes' (the precursor to the institution underwriting debt) was the low level of transparency concerning public financial management systems and institutions. In another sense, it also conditioned the government's attitude towards the IMF and self-reliant stance toward intervention.

4.5. Tax agenda: 1991-2002

This section continues analysis of the Angolan tax system through the second half of the conflict, between 1991 and 2002. The analysis addresses the question of how transition towards capitalism and increasing dependence on oil impacted the tax system, considering both the structure of decision-making and policies following the MPLA's abandonment of socialism and move towards a market economy. While much of the colonial legislation and remaining institutional structures remained by the end of the war, MPLA did make some important adaptations to the tax system corresponding to transition towards a market economy.

Income and profits

A major reform during this time was a new income tax (*Imposto sobre os Rendimentos do Trabalho*), set out in Law 10/99 of 1999. The regime imposed a tax on income from all types of labour whether contractual, occasional, fixed, or paid in money or in kind. This was applied to both employees and self-employed individuals, and included all remuneration received, including the income of firm partners or boards, shareholders, or members of other corporate entities. When the law was implemented, the regime was applied progressively according to income, with monthly incomes over 100 Kwanzas taxed at rates between four and 20 per cent.

Those with monthly incomes of less than 100 Kwanzas were exempt and business owners' self-remunerations were taxed at 20 per cent. Under this regime, a list of activities such as travel, severance pay, death, housing allowances, and wages of casual domestic and agricultural labour were not characterised as taxable income. Additionally, the regime granted exemptions to personnel employed by international organisations, diplomatic missions, and NGOs, as well as individuals with handicaps, over the age of 60, and veterans with reduced capacity.

During this time, the MPLA also reformed the capital gains tax (*Imposto sobre a Aplicação de Capitais*) with legislation passed in 1992 (Law 14/92), replacing previous laws from 1972 (Legislative Instrument 36/72). The law established an annual tax on income derived from financial investments, divided between two sections covering (a) interest on debt, loan contract fees, and related charges (at a rate of 15 per cent), and (b) interest received by firm partners, payment to firms for interruption of activities and other capital incomes (15 per cent). As part of the second group, capital gains distributed by cooperatives, partnerships, and those to preferential shareholders were taxed at a reduced rate of 5 per cent.

The exemptions regime for the capital gains tax is important to highlight. In Section A, financial institutions' (and cooperatives') income was exempt from capital gains tax, as was interest on loans made by life insurance firms to their customers and interest on instalment sales. In Section B, exemptions were granted on profits that had already been taxed by the taxpayer that generated them, profits paid out by holding firms, interest on certificates of deposit (or time deposits) in commercial banking, and interest on some government debt (IMF 2000, 22). Finally, this regime provided a tax incentive in the form of a three to five year exemption for "profits distributed to partners in firms entitled to the exemption set forth in Art. 14 of the Industrial Tax

Code for a like period." This typically wording was typical of legislation passed at the time, and essentially, in this case, indicates that the decision for firms' exemptions ultimately lies with the Minister of Finance (Law 14/92, Art. 4).

The MPLA's reforms to corporate income taxes during this period also introduced amendments to the corporate income, or industrial tax (*Imposto Industrial*), which had been in force since 1972.[16] The industrial tax regime levied taxes on any commercially- or industrially-derived profits to which income tax had not been applied. This tax was imposed on activities in agriculture and forestry, contract execution fees, and on representatives of commercial or industrial bodies with a head office, management base, fixed establishment, or domicile in Angola conducting either local or foreign business activities. The tax was levied at the regular rate of 35 per cent and 20 per cent for income imputed from activities involving only agricultural or forestry activities. This represented a significant change from the previous regime, dating to before independence, which involved a range of progressive surtaxes; this new regime constituted a streamlined tax on all corporate (public, private, and partnerships) profits.

This programme divided industrial taxes into three groups: Group A was applied to 'actual profits' of state- and privately-owned corporations and enterprises, insurance and credit companies, and the profits of commercial firms exceeding particular capital limits and individual taxpayers with sales above a certain level. Group B covered 'presumptive profits' earned by taxpayers involved in occasional industrial activities not covered by Group A or B. Group C was for 'estimated potential profits' and was applied to individual taxpayers who met all of the following criteria: self-employed, work individually or with up to three others, no formal or

[16] Theses reforms were constituted by Laws 18/92, 7/96, 7/97, 5/99, and Executive Decree 84/99, passed between 1992 and 1999, which overturned Legislative instrument 35/72 of 29 April 1972.

reliable bookkeeping, own a maximum of two motor vehicles, and generate yearly sales under a set limit.

The industrial tax regime included numerous exemptions. Enterprises that benefitted from exemption included the Central Bank; international air and marine transportation firms with reciprocal arrangements for Angolans abroad; specific activities of cooperatives agreements related to construction, workers' production, consumers, cattle raising, and agriculture; associations with educational, athletic, or cultural activities, and corporate income covered by the special tax regime.

In addition, the regime included the possibility of exemptions for three to five years for corporate income generated through the establishment of industries new to Angola as well as on income earned from activity "in areas considered to be of interest to economic development." Similarly, "the total or part" of profits generated from activities aimed at "social welfare and interests" were exempt (Art. 14). Moreover, the regime provided tax incentives for up to ten years to people working on new projects in agriculture, cattle raising, or forestry as well as to activities in these industries and fishing with yearly turnover under a set limit.

Finally, this regime endowed the Minister of Finance with the capacity to address incentives and exemptions on an ad-hoc basis and with the specific power of authorising a reduction of 50 per cent on the industrial tax rate paid by companies engaged in installing industries by using national and local resources and those located in disadvantaged areas. These were to last for up to ten years.

As part of these amendments to the corporate tax regime at the turn of the century, the government also introduced a new law on taxation of contract work (*Tributação de Empreitadas*, Law 7/97). This special regime applied to both corporations and individual employees not subject to the general income tax, regardless of the frequency, nature, or existence of a fixed location in Angola of their activities. The contract work tax was imposed at a rate of 35 per cent on 15 per cent of the value of contracts for all cases other than the construction sector, in which it was levied on 10 per cent of contract values.

Oil and gas

The MPLA did not make major revisions to the petroleum tax regime during the second part of the war. Indeed, by the turn of the century, much of the legislation governing the oil industry's special tax regime remained in place, some parts dating to the pre-independence period. However, one notable change was the government's introduction of a revised tax regime for the mining industry in the mid 1990s through Law 1/92 and Decree Law 4-B/96. This set out the tax obligations for mining companies, comprised of: industrial tax on earnings; royalties levied on the value of the company's mineral resources (between two and five per cent according to the type of mineral resources); and surface tax (between the equivalent of $1 and $4, increasing with duration.

Consumption and production

By 2000, there was no sales tax in Angola. However, goods and services were subject to a set of fiscal obligations that were reformed during the second half of the war. The most important of these is the Stamp Tax[17] (*Imposto do selo*), a financial obligation on transactions (such as property transfers) and legal documents (cheques, marriage licences, commissions, etc.). A wide range of taxable acts is set out in legislation, such as bank drafts, gifts, company liquidation, housing leases, and

[17] These reforms were represented by Decree-Law 1647/45; Decree 7/89; Executive Decree 34/95; Law 4/96; Executive Decree 85/99; and Decree 31/99; 49/99.

dividends; the main exemption is granted to verbal contracts. The rates applied were typically at a rate of less than one percentage point, while some were substantially higher. Law 4/96 set out obligations on banking operations, including the sale of public funds or securities, foreign currency, and banking charges on interest and commissions. Depending on the type of operation, stamp duties on banking operations ranged from 0.15-1 per cent. The banking legislation provided exemptions for operations conducted among banking institutions and exchanges.

The consumption, or excise, tax (*Imposto de consumo*), set out in legislation passed between 1989 and 1993 (Decrees 24/89, 70/91, 20-M/92, 13/93), established a table of specific and ad valorem taxes on the importation and production of a range of goods including automobiles, beer and alcohol, liquefied gas, and durable goods at rates ranging from five to 30 per cent. The regime further amended the Consumption tax in the late 1990s by introducing new regulations and excise tax rates (Resolution 6/96; Decree 75/97; Law 9/99; Decree 41/99). These were levied on the importation and production of goods; public auctions or sales from the customs agency; the use of materials outside the production process that had been exempt from taxes; and consumption of electricity, water, telecommunications, and hospitality services. The tax was levied at a general rate of 10 per cent, while surcharges ranged between 20 and 30 per cent and subsidised rates were between two and five per cent. This regime provided exemptions for goods manufactured through artisanal production or exported by the producing company. Additionally, the regime did not subject primary products in forestry and unprocessed mineral, agricultural, livestock, and fishing processed to this tax.

International trade

As part of its economic reform strategy beginning in the late 1980s, the MPLA sought to boost the emergence of Angola's refurbished private sectors through a series of measures that offered tax benefits for private investment. These mainly took the form of reductions on import tariff rates. Legislation issued in 1999 set out duties on imports and exports (Decree 13/99). The ad valorem rate of import duties published in the 1999 tariff code averaged 12 per cent, while a set of specified non-commercial imports were exempt. The legislation set out various specific and ad valorem export taxes at rates of one to two per cent according to the type of merchandise. During this time, the National Customs Service (*Serviço Nacional das Alfândegas*, SNA), also imposed a Customs service fee (*Taxa de servico aduaneiro*), issued at a flat rate of five per cent of imports (IMF 2000, 26).

Revenue analysis 1991-2002

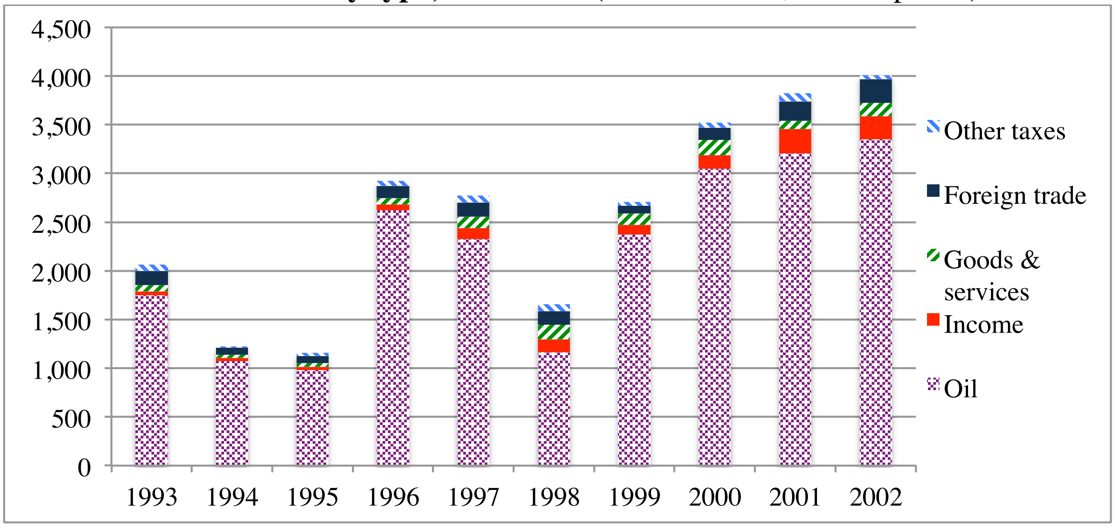
This section continues presentation of previously unpublished tax statistics collected through fieldwork in Luanda to analyse the impacts of tax reforms during the second half of the conflict.[18]

Tax revenue climbed from $2.065 billion in 1993 to $4.318 billion in 2002. During this period, tax share of GDP increased from 35.49 per cent to 38.54 per cent, reflecting the MPLA's greater overall tax effort in the economy. However, comparing this period to 1980-1990, tax share of GDP declined from an annual average of 36.98 per cent to 35.5 per cent.

[18] Note: This analysis omits data for the years 1991-1992 in places because of concerns about inconsistency and validity.

Oil taxes comprised the largest share of tax revenues, averaging 83.37 per cent of the regime's annual tax take in this period. Oil taxes increased in nominal terms from $1.749 billion to $3.35 billion between 1993 and 2002.

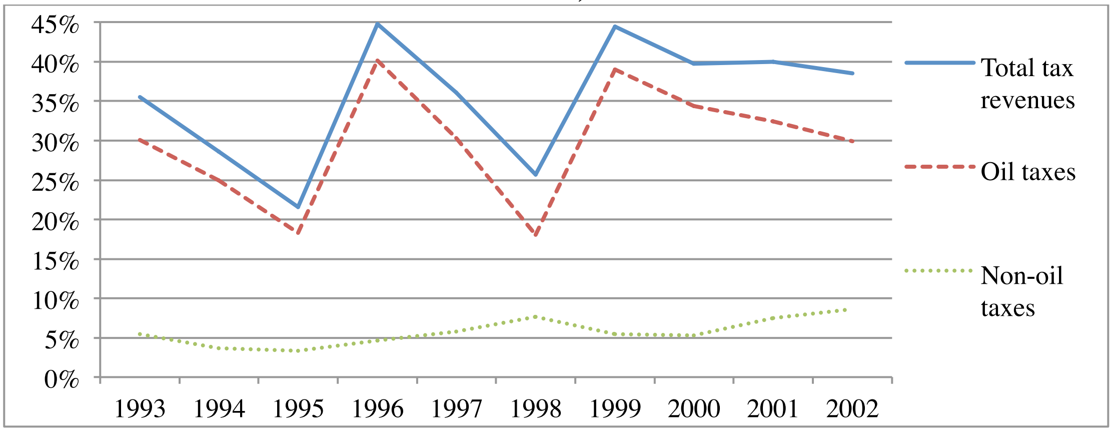
Chart 4.8: Tax revenue by type, 1993-2002 (USD millions, market prices)



Source: Data compiled by the author from Ministry of Planning (2004, 2008) statistical bulletins.

Correspondingly, receipts on petroleum also comprised the larger share of GDP during this period: oil taxes averaged 29.76 per cent of GDP, while non-oil taxes averaged only 5.73 per cent of GDP from 1993 to 2002. Compared to the period between 1980 and 1990, oil tax share increased (from 21.82 per cent) while non-oil tax share decreased (from 15.17 per cent). That these ratios moved in opposite directions indicates the MPLA's greater concentration on taxing the oil sector, to the neglect of other areas of the economy.

Chart 4.9: Tax revenue as a share of GDP, 1993-2002



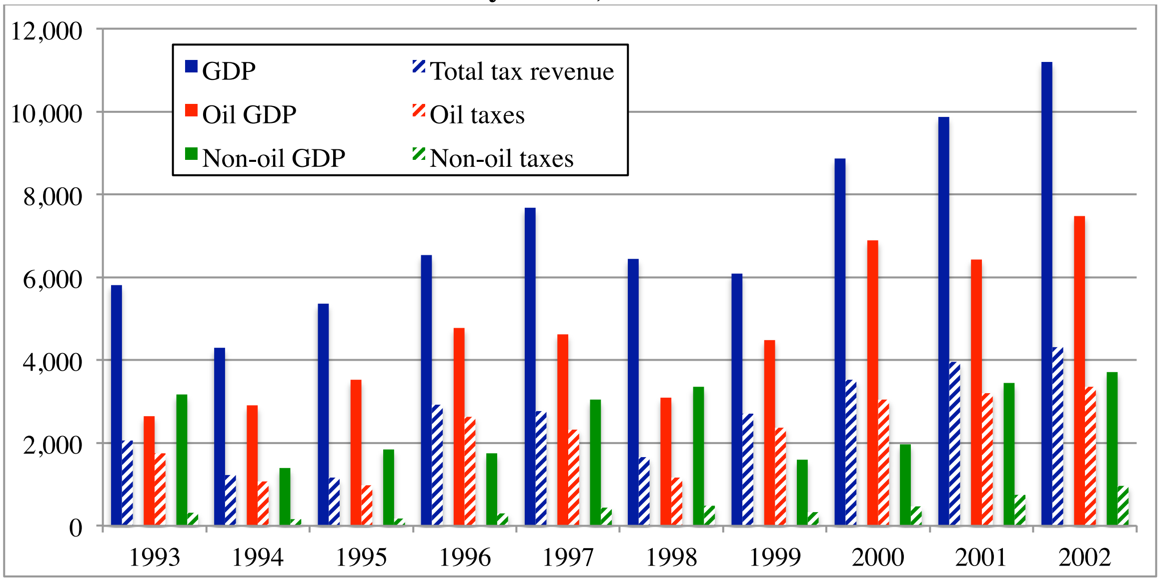
Source: Tax data compiled by the author from Ministry of Planning (2004, 2008); percentages calculated by the author from absolute figures of tax and GDP.

The divergence in trends in tax effort between the 1980s and 1990s, with tax effort increasing in the oil sector and decreasing in the non-oil sector, support the idea that oil wealth disincentivised tax reform by providing a source of revenue. Comparing the later part of the conflict to the 1980s, oil tax share increased from annual averages around 23 per cent to about 27 per cent, while non-oil tax share of GDP decreased from 15 per cent to 6 per cent. At the same time, the proportion of taxes derived from oil increased form less than 60 per cent to over 80 per cent.

The dominance of oil in the MPLA's tax revenues and extractive capacity is clear through analysing tax collection in the oil and non-oil sectors relative to the overall size of the oil and non-oil economies. Chart 4.10 below shows three data pairs: GDP and total tax revenue, oil GDP and oil taxes, and non-oil GDP and non-oil taxes, making clear MPLA's greater tax effort in the oil sector than in the non-oil sector between 1993 and 2002.

Between 1993 and 2002, oil taxes accounted for an annual average of 46.53 per cent of oil GDP, while non-oil taxes represented only 16.96 per cent of non-oil GDP during this time. This chart indicates that during the later half of the conflict, non-oil taxes did not contribute significantly to Angola's economy overall as well as specifically in the non-oil sector. As such, the dominance of oil in Angola's tax base reflects the undiversified structure of the economy in general, but also MPLA's far greater tax effort – including a concentration of resources and relatively more developed institutional apparatus – in the oil sector than in the non-oil sector.

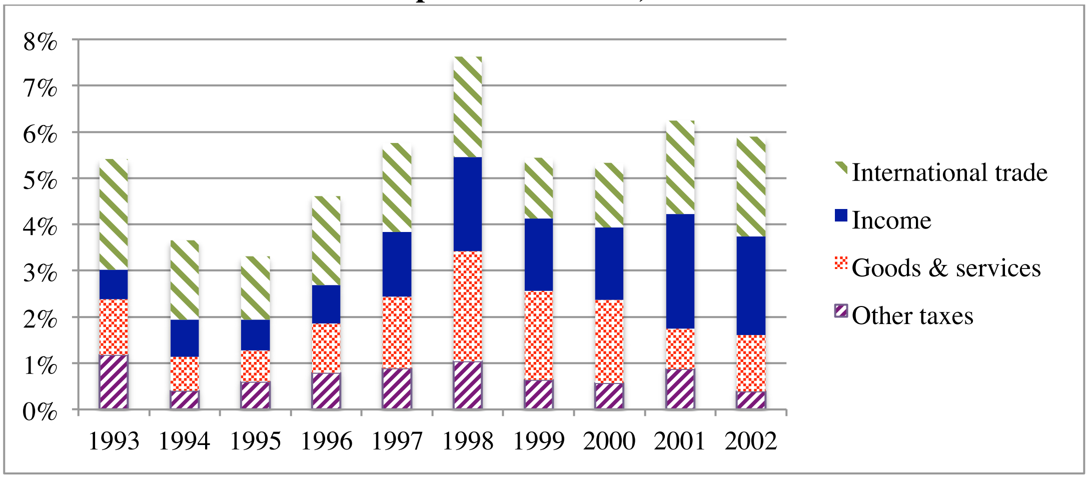
Chart 4.10: GDP and tax revenue by sector, 1993-2002



Source: Data compiled by the author from Ministry of Planning (2008); Ministry of Finance (2007); Ministry of Finance (2012).

Non-oil taxes expanded slightly throughout the period, from 15.29 per cent to 22.44 per cent of the tax base. Compared to oil taxes, non-oil taxes continued to contribute a narrow share of the revenue base, averaging 16.63 per cent across the period. Of non-oil taxes, those from international trade represented the largest share of the economy, averaging 1.84 per cent of GDP annually between 1993-2002. During this time, income taxes averaged 1.41 per cent while those on goods and services averaged 1.34 per cent of GDP. Income taxes increased the most of the non-oil tax categories, with income growing more than six-fold to $238.8 million in 2002. This likely reflects MPLA's revisions to income and profit taxation, including the introduction of new industrial and income tax regimes throughout the 1990s.

Chart 4.11: Non-oil taxes as a per cent of GDP, 1993-2002



Source: Data compiled by the author from Ministry of Planning (2004, 2008) statistical bulletins; GDP percentages calculated from absolute figures.

4.6. Conclusion

This chapter assessed revenue collection processes in Angola between independence in 1975 and the end of the civil war twenty-six years later. It analysed drivers of change in tax policy and procedures in relation to civil war, increasing oil dependence, and shifting economic regimes, and investigated their impacts on extractive capacity.

The chapter located the origins of oil dependence in the MPLA's post-liberation strategy to mobilise funding for the civil war and its socialist development programmes. It argued that because of the availability of easily extractable natural resources, the MPLA was not dependent on taxation from a broad economic base for public financing. During the war, MPLA made minimal reforms to the tax system. By the end of the conflict, it was still largely based on colonial legislation, and remained ineffective, overly complex, and heavily biased towards extracting receipts from oil. As such, the major finding from this research is that the Angolan case runs counter to the bellicist notion that protracted warfare acts as a catalyst for the establishment of an efficient and effective tax system. Rather, the chapter used original research to support the hypothesis that war did not catalyse increased taxation or greater extractive capacity because of large-scale oil income, which replaced the need for broad based domestic taxation through the civil war period.

Angola's oil wealth undermined the tax system. The chapter argued that oil disincentivised comprehensive tax reform, as it prevented the regime from needing to overhaul the tax apparatus in order to ensure a continued stream of income. In addition, the analysis highlighted the divergence in the MPLA's oil and non-oil tax efforts to demonstrate the party's singular focus on strengthening extractive capacity in the oil and gas sector. The revenues provided by tremendous resource wealth – and the MPLA's management of the war economy on which it was based – fundamentally skewed the revenue apparatus as a whole because the party neglected to develop the extractive apparatus in other areas of the economy. As a result of the limited legislative or administrative infrastructure to tax any other sector and the lack of diversity in the economy as a whole, the Angola's tax base became narrowed throughout the civil war period.

The chapter also established that the oil tax system became the MPLA's central conduit for collecting revenues from petroleum activities during the civil war. This fact was made clear by demonstrating that the MPLA extracted a dominant share of the income it derived from oil through taxation on petroleum operations. Because oil wealth fuels a massive and complex patronage system, taxation provided the MPLA with a political tool to consolidate its power through nourishing clientele. These dynamics were compounded because of a lack of transparency in budgeting and reporting processes.

In addition, oil wealth insulated the MPLA from domestic and international pressures for fiscal reform. Moreover, these processes provided political elites with autonomous revenue sources that disconnected state finances from society. As a result, taxation processes during the civil war undermined the links between the imperatives of revenue generation and redistribution.

After presenting the Mozambican post-conflict case in Chapter 5, Chapter 6 will continue this historical analysis to compare post-conflict developments with the wartime period.

Chapter 5
Post-conflict Mozambique: Shifting economic and tax systems 1994-2013

5.1. Introduction

This chapter extends the analysis of revenue collection processes presented in Chapter 3 to the post-war period in Mozambique. The objective of the case study is to build an analytical account of the nature of revenue collection processes and identify drivers of change in the tax system after the end of the conflict. Two purposes direct this analysis: First, to establish a basis for the analysis conducted in Chapter 7, which addresses the central research question of the PhD of the impact of taxation on statebuilding across the postcolonial period. Second, to identify legacies of the war in terms of their impact on post-conflict taxation, particularly external dependency.

The case research establishes that central structural elements of Frelimo's war economy – namely large-scale foreign aid and external influence, uneven transition, and corruption – continue to operate in the post-conflict period. The central argument developed is that the perpetuation of wartime modes of dependency has undermined taxation processes in the post-conflict period. The analysis maintains the structural approach of the conflict period case studies, tracing political dynamics at work in the post-conflict reconstruction of Mozambique's economy in line with shifts in the revenue apparatus. It addresses three central questions:

- How have revenue collection processes changed since the end of the conflict and what are the key drivers and constraints of tax reform?
- How does external dependency on foreign aid impact taxation?
- What have been the impacts of taxation on revenues and the strength of the extractive apparatus?

The chapter addresses the period from culmination of the peace process in 1994 to 2013. Statistical, discursive, and interview data are presented to build a comprehensive account of Mozambique's post-war tax system and the drivers behind fiscal reform.

In order to provide context for this analysis, the chapter begins by assessing dynamics in Mozambique's post-war political economy, tracing aid and growth levels after the peace process ended in 1994. Section 5.2 considers the consolidation of Mozambique's role as a "donors' darling" through reference to debates on aid, accountability, and ownership. It also addresses the implications of capitalism and corruption for post-conflict recovery and extractive processes. The third section presents an account of tax reforms adopted between 1994-2004 amid on going structural adjustment and subsequent international financial institution-led economic programmes. Through detailed policy analysis and presentation of fiscal statistics, the discussion analyses the impacts of tax reforms during this period. This discussion is followed by a critique of donor-driven tax policy, which asserts that foreign aid has undermined the tax system and narrowed the revenue base.

Section 5.4. moves on to analyse the creation of the Mozambican Revenue Authority and other tax reforms introduced between 2004-2013. This section draws out the key recent developments in Mozambique's tax policy and administration, presents data to analyse revenue impacts, and highlights the circumstances under which, for the first time since the mid-1980s, tax revenue surpassed foreign aid levels in the economy. Particular attention is paid to the motivations and perceptions of tax reform within the government relating to the major overhaul of the system undertaken in the last five years designed, in part, to reduce dependence on donors.

The fifth section addresses another major recent development in Mozambique: the discovery of enormous hydrocarbon resources and ballooning activity in the mining sector. This discussion considers the implications of Mozambique's newfound resource wealth, drawing parallels between dependence on primary commodities and aid, and highlights the government's efforts to adapt the tax system accordingly. The final section reviews the findings of the case research.

Data collection, sources, and labels

Like the Chapter 3, this chapter presents extensive original data collected during fieldwork in Mozambique between January and August 2012 and on a follow-up visit in November 2013. The source of the tax statistical data presented in this chapter is the Mozambican Revenue Authority (ATM). ATM officials provided the author with government two bulletins (published in 2012 and 2013) after numerous meetings and requests for data. These bulletins were intended for public use. The data labels in this chapter refer to:

- Taxes: all compulsory revenues transferred to the Mozambican government for public purposes (excluding aid, loans, and spending)
- Income taxes: Income taxes capture two main categories, individuals (IRPS) and corporate (IRPC). Corporate income taxes include obligatory payments on profits and property for private, public, and cooperative enterprises.

- Goods and services: VAT on domestic production, VAT on imports, excise tax (ICE) on domestic production (including beer and tobacco), ICE on imports, and taxes on international trade (including tariffs)
- Other taxes: These include stamp duty, fishing licences, vehicle tax, the National Reconstruction Tax, taxes on mining and petroleum production, tax on gas, royalties and surface duty

In addition, in terms of discursive material, this chapter presents tax legislation gathered from the archives of *Diário da República*, the state gazette, held at the National Press and in the archives of the Ministry of Finance library. Finally, the chapter complements these sources with interview material that was gathered through meetings with current and former political elites.

The statistical data available from international financial institutions for this period cover selective issues in taxation and is generally presents tax collection in aggregate form (total taxes, rather than broken down by type). For the years of overlapping government and IFI data, there is a high degree of consistency in the data for the years covered by both the IFIs and the Mozambican government (beginning in 1998). The chapter presents the Mozambican government data in places where there are minor inconsistencies between the two sets of figures in order to maintain consistency of the source.

The following information is available about state accounting methods during this period: The Mozambican government distinguishes between domestic and external resources; recurrent domestic revenues are broken down between tax and non-tax revenue. The government prepares its fiscal reporting on a modified cash basis, and significant balance sheet items (in particular, information related to the shares of corporations owned by the state) are not included (IMF 2014). The accounting methods are therefore limited by the absence of complete information on public sector enterprises and their tax contributions. Since 2007, the government has produced quarterly revenue collection rates. However, there are delays in reporting tax collection and breaking down revenue by type (IMF 2014, 20). In addition, while annual fiscal statistics are now available on the Ministry of Finance website, covering the period 1998-2012, there have been no historical revisions to previous data (IMF, 25), raising the challenge of historical consistency.

5.2. Post-war political economy

This section addresses the question of how central features of Mozambique's war economy operate in the post-conflict period. It asserts that the role of external actors and large-scale foreign aid have become consolidated since the end of the war. The discussion highlights discrepancies between perceptions of donors and their actual achievements, and suggests that a key explanation for Mozambique's uneven development is because aid, rather than broad-based taxation, has driven growth and the post-conflict development agenda.

"Donors' darling"

Mozambique's economy was fractured by the brutal 17-year civil war, which devastated what remained of the state's economic basis and infrastructure following the liberation war. However, the government's macroeconomic and fiscal reforms – typically undertaken in partnership with a foreign financial-institution partner – foreign aid, and political stability facilitated recovery since the end of the war in 1992. Like Angola after 2002, Mozambique became one of the fastest growing economies in the world following the end of the peace process in 1994. The economy has posted annual growth rates averaging between seven and nine per cent for two decades, and the World Bank now considers Mozambique one of Africa's best-performing economies. However, while the country's GDP per capital remained among the lowest in the world.

Table 5.1: GDP and foreign aid, 1993-2012 (annual averages)

	1993-96	1997-2000	2001-04	2005-08	2009-12
GDP (USD millions)	2,425.75	4,223.00	4,660.50	7,964.50	11,671.75
GDP per capita (USD)	154.62	246.24	249.76	394.19	533.62
GDP (MTS millions)	19,654.99	54,728.79	105,872	194,982.5	341,246.3
GDP (% change)	7.99	8.20	8.96	7.80	7.06
ODA (USD millions)	1,080.65	927.91	1,367.71	1,677.74	1,969.86

Source: Data compiled by the author from Ministry of Finance (2011, 2012); AEO (2013); World Bank (2014).[19]

Just as the peace process formalised the transition to market capitalism, it also consolidated the pervasive involvement of donors in policymaking, laying the foundations for Mozambique's post-conflict status as a "donors' darling." Following their peak at $1.46 billion in 1992 during the peace process, foreign aid inflows declined slightly through the end of the decade in line with global development assistance trends. Between 1993 and 2000, official development assistance averaged just over $1 billion a year. Aid has continued to increase in the twenty-first century, reaching a high of $2.2 billion in 2002 and averaging over $1.7 billion a year between 2002 and 2012. Foreign aid has constituted an annual average of over 30 per cent of GNI since the end of the civil war, while development assistance has constituted between 40 and 50 per cent of the government's annual budget over the last decade (Ministry of Finance 2012; World Bank 2012). Making significant gains in these areas while remaining at peace since 1992, Mozambique is now hailed as a success

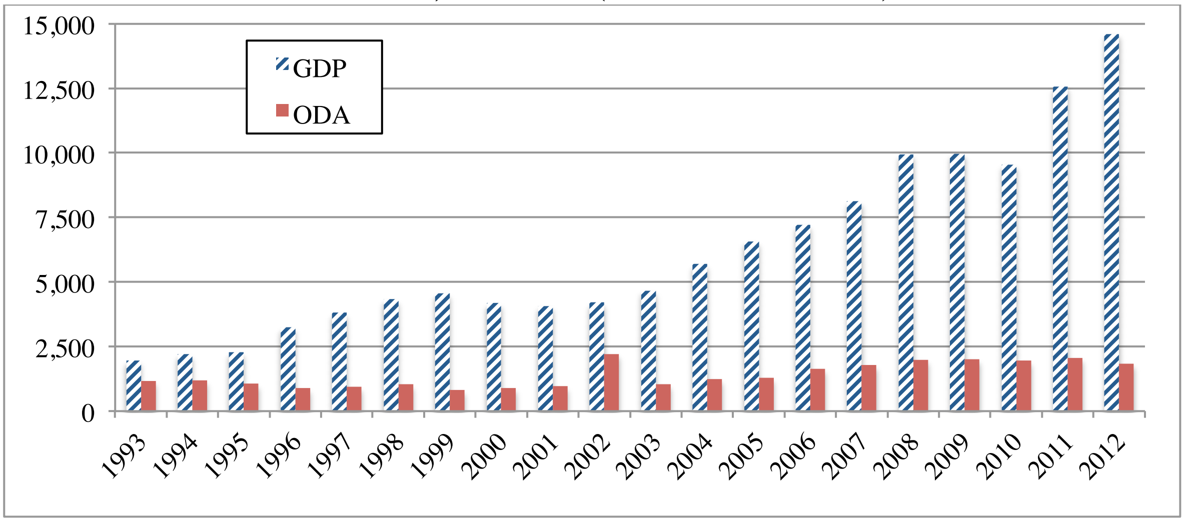
[19] ODA refers to net overseas development assistance and official aid received. Current prices except GDP growth, which are constant 2000 prices.

story of post-Washington Consensus development, and the World Bank now considers the economy one of Africa's best-performing.

Following formalisation of the transition to market capitalism and increased involvement of donors during the peace process, the Bretton Woods institutions continued to push Washington Consensus development during the 1990s and further reinforced free market reforms that had begun during the war. The IMF's second round of structural adjustment involved harsh caps on credit, drastic cuts in government expenditure including public services, and further privatisations that caused lasting damage to the economy. Restrictions on government spending involved the slashing of public sector wages, which caused teachers and nurses to fall below the abject poverty line in 1993, despite war ending in 1992. The immediate effect of this was to institutionalise petty corruption in Mozambique, as social-services employees, notably in health and education, claimed fees informally and civil servants collected "privatise user fees," or bribes, to do their public jobs while stealing time to work second jobs to fund their survival (Hanlon and Smart 2008, 13).

The IMF deemed post-conflict reconstruction to be inflationary, so it capped aid intended to rehabilitate the devastated economy. Mozambique's infrastructure was destroyed by the civil war, and without the rebuilding of roads, domestic trade remained at a standstill. The Fund also enforced austere credit restrictions, which resulted in exports and industrial output each declining to 40 per cent of their 1991 levels by 1995. Despite peace and post-election political stability, the economy continued to decline through 1995. With an easing of IMF caps in 1995, Mozambique saw growth between 1996 and 1998, but the economy then declined between 1999 and 2001 (Chart 5.1 below).

