Bargaining strategies in recent tax reforms in Tanzania

Msami, Jamal; Katera, Lucas; S. Ulriksen, Marianne

Publication date:
2022

Document version:
Final published version

Citation for pulished version (APA):
Msami, J., Katera, L., & S. Ulriksen, M. (2022). *Bargaining strategies in recent tax reforms in Tanzania*. Aarhus Universitet. PSRB Working Paper

AARHUS BSS SCHOOL OF BUSINESS AND SOCIAL SCIENCES AARHUS UNIVERSITET

PSRB Working Paper

Bargaining Strategies in recent tax reforms in Tanzania

Jamal Msami[1], Lucas Katera[1], Marianne S. Ulriksen[1]

[1]REPOA, Dar es Salaam, Tanzania
[2]University of Southern Denmark, Odense, Denmark

Political Settlements and Revenue Bargains in Africa

Read More: https://ps.au.dk/forskning/forskningsprojekter/political-settlements-and-revenue-bargains-in-africa

Bargaining strategies in recent tax reforms in Tanzania

By Jamal Msami, Lucas Katera & Marianne S. Ulriksen

INTRODUCTION

A series of tax reforms introduced in 2016 in Tanzania affected a wide range of revenue providers. For example, the tourism sector ceased to enjoy VAT exemptions on services offered, while transport and haulage saw the imposition of VAT on auxiliary services. Reforms also targeted small scale traders through the introduction of excise duty on mobile financial services including the popular mobile money transfer platforms of MPesa, TiGOPesa, AirtelMoney etc; and the Tanzania Revenue Authority's (TRA) began to enforce the use of Electronic Fiscal Devices (EFD) to improve VAT payment, including use by traders in the informal market. These reforms also affected consumers who were threatened with fines if they could not show legal tax receipts for the payment of goods. In addition, some politically sensitive actors were also subjected to tax reforms. For these actors, reforms included the waiving of exemptions and changes to how tax exemptions were administered. For example, while Members of Parliament saw taxes introduced on their retirement benefits, members of the armed forces received fixed subsidies in lieu of duty-free purchases from appointed supermarkets in army barracks,

The spate of wide-reaching tax reforms was a unique opportunity to study the subsequent revenue bargaining between government and different revenue providers. Selecting cases where we expected revenue providers and government to engage in negotiations over tax reforms (see below), we inductively explored the following question: *how* do targeted revenue providers and the government arrive at bargained outcomes? Through our qualitative analysis we identified three sites (arenas), with distinct characteristics and power dynamics, where revenue and political actors engaged in bargaining: the public, bureaucratic and political arenas. Findings from fieldwork in addition suggested that the arena for negotiations shaped the strategies used by the parties, which subsequently affected the final policy outcome (i.e., whether the government made concessions to the revenue providers or not). In the public arena, the strategy was to appeal to public opinion, seek legitimacy, and to pursue alliances with civil society organisations. However, the public arena comprises few institutionalised spaces for dialogue, and the engagement between revenue providers and government was often conflictual and the parties failed to find a compromise. In the bureaucratic and political arenas, on the other hand, strategies were towards creating direct connections to key ministerial offices and political decision makers to build structured, repeated, and trusted relationships. In these more institutionalised settings, the revenue providers were better able to push the government to compromise on the initial tax proposal.

We go about our enquiry as follows: First, we introduce the ‘political settlements framework of revenue bargaining’ and explain how and why we select specific incidences – cases – of revenue bargain. The cases we select for in depth analysis are: 1) imposition of VAT on the tourism sector, 2) VAT on the transportation of goods), 3) tax on parliamentarians’ gratuity payment, and 4) abolishment of duty-free shops for the armed forces. We then briefly explain our methodology and how we structure the case analyses. Thereafter, we first give a brief background to and overview of the recent tax reforms in Tanzania before we present and analyse our four cases, focussing on how the actors engage in the revenue bargaining process. In the final section, we compare the cases and discuss revenue providers’ strategies to engage the government, how these strategies shift depending on the arena of negotiation, and how the combination of arenas and strategies matter for the ability to reach compromises in revenue bargains. Our work contributes to understanding the micro-level dynamics of revenue bargaining processes, which until recently has received limited attention (see Kjær et al., forthcoming).

CASES OF REVENUE BARGAINING

In this section, we present the political settlement framework for revenue bargaining and discuss our case selection. As we were interested in exploring the actual bargaining process from the introduction of a tax reform to the final negotiated policy outcome, we selected cases where we expected negotiations to be particularly prevalent rather than cases where actual negotiation was limited because of the government being either in a particularly strong or in a particularly weak position vis-à-vis potential revenue providers. The political settlement framework is useful in this regard as it considers the relative bargaining power of the negotiating parties and the framework therefore helped us to look for cases where the relative power positions were balanced.

The political settlement framework of revenue bargaining and case selection

In the political settlement theory, it is assumed that ruling elites want to stay in power and that their ability to do so depends on their capacity to appease powerful groups (Whitfield et al. 2015; Khan 2010). Generally, the hold on power can be secured by giving the powerful groups access to rents such as business monopolies, land rights, government contracts or tax exemptions (North et al. 2013; Therkildsen 2012). From this perspective, the introduction and enforcement of taxes present a specific challenge to ruling elites as they impose costs on stakeholders they may otherwise depend on for support. Although decisions to give tax exemptions or to not tax at all are likely outcomes, there are also situations where the ruling elites are willing and able to impose taxes[1], as discussed in Kjær et al. (forthcoming) and as illustrated in Table 1.

Table 1: The relative bargaining positions of the ruling elite and revenue providers

Organizational importance / **Fiscal importance**	(Potential or actual) revenue provider is organizationally powerful in relation to the ruling coalition	(Potential or actual) revenue provider is not organizational powerful to the ruling coalition
(Potential or actual) contribution to the budget is large or strategically important to the ruling elite	1. (Actual or potential) revenue provider has strong bargaining position vis-à-vis the ruling elite	2. (Actual or potential) revenue provider has weak to medium bargaining power vis-à-vis the ruling elite
(Potential or actual) contributions to the budget is small or strategically unimportant to the ruling elite	3. (Actual or potential) revenue provider has a medium to weak bargaining position vis-à-vis the ruling elite	4. (Actual or potential) revenue provider has a weak bargaining position vis-à-vis the ruling elite

Source: Kjær et al., forthcoming

While the ruling elite will be concerned to appease certain groups in society, the elite is also concerned to raise domestic revenue that can be used to maintain its legitimacy in either overt ways, like public goods provision, or by covert means, such as for political campaign purposes

[1] In this paper, we assume that the revenue bargaining process starts with a government's wish to (re-)introduce and/or impose tax reform. However, the process may also start with (in-)actions by (potential) revenue providers, which the government then reacts to (Prichard 2015: 59).

(Khisa et. al, forthcoming). Thus, the pressure to raise domestic revenue is real and ruling elites are likely to pursue domestic resource mobilisation by targeting a variety of revenue sources as was the case in Tanzania in 2016. However, the ability of the government to push through tax reform (legally and in implementation) depends on the relative power of the government vis-à-vis the revenue providers. Kjær et al. (forthcoming) argue that the relative bargaining power of stakeholders on both sides of the table depends on the organisational as well as fiscal importance of revenue providers to the government. Revenue providers are of organisational importance when the government need their support to stay in power, whereas revenue providers are of fiscal importance when their (potential) tax contribution to the budget is large or strategically important.

There are two situations where we expect the bargaining process to be relatively short-lived given the relative bargaining power of the ruling elites and revenue providers. First, in cases where the revenue provider is both a large (potential) contributor and an important political actor/player the government is in a weak bargaining position (box 1 in the table). In such cases, tax exemptions or tax non-reform are likely outcomes. For instance, in Tanzania, it has been suggested that some large individual companies, who could otherwise contribute substantially to the budget, receive tax exemptions as they instead provide the ruling elite with political campaign funding (Therkildsen 2012). Another example is that civil servants remain exempted from paying duties on car imports because this is regarded as a special incentive to an important and large group of important political supporters in the government.[2]

In the reverse case, where the revenue provider is of neither organisational nor fiscal importance (/lack of collective action) (box 4), we also expect a short, even non-existent, bargaining process as the government in this case stands in a strong bargaining position. Here, the introduction of taxes is more likely (see also Kjær et al.), although given the numerically small contributions of a large pool of weakly organised taxpayers may make implementation a challenge. In the case of Tanzania, the introduction of VAT on mobile money transfer is an illustrative example. Although the service providers (banks and telecommunication companies) were initially expected to bear the costs, providers have pushed the tax onto the final consumers who are difficult to mobilise in any way that can pose a threat to the ruling elite.

As we are interested in exploring the bargaining process between the government and revenue providers, we focus on cases where the relative power of stakeholders is balanced because

[2] Interviews with stakeholders in Tanzania June-July 2017.

we expect that actual bargaining is more likely here than in situations of unequal power relations such as in the cases explained above. We find such cases in quadrants 2 and 3. In situations where a revenue provider is not of (major) organisational importance to the ruling elite, the government has more room to negotiate, but this is counter-weighted by the potential large or strategically fiscal contributions by the revenue provider, which implies that the government has more to lose if they do not reach common agreement (quadrant 2). Quadrant 3 is also a situation of fairly equal bargaining power. The revenue providers have quite weak direct policy influence as they only provide relatively small contributions to the budget. Thus, the ruling elite is likely to have the policy initiative. However, as the revenue providers are of organisational importance, they have potentially strong indirect influence where they may negotiate concessions or compensations that substantially change the original policy proposal.

Thus, to sum up, we are interested in cases where we expect a revenue bargaining process between two stakeholders of relatively equal bargaining positions. We select two cases where revenue providers are of little organisational importance but of relatively large fiscal importance (quadrant 2), and two cases where revenue providers are of organisational importance but provide relatively small contributions to the budget (quadrant 3). Each pair varies with respect to the revenue providers' ability to engage in collective action. We are interested in revenue providers' ability to mobilise and organise in collective action as we expect that strategies and negotiations can vary depending on whether revenue providers as a group speak 'with one voice' or they are dispersed and therefore may engage with the government in a less coherent way. We have purposively avoided the highly politicised contexts of elections, as we are interested in state-citizen interactions of a more day-to-day and less politicised nature (but see Khisa et al., forthcoming). The cases are introduced in Table 2 and below; the details of the specific tax reforms are discussed further in the subsequent, separate case analyses.

