

## Tax reforms in Tanzania

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

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# 5

## Tax reforms in Tanzania

Where and how are compromises negotiated?

*Marianne S. Ulriksen, Lucas Katera, and Jamal Msami*

### 5.1 Introduction

The then Tanzanian Finance Minister, Dr Phillip Mpango, caused uproar in Parliament when he proposed, during the presentation of the 2016/2017 budget, ‘the amendment of the Income Tax Act, Cap 332, with a view to removing income tax exemptions on MPs’ gratuity in order to promote equity and fairness in taxation.’<sup>1</sup> The Members of Parliament from both sides of the floor ‘were not ready to accept the idea.’<sup>2</sup> And they were not the only ones to get upset that June of 2016. The government proposed a range of tax reforms targeting a wide variety of taxpayers, thereby setting in motion protests and attempts to revert the reform proposals. Hence, the spate of tax reforms was a unique opportunity to study the subsequent revenue bargaining between government and different revenue providers, allowing us to explore questions such as how and where are revenue providers engaging with the government around tax reforms, does the government at times compromise on its initial proposal, and what are the micro-level fiscal contract outcomes?

We selected four cases where we, based on the theoretical framework in [Chapter 2](#), assumed that revenue providers and government would engage in negotiations over tax reform (see [Msami et al., 2022](#)). The cases are: the MPs who saw taxes introduced on their retirement benefits; the security forces whose duty-free shops were abolished; the tourism sector, which ceased to benefit from VAT exemptions on services offered; and the transport sector, where VAT was imposed on auxiliary services. Because the theoretical framework in [Chapter 2](#) does not theorize where and how the bargaining processes

<sup>1</sup> See Tanzania’s *The Citizen* newspaper: <https://www.thecitizen.co.tz/tanzania/news/national/mps-gang-up-against-taxation-of-their-send-off-package-2558092> (accessed 16 June 2022).

<sup>2</sup> *Ibid.*

actually unfold, we explore *how* targeted revenue providers and government<sup>3</sup> engage in negotiations; that is, what *strategies* are used to convince/win over the other party. Furthermore, we contribute to the taxation literature by studying the role of institutional settings—what we term *arenas*—in facilitating bargaining. We identify three arenas where revenue providers and government actors engage in bargaining: public, bureaucratic, and political. Findings from our fieldwork (see [Msami et al., 2022](#) for the full in-depth analysis) suggest that the public arena comprises few institutionalized spaces for dialogue, which makes engagements between revenue providers and government conflictual and compromise unlikely. Instead, in the bureaucratic and political arenas, where more formal and informal institutions allow for structured, repeated, and trusted relationships to develop, the revenue providers are more likely to push the government to compromise on the initial tax proposal. Hence, fiscal outcomes of revenue bargaining may be less than originally anticipated in policy proposals, although tax reforms also trigger better organization of revenue providers and the building of relationships between state and societal actors.

## 5.2 Arenas and strategies of revenue bargaining

The (re-)introduction of tax by government can cause initial protests and reactions from revenue providers (see [Chapter 1](#)). However, as Moore (2007, 16) argues, ‘any realistic understanding [of the tax bargaining] processes requires that we go beyond the initial reaction to taxation of each type of actor and take into account the ways in which they then interact, whether conflictingly, cooperatively, or in more complex ways’. The nature of these interactions is informed by institutions, which the taxation literature notes as crucial in forming revenue bargaining. [Levi \(1988\)](#) argues that institutions can facilitate bargaining by reducing transaction costs and enabling less confrontational forms of bargaining. [Prichard \(2015\)](#), in his seminal contribution on contextual factors shaping tax bargaining, highlights how institutions shape the feasibility of tax bargaining by allowing taxpayers to engage with government in constructive ways. Essentially, institutions—such as effective parliamentary processes, forums of engagement, and informal relations based on trust and bargaining—are *spaces for dialogue* where compromises

<sup>3</sup> Although we consistently refer to the ‘government’ in this chapter, we understand the government within the political settlement approach to consist of the inner circles around the president, that is, the ruling elite.

can be reached. Conversely, if there are ‘few spaces for dialogue . . . tax bargaining is likely to be comparatively confrontational’ (Prichard, 2015, 75).

The cited contributions all emphasize how institutions can facilitate less confrontational interactions between revenue providers and government, and hence it is hardly surprising that taxation scholars and practitioners explore ‘how taxpayer engagement may be strengthened by supporting safe, secure and sincere forums of engagement’ (van den Boogard et al., 2022, p. 10). However, even if forums of engagement could be strengthened, there are already spaces for dialogue within which revenue-bargaining processes are ongoing as our four cases exemplify. Consequently, we need a better theoretical conceptualization of the different institutional settings that facilitate bargaining between actors.