Chart 5.1: GDP and official aid, 1993-2012 (current USD millions)



Source: Data compiled by the author from Ministry of Finance (2011; 2012); World Bank (2014).

The Washington Consensus model of development has now been replaced by the ascendance of the UN Millennium Development Goals and the "post-Washington Consensus" framework, which emphasises social development, human capital, and infrastructure rather than pure market-driven economic development. Mozambique is presented as a model case of donor-driven development, with aid agencies funding large-scale infrastructure and capacity building programmes as well as financial reforms to attract investment and reconstruct economic foundations and growth capacity.

Aid, accountability, and ownership

Contrary to such constructions of a model case of post-conflict reconstruction, Mozambique remains an exceptionally poor country and in 2013 was ranked the world's third least-developed (UNDP 2013). Macroeconomic achievements seem to be disconnected from the population, most of which lives on less than $1.25 a day, and impressive growth has not translated into job creation or reduced income inequality. This case research contends that a central explanation for Mozambique's uneven development is because aid, rather than broad-based taxation, has driven growth and the development agenda.

With aid totalling about $2 billion annually and direct funding to the government's budget accounting for nearly half of revenues in recent years, Mozambique is heavily dependent on foreign donors. As Wuyts writes, the effect of donors in Mozambique is profound: "aid dependence has become a new way of life, which, increasingly is built into the very mechanisms through which the state operates" (1996, 746). In the words of one European ambassador interviewed in Maputo, "development keeps patronage alive."

External dependence and the pervasive scale of aid inflows in post-war Mozambique raise questions about 'ownership' of contemporary Mozambican politics, particularly because they have allowed foreign donors to exercise considerable influence over domestic policy-making. As the most politically influential bloc of donors in Mozambique, the "G19" group of Western aid organisations that directly fund the state budget is central in this debate. The G19 is the largest group of its type in Sub-Saharan Africa and dominates policy processes with the Mozambican government. According to senior diplomats and aid officials in Maputo, the group maintains deep control over spending and constitutes a sort of para-state apparatus. Discord between the government and G19 came to a head in with the 2010 *crispação* (literally, friction or tension) in relations that resulted in donors cutting off aid due to concerns related to electoral reform, anti-corruption, transparency, and conflict of interest. The situation worsened when the police killed a dozen people during civil riots over rising food prices and with publication of data indicating a reversal in poverty-reduction trends. While the G19 resumed budget support later that year, the group's subsequent threats to withhold funding continue to demonstrate the leverage of foreign aid over both Mozambique's domestic decisions and international relations.

The large-scale corruption that emerged during the war as a consequence of conflict, increased aid, and transition to market capitalism has expanded further after the peace process. Hanlon characterises the post-conflict decade in Mozambique the "era of savage capitalism," in which the state was "forced to withdraw from the economy" (Hanlon 2009, 3). Privatisation of more than 1,000 previously state-owned companies further contributed to accelerated corruption in Mozambique, which had already become widespread and institutionalised through the peace process.

In the post-war period, corruption became known in Mozambique as *cabritismo*, or "goatism," referring to the Xichangana adage that a goat eats anything it can reach on its tethers. As Hanlon observed, "no project could go ahead without local and national party officials having shares." This culture was facilitated by a bureaucratic structure that kept the state's pervasive power over the economy. *Cabritismo*, "savage capitalism," and pervasive corruption were caused by the war, but were institutionalised through the peace process and exacerbated through reinforced post-conflict behaviours. Indeed, in the last decade, "key members of the elite have built on bases created in the 1990s and expanded their interests under the party and state umbrella" (2009, 4-6; Hanlon and Smart 2008, 108-112). The World Bank recognised that corruption was lower before the shift to free market economics, and the US government conceded that after the adoption of capitalism "corruption has been spreading rapidly" in Mozambique (Pradhan et al. 2000; Spector 2005).

Privatisation and post-conflict politics

In addition to the politics of aid, privatisation processes since the end of the war had important implications for the development of the private sector, state institutions, and state-society relations in Mozambique. The Mozambican state used various tools to "shape the outcome of privatisation," "from the creation of government bodies that handled the valuing and sale of companies to the passage of legislation that aided national investment" (Pitcher 2002, 177). Individuals and companies with connections to the state and Frelimo were major beneficiaries of privatisations. As of 2008, the government was a shareholder of most of the twenty-five largest companies in Mozambique and held interests in over 100 (2012, 150). As of 2015, the state owned shares in over 156 publicly-owned companies and enterprises (IMF 2015, 8).

Pitcher characterises Mozambique as a case of "partisan" private sector development, highlighting the patterns in the transfer of state-owned enterprises to selective party supporters (2012, 146). As a result of these processes, the overlap between holders of political and economic power has grown in the post-war period. Many of Mozambique's new capitalists have drawn on their connections to Frelimo and the state to move from politics into business, gaining ownership of companies, land, rights, and board seats. Moreover, the "overlap and linkages between business and politics enjoyed by many of the new domestic capitalists moves beyond empowerment to favouritism and privilege. The new domestic capitalists in Mozambique are former prime ministers as well as the current prime minister, and former ministers of Defence, Justice, State Security, Economy and Social Affairs, Trade and Industry, and Agriculture…The higher the political profile, it seems, the greater the business interests" (2002, 158-159).

The context of limited democracy allowed Frelimo to manage the privatisation process in a way that has benefitted party interests and control over the state. Pitcher writes, "the government consciously crafted the institutions of economic change to allow the broad use of state discretion with respect to the management of private property rights and the growth of a private sector. In so doing, the government was able to strengthen the power of the ruling party over the course of the privatisation process" (2012, 145-146). The elements of this strategy included "a disciplined and experienced ruling party in a relatively stable two-party system…uses of patronage, corruption, and a lack of transparency…The government used privatisation to reinvigorate networks that formed the constitutive elements of the ruling party. It took advantage of the process to create interests with a state in private sector development" (2012, 146).

Moreover, Pitcher argues, "the Mozambican government periodically resorted to authoritarian measures to constrain popular responses to privatisation or circumvented existing rules to favour some participants in the process over others" (2012, 155). This included co-opting organised labour, brutality against opposition members, and supressing dissent through violence against protestors and intimidation of the media. As such, while private sector development in Mozambique has included the establishment of business associations, the creation of investment funds, new regulatory agencies, and transfers of firms to private owners, the privatisation process has taken place "within parameters largely determined by Frelimo, which encroached on political rights and civil liberties to achieve its objectives" (2012, 185).

While only a small group of Mozambicans benefitted from transition and the economy remains weak, these processes bolstered state power. Pitcher argues that post-war economic reforms "revitalised the state…privatisation has not 'hollowed out' the state, but 'filled it in.' It has facilitated the efforts of ruling parties to build new constituencies and to enhance state capacity" (185).

Pitcher's arguments about the state's continued intervention in the Mozambican economy fly in the face of the World Bank's pronouncements of the success of Mozambique's privatisation. They also run counter to the notion that transition resulted in decreased sovereignty in Mozambique. Rather, "what these connections reflect instead is the ability of the state to adapt to changing national and international circumstances and to find a number of counterparts (foreign and domestic capital) who share it new agenda" (2002, 177). Finally, Pitcher's arguments can be seen as a comeback to the discourses on neopatrimonialism in the African state: structuring institutions is a central tool for building modern market economies, not just a disguise for elite accumulation.

5.3. Tax reforms: 1994-2004

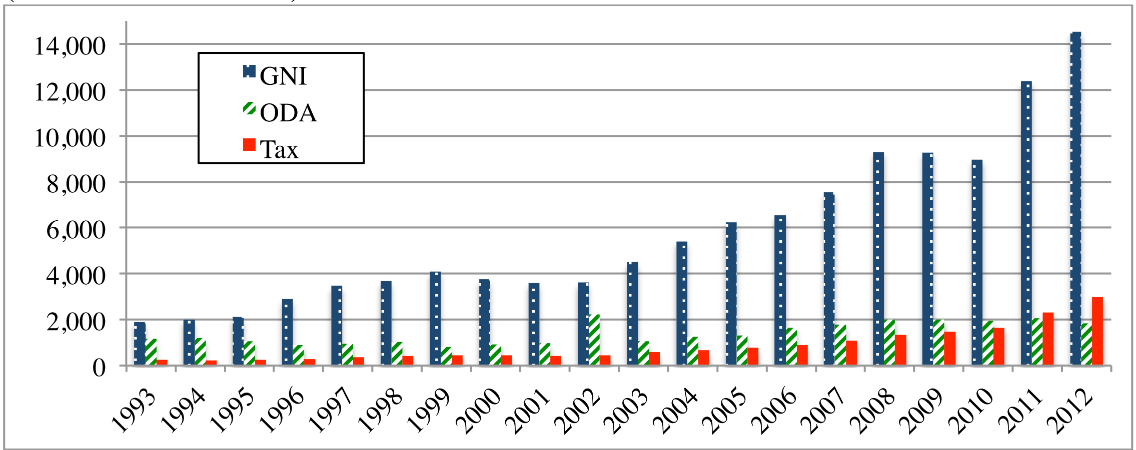
This section assesses revenue collection processes during the first decade of peace, with the objective of identifying how Frelimo has adapted the tax system to support post-conflict statebuilding. It provides a detailed account of tax reforms in order to identify how legislation and administration have changed since the end of the conflict, and the underlying political dynamics.

The discussion also investigates the continuing influence of external actors and foreign aid on tax policy. It contends that as a consequence of aid dependence, the IMF and donors have continued to exercise enormous influence on tax reform policy and implementation in the post-conflict period. The section then analyses fiscal statistics to assess the impact of these reforms on revenues. The final part of the section critiques donor-driven tax policy during the conflict.

1994-1999: On-going structural adjustment

Between the end of the conflict in 1992 and 2011, foreign aid constituted a dominant share of the economy relative to tax income and was the largest source of funding for post-war recovery (Chart 5.2 below).

Chart 5.2: Gross national income, official aid, and tax revenues, 1993-2012
(current USD millions)



Source: GNI and ODA data from World Bank (2014); AEO (2013); tax data compiled by the author from Ministry of Finance (2011; 2012);

As large-scale aid continued to feature centrally in Mozambique's post-conflict economy, expanding and improving revenue collection became a fixture on the (post-) Washington Consensus international development agendas, reinforcing and fundamentally shaping Frelimo's fiscal reform strategy. As wartime reforms of the tax system corresponded to externally driven economic shifts, on-going structural adjustment programmes continued to influence taxation reform and capacity in Mozambique after the peace process. The first 'Enhanced' Structural Adjustment

Programme (ESAP) ran between 1990-1995, followed by the second ESAP between 1996-1999.

The consensus among diplomats involved in financing current tax reform and fiscal technical assistance in Mozambique is that donors are largely responsible for driving and implementing fiscal reform programmes. In the words of the Mozambique Country Director of the development bank that coordinates the G19 tax basket, "without donors there would be little tax reform." The Ambassador of another G19 country asserted, "Government capacity is extremely limited in economic policy. There is a reluctance to take decisions, which leads to deferral, eventually, to the President. Limited capacity is supplemented by a 'para-state' of development and economic experts" (Author interview, G19 diplomats, Maputo 2012).

As a corollary to these perspectives, donors have exercised considerable control over the direction and scope of reforms since Frelimo joined the Bretton Woods institutions in the mid-1980s, with the IMF holding the most influence in tax policy with the Ministry of Finance and donors primarily concerned with implementation, administration, and financing reform and institution-building. However, in the years following civil war, tax reform was subordinated, and part of, donors' primary focus on designing and implementing institutional measures to support the transition to capitalism and integration into the global market system.

Led by the IMF, external actors that were concerned with fiscal policy have generally focused their efforts and evaluation on the improvement of Mozambique's tax-to-GDP ratio, rather than on wider and more fundamental institutional reform. In particular, donors did not prioritise institutional reform during the first phase of tax reforms following the civil war, which focused mainly on fiscal policies to support the capitalist transition, free market-based growth, and attracting investment.

Post-war decade: tax and customs reforms

In 1993 Mozambican authorities sought the IMF's assistance to assess the state of the tax system and develop a technical assistance programme (Author interviews, ATM officials, Maputo 2012). That year, the government executed a set of tax reforms designed to lessen corporate and individual tax obligations while promoting exports and investment (Varsano et al. 2006, 14). In addition to the Investment Law of 1993 (discussed in Chapter 3 due to its connection with the peace process), the government initiated reform of the customs system during this period. The new measures rationalised the tariff schedule (*pauta aduaneira*) and taxes on imports, cutting ad-hoc customs exemptions and the number of rates from five to twelve while keeping the maximum 35 per cent tariff rate. However, despite these revisions, as well as the government's directed effort to enhance control over customs in the years following the war, customs revenue declined after 1993.

As a result of the poor performance of the customs administration, particularly given the beneficial environment of post-conflict economic stability, the second ESAP created the Unit for Restructuring Customs (UTRA) in 1996. Frelimo, with close oversight from the IMF, contracted Crown Agents, the UK public sector reform consultancy, to step in and take charge over customs in Mozambique. This work focused mainly on building customs institutions rather than legislation, and primarily aimed to enhance administrative capacity and effectiveness. [The Angolan government also contracted Crown Agents with parallel aims during the country's first post-conflict decade.]

The next major set of tax reforms was carried out at the turn of the century, and reflected increased influence of donors in Mozambique's fiscal policy. The reforms adopted between 1999 and 2003 consolidated revisions undertaken during structural adjustment and aimed to build upon, simplify, and consolidate previous revisions to support Mozambique's free market economy. These corresponded to the first round of the IMF's post-structural adjustment Poverty Reduction and Growth Facilities (PRGF) initiative, which aimed to sustain high GDP growth, low inflation, and support the Government's Poverty Reduction Action Plan (*Plano Estratégico para a Reduçao da Pobreza Absoluta,* PARPA). Intended to generate state funds for the PARPA, the PRGF had a particular focus on expanding the government's revenue collection, and this set of reforms concentrated on broadening the tax base and simplifying the system (IMF 2004).

The cornerstone piece of legislation during this period was Law 3/98, passed in 1998, which included approval of Value Added Tax (*Imposto de Valor Acrescentado*) as well as the Special Fuel Tax (*Imposto Especial sobre Combustíveis*) and the Specific Consumption Tax (*Imposto de Consumos Específicos*). These measures were introduced in order to increase efficiency as well as neutrality, as they targeted the cascade effect produced by previous measures and replaced the Consumption and Circulation Taxes (ATM 2012).

The most significant reform was the introduction of value-added tax (VAT). The implementation of VAT resulted from a "long process of analysis" of the tax system in Mozambique, conducted by the government in coordination with the IMF. In 1993, the partnership found that VAT could be implemented in 30 months, but the new tax code was not passed by parliament until 19 January 1998. The government began implementing VAT in April 1999 with the rate set at 17 per cent and applied to goods and services transacted within Mozambique as well as customs and imports.

Following standard procedure, VAT was payable on sales less after accounting for taxed inputs (ATM 2012; Byiers 2005, 14-15).

However, the VAT Code put into force "Special Regimes" and exemptions that applied to a wide range of activities considered significant for the development of the Mozambican economy, including the informal sector and small businesses. In addition, the law set out special regimes for a variety of goods and services related to financial services, health, education, exports and the agricultural, forestry, and fishing sectors. In parallel, Law 3/98 and Decree 51/98 made provisions for reimbursement on production and export of some of these basic goods. Furthermore, the law granted exemptions from customs tariffs on imported goods for Special Economic Zones, Export-Free Zones, and international organisations. Finally, reflecting increased centralisation of Frelimo's control over the economy, the new regime also endowed the Minister of Planning and Finance with the power to make unilateral decisions on policy to award exemptions on goods and services intended for "national institutions of public interest and relevant social purposes" (Decree 51/98).

Analysis of these special regimes, which were introduced alongside VAT, suggests that they sit at root of major challenges the government faced in terms of implementation and administration of the new tax. Officials in the Ministry of Finance and Revenue Authority confirmed in interviews that the new regime was perceived as complex and that the administration was not prepared to effectively implement it. Furthermore, these interviewees indicated that this regime "overwhelmed the administration" with volume of workload and a new set of complex procedures (Author interviews, ATM and Ministry of Finance officials, Maputo 2013).

As a report published by the Ministry of Planning and Development asserts, this administrative burden in the state bureaucracy consequently affected the private sector: “These relate primarily to the special regimes and in particular to the length of delays in reimbursements which prejudice the operations of companies where the amount to be reimbursed can often be sizable” (Byiers 2005, 17). In effect the procedural delays and inefficiencies generated a surtax on particular areas of the economy. There have been potentially wider impacts of the introduction of VAT, and the way it is being implemented, beyond these economic consequences. For instance, it seems likely that the “special regimes” could have inhibited the competitiveness of small businesses because they are ineligible to reclaim VAT on inputs, so the effectively become end consumers as VAT acts like a turnover tax. In this situation, VAT thus disproportionately harms lower incomes. This was a measure vigorously pressured by the international community that was seen as a “clear demand which the government [had] little choice but to accept” (Hanlon and Smart, 128).

Moreover, the introduction of VAT continued the trend in Mozambique of reliance on indirect taxation. These taxes contribute little to revenue levels, as they replaced revenue from trade taxes, and are hard to collect. In addition, VAT tends to hit the poor harder than the rich (Fjeldstad and Moore 2008b, 242-245). Exemptions for key economic stakeholders in industrial projects, such as Mozal and MOTRACO, the transmission company, and challenges to ‘capturing’ the informal sector mean that the impact of this reform on encouraging more constructive state-society relations is limited.

Another significant set of reforms adopted during this period was implementation of the SADC Trade Protocol, designed to establish a free-trade area in Southern Africa. After the Protocol was ratified in 2000, Mozambique began implementation in 2001 with on-going assistance from donors. The cap on import tariffs was lowered from 35 per cent to 30 per cent in 2001 and then 25 per cent in 2003. These new trade taxes also restricted the maximum value of imported consumer products from US$200 to US$50. This represented an effort to expand tax collection from *mukeristas*, or small-scale importing enterprises, but revenue impacts were negligible. In addition, the fiscal framework for trade outside the SADC continued to be negotiated through separate agreements, though the maximum rate was typically 20 per cent. Relatedly, a 2003 Ministerial Diploma (No. 99/2003) introduced customs exemptions for manufacturing activities. These customs benefits provided exemptions on trade taxes (and therefore VAT as well) on inputs imported by firms in the industrial sector with annual income over Mts 6 billion (then about $250,000).

The Specific Consumption Tax (*Imposto de Consumos Específicos*) was also introduced during this period and replaced earlier forms of indirect consumption taxes. Unlike the VAT, which did not distinguish between types of goods, ad valorem rates were charged on specific products categorised as "luxury, superfluous, bad for the health, or dangerous for human consumption or for the environment, such as automobiles, alcoholic drinks, beer and tobacco" (Decree 52/98; Byiers 2005). Fixed percentage charged ranged between 20 per cent for personal hygiene products to 75 per cent for tobacco, wine, and alcohol. While this constituted an excise tax (typically applied to inland sales), the Specific Consumption Tax was also applied to imports. Furthermore, exemptions were built in for VAT-exempt products as well as a variety of other specific goods.

After introducing VAT, Parliament approved the Tax Reform Law in 2002 (Law 15/02), which aimed to simplify the overall fiscal framework in anticipation of further reform. Much like the 1987 overhaul of the colonial tax system, the tax reform law systematically outlined the sources of new revenue in terms of indirect and direct taxes.

During the first post-war decade, the implementation of the Individual Taxation Identification Number (*Número Único de Identificação Tributária*, NUIT) constituted a significant reform of existing administrative procedures, requiring that each firm utilise a unique tax number (Decree 52/2003). The NUIT reform required both companies and individuals to use a unique number when paying both direct and indirect taxes. This was a major step towards improving control over tax payments and simplifying procedures, yet the full benefits of this measure was not realised until further administrative overhaul in 2005.

In conjunction with the NUIT, Frelimo introduced a new income tax regime in 2002. A new framework governing personal (*Imposto sobre o Rendimento de Pessoas Singulares*, IRPS) and corporate (*Imposto sobre o Rendimento de Pessoas Colectivas*, IRPC) income taxes was created by Law 15/2002 (Decrees 20/02 and 21/02). This new regime replaced the previous complex system, which had five income taxes and a base that had become severely narrowed by excessive exemptions and benefits (IMF 2004).

The IPRS is a personal income tax, levied progressively on all household earnings, at the source if possible, at a rate of 20 per cent. Exemptions include the 10 per cent rate for capital incomes, exemptions for earnings under Mts 24 million (then about $1,200), and a 10 per cent rate cap for agriculture. IPRS rates are also subject to a set of deductions according to a taxpayer's marital status and dependents. As this system requires detailed record keeping, the government also created the "simplified regime" (*Regime Simplificado*) as a means to determine taxable income of self-employed residents with annual revenues less than Mts 1.5bn without the required bookkeeping procedures at rates depending on sector (Decree 20/02). According to the 2005 report published by the Ministry of Planning and Development:

> "Whilst stemming from admirable intentions, it is clear this system raises many issues regarding administrative capacity, particularly in a country where this is already stretched. In addition, the complications of recording detailed information on family incomes and dependents may not be suited to the Mozambican reality of large extended and informal family links. Indicative of the complications of administration is the fact that in its first year of implementation, the Government itself was unable to correctly implement the IRPS on civil servants, instead estimating the overall amount due at the end of the year" (Byiers, 18-20).

The IRPC income tax on corporations was introduced at the same time. It replaced the Industrial Contribution (*Contribuição Industrial*), the previous framework for firms' profits, as well as parts of other previous taxes including the Complementary Tax and the Labour Income Tax. The corporate income tax was applied to private, public, and cooperative enterprises at 32 per cent, except for incomes taxed at source, which were subject to 10-20 per cent rates. In conjunction with this reform, the government also set up a dedicated office for large taxpayers (*Grandes Contribuentes*).

The new income tax codes did not contribute to statebuilding in the sense of either revenue collection levels or administrative capacity, due to challenges with implementation and complexity in the legislation. However, as direct taxes, they represent a shift towards more appropriate sources of revenues and signify a strong effort by Frelimo to engage more constructively with a broader base of taxpayers.

Another major reform during this process of fiscal re-orientation between 1999 and 2003 was the introduction of the new Fiscal Benefits Code. This provided exemptions on Stamp Tax, Customs Duties, Income Taxes, and some property taxes for large-scale projects and rapid development/industrial free zones. In addition, on and offshore petroleum and mining operations were granted exemptions from VAT, Customs, and the Specific Consumption tax on imports, as well as reduced income taxes on investments over $500 million (Decree 16/02). These investments pay half the standard tax rate on property transfers in various industrial segments of the economy.

This was a much-needed revision, as from the time that the Investment Law and Benefits Code (Law 3/93 and Decree 12/93) were introduced at peace in 1993, the number of tax regimes had multiplied, creating dozens of distinct pieces of legislation on benefits. Conducted as part of the PRFG, the IMF conducted an assessment ("Reduction of Fiscal Benefits," 2000), and found that existing benefits "were overly generous and not cost-effective." The IMF recommended a proposal "for less incentives in the form of exemptions from taxes on profits and an emphasis instead on tax credits, temporary suspension of tax or accelerated depreciation" (IMF 2000; Byiers, 20).

The new Fiscal Benefits Code governing investments made under Law 3/93 as well as those related to Mining and Petroleum (Laws 14/02 and 3/01) unified all incentives. Additionally, the Code provided incentives for investment in specific industries. For instance, agricultural investments enjoyed a four-fifths reduction in the rate of income tax rates until 2012 (22).

In order to gain exceptional incentives, an investment project must be approved by the Council of Ministers and demonstrate how it would enhance Mozambique's economic development (specifically important were plans to create jobs and reduce regional disparities). During the first five years, these large-scale investments also enjoyed an investment tax credit on five to ten per cent of the total investment, which amounted to a break in corporate income taxes. Investments outside Maputo benefited from higher tax breaks.

In addition, the incentives regime recognised Rapid Development Zones in several locations, including the Niassa province, the Zambezi Valley region, and Nacala district. The code provided give-year exemptions from certain customs duties and income tax credit of 20 per cent for projects in a range of industries (transport, education, health, construction, agriculture, etc.) until the end of 2015. Previously approved in 1999, laws governing Industrial Free Zones (*Zonas Francas Industriais*) were also included in the benefits regime. Investments meeting a set of criteria, including the creation of at least 500 jobs and over 85 per cent of products directed for exports, benefited from exemption from all customs tariffs, property tax, a reduction of 60 per cent on corporate income tax rates, and reductions on VAT and consumption tax for ten years. Furthermore, this code provided exemptions for oil and mining operations both onshore and offshore, on customs tariffs, reduced VAT and specific consumption tax. Until 2010, oil and mining investments over $500,000 enjoyed income tax rates reduced by a quarter.

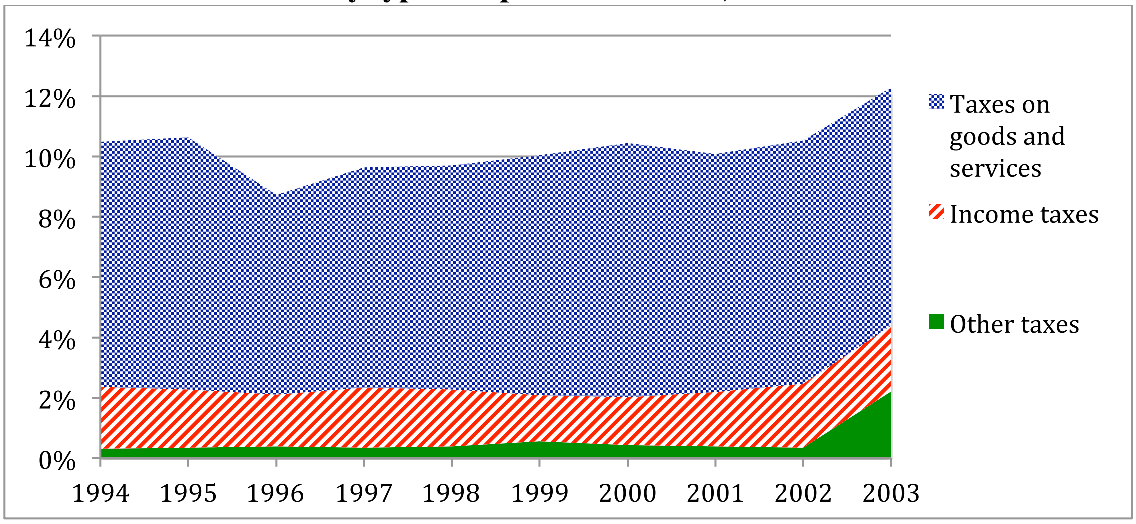
Revenue impacts 1993-2003

Between 1993-1999, Frelimo's collection of income taxes remained at a low level, averaging 1.87 per cent of GDP a year, while taxes on goods and services declined from 10.15 per cent of GDP to 7.95 per cent. During this period, specific fiscal incentives and exemptions spread through the expenditure tax regime, which could have been a consequence of the Investment Law's ad hoc benefits.

Because of reduced tariffs on foreign trade and weakened performance in the customs service, tax revenues from foreign trade declined significantly between 1993 and 1996, falling from 3.5 per cent to 2.1 per cent of GDP (Varsano et al. 2006). This brought down the overall tax share of GDP to a low of 8.72 per cent in 1996, down from 12.42 per cent in 1993. As a result, this reversed the late-wartime trend of increased revenue collection, which had averaged over 10.5 per cent of GDP annually between 1988 and 1992 (ATM 2011).

Frelimo tax take began to improve after 1996, growing to a level of Mts 5.813 billion ($458 million), representing 10.03 per cent of GDP. However, as tax share exceeded 12 per cent during the peace process, the government's revenue collection declined relative to the economy during this immediate post-war period. Therefore, the government's tax collection does not evince the positive impacts of the peace process – not least the end of widespread violent destruction and political stability following the country's first multiparty elections – as well as GDP growth averaging over nine per cent a year and reduced inflation.

Chart 5.3: Tax revenue by type as a per cent of GDP, 1994-2003



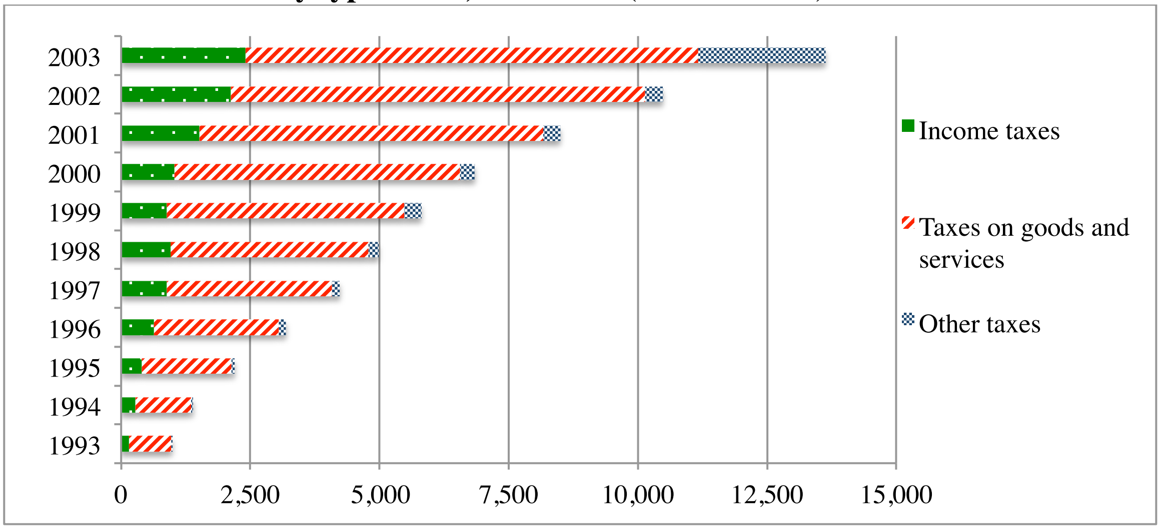
Source: Tax data compiled by the author from ATM (2012); GDP data is from World Bank (2012). Note: percentages are stacked.

Intended to generate revenues to support growing expenditures by broadening the tax base and simplify the system, the set of reforms introduced in 1999 were significant, and resulted an increase in tax revenues in the post-war period. Between the end of the peace process in 1994 and 2003, the state's total tax revenue increased from 1.4 billion MTS to 13.6 billion MTS. The impact of the reforms adopted at the turn of the century is clear when considering that tax share remained relatively stable at just under 10 per cent of GDP during the post-conflict 1990s, and grew to the share of 12.28 per cent by 2003.

This growth in tax revenues is particularly significant because it grew faster than GDP, which grew from 13.3 billion MTS to 58 billion Mts between 1994 and 1999, later reaching 111 billion MTS in 2003. Real GDP growth averaged 8.4 per cent a year between 1994 and 2003, while the average annual change in tax revenues was 28.6 per cent.

In general, the 1999-2003 set of reforms had a beneficial impact in terms of tax revenue share and composition. As Chart 5.3 above and Chart 5.4 below show, the increased revenue collection of income taxes accounted for an important part of this growth, climbing from 1.51 per cent of GDP to 2.17 per cent between 1999 and 2003. The introduction of the IRPS and IRPC income tax regimes both account for this increase, due to both wider and more efficient collection methods.

Chart 5.4: Revenue by type of tax, 1993-2003 (MTS millions)



Source: Tax data compiled by the author from ATM (2012).

Critique of 1990s donor-driven tax policy

This section draws on the legislative and statistical data presented to critique donor-driven tax policy in Mozambique during the first decade after the end of the civil war.

Capacity and complexity

The result of extensive external involvement in tax reform has not has as positive effect on revenue collection as the tax share growth figures suggest, as the reforms have not been accompanied by enhanced administration to implement them to maximise revenue collection. Exacerbating challenges related to broadening the tax base and practical implementation, tax policy measures designed to support neoliberalism have introduced a level of complexity to the system in terms of ad-hoc and overlapping fiscal incentives that has significantly increased administrative burden, leading to overstretch and mismanagement. While tax reforms during this period contributed to statebuilding in the sense of providing more available revenues, they did little to strengthen the tax administration's effectiveness or engage more constructively with a wider net of (potential) taxpayers. A 2005 report undertaken in partnership with the Mozambican Ministry of Planning and Development stated that "recent tax policy design continues to indicate weaknesses in governmental coordination and to reflect externally imposed reforms. Tax policy design often appears to have been either the result of imposed ideas and/or uncoordinated diffuse discussions in various fora, thus reducing the possibility of a coherent tax policy based on strategic Government decisions and impacts on revenue and economic growth" (Byiers, 3).

After the Frelimo's first post-liberation reforms in the 1970s, nearly all revisions to the tax system were undertaken as part of projects led by foreign financial partners. However, this work involved little attention to dimensions of reform beyond managing the administrative and legislative changes (Author interviews, G19 diplomats, Maputo 2012). Lacking analysis of revenue impacts, the role of external partners provided little basis for the tax reforms in government financial management and economic policy. On the other hand, this did not provide a strong foundation for the implementation of reforms in the future.

While the overarching goal of reforms during this period was primarily to simplify legislation, streamline bureaucracy and widen the tax base, the actual effect was to increase complexity and administrative burden. There is a widely held perception within the government and some current foreign financial institutions that the tax reforms introduced at the turn of the century added a degree of complexity that resulted in efforts to extract greater sums from a circumscribed tax base (Author interviews, Ministry of Finance, ATM, and G19 officials, Maputo 2012). As a result, the government has concentrated narrowly on the goal of increasing tax share of GDP. Given that little attention was paid to revenue impacts wider than this fiscal ratio, and that donors linked direct budgetary support to performance on this metric, there is little surprise that this focus remains today. The emphasis of reforms has been to extract more revenues from the same narrow base, rather than widening it and making processes more efficient. In addition, as donors focused on implementation and management of the reform process, there was an incommensurate level of attention to the practical capacity of the revenue authority to adopt reforms and ensure the system ran as it should.