Table 2: Tax bargaining cases

Revenue provider	Type of tax reform	Organisational importance	Fiscal importance	Collective action
Tourism sector	Removal of VAT exemption on tourist services	LOW: Mix of international and domestic companies, with limited political connections	HIGH: The largest single contributor to the economy. Income from VAT likely to be substantial	HIGH: Relatively well organised and mobilised with TCT[3] the main umbrella
Transport sector	VAT on auxiliary services at Dar es Salaam Port	LOW: Mix of international and domestic companies, with limited political connections	HIGH: Transport sector the backbone of the economy. Revenue potential substantial	LOW: Organised in different smaller associations who each pursue diverging interests
Members of Parliament	Tax on gratuity payment	HIGH: The majority part of either inner circle or the broader ruling coalition	LOW: Of small fiscal importance (but of symbolic significance)	LOW(-ish): Small group of resourceful individuals, opposing political positions
Army	Abolishment of duty-free shops	HIGH: Military part of ruling coalition	LOW: Of relatively small fiscal importance	HIGH: Clearly defined, resourceful, and hierarchical collective

Revenue providers of high fiscal importance but low organisational importance

Two important economic sectors have been targeted by recent tax reforms: tourism and transport sectors. These sectors are characterised by a mix of international and domestic companies of varying sizes and both sectors are of relatively limited political importance to the ruling elite.[4] While the sectors' collective political importance is limited, some of their individual members exercise considerable political leverage through both direct and indirect connections to the political class in Tanzania. For example, three of the leading transport companies in Tanzania, Glenrich Transportation Ltd[5], MA Cargo Truckers & Forwarders Co Ltd[6] and Lake Trans Limited[7] are

[3] Tourism Confederation of Tanzania

[4] Some actors in the two sectors have close contacts to the ruling elite, but as a whole the two sectors cover a diversity of small and big companies with at times conflicting interests. See the case studies for a further elaboration.

[5] Owned by Mohamed Enterprises Tanzania Ltd (METL) whose CEO and President is Mohammed Dewji a renowned benefactor and former Member of Parliament for the ruling CCM party between 2005 and 2015.

[6] Part of the Abood Group of companies owned by Abdulaziz Abood, a currently sitting three-time ruling party MP for the Morogoro Urban constituency.

[7] Owned by the Lake Group of companies whose founder and CEO, Ally Edha Awadh who together with his business partner Sheikh Abdullah bin Butti Al Hamed, a member of Abu Dhabi's ruling family are believed to have financed the ruling CCM party's political campaigns at the 2010 and 2015 general elections.

owned by prominent businesses with close links to the ruling party (Sutton and Olomi, 2012). Similarly, business ownership in tourism has long involved actors both directly and indirectly involved in politics including current and past members of parliament, including alleged proprietorship by a cabinet minister responsible for the sector between 2011 and 2015.[8] Both sectors are of considerable fiscal importance to the ruling coalition. The 2018 Economic Survey of Tanzania ((URT, 2019) shows that the transport sector is one of the fastest growing sectors in the economy of Tanzania as it recorded 16.6% growth rate, just below mining and quarrying (17.5 %) and water supply (16.7%) in 2017. In addition, its share to GDP has been 4.3% in the last four years (URT, 2019). On the other hand, tourism has been one of the main foreign currency contributing sector in recent years. In 2017, earnings in the sector increased to US Dollar 2,199.8 million from US Dollar 2,131.6 million in 2016, equivalent to an increase of 3.2 percent (URT, 2018b). Thus, the two sectors are central for domestic production and employment and, given this centrality to the economy, they have high revenue potential. Thus, whereas the sectors have relatively low political weight, their fiscal importance ensures them a relatively strong bargaining position vis-à-vis the government. The two sectors vary on an important aspect, which we expect matters for the strategies that stakeholders choose: namely the nature of collective action. Whereas the tourism sector is well organised under the umbrella of TCT (Tourism Confederation of Tanzania), the transport sector has traditionally been organised in sub-sectors that at times stand in competition against each other.[9] Hence, the former is able to speak with 'one voice', whereas the latter is unable to.

Revenue providers of high organisational importance but low fiscal importance

Our two cases of revenue providers that are of political importance to the ruling elite are the Members of Parliament and the army who both have been targeted by the recent tax reforms as well. Neither of the taxes (on MPs gratuity payment and the removal of duty-free shops for army members) is expected to raise a substantial amount of revenue relative to many other revenue sources (Cooksey, 2016). Thus, the two stakeholders are of limited fiscal importance to the ruling

[8] Mwananchi (2012) 'Waziri matatani', *Mwananchi*, December 16, 2012. Available at: https://www.mwananchi.co.tz/mw/habari/kitaifa/waziri-matatani-2742158 (Accessed: 12/12/2019); Tairo, A. (2019) 'Tanzania bans UAE firm from hunting for violation of rules', *The East African*, August, 10 2019. Available at: https://www.theeastafrican.co.ke/tea/news/east-africa/tanzania-bans-uae-firm-from-hunting-for-violation-of-rules-1424718 (Accessed: 12/12/2019).

[9] Interviews with stakeholders June-July 2017.

elite, which implies a strong bargaining position of the ruling elite, as there is less at stake in terms of lost revenue. However, on the other hand, the ruling elite may also fight less fiercely to keep a policy that gives relatively little revenue – particularly, if it becomes politically damaging to do so.

Although MPs and army members are central to supporting the ruling coalition (of high organisational importance), they are organised differently as collectives. The 357 members of the national assembly (Bunge) can be considered a relatively small group of resourceful individuals who also happens to be meeting in the same physical space. From a collective action perspective, MPs are therefore easily mobilised and can stand as a strong collective force with the means to create noise and put pressure on the cabinet. However, given that the Bunge is strongly divided between ruling party and opposition party members, it is unlikely that they can find a common voice. Consequently, although resourceful and easily mobilised, MPs are not expected to organise as one coherent collective. The Army, on the other hand, is a large organisation with centrally placed, high-level officials who may be in, or close to, the inner political circles. Additionally, as the Army is – by its very nature – a hierarchical and secretive organisation, it is expected to be well-organised and led by a powerful leadership to which the lower levels obey orders (Therkildsen and Bourgouin, 2012). Thus, from a collective action perspective, the army can speak from one common preference position.

Our approach to studying the four cases of revenue bargaining

Tax reforms and tax bargaining in Tanzania is a continuous process (see for instance Fjeldstad & Rakner, forthcoming). However, our period of study (2016 to 2018) is ideal for two reasons. First, the newly elected President Magufuli came to power on a no-nonsense attitude and with a proclaimed agenda to launch a war against corruption and promote development through hard work (Cheeseman et al., 2021; Paget 2021). One of his initiatives was a series of tax reforms as described in the introduction. With his hard attitude towards protests and disagreement (ibid.), we expected that bargaining would follow the government's proposition to (re-)introduce and/or enforce a tax. Second, we selected four cases where the relative power positions of the ruling elite and potential revenue providers are comparatively equal, but we did not beforehand (when we started the investigation early 2017) know whether revenue bargains would occur nor how they would develop.

Our study is explorative in that we had not a priori defined a theoretical framework. Instead, we approached our case studies in an inductive manner to explore openly *how* the revenue providers and the government engage in negotiations. Following an investigation of the interactions between revenue providers and the government in the 18 months following the introduction of tax reforms, we identified specific arenas and prominent strategies that we linked to policy outcomes (whether negotiations led to changes in the originally proposed tax reform or not). For each case study, we present our findings in displays to give an overview of arenas, strategies, and policy outcome for each case. In the concluding section we collect and compare our findings on arenas, strategies, and policy outcomes to draw out some general findings that can inform other studies and theorising about revenue bargaining processes.

The cases are informed by the authors' in-depth knowledge of Tanzania and by 30 specifically targeted interviews with both revenue providers, regulatory authorities, Government officials, partners of the major international accountancy and tax advisory companies, business associations, and civil society organisations working on taxation. We reference some of the interviews in the analysis, but only when it is not so sensitive that it could put the interviewed persons in precarious situations. Hence, most interviews conducted for the case study on the tourism sector are referenced, whereas there are fewer overt references for the other case studies. Fieldwork for this study took place between May 2017 and December 2018. The cases comprise of a process tracing of events and key interactions among tax protagonists during the period 2016 – 2017. We analyse the waiving of tax exemptions to the profiled case groups from when the process began in the last quarter of 2016, to the presentation of the draft Bill in the Parliament in May 2016, through its final vote in the Parliament in June 2016, and its subsequent assent by the Executive in July 2016. Insights from these interviews were reconciled with documentary analysis of secondary data from: *One,* a careful reading of the draft Finance Bill and Budget Speech first tabled in parliament in March 2016, the assented Finance Act of 2016; and, *Two*, other Government reports and statistics, academic reports, corporate reports and newspaper articles collected for the period 2010 – 2017.

In the next section, we provide a brief overview of the recent tax reforms in Tanzania to situate the case studies within the general tax regime of the country and to provide an understanding of its development in the time leading up to the government proposals in 2016.

RECENT TAX REFORMS IN TANZANIA

This section explores the latest tax reforms in Tanzania from 2010 to today. The limited time period is chosen purposefully to provide a broad, yet sufficiently deep analysis of policy and legislative measures enacted to define, structure and guide the collection of public revenues for each of the four case studies of our focus. This overview, while comprehensive, does not intend to provide a comparative historical assessment of present-day tax reforms with their erstwhile counterparts. This is done purposefully to not pre-empt the subsequent analysis of organisational settlements and strategic behaviours that make up the focus of this study. This section is organised as follows, first, it provides an overview of the scale of tax reforms in Tanzania in terms of their worth. Second, it identifies and briefly discusses the major policy shifts accompanying the reforms. Finally, it offers insights on the current status of the tax legislations in Tanzania.

Tax revenues in Tanzania have increased significantly since the turn of the century. Annual receipts have increased at a rate of 20% from 1.1 trillion shillings in 2002/03 to over 11.5 trillion shillings in 2017/18 (URT, 2018b). The increase in tax receipts has among others been attributed to an increase in the number of taxpayers as the economy has grown, a strengthening of the taxation regime including the plugging of regulatory loopholes and an enhancement of the collection capacity (Lawson *et al.*, 2017; URT, 2016d, 2019, 2020) This has seen the tax shares of government revenues and GDP, respectively, increase from 52% and 9% in 2002/03 to 80% and 14% respectively in 2016/17. Further, official statistics reveals that the tax share of government revenues has increased by about 20% points between 2009/10 and 2016/17 (URT, 2018b). Such abrupt expansions in collection warrant a closer examination of the situational landscape, and thus provide an adequate cut-off point in our analysis.