To complement the taxation literature, we therefore draw on contributions from the pluralist tradition<sup>4</sup> and the organizational management field. Within the pluralist tradition, a growing body of literature focuses on interest groups’ access to and influence over public policy with specific attention to institutional *arenas* and choice of strategies, although primarily in western liberal democracies (Beyers, 2004; Binderkrantz, 2005; Kriesi, Tresch, and Jochum, 2007; Binderkrantz, Christiansen, and Pedersen, 2015; Binderkrantz, Pedersen, and Beyers, 2017; Halpin and Fraussen, 2017; Crow, Albright, and Koebele, 2019; De Bruycker, 2019). The organizational management literature looks not at tax policy per se but rather at organizational responses to institutional pressures of various kinds, with focus on the settings for and strategies of negotiations (Oliver, 1991; Levy and Egan, 2003; Demil and Bensedrine, 2005; Hargrave and van de Ven, 2006; Aaltonen and Sivonen, 2009). As should become clear in the following, these contributions help us distinguish between different types of institutional settings and the variety of strategies used in influencing policy reforms, which in turn inform our analysis of revenue-bargaining processes in Tanzania.

To influence policy decisions, interest groups—in our case revenue providers<sup>5</sup>—need to gain access to key political institutional settings. Binderkrantz et al. (2017) speak of a political arena including the parliament, the administration, and the media. Although they are all defined as being within a political arena, Binderkrantz and colleagues acknowledge in other work (2015, 100) that there are important distinctions: the bureaucracy is a

<sup>4</sup> Going back to scholars like Arthur F. Bentley, *The Process of Government* (1908), and Roald A. Dahl, *Who Governs* (1961), the tradition explores how policymaking involves a plurality of actors and groups in society.

<sup>5</sup> Revenue providers may not be organizations but can be individuals such as MPs. However, in most cases, revenue providers are, or organize themselves into, organizational structures.

‘predominant[ly] insider arena, where political decisions are prepared and implemented’, the parliament is an arena that is ‘more open’ and important for ‘decision making’, whereas the media ‘is the most public arena.’ These arenas vary from publicly visible arenas (the media) to less visible arenas (the bureaucracy), with corresponding different sets of strategies (ibid.). From the perspective of the political settlement approach, the concept of arena is useful as it implies a set of institutions that *facilitate* bargaining while also emphasizing that actors in the arenas have different positions of power. The relative bargaining power of actors, also termed *holding power*, is shaped by actors’ economic, organizational, or other resources (see [Chapter 2](#)).

The less visible, closed arenas require ‘access’ ([Beyers, 2004](#)) or ‘direct’ ([Binderkrantz, 2005](#)) strategies whereby interest groups engage policy- and decision-makers in institutionalized and regular forums with opportunities for sharing information, providing expert input, and lobbying to affect policy formulation and revision. While gaining access is not the same as influence ([Binderkrantz, Pedersen, and Beyers, 2017](#); [Halpin and Fraussen, 2017](#)), the ability to influence policy is greatly improved when interest organizations are at the ‘negotiating table’ ([Demil and Bensedrine, 2005](#)) and have ‘relative bases of power’ vis-à-vis the decision-makers ([Hargrave and van de Ven, 2006](#), 880). Hence, if interest organizations can access the less visible arenas and have the necessary resources, they may be able to pursue strategies leading to government concessions. In the organizational management literature, it is termed a *compromising strategy*, which entails ‘[n]egotiating with the stakeholders, listening to their claims . . . offering possibilities and arenas for dialogue, [and] making reconciliations and offering compensation’ ([Oliver, 1991](#); [Aaltonen and Sivonen, 2009](#)).

The visible and public arena requires instead ‘voice’ ([Beyers, 2004](#)) or ‘indirect’ ([Binderkrantz, 2005](#)) strategies where influence on policy is sought in more indirect ways such as by gaining the attention and interest of policy- and decision-makers through the media. The media is not a forum of engagement where one can go into detailed scrutiny and dialogue about technicalities and feasibilities of policies. Instead, the media can serve as a ‘megaphone for advocacy groups’ ([De Bruycker, 2019](#), 105), where groups can reach an audience beyond their core constituency to signal broad sympathy that may affect the views of policy- and decision-makers. The media can therefore advocate for a cause and may be a platform to share information. However, media presence can backfire if the coverage is negative. There is, furthermore, some indication that media attention is insufficient to influence policy ([De Bruycker, 2019](#)). If it is difficult to gain access to the closed arenas, the public arena can be an avenue to stage protests to attract attention, although this strategy can

also cause or expand conflict and thereby increase the costs of seeking policy influence (Beyers, 2004; Crow et al., 2019). Additional insights from the literature are that interest groups use multiple strategies, and that access to one arena can spill over to another arena (Kriesi et al., 2007; Binderkrantz et al., 2015).