The effect of these reforms has increased revenue collection since the end of the war, yet at the turn of the century, Mozambique had one of the lowest tax collection rates in Africa and the lowest tax share of GDP of its neighbours at under 13 per cent (ATM 2012). Varsano et al. (2009) calculate a country's tax effort as a function of tax share (tax revenue to GDP ratio) compared to taxing capability (maximum potential collection, taking into account characteristics of the national economic, institutional, social, and demographic environment). Results from this approach were published by the IMF in 2006 and demonstrated that Mozambique had by far the lowest tax effort of its neighbours at about 50 per cent, compared for instance to South Africa (87%), Malawi (84%), Swaziland (87%), and Tanzania (72%).

Sachs (1996) argues that the IMF's efforts to improve the tax system in Mozambique have largely been misguided. Sachs accuses the IMF of "looking at spread sheet calculations rather than reality" and "overly-ambitious revenue objectives." He writes that "the Fund should know better than to urge Mozambique, whose income is $100 per head, to collect 23 per cent of GDP in government revenues, especially when the current tax system is already haemorrhaging with evasion, corruption and maladministration. The Fund has since backed down, slightly.

But it might note that the American federal government has never aimed to collect as much as 23 per cent of GDP in revenues."

Exemptions

Another major point of critique of donor-driven reforms between 1993 and 2004 is the exemptions and benefits regime. The establishment of various agreements that award preferential tax incentives to individual investments, in effect establishing ad hoc tax regimes for select projects, constitutes a major trend during the post-war period. These biased incentives regimes include granting substantial tax holidays to projects in Special Economic Zones Investment and Industrial Free Zones. In addition, reflecting increased centralisation of Frelimo's control over the economy, these endowed the Minister of Planning and Finance with the power to make unilateral decisions on policy award exemptions on goods and services directed towards "social purposes" (Decree 51/98).

The benefits structure of the government's fiscal reforms during the 2000s, particularly related to the Investment Law and customs tariffs, introduced further distortions. The structure of these exemptions had the unintended consequence of reducing incentives for informal traders to move into the formal market (and thus contribute tax on earnings). For instance, the maximum customs tariff was reduced, from 35 per cent, to 30 per cent in 2000 and to 25 per cent in 2003, in an effort to combat illegal trade, yet this may have had the effect of promoting black market cross-border exchanges. Furthermore, a customs exemption for large industrial firms effectively transfers "funds to large entrepreneurs, increasing their effective protection and increasing the relative costs of small and medium enterprises, whilst simultaneously undermining the philosophy of unifying fiscal incentives" (Byiers, 18). The benefits structure of these reforms and special regimes also hinders the elasticity of the tax base and therefore circumscribes potential revenue collection levels.

The World Bank has strongly advocated that such a preferential regime will facilitate higher FDI and thus economic growth, despite research showing that a favourable tax structure is just one of several variables that influence the commercial environment. The IMF also mandated that "megaprojects" in the minerals and energy sector be granted substantial tax exemptions and favourable fiscal policies. In a 2006 report, the Fund reflected that "the contribution that megaprojects make to the country's tax revenue is limited by the conditions under which the contracts were initially negotiated with the government. The terms agreed to guarantee that the tax benefits granted will remain in effect for many years to come" (Varsano et al. 2006, 12). New elements of the exemption regime were added in 2009 to increase taxes in the mining and oil industries. At the same time, the special regimes previously established for megaprojects were not amended. As of 2011, "these foreign-owned projects account for up to 12 per cent of GDP but less than 3 per cent of tax revenues and 3 per cent of employment" (Fjeldstad and Heggstad 2011, 2-9).

These practices result in significant narrowing of the tax base, weakening the strength of the tax system as a whole. As Fjeldstad and Heggstad write in a Norad report on tax in Mozambique and its neighbours, "the presence of tax holidays has enabled a number of firms, notably extractive industries, manufacturing and processing firms…to effectively escape taxation altogether for a large subsequent number of years" (2). Mozambique's complex exemptions regime represents one aspect of how a biased benefits schedule undercuts equity in the tax system by introducing an obstacle for informal traders to enter the formal fiscal system, but also impacting taxation in a more immediate sense by circumscribing potential revenue collection levels. As Fjeldstad and Heggstad suggest, "the 'competition to grant tax exemptions' could become a race to the bottom" (6).

The proliferation of exemptions reinforces the biased structure of the tax system, privileging actors with connections to the party or state, such as the major manufacturing and processing companies, while neglecting engagement with wider society.

5.4. Creation of the ATM and tax reforms: 2004-2013

This section continues analysis of post-conflict taxation and focuses on the creation of the Mozambique Revenue Authority and associate tax reforms introduced between 2004-2013. As a reaction to the shortcomings of the tax system following the new fiscal measures adopted at the turn of the century, Frelimo undertook another major set of tax reforms in 2004-2007. Donors have continued to maintain involvement in both tax policy and implementation during this period in relation to the second (post-structural adjustment) Poverty Reduction and Growth Facilities initiative, which was passed in 2004.

The establishment of Mozambique Revenue Authority (*Autoridade Tributária de Moçambique*, ATM) in 2006 constituted a fundamental overhaul of the system and the greatest administrative shift in Mozambique's tax system after independence (Law 1/06 and Decree 29/2006). Creating the ATM transformed Mozambique's national revenue collection apparatus by merging the two extractive bodies: the National Tax Directorate (*Direcção Nacional de Impostos e Auditoria*, DNIA) and customs agency (*Direcção Geral de Alfândegas*, DGA) into one semi-autonomous institution. The aim of establishing the semi-autonomous revenue authority model, which had previously been adopted in fifteen Anglophone African countries, was to improve effectiveness, efficiency, and compliance in tax administration by integrating the two revenue extracting bodies in a framework separate from the civil service and minimising political interference from the Ministry of Finance (ATM 2011; Fjeldstad and Heggstad 2011).

Sharing features with the revenue authorities that have been established in other contemporary sub-Saharan Africa, Parliament established the ATM as a semi-autonomous administration under the broad remit of the Minister of Planning and Finance. However, one of the founding principles of this type of administration is a degree of independence from the civil service system, and the ATM was granted significant autonomy and control over both domestic taxation and customs and funded by the central budget. Also similar to other systems in postcolonial Africa, the DNIA and DGA became integrated through shared functions, including IT and finance, but operated separately at the sub-agency level. The ATM is headed by a Chief Executive and under the council for a Board of Commissioners (*Conselho Superior*) and an Executive Agency (*Conselho Directivo*). Independence from the national civil service procedures allowed the ATM to manage independent human resources processes, including hiring, training, and a separate salary scale in order to train and attract the best candidates.

The ATM has contributed to statebuilding by building a more effective tax administration. Good institutional and bureaucratic relations between the revenue authority and the Ministry of Finance (Author interviews, Ministry of Finance and ATM, 2012) as well as the ATM's degree of political autonomy signal greater efficiency and institutional capacity.

Since establishing the ATM, Frelimo introduced a number of reforms to enhance the revenue administration and revise the tax code in line with PARPA II "objectives and targets for tax policy" (USAID 2009). Parliament passed the new General Law on Taxation in March 2006, which revised the system's core framework, including taxpayer rights and obligations and the duties of the government bodies responsible for taxation (Law 2/06). In addition, the government implemented a new VAT code, which revised the list of exemptions and that raised the sales thresholds for exemptions and eligibility for the simplified regime (Law 32/07; Decree 7/08). Relatedly, in 2009 the government introduced a new simplified regime for small taxpayers, which replaced the previous simplified regimes for both VAT and income tax (Law 5/09; Decree 14/09).

In 2007, the government also introduced revised legislation governing corporate and individual income taxes. Both the personal and corporate income tax codes were consolidated, and reflected changes made to the VAT code (Laws 33/07 and 34/07; Decrees 8/08 and 9/08). The personal income code also introduced a new tax on income gained from term deposits and traded securities, while the corporate code raised the threshold for taxable income. In addition, new Customs Law in 2007 reduced tariffs to 20 per cent from 25 per cent (3/07). In late 2009, the government introduced the Excise Code (*Imposto sobre Consumos Específicos*, ICE), which revised rates on a variety of goods such as vehicles, jewellery, and wine, and removed taxes on goods including sporting goods and toys (Law 17/09).

The new Fiscal Benefits Code (*Código dos Benefícios Fiscais*) revised the set of tax incentives and exemptions available for investments governed by the Investment Act, revoking the code established by Decree 16/2002 (Law 4/09). This new code provided generic as well as specific benefits for a certain set of projects.

This set of reforms also included a new Municipal Finance Law (*Código Tributário Autárquico*), in line with the PARPA decentralisation project, which reformed the municipal tax system and set out the budgetary, financial, and asset regimes for Mozambique's local governments (Law 1/08; Decree 63/08).

Officials interviewed within the Revenue Authority and the Ministry of Finance were forthright in discussing motivations for the major overhaul of the system in the last several years. Several senior officials in charge of tax policy in the ATM, and their counterparts in the Ministry of Finance, asserted that the government's main motivation for tax reform has been to reduce dependence on foreign aid. "Tax is the central means to generate state revenues. Our objective is to reduce our dependence [on donors] always." Another manager said that tax reform should be seen in the context of the government's wider development strategy, the foremost goal of which is economic growth. "The second goal is to increase taxes" (Author interviews, ATM and Ministry of Finance officials, Maputo 2012/2013).

Interviews conducted across several arms of the administration indicated broad political support for tax reform. Most importantly, policymakers benefit from support from the top; President Guebuza has made tax issues a priority in the Council of Ministers and issued a Presidential Decree for the establishment of the ATM. In Mozambique's highly centralised political hierarchy, characterised by consistent deference to superiors, the President's support plays a key role in pushing through the politically challenging task of tax reform. Notably, Mozambique is the only Lusophone country in Africa to have adopted a semi-autonomous revenue authority (the British institution model has been established in over 15 Anglophone countries on the continent), further indicating substantial political will to undertake such a major overhaul.

Perceptions of donors' influence on tax policy and implementation vary among the leadership in the Ministry of Finance and the ATM. Most officials interviewed recognised the monetary and technical assistance provided by the aid community, but the overwhelming attitude was that the tax reform programme is a Mozambican project, designed in part to boost revenues and build a self-sufficient economy.

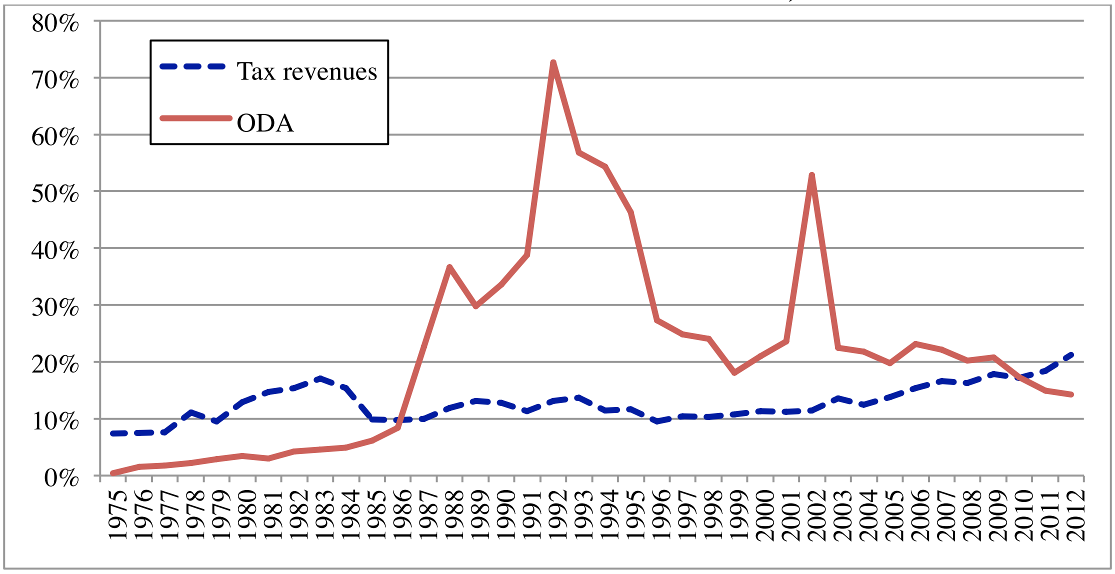
On the other hand, donors expressed more reserved views about the progress and prospects of the tax reform programme. Most of the twenty diplomats and aid officials interviewed in Maputo expressed serious concerns about challenges to implementation, including a persistently narrow tax base, lack of a taxpaying culture, and capacity to collect and manage revenues particularly outside the capital.

Revenue impacts: 2004-2012

With the establishment of the ATM in 2006 and other recent reforms, including the introduction of taxpayer numbers and VAT, Frelimo has taken significant steps to strengthen the fiscal system as a means to reducing dependence on foreign aid and increasing fiscal autonomy.

Frelimo's reforms have paid notable benefits in the last two years, with increasing tax revenue levels corresponding to decreasing aid inflows. The expansion is particularly striking in relation to historical trends in foreign aid, as tax revenues exceeded foreign aid as a percentage of GDP in 2011, for the first time since 1986.

Chart 5.5: Official aid and tax revenue as a share of GDP, 1975-2012



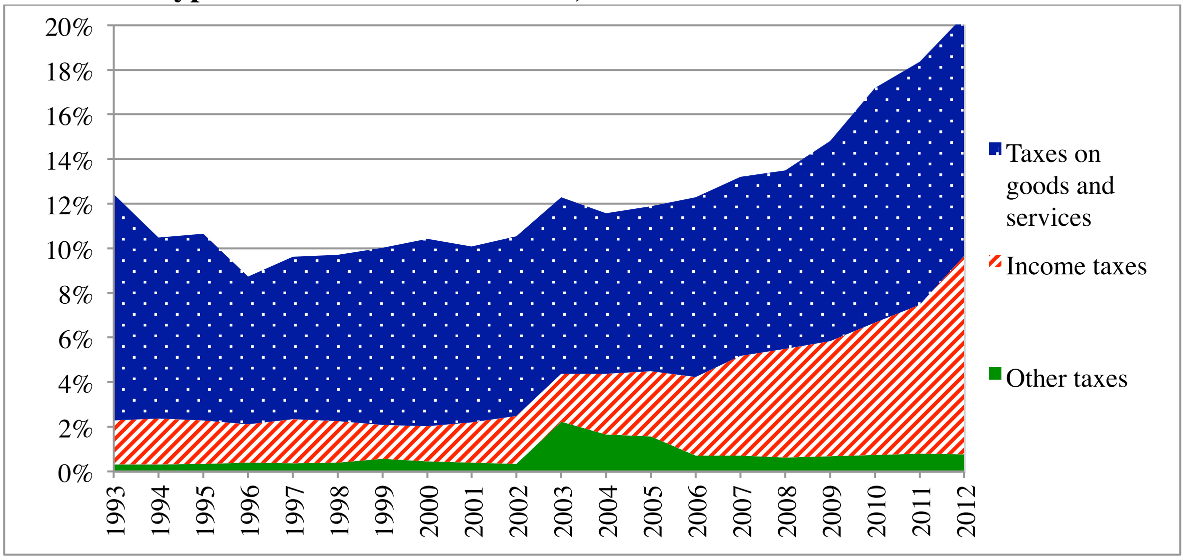
Source: Tax data compiled by the author from ATM (2012; 2013); GDP from World Bank (2014); percentages calculated from absolute data.

This is a major achievement for the Frelimo regime, and while tax-to-GDP ratio is not an all-encompassing metric, it reflects a concerted effort to broaden the tax base and improve administrative procedures in recent years. Across the post-independence period, these data indicate a general inverse correlation between aid levels and income collected through taxation:

- During the immediate post-independence period, Mozambique received minimal foreign aid. Between 1978 and 1984, aid represented 3.62 per cent of GDP, while tax contributed 13.73 per cent.
- Aid increased enormously throughout the remainder of the conflict, averaging 31.07 per cent of GDP through 1992, while tax revenue declined to 11.49 per cent.
- These trends have been reversed in the post-conflict period as aid has declined and tax has increased relative to the economy (comparing shares of GDP for the periods of 1993-2000 and 2001-2012, aid decreased from 34.11 to 22.76 per cent while tax increased from 11.75 to 15. 45).

Frelimo's fiscal reforms have resulted in significant expansion of tax revenues. Tax share rose slightly between 2000 and 2005, from 10.4 per cent of GDP to 11.8 per cent. Then, as a result of the introduction of the ATM and associated reforms in 2006, tax share grew to 20.43 per cent of GDP in 2012.

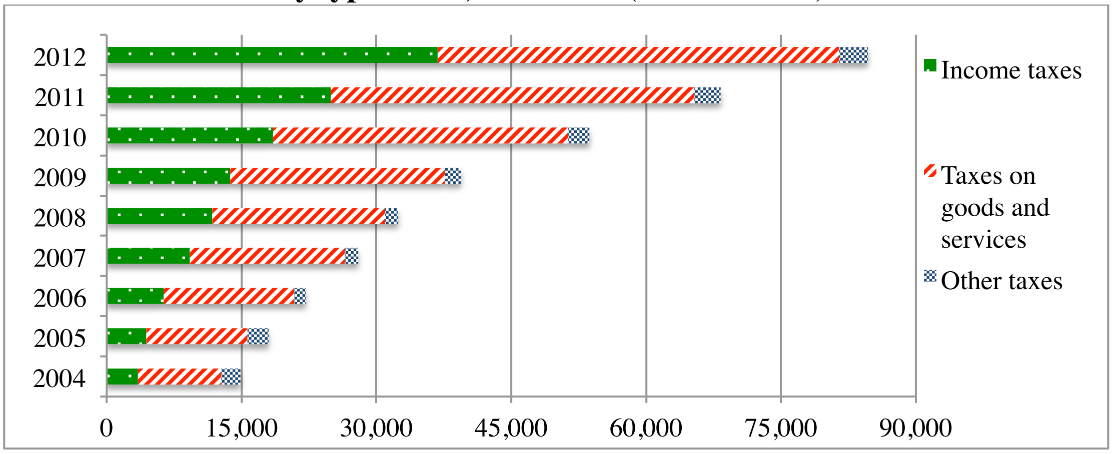
Chart 5.6: Types of tax as a share of GDP, 1993-2012



Source: Tax data compiled by the author from ATM (2012; 2013). GDP percentages calculated by the author from government GDP figures. Note percentages are stacked.

From 2005-2012, total tax take grew from Mts 18.024 billion to Mts 84.643 billion. Of these, taxes on goods and services comprised the dominant share, rising from 11.12 billion to Mts 44.67 billion, reflecting particularly income from the revisions to VAT in 2004 and 2009. Income taxes increased during this period from Mts 4.43 billion to 36.77 billion.

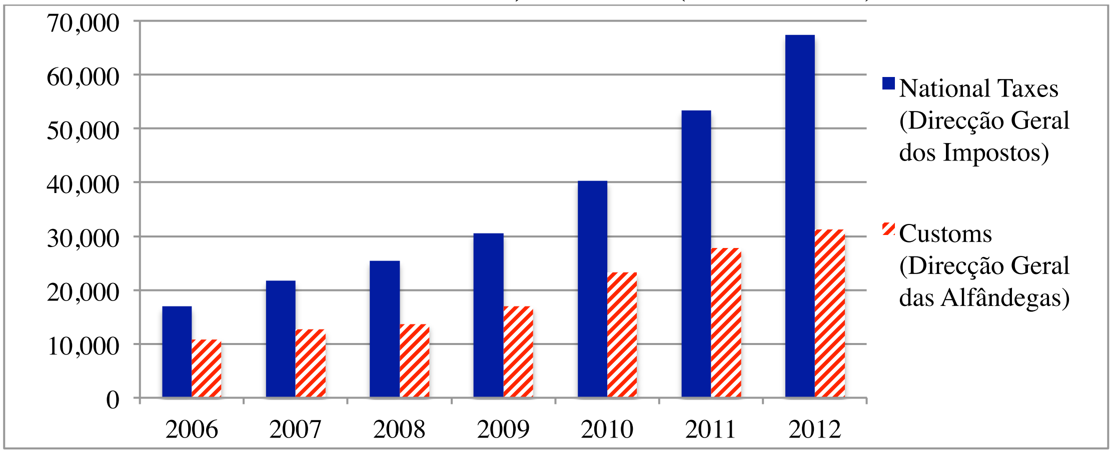
Chart 5.7: Revenue by type of tax, 2004-2012 (MTS millions)



Source: Data compiled by the author from ATM (2012; 2013).

The National Tax Directorate continued to collect the large share of revenues, up to Mts 67.41 billion in 2012 compared to Mts 31.21 billion from customs.

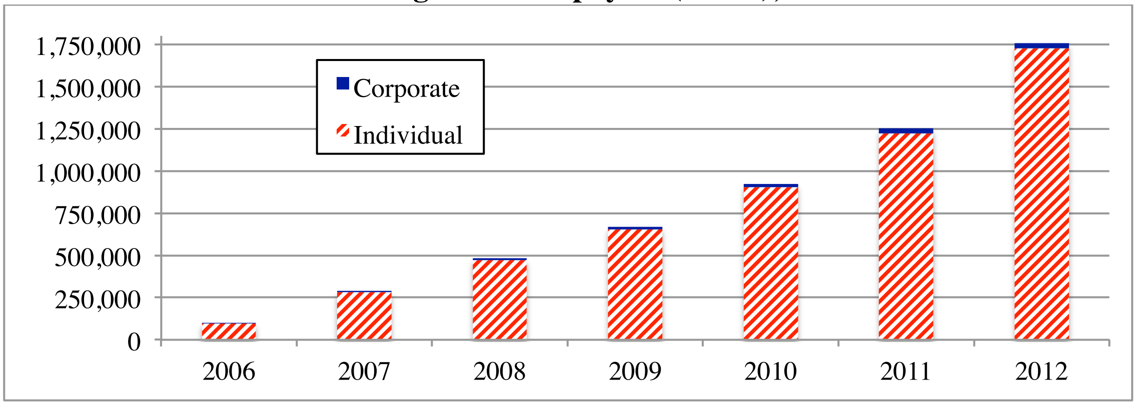
Chart 5.8: Tax and customs revenues, 2006-2012 (MTS millions)



Source: Data compiled by the author from ATM (2012; 2013). "National taxes" represents all non-customs tax revenue.

One of the major impacts of the ATM has also been the growth in the number of taxpayers in Mozambique, amounting to over a sixteen-fold increase. Still, however, these figures represent a limited number of registered taxpayers in a population of over 25 million.

Chart 5.9: Total number of registered taxpayers (NUIT), 2006-2012



Source: Data compiled by the author from ATM (2012; 2012).

5.5. Hydrocarbon discoveries, ownership, and tax adaptation

This section turns to an emergent dynamic in Mozambique's post-conflict political economy, arising out of the discovery of vast natural gas fields in 2011. The discussion addresses the potential implications the country's newfound natural resource wealth for taxation, foreign aid dependence and ownership of Mozambican politics, and external relations. It will then discuss recent (2011-2013) tax policy reforms the government has rapidly adopted to adapt the fiscal system to these new realities. It asserts that while the taxes and other income derived from gas and coal exploration are changing the debate over aid dependence in Mozambique, the potential windfall from these discoveries involves the same risks as aid dependence. The theme of this discussion is that this development has had a far greater impact on the tax system in Mozambique than did the civil war.

Potential windfall

Recent discoveries of vast gas and mineral resources in Mozambique are attracting unprecedented levels of foreign investment and could transform the country into a major African energy producer. New hydrocarbon-derived revenue streams are likely to supplant Mozambique's chronic dependence on foreign aid and, consequently, reduce donors' leverage over domestic policymaking and budget processes. Potential resource wealth affords commercial opportunities that could undermine the dominant North–South channel of aid and influence in Mozambique, but it will probably not bring an end to the external dependence. Mozambique remains reliant on foreign investment for resource extraction, and many of the attendant risks of hydrocarbon development parallel those associated with aid dependence. It is unclear whether the government will surmount significant obstacles to ensuring that resource wealth spills over to benefit the people, and whether foreign donors will be able to redefine engagement to support the government in aligning hydrocarbon-driven growth with broader development.

In October 2011, global energy corporations Anadarko and ENI first announced momentous discoveries of gas fields 40km off the coast of Cabo Delgado, about 2,000 kilometres northeast of Maputo. Over the following two years, estimates of recoverable gas have double and tripled, and according to appraisals in late 2013, reserves in the concessions operated by Anadarko and ENI total 100 trillion cubic feet – a volume of fuel large enough for construction of the second-largest liquefied natural gas (LNG) plant in the world. These findings represent an estimated value of $800 billion, 36 times larger than Mozambique's economy at the time. Mozambique is home to more gas reserves than Norway and estimates continue to increase as the country is thought to be poised to take a position among the top-20 global natural gas suppliers. By 2013, forecasts driven by these enormous offshore gas discoveries reached $50 billion in capital inflows over the next ten years, equivalent to five times the country's GDP (Bloomberg 2013).

Enormous mineral findings in Mozambique's interior – including coal, iron, tantalum and heavy sands – add to the magnitude of recent gas discoveries. Mozambique's Tete Province hosts one of the largest-known untapped coal reserves in the world, and mining forecasters speculate that annual output will leap to about 40 million tonnes in five years and reach 100 million tonnes in a decade (Flak 2012). Mineral investors are descending on Tete from across the globe, and analysts expect the value of the mining industry to reach $667 million in 2015, up from $96.5 million in 2010 (BMI 2012).

With these discoveries, by 2013 Mozambique was set to join the ranks of global energy producers, among the top 10 in coal and top 20 in natural gas. By February 2012, $2.7 billion had already poured into the country's hydrocarbon sectors (Hanlon 2013). Investments include Vale's $2 billion investment into its Moatize coal mine in Tete (with plans for a further $6.4 billion), the landlocked northwest province that was devastated during the war. In addition, since 2004, Sasol, the South African petrochemicals company, and its partners have invested $1.5 billion in onshore gas production from their Pande/Temane fields (Reuters 2012).

The potential windfall from these prodigious discoveries means that Mozambique is becoming a target for global energy investment on an unprecedented scale. While ENI and Anadarko are competing over enormous gas reserves, mining giants such as Brazilian-based Rio Tinto and Vale are competing for coal and heavy sands deposits. For instance, Anadarko intends to develop an $18 billion liquefied natural gas (LNG) plant and export terminal – the largest-ever investment in the country – and Brazilian mining company, Vale SA, has announced plans to invest $8 billion in mining and rail services. The scale of Mozambique's resource wealth and the investment it is attracting signal potential for the hydrocarbon sector to become the central driver of the country's future growth. With accelerated investment in mining under way and gas flows expected to come on line in the next two to four years, resource exploitation could provide the government with significant new revenue streams in the near future. Beyond cash flows from state-controlled holdings in extraction projects and exports, Mozambique stands to gain from taxes, royalties and mining rights, as well as through development of the country's gas and minerals sectors. Because Mozambique has so little heavy industry, hydrocarbon investment also has the potential to fuel broader economic and industrial growth in some of the most underdeveloped areas of the country.

These discoveries shifted the debate about Mozambique's development from its focus on aid dependence to the role of mineral resources in the economy and equitable growth. Additionally, these discoveries come on the crest of Mozambique becoming the latest attractive market for investment in Africa. However, still rebuilding from war, Mozambique lacks critical infrastructure, particularly in its gas- and mineral-rich northern regions, and will require considerable investment and technology to bring its resources to market. This means that the main revenue windfall and meaningful development benefits derived from recent discoveries are a long way off. Nonetheless, hydrocarbon development will have a major impact on Mozambique and its dependence on foreign aid as the government gains access to new revenue streams that no longer involve a trade-off with policymaking independence.

Wither foreign aid?

Natural resource production represents an opportunity for Mozambique to develop new commercial relationships that could initiate a shift away from the dominant North–South channel of foreign aid and influence. The potential for a reorientation towards the East and South is indicated by the swiftness of multinationals based in countries including India, Malaysia and Brazil to invest in hydrocarbon extraction, as well as multimillion dollar bilateral agreements with China and Japan amid a global race to secure access to natural resources. Additionally, given Mozambique's strategic location on the Indian Ocean and that demand for natural gas is rising by nearly 20 per cent a year in Asia, recent findings represent a large potential source of supply for Eastern consumers. Compared with Western donors, new 'unconventional' commercially minded investors take less interest in Mozambican domestic issues or policymaking. As such, Mozambique should be able to exercise significantly more negotiating power through these new commercial opportunities than its dependent relationships with Western donors have heretofore permitted.

Future large-scale investment and production in the hydrocarbon sector will have a significant impact on Mozambique, as new revenue streams could supplant the government's dependence on international aid. Consequently, the capacity of foreign donors to influence governance and spending will probably decline and result in the government gaining autonomy in policymaking. As such, new resource wealth will change the terms of the debate over 'ownership' of Mozambican politics. This debate has often linked ownership and external dependence, but these resource discoveries are not likely to signal the end of external dependence in Mozambique. Rather, potential resource-derived revenues represent a new sort of external dependence on foreign capital and consumption. Mozambique is acutely reliant on external investment for gas and mineral exploitation, a particularly salient vulnerability in relation to the capital, infrastructure and technology required to deliver its resources to market. The state has enjoyed a 'free carry' from multinationals that has insured risk in exploration projects, but in order to maintain a stake in next-phase extraction, the government may need to agree to financing from corporate partners, which will only reinforce dependence (Author interview, G19 ambassador, Maputo 2012).

However, many of the attendant risks of natural resource extraction in Mozambique parallel those associated with dependence on foreign aid. First, undiversified exports generate vulnerability to price and demand volatility. In this paradigmatic macroeconomic sense, reliance on market conditions constitutes another type of external dependence with some degree of comparison to *crispação*-prone donor relations. Second, like aid inflows, hydrocarbon resource exploitation can provoke rent-seeking processes that threaten growth, stability and governance. The experiences of African oil producers such as Angola, Sudan and Nigeria, in which resource wealth and commodity price volatility have contributed to chronic reliance on market conditions and socio-economic underdevelopment, attest to these risks. Although oil is monetised more easily, these issues can also apply to gas, given its heightening currency in global energy supply.

Corresponding to challenges of aid effectiveness, another parallel concern is that the profits from an extractive industry-based growth model will not benefit Mozambique's economy and population directly. To date, large-scale foreign energy investment in Mozambique and the government's 'mega-projects' have not resulted in meaningful gains for the economy, state budget or employment (Castel-Branco 2011; Hanlon and Smart 2008). It seems unlikely that new large-scale investments, such as Anadarko's $18 billion LNG unit, will deliver more positive results, given that highly capital-intensive projects inherently involve limited links between expenditures and the domestic economy and create few local jobs.

Finally, returning to the ‘ownership’ debate, a reliance on foreign investment – whether donor aid or commercial capital – may orient government accountability towards external actors rather than Mozambican society. Hydrocarbon wealth presents Mozambique with the hazard of the ‘resource curse’, which could be exacerbated by donors’ reduced capacity to pressure governance reform. The extent to which hydrocarbon revenues will benefit the population relies on the government’s creation of systems that promote the role of Mozambicans in exploration and extraction, including links to domestic services and local labour, as well as of a framework to collect and manage new revenue streams that ensures enhanced transparency and accountability. Frelimo’s challenge is to build consensus between affected communities, energy companies, national institutions and local structures and thus to embed gas and mining investment projects in its poverty-reduction plan and wider development strategy (*Savana* 2012).

Tax potential

Frelimo has amended the mining and gas regime in light of these discoveries. Beginning before gas was discovered but amid increased mining activity, in terms of its potential impact on the government’s future revenue, the new legislation governing petroleum and mining concessions was perhaps the most significant of the reforms passed in 2007 (Laws 11/07, 12/07, 13/07). The new laws discontinued the jurisdiction of the Council of Ministers over negotiations of special tax regimes for oil and mining investments, and cut down exemptions. In May 2009, Frelimo began the qualification process for the Extractive Industries Transparency Initiative (EITI), later meeting full compliance requirements in 2012. Given Mozambique’s the imminent windfall of hydrocarbon-related investment expected imminently, the EITI compliance process will be key for institutionalising management and transparency of public revenues from mining and gas.

Recent estimates suggest that natural gas and coal production may boost economic growth by 2 percentage points a year between 2013 and 2023. Owing to the tax and benefits regimes already in place, the IMF expects that megaprojects will contribute limited fiscal revenues in the short and medium term, but that taxes could reach 25 per cent of all fiscal revenues in the long term, derived mainly from natural gas. The IMF also expects that by 2022, regular resource revenues will exceed current aid flows (2012).

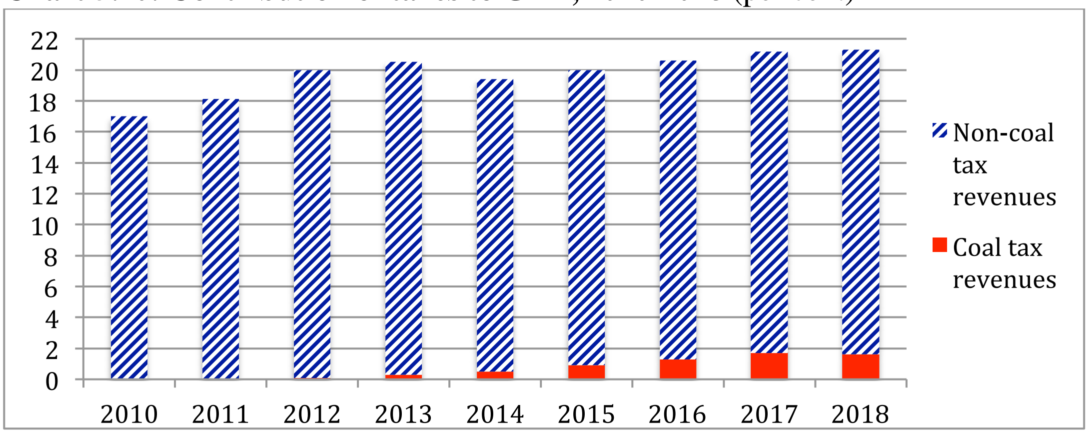
Although the government will only begin to see revenues from natural gas production and exports in ten years, taxation of coal mining activity has already started to make an impact on Mozambique's tax-GDP ratio.

Table 5.2: Coal and non-coal contribution to revenues, 2010-2018 (per cent of GDP)

	2010	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**
Total revenues	19.6	20.7	23.5	24.5	23.5	24.1	24.7	25.3	25.4
Tax revenues	17	18.1	20	20.4	19.4	20	20.6	21.2	21.3
Coal tax revenues	0	0	0.1	0.3	0.5	0.9	1.3	1.7	1.6
Non-coal tax revenues	17	18.1	19.9	20.2	18.9	19.1	19.3	19.5	19.7

Data source: IMF 2012 (2013-2018 estimates).