There have been three landmark changes to the tax code in Tanzania since 2009/10. The first was the 2010 Electronic Fiscal Devices (EFDs) regulations which introduced an electronic monitoring system for financial transactions carried out by trading entities (Eilu, 2018).[10] On the one hand, the regulations confer mandates on the revenue authority to obtain real time information on sales and purchases with the intention of ascertaining the levying of Value Added Tax by traders which had until then relied on filed returns (URT, 2015). On the other hand, the regulations impose

[10] The Citizen (2015) 'Rent out EFDs to 'ease' TRA-traders relations', *The Citizen*, THURSDAY APRIL 09 2015. Available at: https://www.thecitizen.co.tz/tanzania/oped/rent-out-efds-to-ease-tra-traders-relations-2524528 (Accessed: 08/06/2017).

responsibilities on trades and businesses to acquire electronic points of sale, ensure their connection to the TRA's EFD system, and utilise the system in all transactions. Implementation of these reforms has been patchy at best with uptake constrained by high setup costs; purported unreliability of the TRA's own transaction monitoring system; alleged collusion involving traders, EFD vendors and the TRA; and overall weak regulatory enforcement (URT, 2016a). Despite these bottlenecks, VAT receipts on domestic products and services have increased substantially since 2010 from TZS 728 billion to over TZS 1840 billion in 2016 (URT, 2017c).

The second legislative reforms occurred in July 2015 with the replacement of the erstwhile 1997 VAT Act with the 2014 VAT Act (Balele *et al.*, 2018; Fjeldstad *et al.*, 2020). The then new VAT Act aimed to reduce exemptions, adopt best international VAT practice and simplify administration (Hanif Habib and Co, 2014). The legislation revisions occurred against a backdrop of public debate on the scale of tax expenditures—including tax deductions (allowances), tax deferrals, tax reliefs, and tax credits—which had amounted to TZS 1.8 trillion in 2011/12 (equivalent to 27% of all tax receipts or some 4.5% of GDP) (URT and CRC Sogema, 2013). A 2013 legislative review by the ministry of Finance (URT and CRC Sogema, 2013) found loopholes and allowances permitting tax exemptions in each of the country's then five main tax legislations, the: 2004 Income Tax Act, 1997 Value Added Tax Act, 2004 East African Community Customs Management Act, 2002 Export Processing Zones Act, and the 2006 Special Economic Zones Act. Overall, the review found 160 articles within the legislations in need of urgent review (amendment or repeal) (URT and CRC Sogema, 2013, p. 35). About half of these articles (48%) were found prevalent in the 1997 VAT Act.

Key among the changes brought by the 2014 VAT Act is enhanced procedural clarity over VAT (Eilu, 2018). This includes the consolidation of the tax relief schedules from three to one (URT, 2014, 2015). The Act harmonises the VAT rate levied for goods and services to just one, 18% from a variable schedule that had proved problematic to navigate. The legislation also imposes VAT at the point of origin for goods and services traded between Mainland Tanzania and Zanzibar (Fjeldstad *et al.*, 2020). However, contrary to recommendations of the ministerial legislative review, the 2014 VAT Act continues to grant ministerial discretion over tax exemptions albeit under consultation with the parliament (Curtis and Ngowi, 2017).

The third landmark change to the tax code occurred with the passing of the 2016/17 Finance Act. The Act is a statement of fiscal intent on the part of a newly elected government which has come to power on a reformist platform, exemplified by its campaign motto *Hapa Kazi Tu*, roughly meaning ‘Only work matters’. The Act is the first fiscal lever employed to meet the country’s midterm policy objectives outlined in its Second Five Year Development Plan (FYDP II) 2016/17-2020/21. FYDP II aims to nurture industrialization for economic transformation and human development (URT, 2016b). The main changes brought by the Act are procedural and a further rationalisation of the tax base (including controls on tax expenditures) as elaborated below.

Procedural reforms introduced by the 2016/17 Finance Act aim to strengthen the role of the Tanzania Revenue Authority (TRA) (URT, 2016b). These include: revisions to the 2002 Tanzanian Companies Act to give powers to the Commissioner General of the TRA to seek information from the Registrar of Companies at Business Registration and Licencing Authority (BRELA) to facilitate enforcement of tax laws and regulations—in essence the TRA now has the powers to freeze financial accounts or assets in the event of a tax dispute (Charles, 2017); the centralisation of property tax collection; conferring of powers to the TRA to determine interest and penalties on tax defaults; and the mandating of the existence of legal fiscal receipts for both sellers and buyers. Violations of the latter procedural mandate are punishable by a fine or prison sentence or both.

Rationalisations of the tax base include a widening of the tax base of Excise Duty on financial services relating to payment of funds. Banks and Mobile Financial Providers, for example MPesa, TiGOPesa, Selcom, now impose excise duties and VAT on commissions charged on financial transactions. Further, the Act imposed a VAT tax of 18% on previously exempted auxiliary tourism services and transit goods. The latter taxes have since July 2017 been rescinded owing successful appeal by the respective sectors (for more detail see the case studies on the transport and tourism sectors).

Despite these reforms, the tax code in Tanzania continues to provide incentives that could yet provide future cases of study most notably under conflicting investment, extractive and oil legislations. This paper explores selected cases of revenue bargaining in which demonstrable results of interactions between the state and sectoral players have been evident since the introduction of reforms.

INCIDENCES OF REVENUE BARGAINING

In the following, we analyse four incidences of revenue bargaining. As mentioned, they are selected based on the relatively equal bargaining power of the government vis-à-vis the revenue providers leading us to expect that revenue bargaining will occur. While the case narratives differ, each case study explores the different arenas in which interactions between the government and the revenue provider takes place and investigates the strategies pursued by the stakeholders.

The tourism sector

Tourism in Tanzania has been growing very fast in recent years.[11] The sector is one of the largest earners of foreign exchange in the country, with international arrivals alone contributing some 25.4% and 28.6% of all export earnings in 2016 and 2017 respectively (World Bank, 2019). In recent years, the sector has seen considerable investment of both public and private capital ranging from expansive branding and advertising, construction of new high quality accommodation facilities, skills upgrading of workers, to the exploration and integration of traditional tourist attractions with local culture and customs (Charles, 2017; Sulle and Banka, 2017).

The government recognizes the current and potential fiscal importance of the tourism sector and therefore considers increasing its competitiveness. This is evidenced by the sector having enjoyed certain incentives, including exemption of VAT for some of its services. From the government perspectives, this exemption was to enable the sector to grow and compete, but also to establish a broad tax base in the future. Much to the surprise of the tourist sector, VAT was re-introduced from the financial year of 2016/17 arguably because the government believed that the sector had enjoyed exemptions for long enough.[12] It should be noted that, even before this time, there were some services of tourism like hotel accommodation which were paying VAT. The introduction of VAT was for services like park entry fees, game drive, animal and bird watching, guiding, sea and water sport activities.

The main findings from the thick description in the following is highlighted in the display below. The table shows the sequence of the process from prior to the reintroduction of the VAT in

[11] http://repository.businessinsightz.org/bitstream/handle/20.500.12018/7436/TRAVEL%20%26%20TOURISM%20ECONOMIC%20IMPACT%202017%20TANZANIA.pdf?sequence=1&isAllowed=y

[12] Interview with Interactive Tours 22nd of June 2017; KPMG 23rd of June 2017; TCT 29th of June 2017.

2016 when the tourism sector believed it would remain tax exempt, through to the time that a compromise was reached with the clarification of VAT regulations. Through this process the negotiations shifted across the political, bureaucratic, and public arenas with a variety of strategies used by the negotiating parties.

Table 3: Summary of the Tourism Sector case

Sequence	Arenas	Strategies	Policy outcome
Before announcement June 2016	Political arena: voice in budget and parliamentary committees	Dialogue and negotiation	=> agreement to postpone introduction of VAT
Between announcement and approval by parliament	Political arena	Lobby parliamentarians	=> Government unwilling to change policy
After approval by parliament; second half of 2016	Public arena: use of media	Non-compromising strategies: tactics of blame and criticism in the media by both parties However, also some compromising strategies: e.g. tactics of writing to minister asking for dialogue (although meetings did not materialise)	=> Government unwilling to change policy
Late 2016 and first half of 2017	Political arena re-established somewhat: Meetings with ministries / budget committee => (re-)engagement in forums of exchange	Compromise & influence: Strategies by tourist sector: - engage with different stakeholders in Dodoma (building relationships) - share information on importance of and impact on the sector - questioning legality of VAT implementation Strategies by ruling elite: - listen and offer dialogue (budget committee) - bring other government stakeholders in	=> Clarification that no VAT on licenses and fees

Introduction of VAT to the sector

The plan to introduce VAT in the tourism sector was not something new. For instance, in July 2015, the government had come up with recommendations from the budget and natural resource committees of the Parliament to introduce VAT in the tourism sector. However, various stakeholders in the sector, including Tanzanian Private Sector Foundation (TPSF) and the Tourism Confederation of Tanzania (TCT) were able to argue to the committees on the need for more time before VAT could be introduced in the sector.[13] The arguments presented by the TPSF and TCT for not introducing VAT in the sector were the fact that the sector was still expensive and but that Kenya, which is a competitor in the sector, had introduced VAT at the time Tanzania had exempted it.[14] Thus, stakeholders argued that the introduction of VAT in Kenya should be taken as a window of opportunity to Tanzania.

The arguments and justifications presented by TPSF and TCT were discussed in parliament and finally it was agreed that VAT should not be introduced, and that exemption should be indefinite, until such time that there would be good reasons to introduce it. The tourism sector was also under the impression that it was agreed that the sector would receive one year's notice of a introduction of VAT so that the sector could inform customers and make adjustments so not to undermine their business.[15] Subsequently, the Minister for Finance approved this decision, and it was agreed that the performance of the sector should be monitored to determine an appropriate time of introducing the VAT. "I have that Hansard[16] which quotes her suspending the VAT on tourism and then they agreed to raise the sector to a reasonable growth rate before introducing the same," said Mr Richard Rugimbana, the executive secretary of Tanzania Confederation of Tourism.[17]

Despite this agreement it was the experience of the tourism sector that the decision was very abruptly turned around by the government in the financial year 2016/17 when the Minister for Finance and Planning presented the budget in June 2016 and announced the reintroduction of the VAT.[18] In addition to the surprise, the introduction of VAT put the sector under economic pressure as bookings are done often more than a year in advance, meaning that the additional costs incurred to the sector could not be recovered through increasing the price for the tourists.[19]

---

[13] Interview with TCT 29th of June 2017.
[14] https://www.thecitizen.co.tz/News/Stakeholders--disagree---impact---VAT---tourism/1840340-4147500-9q4mpxz/index.html
[15] Interview with TCT 29th of June 2017.
[16] The official record of debates in the Tanzanian parliament.
[17] https://www.thecitizen.co.tz/magazine/businessweek/1843772-3294176-view-printVersion-y00pk6/index.html
[18] https://www.tourism-review.com/tanzania-tourism-industry-faces-new-tax-news5070
[19] Interview with KPMG 23rd of June 2017; https://www.safaribookings.com/blog/vat-changes-in-tanzania-affect-tour-operators-and-safari-tourists

Analysis of revenue bargains

In terms of size, the tourism sector is one of the fastest growing sectors in Tanzania and potentially very significant for revenue mobilisation. The government, therefore, considers it as one of the giant contributors of tax revenue. On the one hand, the tourism sector is very diverse covering the whole tourism value chain including air operators, ground operators, hotels and other accommodation facilities, guides, cultural tour operators, hunting operators, travel agents, professional hunters etc. Each value chain has its own organization to protect its interest as an economic actor of the subsector. On the other hand, the whole chain is organised under one umbrella, the Tourism Confederation of Tanzania (TCT). Furthermore, as the sector is operated by private providers, it is also a member of Tanzania Private Sector Foundation (TPSF), a body that represents the interests of the private sector in various government forums. Generally, the sector has high revenue potential but has little political power because it is made up by small economic actors, with no direct connection with the government, except through the TPSF. Even then, it is very well organized and so it is considered to have certain levels of bargaining power. In the following, we describe how the negotiations between the tourist sector and the government shifted across different arenas and the type of strategies used by the negotiating parties.