These theoretical insights of negotiations and policy influence across distinct arenas and following a variety of strategies can be transferred to our context with a few amendments. We need to be cognisant that Tanzania, during the fifth government (2015 – 2021), was characterized as a poor electoral autocracy with weak institutions, limited political competition, and restricted civil freedoms. Consequently, the parliament as an arena may not be as open as suggested by the pluralist tradition, the bureaucracy may not have the same institutional capacities as assumed in the organizational management literature, and use of the media may be viewed more as a strategy to increase conflict than as a space for open and free exchange of opinions. Following this, we suggest distinguishing between three arenas for revenue bargaining: a political arena (i.e. cabinet, parliament, party committees), a bureaucratic arena (i.e. ministries, government agencies), and a public arena (i.e. media, rallies). The first two are considered closed arenas that are difficult to access but with better opportunities for productive bargaining, whereas the latter arena is open but has fewer opportunities for revenue providers to influence policy change.<sup>6</sup>

This distinction follows the taxation literature that emphasizes the importance of having arenas that provide spaces for dialogue and where bargaining is structured, manageable, and ‘mutually beneficial’ (Moore, 2004, 300). If there are fewer spaces for actual—trustful—dialogue, the engagement is likely to be more conflictual, and it will be harder to reach a compromise (Prichard, 2015; van den Boogard et al., 2022). The former scenario is likely to materialize if revenue providers gain access to the political and bureaucratic arenas, which are relatively closed but also more regulated and institutionalized forums for exchange and information sharing. In such contexts, the stakeholders can present their arguments, have dialogue, offer (overt or covert) compensation, build relationships, and together develop mutually beneficial solutions. Hence, there is a potential to create an environment for structured and amicable negotiations, even if disagreements remain, and revenue providers may be able to convince the government to change the initial policy proposal.

<sup>6</sup> One could also expect an arena based on personalized relationships to the president. We have left this out of the analysis, as it is difficult to study and to discern any clear findings.

Conversely, in the public arenas, where stakeholders engage at open meetings/rallies and/or through the media, there are few facilitating institutions, and we therefore expect that the engagement will be more conflictual, based on strategies of protesting, stating demands, and blaming the other party. With no structures for dialogue, there is little room for fruitful engagement in building relationships and sharing information. However, if the parties recognize the need to reach an agreement, there may be attempts to offer dialogue by moving the bargaining in the direction of a mutually trusted institutional set-up, most likely in the political and/or bureaucratic arenas. If bargaining remains in the public arena, strategies continue to be conflictual, and the other party is openly blamed and criticized, bargaining may stall.

Furthermore, the ability of the revenue provider to act collectively will affect the extent to which they can put sufficient pressure on government to change the original policy proposal. If the revenue provider, as a collective, is not organized enough to speak with one voice, the government is met with an array of different voices, carrying different demands, often in a public domain as each voice is struggling to be heard. This increases the risk that the government will back off or only negotiate with the part of the group with preferences close to itself. This may be an incentive for the revenue provider—facing the threat of a costly policy—to become organized in order to engage better with the government (Demil and Bensedrine, 2005). The revenue-bargaining process is therefore highly dynamic, and the government's push for tax reform may drive revenue providers to build organizational capacity and create negotiating relationships where there were none before.

To sum up, we expect stakeholders to employ strategies that range from amicable, low-key, and closed-door negotiations in the political and bureaucratic arenas to conflictual, ostentatious, and open bargains in the public arena. In the latter case, revenue bargaining is unlikely to lead to compromise. Thus, if revenue providers want the government to give concessions, they are best placed to pursue bargaining in the bureaucratic and political arenas where there are more institutionalized spaces for dialogue. In cases of compromise, we consider this outcome to be a micro-level fiscal contract defined as an agreement between the government and revenue providers related to revenue provision (see Table 2.1, Chapter 2).

### 5.3 Incidences of revenue bargaining

In the following, we present the analysis of four micro-incidences of revenue bargaining in Tanzania, focusing on the institutional settings of bargaining

(*arenas*) and the strategies applied by the negotiating parties.<sup>7</sup> The four cases were selected among different potential revenue providers that the Tanzanian government targeted in 2016 when a range of tax reforms were introduced. Each case study explores the different arenas in which interactions between the government and the revenue provider take place and investigates the strategies pursued by the stakeholders. All case studies cover the period from shortly before the tax reforms were announced in mid 2016 through to the end of 2017. The cases are informed by about thirty specifically targeted interviews with both revenue providers and government officials during 2017 and 2018. These primary data are supplemented by news information, government reports, other documents provided by stakeholders, as well as the authors' in-depth knowledge of Tanzania.