Chart 5.10: Contribution of taxes to GDP, 2010-2018 (per cent)



Data source: IMF 2012 (2013-2018 estimates).

5.6. Conclusion

This chapter examined revenue collection processes in Mozambique during the post-conflict period in relation to peacetime statebuilding and reconstruction, analysed drivers of tax reform, and investigated impacts on extractive capacity and revenue levels. The central aim of the case study has been to build an analytical account of Mozambique's post-war tax system and the politics underlying revenue collection. The research established a basis for the analysis conducted in Chapter 7, which addresses the central research question of the PhD of the impact of taxation on statebuilding across the postcolonial period in comparative perspective. This concluding section summarises the main arguments and data points presented in the chapter.

The chapter provided a detailed account of the post-colonial tax system, and established that revenue collection processes changed corresponding to the nature of external dependency in Mozambican politics. It argued that Frelimo adopted most reforms in the postcolonial period in partnership with or under pressure from donors. These measures revised numerous elements of the tax system and introduced new regimes including VAT, taxpayer identification numbers, and a new income tax code. However, the result of extensive external involvement in tax reform has not has as positive effect on revenue collection as the tax share growth figures suggest, because the reforms have not been accompanied by enhanced administration to implement them to maximise revenue collection.

More importantly, the institutional development of taxation in Mozambique represents only the public manifestation of the revenue collection system. Taxation processes have insulated Frelimo from societal pressures due to a narrow tax base and the orientation of accountability towards donors.

The case study examined the impact of increasing dependence on foreign aid and donor influence on taxation, in parallel with shifts related to the ongoing transition to capitalism and building of the post-war state. The research first argued that post-conflict tax processes are a significant manifestation of the legacies of civil war, as they reflect the continued influence of dynamics that arose during the conflict and became consolidated through Frelimo's war economy.

The research argued that external development actors played a central role in tax reform and implementation levels due to the dominance of aid in Mozambique's economy. Donors facilitated the introduction of a variety of tax reforms that supported the post-Washington Consensus Development model, indicating that the influence of dependency on tax is contingent on the interests represented by the dominant resource.

This chapter has argued that the dominance of foreign aid in Mozambique's economy and attendant pervasive influence of donors on policymaking and implementation has undermined the tax system. This has occurred due to two reasons: First, large-scale aid itself has substituted a genuine revenue imperative to raise revenues throughout the territory. Further, donors undermined the capacity of the tax system by introducing a fiscal imbalance but also by influencing the nature of ownership in Mozambican politics. In the context of aid dependence, as Moss et al. argue, it still may be "easier to manage donor demands than the slow and politically difficult task of building or improving domestic revenue collection" (2006, 14-15).

While donors did not deter tax reform – during this period, most of Frelimo's tax reforms were undertaken in partnership with IFIs – large-scale foreign aid discouraged reforms that would strengthen the tax system as a whole. The reforms undertaken during this period conformed to the global tax reform agenda, including simplifying administration, introducing VAT, and establishing a semi-autonomous revenue authority. However, these reforms did not do much to shift the balance from indirect to direct taxes or lead Frelimo to engage more constructively with more (potential) taxpayers. In other words, the presence of foreign aid revenues and donor development agendas disincentivised the types of tax reforms that could strengthen state capacity and relations with society.

The interference of donors in tax policy has typically been part of wider agendas reflecting the international development priorities of the time. Analysis of the policies implemented and adopted over the last two decades indicates a lack of coordination in the government, and also specifically within tax policy design itself. The structure (and language) of Mozambique's tax policy remains complex, while reforms have not reconciled contradictions and overlaps in legislation and procedures. These ambiguities and inconsistencies reflect external prescriptions as well as multiple influences imposed by seemingly disparate agendas represented by multiple stakeholders.

As donors began to supplement and add to the IMF's assistance with Mozambique's tax system in the last ten years, increased external involvement has undermined the coherence of tax policy and government coordination. Numerous interviews with Frelimo elites and local analysts indicate the perception that donors have contributed to complexity and significantly increased administrative burden is common within senior officials in the revenue authority (Author interviews, multiple, Maputo 2012-13). One of the reasons for this is that the reforms have not been accompanied by enhanced administration to implement them to maximise revenue collection. In addition, the aid community has neglected to undertake analysis of the impacts of these reforms on revenues and the economy.

Another impact of large-scale aid income in Mozambique has been to narrow the tax base. The first way this is apparent is through the negative association between government income collected from taxation and aid inflows. Between 1993 and 2002, ODA averaged 34.93 per cent of GDP, while tax revenues averaged 10.27 per cent. However, between 2003-2012, aid averaged 20.06 per cent of GDP and tax averaged 14.57 per cent of GDP annually (ATM 2012). These figures (represented in Chart 5.5) indicate increasing tax collection in the period when aid income has decreased. Donor influence has restricted the size of the potential tax base by introducing extensive benefits and incentives, which have skewed the system and limited the capacity of the administration to extract from a broad sectoral or geographic base. For instance, the exemptions regimes introduced alongside VAT and incomes in Special Economic Zones and Industrial Free Zones mean that large taxpayers in key investment projects, such as Mozal and the Hydroelectric Company of Cahora Bassa are excused from paying taxes (ATM 2012; 2013). In addition, while tax revenues have increased relative to GDP over the last two decades, Mozambique's tax revenues remain meagre compared to its neighbours.

However, the analysis argued that donors used tax as a tool to consolidate its vision for post-Washington Consensus development in Mozambique, continuing processes that began with structural adjustment during the war. The ownership debate highlights that the structural conditions of large-scale aid and external influence are not solely responsible for these post-war processes, as Frelimo managed all decisions. In this way, Frelimo has used tax and managing donors as a tool to consolidate the neo-patrimonial state. On the other hand, elites cite reducing aid dependence and the attendant interference in domestic politics as the key motivation for establishing the ATM, which constituted a major overhaul of the system.

The next chapter applies this analysis to the Angolan post-conflict case, before turning to comparative analysis of the impacts of taxation on statebuilding processes in Chapter 7.

Chapter 6
Post-conflict Angola: Oil-driven recovery and taxation 2002-2013

6.1. Introduction

The final empirical portion of the thesis, this chapter extends the analysis presented in Chapter 4 to the post-war period in Angola between 2002-2013. Like the preceding case study, this analysis of Angola structures the presentation of empirical data by comparing shifts in the political dynamics at work in post-conflict recovery with changes to the tax system. The objective of the case study is to establish a comprehensive account of taxation and drivers of reform. This will form a basis for the analysis conducted in Chapter 7, which addresses central research question of the PhD of the impact of taxation on statebuilding across the postcolonial period. The secondary purpose is to identify legacies of the war in terms of their impact on post-conflict taxation, particularly single resource dependency.

This chapter maintains a focus on the implications of oil wealth for political strategy as it relates to revenue collection. This discussion illustrates the divergence between the Angolan and Mozambican cases in the post-conflict period. In contrast to an emphasis on the implications of foreign aid for aspects of Mozambique's peacetime development, this analysis focuses on the role of petroleum resources in Angola's tax reform and statebuilding trajectories. The chapter argues that oil was the central driver of both the economy's rapid growth following the conflict and has been a key factor in determining the MPLA's decisions regarding the pace and extent of tax reforms. This is a key comparative issue of fiscal development trajectories – comparing the impact of aid dependence and natural resource exploitation on taxation and is addressed in Chapter 7.

Like Chapter 4, this chapter locates a fundamental obstacle to more effective and equable taxation and redistribution in the dominance of oil in Angola's economy, and the way it works to substitute the revenue imperative and influence the MPLA's policy choices. The analysis in this chapter draws on interview data to engage more directly with the political motives at work behind fiscal trends. It highlights the MPLA's drive to maximise autonomy and control as a critical intervening factor in the formulation and implementation of tax policy. The analysis traces features of Angola's political landscape as they apply to post-conflict reconstruction of the economy and fiscal system. The chapter addresses three main questions:

- How have revenue collection processes changed since the end of the conflict and what are the key drivers and constraints of tax reform?
- How do dynamics that emerged in Angola's war economy impact taxation in the post war period? How does oil dependency impact taxation?
- What have been the impacts of taxation on revenues and the strength of the extractive apparatus?

The chapter begins by establishing a frame of Angola's post-war political economy as one driven by and dependent on oil revenues. The remainder of the chapter is dedicated to presenting a previously unpublished set of data collected through fieldwork in Luanda in order to build a comprehensive picture of the post-conflict Angolan tax system and reform programme. These data are used as the basis for an analytical account of the factors that have conditioned the content and extent of tax reform, as well as to investigate the bearing of tax reform and oil dependence on revenues.

The chapter is structured as follows: The second section assesses Angola's post-conflict economic recovery and the implications of oil-driven growth. This discussion highlights the failure of redistribution mechanisms and asserts that a central reason why rapid growth and economic expansion was not translated into improvement in income equality or standards of living is because it has been driven by oil wealth, rather than by broad based taxation. Sections 6.3 and 6.4 establish a full account of the nature and changes in the Angolan tax system since the end of the war, divided between a preliminary phase of reform (2002-2009) and subsequent initiative to overhaul the system (2010-2013) with the Executive Tax Reform Project (PERT). These sections present legislative and interview data and primarily aim to identify the drivers and markers of change in the fiscal systems. They build the argument that oil wealth disincentivised comprehensive tax reform and undermined the fiscal system by narrowing the tax base.

Section 6.5 evaluates the revenue impacts of tax policy in Angola across the post-war period with the objective of determining the influence of the MPLA's revenue collection strategy on extractive capacity. This analysis presents data spanning the period between 2002-2013, which are used to support the argument that oil disincentivised tax reform and broadening the base. In particular, the data demonstrate the MPLA's drive to increase tax capacity in the oil sector by highlighting the divergence in tax efforts in the oil and non-oil segments of the economy. The sixth and final section reviews findings of the case research.

Data collection, sources, and labels

Like Chapter 4, this chapter presents extensive original data collected through fieldwork in Angola in 2013. The tax data presented here was collected from numerous government sources in Angola and compared against statistics published by IFIs where available. Data collection methods and sources for Angola, as well as limitations and accounting methods, are discussed at the beginning of Chapter 4.

The tax data in this chapter are presented in categories organised by type of tax. The first major division is between oil and non-oil taxes. The oil category includes all taxes, transfers, and obligatory payments from petroleum activities. The second major division is between types of non-oil taxes. For the period between 2002 and 2013, labels of types of taxes denote:

- Taxes: all compulsory revenues transferred to the Angolan government for public purposes (excluding aid, loans, and spending)
- Oil taxes: taxes collected from production sharing agreements and joint ventures, including oil transaction tax, royalties (petroleum production tax), and concession rights
- Income taxes: corporate and personal income taxes, industrial contributions, capital gains tax, and stamp duty
- Domestic consumption and production: tariffs on goods and services produced and consumed, including diamonds, alcohol, drinks, hospitality, and telecommunications; excise taxes (e.g. beer, automobiles, tobacco)
- International trade: import and export duties
- Other taxes: Not specified other than urban property tax

6.2. Post-war growth and development

This section introduces the post-conflict economic context and assesses the drivers of Angola's recovery from the armed struggle. It establishes the central role of oil in determining statebuilding strategy, and asserts that uneven development can be accounted for in part by its basis in oil rather than broad-based taxation.

Oil-driven recovery

Following the death of Jonas Savimbi, president of the UNITA rebel group, the insurgency and MPLA leadership signed a ceasefire in April 2002 after twenty-seven years of civil war. Winning a decisive military victory, MPLA, which had ruled since independence, consolidated the dominance of the party-state, its control over the economy, and nominally institutionalised multiparty democracy.

Angola's economy had stagnated for decades following independence from Portugal in 1975. Protracted conflict had strangled growth as military instability circumscribed the movement of people, goods, and factors; raised insecurity around investments; and harmed the productivity and performance of many enterprises. Angola's economic recovery from this context – one of the longest wars in Africa – was facilitated by both internal and external factors.

Between the end of the conflict and 2008, the Angolan economy experienced a "mini golden age" (Da Rocha 2012) with real GDP growth averaging 15.25 per cent a year. Given Angola's dependence on and vulnerability to global commodity markets, the economy's robust performance also helped to promote and leverage investment projects.

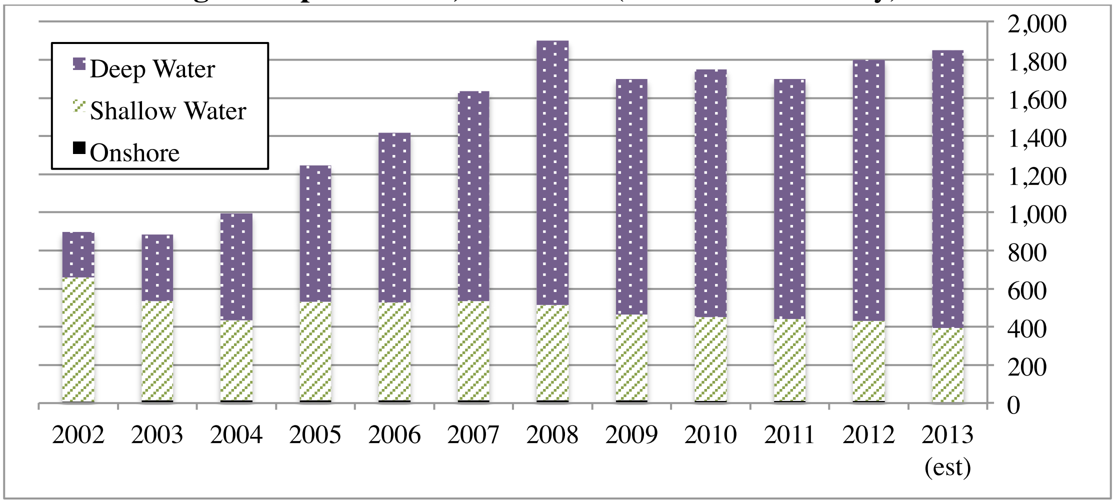
Table 6.1: GDP and growth rates, 2002-2013 (USD billions, market prices)

	GDP	Real GDP growth (%)	Oil GDP	Oil GDP growth (%)	Non-oil GDP	Non-oil GDP growth (%)
2002	11.2	13.2	6.1	25.0	5.1	--
2003	14.2	5.2	7.1	1.6	7.1	8.3
2004	19.7	10.9	10.2	13.1	9.5	9.2
2005	28.2	18.3	14.8	26.0	13.4	12.1
2006	41.8	20.7	23.3	13.1	18.5	27.6
2007	60.5	22.6	33.0	20.4	27.5	24.2
2008	84.2	13.8	47.6	12.3	36.5	15.0
2009	75.5	2.4	38.3	-5.1	37.2	8.1
2010	82.4	3.4	37.3	-3.0	45.2	7.6
2011	104.3	3.9	49.6	-5.4	54.7	9.5
2012	112.7	6.8	49.4	8.5	63.3	6.0
2013	118.0	5.0	48.8	3.0	73.2	6.1

Source: Data compiled by the author from Ministry of Planning (2004, 2008); CEIC (2012). Note 2013 figures are estimates.

While the government's programme of macroeconomic stabilisation, initiated at the turn of the century, reversed the trend of hyperinflation and spurred post-conflict recovery, growth during this "golden age" was driven by oil revenues that reached $37 billion in 2008. Oil production grew from 898,000 to 1.9 million barrels a day between 2002 and 2008, while prices averaged $56.20 a barrel during this period and reached $93.70 a barrel in 2008 (Ministry of Finance 2008). In the first five years after the conflict, production increased by 100 per cent while oil income grew by 300 per cent, leaving the government "cash-rich to an astonishing extent" (Oliveira 2011, 288). As a result of the country's extraordinary post-war economic performance, Angola became one of the fastest-growing economies in the world and an attractive recipient for foreign investment (Da Rocha 2012).

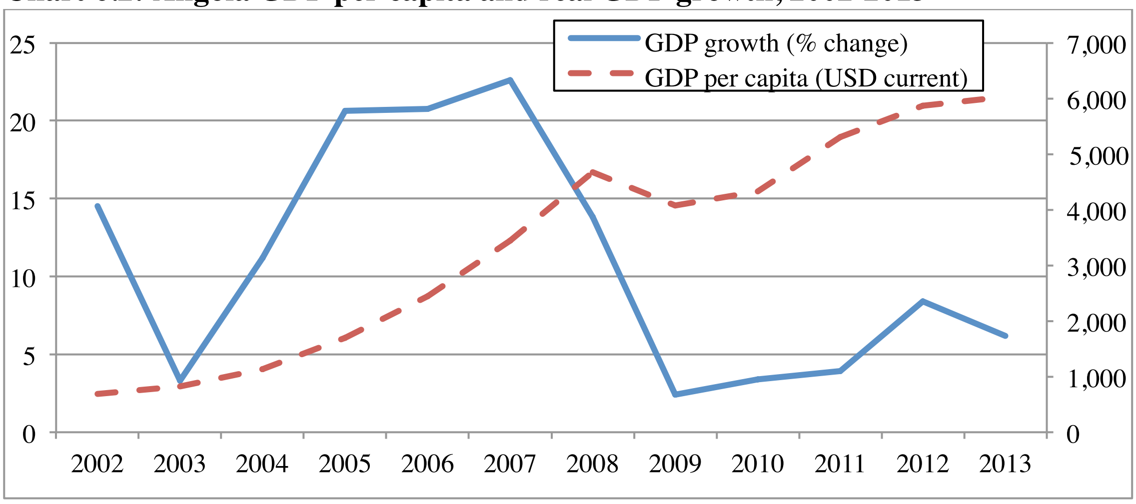
Chart 6.1: Angola oil production, 2002-2013 (thousand barrels/day)



Source of data: Konig 2013; Sonangol 2002-13; Ministry of Finance 2013.

However, the 2008/2009 financial crisis exposed fundamental structural weaknesses and underlying disequilibria. As a result of the economy's dependence on petroleum, the price collapse subsequent to the crisis led to a drop in Angola's oil GDP growth to -5.1 per cent in 2009. With overall economic growth slowing to 2.4 per cent in 2009 (representing a year-on-year decline of 38.8 per cent) and remaining under 4 per cent until 2012, this period marked the lowest growth levels recorded in Angola's post-liberation economy.

Chart 6.2: Angola GDP per capita and real GDP growth, 2002-2013



Source: IMF 2013. Note 2012-2013 figures are estimates.

All that glitters…?

The value of Angola's per capita GDP rose from $689 in 2002 to $4,671 in 2008; the projections for 2013 surpass $6,000 (IMF 2013). However, this trend does not necessarily indicate enhanced living conditions for the Angolan population or more effective sharing of national income. As Alves da Rocha, Angola's preeminent economist, writes: "Distributing better does not depend only on economic growth…Development and social progress also have other ingredients…There must be political will to act on these schemes" (Da Rocha, 3-4).

Angola's post-war economic expansion has captured the attention of global investors and the topic of growth continues to draw huge interest from economists and development scholars.[20] With its tremendous natural resource endowment, but posting development indicators closer to lower-income states, the salient question is about the mechanisms of redistribution, not simply growth. In Da Rocha's analysis:

> "The current system of national income redistribution is structured around a minority of citizens and procedures are structured not around clear rules, but are based on a network of knowledge and influence, which is difficult to penetrate. Although there are no estimates or studies on the actual size of the flow effect, it can be assumed to have a relatively low profile, precisely because of the nature of the national distribution and redistribution of national income. There are no guarantees, therefore, that the largest share of [the GDP per capita] annual increment of $200 will not be captured by the richest" (4).

Despite ranking as an upper-middle-income country, Angola remains one of the most unequal societies in the world. Its Gini coefficient – an income distribution measure in which zero represents perfect equality – is 0.586, ranking Angola's inequality as among the highest in the world and above Nigeria, Africa's largest oil producer, which ranks at 0.488 (UNDP 2013). The government's ballooning oil income over the last decade is also incommensurable with progress in service provision. Half of the population has effectively no access to healthcare and only 9 per cent of Luanda's

[20] Compare for instance Chabal and Vidal 2008; Soares de Oliveira 2007; McMillan 2005; Keeler 2013

5 million residents has running water – a lower rate than during the 27-year civil war that ended in 2002. Moreover, over two thirds of Angola's approximately 19 million citizens live on less than less than $2 a day. Oil wealth has also failed to reduce unemployment, which has averaged about 27 per cent since 2007 (Maplecroft 2013; EIU 2011).

This context of soaring economic growth yet persistent inequality, unemployment, and underdevelopment draws attention to the failure of redistributive mechanisms to adequately share Angola's oil wealth. An equitable and effective tax system operates as a function of the imperatives of revenue collection and redistribution. As such, one of the broader aims of this chapter is to suggest that Angola's tremendous post-war growth has not translated into effective income sharing, job creation, or meaningful improvement of living standards because it has not been accompanied by broad-based taxation.

6.3. Tax reforms: 2002-2009

This section analyses tax reforms the Angolan government adopted between the end of the war in 2002 and 2009 and assesses the political motivations underlying them. It draws on original research to build a picture of the Angolan tax system in the years following the conflict, and constructs an analytical narrative, based on interview and discursive research, to address the drivers and political dynamics behind the reforms adopted during this period. It also contends that oil wealth skewed the development of the tax system and disincentivised reform of other sectors of the extractive apparatus.

Legislation

During the years immediately following the end of hostilities and consolidation of MPLA's control over the party-state, the MPLA introduced a small package of new tax laws. This discussion will highlight the most significant changes, notably concerning petroleum laws and the customs apparatus.

Arguably the most important of these was Law 13/04 on Taxation of Petroleum Activities (*Tributação das Actividades Petrolíferas*). It is first worth noting that in the post-war period, there have been essentially three regulators in the oil and gas industry: Sonangol, the state oil company and national concessionaire that manages and oversees the government's stake and participation in the sector; the Ministry of Petroleum, which supervises activities in the industry according to various lease and license agreements; and the Ministry of Finance, responsible for executing taxation in the industry, with the most power related to income taxes.

Law 13/04 represented an effort to systematise the array of fiscal regimes that had been spread across various pieces of legislation. It also aimed to make taxation more uniform to the taxpayers subject to it, correcting a system that had been difficult for oil companies to consult and apply. The statute standardised the tax regimes applicable to petroleum operations, accounting for the specificities of the two main types of oil industry associations: production sharing agreements (PSAs, *contratos de partilha de produção*) and joint ventures (*contratos de associação em participação*). These are reflected most substantively in reforms to petroleum income tax rates, the way in which taxable income is determined, and exemptions from production and transaction taxes in PSAs.

Since 2004, this legislation has subjected companies based and resident in Angola involved in hydrocarbon production and exploitation to five types of tax obligations: income, production, and transaction taxes, surface charge, and a training contribution. According to this framework, which continues to govern all petroleum operations, taxable income is determined by the rules set out in each block's PSA or according to concession decrees agreed prior to this law. As outlined in Chapter 4, oil produced in Angola is divided between "cost oil" and "profit oil." Cost oil is the share of the total over which petroleum companies have discretion to recoup production costs. Profit oil represents the remaining part of the barrel and is shared between oil companies and Sonangol according to the rules set out in the concession agreement. Petroleum income tax is due on the part of each company's profit oil that is not shared with Sonangol at a general rate of 50 per cent, or 65.75 per cent for Sonangol's independent operations and risk service contracts.

Oil companies operating in partnership with Sonangol are also subject to production tax at a flat rate of 20 per cent on annual output, a transaction tax of 70 per cent on profit oil, and a surface charge of $300/km^2. Finally, the training contribution varies depending on the stage of activity. For instance, research caries a required annual contribution of $300,000 to train local workers, while companies engaged in either production or refining are obliged to pay $0.15 a barrel and oil services firms must contribute 0.5 per cent of the value of contracts (Law 17/09).

The hydrocarbon sector benefits from a set of fiscal incentives set out under Laws 13/04 and 11/04, which detail a set of production inputs that are exempt from import duties. These exemptions are primarily applied to industry-specific machinery and equipment that are not available in Angola. This legislation also enables the

Ministry of Petroleum to request additional fiscal incentives through agreement with Sonangol (PWC 2013).

Law 13/04 represents a major change to the oil and gas tax system and serves as the key reference point for petroleum operators in Angola. This legislative shift also reflects a concerted effort by the MPLA to reform oil sector taxation following the end of the war. Lawyers representing foreign oil companies indicated in interviews "Law 13/04 put Sonangol in a stronger position with regards to foreign partners" (Author interviews, BP and Miranda attorneys, Luanda 2013). Additionally, while systematising the oil and gas tax system as a whole, this legislation also allowed the Ministry of Petroleum and Sonangol wide powers to implement off-schedule or non-standard incentives. This provision provides for substantial political manoeuvre and determination in a system that appears to be standardised.

In addition to the revised oil and gas regime, the government also passed new legislation governing tax and customs incentives for private investment during the immediate post-war years. The new legislation, introduced in 2003, sought to stimulate production in agricultural and industrial activities with targeted benefits on a wide range of fiscal obligations, including customs duties, activities in industrial development zones, investment gains, and medium- and long-haul transport (Law 17/03). The incentives schedule also focused on promoting development of human capacity in health and education and a range of physical infrastructure.

The third key reform during this period was the introduction of individual taxpayer numbers (*Número de Identificação Fiscal*, NIF) for all taxpaying individuals and organisations in 2004. This measure aimed to make the system of paying taxes simpler for contributors while also providing a means of combatting fiscal evasion.

Tax ID numbers also allowed the government to begin to systematically collect information about taxpayers (Decreto 61/04).

Administration

Angola's first major post-war institutional effort to reform the fiscal system began in 2006 with the establishment of the Fiscal Reform Committee (*Comité para Reforma Fiscal*, CRF). The CRF, initially recommended by the Cabinet Council in 2004, was composed of directors of the National Tax Authority (*Direcção Nacional de Impostos*, DNI) and Customs Agency (*Serviço Nacional das Alfândegas*, SNA), senior officials from the Ministries of Labour and Justice, as well as representatives from national industrial, business, and legal associations. According to the legislation that created this body, its aim was to use tax reform as a means to generate and extract the necessary revenues for Angola's socio-economic development (Decreto 60/04). However, ultimately under the direction and guidance of the Minister of Finance, the CRF was essentially charged with carrying out a range of studies to determine the arms of the fiscal system that could be eliminated and assess proposals for restructuring the others (ANGOP 2004).

The CFR's work produced a series of draft diplomas, yet not one of the proposed measures was passed by parliament or adopted by the government. According to Francisco Brandão, the committee's president and chair (and currently in charge of all tax reform activities in Angola), the CRF "did not have the power to drive forward reforms." In an interview in Luanda, Brandão stated, "It amounted to very little, composed of part-time advisers. We did not have the necessary technical team in place" (Author interview, PERT director, Luanda 2013).

The lack of power endowed to this body reflects the lack of political will within the MPLA to take tax reform seriously or build capacity to implement major reforms beyond the oil regime. This situation implies that oil wealth has reduced the state's incentive to reform the tax system due to the availability of autonomous income streams from oil.

Separate from this exercise was reform of the customs administration (SNA), the pace and extent of which far exceeded that of the tax authority. This highlights the degree to which these agencies operated independently of each other. Indeed, reform within the SNA was, and continues to be, seen as a model for modernisation of all the state's revenue collection capacities.

The MPLA in 2002 initiated the Customs Expansion and Modernisation Programme (PEMA) through partnership with Crown Agents, a UK public services consultancy. The programme fundamentally reformed the SNA as an institution as well as its practices across the country. Between 2001 and 2005, customs revenue increased from $215.5 million to $1.1 billion a year. By the end of the project 2011, customs revenue had increased sixteen-fold to $3.4 billion, while the ten-year programme cost $315.5 million. The Angolan business weekly *Expansão* (2012) reported that PEMA led to a total of $17.7 billion directly funnelled to the state's coffers, meaning that the programme's effective cost was equivalent to just 1.8 per cent of the customs revenue that it enabled to be collected.

6.4. PERT and tax reform: 2010-2013

This section focuses on the MPLA's first major effort to reform the system since the colonial era, initiated in 2010. It first assesses the origins of the current reform programme, and then outlines the key elements of administrative integration between the domestic tax and customs agencies, legislative reform, and customs modernisation. The current reform programme is used as a focus of analysis to evaluate competing claims about the motivations for tax reform in less developed countries. On one hand, broadening the tax base could play a critical role in reducing natural resource dependence and vulnerability to global price and demand volatility. Tax reform could also help to reconcile the disconnection between Angola's extraordinary macroeconomic achievements and persistent underdevelopment. On the other hand, rationalist conceptualisations such as these do not appear to have taken hold in the MPLA elite. This section draws particular attention to the stagnation of planned reforms and the drivers behind the disconnection between public statements of tax reform and the relationship between elite accountability and tax policy.

Crisis-driven reform: goals and drivers of PERT

Since the conclusion of hostilities in 2002, Angola's outstanding economic environment generated significant expansion in tax revenues, increasing from $4.3 billion to $46.9 billion in 2012. Growth in revenue collection since the end of the 27-year civil war was predominantly driven by taxes collected from oil, which have averaged 33.9 per cent of GDP over the last decade. However, during this period non-oil taxes have averaged between only 6 and 9 per cent of GDP.[21]

After the failure of the CRF in 2006, many elements of the colonial-era tax system – particularly related to the non-oil regime – remained in place a decade after the war ended. It was not until 2010 that the MPLA undertook its first comprehensive

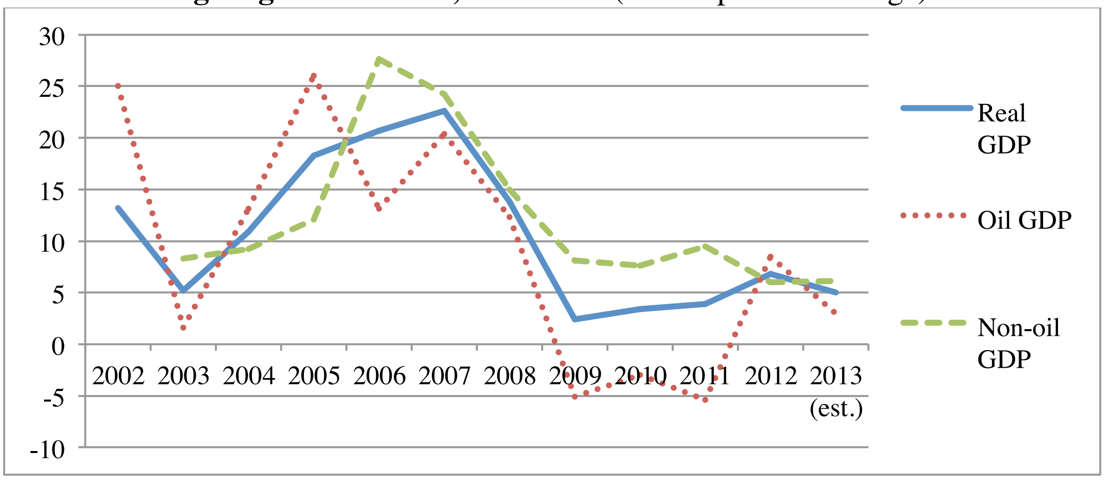
[21] Statistics compiled from Angola Ministry of Finance (2005, 2013) and Ministry of Planning (2008).

reform programme since independence. Why did MPLA embark on a major tax reform programme at this point? For one, revision of the tax system was long overdue. In 2011, an MPLA assessment found:

> "The current Angolan tax system is lagging behind socio-economic realities and constitutional principles…Although there have been some positive legislative changes and improvements to the administrative apparatus, the tax system is still, in many respects, inefficient, overly complex, in some places based on colonial laws, and is not consistent with the dictates of distributive justice" (Decreto Presidencial 50/11).

MPLA officials interviewed cited the 2008/2009 financial crisis as the principal driver of the current tax reform programme (Author interviews, PERT, Ministries of Planning, Finance, and the Economy, Luanda 2013). Following the onset of the crisis and subsequent collapse in oil prices, Angola's sudden descent into macroeconomic and fiscal instability exposed the country's acute single-resource dependence. While GDP growth averaged 14.9 per cent a year between 2002-2008 (CEIC 2013, 216), oil income decreased by over half and GDP growth collapsed to 2.4 per cent in 2009 (Ministry of Finance 2013), and Angola was forced to rely on $1.4 billion in loans from the IMF, at the time the largest package for any country in sub-Saharan Africa.

Chart 6.3: Angola growth trends, 2002-2013 (annual per cent change)



Source: data compiled by the author from Ministry of Finance (2008-2013); Ministry of Planning (2004; 2008).

Tax reform gained political urgency in the wake of the financial crisis, which can be seen as providing the major catalyst for a shift in policy. By November 2009, the MPLA and IMF made structural reforms to the tax system a high priority among the fiscal metrics agreed as part of the loan agreement. This led to the establishment of the Executive Tax Reform Project (*Projeto Executivo para a Reforma Tributária*, PERT) in 2010.

The IMF played a role in post-crisis planning, helping to push the tax reform programme into motion in early stages of the process. The IMF's presence itself should not be seen as a key driver of the process, however. Both the PERT and IMF officials interviewed in Luanda asserted that the IMF had a limited role in tax reform strategy. Perhaps most importantly, the IMF's standby loan agreement included tax reform metrics, and given the elite's strong drive for independence, meeting these metrics though its own tax reform programme provided a rational strategy for re-gaining complete independence after the agreement terminated. The MPLA has not developed a tradition of rent-seeking based on foreign aid to a similar extent to Frelimo in Mozambique, and regaining independence of action was thus an overriding priority. In a sense, then, the crisis provided the opportunity for MPLA to revise the tax system to maximise its control over the economy as it developed in the wake of the crisis.

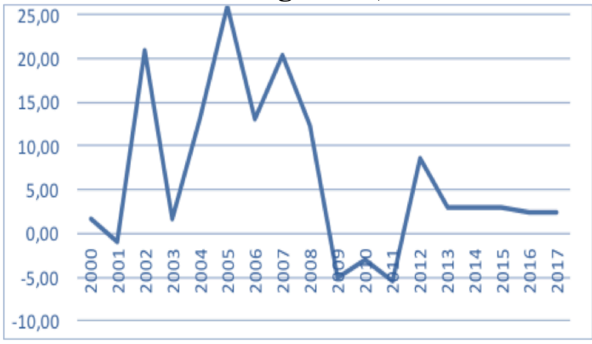
The principal aim of PERT, which had a budget of $18 million and 300 employees in 2013, is to boost non-oil tax revenue as a means of diversifying the economy. In addition to reducing dependence on oil revenues, reform targets also include modernising the tax administration and legislative framework to simplify the process of paying taxes and promote private investment. Gilberto Luther, the associate director of PERT, said in an interview: "We know that a healthy economy needs to be more diversified and gradually move the centre of gravity towards the non-oil sector."