<u>Strategies and arenas</u>

The strategies used by the tourist sector to convince the government to maintain VAT exemptions varied over time. Before 2016/17, the main strategy for bargaining between tourism stakeholders and the government was through meetings where the two parties met and discussed the pros and cons of introducing VAT in the sector.

The main arenas in which discussions took place were the political and bureaucratic arenas during the national budget processes and through the parliamentary standing committee responsible for tourism. Budget processes are meetings where key stakeholders on government revenues meet and discuss various options for revenue generation without affecting investment. The stakeholders include the TRA, treasury, representatives from planning departments in the ministries, private sector, CSOs, research and academic institutions. In the budget processes, tourism stakeholders – as represented by TPSF – were part of the task force that discussed the proposed budget before it was sent to the parliamentary committees. Since 2013, such meetings have enabled postponement of introduction of VAT to the sector. With the parliamentary standing committee, the tourism stakeholders, again through TPSF, met with the budget and natural resource committee to argue against the government's plan to introduce the VAT in July 2015. As explained above, the TPSF was able to convince the committee and a decision was reached to extend the time to introduce VAT in the sector indefinitely.

During the budget session of 2016/17 announced in June 2016, the Minister of Finance announced the introduction of VAT, which came as a surprise to the tourism stakeholders given the agreement to postpone it. The reason given by the government to introduce VAT in the tourism sector was to rationalize it in the East African Community because the other EAC countries were levying it (URT, 2016a).[20] In addition, it was argued that the tourism sector was starting to make significant contributions to the economy and so the sector needed to start paying taxes.[21]

After the budget session where the VAT was introduced, the main arena of engagement was in the parliamentary standing committee on tourism. During the meetings between the TCT and the TPSF on one hand and the standing committee of the parliament on the other hand the tourism sector stakeholders sought to lobby to have the decision revoked. In the lobbying process, the members of TPSF were meeting with the Standing Committee formally but also informally with some members to push for their case. The timing of these meetings was between the announcement to introduce VAT to the tourism sector and the endorsement by the Members of Parliaments. Despite the efforts by the TCT and other tourism stakeholders, under the umbrella of Tanzania Private Sector Foundation (TPSF), the government went ahead with its decision.[22]

After the introduction of VAT and the endorsement by parliament, bargaining continued in a different form and in a different arena. The main forum of exchange moved to the public arena and the bargaining became antagonistic. The tourism sector used the media to drum up their case and seek popular support.[23] The sector argued that the introduction of VAT would have an adverse effect on the sector, and that it was not because of unwillingness to pay taxes, but the worry that the industry would not remain competitive.[24] The government on the other side used the media to

[20] Interview with KPMG 23rd of June 2017.

[21] Interview with Tanzanian Revenue Authorities (TRA) 29th of June 2017.

[22] Interview with TCT 29th of June 2017.

[23] The Citizen (2016) *Tourism 'to lose Sh2tr' as VAT bites.* Online:The Citizen. Available at: https://www.thecitizen.co.tz/tanzania/news/tourism-to-lose-sh2tr-as-vat-bites-2560796 (Accessed: 04/04/2018)

[24] Interview TPSF 14th July 2017.

tarnish the tourism sector's reputation by saying that they did not want to pay taxes.[25] The debate in the media became heated and parts of the tourism sector also acknowledged that constantly attacking the Ministry of Tourism in the newspapers was not a constructive way to go.[26] In the end, the President closed the debate by saying that the VAT would stay, even if it negatively affected the number of tourists visiting Tanzania.[27]

Later in the year, TCT continued to push the government to re-consider reversing the decision. This time, the TCT wrote to the Minister of Tourism to ask for a meeting to discuss the case and to reach a mutual understanding. While the government accepted this meeting, it never eventually took place. During this time, the Tourist sector argued that it was likely that the number of Tourists would go down in the future because of the tax (See also Ndumbaro, 2016). Statistics at the end of the year indicated that the number of tourists had increased (URT, 2018b), an argument used by the government to defend its case.[28] In response, the tourism sector argued that this was only possible because tourists book long before they travel and that the current trend had nothing to do with the government decision to introduce VAT. The real consequences of the VAT would only be witnessed in the second year of implementation. During this period, little consensus was established between the government and the tourism sector.

However, the tourism sector continued to reach out and sought to establish dialogue with the budget committees and other stakeholders like TRA by travelling from Dar es Salaam to the capital, Dodoma. The TCT, for instance, in the first half of 2017 was given an opportunity to make a presentation to the Parliament on the private sector perspective of the tourism industry. During the seminar, the budget parliamentary committees learnt more about the tourism industry and how a retainment of the VAT would affect the sector. Person we interviewed in the sector explained how the presentation of material and evidence-based advocacy opened for dialogue in at the formal meeting, but also how the presentation of information also often led to conversations after formal presentation with parliamentarians wanting to know more.[29] These kinds of dialogues in which

---

[25] Shekighenda, L. (2016). *Government Adamant On VAT for Tourism Services.* Online: Daily News. Available at: https://allafrica.com/stories/201607130035.html (Accessed: 04/04/2018)

[26] Interview Tanzania Hunting Operators Association (TAHOA), 20th July 2017.

[27] Interview TCT 29th of June 2017.

[28] See also: http://repository.businessinsightz.org/bitstream/handle/20.500.12018/7436/TRAVEL%20%26%20TOURISM%20ECONOMIC%20IMPACT%202017%20TANZANIA.pdf?sequence=1&isAllowed=y

[29] Interview TPSF 14th July 2017; Interview TAHOA 20th July 2017.

different stakeholders in the sector engaged with the government were instrumental in the re-thinking of removing some of the taxes in the sector from the financial year 2017/18.

Table 3 above provides a schematic summary of the case of revenue bargaining between the tourist sector and the government in Tanzania. Initially, the relationships between the government and the organisations representing the tourism sector were amicable and took place in formal institutions in the political arena, such as the budget and parliamentary committees. However, the governments' announcement to introduce VAT came as a surprise to the sector, and the bargaining moved to the public arena and turned more conflictual. Despite putting pressure on the government through media stories, the government did not change its mind. Nevertheless, over the following months, the tourist sector re-engaged with government officials in the political arena and this way could present their case and plea for a reconsideration of how the VAT was implemented. In the end, the government did not waive the VAT, but a concession was given, a compromise made; namely, by specifying that tax authorities were not to put VAT on licenses and fees, which they had otherwise done since the VAT was introduced.

The transport sector

The transport sector covers the provision of passenger or freight transport, whether scheduled or not, by rail, pipeline, road, water or air and associated activities such as cargo handling, storage etc. Transport also includes renting of transport equipment with driver or operator and postal and courier services. Since 2008, the sector has grown at an average rate of 7.5% annually, tripling its absolute contribution to the economy from TZS 1.57 billion in 2008 to TZS 3.86 billion in 2015 (URT, 2016c). It is thus one of the fastest growing sectors in Tanzania. The sector employs some 65,815 people, equivalent to some 3.1% of all formal regular and casual employees (URT, 2016b). Despite all this, the sector's contribution to the economy has declined in the last ten years, both in terms of its percentage share of the gross domestic product (GDP)—from 5.9% in 2008 to 4.3% in 2015— and its tax revenues from TZS 62.3 billion in 2008/09 to TZS 48.8 billion in 2015/16 (URT, 2017c).

The sector's declining share of GDP as well as the fall of revenue from the sector in the last ten years have posed considerable challenges to the Tanzanian government particularly in how best to promote the competitiveness of the sector without compromising its growth potential. Some of the measures taken in recent years to help the sector have included improvement in the infrastructure, increased investment, and reforms. For the improvement to transport infrastructure considerable work has been done in road and railways to stimulate competition and lessen costs. For the investment in the transport sector, a TZS 1 trillion has been put to improve efficiency at the country's main entry port of Dar es Salaam.[30] For the sector reforms, we note some organizational reforms, the major one being the setting up of a Central Corridor Transit Transport Facilitation Agency (CCTFA) in 2006 to facilitate transport trade with the four neighbouring landlocked countries of Burundi, the Democratic Republic of the Congo (DRC), Rwanda, and Uganda, as well as multiple fiscal procedural and incentives. Central to Tanzania's promotion of the transport sector has been an increased role of the private sector in the utilization of public infrastructure (URT, 2003). This has seen the sector populated by private entities, engaged in transportation, logistics and related operations.

There are three major private sector associations in the transport industry in Tanzania, the: i) Tanzania Bus Owners' Association (TABOA)—primarily responsible for ferrying of passengers in the country; ii) Tanzania Association of Transporters (TAT)—a voluntary business association with 250 members transporting loose cargo, containers and liquid bulk cargo; and iii) Tanzania Truck Owners' Association (TATOA)—an apex organization of some 962 members with over 15,000 trucks engaged in cargo freighting in and outside the country. The three associations have historically had a cordial and supportive relationship, with collaborations common among them.[31] While the associations have existed for a long time, and in certain circumstance they speak the same language, in other situations the association less able to collaborate, depending on commonality of the problem in place. For instance, on issues of oppressions to the sector like those occurring on the highways, i.e., traffic police oppressions and weighing bridge charges, they are speaking the same language. However, in specific areas each organization speaks its own language. For instance, TABOA will be speaking together when they are against the government on the setting of bus fare, while TAT will speak on their own when they talk on the time wastage on the borders and the number of check points on highway etc.

---

[30] Mwakyusa, A. (2017) 'Dar port for 1tri/- expansion ', *Daily News,* July(3), pp. 1.

[31] Interview with TAT 29th September 2017; Daily News (2015) 'Team picked to resolve drivers' woes', *Daily News*, 05/05/2015. Available at: https://www.dailynews.co.tz/news/team-picked-to-solve-drivers-woes.aspx (Accessed: 02/09/2017); The Citizen (2017) 'Transporters, Regulator agreement averts tomorrow's strike', *The Citizen*, Monday April 03 2017. Available at: https://www.thecitizen.co.tz/News/Transporters--Regulator-agreement-averts-tomorrow-s-strike/1840340-3875994-ra8otfz/index.html (Accessed: 03/09/2017).