In accordance with the theoretical framework established in [Chapter 2](#), the selected cases are scenarios where the government and revenue providers are assumed to have relatively equal bargaining power. The revenue provider (be it an individual, a group of individuals, or a company) would have strong resources due to either its economic strength (fiscal importance) or its political position (organizational importance), but not both. Two cases—the transport and tourism sectors—represent revenue providers that have relatively limited ability to support the ruling elite's position of power (organizational importance) but are major contributors to the Tanzanian economy (fiscal importance). The other two cases—MPs and the security forces—represent revenue providers of high political importance to the ruling elite (organizational importance) but with limited fiscal importance.

Table 5.1 summarizes the four cases. The tourism and transport sectors are characterized by a mix of international and domestic companies of varying sizes, and both sectors are of relatively limited political importance to the ruling elite. Although some actors in the two sectors have close contacts to the ruling elite (see for instance [Rizzo, 2017](#)), the two sectors as a whole cover a diversity of small and big companies with occasionally conflicting interests. Both sectors are of considerable fiscal importance to the ruling coalition as they are central for domestic production and employment and therefore have high revenue potential. Whereas the sectors have relatively low political weight, their fiscal importance thus ensures them a relatively strong bargaining position vis-à-vis the government. The two sectors vary on an important aspect, which we expected to matter for the strategies that stakeholders choose: the nature of collective action. Whereas the tourism

<sup>7</sup> For the full in-depth empirical analyses, including elaborate references to material and interviews, see [Msami et al. \(2022\)](#).



**Table 5.1** Revenue-bargaining cases

Revenue provider	Type of tax reform	Organizational 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 organized and mobilized with a main umbrella organization
Transport sector	VAT on auxiliary services at Dar es Salaam Port	LOW: Mix of international and domestic companies, with limited political connections	HIGH: Backbone of the economy. Revenue potential substantial	LOW: Organized in small associations that each pursue diverging interests
Members of Parliament	Tax on gratuity payment	HIGH: The majority part of the inner circle or the broader ruling coalition	LOW (but of symbolic significance)	LOW(-ish): Small group of resourceful individuals, opposing political positions
Security forces	Abolishment of duty-free shops	HIGH: Military part of ruling coalition	LOW: Small tax base	HIGH: Clearly defined, resourceful, and hierarchical collective

sector is well organized under the umbrella of the TCT (Tourism Confederation of Tanzania), the transport sector has traditionally been organized in sometimes competing subsectors. Hence, the former is able to speak with ‘one voice’, whereas the latter is not.

Our two cases of revenue providers that are of political importance to the ruling elite are the MPs and the security forces, which were also targeted by the tax reforms in 2016. These taxes were not expected to raise substantial revenue relative to many other revenue sources, implying the limited fiscal importance to the ruling elite. Although MPs and the security forces are central to supporting the ruling coalition (of high organizational importance), they are organized differently as collectives. MPs meet in the same physical space, are easily mobilized, and have the means to create noise and put pressure on the cabinet. However, given that the Tanzanian Parliament is strongly divided between ruling party and opposition party members, it is unlikely that they can find a common voice and organize as one coherent collective. The security forces, on the other hand, comprise a large organization with centrally placed, high-level officials who may be in, or close to, the inner

political circles. Additionally, as the force is—by its very nature—a hierarchical and secretive organization, it is expected to be well organized and have a powerful leadership (Therkildsen and Bourgouin, 2012). Thus, from a collective action perspective, the security force can speak from one common preference position.

In sum, the four cases shared the experience of being targeted by the government in the 2016 tax reforms. The tourism and transport sectors faced the introduction of VAT payments, MPs' gratuity payment was taxed, and the security forces' perk of duty-free shops was abolished. The stark surprise of being targeted for tax payments triggered immediate reactions from the revenue providers (except the security forces) and set in motion a bargaining process.

### 5.3.1 The tourism sector

Before the 2016 tax reform proposal, the main arenas in which discussions took place between the government and the tourism sector were the political and bureaucratic arenas during the national budget processes and through the parliamentary standing committee responsible for tourism. The tourism sector, represented by the Tanzania Private Sector Foundation (TPSF) and TCT (Tourism Confederation of Tanzania), was able to lobby for a continuous VAT exemption to the sector.

It was therefore a surprise when the Minister of Finance announced the introduction of VAT during the budget session of 2016/17 in June 2016. 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, the tourism sector stakeholders sought to revoke the decision. In the lobbying process, the members of the TPSF met formally with the standing committee and informally with some members pushing their case. Despite efforts by the TCT and other tourism stakeholders, under the umbrella of the TPSF, the government went ahead with its decision.