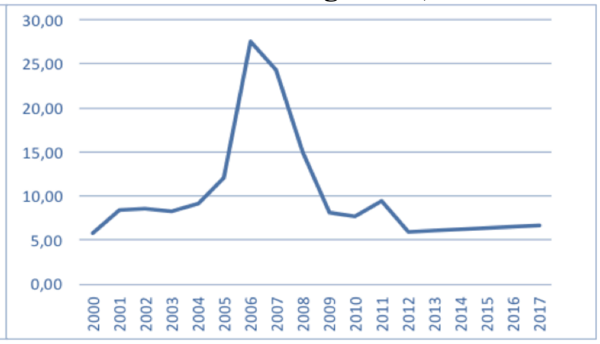
There are inconsistencies in the tax reform plan and strategy, however. According to Luther, "the tax system has a double function: on the one hand, it needs to be investor-friendly to foster private investment, and, on the other hand, it needs to provide the needed financing to reduce dependence on oil" (Author interview, PERT, Luanda 2013. However, the MPLA has not used its huge oil income over the last 10 years of peace for this purpose, drawing into question whether and why this has changed.

Additionally, the top line quantitative goal of the reform project is strikingly ambitious in its drive for efficiency. PERT aims to increase non-oil tax revenues to at least 20 per cent of GDP by 2017, up from 6.4 per cent in 2012 (Author interview, PERT, Luanda 2013). This goal of raising non-oil tax revenues conflicts with reform policies that introduced incentives to the non-oil tax system. At least in the short term, these fiscal benefits will circumscribe tax revenues.

Moreover, this objective of substantially raising non-oil tax share of GDP is particularly ambitious in its drive for efficiency given declining growth capacity in the non-oil economy (Charts 6.4 and 6.5 below). While non-oil GDP growth is projected to stabilise at around 6 per cent a year until 2017, the domestic economy is also not currently large enough to support diversification (CEIC, 231).

Chart 6.4: Oil GDP growth, 2000-17 **Chart 6.5: Non-oil GDP growth, 2000-17**





Source: Da Rocha 2012; (citing IMF 2012).

In this context, the government's fiscal target implies a need to undertake significant institutional and administrative reforms to strengthen the capacity of the tax system as a whole. However, limited progress in legislative and administrative reforms strongly indicates that the government does not intend to implement a major overhaul. This has not happened, despite its implied need in order to meet revenue targets, as well as the MPLA's recognition that the tax system is "ineffective, obsolete, and an obstacle to development" (Decreto Presidencial 50/11). Political motivation appeared to be strong in the first two years of the project, but as of the time of writing, the programme has stagnated and failed to pass major proposed legislation.

There are enormous political interests that need to be slain in order for a major overhaul of the tax system to take place; overhauling the tax system is a politically and administratively challenging task. The discussion that follows will present data collected through fieldwork to build a picture of the Angolan tax system and content of the current reform programme, which is planned to run until 2017. It will highlight areas mentioned above in terms of limited of progress towards meeting programme objectives, which relate to the underlying political dynamics and motivations that condition reform.

Administrative integration

By far the most significant administrative reform process initiated during the PERT programme is the merger of the national tax and customs agencies, which are currently separate entities within the Ministry of Finance. This drive for efficiency includes modernisation of both revenue bodies, and by 2013 integration of common departments, including IT and human resources had been completed. In addition, PERT has developed a new tax IT system to automate administrative processes and enhance compliance controls. The regime has increased its tax human resources by 40 per cent and is also preparing for the launch of the Tax Training Institute, which will provide specialised training in tax issues and management to high-calibre bureaucrats and added external hires to address severe human capacity gaps.

These reforms reflect PERT's concentration on "building capacity in the administration" and benefit from strong political support from within PERT, the Ministry of Finance as well as from external bodies. Gerson Santos, Chief of Staff in the Ministry of Planning, said "PERT is doing well to attract high quality people to the area of tax." Abrahão Gourgel, Minister of the Economy, also said he supported the development of "automated processes that will strengthen the revenue system. This will also improve the way we can use information about taxpayers" (Author interviews, Ministries of Planning and the Economy, Luanda 2013).

However, the integration of departments common to Customs and the National Tax Directorate seems to face some political opposition. Directors in the Customs agency reported the development of their own IT infrastructure "will respond to the needs of border control," (Author interviews, SNA officials, Luanda 2013) suggesting that the plan to merge systems has been formulated without full coordination between the two organisations. As such, it is likely that the next steps that are planned –

involving merging key budgeting and planning processes and integration of the semi-autonomous offices that manage oil taxes and large taxpayers – will encounter similar obstacles due to a lack of cooperation and differing goals between the DNI and SNA.

The second major stage, which the Ministry of Finance aims to complete by 2017, is the incorporation of all internal revenue and customs functions into one integrated revenue authority. At the time of writing, the shape that this administration would take remained unclear. However, it continues to appear unlikely that the new administration will take the form of a semi-autonomous revenue authority, a model that has been successfully adopted by 15 (mostly Anglophone) countries in Africa. The advantages of this model, in which customs and tax are integrated into one independent administration with autonomous powers such as self-financing and sui generis human resources systems, include freedom from political interference from the Ministry of Finance, autonomy from the constraints of traditional government and civil service systems, and strategic oversight from a board of high-level public and private sector directors (Crandall 2010; Taliercio 2004; Fjeldstad and Moore 2008).

While recognising the potential benefits of adopting such a model, leadership in the tax reform project indicate that the possibility of implementing it in Angola is limited by the lack of enabling legislation or a constitutional imperative. The establishment of a semi-autonomous revenue authority in Mozambique, unique in Lusophone Africa, was critically supported by President Guebuza of Mozambique. In the words of Brandão, the Director-General of the tax reform programme interviewed in Luanda, it appears that "determining the best option for the revenue authority will be a question of political power" in Angola as well.

As of early 2014, progress towards administrative integration had stalled. A generalised lack of political will, especially in terms of the motivation of leadership in the National Tax Directorate (DNI) and Customs Agency (SNA), helps to explain why progress towards institutional reform has not moved forward. More specifically, a leadership shift at the top of the Ministry of Finance, including the installation of Armando Manuel as the new Minister in May 2013, also provides insight. At the time of research shortly following his appointment, officials in the DNI and PERT expressed uncertainty about the degree of support that the new Minister would offer. Local analysts familiar with Manuel's agenda emphasised that his "number one priority is to stimulate economic growth," and that "tax reform is not seen as part of increasing output" (Author interview, BAI, BP, Luanda 2013).

Similarly, there was a clear perception expressed by MPLA elites interviewed in 2013, including the head of the National Tax Directorate (DNI) and of PERT, that tax reform has the potential to create administrative barriers to growth. These officials also indicated concern that the changes required to successfully merge the DNI and customs agency would introduce administrative burden that could "lower revenue collection levels in the future" (Author interviews, Ministry of the Economy, PERT, Luanda 2013).

Legislative reform

Progress in implementing legislative reforms has also stalled since the PERT programme began in 2010. The immediate priority of PERT had been to address existing structural inefficiencies and biases, including a distorted incentives regime. While new legislation has been drafted, none of the major structural reforms has yet been implemented.

The first and most important revision the regime undertook in the context of the PERT was the creation of three new tax codes. These new frameworks replaced colonial laws from the mid-twentieth century and aimed to "correct the more unfair or more bureaucratic elements in existing taxes…to make the tax system fairer, more modern, and more effective" (PERT 2011).

First, the new General Taxation Code (*Código Geral Tributário*) constituted a fundamental revision of the previous model, which had been in force since 1968, and stated over-arching principles for individual taxes as well as the system as a whole. It also advanced detailed regulations concerning fiscal benefits and incentives, introduced the concept of 'residence' applicable to individual taxpayers, set forth a list of liabilities and guarantees for shareholders and members of statutory bodies, and introduced regulations for infractions, penalties, and interest. Second, the new draft of the code governing Tax Procedure (*Código de Processo Tributário*) substituted an obsolete set of regulations dating to 1948. This code aimed to establish a regime to safeguard the rights of taxpayers to judicial review of tax acts and restructured the administrative tax-justice system. Third, the new Tax Enforcement Code (*Código de Execuções Fiscais*), which would replace legislation from 1950, established new regulations and called for the gradual integration of the procedures governing customs and tax enforcement. Finally, this package of legislation proposed an alteration to the level of parafiscal (non-tax levies) charges on a variety of tax events including administrative, notarial, registration, judicial, and private acts in order to reduce an excessive burden on taxpaying individuals and businesses (PERT 2011).

These three new codes were approved by the President's Cabinet Council and passed to Parliament on 13 June 2013. However, none has been approved by the legislature or adopted in practice. The failure of the leadership to pass these laws represents a more acute manifestation of the concerns about tax reform cited above in relation to administrative integration. The perception among elites that tax reform adds administrative complexity and economic factors that limit growth provides a strong ideological and political barrier to adoption of new legislation. Gilberto Luther, deputy director of PERT, said in an interview, "the elaboration of changes to tax policy has been complex, and considering the economic and fiscal impacts will need more time for consultation and approval." A manager in the PERT bureaucracy reported that "our timelines are hard to predict now," most likely alluding to waning political will and a lack of support from the Minister of Finance (Author interviews, PERT, Luanda 2013).

Another explanation lies in the impacts of erroneous budget targets and a lack of transparency. The MPLA has tended to overvalue its estimates of non-oil revenues, which likely results from political motivation (pressure) to diversify the economy and boost non-oil sectors of the economy. Precise forecasting is required as a foundation for tax policies to work effectively, while a lack of transparency veils budgeting and tax reform processes (Fjeldstad et al. 2014). Moreover, changes to oil taxes resulted in lower collection of oil taxes in 2012. Therefore, the uncertainty generated by both a decrease oil tax revenues and overestimates of non-oil tax receipts likely resulted in a conservative stance towards tax reform.

While less significant than the potential passage of the three new tax codes, the regime began to adopt a set of legislative reforms in 2011 as a result of the PERT. These technical revisions are important to note because they reflect the capacity and willingness of the administration to adopt tax reforms, and shed light on the impact and progress of reform in other parts of the revenue apparatus. They include:

- Corporate income taxes
- Personal income taxes
- Capital gains

- Stamp duty
- Consumption tax
- Property

One of the most significant of these was the revision of the Corporate income tax (*Imposto Industrial*), including a reduction of the rate to 30 per cent from 35 per cent. Amendments responded to the increasing complexity of corporate taxpayers' operations in Angola and aimed to establish more equitable and efficient relationships between corporate taxpayers and the revenue administration. The new legislation simplified the way that tax is computed and set out a refined set of obligations for a range of industrial and commercial operations. Additionally, taxpayers classified as entrepreneurs were no longer subject to industrial tax but rather personal income tax. Furthermore, the law eliminated subjective exemptions from the previous code as well as those previously applied to profits derived from real estate investments. However, it is important to note that tax benefits and exemptions based on negotiation with the state would endure. The new regime also introduced a procedure to tax undocumented and confidential expenditures as well as donations not made in line with the Patronage Law (*Lei do Mecenato*).

During this period, the government also adopted a revised Personal Income Tax (*Imposto sobre os Rendimentos do Trabalho*), which clearly set out the concept of income tax in Angola, streamlined the income tax regime, and outlined specific rules applied to three distinct taxpayer groups. Notably, the new law raised the income tax rate to 20 per cent from 15 per cent and widened the taxable base by imposing obligations of several sources of income that were previously exempt, including expense reimbursement, workers' subsistence and transportation payments, and holiday allowances. Furthermore, this new law eliminated exceptions previously applied to incomes earned by taxpayers over age 60 and employed in the military.

A 30 December 2011 decree introduced amendments to the Capital Gains Tax (*Imposto sobre a Aplicação de Capitais*), which went into effect on 1 January 2012. The new code introduced specific revisions that broadened the types of income on which capital gains tax was to be paid and corrected distortions that had arisen as a result of different regimes applicable to personal and investment income. The law expanded the tax base to reflect the development of capital markets activities and associated financial products in Angola, and included obligations on interest from banking deposits and government securities, capital gains arising from the sale of financial assets or shareholdings, and speculation/gambling. While the revised code extended the scope of the previous law to include previously untaxed securities transactions, it also reduced the tax rate to 10 per cent from 15 per cent on interest on deposits and central bank/government securities, and shareholders' loans and allowances.

Furthermore, the new capital gains tax introduced a set of exemptions "in order to avoid creating obstacles to development for businesses and growth." These included dividends paid by Angola-based companies to Angolan companies with over 25 per cent of share capital and participation exceeding a year; interest on financial products dedicated to fostering savings (up to a maximum of AKZ 500,000 per person, about $5,000), and interest derived from house-savings accounts (PERT 2013). Finally, in line with the law's overall goal to "maximise fiscal justice," the new code revised procedures for settlement and payment as well as fines for non-compliance (Decreto 5/11).

In 2002 the government implemented a significant overhaul of the Stamp Tax (*Imposto do Selo*), concerning its application, incidence, assessment, charge, and exemptions (Decreto 6/11). The central goals of these revisions were to simplify the code, reduce bureaucratic procedures involved in its application, and enhance contact between taxpayers and the government administration. The new code eliminated about 80 per cent of the now-obsolete activities subject to tax under the previous code, establishing greater specificity. It also introduced new accounting requirements establishing a streamlined procedure in which taxpayers are obligated to file an annual return and abide by payment guidelines.

The main emphasis of the new Stamp duty is on the financial sector, in order to enable the tax administration to gain control of operations in the industry. Taxable events include share capital contributions (0.1 per cent), insurance policies (0.1-0.4 per cent), bills of exchange and promissory notes, written agreements (AKZ 300), certain acquisitions as well as leases and letting of real estate, guarantees (0.1-0.3 per cent), the use of credit (0.3-0.5 per cent) and customs (1 per cent on the value of imports). Under the new regulations, exemptions are granted to state, social security, and public welfare agencies, as well as religious and "public utility" groups (PERT 2013).

Furthermore, during this set of reforms the government altered the Consumption tax (*Imposto de Consumo*), establishing a significantly broader base of taxable goods and services. The revised Consumption tax, which PERT designed to focus on taxable activities with the "greatest contribution capacity," represents its most significant measure to improve equity in the tax system through an indirect tax (PERT 2013). While this legislation states that the tax obligation lies with service providers, in fact providers pass the tax on to consumers of the specified services and goods. However, with non-resident providers, the tax obligation lies with consumers. The schedule ranges between rates of 5 per cent (including energy, telecommunications, water, transport, and private security) and 10 per cent (including equipment rental, hospitality services, and tourism) (Decreto 7/11). Revisions to the Consumption tax are part of a longer-term move in Angola toward establishing a VAT (value-added tax)-style regime. Notably, the government announced in October 2013 that it would apply consumption tax to oil companies, applying rates of 5 per cent to the majority of services and supplies and 10 per cent for equipment rentals.

Finally, property taxation (*tributação do património*) constitutes another major bundle of tax reforms. The emphasis of the revised Urban property tax code (*Imposto Predial Urbano*, IPU), introduced between 2012-2013, was to lower the general rate of taxes (for instance, reduction to 0.5 per cent from 30 per cent on non-rented properties on property values over AKZ 5 million, and reduction on the effective rate on rented properties to 15 per cent from 24 per cent). At the same time, the new regime greatly simplified property registration and valuation procedures and introduced a system of mandatory retention at rented-income sources (PERT 2013). The IPU, along with other property tax reforms, resulted in AKZ 24.3 billion ($251 million) in revenues in 2013, more than a five-fold increase from AKZ 4.7 billion ($48.6 million) in 2010 (Ministry of Finance 2013).

Customs

Over the last ten years, the Customs Agency benefitted from the modernisation programme, implemented in partnership with Crown Agents, which resulted in a sixteen-fold increase in customs revenue from $215.5 million in 2000 to $3.35 billion in 2011. Since the departure of Crown Agents in 2011, the Customs

Agency is now working in close consultation with the national tax reform project to make major changes to cross-border revenue collection to protect and promote national production.

Administrative reform in the customs system is part of a wider shift away from capturing trade duties towards more robust border control. Enhanced enforcement procedures include a new IT system, the introduction of a canine unit and network of laboratories to identify and examine illicit flows of arms, currency, and drugs, and livestock. With the introduction of scanners and licencing for import-exporters, goods are now moving across the border within 48 hours – an enormous improvement from a wait of several weeks or months only a few years ago (Author interviews, SNA, Luanda 2013).

In January 2014, the government put into force a customs tariff (*Pauta Aduaneira*), the main aim of which is to stimulate and protect domestic production and businesses. The new regime sets out revised import duties on a range of products. Measures include increased import tariffs, with the top rates on non-oil sector imports such as livestock, water, and beer increasing to 50 per cent from 30 per cent. Other notable increases in duties include those on import of beverages, reaching in some cases rates in excess of 60 per cent.[22] Additionally, the rates on legumes and vegetables were increased substantially in order to correct the negative impact of imports of these products on national production (*Jornal* 2013). According to senior officials interviewed in the customs agency, incentives for national production will provide full exemptions on consumption and import taxes for priority domestic areas such as primary materials and industrial products.

[22] New customs tariff details obtained from PERT, September 2013.

As such, reforms to customs legislation, including the new tariff code, indicate a decisively protectionist shift with increased import tariffs for the non-oil sector. In an interview in Luanda, the Minister of the Economy said the government is aiming to "substitute products from Angola for imports." Similarly, the customs agency director of tariffs and trade said that the new measures are designed to "promote and protect domestic production in key areas for national development" (Author interviews, Ministry of the Economy and SNA, Luanda 2013).

The stated aim of the revised set of import duty is to promote investment while expanding job creation and diversifying the economy. However, the protection of domestic businesses is ad hoc and biased towards MPLA entrepreneurs. Provisions including wide exemptions for the domestic beverage industry and property market indicate favourable treatment of party elites' assets.

Throughout 2013, the government held consultations between Sonangol and the Ministries of Finance and Petroleum to review customs duties. As of December 2013, the government had announced a new 0.1 per cent tax on the value of goods imported by oil companies for production and exploration. Oil companies had not been previously subject to this duty. According to the directors of the trade, policy, and legal departments in the customs agency, the MPLA expects that continued consultations will result in a revised exemption schedule and more stringent procedures for companies to file and complete border procedures.

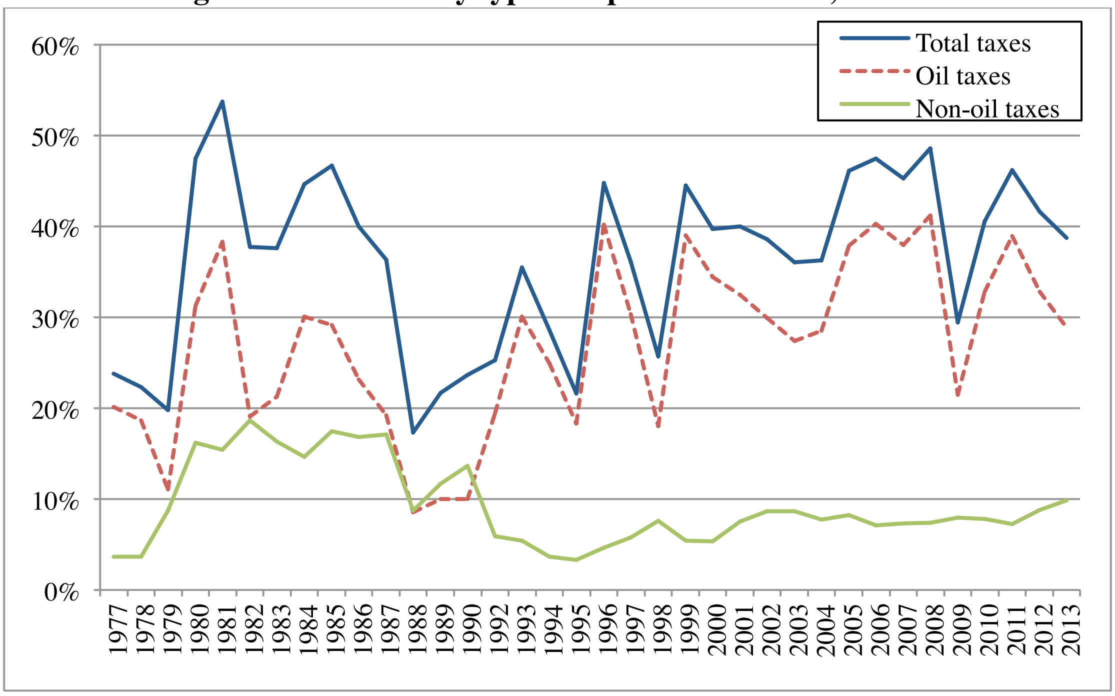
6.5. Revenue impacts: 2002-2013

This section presents an analysis of combined fiscal datasets for 2002-2013 to assess the revenue impacts of tax reforms adopted across the post-conflict period.

Through presenting fiscal and economic data in various formats, the discussion aims to link revenue collection levels to fiscal reform and their underlying political dynamics. In particular, by highlighting the relative differences between the government's tax effort in the oil and non-oil sectors the data are used to demonstrate the MPLA's effort to increase extractive capacity only in the oil sector. The data are also used to build the argument that oil disincentivised tax reform and broadening the base.

Throughout the post-independence period, oil has provided the dominant share of tax revenues in Angola. The historical association between oil taxes and government extraction is clear when looking at long-term fiscal trends between 1975 and 2013. As Chart 6.7 below shows, total tax share of GDP converged with oil tax share as the conflict progressed.

Chart 6.7: Angola tax revenues by type as a per cent of GDP, 1977-2013



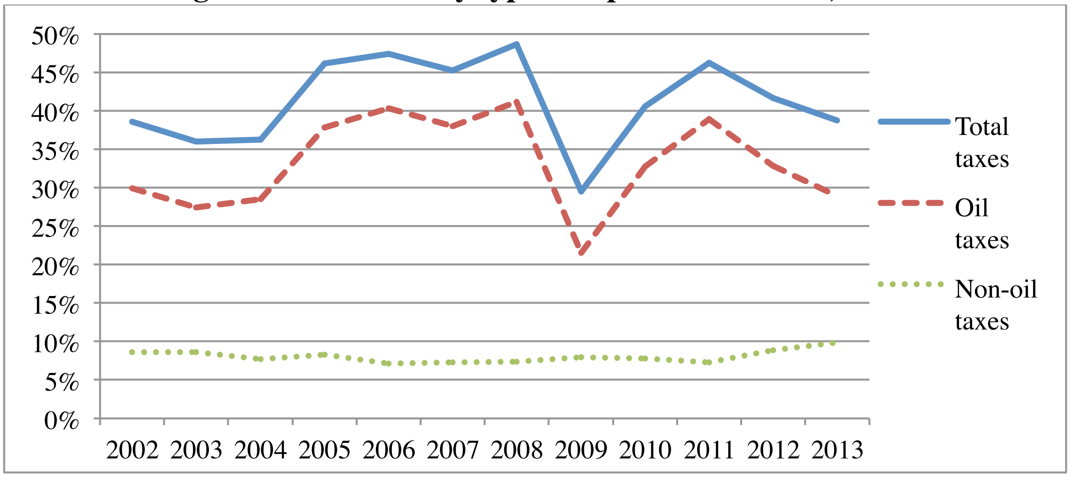
Source: Tax compiled by the author from Angola State Budgets 1979-2014; Ministry of Finance 2005-2013; World Bank 1989. Note 2013 figures are estimates. Tax share of GDP calculated by the author from absolute figures.

Angola's tax revenues have grown in line with the economy since the end of the war. Between 2003-2013, tax share of GDP averaged 41.47 per cent, a significant increase compared to the annual average of 35.5 per cent between 1993-2002. However, the data show that during this time there was not a significant general increase in tax share of GDP or diversification of the tax base. Between 2002-2013, oil constituted an average of just over approximately 80 per cent of the tax base annually. While oil taxes averaged 33.16 per cent of GDP during this period, non-oil taxes averaged a share of only 8.07 per cent.

Tax revenue impacts around the global economic downturn highlight the relative dependencies of the economy and tax system on oil revenues. Between 2002 and 2008, tax revenues climbed from 38.6 per cent to 48.6 per cent of GDP, reaching a total of AKZ 3.1 trillion ($40.9 billion). The government's total tax take fell to AKZ 1.99 trillion in 2009 with the financial crisis, dropping to 29.5 per cent of GDP despite the decline of GDP itself. That tax collection declined at a faster rate than GDP reflects the government's reliance on oil for the bulk of tax income. While GDP fell from AKZ 6.37 trillion in 2008 to AKZ 5.99 trillion in 2009 following the price collapse, a 6 per cent decline, the drop in tax collection was much steeper, falling 35.2 per cent. In terms of tax share of GDP, this represents a decline of 31.1 per cent.

Looking at the composition of Angola's economy during the crisis, oil GDP plummeted to -5.1 per cent and non-oil GDP growth fell to 8.1 per cent. (Both the oil and non-oil economies had grown at annual rates averaging 17 per cent over the previous five years.) The sharper collapse of the oil economy helps to explain the decline of taxes relative to GDP, given that dependence on oil is more pronounced in the government's tax revenue than in the economy as a whole. Given the narrow share of taxes derived from the non-oil sector and the administration's superior tax effort and capacity in the oil sector, the MPLA was unable to maintain previous levels of taxation during the financial crisis.

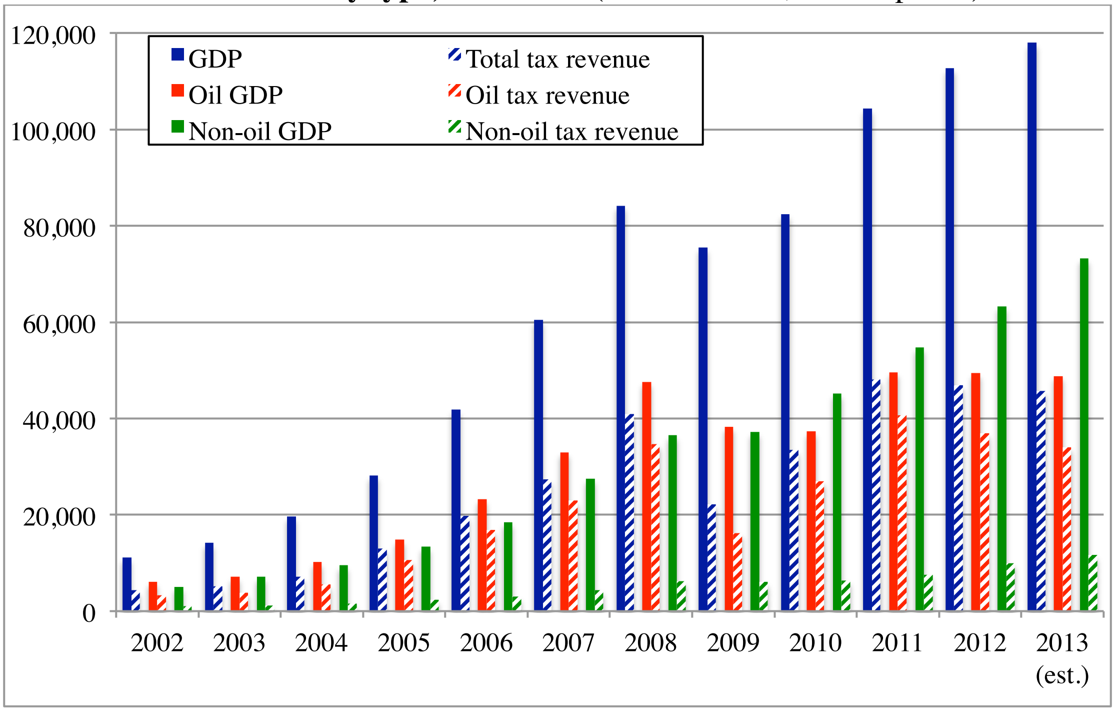
Chart 6.8: Angola tax revenues by type as a per cent of GDP, 2002-2013



Source: Data compiled by the author from Angola State Budgets 2002-2014, Ministry of Finance 2008-2013. Note 2013 figures are government estimates. Tax share of GDP calculated by the author from absolute figures.

Analysing tax revenues relative to oil and non-oil GDP provides a helpful way to understand tax effort by sector, and demonstrates the government's far greater tax effort in the oil sector than in the non-oil sector. Chart 6.9 below displays tax revenue and GDP broken down by type between 2002 and 2013. In terms of oil taxes, the chart clearly demonstrates growth following the overhaul of the oil and gas tax regime in 2004, in addition to a dip in 2012 following the introduction of revisions to taxes on petroleum products.

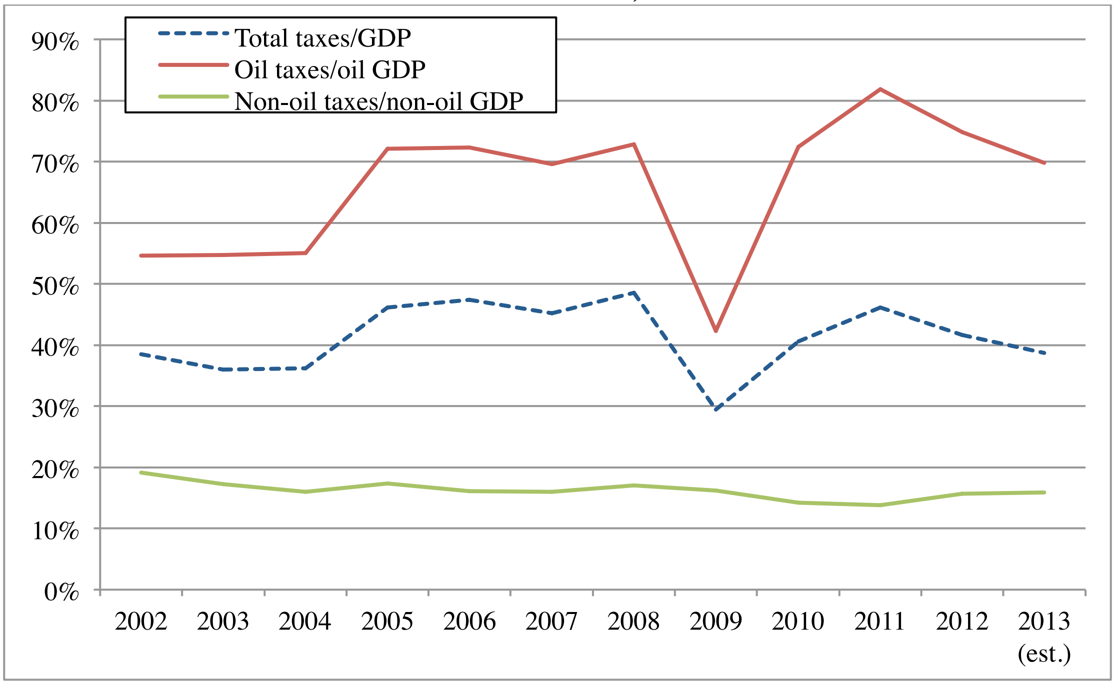
Chart 6.9: Tax revenue by type, 2002-2013 (AKZ millions, market prices)



Source: Data compiled by the author from Angola State Budgets 2002-2014, Ministry of Finance 2008-2013.

Between 2003-2013, oil taxes averaged 67.07 per cent of oil GDP annually, while non-oil taxes averaged 15.97 per cent of non-oil GDP. This demonstrates that the tax effort ratios have moved in opposite directions since the end of the war, with oil tax effort increasing (44 to 66 per cent) and non-oil decreasing (17 to 16 per cent). The movement of these ratios continues trends from the previous decade, as between 1993-2002 oil taxes constituted an average of 46.53 of oil GDP while non-oil taxes were 16.96 per cent of non-oil GDP.

Chart 6.10: Post-war oil and non-oil tax effort, 2002-2013



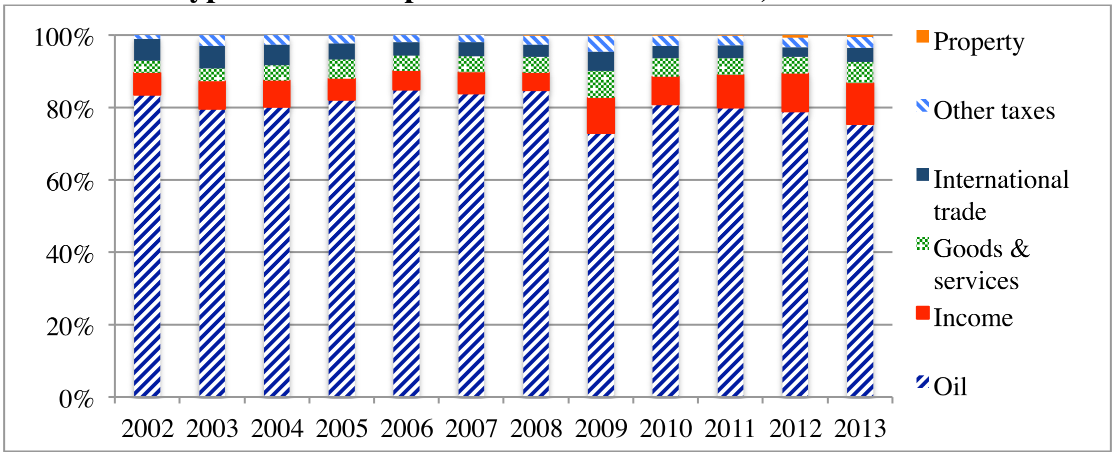
Source: Data compiled by the author from Angola State Budgets 2005-2013; Ministry of Planning 2008; Ministry of Finance 2007, 2005; CEIC 2013. Tax share of GDP calculated by the author from absolute figures.

These data indicate that, first, non-oil taxes contribute a small portion to the Angolan economy in overall terms or in particular to the non-oil sector. This is especially clear in relation to the post-2010 trend of non-oil GDP exceeding oil GDP. Second, these revenue impacts reflect the MPLA's concentration on reforming the oil and gas tax regime in the post-war period and relatively minor revisions to other areas of the tax system. Together with a relatively developed oil and gas legislative structure that facilitates resource extraction and greater administrative capacity to manage collection, this also implies greater effectiveness in taxing the oil sector. Interviews with senior government officials and tax specialists in Luanda confirmed, "petroleum resources are easier to tax" (Author interviews, PERT, Ministry of Finance, Luanda 2013). Taking this argument one step further, and in light of the overwhelming majority of tax income derived from natural resources, these points support the idea that oil disincentivises broadening the tax base.