The growth of the transport sector has mirrored that of Tanzania's international trade, with growth in imports and exports of minerals providing considerable revenue for actors involved. While its share as well as the revenue from the sector has gone down in the last decade, the absolute transit of goods has grown to define the face of the transport sector (World Bank, 2013). Because of the high capital requirements in the sector, the transport sector in Tanzania is dominated by a few wealthy companies (and individuals) with proven political connections to the ruling party. These include the Asas Transporters Company[32], Shabiby Transporter Company Limited[33], Azam Transport Company[34], Glenrich Transportation Ltd[35] etc.

Relevant Tax Reforms

In response to a 2012 evaluation of lost tax revenues (Curtis and Ngowi, 2017) and attempts to increase domestic financing of public expenditures in 2016, the Tanzanian government waived tax exemptions on transit goods. This directly affected the livelihoods of some 30,000 permanent employees engaged in cargo freighting in Tanzania. Five major tax reforms introduced in July 2016 that affected the transport sector are:[36]

I. The imposition of value added tax (VAT) on ancillary transport services. According to the 2016 Finance Act, ancillary services relate to stevedoring services, lashing and securing services, cargo inspection services, preparation of customs documentation, container handling services and the storage of transported goods or goods to be transported.

II. Upward revisions of customs warehouse rent. This relates to fees and charges levied on importers for the duration of time spent by their goods at customs' bonded warehouses and other inland container depots (ICDs). In addition, there was a shortening of the threshold time that imports could be stored at ICD without incurring penalty charges from 21 days to 14 days.

---

[32] Owners of the ASAS Dairy group of companies. The head, Salim Abri is the CCM's party chairperson for Iringa region as we all as a member of the CCM's high-level National Executive Committee (NEC)

[33] Better known for their cross-country coaches. Owned by Ahmed Shabiby, the CCM MP for Gairo province, Dodoma

[34] Part of Azam Group of Companies, owned by Tanzania's richest man, Said Salim Bakhressa, a known benefactor of the CCM.

[35] Part of the Mohammed Enterprises Limited group of companies, owned by the Mohammed Dewji family, one time CCM MP for Singida, single biggest shareholder of one of the biggest soccer clubs in Tanzania, and a renowned party philanthropist.

[36] Interview with TAT 29th September 2017; https://www.thecitizen.co.tz/news/Why-cheers-on-zero-rating-VAT-on-ancillary-transport-services/1840340-3964192-5s4bcpz/index.html

III. Scaled up implementation of a single customs territory (SCT) between Tanzania, Zambia and the DRC which required importers of transit goods to pay their import taxes and duties upfront at the point of entry in Dar (with the TRA then remitting such charges to their corresponding destination revenue authorities) as opposed to the border points with Tanzania. This became a nuisance mainly as it increased the time required to clear goods, necessitating the transfer of imports to custom bonded warehouses and ICDs at additional costs to importers from Zambia and the DRC. The SCT had previously been piloted on a much smaller scale in 2015 and had yet to be evaluated.

IV. Upward revision of wharfage and storage charges by the Tanzania Ports Authority (TPA). These were deemed excessive particularly when considered in totality with other simultaneously introduced reforms and were seen as having pushed Zambia and DRC-based importers away towards Namibia's Walvis Bay, South Africa's Durban and Kenya's Mombasa ports.

V. Increases in annual transit licence fees (also known as C28 licence) per truck from TZS 20,000 to USD 200. Due to the sudden increase, the number of registered transit trucks plummeted in 2016/17 to 11,000 from 25,000 in 2015/16. This has forced transport and logistics companies to downsize their workforces—particularly drivers— and truck fleets.

The first two of the above reforms have since July 2017 been rescinded. Below is an exploration of the processes behind the reforms, which are also highlighted in the following display.

Table 4: Summary of the Transport Sector case

Sequence/ Timeline	Arenas	Strategies	Policy outcome
July 2016	Intro of tax a surprise => no access to political arena		
July – Sept 2016	Gaining access to bureaucratic arena	Sector establish internal collaboration and buy access to side-lined Ministry	
Sept 2016 – Mar 2017	Public arena	Sensitization in the media	
Nov, 2016 – June 2017	Increased access to political arena (invited by treasury) membership in government forums and task forces	Direct negotiation in discrete meetings	=>waiving VAT charges on ancillary services => Revisions to uprated customs warehouse rent

Analysis of revenue bargains

Stakeholders in the transport sector, who we interviewed, were adamant that the processes behind an overwhelming majority of the above reforms were not participatory. While the sector's operators such as TATOA and TAT and their members had prior knowledge of the SCT (point III above), interviews with senior officials from the Transporters' Association of Tanzania suggest that the sudden rolling out of the scheme took them by surprise as they had expected to be involved in an evaluation of the pilot/trial before any decisions on scale could be taken. The anticipated loss of business and cost increases resulting from the imposition of VAT on ancillary services provided a rallying point for the mobilisation of the sector's actors. In addition to non-participation, the timing of and speed with which reforms were expected to be implemented caught members by surprise. The rapid pace with which the government moved from the proposal phase to incorporating reforms in the 2016/17 finance bill denied the sector time and space to mobilise a coalition against policy. From the transporters' perspective, the reforms have been regarded by the sector's representative organisations as symbolic of excessive regulatory control of what had until then been a relatively market-driven transport and logistics sector. Through contacts in the inner political circles, the sector's representatives were able to establish that decision making on headline reforms—for example, VAT on ancillary services— had indeed not even involved the sector's ministry.[37] There was a sense that the exclusion of the line ministry had by default secured the sector an ally (at least for some components of the reforms) in its agitations (from late 2016 to mid-2017) against the reforms.

In addition to reducing the volume of imports and transited cargo, the reforms also precipitated a price war among transporters as the latter struggled to remain operational. Increases in C28 licence fees forced the closure of many small (with fleets of up to 40 trucks) and medium (truck fleets of 41-150) scale transporters (Interview with Tanzania Transporters' Association, TAT). Yet, the industry continued to portray a collective and cohesive external face/front despite internal disagreements among themselves. According to the Truck Owners' Association of Tanzania (TATOA) and the Transporter's Association of Tanzania (TAT), the price war was itself a by-product of the reduced supply of work following the tax reforms, as transporters had to quibble about how to share the already diminished slice of cake.

The situation was not helped with the entry into the market of wealthy Chinese mega transporters with truck fleets in excess of 600, who further drove down prices in attempts to establish market shares. Based on documents obtained in meeting with senior officials from TATOA and TAT, the 2016/17 period saw new mega transporters charging USD 2,900—3,300 and USD 4,700—5,500 per container shipment to Zambia and the DRC, as opposed to prior established market rates of USD 3,300—3,500 and USD 7,200—7,500 respectively. To date, there have only been marginal increases in transit prices despite revisions to some of the 2016/17 reforms.

Strategic responses to tax reforms

Upon learning of the reforms on 1st July 2016, one of the sector's representatives, TAT, convened a series of meetings with their members, clients and affiliates—including the freight forwarders association (TAFFA) and TATOA to establish the scale of likely impact, a common position and a strategy on how to engage the state to address their concerns. Of primary concern was the maximum time an importer could clear their goods without starting to incur additional port and handling charges (wharfage and storage) that would incrementally have an impact on the amount of VAT incurred. At the meetings, members agreed to advance two major positions: *One,* to request for moratorium on new charges. This was flatly dismissed at the organisation's first

[37] Interview with TAT 29th September 2017.

meeting with the government. *Two,* to petition for the increase in maximum allowable time to clear goods from the revised 14 days to at least 90 days. Key to this position were:

a) the need for parity with the more efficient and larger ports at Walvis Bay, Mombasa and Durban.
b) Lengthy truck turnaround times particularly on trips to Zambia and the DRC—as a result of Non-Tariff Barriers (NTBs) such as border inefficiencies, roadblocks, inadequate weighing arrangements, corruption and road quality. It can take a truck up to two weeks to make the Tanzania-Zambia return journey, with trips to the DRC taking longer at 1-2 months. Lengthy turnaround times decrease the availability of transport trucks—given their numbers vis-à-vis the volume of transit cargo available—thus contributing to the amount of time needed to clear and transport transit cargo from the Dar es Salaam port.
c) Government pragmatism and flexibility to support the sector compared to their competitors, mainly Kenya, which had been active in exploiting regulatory loopholes in the EA Customs Act to make a case for the continued zero rating of VAT on ancillary transport services.

<u>Arenas and strategies</u>

The establishment of a sectoral common position on the reforms provided TAT with a mandate to engage with the authorities in search of a settlement. Yet the changed political climate meant that the assembly of a supporting coalition had to be made discreetly rather than through open channels (as senior ministry officials were wary of being seen as overtly siding with the private sector in its agitation with the government). The choice of the approach seemingly reinforced by Government's commitment to revenue reforms[38] and growing intolerance to dissent.[39] TAT was forced to rely on informal approaches to present its initial case which involved direct personal but discreet appeals by one [declined to disclose identity of member] of its members to the minister and his permanent secretary. It was also indicated by interview persons that these meetings involved exchanges of money for support. Thus, TAT was forced to co-opt the ministry which then provided

[38] Reuters (2017) 'Tanzania's President Magufuli vows to toughen tax evasion crackdown', *Reuters*, FEBRUARY 2, 2017. Available at: https://www.reuters.com/article/tanzania-taxation-idUSL5N1FN7M1 (Accessed: 02/09/2017); The Citizen (2016) 'Magufuli sacks TRA chairman, dissolves board', *The Citizen*, MONDAY NOVEMBER 21 2016. Available at: https://www.thecitizen.co.tz/tanzania/news/magufuli-sacks-tra-chairman-dissolves-board-2573574 (Accessed: 02/09/2017).

[39] The East African (2017) 'Tanzanian President Magufuli warns newspapers over dissent', *The East African*, FRIDAY JANUARY 13 2017. Available at: https://www.theeastafrican.co.ke/tea/news/east-africa/tanzanian-president-magufuli-warns-newspapers-over-dissent-1360434 (Accessed: 02/09/2017).

it with guidance on how to engage with the powerful budget and transport parliamentary standing committees. TAT also claims to have had to furnish payments to prominent members of these committees (as well as a few prominent opposition MPs) in exchange for their support.