After the introduction of VAT and the endorsement by Parliament, the main forum of exchange moved to the public arena, and the bargaining became antagonistic. The tourism sector used the media to make their case and drum up popular support (*The Citizen*, 2016a). It claimed that it was not unwilling to pay taxes but argued that the introduction of VAT would have an adverse effect on its competitiveness. The government used the media to

tarnish the tourism sector's reputation by saying that they did not want to pay taxes (*Daily News*, 2016). The debate in the media became heated, and parts of the tourism sector acknowledged that constantly attacking the Ministry of Tourism in the newspapers was not constructive. The President closed the debate by saying that the VAT would stay, even if it affected the number of tourists visiting Tanzania negatively (*The Citizen*, 2016b).

Later in 2016, TCT continued to push the government to reconsider reversing the decision. This time, the TCT wrote to the Minister of Tourism to ask for a meeting to discuss the case and reach a mutual understanding. While the government accepted this meeting, it never took place. However, the tourism sector continued to reach out and sought to establish dialogue with the budget committees and other stakeholders like Tanzania Revenue Authorities (TRA) by travelling from Dar es Salaam to the capital, Dodoma. In the first half of 2017, the TCT was invited 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. Persons we interviewed in the sector (see *Msami et al.*, 2022) explained how the presentation of material and evidence-based advocacy opened dialogue at the formal meeting as well as more informal conversations with parliamentarians wanting to know more. These kinds of dialogues in which different stakeholders in the sector engaged with the government were instrumental in the considerations to remove some of the taxes in the sector from the financial year 2017/18.

Table 5.2 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 organizations representing the tourism sector were amicable and took place in formal institutions such as the budget and parliamentary committees. However, the government's announcement to introduce VAT surprised the sector, and bargaining moved to the public arena and turned more conflictual. Despite pressure through media stories, the government did not change its mind. Over the following months, the tourist sector re-engaged with government officials in the political arena, which allowed them to present their case and plea for a reconsideration of how the VAT was implemented. The government did not waive the VAT but offered a compromise by specifying that tax authorities would not impose VAT on licences and fees, which they had done since the VAT was introduced. Hence, the bargaining ended with a micro-level fiscal contract, although the revenue outcome was lower than initially anticipated, as the government waived some VAT payments by the sector.

**Table 5.2** 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. writing to minister asking for dialogue (although meetings did not materialize)	⇒ 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 and influence:  Strategies by tourist sector: <ul style="list-style-type: none"> <li>- engage with different stakeholders in Dodoma (build relationships)</li> <li>- share information on importance of and impact on the sector</li> <li>- question legality of VAT implementation</li> </ul> Strategies by ruling elite: <ul style="list-style-type: none"> <li>- listen and offer dialogue (budget committee)</li> <li>- bring in other government stakeholders</li> </ul>	⇒ Clarification: no VAT on licences and fees

### 5.3.2 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. Given the various subsectors, organizations, and companies that comprise it, the sector as a whole is not always well organized.<sup>8</sup> As in the tourism sector, the government introduced tax reforms that affected the transport sector.<sup>9</sup> In addition to the sector's non-participation in the decision, the timing and the expected hasty implementation of the reforms 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 mobilize a coalition against the tax reforms. In addition to reducing the volume of imports and transited cargo, the reforms precipitated a price war among transporters as the transited cargo sector struggled to remain operational. Increased licence fees forced the closure of many small and medium-scale transporters. Thus, while the industry continued to portray a collective and cohesive external front, there were internal disagreements.

Upon learning of the reforms on 1 July 2016, one of the sector's representatives, the Tanzania Association of Transporters (TAT), convened a series of meetings with members, clients, and affiliates—including the freight forwarders' association (TAFFA) and the truck owners' association (TATOA)—to establish the scale of likely impact, a common position, and a strategy for engaging the state to address their concerns. Of primary concern was the maximum time an importer had to clear their goods without incurring 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: request a moratorium on new charges and petition for an increase in maximum allowable time to clear goods from the revised 14 days to at least 90 days.

The establishment of a sectoral common position on the reforms provided the TAT with a mandate to find a compromise with the authorities. However, a supporting coalition had to be established 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 against the government. TAT was forced to rely on informal approaches to present its initial case, which involved direct but discreet personal appeals by one of its members to the

<sup>8</sup> For an interesting account of the limitation of collective action in the transport sector, see [Rizzo \(2017\)](#).