The trend of tax base narrowing, which began during the conflict, continued after the war ended; in the post conflict period, the proportion of taxes derived from oil has stabilised at an average of 80 per cent a year. While tax revenues expanded substantially after the end of the war, this has not involved diversification of the tax base. In fact, in the post conflict period, the tax base is even more dependent on oil revenues than the economy as a whole. Moreover, even though the non-oil economy has expanded in the post-war period – new sectors are continuing more to the economy – yet the government is not capturing this through taxation.

Chart 6.11 below shows the structure of Angola's tax revenue base between 2002 and 2013, indicating types of revenue as a share of the government's total tax income. This makes clear the dominance of oil taxes in total tax take since the end of the war. During this period, oil tariffs accounted for an average of 79.7 per cent of taxes collected annually. Of the non-oil sector, income taxes accounted for the next-largest share, averaging 7.5 per cent of tax revenue a year.

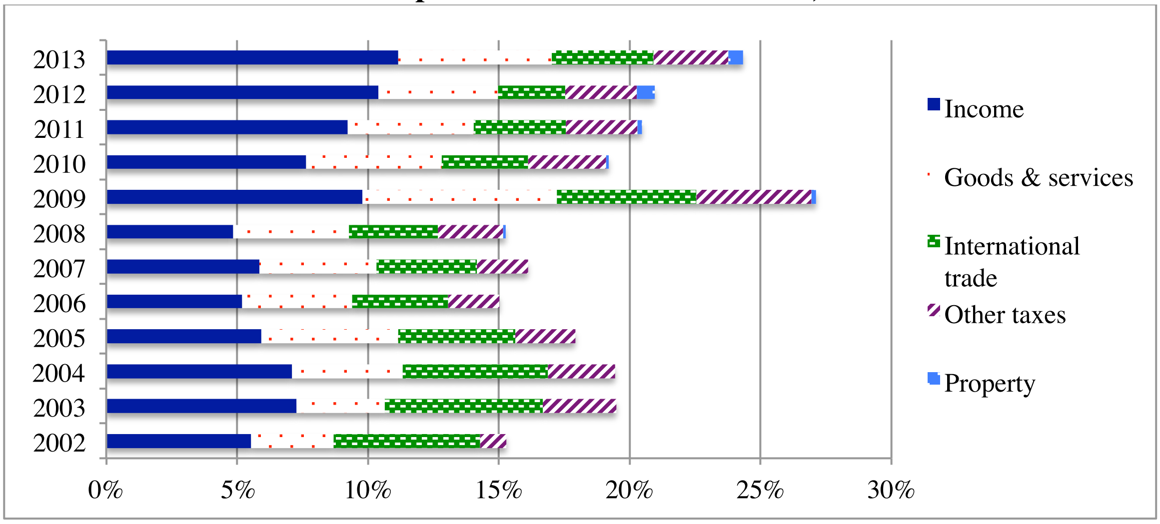
Chart 6.11: Types of tax as a per cent of all tax revenue, 2002-2013



Source: Data compiled by the author from Ministry of Finance 2007; Ministry of Planning 2008; Angola state budgets 2012 and 2013. Note 2013 figures are estimates. Share of revenues calculated by the author from absolute figures.

In order to understand activity outside the petroleum industry, it is helpful to break down types of non-oil taxes separately. Chart 6.12 below shows non-oil taxes as a per cent of tax revenues between 2002-2013. Income taxes comprise the greatest share of non-oil taxes, averaging 7.49 per cent of all tax revenues. The impact of the new property tax regime, implemented in 2011, is also clear, with these taxes increasing from 0.10 per cent to 0.55 per cent of tax revenues between 2010-2013.

Chart 6.12: Non-oil taxes as a per cent of total tax revenues, 2002-2013



Source: Data compiled by the author from Ministry of Finance 2007; Ministry of Planning 2008; Angola state budgets 2011-2013. Share of revenue calculated by the author from absolute figures.

6.6. Conclusion

This chapter analysed taxation processes in Angola during the post-conflict period in relation to peacetime statebuilding and recovery. It investigated the political dynamics underlying extraction and tax reform, and assessed impacts on revenue levels and extractive capacity. The central aim of the case study has been to build an analytical account of Angola's post-war tax system as a basis for comparison with Mozambique and for the next stage of analysis, which addresses the impact of taxation on statebuilding across the postcolonial period. This concluding section summarises the main points of the chapter.

The chapter provided a detailed account of the post-colonial tax system, and established that revenue collection processes have changed corresponding to the nature of external dependency in Angolan politics. It argued that the MPLA's post-conflict tax regime focused on developing effective revenue collection infrastructure in the oil sector, and reforms have largely neglected to develop the capacity of the administration to extract from a broad socio-economic base. While the MPLA's adaptations to the tax system enhanced extractive strength in the oil sector, the analysis argued that oil wealth did not contribute to significant institutional development in the tax system as a whole. While tax revenues have grown enormously with the economy, the tax system remains inefficient, heavily skewed with incentives and selective enforcement, and extremely centralised.

Chapter 4 argued that oil revenues disincentivised comprehensive tax reform. The post war period provides further evidence of a general unwillingness by the MPLA to undertake tax reform and the continuing influence that oil wealth has to inhibit the operation of a traditional revenue imperative that would be the catalyst for the establishment of broad based taxation.

The chapter has examined the impact during the period 2002-2013 of increasing dependence on oil on tax policy and the extractive apparatus. The analysis argued that Angola's oil wealth has inhibited the establishment of a more efficient and equable tax system. Indeed, the fiscal administrative strength has been built instead to maintain and solidify a continued stream of income to the elite. Oil income narrowed the tax base by inhibiting policies to diversify the economy and continues to skew the strength of the extractive apparatus towards oil and gas.

Its significant oil wealth and its activities independent from funding extracted from a broad tax base, have provided the critical context that has enabled the MPLA to avoid reforming the tax system. However, this chapter has also highlighted the political interests at work that block reform of the tax system (largely as it applies to the non-oil sectors).

The MPLA's drive to maximise its power and marginalise that of its opponents and potential rivals has contributed to the construction of a highly centralised tax system. In terms of intra-institutional interactions, secrecy and lack of transparency in the fiscal system are manifest in limited connections between the extractive apparatus and other parts of the state administration. The poor quality of fiscal administrative structures outside the capital constitutes a central challenge to enhanced taxation and attenuates problems with the implementation of tax policy.

The MPLA has exercised extraordinary autonomy in designing the tax system to its own benefit. The party's decision to not make major reforms to the system during the post-war period is best explained by the relative ease of extracting oil income rather than domestic tax revenue. However, the strategy to avoid and delay tax reform, including measures that would diversify state revenue streams and extend the administration's territorial reach, should be regarded as an active decision. The MPLA's command over the economy enabled the political elites to have only undertaken tax reform to the extent that it benefits the regime. Tax is used as a tool to confer selective advantages, such as supporting MPLA entrepreneurs and friendly businesses with special exemptions and benefits. On the other hand, structural biases in legislation and discriminatory enforcement allow the MPLA to marginalise its opponents.

The next chapter will explore the concept of taxation as a political tool and function of patronage.

Chapter 7
Comparative analysis and a return to theory

7.1. Introduction

This research has built a theoretically informed account of the relationship between taxation and statebuilding in postcolonial Angola and Mozambique. The case studies investigated in Chapters 3 through 6 examined the drivers of change in the tax systems during the civil war and post-conflict periods and analysed the impact of revenue collection processes on extractive capacity. Those chapters presented a wealth of original data, including previously unpublished revenue statistics spanning the postcolonial period, a synthesis of all major tax legislation during this time, and interviews with over 100 current and former members of the elite – party bosses, government ministers, members of parliament, guerrilla leaders, diplomats, and lawyers.

This chapter takes a step back from the empirical material. It engages in comparative analysis and assesses the implications of this research for theory linking tax to statebuilding in contemporary Africa. First, the discussion compares the influence of civil war and single resource dependence on taxation. The chapter then moves to the next stage of analysis, addressing the question of the impact of taxation on statebuilding. It investigates this question in two parts, first examining the impacts of revenue collection on state capacity and then on accountability. In both of these areas, the chapter builds arguments based on findings from the empirical research while making explicit reference to the concepts outlined in the theoretical discussion provided in Chapter 2.

The PhD argues that revenue collection has not taken the form of, or generated the outcomes envisioned by, liberal tax theories based on the Western experience of extraction and statebuilding. The chapter is organised as follows: The second section summarises the empirical findings from the case research presented in Chapters 3-6. The discussion compares the major changes and drivers of reform in the tax systems throughout the postcolonial period. The third section addresses the question of the impact of civil war on extractive capacity and compares findings from each case about the relationship between conflict and revenue collection.

Section 7.4 addresses the central theme of external dependency that runs though the war and post-conflict cases, comparing oil with aid. It builds the argument that large-scale foreign aid and oil have had similar impacts on extractive capacity in Mozambique and Angola by disconnecting state finances from society and inhibiting reform to institutionalise taxation.

Sections 7.5 and 7.6 then draw on findings between and across the case studies to assess the impact of taxation on state building. This analysis is organised around two elements of the statist process: state capacity and accountability. Each section first reviews theories about the developmental impact of taxation and then outlines major arguments derived from each case. These sections each conclude with a comparative discussion. The final section presents the major conclusions of the PhD.

7.2. Summary of empirical findings

This section compares findings from the case research presented in Chapters 3 through 6. It addresses the nature and drivers of change in revenue collection processes across the civil war and post-conflict periods for each case.

In the post-liberation period, revenue collection formed part of both the MPLA's and Frelimo's statebuilding agendas. Each party set about reforming the system to overturn the biased and oppressive structure of the Portuguese tax regime in order to fund their security at the onset of civil war and socialist development programmes. Angola and Mozambique shared the context of complex Portuguese tax systems with discriminatory benefits regimes and skewed orientation towards supporting the metropole, as well as limited capacity following large-scale emigration of skilled workers at decolonisation. Centralised planning is built into discourse about the tax systems in both states, and the structure of revenues – primarily derived from profit transfers – reflects statebuilding agendas inspired by Marxist-Leninist ideology. However, Frelimo made more substantive reforms to the Mozambican revenue collection system, and raised revenue collection levels in the post-liberation period compared to Angola.

In both cases, centralised planning failed to generate sufficient revenues to fund the state and defence mechanisms as civil war escalated. Frelimo's turn to the West and transition to a market economy marked the beginning of large-scale foreign aid inflows into Mozambique. On the other hand, Angola's oil wealth insulated the MPLA from a comparable degree of external pressure during its transition to capitalism. As a result, Mozambique's tax system reflects more changes during transition than Angola's. The MPLA made minimal changes to the tax system during the war and modified the Angolan tax system almost exclusively to strengthen the apparatus around extracting receipts from oil.

The post-conflict case studies demonstrate that key features of the war economies in Angola and Mozambique continue to feature centrally in peacetime political-economic dynamics and drive post-conflict tax policy. In terms of factors that influenced taxation in the post-conflict period, Chapters 5 and 6 highlighted the central themes of increasing dependence on oil and foreign aid, the relative role of external actors, and elites' consolidation of centralised control over the state. They also built the argument that the disconnection between soaring macroeconomic achievements – both countries have posted GDP growth rates among the highest in the world over the last decade – and equitable development, or an improvement in the living standards of the majority of the populations, is due to the fact that growth has been driven by single resource dependence, which has disconnected state finances from society.

Mozambique's tax system changed largely in line with the demands of donors and continuing influence of international financial institutions in the post-conflict period. The MPLA's amendments to the Angolan revenue collection apparatus concentrated almost exclusively on bolstering extracted capacity in the oil and gas sector and involved minimal other administrative or legislative reforms to the system as a whole.

Differences in external interference are reflected in differences in institutional development. In Mozambique, donors helped to construct a large number of government institutions that do not exist in Angola. While it appears that the international aid community has helped build a stronger extractive apparatus in Mozambique, the institutions are mostly a façade and did not create an effective and fair tax system. This analysis indicates that the presence or absence of donor influence and foreign aid did not result in significantly different outcomes in the tax systems.

Despite the differences in external influence, the Angolan and Mozambican tax systems are both dysfunctional, unable to implement or enforce effective extractive mechanisms. Both revenue collection systems have also insulated elites from their populations and disconnected state finances from society. Typical comparisons of Angola and Mozambique emphasise divergence in developmental trajectories; yet the similarities in their tax systems reflect common political processes and indicate more parallels than are often drawn.

7.3. Impacts of warfare on taxation

This section compares findings from the case research on the impact of warfare on extractive capacity in Angola and Mozambique.

Despite the revenues required to fund the respective 26 and 17 years of protracted violence in Angola and Mozambique, conflict did not catalyse the establishment of fair and effective broad-based tax systems in either case. The case studies find different experiences in terms of the hypothesis that war or the threat of violence drives increased tax collection levels. While Frelimo increased revenue collection in the immediate post-independence period, heightened threat levels in the mid-1980s devastated Mozambique's economy and precipitated the regime's shift towards the West. After the strategic reorientation and abandonment of socialism, tax collection declined from its wartime peak in 1983 throughout the end of the conflict and peace process.

As such, the Mozambican case does not find a correlation between levels of threat and extraction. It also demonstrates that because of Mozambique's aid-dependent war economy, tax collection levels were not driven by Frelimo's mobilisation of revenues in response to war, but rather by donors' demands on fiscal policy. In contrast, tax collection increased throughout the war in Angola in nominal terms and relative to GDP. This growth was primarily driven by oil taxes, which constituted an increasing share of the revenue base as the conflict progressed, while non-oil taxes remained comparatively constant compared to GDP.

The Mozambican and Angolan experiences of revenue collection in the context of post-independence statebuilding and protracted conflict run counter to grand theory regarding the catalytic effect of war on extractive strength. Armed conflict played a significant role in shaping the tax systems, state apparatus, and state-society relations, not simply because of threat levels. Rather, changes in taxation were driven by the dynamics of the war economy in each country. The economic and fiscal structures established by the war economies, and their bearing on state capacity and accountability, continued to influence statebuilding processes after the conflicts ended. In reference to European grand theory, war 'made' the states in Angola and Mozambique, but not in the model envisioned by Tilly.

In parallel with its association to tax levels, the threat of violence itself did not stimulate institution building in the extractive apparatuses. As large-scale foreign aid began to flow into Mozambique, and the MPLA aggressively expanded oil production in Mozambique by the mid-1980s, these autonomous sources of income replaced the need of each regime to rely on extracting domestic revenues in order to fund the conflict or its development agenda. Because neither party was dependent on internal resource mobilisation, they did not face an incentive to raise taxes or build the administrative bureaucracies that would institutionalise domestic taxation. The availability of foreign aid and oil replaced the revenue imperative and inhibited institutional development.

During the conflict, building and strengthening institutions took a back seat to reforms to support Mozambique's integration into the Washington Consensus development framework and integration global capitalist system. Donors introduced capacity building reforms in line with structural adjustment, but these measures skewed the tax base, undermined legislative coherence, and inhibited effective management in the administration. Moreover, donors neglected to focus on building institutions during the peace process – an omission that represented a missed opportunity to integrate a fair and effective tax system with other democratisation measures that would have formed a foundation for post-conflict statebuilding and politics. As a result of introducing a disincentive to the government's policy choices as well as introducing complexity and bias into the tax system, donors did not contribute to significant institutional development in the first two decades of independence.

In Angola, natural resource wealth similarly replaced the imperative to build extractive institutions because the regime funded its security agenda through oil income. While the MPLA made minimal substantial reforms to the tax system during the war, increased tax effort in the oil sector reflects enhanced capacity to extract receipts from petroleum. However, as a result of the growing dependence of the tax base on oil, wartime revenue collection processes undermined the tax system by heavily skewing the tax base and neglecting the development of extractive strength in other sectors.

The limited degree of institutionalisation that accompanied the negotiated settlements in each case highlights the idea of taxation as a peace dividend. The peace agreements in each case consolidated the power of the MPLA and Frelimo over the state and its resources and facilitated the continuation of revenue collection processes based on wartime power relations and patronage networks.

While conflict and settlement did not build institutions, the war economies are correlated with increased state capacity by strengthening both parties' independence of action and ability to pursue their goals. The continuous power exercised by the MPLA and Frelimo since independence consolidated each party's control over the state, its assets, and internal and external relationships. Furthermore, the top-down management of centralised economies marginalised activity on the bottom, ranging from local decision-making power to entrepreneurialism and small businesses. The collapse of business and trade during wartime contributed to centralised control in the one-party states while precluding decentralisation.

A key finding from this research is that relative degrees of external interference in Mozambique and Angola during the wars had divergent impacts on the capacity of Frelimo and the MPLA to pursue independent action. In Mozambique, donor-driven revenue collection processes weakened Frelimo's policymaking autonomy. On the other hand, Angola's oil-driven tax system bolstered the elite's power and its capacity for independent action. Additionally, because they did not depend on broad-based taxation, the war economies did not require political elites to engage in negotiation with a wide section of society in order to mobilise revenues. As a result, taxation did not lead to greater accountability in either country. Rather than focusing on domestic revenue mobilisation, each party concentrated on maintaining access to its autonomous source of income, which narrowed the scope of accountability to society and oriented it externally to the extent required by foreign partners.

The absence of a revenue imperative – due to the availability of aid and oil – provides a strong basis of explanation for these findings. However, civil war periods should be understood not just in terms of the fiscal imbalance created by single revenue dependence. Conflict and transition to capitalism facilitated the conditions for the elites' strategic and centralised management of state revenues, which embedded taxation within networks of clientelism. The use of taxation as a political tool for consolidating the neopatrimonial state emerged from the civil war case studies. The implications of this practice for post-conflict statebuilding are discussed later in the chapter.

7.4. Impacts of single resource dependency on extractive capacity

This section assesses trends in taxation across the postcolonial period to analyse the impacts of large-scale foreign aid and oil wealth on extractive processes in Mozambique and Angola. It first presents findings for each case across the conflict and post-war periods in each case before presenting comparative analysis.

Mozambique

Expanded tax collection across the postcolonial period has not resulted in greater extractive capacity in Mozambique. After three decades of fiscal reform, the tax system remains governed by complex legislation, which is biased and uneven in its development. In the post-conflict period, tax revenues have increased while international financial institutions and aid partners played a central role in tax reform and implementation. Since 2005, Frelimo has made substantial progress towards achieving its goals to strengthen its revenue collection institutions, particularly with the significant step of merging tax and customs to create the Mozambican Revenue Authority (ATM). The combined administration is far stronger than the previous system, and the reform project has simplified legislation, strengthened implementation and enforcement procedures, and cut down on corruption. In the post-war period, donors also contributed to institution building in the fiscal apparatus, including establishing technical systems and training programmes for civil servants, and Mozambique's tax system has become more balanced and coordinated than Angola's in the last decade.

While there has been notable progress in terms of the establishment of a semi-autonomous revenue authority, fiscal decentralisation, and the development of a new regime to govern mining and gas, the system remains challenged by a narrow base, limited geographic reach, and continuing problems related to evasion and compliance. Extractive institutions in Mozambique continue to face staffing and mismanagement problems, while complexity and contradictions in tax legislation continue to reflect uncoordinated policy planning and multiple external influences.

Why hasn't expanded tax collection and thirty years of fiscal reform resulted in greater extractive capacity in Mozambique? The thesis has argued that the dominance of foreign aid in Mozambique's economy and attendant pervasive influence of donors on policymaking and implementation has undermined the tax system. This has occurred for two reasons: First, large-scale aid itself has substituted a genuine revenue imperative to raise revenues throughout the territory. This has disincentivised tax reform by introducing a fiscal imbalance but also by influencing the nature of ownership in Mozambican politics.

Second, the interference of donors in tax policy has typically been subsumed by wider agendas reflecting the international development priorities of the time. Analysis of the policies implemented and adopted over the last two decades indicates a lack of coordination between tax policy and implementation. The structure and procedures of Mozambique's tax policy remain complex, while reforms have not reconciled contradictions and overlaps in legislation and procedures. These ambiguities and inconsistencies reflect external prescriptions as well as multiple influences imposed by seemingly disparate agendas represented by multiple stakeholders.

As donors began to supplement the IMF's assistance to Mozambique's tax system in the last ten years, increased external involvement has undermined the coherence of tax policy and government coordination. Frelimo elites interviewed in Maputo said that donors have contributed to complexity in the tax system. They generally believe that donors have "increased bureaucracy and made implementation more difficult" (Author interviews, ATM and Ministry of Finance officials, Maputo 2012/2013; also see Savana 2012).

One of the reasons for this is that the reforms have not been accompanied by enhanced administration to implement them to maximise revenue collection. In addition, the aid community has neglected to undertake analysis of the impacts of reforms on revenues and the economy (Author interviews, G19 and ATM officials, Maputo 2012).

Another impact of large-scale foreign aid in Mozambique has been to narrow the tax base. Donor influence has restricted the size of the potential tax base by introducing extensive benefits and incentives, which have skewed the system and biased the capacity of the administration to extract from a broad sectoral or geographic base. In addition, while tax revenues have increased relative to GDP over the last two decades, Mozambique's tax revenues remain meagre compared to its neighbours.

Angola

Oil wealth has not contributed to significant institutional development in the postcolonial Angolan state and has undermined capacity in the tax system. The availability of easily extractable natural resources has substituted the need to build administrative strength in order to maintain a continued stream of income to the elite. While tax revenues have grown in line with Angola's post-conflict economic boom, the tax system remains heavily biased, ineffective, and extraordinarily centralised; MPLA discourse notes it represents "an obstacle to development" (PERT 2011).

The Angolan tax regime contributed to institution building in the extractive apparatus only in the hydrocarbon sector. In addition to the greater level of sophistication in petroleum-related tax legislation, notably represented by Law 13/04, the administrative development of the oil and gas unit within the National Tax Directorate far exceeds that of any other area. Physically insulated from the commotion of the Ministry of Finance, the unit is staffed with some of the government's best employees, while Customs staff is remunerated according to a benefits schedule superior to the rest of the civil service. The best parallel to the institution in Angola is Sonangol, which has long held a monopoly over Angola's most sophisticated technical and highly trained human resources. Both institutions are resource-rich and high performing relative to the standards across the government

(Soares de Oliveira 2007); they are also both enclaves with minimal links to the economy and society.

This strategy largely ignored the institutions to extract resources from other sectors of the economy. This was detrimental to the strength of the revenue apparatus as a whole and circumscribed the taxable base by precluding effective collection and enforcement in non-natural resource industries. Moreover, the MPLA did not use its ample resources develop other sectors of the economy. As such, Angola's narrow tax base reflects both the undiversified structure of the economy as well as limited and biased extractive capacity.

Material and ideational expressions of this uneven development include the centralisation of the revenue apparatus in Luanda, accelerated reform of oil and gas tax legislation, and a greater taxpaying culture in the extractive industries. The narrow tax base also contributes to a lack of transparency in public financial management, since the fiscal activities of the several regulatory bodies (Sonangol, Ministries of Petroleum and Finance) are unclear and overlap.

The Angolan case presented here argues that the vast scale of oil wealth and the regime's relative ease of extracting taxes from the industry disincentivised broadening the tax base. As an autonomous source of income for the government, oil brought in over $40 billion and constituted 80 per cent of tax income in 2012. Even among other primary commodity-dependent countries, this is an extremely high percentage of tax income derived solely from oil and gas. For instance, it surpasses the 70 per cent rate in Nigeria, the only African country that produces more oil than Angola (NRGI 2014).

Furthermore, oil wealth facilitated the MPLA's centralised control over the economy and how it is managed, concentrating power in a small elite comprised of the President and his closest allies and insulating the party from domestic and international scrutiny over its management of Angola's natural resource wealth. This power system has persisted despite democratic elections (Hodges 2004, 2001; Soares de Oliveira 2011, 2007; le Billon 2001).

During the war, the MPLA's budget did not account for the totality of oil revenues. The practice of "extra-budgetary expenditure was common…the true amount of this extra-budgetary expenditure is unknown" (De Carvalho et al. 2011, 66-67). This has attracted a recurrent cycle of corruption allegations against the government, and scrutiny of Angola's public financial management processes has intensified in the last decade especially as the MPLA can no longer explain the discrepancies by citing military expenditure. This contributed to a lack of transparency in taxation of the oil sector, including a culture of secrecy regarding the links between Sonangol and the state. A lack of transparency in the administration of public finances as a whole has a detrimental influence on state capacity because accurate revenue forecasting is essential to a sound fiscal system (Fjeldstad et al. 2014).

The party's drive to maximise its power and marginalise that of its opponents and potential rivals has also contributed to the construction of a highly centralised tax system. The poor quality of fiscal administrative structures outside the capital also exacerbates problems with the implementation of tax policy.

Local authorities have minimal fiscal autonomy, while all municipal tax revenues are funnelled directly to Luanda, collected in the Treasury's centralised 'Single Account.' The Minister of Finance and Head of the Tax Directorate for

Cuanza Sul province in central Angola confirmed in two interviews that the income provincial authorities receive from the central government to spend on public services is entirely unrelated to the level of tax collection (Author interviews, Provincial Ministry of Finance, Sumbe 2013). Moreover, local tax collection "takes place according to centralised and out-dated instructions which have limited connections to local government development plans...There is currently neither a legal framework nor well positioned institutions to establish a system of local taxation and spending in Angola. Taxation continues to be the sole prerogative of the state" (Fjeldstad and Orre 2011, 1).

The MPLA's control of the economy means that political elites have only undertaken tax reform to the extent that it benefits the regime. Tax is used as a tool to confer selective advantages, such as supporting MPLA entrepreneurs and friendly businesses with special exemptions and benefits. On the other hand, structural biases in legislation and discriminatory enforcement allow the MPLA to marginalise its opponents.

Comparative analysis

The research suggests that dependency on a single resource reduces elites' incentives to build bureaucracies that institutionalise domestic taxation. The availability of an autonomous source of income supplanted the revenue imperative and inhibited reform of legislative and administrative institutions that frame taxation. This has also impacted institutional development by providing a disincentive to strengthen other dimensions of the state's capacity to support domestic revenue mobilisation.

In both cases, tax collection increased significantly in relation to the economy across the postcolonial period, particularly in the post-conflict years. However, the expansion of revenues was disproportionate to increases in the strength of the extractive apparatuses, and the case research challenges the notion that expanded revenue collection results in, or necessarily reflects, greater extractive capacity. Rather, the primary finding from this research is that the relationship between taxation and state capacity depends on the types and sources of revenues being taxed.

Single resource dependence provides a critical explanation for why expanded tax collection has not strengthened extractive capacity or state institutions in Angola and Mozambique. Large-scale foreign aid income and oil wealth substituted the revenue imperative in each case and replaced the need for Frelimo and the MPLA to rely on domestic mobilisation to fund their activities and survival.

Additionally, the interests represented by the source of income on which the economy is dependent heavily influence tax policy design and institutional development. This is particularly true when this income stream prevents the need to broaden the tax base. This is observable in both cases through the shared orientation of the tax systems around foreign investment and selective private sector partners. The exemptions regime pushed by donors in Mozambique and the provision of ad hoc tax benefits and exemptions in Angola's fiscal regime provide additional examples.

Legislative and administrative structures in the tax systems have developed according to the requirements of maintaining a continual flow of income from this source. In this context, the research suggests that institutional development in the tax system occurs only to the extent required to maintain state funding. This is observable in Mozambique by the willingness of Frelimo to meet tax targets linked to

G19 budgetary support and by Angola's sophisticated oil and gas regime, designed to extract the greatest volume of taxes from petroleum activities.

By replacing the domestic revenue imperative, oil and foreign aid undermined the links between revenue collection and institution building. Large-scale budgetary assistance in Mozambique and enormous oil wealth in Angola reduced the regimes' incentive to tax the population and reform the system. Aid and oil allow maintenance of expenditure at levels that would otherwise require broad-based taxation, further diminishing the regimes' incentive to improve the fiscal system because its revenue streams are not affected by the efficiency of its extractive bureaucracies.

Moreover, the development of the tax systems in Angola and Mozambique was not driven by a genuine need to raise revenues during the war or after. This requirement could have provided the necessary impetus and direction for building a national revenue apparatus according to public financial needs. Rather, the tax system developed according to the requirements of the oil industry while neglecting other sectors of the economy in Angola, and in line with the (post-) Washington Consensus models in Mozambique.

While this research argues that foreign aid and natural resource wealth can be thought of in the same way in terms of their impact on the relationship between tax and statebuilding, these sources of income had divergent impacts on fiscal institutions in the two countries. A major point of comparison of the implications of aid and oil for taxation in Mozambique and Angola is the degree of external interference associated with each revenue stream. Angola's oil wealth inhibited the capacity of international organisations to intervene in domestic policy and budgeting processes. Angola is an exceptional case in the region because the IMF and World Bank were not principal players in structural adjustment and had minimal leverage on the transition from centralised planning to a market economy. As a result, Angola was relatively insulated from the dictates of Washington Consensus tax reform, and external actors had limited power to influence Angola's policy and budgeting processes during the move towards capitalism.

On the other hand, Mozambique's lack of resource wealth increased momentum to turn to the West and Bretton Woods institutions during the war, which led to subsequent dependence on foreign aid and the attendant influence of the international development community. Due to the influence of donors on taxation – by providing technical assistance, funding, tying tax reform targets to budgetary support, and motivating Frelimo's more active policy to reduce interference – the tax system is more sophisticated and effective in Mozambique than in Angola.

The PhD presented the divergent perceptions of donors and political elites of the effects of aid and has argued that the impact of the aid community on Mozambique's tax system has not been uniformly positive in terms of strengthening capacity and effectiveness. For most of the war and post-conflict period, during which donors exercised pervasive influence over tax reform, fiscal institutions were continuously challenged by complex legislation that inhibited effective implementation and created both a disconnection between policy and procedure and a lack of coordination that reflected conflicting priorities. However, while not uniformly positive, donors have exerted an influence that has strengthened Mozambique's tax system, in contrast to the stagnation of Angola's system that exists in isolation.

In addition, there has been notable institutional development in Mozambique since 2005, when the Mozambique Revenue Authority (ATM) was established. This major structural change – integrating customs and domestic tax into one semi-autonomous body – resulted in significant expansion of tax revenues, which since 2011 have surpassed foreign aid inflows (which had represented a greater share of the economy since the mid 1980s). Frelimo leaders assert that this period marks the beginning of a more proactive stance of the government towards tax policy. During this period, foreign aid has provided the source of a new revenue imperative for Frelimo: to reduce economic dependence on donors in order to reduce their influence on policymaking and budgeting processes. As such, aid provided shifting motivations for Frelimo in terms of institution building: first by disincentivising reform due to the availability of aid and later by encouraging a major administrative overhaul to reduce the role of donors in the economy and politics.

Aid and oil have also impacted trends in fiscal decentralisation differently. The extent to which existing legal-institutional foundations in each country can leverage execution of legislation and administrative procedures is another important consideration in the equation between tax and state capacity. The quality of fiscal institutions varies greatly in strength and capacity throughout both countries. Limited progress in fiscal decentralisation implies an effective disconnection between taxes collected and services provided on a local level. To the extent that provincial governments do have the capacity to tax on a local level, the national system imposes severe constraints on these activities. While Frelimo introduced a new municipal tax regime in Mozambique in 2009, and donors are encouraging fiscal decentralisation as part of the PARPA framework, further capacity building stands as an obstacle to a fully integrated and efficient revenue system. However, the degree of centralisation in Angola's fiscal system is far more intense.

This divergence in observed degrees of fiscal decentralisation results from different impacts of oil and aid. In combination with the dynamics of war and transition, aid and oil worked to centralise elite power in both systems. However, this resulted in comparatively more progress in fiscal decentralisation in Angola because of the impact of donor-driven tax reforms in Mozambique. In Angola, the challenges of local taxation would be significantly mitigated by the establishment of *autarquias*, semi-autonomous local governments with a degree of fiscal autonomy. These would connect taxation and spending on a regional basis and improve accountability of local governments to their population while strengthening the capacity of municipal tax authorities. While Angola's constitutions have conceptualised *autarquias* for over two decades, they have never been implemented due to capacity shortages and the threat that decentralisation poses to the MPLA party's control throughout the country.

Angolan officials provide conflicting messages about the potential establishment of these entities, typically explaining their absence with reference to a lack of skilled workers throughout the country. However, *autarquias* are also in the interest of MPLA's political opposition, given the democratic benefits of public financial decentralisation. In this light, it seems that the lack of semi-autonomous local revenue institutions could be a function of MPLA's overwhelmingly dominant political power in Angola. In a similar line of thinking, it seems reasonable to suggest that maintaining a centralised fiscal system provides the MPLA with a tool to maintain control over the economy and marginalise the access of its rivals to the state's economic assets.

Another illustrative example of the constraining legal-institutional environment the government faces in its current tax reform programme is the effective absence of fiscal tribunals, which, like *autarquias*, exist in legislation but have never been implemented. There is no material evidence that such courts exist in the country. As a result, individual and corporate taxpayers have minimal recourse to make known or rectify fiscal disputes (Author interview, BP lawyer, Luanda 2013). Ultimately, the absence of fiscal tribunals in Angola speaks to the additional problem of resource shortages. In terms of the tribunals, there are simply not enough judges and skilled legal personnel to staff them. This means that individual and corporate taxpayers have minimal recourse to make known or rectify fiscal disputes. The current hierarchical system simply allows citizens, businesses, and other organisations to make complaints to their local tax offices (*repartições fiscais*). While the majority of low-level disputes can be rectified at this stage, local tax directors often face a lack of resources to process claims and make decisions, necessitating recourse to the National Tax Directorate; after this stage, the issue is passed to the Ministry of Finance. In the bureaucratic and institutional environment in Angola, this means endless waiting times. For firms operating in the oil industry and other large taxpayers, the absence of fiscal tribunals effectively means that there is no practical means to settle tax disputes.

The effects of aid and oil (and war) have also produced several characteristics of the tax system that are shared by both cases. First, while tax revenues have increased relative to GDP in both cases in the post-war period, oil and aid have challenged the tax system with significant narrowing of the base. This has occurred because of large informal economies, as well as the way that aid and oil worked to disincentivise broadening the tax base.