Collectively, the purchase of support allowed TAT to establish a powerful coalition of actors capable of heaping and sustaining pressure on the treasury. One of the first subversive acts aiming to mobilise public support for their actions was large-scale sensitisation of the adverse effects of the reforms on the transport sector. This was done in collaboration with the freight forwarders association (TAFFA) and TPSF. Sensitisation occurred through media briefings, interviews on national print and digital media as well as audio and television—with multiple appearances by TAT's top officials on ITV and AZAM tv stations.[40] TAT briefly operated a YouTube account in 2016/17 in support of media campaign against the reforms. TAT through its members and networks succeeded in influencing the national media to adequately publicise their cause. Central to its media strategy were job losses by ordinary Tanzanians as a result of the loss of business, the decline in import volumes, and the upending of Tanzania as the transport gateway of choice by its historical rival and neighbour, Kenya.[41] TAT's message was simple; the reforms were hurting national livelihoods and pride. This did indeed strike a chord with the authorities as they moved to reassure and entice the public and neighbouring landlocked countries of the viability of the port of Dar es Salaam.

Results

In March 2017, TAT was, along with other members of the private sector foundation (TPSF), invited by the Treasury to present their case at a series of pre-budgetary meetings involving parliamentary committees and the government in Dodoma. At the meetings, TAT and the tourism lobby were the only two TPSF members to receive substantial time to present their cases, mainly because they were in the forefront seat in complaining on the introduction of VAT to their sectors, the consequences of which would reduce their competitiveness and subsequently affect negatively the national economy in terms of jobs creation and revenues. TAT's efforts had received an earlier boost in early 2017 when President Magufuli visited Rwanda for talks on strengthening diplomatic and economic ties. The visit's official communique (URT, 2017b) highlighted the need for the two countries to bolster trade through the central transport corridor—one of TAT's members' main

[40] Interview with TAT 29th September 2017.

[41] Interview with TAT Senior Officials 29th September 2017.

routes. From the same official communique, additional support arrived in April 2017, when the President Kabila of DR Congo, along with influential importers' association of the DRC visited President Magufuli in Dar es Salaam (Trademark, 2017) to discuss plans to increase the volume of DRC bound cargo passing through Dar es Salaam. It appears as if the combination of domestic and foreign pressure had forced the treasury's hands on reforms when in June 2017, the treasury and TRA wrote to the governments of DRC, Rwanda, Burundi and Zambia informing them of its decision to waive VAT charges on ancillary services. The passing of the 2017/18 Finance Act in July assented the revisions of the reforms sought by TAT.

Despite the repeal of VAT reforms, some elements of the 2016 reforms have remained intact. These include the upholding of C28 licence rates at USD 200 per truck and the continued administration of the SCT. Indeed, the 2017/18 Finance Act has introduced regulations that enforce its predecessor's stance on licence fees. For example, the current act prohibits the use of C28 registered trucks (ones licensed to handle transit freight) to carry transit goods prior to them obtaining customs clearance (following the completion and payment of TRA charges and fees). Thus, transit goods needing to be moved to ICD storage have to also employ the use of C40 registered trucks (ones licensed to handle domestic cargo). The annual C40 licence costs USD 200 per truck having been increased at the same time as the C28 licence in 2016.

Despite partial repeals of 2016 reforms, TAT remains optimistic of its ability incrementally influence revisions to the sector's tax code. Such optimism is borne out of its membership in other of the sector's collaborative initiatives with the government including, the:

a) Port Improvement Committee (PIC)—a forum aiming to improve the operational efficiency and competitiveness of the main Dar es Salaam port.
b) National Monitoring Committee on Non-Tariff Barriers—An east African wide forum for the facilitation of seamless trade. This is often seen as the 2nd most active of TAT's associational engagements as it comprises of key ministerial actors, namely ministers and permanent secretaries. The committee did decline TAT's request for support against the 2016 VAT reforms on grounds that VAT was a tariff issue and thus beyond its legal remit.
c) Central Corridor Transport Facilitation Agency (CCTFA)
d) Prime Minister's Special Taskforce on Logistics and Transport—Although TAT is sceptical of its influence because it is dominated by people transporters (i.e coach, bus and passenger associations.

Summing up, as with the tourism sector, the introduction of VAT and other tax charges came as a surprise to the transport sector. However, the transport sector was less well organised and did not have a unified voice in its interactions with the government. Interestingly, the tax reform prompted the sector to get organised and find a common position through the TAT. The sector was able to gain increased access to the political arena by buying support in the bureaucratic arena and by a successful public campaign in the news media. Although engagements in the public arena appear less conflictual than for the tourist sector, it was only through collective action in the political arena that the sector was finally able to push the government to give some concessions (the case is illustrated in Table 4).

The members of parliament

The Tanzanian Parliament consists of some 392 elected and special seats members. The ruling party, CCM, has since the inception of multi-party elections in 1995, accounted for high proportions of MPs of between 71 and 91 percent. At present the CCM has a total of 280 MPs, representing some 71 percent of all parliamentarians. The opposition, comprising of four political parties—CHADEMA, CUF, NCCR and ACT-Wazalendo, has largely presented itself as a unified block to counter its minority numbers. Gratuities are one and the smallest component of individual MPs financial packages, received at the end of their elected five-year terms. Gratuities amounting to TShs. 160 million per MP account for some 18 percent of the overall costs of MPs to the taxpayer. The other two components, salaries (TShs 228 milion) and allowances (TShs 480 million) account for 22 and 55 percent of costs over the course of an MP’s intended five-year term. In addition, there exist auxiliary allowances for members of parliamentary committees distinguished by their positions within committees, estimated to amount in excess of TShs million over a parliamentary term. Of these financial incentives, only salaries are taxed at the income rate of 30 percent.

When annualized, the overall MPs expenditure package constitutes about 0.21 and 0.38 percent respectively of the current aggregate national budget and expected tax receipts for the year 2018-19. MPs gratuities account for a further 18 percent only of these proportions. Yet, despite their relatively small relative shares, MPs’ gratuities are of considerable symbolic significance and warrant debates on a number of issues around them: one area of debate is a relative small size of recipient constituency (392) implying that there is a small sum that can be collected as tax; the other area of debate is on large absolute sizes of their income amounting to some 15 times as much as per capita annual incomes of TShs 2,131,299 (URT, 2018b). On the other hand, parliament is an important institution that should abide with ethical conduct of public office for tax payment. But also, debates can also arise on the recent historical rises in MP pay. While each of these factors warrant a dedicated account of their own, this case study documents the 2016 tax reforms that introduced a 5 percent levy on MPs' gratuities. The display below summarises the arenas and strategies used during the bargaining process and the final policy outcome.

Table 5: Summary of the MP case

Sequence	Arena	Strategies	Policy outcome
Initial proposal	Public arena	Use of media - CCM MPs emphasise their out-of-pocket assistance to constituencies - Opposition MPs challenge reform to be extended to other political elite President retaliate in media to get public support	=> no change
	Public/ political arena	MPs seek alliance with civil society, i.e. religious groups (possible due to strategic political positions/ knowledge) Government makes separate agreements with religious groups	=> no change (but for civil society maintenance of exemptions)
	Political arena	Overt: threat to reject Financial Bill Covert: Key CCM members seek to convince President to give concessions	=> Gov gives concession although policy remain (5% instead of 30% and by 2020)

Relevant Tax Reforms

In response to a 2012 evaluation of lost tax revenues (Curtis and Ngowi, 2017), government adoption of austerity policies, renewed vigour on expansion of the domestic tax base, and pressure from taxation reforms from civil society organisations; in 2016, the Tanzanian government proposed to waive tax exemptions on MPs' gratuities; meaning that MPs would pay 30 percent in tax of their gratuity payment at the end of their five-year term. Directly affected were the livelihoods of some 393 elected and appointed members of parliament, with high visibility in the

Tanzanian civil space. According to the Mwananchi newspaper of 14th June 2016,[42] following the suggested gratuity tax reforms a heated debate started that, in public at least, appeared to pit ruling party and opposition MPs in contrasting spectrums.[43] The tough debate among members of parliament against introduction of the tax on their gratuity continued. Finally, it was agreed that waivers of exemptions on gratuity payments will take effect in 2020, when current parliamentary terms expire and gratuity payments are dispensed subject to a compromise 5 percent levy. Meanwhile, MPs' allowances, the largest tax expenditure burden, continue untaxed in Tanzania. Below is an exploration of the processes behind the reforms.

Analysis of revenue bargains

Interviews with stakeholders involved in gratuity tax reforms are adamant that the outcome represented a poor compromise with major concessions given by the government which had originally sought to impose a 30 percent tax on not just MPs' gratuities, but also allowances. Insiders believe that in addition to the justification introduced above, the motive behind attempts to tax MPs stemmed from the ruling party's loss of parliamentary seats, increasing costs of elections, and the need to weaken the financial base of opposition MPs.

However, due to multiparty representation, the government was forced to disguise these attempts at weakening parliamentary democracy by imposing a sweeping tax on the ruling party's own MPs. In consequence, this led to a cross party mobilisation against the tax with MPs on both sides of the political divide adopting creative strategies to agitate against reforms.

Some powerful parliamentarians within CCM viewed this as a struggle for internal party control between the current chairman and president of Tanzania, and the CCM old guard, who he sought to bring under his control given his lack of intra-party support, having been a last-minute compromise candidate at the 2015 general elections. This provided a powerful rallying point for within CCM opposition to proposed tax reforms, who also appealed to internal party organs including the power National Executive Committee (NEC) to mediate. The latter would be reformed by the election and appointment of Magufuli loyalists in late 2016.

---

[42] https://mobile.mwananchi.co.tz/Habari/Wabunge-CCM-wadai-Dk-Mpango-amewatega/1597580-3248928-format-xhtml-fe5ffw/index.html

[43] See also: https://www.ippmedia.com/sw/makala/wabunge-ccm-walivyogeuka-mbogo-kodi-ya-kiinua-mgongo

The loose inter-party alliance mobilised in opposition to reforms realised that mooted reforms would mobilise strong public support in their favour following historical public opposition that accompanied MPs hikes in salaries and gratuity payments first in 2009 and then in 2014. Thus, they knew that they would not be able to rely on popular public support for their cause. Consequently, they sought to influence public opinion in other diffuse discreet ways. This occurred in two principal ways. On the one hand, CCM MPs appealed to the use of their gratuities and allowances in providing out-of-pocked assistance to their constituents.[44] On the other hand, opposition MPs publicly endorsed the reforms and challenged the government to extend them to the exempted gratuities of other political elites, notably the President and Prime Minister.[45] While the former strategy sought to highlight the productive uses of gratuities and the burden facing individual MPs, the latter challenged the reach of the reforms and subsequently their legitimacy. One opposition MP, Zitto Kabwe, even went further by questioning the scope of the reforms, which had spared the costlier MPs allowances from taxation.

These measures backfired, however, as President Magufuli declared openly his earnings and indicated his willingness to be taxed in April 2016. Riding on a wave of favourable public opinion, Magufuli appealed for public support for reforms by highlighting the discrepancies in earnings between MPs and ordinary Tanzanians, urging MPs to live by their political promises of serving ordinary Tanzanians by acquiescing to proposed reforms.