<sup>9</sup> For details on the tax reforms see [Msami et al. \(2022\)](#).

minister and his permanent secretary. It was also indicated in interviewees that these meetings involved exchange of money for support. Thus, the TAT was forced to co-opt the ministry, which then guided it in how to engage with the powerful budget and transport parliamentary standing committees. The TAT also claimed that it 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 the TAT to establish a powerful coalition of actors capable of heaping and sustaining pressure on the treasury. One of the coalition's first acts was large-scale awareness-building of the adverse effects of the reforms on the transport sector. This was done in collaboration with the TAFFA and the TPSF. Awareness-building occurred through media briefings, interviews on national print and digital media, as well as audio and television—with multiple appearances by the TAT's top officials. Through its members and networks, the TAT succeeded in influencing the national media to publicize its cause adequately. A key element in its media strategy was that ordinary Tanzanians would lose their jobs due to loss of business and decline in import volumes. The TAT's message was simple: the reforms were hurting national livelihood and pride. This did strike a chord with the authorities as they moved to reassure the public and neighbouring landlocked countries of the viability of the port of Dar es Salaam.

In March 2017, the TAT, along with other members of the TPSF, was 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, only the TAT and the tourism lobby were given substantial time to present their cases, mainly because they—through their media engagements in the public arena—were at the forefront in complaining about the introduction of VAT, which would reduce their competitiveness and affect the national economy due to loss of jobs and revenues. It appears that the return to the political and bureaucratic arenas in which the TAT could present details on the implications of the VAT to the sector caused the government to waive VAT charges on ancillary services, and the 2017/18 Finance Act passed in July 2017 confirmed the revisions of the reforms sought by the TAT.

Summing up (see Table 5.3), the introduction of VAT and other tax charges came as a surprise to the transport sector. Initially, the sector was poorly organized and lacked a unified voice in its interactions with the government, but the tax reform prompted the sector to organize 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 via a successful

**Table 5.3** Summary of the transport sector case

Sequence/ timeline	Arenas	Strategies	Policy outcome
At announcement (July 2016)	Introduction of tax a surprise ⇒ no access to political arena		
Right after announcement (July–Sept 2016)	Gaining access to bureaucratic arena	Sector establishes internal collaboration and buys access to side-lined ministry	
Sept 2016–Mar 2017	Public arena	Awareness-building in the media	
Nov 2016–June 2017	Increased access to political arena (invited by treasury)	Direct negotiation in discreet meetings	⇒ waiving VAT charges on ancillary services

public campaign in the news media. Thus, a micro-level fiscal contract was reached, although the government would receive less revenue than initially anticipated.

### 5.3.3 The members of parliament

The ruling party, CCM (Chama Cha Mapinduzi—‘Party of the Revolution’), has since the inception of multi-party elections in 1995 accounted for 71–93% (currently about 93%) of MPs. The opposition, comprising four political parties, has largely presented itself as a unified block to counter its minority position. In June 2016, as part of the government’s push to reform the tax system, the government proposed to waive tax exemptions on MPs’ gratuities, meaning that MPs would pay 30% in tax of their gratuity payment at the end of their five-year term. This case study documents the revenue bargaining following the tax proposal, which led to a compromise: waivers of exemptions on gratuity payments would be a 5% levy (rather than 30% tax), and it would take effect in 2020 after the end of the current parliamentary term.

Stakeholders involved in gratuity tax reforms were adamant that the bargaining outcome represented a poor compromise, with major concessions given by the government. Apparently, 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 multi-party representation, the government had to disguise these attempts at weakening parliamentary democracy by imposing the tax

on the ruling party's own MPs. This caused cross-party mobilization against the tax, with MPs on both sides of the political divide adopting creative strategies to agitate against reforms.

The MPs realized that they could not easily find strong popular support due to past public opposition to hikes in MPs' salaries and gratuity payments, first in 2009 and then in 2014. Consequently, MPs sought to influence public opinion more discreetly in two principal ways: CCM MPs emphasized that their gratuities and allowances provided out-of-pocket assistance to their constituents, whereas 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 the Prime Minister.<sup>10</sup> While the former strategy sought to highlight the productive uses of gratuities and the burden facing individual MPs, the latter challenged the reach and legitimacy of the reforms. These measures backfired, however, as the president revealed his earnings and indicated his willingness to be taxed. Riding on a wave of favourable public opinion, the president 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 the proposed reforms.

Not be deterred, MPs enlisted the support of the powerful religious and civil society community, keenly aware of the mobilization powers of mainly religious bodies, owing to their contribution to social services as well as the strong religious values of the Tanzanian society. The head of the powerful parliamentary budget committee offered concessions to religious groups by suggesting a revision of proposed tax rates to the groups in return for their support in fighting the gratuity tax reforms. Facing the prospect of an undesired alliance between MPs and civil society, the government swiftly moved to placate religious groups by proposing a maintenance of exemptions for the religious and civil society community.