Second, oil and aid have skewed the revenue collection systems in ways that have unbalanced the extractive systems as a whole in both countries. The elites' focus on maintaining direct budgetary aid or income from oil has skewed the source of tax revenues by introducing exemptions. Aid and oil unbalanced the tax systems by establishing distorted benefits schedules, an array of ad hoc incentives, and the limited capacity each revenue administration has to collect taxes from a broad base. As oil and aid have worked to skew revenue collection processes, they have also reduced the equity in the tax systems.

Political elites in both countries cited the limited extent of the main source of tax revenues as a central challenge to enhancing the fiscal and economic systems. The bounded basis for domestic extraction is also perceived as having wider implications. For instance, Abrahão Gourgel, Angolan Minister of the Economy, said in an interview, "a limited number of taxpayers and businesses registered in the banking system represent a significant challenge for economic development in Angola" (Author interview, Ministry of the Economy, Luanda 2013).

The remainder of this chapter turns to the central inquiry of the relationship between taxation on statebuilding. The analysis addresses the impacts of revenue collection first on state capacity in Section 7.5, and then on accountability in Section 7.6.

7.5. Comparative analysis: impacts of taxation on state capacity

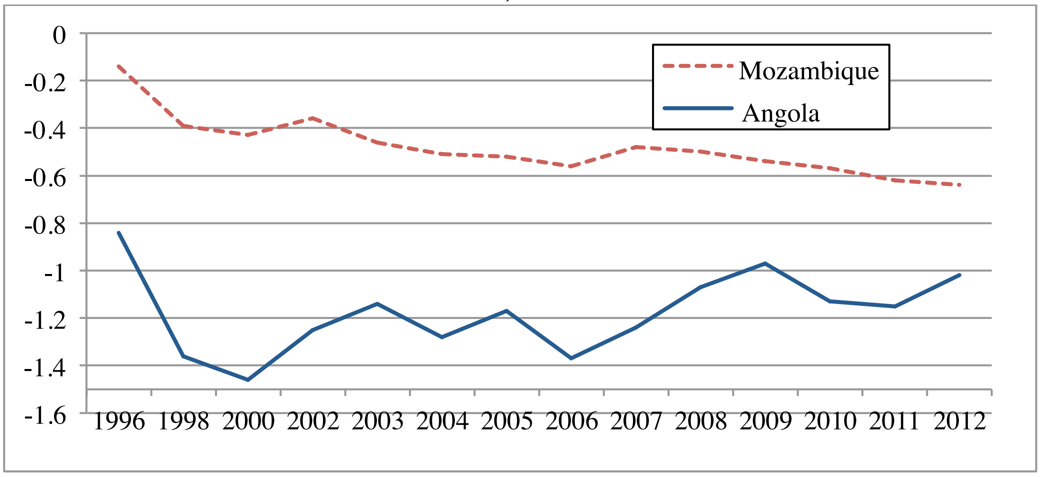
This section assesses findings about the impact of taxation on state capacity first within each case and then in comparative perspective. In terms of the impact of revenue collection processes on state capacity, the research explored two broad hypotheses:

- H1: Taxation strengthens state capacity because of the imperative for institutional development provided by the need to mobilise domestic revenues.
- H2: Taxation undermines state capacity because its operation through networks of clientelism corrodes institutions.

According to predatory and bellicist theory developed from the European experience, the revenue imperative catalyses the building and strengthening of extractive institutions, including the enforcement mechanisms and administrative bureaucracies necessary to expand and improve tax collection (Kaldor 1963; Zakaria 1998; Fjeldstad and Therkildsen 2008). In early modern Europe, the need to mobilise public revenues required increased state administrative and bureaucratic capacity. Through institutional reform, the mode of taxation shifted from local, personalised collection to national, de-personalised collection – which established enduring institutions that became a critical pillar of modern European states (Tilly 1975; Bräutigam et al. 2008). Furthermore, the requirement of skilled personnel to staff these bureaucracies gave rise to formal education, while revenue bargaining facilitated the emergence of laws and property rights (Steinmo 1993; Brewer 1989; Timmons 2005). Institution and capacity building in the revenue apparatus spills over to other arms of the state, while the government is incentivised to develop societal institutions – health, education, and public infrastructure, for instance – in order to enhance the strength of the economy and therefore its tax base. These accounts are captured in the first hypothesis. The second hypothesis is derived from culturalist theories about state-society relations and accumulations in African states and is developed in this section based on the case research.

Revenue collection processes did not contribute to greater state capacity in Angola or Mozambique across the postcolonial period. In both countries, measures of government effectiveness have declined since the mid-1990s.

Chart 7.1: Government effectiveness, 1996-2012



Source: World Bank 2013.

Institution building in the extractive apparatus, to the extent that it occurred in each case, has not spilled over to build state capacity more generally. Both cases support the notion that the relationship between taxation and state capacity operates as a function of the revenue imperative. Aggregate quantitative metrics of government effectiveness[23] have steadily declined since the mid-1990s in Mozambique. On a scale ranging from -2.5 (weak government effectiveness) to 2.5 (strong government effectiveness), Mozambique declined from -0.14 to -0.64 between 1996-2012 (World Bank 2013). In Angola, revenue collection processes have contributed to enhanced state capacity only in the sense of increasing the MPLA's facility for independent action, but have not contributed to greater institutional strength. The abundance of easily extractable natural resources funded post-war recovery, created a "mini-golden age" after the conflict, and facilitated the MPLA's further centralisation of power and

[23] Measured in terms of "perceptions of the quality of public services, the quality of the civil service and the degree of its independence from political pressures, the quality of policy formulation and implementation, and the credibility of the government's commitment to such policies" (World Bank 2013).

control over the economy, but did not build the institutional dimensions of state capacity. Quantitative measures of government effectiveness indicate a decline from the mid-1990s, decreasing from -0.84 to -1.02 (in which 2.5 is strong and -2.5 is weak) between 1996-2012.

Why has tax collection expanded while state capacity has not?

The observation that increased tax revenues, relative to GDP, in both cases has not been accompanied by the establishment of stronger institutions can be explained by the absence of a revenue imperative. In the context of foreign aid and oil dependence, the necessity of mobilising resources through domestic taxation has been absent for the majority of the postcolonial period and taxation has not strengthened the extractive bureaucracy or catalysed the establishment of more effective institutions in other parts of the state. Moreover, single resource dependence skewed the revenue collection system and breadth of capacity in administrative and legislative structures.

The case research suggests that elites seek to maximise income and benefits from their access to an autonomous revenue stream through tax policy design. Moreover, the primary motivation shared by elites in Angola and Mozambique is to maximise revenues, and to orient the tax apparatus to ensure a continued stream of income. In Angola, this means extracting as much from oil and gas as possible. In Mozambique, this means responding to donors' demands and implementing the aid community's tax policy agenda. As such, comparative analysis indicates that the impact of revenue collection on state capacity depends on the types and sources of revenues being taxed.

However, the idea that institutional development will only occur to the extent necessary to facilitate a continued stream of oil and aid income is less strong for the Mozambican case in the last decade. Frelimo has undertaken a major reform programme not despite the availability of aid, but because of it. The regime has adopted institutional reforms that are more far-reaching than those prescribed by donors or necessary to ensure continued levels of budget support. This drive for greater institutional strength and efficiency is rooted in the desire to reduce donor influence. Therefore, it appears that institutional development is driven by a motivation for income as well as independence of action.

While the MPLA has used tax as a tool to centralise its power and control over the economy, Mozambique's tax system reflects externally imposed agendas. Frelimo has not enjoyed a level of freedom from interference in policymaking similar to Angola. The pervasive influence of the Bretton Woods institutions and later by donors in policy and budgeting processes have driven the agenda of tax reform since the middle of the civil war. As a result, this has constrained the ability of the Frelimo elite to employ the tax system for its own ends.

In the absence of external interference, the MPLA has had extraordinary latitude in designing the tax system for its own benefit. Taxation has also become the primary conduit through which oil income reaches the MPLA. Throughout the postcolonial period in Angola, oil wealth helped to create an uninterrupted sphere for political elites' autonomous policymaking in terms of interference from the international community and Angolan societal demands. Angola's tax system has remained largely unchanged since independence – consolidating the institutional practices that were constructed after decolonisation that benefitted the victors of liberation. The party's neglect of major reforms to the system during the conflict and the stagnation of reform initiatives in the post-conflict period are primarily due to the relative ease of extracting oil income rather than domestic tax revenue and the insulation it provides from international actors.

As this line of thought suggests, the influence of clientelism and corruption provides another source of explanation for limited extractive strength, and why taxation has not built state capacity in Angola and Mozambique across the postcolonial period. Corruption in the revenue authority, widespread tax evasion, preferential and ad-hoc benefits regimes, and patrimonial enforcement mechanisms corrode institutions. Furthermore, corruption and bias in the revenue collection regime have contributed to the dominance of the informal economy, while the necessity of most citizens to operate in this space (while also holding public jobs) further weakens institutions. The fragility of these structures cannot penetrate the informal sector and has highly variable strength throughout the territory (Fjeldstad and Heggstad 2011; IMF 2001).

Corruption acts as an extractive dynamic in the economy and reduces the total levels of tax revenues (Ghura 1998; Abed and Gupta 2002); it also disturbs the balance between taxpayers and tax collectors described by Adam Smith as essential to a well-functioning tax system. Corruption also facilitates the formation of monopolies and oligopolies, creates barriers to foreign investment, and increases the cost of doing business, which hits small businesses the hardest and inhibits entrepreneurship. Moreover, corruption generates growth in the informal economy as authorities overlook illegal or unofficial activity in order to secure access to a limited supply of goods for government elites as well as by encouraging citizens to seek enrichment opportunities outside formal markets and discouraging unofficial traders from entering the regulated market. All of these processes restrict potential revenue extraction in the long term through decreasing the tax base. In the long run, they also hinder the health and growth of the economy, which in turn reduces future tax revenues. In an institutional sense, corruption (broadly defined) in the administration undermines transparent and effective financial management, leads to inefficient and discriminatory spending and allocation of funds and weakens public governance, all of which compound the economic implications of decreased public revenues.

Framing the research findings in terms of theories derived from observations of the processes at work in postcolonial African states, rather than developed western states, provides an opening to another set of explanations for the impact of tax on state capacity. The war economies in Mozambique and Angola allowed Frelimo and MPLA elites to consolidate the power of the party and its members through neo-patrimonialism and clientelism, which, as Englebert (2000b) notes, is to the detriment of institutions. In general, a drive for private good in the public sector, a culture of uncertainty, and bargaining, corrodes the formal state apparatus. In the tax administrations of both countries, this has been compounded by a lack of investment in administrative and bureaucratic structures.

Like the rents provided by access to aid and oil, taxation has created opportunities for enrichment in Angola and Mozambique. Due to a narrow base, tax revenues represent a source of revenues and elite consolidation opportunities separate from domestic accountability. A lack of transparency in revenue collection processes – to a significantly greater extent in Angola, because of donors' reporting requirements in Mozambique – has meant that the elites manage revenue collection and enforcement in a culture of secrecy and bargaining. As a result, both the MPLA and Frelimo's strategies of extraversion – managing foreign relationships with investors and donors and ensuring a continued flow of external funding – impacted tax system design and bolstered each party's autonomy from domestic society.

Moreover, the tax system provides a tool to confer advantages on select actors and marginalise opponents, which inhibits the developmental impact of tax on institutions envisioned by liberal tax theorists. Through processes such as applying biased benefits and exemptions, selective enforcement, and maintenance of a centralised fiscal system, elites pursue revenue collection strategies to maximise their power in ways that are detrimental to institutions. This is observable through ad hoc benefits and maintenance of a complex system in order to "make it easy" when elites want. Similarly, provision of ad hoc exemptions and incentives undermines the fairness of the system as well as its effective management. Ultimately, "searching for resources to funnel to the privileged ethnic group, bargaining with other groups, or repressing them, all impact the state's ability to extract" (Thies, 471).

In these cases, taxation operates as a function of the politics of patronage and survival. Clientelism results in the formal structures of the state being undermined by the biased structure and selective enforcement of tax policy. The research indicates that taxation can strengthen the state in terms of the elite's capacity for independent action and centralised rule, but is unlikely to contribute to institutional strength.

7.6. Comparative analysis: impacts of taxation on accountability

This research has investigated two hypotheses about the impact of revenue collection on state accountability:

- H1: Taxation contributes to greater regime accountability by establishing an exchange relationship between state and society.

- H2: Taxation narrows regime accountability because it consolidates the elite's power and legitimacy through clientelism.

Theoretical frameworks that posit a developmental link between taxation and more accountable, responsive, and representative government are grounded in an idea of the exchange relationship that exists between state and society. Based on observations of primordial statebuilding in Europe, these accounts often begin with the catalytic effect of war. The exigencies of protracted violence required that rulers engage with their populations in order to mobilise domestic revenues. Greater extraction through direct taxation required negotiation with key stakeholders in society. As necessitated by the revenue imperative, debate over taxation established a platform for revenue bargaining and the emergence of a social fiscal contract. The establishment of a state-society exchange relationship typically resulted in an exchange relationship in which governments grant citizens representation in return for paying taxes (Bräutigam 2; Moore 2008; Levi 1988; Tilly 1975; Centeno 2002; Mahon 2005). This argument is captured in the first hypothesis, while the second is derived from African statist theory and developed in the following discussion.

As explained in Chapter 1, this research has focused on the impact of revenue collection on the accountability of political elites, rather than representation. Orienting research around outcome of representative government is problematic because it rests on liberal principles of a social contract and imposes analytical divisions that do not hold up in empirical analysis of these cases. The PhD has advocated an approach that recognises that imposing conceptual boundaries between the spheres – state/society, public/private, formal/informal – can obscure more about contemporary politics in Angola and Mozambique than they reveal. In analysing accountability and the relationships of reciprocity associated with revenue collection, divisions between state and society are unhelpful mainly on empirical grounds, because political elites and the economic stakeholders with whom they would theoretically bargain over tax are largely comprised of the same small pool of Frelimo or MPLA bosses.

The focus of the PhD on accountability maintains the idea of an exchange relationship between state and society, but captures relationships of reciprocity and bargaining across analytical boundaries between public and private life. This approach also departs from the idea that it is representation that citizens demand in such a relationship, and opens up the analysis to other forms of social currency. More generally, chains of mutual reciprocity and clientelistic networks (developed through the transition from colonial rule to the construction of the neopatrimonial state) operate across and through such boundaries. The particular nature of reciprocity and debate over revenue collection in each case results from interrelated cultural and economic variables; this analysis draws attention to factors that emerged during the civil wars and have become consolidated in the post-conflict period.

Mozambique

Processes of revenue collection in Mozambique have not contributed to broader accountability in Mozambique throughout the postcolonial period. The nature of extractive processes is such that revenue collection has not forged a reciprocal connection between state finances and a broad societal base, and in many ways has exacerbated dynamics of selective bargaining and preferential treatment.

This situation is manifest in the absence of revenue bargaining in Mozambique across the postcolonial period. While difficult to observe, a lack of revenue bargaining is manifest through the absence of tax issues on the public policy agenda, of fiscal pacts or collective action by taxpayers, and the willingness of government to interact with taxpayers (Moore 2008). Both structural factors and political agency explain the nature of the elite bargain and why increased taxation has not contributed to broader accountability in Mozambique.

Given that any inflow of foreign funding alters the structure of incentives for a government and its population, large-scale international aid has significant implications for state-society relations in Mozambique. The availability of large-scale income from foreign aid replaced the need for Frelimo to rely on society for resources and undermined the links between extraction and redistribution familiar in Western societies. This precluded the need for widespread negotiation between elites and economic stakeholders over the collection and use of state finances.

External dependence and the pervasive scale of aid inflows in post-war Mozambique raise questions about ownership of contemporary Mozambican politics, particularly because they have allowed foreign donors to exercise considerable influence over domestic policy-making. Hodges and Tibana argue that "high aid dependence means that the budget process essentially involves only two actors, the executive and foreign donors" (2004, 8). As donors provided an increasingly dominant share of public funding to Mozambique, aid has reduced domestic accountability because Frelimo was not required to seek approval from the population (or legislature) in order to raise revenues. Rather, Frelimo's accountability is oriented externally. As Moss et al. argue, "aid may undercut the very principles the aid industry intends to promote: ownership, accountability, and participation"(2006, 14-15). As a result, Frelimo has been more accountable to donors than to the

Mozambican population. In this situation of primary accountability to foreign aid organisations has prevented the development of a social contract.

Mozambique's integration into the global economy has made possible borrowing on international markets. External loans amounted to between 6.2 and 12.6 per cent of GDP between the beginning of structural adjustment in 1987 and the end of the war; in 2012 external debt represented 20.7 per cent of GDP (World Bank 2014; Brück 1997). These loans, like foreign aid, have provided the government with another autonomous revenue stream on which to draw without domestic negotiation.

Another source of explanation for the disconnection between increased tax collection on one hand and limited elite accountability on the other is found in the nature of the exchange relationship on which a social fiscal contract is based. An inclusive and accessible system of debate over revenue collection has not developed according to the liberal model seen in strong Western states. The influence of donors on taxation in Mozambique did not just substitute the need for broad-based taxation but also skewed the orientation of the system. During the war, Frelimo adopted a series of benefits and exemptions mandated by the World Bank and IMF to facilitate the consolidation of a market economy and attract foreign investment. Transition and post-war reconstruction have maintained biases that confer advantages on regional, sectoral, and ad-hoc bases. The majority of Mozambicans are not integrated into the fiscal system, which is due in part to a large informal economy and a limited taxpaying culture.

An examination of the structure of tax revenues further illuminates the nature of the type of 'exchange' implied by revenue collection in Mozambique. Income taxes constitute a minimal share of total fiscal revenues. Income taxes on the entire population constituted less than 35 per cent of fiscal revenues during war and settlement, less than half of which was provided by individual taxpayers. In the post-conflict, period, income taxes declined as a percentage of total revenues and have averaged 25 per cent a year.[24] On the other hand, revenue from taxes on goods and services constitutes the bulk of revenues. It is a regressive tax system because it levies a disproportionate burden on lower earners.

Timmons (2005) argues that when the majority of a government's fiscal revenues is derived from regressive taxes, a "credible commitment" of the government to its people – evidence of an exchange relationship – can be indicated by an increase in social spending (as this represents responsiveness to the needs of the relevant tax base). The government's spending on social services declined dramatically during the war, however. In 1986, spending on education was 17 per cent of the state budget and health seven per cent. By 1991, spending on both dropped to just 3.2 per cent (GOM 1991). Additionally, since the mid-1980s, donor aid has been directed at social programming in addition to direct budgetary support. As such, aid creates the artificial appearance of an exchange relationship, disconnects the links between revenue collection and redistribution, and subverts the formation of a genuine social fiscal contract. The verisimilitude of this exchange relationship likely forms the basis for what Mozambicans understand as taxes, yet in reality government revenue collection offers no substantial means for society to demand representation in return.

The case research argues that revenue collection processes have disconnected state finances – or the centre of political and economic power – from the overwhelming majority of Mozambicans. In the post-war period, Frelimo has expanded its tax revenues significantly, in part by expanding the tax base but also

[24] Calculations based on ATM statistics for 1975-1994 and 1995-2012.

through extracting a greater volume of revenues from a static pool of taxpayers. However, this does not imply a broader base or the integration of more Mozambicans into the tax system. Both donors and Frelimo have focused on the single metric of tax/GDP ratio. This practice emerged during structural adjustment and remains the variable to which direct budgetary aid is tied; it also represents a practical bureaucratic reaction to what remains a complex fiscal legislative framework. These factors further help to explain continuing challenges with tax base narrowing and ad-hoc implementation.

As a result, there remains limited interaction between the government and the large majority of citizens in terms of paying taxes. The imminent windfall from hydrocarbon operations will provide Frelimo with substantial new income and will likely have an inverse effect on aid volume. Even if Mozambique is able to avoid the "curse" natural resources put on governance and equitable growth, it will be difficult to build strong links between the capital-intensive, foreign-operated hydrocarbon industry and the rest of the economy. As the mining and gas sectors become the government's primary source of tax revenue, reliance on aid could simply be replaced by hydrocarbon dependence. In this scenario, the government and society will remain de-linked. This will continue to pose a challenge to the establishment of a self-sufficient and accountable economy on which the developmental relationship between taxation and statebuilding is contingent.

These notions about potential developments in Mozambique allude to a more fundamental dynamic at work in the relationship between accountability and taxation in Mozambique. The centralisation of political, economic, and social power in a small elite provides an explanation for an absence of revenue bargaining. The impact of aid introduced bias and complexity to the tax system; yet the perpetuation of selective enforcement, distorted incentives regimes, and an enduring culture of evasion suggest that political motives are at work to use revenue collection to accumulate wealth for the elite. Frelimo's strategic management of donors and the party agenda to maintain a continuous flow of direct budgetary assistance for most of the postcolonial period has insulated the elite from domestic accountability. In the context of aid dependence, as Moss et al. argue, it still may be "easier to manage donor demands than the slow and politically difficult task of building or improving domestic revenue collection (14-15)." This notion of the elite's use of the tax system as a tool of consolidating the neopatrimonial state will be addressed later in the chapter following discussion of the Angolan case.

Angola

As in Mozambique, revenue collection processes spanning the postcolonial period have not meaningfully contributed to greater accountability of the state in Angola. The oil-based tax system has not resulted not in more responsive government or socio-political cohesion, but in the consolidation of biased elite bargaining and a regime of selective exchange. The narrow scope of revenue bargaining and circumscribed network of accountability, despite the increase in tax revenues across the postcolonial period, is explained by both the structural context of Angola's natural resource endowment and the political culture it has facilitated.

As an autonomous source of funding for the MPLA, oil, like foreign aid in Mozambique, has significant implications for the bearing of taxation on legitimacy and accountability. First, the availability of an autonomous revenue source replaced the need for broad-based taxation. Tax revenues soared after the end of the war, but this growth was driven predominantly by oil taxes. Now, Angola's tax base is even less diversified than the economy as a whole. As a result, oil wealth precluded the necessity for the MPLA to engage in widespread societal interaction and debate in order to mobilise revenues because the tax base was so narrow. Angola's integration into the global financial system has also made possible borrowing on international markets. As made clear with the $1.4 billion IMF bailout in 2009, external loans provide the government with another autonomous revenue stream on which to draw without domestic negotiation.

Second, because oil operators, in partnership with Sonangol, have provided a dominant share of public funding to Angola, oil income has reduced domestic accountability because MPLA is not dependent on society for its income. Rather, MPLA's accountability is oriented externally to maintain the flow of income from foreign partner petroleum operations, and internally to the extent that patronage obligations are fulfilled.

The case demonstrates that primary commodity dependence can inhibit the emergence of conditions necessary for the establishment of widespread revenue bargaining. However, factors related to political agency also explain the impact of tax on state-society relations. The MPLA's use of revenue collection to benefit its clientele and marginalise enemies (for instance, through a biased exemptions regime and limited fiscal decentralisation) has become common practice, while open negotiation over taxes has not.

In addition, because of its orientation towards the oil sector and private investment, rather than domestic citizens and businesses, the MPLA has not promoted a taxpaying culture. This represents the larger issue of limited taxpaying morale, which results from societal and cultural variables as well as the MPLA's political motives related to developing an active fiscal society. The notorious corruption endemic to the *Futungo* fiefdom is a source of societal discontent and weakens tax morale across societal strata, and particularly among potential taxpaying businesses and individuals.

Development of an actual or perceived exchange relationship also depends on more effective provision of services to the Angolan and Mozambican populations. In the words of Young Chul Kim, World Bank advisor to Angola, speaking at a tax conference in Luanda in May 2013, "people need to receive services if they are going to pay taxes." Moreover, the MPLA's ballooning oil income over the last decade is incommensurate with progress in service provision, evidenced by one of the highest infant mortality rates in the world (98 per 1,000 live births) and lowest rates of secondary education (31 per cent of the population). Despite the abundance of aid and donors in Mozambique, the country is ranked as the world's third least-developed; the average number of years of schooling is 1.2, and 60.7 per cent of the population lives in severe poverty (UNDP 2013). In the absence of greatly improved service provision throughout the country, it will be difficult to convince Angolans to pay taxes.

The MPLA's current initiatives to generate taxpayer morale include national campaigns conducted through radio, public advertising, and targeted opinion pieces. However, these and other programmes in schools and industry associations seem to have had minimal impact in Angola. In the words of Gilberto Luther, deputy director of the current PERT tax reform programme in Angola, "Most people are still not informed on what their obligations, and their rights, are and we need to educate them" (Author interview, Luanda 2013). In general, these sorts of campaigns tend to succeed with a broader scope, beginning with outreach in schools (Fjeldstad and Heggstad 2012). Without a taxpaying culture – even one that is coercive rather than consensual in nature – it will be difficult to create the social fiscal contract on which more accountable government is built.

In addition, the scope of revenue bargaining is outrageously limited. As described by a manager of the current tax reform programme in an interview, debate over taxation and interest group representation is radically circumscribed, and consists of a roundtable of members hand-picked by Frelimo elites. The 'Consultative Organ' of the PERT programme, which aims to establish substantive debate over fiscal reform with entrepreneurs, civil society leaders, and economic analysts, is comprised of only 20 people, overseen by McKinsey management consultants, and meets just twice a year (Author interviews, PERT, McKinsey, Luanda 2013).

Moreover, the exchange relationship is harmed by corruption and practices such as tax evasion and preferential incentives regimes. These factors are contextualised by the impact of Angola's natural resource endowment on politics, as oil wealth presents the MPLA with incentives to maintain control over the economy and exclude other actors. This results in a narrow scope for revenue bargaining because of the high concentration of stakeholders in the economy. As one senior PERT official said in an interview, "It is not a parallel system. Angola is a patrimonial state, not a fiscal state" (Author interview, PERT official, Luanda 2013).

This situation is manifest in limited progress towards fiscal decentralisation, a process that represents a threat to the MPLA's power, as well as a challenge in terms of bureaucratic capacity. The MPLA's maintenance of a highly centralised tax system reflects a political motivation to maintain a narrow tax base and therefore keep small the group of stakeholders to whom the party must answer. Similarly, as an instrument of elite consolidation, the tax system has exacerbated inequality and concentrated vast wealth in a small exclusive circle of power. The citizenry's awareness that some economic actors are receiving favourable treatment also undermines taxpayer trust and the potential for meaningful exchange between contributors and collectors.

Comparative analysis: taxation and accountability

The case research challenges arguments about the developmental impact of extraction and state-society relations in the contemporary global south, because increased revenue collection did not generate greater accountability in either case. The research identified explanations for this observation in a set of factors that emerged during the civil wars and became consolidated in the post-conflict period: illiberal and incomplete (Soares de Oliveira 2011; Hanlon and Smart 2008) transition to market capitalism, the emergence and later dominance of oil and foreign aid in the economies, political cultures of survival that developed in the context of anticolonial liberation and armed struggle, and the centralisation of elite control through clientelism. This discussion first addresses how the structural context of single resource dependency influences the elite bargain and then considers the role of political agency. It concludes with the proposition that the operation of taxation through networks of clientelism acts as an intervening variable in the relationship between tax and accountability

Non-tax revenues and accountability

The nature of the elite bargain provides a strong explanation for the finding from both cases that increased tax collection did not result in greater accountability. It is from bargains between taxpaying businesses and citizens and the government that the inclusive, transparent culture of fiscal exchange envisioned by liberal tax theorists can emerge. In contrast to this account, both cases demonstrated an absence of broad-based revenue bargaining or inclusive debate over taxation.

Large-scale foreign aid in Mozambique and Angola's oil wealth worked similarly in both countries to disconnect state finances from society and disconnect the links between the imperatives of revenue collection and redistribution. The availability of autonomous revenue streams replaced the need for widespread debate over taxation. Because the MPLA and Frelimo did not depend on a broad societal base to mobilise funding for their activities and survival, oil and aid precluded the necessity for revenue bargaining.

The case research supports Moore's argument that "the governments of many contemporary developing countries have access to very large non-tax revenues that…free them from dependence on local taxpayers, tend to have a range of rather toxic effects on their polities, and…obviate the need for revenue bargaining with the generality of potential taxpayers" (Moore 2008, 62). Existing research on tax and statebuilding in contemporary single resource dependent countries has mainly focused on the detrimental impacts of rents generated from natural resource wealth – in essence a variation on resource curse discourses (Cheibub 1998; Mahon 2005). However, the Mozambican case demonstrates the relevance of this argument to aid-dependent polities as well as those reliant on natural resources.

Absent the exigency of domestic resource mobilisation, the MPLA and Frelimo have not been dependent on a large base of domestic taxpayers for the income required to fund their security and the state bureaucracy, and the scope for revenue bargaining has been severely diminished. As such, single resource dependence narrows the scope for revenue bargaining, damages taxpayer trust, and undermines governance.

A major implication of single resource dependence has been to orient elite accountability in Angola and Mozambique externally – towards the source of funding, oil and aid – rather than towards domestic society. This finding implies that revenue collection processes that are skewed towards extracting from a narrow base are unlikely to broaden elite legitimacy and responsiveness. This leads to the conclusion that when political elites are not dependent on extraction from a broad base of the population, expanded taxation will not increase domestic accountability. Further, a major finding from the case research is that without primary accountability to the domestic population, it may not be reasonable to presume that taxation will lead to the establishment of a social fiscal contract.

In addition, the integration of both countries into the global financial system allowed for borrowing on international markets. Similarly, the pressure exerted by both international creditors and aid donors on recipient countries to meet fiscal revenue targets can lead governments "to engage in weaker forms of revenue bargaining: reforming their tax collection systems by making them 'user-friendly' in relation to larger businesses, rather than renegotiating them openly with taxpayers generally in electoral and legislative domains" (Moore, 59). This pattern is readily observable in both cases, as the revenue authority concentrates on a small number of *grandes contribuintes*. While the international community has exerted more influence in Mozambique in this sense over the postcolonial period, the IMF's sporadic role in Angola – for instance, during the post-2008 crisis loan monitoring period – had a similar impact. Therefore, to the varying extent that international financial institutions provided budgetary support in each case, the effect was not to encourage broader revenue bargaining.

Politics of exclusivity

An explanation for these findings is not complete by focusing only on how large-scale foreign aid and natural resource wealth worked to replace the revenue imperative. The lack of a revenue imperative does not provide a sufficiently robust explanation for observed patterns in state-society relations in the cases. By assuming that the availability of large non-tax revenues essentially blocks the mechanisms linking revenue collection to statebuilding gives too much weight to structural factors and obscures political agency.

The centralisation of power around a tight circle of elites in each case provides further explanation for limited elite accountability in the context of increasing tax revenues. An important implication of centralisation for taxation is that it narrows the number of people to whom elites must answer. Throughout the civil war periods, the MPLA and Frelimo consolidated control over the state by establishing highly centralised political hierarchies, securing access to income streams independent of a broad societal base and exploiting the opportunities for enrichment presented by violence and the transition to capitalism. These processes have had important implications for the relationship between revenue collection and accountability.

The expansion of capitalism tends to lead governments to favour strategic negotiations with actors who control capital rather than broad-based direct bargains with all taxpayers (Moore, 57-59). During the civil war periods, the power of both Frelimo and the MPLA was consolidated through the transition to capitalism. The opaque privatisation processes in both countries, which favoured military and party elites, provides an example of how this narrow bargaining could have worked. In Angola and Mozambique, given the extent of overlap between the holders of concentrated political power and wealth, this essentially circumscribed bargaining to the elite.

In addition, oil and aid facilitated the concentration of power and wealth in party elites by providing income that substituted the need for broad-based taxation. Elites' access to rents also provided an incentive to maintain control over the economy and exclude other actors, resulting in a narrowed space for revenue bargaining because of the high concentration of stakeholders in the economy.

A culture of corruption – broadly defined – in both cases undermines the trust of citizens and taxpayers in the system and government. This harms the "exchange relationship between the rulers and ruled" (Thies, 466) making extraction from the domestic population more difficult. Combined with manifest depravity in the tax administration, these factors undermine the political regime's revenue collection capacity and weaken the extractive state apparatus.

Similarly, another important reason why revenue collection processes have not forged relations of state-society accountability akin to those of more developed Western states, as envisioned in liberal tax theory, is due to a limited taxpaying culture. The legacy of colonialism and civil war provides insight into why the taxpaying culture remains absent in both fiscal systems despite significant expansions of tax collection in the post-war periods. Within the contexts of post-independence and civil war, a taxpaying culture did not develop in either country during the first several decades of independence, as taxes were associated with repression, coercion, and violence.

The Portuguese regime of extractive capitalism extracted income from both colonial societies through a regressive and discriminatory regime, which left an association between taxation and oppression in the post-liberation period. In addition, a formal fiscal policy of 'taxation' did not play a prominent role in the centrally planned economies both parties implemented to govern the newly independent states. The establishment of socialist regimes in both countries left important legacies particularly in terms of firms' practices, as tax morale did not develop in the corporate sector during the post-independence years, while profit transfers from state-owned and mixed enterprises constituted revenue collection. The association of taxation with coercion and injustice became stronger for parts of Mozambican and Angolan society during the war.

The coercive practices of both Renamo and UNITA to extract illegal 'taxes' from the populations and land under their control contributed to this dynamic. Taxation was part of both insurgency groups' war economies. UNITA accumulated "unparalleled resources" (Hodges 2001, 152) from mining and trade in diamonds, an important part of which was collected through taxation. One of the organisation's key strategies was to tax *garimpeiro* miners – informal prospectors – typically at a rate of 20 per cent (Dietrich 2000), which helped to generate revenues as well as exercise control over territory. This taxation regime allowed UNITA to continue collecting revenues following the decline of South African support (Weigert 2011; Le Billon 1999).

Similarly, Renamo used revenue collection to both generate funds for the war and control territory. According to Gersony's influential analysis (1988), Renamo exercised power through zones of destruction, control, and taxation. In the taxation zones, Mozambicans were forced to make payments to the guerrilla group to ensure their protection. This taxation regime consisted primarily of obligatory payments in kind, rather than monetary contributions. In an interview conducted at his heavily guarded home in Nampula, Afonso Dhlakama, the long-time guerrilla leader and

President of Renamo, compared taxation with food. He said, "The idea [of tax] starts with food. The guerrillas were all supported by the population. Renamo created farms and we had more food than in the city. We ate well." Dhlakama denied extensive reports that the organisation used force to extract payments or food from the local population. Rather, he said that Renamo's control over communities was consensual, implying reciprocity between Renamo and the population under its control. He said, "If Renamo snatched food, the population would betray us. The population [that paid] supported Renamo" (Author interview, Dhlakama, Nampula 2012).