Not be deterred, MPs enlisted the support of the powerful religious and civil society community, by leaking details of proposed taxations to their earnings. This was done purposefully through knowledge of the mobilisation powers of mainly religious bodies owing to their contribution to social services as well as strong religious values of the Tanzanian society. The head of the powerful parliamentary budget committee offered concession to religious groups by offering a revision of proposed tax rates in return for their support in fighting off gratuity tax reforms. However, the religious lobby soon found itself unable yield owing to fears of opening up another front in its struggle for the maintenance of tax expenditures. Facing the prospect of an undesired alliance between MPs and civil society, the government swiftly moved to placate religious groups

[44] https://mobile.mwananchi.co.tz/Habari/Wabunge-CCM-wadai-Dk-Mpango-amewatega/1597580-3248928-format-xhtml-fe5ffw/index.html; https://www.ippmedia.com/sw/makala/wabunge-ccm-walivyogeuka-mbogo-kodi-ya-kiinua-mgongo
[45] Ibid.

by removing demands on tax and instead proposing a maintenance of exemptions through strengthening of the assessment and verification mechanisms.

This left MPs in a lurch, unable to mobilise support from any legitimate external constituency. Facing a lack of options, MPs threatened to wield a collective veto by rejecting the 2016/17 Finance bill. President Magufuli retaliated by threatening the use of constitutional powers to bypass parliament and/or dissolve it altogether and call for a General Election. Within CCM, senior figures appealed to the council of elders, consisting of past party chairmen and secretary generals, who helped convey a message to President Magufuli for a negotiated settlement. The CCM wary of the financial and political consequences of fresh elections less than a year from the 2015 ones, called on the Government and President Magufuli to make concessions. These arrived in the downward revision of the tax rate from 30 to 5 percent, the rescind of intended tax reforms on allowances, and the suspension of the start of application of taxes until 2020. Among others, the stay of execution on implementation of reforms is seen as a loophole that can be exploited by the Government and MPs to advance individual causes. For the Government, it offers an opportunity for an upward revision of the tax rate and its extension to the more sizeable MP allowances. For MPs, it offers an opportunity to offset anticipated lost earnings by voting to increase gratuity payments in the future. Much will depend on the degree of success Magufuli has on cementing his power and authority within CCM and public popularity.

Summing up (see also Table 5). Initially, MPs were not able to speak with one voice although most MPs were against the tax reform. Engaging with the political leadership in the public arena, both CCM and opposition MPs were confrontational although they were each using different arguments to appeal to the public. However, the strategy of using media stories backfired when the President proved unwilling to make any concessions. Also, an attempt to make an alliance with civil society organisations proved unsuccessful. In the end, as in the other cases of revenue bargaining, it was only in the political arena that the revenue providers were able to reach a compromise with the government. The MPs collectively threatened to veto the budget, thereby – as with the transport sector – revealing the importance of mobilizing collective action. Nevertheless, it appears that informal institutions and relations within the CCM party were decisive in enabling MPs to push the president to finally relent the initial stand.

The army

Duty free shops have for long operated in the barracks of Tanzania Peoples' Defence Force, Police and Prisons (in short, we term this the army forces). Duty-free shops for special groups, mostly soldiers, are not particular to Tanzania, but unlike most other countries that only exempt import duties, in Tanzania such shops have had VAT and excise duty exempted.

In terms of operation, duty-free shops are located in the barracks. The infrastructure is constructed and owned by the army, police, or prison, but the actual operation is run by private companies or army members themselves. In either case, the entities running the shops buy goods free of taxes and sell them at lower prices reflecting the tax relief. There is a special arrangement in which the government pays the tax to TRA before the latter can release such goods to be taken by the operators of such shops. This arrangement helps to ensure that TRA's performance is assessed based on all goods traded in the economy. The duty-free shops sell a range of products, both durables and non-durables including building materials, furniture, home utensils, food items and alcoholic and non-alcoholic beverages.

Use of the facility

To access this facility, legally, one must be an army member working in any of the three armies: Tanzania Peoples' Defence Force, Police Force or the Prison. The beneficiaries have to produce identity cards when they pay for the goods they are purchasing.

Despite the purpose in which this facility was introduced – to give benefits to army members - the shops are widely misused. Tanzanian citizens who are not formally targeted beneficiaries of this facility have been using it, leading to loss of revenues on the side of the government. Citizens who should pay taxes, have been buying goods from these shops, using names of their friends and relatives working in the army. In some cases, it is commonly known that one does not even need to be linked to someone: you can just walk into the duty-free shops and buy goods of your choice. Interviews with key people, including the army men belonging to lower carders, have revealed allegations that goods from the duty-free shops are sold in other shops that can be connected to senior army men.[46] Since these goods are free of taxes, they are likely to be sold at relatively cheap prices, leading to unfair competition with those other traders who pay

[46] See also: https://www.thecitizen.co.tz/News/No-more-tax-exemptions-for-military-shops-/1840340-3241280-bih7p9z/index.html and http://mtanzania.co.tz/ni-bajeti-ngumu/

VAT. This behaviour creates difficult business environments for those complying with paying taxes.

Removal of VAT and introduction of an alternative support

Prior to the tax reforms of 2016, there were public misgivings about how the army was using facilities given by the government. The public outcry was on the assertion that the level of misuse in these facilities was high.[47] From the business community, the complaint concerned unfair competition. Consequently, the government was looking into how to resolve the issue.

Preparation of the 2016/17 budget was characterized by VAT reforms in many sectors. Consistent with the persistent public complaints on the misuse of tax relief at the barracks, the government felt the need for reform on tax exemptions of the army shops by way of introducing VAT to the duty-free shops. This policy change was part of the general tax reform impetus taking place at the time (as discussed earlier).

Officially, the government announced removal of VAT and other taxes that had been granted in army shops in the financial year 2016/17. Unlike other sectors which were affected by these tax reforms, the government seems to have considered the army a special group, (as we will discuss more in the next section) in need of support or special benefits (URT, 2016a). Thus, in lieu of the loss following the removal of VAT and other taxes in army shops, the government, through the Minister for Finance decided to provide a flat rate of Tshs 100,000/- per month to all soldiers regardless of their rank, in addition to the regular salary. Interviews with different army officers show that this amount is paid cumulatively on quarterly basis. Every member of army force gets Tshs 300,000/- at the end of each quarter. According to the Minister of Finance and Planning during the budget speech of 2016/17, this approach is considered by the government to be the best targeting mechanism as there is no way a person not belonging to the army forces can access this benefit.

Analysis of revenue bargains

The members of the army, the police, and the prisons compose a large share of civil servants. Politically, this group is very strong, not only because of its size, but also because of its devotion

[47] https://www.thecitizen.co.tz/News/No-more-tax-exemptions-for-military-shops-/1840340-3241280-bih7p9z/index.html and http://mtanzania.co.tz/ni-bajeti-ngumu/

to national service and national security, which is considered very important (URT, 2016). Therefore, the government cannot afford to have a bad relationship with the group. At the same time, from the government perspective, there were concerns with the misuse of duty-free shops, the potential loss of tax revenue as well as the outcry from other traders who felt that the playing field was unfair. Consequently, the government sought to strike a balance by providing a compensation of Tshs 100,000/- per month, at the time that the VAT was removed.

The introduction of compensation payments concurrently to the removal of duty-free shops seem to be a clear case of a special kind of revenue bargaining that involves a *pre-emptive* concession by the government given to counter possible opposition towards the tax. This kind of bargaining is difficult to detect, and we can only assume that the link between removal of a tax benefit on the one side, and the introduction of a benefit on the other, has to do with government concerns to support a large, and important part of the public sector.[48] From interviews we get the hunch that there could either have been a high-level negotiation and agreement between top officials in the army forces and the government, or simply that the government just made the decision.[49]

Nevertheless, it is interesting to note that there seems to be differences of opinion between mid-level and lower-level army members with respect to the changes in benefits. Interviews with officials, especially those who had linkages with the shops as in-charges or purchasing officers, claimed that the reform was unreasonable as it came abruptly without prior information to the army. Their argument is that, if an army member wants to build a house and/or buy furniture, he/she needs to buy in bulk and therefore needs the tax incentive immediately at the time of procurement. Another argument from the senior officials criticizing the move relates to the investments already made in the shops. Furthermore, the barracks are located in isolated places making them inaccessible, and they consequently worry that fewer customers will visit the shops when selling goods at the market price. However, most army members are very happy with the reform. They argue that they do not buy things frequently and most of the expensive durable goods, such as roofing materials and refrigerators, bearing high tax are only bought few times in a lifetime. Therefore, to lower-level army members the benefit of Tshs 100,000/- per month is considered

[48] In several interviews it has been noted that public servants, while not getting particularly large salaries, still get special tax benefits and perks.
[49] In one of our interviews a respondent noted that the latter seem likely given the urgency with which everything was decided.

more lucrative than buying goods in duty-free shops. Where army members have a common position is on the timing of disbursements, where they complain that sometimes they only get the money long after the quarter is finished, a behaviour which distorts their plans.

Table 6: Summary of the Army case

Sequence	Arena	Strategies	Policy outcome
Before proposal	Public arena	Public outcry and complaints by business sectors provide legitimacy of reform of duty-free shops	
	Political arena	Although hard to observe directly, government gives pre-emptive concession, either in agreement with top army officials or by itself	=> pre-emptive concession
Announcement of proposal	Public arena	Tax reform of disputed army barracks announced	=> tax reform, but compensatory scheme introduced at the same time

To sum up (see also display in table 6), the case of duty-free shops for army members is a case of tax bargaining where the government gives *pre-emptive* concessions. The general move by government to reform the tax system as well as public concerns with the misuse at the shops urged the government to remove the VAT exemptions. However, army officials are clearly of such political importance that the government pre-empted any upsets by introducing a compensatory scheme despite the financial implications for tax mobilisation. It is interesting to note how some army officials decry the changes as they have been benefitting disproportionately from the exemptions. However, within a centralised and hierarchical organisation their influence clearly does not counter agreements between top army officials and the government as well as the general support of the new scheme among low-level army members. In this case study, the public arena was not a place for conflictual engagement between revenue provider and the government as they had other arenas for dialogue; instead, the public debates gave the government's tax reforms some legitimacy. Again, the final compromise was most likely settled in the political arena, although we cannot prove this due to the secretive relations between the army and the government: either the government came up with a compensation scheme itself or it was agreed in consultation with top-level officials.