This left MPs in a difficult position, unable to mobilize 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. The president Magufuli retaliated by threatening the use of constitutional powers to bypass Parliament and/or dissolve it and call a general election. Within CCM, senior figures were wary of the financial and political consequences of fresh elections and appealed to the council of elders, consisting of past party chairmen and secretary generals, who helped convey a message to the president for a

<sup>10</sup> <https://en.igihe.com/news/tanzania-leaders-gratuity-for-income-tax>; <https://www.ippmedia.com/sw/makala/wabunge-ccm-walivyogeuka-mbogo-kodi-ya-kiinua-mgongo>.



negotiated compromise. This was reached with a downward revision of the tax rate from 30 to 5%, rescindment of intended tax reforms on allowances, and postponement of application of taxes until 2020.

In sum (see also Table 5.4), MPs were not able to speak with one voice, even though the majority was against the tax reform. Engaging with the political leadership in the public arena, both CCM and opposition MPs were confrontational but used different arguments to appeal to the public. However, the strategy of using media stories backfired when the President proved unwilling to make any concessions. Moreover, an attempted alliance with civil society organizations proved unsuccessful. In the end, it was 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's inner circles were decisive in enabling MPs to push the president to soften his initial stand. Once again, as with

**Table 5.4** Summary of the MP case

Sequence	Arena	Strategies	Policy outcome
Initial proposal (2016)	Public arena	Use of media <ul style="list-style-type: none"> <li>– CCM MPs emphasize their out-of-pocket assistance to constituencies</li> <li>– Opposition MPs challenge for reform to be extended to others in the ruling elite</li> </ul> President retaliates in media to get public support	⇒ No change
Latter half of 2016	Public/political arena	MPs seek alliance with civil society, i.e. religious groups (possibly due to strategic political positions/knowledge) Government makes separate agreements with religious groups	⇒ No change (but for civil society maintenance of exemptions)
First half of 2017	Political arena	Overt: threat to reject finance bill Covert: Key CCM members seek to convince President to give concessions	⇒ Government gives concessions, although policy remains (5% instead of 30%, and by 2020)

the tourism and transport sectors, a micro-level fiscal contract was reached, although the government compromised its initial stand.

### 5.3.4 The security forces

The army, police, and prison forces comprise a large share of civil servants in Tanzania, and the forces are strong politically because their devotion to national service and national security is considered very important (URT, 2016). The security forces had been benefitting from duty-free shops operating at the Tanzania Peoples' Defence Force, Police and Prisons' barracks and selling a range of products, both durables and non-durables, at prices that excluded both VAT and excise duty. Legally, only members of the Tanzania Peoples' Defence Force, Police Force, and the Prison Service had access to the shops, but misuse was widespread, causing loss of government revenue. In addition, it is claimed that senior officials sold goods from the duty-free facilities in other shops at cheap prices in unfair competition with other traders paying VAT. This behaviour created difficult business environments for those complying with the tax laws.

There were persistent public complaints about the misuse of duty-free shops, and the business community criticized the unfair competition.<sup>11</sup> Concurrently, in its preparation of the 2016/17 budget, which was characterized by VAT reforms in many sectors, the government saw an opportunity to reform the tax exemptions of duty-free shops and announced removal of the exemptions for the financial year 2016/17. Compensation was introduced in the form of an additional salary payment, a flat rate of TZS 100,000/month to all soldiers regardless of rank. This amount was expected to cover the costs of taxes that army members now had to pay in the shops. According to the Minister of Finance and Planning during the budget speech of 2016/17, the government considered this the best targeting mechanism while also avoiding misuse.

It is difficult to fully detect what happened, but it is probable that this case involved a *pre-emptive* concession by the government to counter possible opposition to the tax. Arguably, there was also informal bargaining between government and top-level officials in the security forces, who may have been more interested in a solution benefiting the forces broadly. At least, it is interesting to note that lower-level members of the security forces were positive about the new compensation scheme, whereas mid-range senior officials

<sup>11</sup> <https://www.thecitizen.co.tz/tanzania/news/national/no-more-tax-exemptions-for-military-shops-2557650>

**Table 5.5** Summary of the security forces 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 on its own	⇒ 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

were more critical (Msami et al., 2022). Perhaps this is not surprising, as a flat payment would be proportionally more lucrative at lower salary levels.