The limited scope of fiscal interactions between the elite in each country and wider society speaks to the social implications of a narrow tax base. Broadening the tax base requires integrating more citizens into the formal economy and registering taxpaying businesses. In turn, this relies on the government putting the case for the value of paying taxes to the Angolan and Mozambican populations. As part of the parties' most recent tax reform programmes, Frelimo and the MPLA have set the development of a domestic taxpaying culture as an objective. According to political elites interviewed in both countries, the motivation to cultivate tax morale is driven by goals to widen the tax base, but also to use tax as a tool to integrate informal traders into the regulated economy, simultaneously register citizens in the banking system, and collect data about the economic activity of the country.

Frelimo has made more progress than the MPLA in fostering tax morale with its initiatives to increase taxpayer engagement, and has multiplied the number of registered taxpayers since 2005. Unlike during the conflict period, both indirect and direct taxes are becoming an acknowledged part of public life, while public information campaigns are expanding taxpayer education in terms of rights and responsibilities under the new regime. The ATM leadership has also begun to introduce a creative set of proposals to integrate more informal traders into the formal sector. However, like in Angola, the majority of Mozambicans are still not informed about their rights and obligations in the fiscal system. In order to bring about a shift in national cultures, both regimes need to initiate taxpayer education programmes and engage in earnest debate with a wider set of the population.

There is an analogous problem with the governments themselves in terms of evasion, enforcement, and the lack of an internal taxpaying culture. Government officials in both cases confirmed in interviews that endemic corruption continues to plague public administration and fuel fiscal evasion. Angola and Mozambique are ranked 153 and 119, respectively, out of 177 countries on the 2013 Transparency International corruption index, while an October 2012 poll showed that 87 per cent of the Angolan population considers government corruption to be widespread.

In addition, in the post-war period, widening inequality – a divide atop which the tax collecting political elites sit – has contributed to perceptions of inequality and attenuates tax morale. Political elites interviewed in the ATM and PERT indicated that limited progress in developing taxpayer moral is mainly due to 'lack of education' on the part of taxpayers. However, emerging discourses in the local independent media (far more developed in Mozambique) and local academic communities in Maputo and Luanda indicate that concerns about corruption and widening inequality are prevalent among potential taxpayers.

The corruption endemic in Frelimo's inner circle and the *Futungo* fief in Luanda is a topic of debate in the independent press and non-profit domestic development advocacy discourse in both countries. A culture of bribery, uncertainty, and informal bargaining – facilitated in both countries, to varying extents, by the rent-seeking opportunities presented by foreign aid and natural resources – reduces taxpayer compliance and fuels evasion, which undermine the effectiveness and integrity of public office while weakening taxpayer trust.

The progress of the MPLA and Frelimo towards their objectives of increasing tax morale and compliance could play a role in establishing more accountability in the tax collection system. Fostering a taxpaying culture depends on elites demonstrating that their monopoly over coercive power is not used for self-enrichment. This requires gaining control over a space in which the extractive apparatus of the state is used as a tool for redistribution rather than centralised accumulation – or at least generating that perception. Moreover, elites need to demonstrate their own commitment to taxation and tough stance on evasion in order to gain the confidence of potential taxpayers who are less powerful and wealthy.

Clientelism as an intervening variable

This research proposes the idea that when taxation operates through networks of political clientelism, the presence of a revenue imperative is a necessary but not sufficient condition to strengthen accountability in the extractive system. In both cases, elites pursued revenue collection strategies to centralise power, marginalise opponents, and minimise the costs of state-society exchange. Political elites used taxation as a tool to consolidate the neopatrimonial state through practices including selective bargaining, discriminatory enforcement, and the implementation of biased exemptions regimes. These processes skewed the revenue collection system and determined who benefitted from redistribution. As such, the cases suggest that when revenue collection processes operate as a function of the politics of patronage and survival, taxation is unlikely to contribute to greater accountability.

A long historical tradition and rich conceptual literature recognise that taxation influences the nature and breadth of the exchange relationships that exist between the elite and society. However, the relationship between tax and state-society relations should be understood as mutually constitutive. The basis of political exchange between state and society can determine who the government taxes and who benefits from redistribution. At the same time, societal structures influence the form of taxation, including the sources and volumes of revenues extracted. Therefore, the relationship between tax and statebuilding depends not only on the types of resources being taxed, but the societal structures from which they are extracted.

As a result, the research suggests that the nature of give and take between tax collectors and taxpayers – equitable and broad or discriminatory and biased – is not just a requirement for fair governance (Bräutigam, Fjeldstad and Moore 2008), but integral to the way that the MPLA and Frelimo conduct politics. Moreover, conceptualising taxation as a function of clientelistic politics casts the nature of state accountability in a different light than seen by liberal tax theorists. This analysis suggests that revenue collection in non-democratic states will reinforce or build the nature of exchange relationships that exist between state and society, rather than necessarily catalysing interactions that conform to the Western nation-state model.

7.7. Conclusions

Expanded revenue collection and fiscal reforms did not establish fair or effective tax systems in Angola or Mozambique across the postcolonial period. Despite the increase of tax collection relative to the economies, taxation did not contribute to greater state capacity or accountability in either case. The thesis focused on the influence of oil and foreign aid on the relationship between tax and statebuilding as a major point of comparison, and argued that single resource dependence replaced an imperative to reform the tax system and engage with society over revenue mobilisation. The case research found that that oil and aid worked similarly to undermine extractive capacity and disconnect the links between revenue generation and redistribution.

In Angola and Mozambique, oil and foreign aid have helped to keep patronage alive across the postcolonial period. Revenue collection processes contributed to this dynamic because the MPLA and Frelimo used taxation as a tool to expand neopatrimonial networks and consolidate their control over the state. Taxation did not lead to democratic outcomes not just because large-scale oil income and foreign aid replaced the revenue imperative, but also because taxation operated through networks of clientelism. These findings challenge liberal tax theories based on the Western experience and conform to 'culturalist' notions of African politics.

Strategies of political extraversion employed by the MPLA and Frelimo were the foundation for external rent seeking and securing access to the autonomous revenue streams that supplanted reliance on domestic taxpayers or society. Both parties took advantage of external relationships through the privatisation process, economic restructuring, and continuous negotiations with foreign investors and donors over the state's income.

The concept of extraversion helps to construct a counter-narrative to both the liberal views promoted by donors about the development potential of tax on statebuilding as well as their critics, who locate challenges to development in global economic integration. Extraversion therefore provides a political explanation for tax system development in Angola and Mozambique alongside single resource dependence. It also draws attention to how manipulation of external funding and relationships can undermine the tax system but can also build state capacity by consolidating elite power internally.

In addition, the research found that civil war did not have a catalytic effect on extractive capacity or statebuilding. The security environment of contemporary African states – including fixed borders, guaranteed external sovereignty, and contested internal legitimacy – helps to explain why civil war did not lead to similar statebuilding outcomes as interstate warfare did in the European experience. Moreover, the availability of aid and oil rents replaced the need for the MPLA and Frelimo to mobilise domestic revenues to fund their survival. However, the research demonstrated that the dynamics of the war economies in each case – particularly modes of external dependence and centralisation of power around a small elite – significantly shaped revenue collection processes during and after the conflicts. As such, civil war "made states" in Angola and Mozambique, but not according to the model envisioned by Tilly.

The primary goal of this PhD has been to investigate the mutually constitutive relations between taxation, state capacity, and state-society relations. Given that expanded taxation has not resulted in more effective government or equitable development in postcolonial Angola and Mozambique, the results of the research were surprising. It led to two conclusions that challenge the liberal orthodoxy that assumes tax catalyses the establishment of stronger, more democratic states. First, there are significant social, political, and economic factors that prevent taxation from building nation-states according to the European model in postcolonial polities. More important, it is counterproductive to use the Western experience as a basis for comparison with revenue collection in contemporary Africa, where citizens do not demand representation in exchange for paying taxes and extractive processes are driven by a different set of political rules.

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Annex I: Disaggregated tax data

I. Mozambique

Tax revenue by types of tax (millions MTS)

	Income	Goods & services	Other	Total
1975	2.3	2.7	0.5	5.5
1976	1.7	3.2	0.6	5.5
1977	1.6	4.1	0.6	6.3
1978	2.9	6.1	0.4	9.4
1979	3.1	6	0.3	9.4
1980	3.8	7.7	0.3	11.8
1981	4.3	7.8	0.4	12.5
1982	6.3	8	0.4	14.7
1983	6.8	8.3	0.4	15.5
1984	6.3	8.7	0.5	15.5
1985	6.5	6.1	0.5	13.1
1986	6.3	8	0.5	14.8
1987	54.7	0	0	54.7
1988	29.4	77.5	0	106.9
1989	45.1	149.8	0	194.9
1990	52.9	202.1	0	255
1991	79	286.3	0	365.3
1992	102.9	450.3	20.8	574
1993	156.6	813.3	25.2	995.1
1994	273.3	1081.8	42.0	1397.1
1995	400.0	1730.5	70.0	2200.5
1996	633.0	2420.2	140.0	3193.2
1997	878.6	3200.3	155.3	4234.2
1998	963.1	3819.3	202.1	4984.5
1999	877.3	4607.9	328.5	5813.7
2000	1034.0	5524.0	289.0	6847.0
2001	1519.0	6647.0	333.0	8499.0
2002	2121.0	8016.0	345.0	10482.0
2003	2413.0	8758.0	2457.0	13628.0
2004	3503.0	9239.0	2142.0	14884.0
2005	4431.0	11199.0	2394.0	18024.0
2006	6351.0	14490.0	1301.0	22142.0
2007	9272.0	17225.0	1469.0	27966.0
2008	11723.0	19232.0	1461.0	32416.0
2009	13727.0	23880.0	1787.0	39394.0
2010	18480.0	32888.0	2340.0	53708.0
2011	24888.0	40490.0	2891.0	68269.0
2012	36770.8	44668.5	3203.5	84642.8

Source: ATM 2012, 2013

ODA, GDP (millions, current USD), and tax share of GDP

	ODA	GDP	ODA/GDP	Tax/GDP
1975	20.33	4841.49	0.42%	5.75%
1976	69.87	4408.89	1.58%	5.34%
1977	79.8	4462.65	1.79%	6.01%
1978	104.08	4663.24	2.23%	8.69%
1979	143.9	4902.77	2.94%	8.27%
1980	167.06	4826.14	3.46%	10.33%
1981	140.25	4650.34	3.02%	10.01%
1982	204.51	4883.12	4.19%	10.77%
1983	207.01	4539.93	4.56%	11.91%
1984	254.32	5148.46	4.94%	10.83%
1985	295.69	4837.56	6.11%	6.80%
1986	420.03	5025.42	8.36%	6.98%
1987	665.21	2937.46	22.65%	7.99%
1988	916.6	2502.82	36.62%	9.73%
1989	805	2704.65	29.76%	11.31%
1990	997.51	2969.03	33.60%	10.93%
1991	1065.1	2748.96	38.75%	9.26%
1992	1459.68	2007.96	72.69%	11.36%
1993	1175.53	2067.88	56.85%	12.42%
1994	1198.94	2205.68	54.36%	10.49%
1995	1062.39	2291.37	46.36%	10.64%
1996	885.73	3241.72	27.32%	8.72%
1997	947.11	3810.02	24.86%	9.63%
1998	1039.8	4324.47	24.04%	9.71%
1999	818.52	4536.28	18.04%	10.03%
2000	906.22	4310.09	21.03%	10.43%
2001	960.72	4075.05	23.58%	10.07%
2002	2219.27	4201.33	52.82%	10.54%
2003	1047.97	4666.20	22.46%	12.28%
2004	1242.86	5697.99	21.81%	11.57%
2005	1297.15	6578.52	19.72%	11.88%
2006	1639.3	7095.91	23.10%	12.28%
2007	1778.11	8035.64	22.13%	13.47%
2008	1996.38	9891.00	20.18%	13.49%
2009	2012.4	9674.04	20.80%	14.80%
2010	1959.41	9532.81	20.55%	17.17%
2011	1873.228	12572.00	14.90%	18.37%
2012	2087.8	14600.00	14.30%	20.43%

Sources: ODA (World Bank 2012, 2014); GDP (IMF 2002, 2012 and ATM 2012, 2013); Tax (ATM 2012, 2013)

Number of registered taxpayers (NUIT)

	2006	2007	2008	2009	2010	2011	2012
Individual	96416	186337	187195	183233	249299	321297	500754
Corporate	3706	3593	4437	4966	5063	6305	7979
Small taxpayers				9040	33130	46341	

Source: ATM 2012, 2013

Tax revenue by operational area (MTS millions)

	2006	2007	2008	2009	2010	2011	2012
National Taxes (Direcção Geral dos Impostos)	16,943	21,787	25,483	30,593	40,315	53,343	67,409
Customs (Direcção Geral das Alfândegas)	10,854	12,687	13,707	16,972	23,251	27,776	31,206
Total	27,797	34,474	39,190	47,565	63,566	81,119	98,615

Source: ATM 2012, 2013

II. Angola

Tax revenues by type (AKZ billions)

	1977	**1978**	**1979**	**1980**	**1981**	**1982**	**1983**	**1984**
Total government revenue	38.14	38.87	47.83	59.78	73.70	50.70	55.47	74.60
Total taxes	17.00	17.71	19.72	51.70	62.70	41.58	47.15	62.93
Oil taxes	14.39	14.82	11.00	33.90	45.20	21.00	26.70	42.30
Non-oil taxes	2.61	2.90	8.72	17.66	17.52	20.54	20.50	20.66
Income and property	0.52	1.04	1.48	10.10	10.67	11.44	11.20	10.76
International trade	0.79	0.16	1.30	4.20	3.30	5.30	3.90	4.20
Domestic production and consumption (goods and services)	1.30	1.70	5.86	3.38	3.55	3.83	5.41	5.71
Other			0.08					

	1985	**1986**	**1987**	**1988**	**1989**	**1990**
Total government revenue	78.50	71.20	64.40	95.59	119.84	132.47
Total taxes	66.14	51.76	54.67	45.29	57.75	62.93
Oil taxes	41.70	30.10	35.80	22.37	26.60	26.55
Non-oil taxes	24.48	21.68	18.86	22.92	31.14	36.38
Income and property	14.90	12.00	10.31	5.08	9.17	4.39
International trade	4.00	4.70	3.42	3.50	3.17	4.86
Domestic production and consumption (goods and services)	5.61	4.98	5.13	5.49	6.42	4.45
Other				8.86	12.38	22.68

Sources by year of data:
1977-1979: Ministry of Finance, Angola state budgets (1977);
1980-1987: UNDP/World Bank (1989, 1991);
1988-1990: Ministry of Planning/INE (1990)

Tax revenues by type (USD millions, converted at source at official average annual exchange rate)

	Total tax revenue	Oil tax	Non-oil tax	Income taxes	Domestic production and consumption	Int'l trade	Other taxes	Non-tax revenue	Total revenues
1993	2,064.9	1,749.2	315.7	37.3	69.5	139.7	68.9	27.7	2,092.7
1994	1,226.9	1,069.9	157.0	34.6	31.5	73.6	17.2	35.6	1,262.4
1995	1,157.5	980.1	177.4	36.1	36.5	73.4	31.8	16.1	1,173.6
1996	2,926.7	2,624.9	301.8	54.3	69.8	125.8	51.9	16.6	2,943.3
1997	2,772.1	2,329.8	442.3	106.5	119.2	148.2	68.3	24.3	2,796.4
1998	1,655.5	1,163.4	492.1	131.3	153.0	140.2	67.6	27.4	1,682.9
1999	2,707.4	2,376.1	331.3	94.5	117.5	80.4	38.9	16.2	2,723.7
2000	3,520.7	3,048.7	472.0	138.6	159.8	123.3	50.3	21.0	3,541.7
2001	3,952.0	3,208.7	743.3	244.9	86.0	199.3	86.8	28.6	3,980.5
2002	4,318.4	3,349.5	969.0	283.8	136.0	241.9	43.8	45.3	4,363.7

Source: Ministry of Planning 2004

GDP (USD millions) and tax/GDP ratios

	GDP	Oil GDP	Non-oil GDP	Tax rev / GDP	Oil tax / GDP	Non-oil tax / GDP
1993	5,819.0	2652.3002	3,166.7	35.49%	30.06%	5.43%
1994	4,292.0	2901.8212	1,390.2	28.59%	24.93%	3.66%
1995	5,365.0	3522.1225	1,842.9	21.58%	18.27%	3.31%
1996	6,535.0	4779.699	1,755.3	44.79%	40.17%	4.62%
1997	7,675.0	4630.3275	3,044.7	36.12%	30.36%	5.76%
1998	6,449.0	3092.9404	3,356.1	25.67%	18.04%	7.63%
1999	6,088.0	4489.9	1,598.1	44.47%	39.03%	5.44%
2000	8,864.0	6892.6464	1,971.4	39.72%	34.39%	5.32%
2001	9,880.0	6433.856	3,446.1	40.00%	32.48%	7.52%
2002	11,204.0	7485.3924	3,718.6	38.54%	29.90%	8.65%

Source: Ministry of Planning 2004

Tax revenues by type (AKZ millions)

	Total tax revenues	Oil tax	Non-oil tax	Income taxes	Consumption & production	Int'l trade taxes	Other taxes	Property taxes
2002	188,714.1	146,373.2	42,345.3	10,435.6	5,943.2	10,571.0	1,914.1	
2003	381,695.1	290,161.4	91,533.7	27,717.6	12,948.3	22,956.2	10,761.6	
2004	595,415.8	468,338.1	127,077.7	42,284.1	25,126.8	33,129.7	15,204.6	
2005	1,050,300.0	862,100.0	188,200.0	62,200.0	54,900.0	47,000.0	24,100.0	
2006	1,589,500.0	1,350,600.0	238,900.0	82,500.0	67,000.0	58,200.0	31,200.0	
2007	2,052,800.0	1,722,000.0	330,800.0	120,300.0	91,500.0	78,800.0	40,200.0	
2008	3,070,200.0	2,601,900.0	468,400.0	149,100.0	135,700.0	104,300.0	76,500.0	2,800.0
2009	1,988,200.0	1,449,200.0	539,000.0	194,500.0	147,700.0	106,300.0	87,300.0	3,200.0
2010	3,094,500.0	2,500,400.0	594,100.0	236,000.0	160,900.0	101,900.0	92,300.0	3,000.0
2011	3,807,300.0	3,106,100.0	779,100.0	351,400.0	183,600.0	133,800.0	103,900.0	6,400.0
2012	4,522,200.0	3,563,302.7	1,718,853.4	1,046,806.6	400,905.3	116,896.7	123,145.9	31,098.8
2013 est	4,400,900.0	3,281,753.5	1,961,420.6	1,194,170.8	445,495.2	171,184.6	126,248.7	24,321.2

Oil and non-oil GDP (USD millions) and tax shares by sector

	GDP	Tax/GDP	Oil GDP	Oil tax/Oil GDP	Non-oil GDP	Non-oil tax/non-oil GDP
2002	11,200.0	38.56%	6,126.4	54.67%	5,073.6	19.10%
2003	14,200.0	36.02%	7,100.0	54.76%	7,100.0	17.27%
2004	19,700.0	36.22%	10,200.0	55.02%	9,500.0	16.03%
2005	28,200.0	46.10%	14,800.0	72.10%	13,400.0	17.38%
2006	41,800.0	47.42%	23,300.0	72.28%	18,500.0	16.10%
2007	60,500.0	45.23%	33,000.0	69.56%	27,500.0	16.04%
2008	84,200.0	48.60%	47,600.0	72.85%	36,500.0	17.08%
2009	75,500.0	29.46%	38,300.0	42.32%	37,200.0	16.21%
2010	82,400.0	40.56%	37,300.0	72.39%	45,200.0	14.19%
2011	104,300.0	46.18%	49,600.0	81.87%	54,700.0	13.82%
2012	112,700.0	41.62%	49,400.0	74.83%	63,300.0	15.71%
2013 est	118,000.0	38.73%	48,837.0	69.78%	73,219.1	15.87%

Sources by year:
2002-2004: Ministry of Planning (2004, 2007)
2005-2007: Ministry of Finance bulletin (2007)
2008-2013: Ministry of Finance (annual budgets); CEIC (2012)

Annex II: List of interviews by date

Mozambique

1. 23 January 2012, Dr Inês Raimundo, Director, Centre for Political Analysis, Universidade Eduardo Mondlane, Maputo.
2. 15 February 2012, Sean Cleary, High Commissioner, British High Commission, Maputo.
3. 16 February 2012, Dr Bernard Weimer, Assistant Director and Professor, Centre for Political Analysis, Universidade Eduardo Mondlane, Maputo.
4. 1 March 2012, Dr Ben Reames, Deputy Head of Political and Economic Affairs, US Embassy, Maputo.
5. 3 March 2012, Ryan McCannell, Division Head, Conflict, Peacebuilding and Governance, USAID Bureau for Africa, Maputo.
6. 5 March 2012, Richard Kaminsky, Head of Political and Economic Affairs, US Embassy, Maputo.
7. 17 March 2012, Ana-Paula da Costa Brand, Financial Analyst, Maputo.
8. 21 March 2012, Diana Magalhaes, Researcher, King's College London, Maputo.
9. 22 March 2012, Dr. Sérgio Chichava, Researcher, Instituto de Estudos Sociais e Económicos, Maputo.
10. 27 March 2012, Dr. Eric Morier-Genoud, Professor, Queen's University Belfast, Maputo.
11. 30 March 2012, Ulla Andrén, Ambassador, Embassy of Sweden, Maputo.
12. 5 April 2012, Dr. João Mosca, Professor of Economics, Universidade Politechnica, Maputo.
13. 11 April 2012, Luís Ignácio, Director of MDM Provincial Delegation, Beira.
14. 11 April 2012, Sr Orlando, MDM Head of Election Recruitment, Beira.
15. 11 April 2012, Jaime Filipe Quenhe, Renamo Provincial Delegate, Beira.
16. 11 April 2012, Albertina Josinha, Provincial Director, Renamo *Liga Feminina*, Beira.
17. 12 April 2012, Sr Domingos, Renamo Provincial Delegate, Beria.
18. 12 April 2012, Dra Teresa, Director, Department of Veterans, Renamo, Beira.
19. 13 April 2012, Olácio Caravete, Renamo Member of Parliament for Sofala, Beira.
20. 13 April 2012, Manuel Lole, Renamo Provincial Delegate, Beira.
21. 13 April 2012, Natalina M. Baaga, Director of Repatriation, Mozambique Department of Combatants, Beira.
22. 13 April 2012, Agostinho Alfredo, Director of Social Integration, Mozambique Department of Combatants, Beira.
23. 13 April 2012, Dany Raúl Malaige, Officer, Mozambique Department of Combatants, Beira.
24. 13 April 2012, Dr Alfuto Mulmilania, Officer, Mozambique Department of Combatants, Beira.
25. 13 April 2012, Dona Sara, Deputy Director, Renamo *Liga Feminina*, Beira.
26. 15 April 2012, Agostinho Ussore, Deputy Head of MDM Parliamentary Group, Inhambane.
27. 15 April 2012, Sr Mendes, Inhambane Provincial Director for MDM, Inhambane.

28. 16 April 2012, Daviz Simango, President of MDM, Inhambane.
29. 16 April 2012, Manuel de Arouíz, Mayor of Quilimane, MDM, Inhambane.
30. 16 April 2012, Esperança de Asçensão, MDM Youth Leader, Inhambane.
31. 16 April 2012, Fernando Nhaca, MDM Mayoral Candidate, Inhambane.
32. 11 May 2012, Dinis Nhancume, Director of Revenue Control and Analysis, Mozambique Revenue Authority, Maputo.
33. 14 May 2012, Esnerakda Nacgeke, Deputy Director General for Information, Mozambique Revenue Authority, Maputo.
34. 14 May 2012, Atumane Muenhe Momade, Project Manager, Mozambique Revenue Authority, Maputo.
35. 14 May 2012, Esmeralda Machele, Office of Internal Control, Mozambique Revenue Authority, Maputo.
36. 28 May 2012, Rosamin Faquir, Director General, Directorate of Tax Policy, Mozambique Revenue Authority, Maputo.
37. 29 May 2012, Herminio Sueia, Director General, Planning, Studies and International Cooperation; Mozambique Revenue Authority, Maputo.
38. 2 June 2012, Sean Cleary, High Commissioner, British High Commission, Maputo.
39. 14 June 2012, Maria Sjöqvist, Africa Correspondent, Radio Sweden, Maputo.
40. 10 July 2012, Dr Ralf Orlik, Director, German Development Cooperation (KfW), Maputo.
41. 13 July 2012, Alessandro Pisani, Economist, DFID, Maputo.
42. 16 July 2012, Dr Telma Laforte, Senior Economist, Swiss Cooperation, Maputo.
43. 24 July 2012, Dr André Santos Almeida, Resident Representative, African Development Bank, Maputo.
44. 30 July 2012, João Pereira, Political Officer, Renamo, Nampula.
45. 30 July 2012, Dona Gania, Chief of Staff, Renamo Headquarters, Nampula.
46. 31 July 2012, Oscar Monteiro, Chief Elections Officer, Renamo, Nampula.
47. 31 July 2012, Sr Marcelino, Senior Political Officer, Renamo, Nampula.
48. 1 August 2012, Ossufo Momade, Senior Political Officer, Renamo, Nampula.
49. 1 August, Dona Lucia, Liga Feminima, Renamo, Nampula.
50. 2 August 2012, Sr António, Senior Political Officer and Former Combatant, Renamo, Nampula.
51. 2 August 2012, Sr Paolo, Chief Political Officer and Former Combatant, Renamo, Nampula.
52. 3 August 2012, Afonso Dhlakama, President, Renamo, Nampula.
53. 6 August 2012, Carlos Comissal, Director of Economic Integration, Ministry of Finance, Maputo.
54. 6 August 2012, Ângelo Nhalidede, Head of Economic Policy Management Department, Ministry of Finance, Maputo.
55. 15 October 2013, Dinis Nhancume, Director of Revenue Control and Analysis, Mozambique Revenue Authority, Maputo.

Angola

1. 25 April 2013, Pedro Felipe, Managing Director, Guichê Unico da Empresa, Luanda.
2. 26 April 2013, Maria Figueiredo, Attorney, Miranda Socidede de Advogados, Luanda.
3. 26 April 2013, João Oliveira, Attorney, Fatima Fredas, Luanda.
4. 29 April 2013, Gilberto Luther, Deputy Director of Executive Tax Reform Project (PERT), Ministry of Finance, Luanda.
5. 29 April 2013, Jose Nuno Leira, Associate, PERT, Ministry of Finance, Luanda.
6. 29 April 2013, Luísa Casmiro, McKinsey consultant to PERT, Luanda.
7. 30 April 2013, Dr Osvaldo Victorino, Chief Economist, IMF, Luanda.
8. 1 May 2013, Richard Wildash, Ambassador, British Embassy, Luanda.
9. 5 May 2013, Estelle Maussion, Journalist, Agence France Presse / Radio France Internationel, Luanda.
10. 6 May 2013, Garcia Afonso, Head of Department of Tariffs and Trade, National Customs Agency (SNA), Luanda.
11. 6 May 2013, Osvaldo Michinge, Head of Legal Department, SNA, Luanda
12. 6 May 2013, Nicolas Neto, Head of Department of Policy and Procedure, SNA, Luanda.
13. 8 May 2013, José Manuel, Provincial Minister of Finance for Kwanza Sul, Sumbe.
14. 8 May 2013, José Francisco Rocha, Head of Tax Directorate, Provincial Ministry of Finance for Kwanza Sul, Sumbe.
15. 9 May 2013, Fernando Paulo Alves, Training Advisor, National Institute of Petroleum, Sumbe.
16. 9 May 2013, Jens Sjolin, Angola Site Supervisor, Eltel, Sumbe.
17. 9 May 2013, John Kolodziejski, Editor, Universo (Sonangol publication), Luanda.
18. 10 May 2013, Abrahão Pio dos Santos Gourgel, Minister of the Economy, Ministry of the Economy, Luanda.
19. 13 May 2013, Osvaldo de Lemos Macia, Tax System Manager, PERT, Ministry of Finance, Luanda.
20. 13 May 2013, Luís Gomes Sambo, Tax Justic Manager, PERT, Ministry of Finance, Luanda.
21. 13 May 2013, Eduardo Custódio Gomes, Tax Justice Manager, PERT, Ministry of Finance, Luanda.
22. 14 May 2013, Dr Odd-Helge Fjeldstad, Research Director, Chr. Michelsen Institute (Bergen), Luanda.
23. 16 May 2013, Jeanette Dikstra, Operational Manager, Development Workshop, Luanda.
24. 19 May 2013, Nicholas Staines, Head of Mission for Angola, IMF, Luanda.
25. 21 May 2013, Augusto Matos, Former Minister of Finance (1978-1992), Luanda.
26. 21 May 2013, Leif Biureborgh, CNN Correspondent and Former Swedish diplomat, Luanda.
27. 21 May 2013, Gerson Henda dos Santos, Chief of Staff, Ministry of Planning, Luanda.
28. 22 May 2013, Norman Nadorff, Senior Counsel, BP, Luanda.

29. 27 May 2013, Francisco Brandão, Director of PERT, Ministry of Finance, Luanda.
30. 27 May 2013, João Fonseca, Executive Director, Investment Bank of Angola (BAI), Luanda.
31. 28 May 2013, Miguel Bastos de Almeida, Director of Information, Ministry of Finance, Luanda.
32. 28 May 2013, Carlos Lisboa, Head of Information, Ministry of Planning, Luanda.
33. 28 May 2013, Sr Diogo, Data officer, Research Department, Ministry of Finance, Luanda.
34. 28 May 2013, Dr Manuel Carlos de Nascimento, Professor, Faculty of Law, Universidade Agostinho Neto, Luanda.
35. 29 May 2013, Patricia Bacchi, US Treasury Secondee, Ministry of Finance, Luanda.
36. 30 May 2013, Douglas Pillinger, Consultant, Special Tax Regime, Ministry of Finance, Luanda.
37. 30 May 2013, Allan Caine, Managing Director, Development Workshop DW, Luanda.
38. 4 June 2013, Inês Costa, Tax Services Manager, Ministry of Finance, Luanda.
39. 4 June 2013, Dr João Fonseca, Executive Director, BAI, Luanda.
40. 10 June 2013, Gerson Henda dos Santos, Chief of Staff, Ministry of Planning, Luanda.
41. 10 June 2013, Anna Rosenberg, Sub-Saharan Africa Analyst, Fronteir Strategy Group, Luanda.
42. 13 June 2013, Tako Konig, Senior Petroleum Geologist, Gaffney Cline and Associates, Luanda.
43. 14 June 2013, Leonel da Silva, Director, National Tax Directorate (DNI), Ministry of Finance, Luanda.
44. 14 June 2013, João Sardinha, Officer, DNI, Ministry of Finance, Luanda.
45. 17 June, Chissola de Carvalho, Research officer, National Institute of Statistics, Luanda.
46. 24 June 2013, Alves da Rocha, Director, Centro de Estudos e Investigação Científica, Universidade Católica, Luanda.

Annex III: List of selected tax legislation

Mozambique

Law 5/77, *Boletim da República* (BR) nº 153, I Série Supl. 31 December 1977
Law 2/78, BR nº 20, I Série Supl, 16 February 1978
Law 3/78, BR nº 027, I Série, 4 March 1978
Decree 4/78, BR nº 027, I Série, 4 March 1978
Law 3/87, BR nº 004, I Série, Supl. 19 January 1987
Decree 1/87, BR nº 004, I Série, Supl. 30 January 1987
Decree 24/88, BR nº 052, I Série, Supl. 28 December 1988
Decree 20/88, BR nº 052, I Série, Supl., 28 January 1988
Law 3/93, BR nº 029, I Série, Supl. 21 July 1993
Decree 14/93, BR nº 029, I Série, Supl. 21 July 1993
Law 3/98, 19 January 1998
Law 15/02, 26 June 2002
Law 52/03, 8 July 2001
Law 1/06, 22 March 2006
Law 2/06, 22 March 2006
Decree 29/06, 30 April 2006
Law 3/07, 7 February 2007
Law 11/07, 27 June 2007
Law 12/07, 27 June 2007
Law 13/07, 27 June 2007
Law 32/07, 31 December 2007
Law 33/07, 31 December 2007
Law 34/07, 31 December 2007
Law 1/08, 16 January 2008
Decree 7/08, 16 April 2008
Decree 8/08, 16 April 2008
Decree 9/08, 16 April 2008
Decree 63/08, 30 December 2008
Law 4/09, 12 January 2009
Law 5/09, 12 January 2009
Decree 14/09, 14 April 2009
Law 17/09, 10 September 2009
Law 8/2011, 11 January 2011
Law 3/12, 31 December 2012
Law 19/13, 13 December 2013
Law 20/13, 13 December 2013

Angola

Decree 41-356, 11 November 1957
Decree 41-357, 11 November 1957
Legislative Instrument 36/72, 1 May 1972

Law 19/77, 15 September 1977 [*BO 49 4 December 1957*]
Law 13/78, 26 August 1978
Law 167.13/78, 26 August 1978
Decree 5/85, 28 March 1985
Decree 29/86, 30 December 1986
Law 1/92, 17 January 1992
Law 14/92, 3 July 1992
Decree 6/96, 26 January 1996
Resolution 6/96, 24 May 1996
Law 4-B/96, 31 May 1996
Law 7/97, 10 October 1997
Legislative Orders 6/99 and 7/99, 22 January 1999
Law 10/99, 29 October 1999
Legislative Order 37/00, 3 February 2000
Law 5/02, 16 April 2002
Law 17/03, 25 July 2003
Law 13/04, 24 December 2004 – *Tributação das Actividades Petrolíferas* - Diário da República (DDR), I Série 103, 24 December 2011
Decree 60/04, 10 September 2004
Decree 61/04, 28 September 2004
Presidencial Decree 50/11, DDR, I Série No. 49, 15 March 2011
Presidential Legislative Decree 5/11, DDR, I Série – No. 252, 30 December 2011
Presidential Legislative Decree 6/11, DDR, I Série – No. 252, 30 December 2011
Presidential Legislative Decree 7/11, DDR, I Série – No. 252, 30 December 2011