CASE COMPARISON AND CONCLUSION

Prichard argues in his seminal book on tax bargaining that although quite straightforward the incidences where governments make explicit concessions to taxpayers in response to mobilisation and demands are infrequent. In addition, he states, cases of tax bargaining where governments make pre-emptive concessions to taxpayers to prevent future conflict is much overlooked by researchers (Prichard 2015). In this paper, we therefore contribute both to the understanding of the relative infrequent situations of tax bargains leading to direct government concessions as well as to illustrating a case of pre-emptive concessions. It is also worth noting that we did not select our cases on the outcome (i.e. concession by the government) as these were not known to us when we started our study (right after the introduction of taxes in 2016). This supports the expectations based on the 'political settlement framework of revenue bargaining'; that in cases where the relative bargaining position of government and revenue provider is quite equal, direct bargaining and some compromise is more likely. Furthermore, we have explored the micro-level interactions of revenue providers and the government in the search for likely strategies pursued by the parties as well as the arenas in which bargaining takes place (see Table 7).

Public arenas provide for open engagement where legitimacy and alliances with the public is sought in order to pressure the other party. However, as there are fewer spaces for dialogue – institutionalised relations based on trust – the engagement, if at all actual bargaining, will often remain conflictual and it is unlikely that the government will compromise. Use of the public arena by revenue providers can be helpful indirectly in pushing the government to allow access to the political arena. The bureaucratic arena can also be used indirectly by revenue providers to gain useful knowledge and openings for entry to the political arena.

Table 7: Arenas, strategies, and likelihood of government concession

Arenas	Strategies	Possibility for government concession
Public arenas, ex. media, civil society	- Appeal to public opinion - Seek public legitimacy - Seek alliance with civil society organisations	Bargain open and often conflictual => unlikely that government bends, but can lead to access to other arenas if case has public legitimacy and appeal
Bureaucratic arenas, ex. line ministries	- Create alliance with ministry/department either through common interest (bureaucracy feels sidelined by political agents) and/or by paying access	Can indirectly lead to policy change as revenue provider gains useful knowledge and points of access, which can lead to influence in the political arenas
Political arenas, ex. committees, task forces, parliament, internal in parties	- Present case in meetings - Negotiate directly with decision-makers - Build relationships over time	If revenue providers want the government to give concessions, best achieved by gaining access to the political arena

It may seem rather obvious that bargains in the political arena are where revenue providers most successfully can push for a government compromise, as this is where the decision makers sit. However, it is important to emphasise the nuances brought forward by the case studies. Certainly, access to key committees, direct negotiations, and the building of relationships seem to be good strategies for revenue providers opposing tax policy changes, particularly if they are organised to speak with one voice; but decision makers can also be persuaded informally by other centrally placed stakeholders, who revenue providers can try to influence (as in the MPs case). Other times, it is sufficient to be of such political importance or having such organisational strength that the government will give concessions pre-emptively (as in the army case). Clearly, revenue providers of less political importance but of financial importance (such as the tourism and transport sectors) have fewer informal access points in the political arena and must therefore rely on building and maintaining relationships and engaging seriously in the formal institutions that are available to them. The public arena can be useful in building public appeal but it seems not to be sufficient to push the government to openly compromise - giving in is not something you most obviously do in public.

The cases' make a unique contribution to the evolving political settlements and revenue bargaining literature by revealing the effect of potential rather than actual actions by powerful revenue providers on political decision making. The witnessed partial rollback of reforms within a relatively short period of time endorses this assertion of the authorities' awareness of the potential fiscal (in terms of lost tax and non-tax revenues) and political (in terms of lost employment and failure to live-up to election promises/manifestos) consequences that could have resulted had compromises not been reached. In conclusion, these findings reveal the limits of political influence on revenue matters in environments where the very survival and potential legitimacy of political actors depends on the wherewithal of revenue providers.

REFERENCES

Balele, N. w., Kessy, N., Mpemba, Z., Aminiel, F., Sije, G. and Mung'ong'o, E. (2018) *Financial Sector Reforms and Innovations and their Implications on Monetary Policy Transmission in Tanzania*, Dar es Salaam: Bank of TanzaniaBank of Tanzania WP No. 13, May 2018).

Charles, G. 'State-business relations in the tourist industry in Tanzania: Institutional and regulatory challenges', *EADI Nordic Conference*, Bergen, Norway, July 2017. Online: EADI (European Association of Development Research and Training Institutes), NFU (Norwegian Association of Development Research), the University of Bergen (UiB) and the Chr. Michelsen Institute (CMI).

Cheeseman, N., H. Matfess & A. Amani (2021). "Tanzania: The Roots of Repression", *Journal of Democracy*, 32(2): 77-89.

Cooksey, B. (2016) *Tanzania and the East African Community: A comparative political economy*: European Centre for Development Policy Management (ECDPM)Discussion Paper No. 186). Available at: www.ecdpm.org/dp186.

Curtis, M. and Ngowi, P. (2017) *The One Billion Dollar Question Revisited: How Much is Tanzania Now Losing in Potential Tax Revenues*, Dar es Salaam: Interfaith Standing Committee on Economic Justice and the Integrity of Creation (ISCEJIC).

Eilu, E. (2018) 'Adoption of Electronic Fiscal Devices (EFDs) for Value-Added Tax (VAT) Collection in Kenya and Tanzania: A Systematic Review', *The African Journal of Information and Communication (AJIC),* 22, pp. 111-134.

Fjeldstad, O.-H., Kagoma, C., Mdee, E., Sjursen, I. H. and Somville, V. (2020) 'The customer is king: Evidence on VAT compliance in Tanzania', *World Development,* 128, pp. 104841.

Fjeldstad, OH & L. Rakner (forthcoming). "Revenue bargains in poorly regulated countries: Lobbying and the shaping of tax policies in Tanzania, in Kjær, AM., MS Ulriksen & AK Bak (forthcoming). *The Politics of Revenue Bargaining in Africa*, Oxford University Press.

Hanif Habib and Co (2014) *Tanzania Tax Guide 2014/15*, Dar es Salaam: HANIF HABIB & CO. Certified Public Accountants.

Khan, M. H. (2010). “Political settlements and the governance of growth-enhancing institutions”. London: SOAS Working Paper.
Khisa, M, J. Msami & O. Therkildsen (forthcoming). "Campaign financing and revenue barganing in Tanzania and Uganda, in Kjær, AM., MS Ulriksen & AK Bak (forthcoming). *The Politics of Revenue Bargaining in Africa*, Oxford University Press.
Kjær, AM., MS Ulriksen & AK Bak (forthcoming). *The Politics of Revenue Bargaining in Africa*, Oxford University Press.
Lawson, A., Hedvall, F., Thue-Hansen, C. and Contreras, G. (2017) *Assessment of the public finance management systems of the central government applying the PEFA 2016 framework*, Dodoma: Ministry of Finance and Planning.
Ndumbaro, D.D. (2016). 'VAT on Tourism Sector: Legality vs. Legitimacy', *International Journal of Science and Arts*, 8(1), pp. 1-12.
North, D.C, J.J Wallis, S.B. Webb, B.R. Weingast (2013). *In the Shadow of Violence. Politics, Economics, and the Problems of Development.* Cambridge: Cambridge University Press.
Paget, D. (2021). "Tanzania: The Authoritarian Landslide", *Journal of Democracy*, 32(2): 61-76.
Prichard, W. (2015). *Taxation, Responsiveness and Accountability in Sub-Saharan Africa*. Cambridge, UK: Cambridge University Press.Sulle, E. and Banka, H. (2017) 'Tourism Taxation, Politics and Territorialisation in Tanzania’s Wildlife Management', *Conservation and Society,* 15(4), pp. 465-473.
Sutton, J. and Olomi, D. (2012) *An Enterprise Map of Tanzania.* London: International Growth Centre (IGC).
Therkildsen, O. and Bourgouin, F. (2012) *Continuity and change in Tanzania's ruling coalition: Legacies, rises and weak productive capacity*, Copenhagen: Danish Institute of Development Studies (Working Paper No. 6).
Trademark (2017) *Dar, Kinshasa trade pact saves jobs*. Online: TRADEMARK East Africa. Available at: http://trademarkea.com/new/dar-kinshasa-trade-pact-saves-jobs/ (Accessed: 04/04 2018).
URT (2003) *National Transport Policy 2003*, Dar es Salaam: Ministry of Communications and Transport.
URT (2014) *The Value Added Tax Act, 2014*, Dar es Salaam: Government Printer of the United Republic of Tanzania.
URT, Ministry of Finance and Economic Affairs (2015) *Value Added Tax (General) Regulations.* Dar es Salaam: Government of the United Republic of Tanzania (G.N No. 225).
URT (2016a) *Budget Execution Report for the first half of the fiscal year 2016/17.* Dodoma: Ministry of Finance and Planning.
URT (2016b) *Formal Sector Employment and Earnings Survey, 2015*, Dar es Salaam.
URT (2016c) *National Accounts of Tanzania Mainland 2007 - 2015*, Dar es Salaam.
URT, United Republic of Tanzania (2016d) *National Five Year Development Plan 2016/17 - 2020/21: Nurturing Industrialization for Economic Transformation and Human Development.* Dar es Salaam: Ministry of Finance and Planning.

URT (2017a) *Government Budget for Financial Year 2016/2017 – Citizens' Budget Edition*, Dar es Salaam: Ministry of Finance and Planning in collaboration with Policy Forum.
URT, United Republic of Tanzania (2017b) *President Magufuli visits Rwanda: Rwanda Choose Tanzania for Rail Link.* Dar es Salaam: Press Secretary, State House.
URT (2017c) *Tax Statistics Report 2015/16.* Dodoma: National Bureau of Statistics.
URT (2018a) *Audited Consolidated Financial Statement for the Year Ended 30th June 2017*, Dodoma: Ministry of Finance and Planning of the United Republic of Tanzania.
URT (2018b) *The Economic Survey 2017*, Dodoma: Ministry of Finance and Planning, Government of the United Republic of Tanzania.
URT (2019) *The Economic Survey 2018*, Dodoma: National Bureau of Statistics (NBS).
URT (2020) *Hali ya Uchumi wa Taifa katika Mwaka 2019*, Dodoma, Tanzania: Wizara ya Fedha na Mipango.
URT and CRC Sogema (2013) *Tanzania: PER Tax Exemptions Study.* Dar es Salaam: Ministry of Finance.
Whitfield, L.; O. Therkildsen; L. Buur and A. M. Kjær (2015). *The Politics of African Industrial Policy*. Cambridge: Cambridge University Press.
World Bank (2013) *Tanzania Economic Update: Opening the Gates - How the port of Dar es Salaam can transform Tanzania*, Washington DC: The International Bank for Reconstruction and Development/World Bank.
World Bank (2019) 'International tourism, receipts (% of total exports) - Tanzania'. Available at: https://data.worldbank.org/indicator/ST.INT.RCPT.XP.ZS?locations=TZ (Accessed: 10/09/2019).