To sum up (see also Table 5.5), the general move by the government to reform the tax system as well as public concerns about the misuse of duty-free shops urged the government to remove tax exemptions. However, the security forces are clearly of such political importance that the government pre-empted any upsets by introducing a compensatory scheme despite the financial implications for tax mobilization. While senior officials decried the changes as they had been benefitting disproportionately from the exemptions, their influence did not counter possible agreements made between top-level officials and the government or the general support for the new scheme among low-level members in the security forces. In addition, the public arena was not a place for engagement between revenue provider and government as they had other arenas for dialogue. Instead, public debates gave the government's tax reforms some legitimacy as it made the government appear proactive in dealing with a widely recognized problem. 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.

## 5.4 Case comparison and conclusion

In this chapter, we contribute to the understanding of how and when revenue bargaining leads to direct government concessions, and we have an

**Table 5.6** Arenas, strategies, and likelihood of government concession

Arenas	Strategies	Possibility for government concession
Public arenas, e.g. media, civil society	<ul style="list-style-type: none"> <li>– Appeal to public opinion</li> <li>– Seek public legitimacy</li> <li>– Seek alliance with civil society organizations</li> </ul>	<p>Bargain open and often conflictual</p> <p>⇒ unlikely that government bends but can lead to access to other arenas if case has public legitimacy and appeal</p>
Bureaucratic arenas, e.g. line ministries	<ul style="list-style-type: none"> <li>– Create alliance with ministry/ department through common interest and/or by paying for access</li> </ul>	<p>Can indirectly lead to policy change as revenue provider gains useful knowledge and points of access to present and argue their case</p>
Political arenas, e.g. committees, task forces, Parliament, internally in parties	<ul style="list-style-type: none"> <li>– Present case in meetings</li> <li>– Negotiate directly with decision-makers</li> <li>– Build relationships over time</li> </ul>	<p>If revenue providers want the government to give concessions, best achieved by gaining access to the political arena</p>

illustrating case of pre-emptive concessions (that of the security forces). Both outcomes of revenue bargaining are under-studied in the taxation literature (Prichard, 2015). It is 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 (immediately following the introduction of taxes in 2016). Furthermore, we explored the micro-level interactions of revenue providers and government in the search for likely strategies pursued by the parties, which again depended on the arena in which bargaining takes place (see Table 5.6).

Public arenas provide for open engagement where legitimacy and alliances with the public are sought in order to pressure the other party. However, as there are fewer spaces for dialogue—institutionalized relations based on trust—the engagement, and any bargaining, will often remain conflictual, and it is unlikely that the government will compromise (e.g. in the cases of the MPs and the tourism sector). However, at times the media is useful for public sensitization and building of popular support (as in the transport sector case), and through such media strategy revenue providers can (re)gain access to the bureaucratic and political arenas.

In closed institutional settings in the political and bureaucratic arenas, revenue providers can benefit from access to key committees and other formal forums. Here, direct negotiations, knowledge sharing, and relationship

building seem to be good strategies for revenue providers opposing tax policy changes, particularly if they are organized to speak with one voice. Hence, the government's push for tax reform may drive revenue providers to build organizational capacity<sup>12</sup> and create negotiating relationships where there were none before. In addition to gaining access to formal forums, the informal relations that the negotiating parties establish with one another are critical; at times, this exchange includes discreet even corrupt—engagements, such as buying access to the political arena, whereas at times, informal relations merely imply a continued and open dialogue about the proposed policy reforms.

In all our cases, the micro-level fiscal contracts constitute compromises that limited the government's revenue compared to the original policy proposals. However, even powerful groups, such as the MPs, did not get exemptions, which is otherwise found to be a common outcome of revenue bargaining in Africa (see [Chapter 13](#)). Nor are the contracts examples of 'exchange' where revenue providers get something in return for paying tax, which is the expectation in the traditional taxation literature (see [Chapter 1](#)). Instead, the revenue providers' achievement in the bargaining was a lower level of tax than originally proposed. So, the government and the revenue providers reached a compromise, which constitutes a micro-level fiscal contract as defined in this book: 'an explicit or implicit agreement between ruling elites and revenue providers related to revenue provision' ([Chapter 1](#)). However, the processes of reaching these compromises have wider implications. The cases constitute examples of continued engagements between revenue providers and government actors where reciprocal relations are building as the parties become responsive to each other and engage in repeated negotiations based on understandings of mutual obligations. The case studies also show that even if ruling elites still hold power partly based on clientelistic networks, formal institutions such as the parliamentary committees are arenas where policies are negotiated, debated, and made. The late President Magafuli centralized decision-making during his period in power (2015–2021) and was known as a no-nonsense leader ([Cheeseman et al., 2021](#); [Paget, 2021](#)); but even he could not push through the proposed tax reforms in their original form as revenue providers mobilized, organized, and bargained for a compromise.

<sup>12</sup> See also [Chapter 6](#) on how business associations created alliances to better influence the 2014 VAT Act in Tanzania.

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