U4 Expert Answer

Designing a Taxpayer Baseline Survey in Uganda

Query:

"The Uganda Revenue Authority (URA) is developing an Integrity Enhancement Plan (IEP) to tackle corruption within the organisation. They wish to conduct a baseline survey against which progress can be measured. The proposal is for URA to contract an independent research team to conduct an anonymous taxpayer survey which will gather data on taxpayer perceptions of the integrity of URA officials and information on the incidence of corruption. We do not want to recreate the wheel. So I would like to know whether other revenue administrations in Africa or indeed elsewhere have conducted such surveys from which the URA can learn lessons? What indicators have other public sector organisations used to measure improved integrity?"

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Purpose:

"We are one of a basket of donors funding the URA's Modernisation Programme of which the IEP is one output."

Content:

- Part 1: Context of Corruption in the Uganda Revenue Authority (URA)
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Part 1: Context of Corruption in the Uganda Revenue Authority (URA)

Tax systems in developing countries are often characterized by widespread corruption and tax evasion. Since the beginning of the 1990s, comprehensive tax administration reforms have been implemented in a number of African countries to increase state capacity to raise revenue and address corruption in this sector. Uganda has been one of the first countries to introduce a major reform of its tax administration system with the formation of a semi-autonomous revenue authority, the Uganda Revenue Authority, in 1991. The establishment of the URA was meant to address a series of problems that had been identified in various reports as the main reasons for the poor state of the tax administration, including tax evasion among the tax payers, low levels of public sector salaries, poor working conditions and incentives as well as a low probability of corrupt practices to be detected and adequately sanctioned. Although these reforms have had a positive impact on tax revenue as well as corruption in the early years of their implementation, the URA seems to have been unable to sustain its early successes. Odd-Helge Fjeldstad provides an in-depth analysis of the impact of these reforms on corruption in "Corruption in tax administration: Lessons from institutional reforms in Uganda" (http://www.cmi.no/publications/file/?2037=corruption-in-tax-administration).

State of Corruption in the URA

Studies and surveys carried out in recent years tend to indicate that corruption and tax evasion are on the rise again at all levels of the URA. According to the taxpayers interviewed, there also seems to be an increase in the number of tax collectors *openly* demanding bribes in their dealings with tax payers. A household survey carried out in 1998 indicates that the URA is perceived as being comparatively a corrupt institution, worse than health services and local government (http://www.ciet.org/en/documents/projects_library_docs/2006223144324.pdf). In a survey of 243 firms conducted by the World Bank and the Private Sector Foundation in 1998, one in four of the audited firms reported incurring additional costs such as bribes and 43 % said they were occasionally or always paying bribes to tax officers. (http://citeseer.ist.psu.edu/cache/papers/cs/26044/http:zSzzSzecon.worldbank.orgzSzfileszSz3177_wps2735.pdf/gauthier01shifting.pdf).

Corruption appears to be especially prevalent at the managerial level. In 2003, for example, five senior officers attached to the Large Taxpayer Department were involved in a major corruption scandal. Asset declaration measures were introduced in 2002 for all URA staff members as an attempt to address this situation. The initiative faced major implementation challenges that led to very limited results. A Commission of Inquiry of Corruption in the URA was also appointed by the Government the same year. The Commission produced a much delayed and debated report two years later whose legality was questioned by Members of Parliament. The report was ultimately nullified by the High Court.

Major Causes of Corruption in the URA

A variety of reasons explain the increased prevalence of corruption in the URA, including:

Decline of the real wages
Although relatively high nominal salaries still make the URA an attractive workplace, real wages have declined overtime due to the inflation rates which were not followed by appropriate pay rate adjustments, especially in the tax collection department. Furthermore, it is unrealistic to assume that high levels of salaries will compensate for the expected gains of indulging in corrupt practices.

Unsatisfying bonus system and incentive schemes
A bonus system based on revenue targets has been established, measured in terms of tax revenues as a percentage of the GDP. There is a growing perception among the staff that revenue targets are set unrealistically high. The failure to provide effective incentives may also have undermined the URA's performance and corruption levels.

Lack of enforcement of disciplinary measures
In the initial phase of the URA, there was an uncertainty about internal control mechanisms, risks of being caught and applicable punishments when engaging in corrupt behaviour while dismissals for corrupt dealings originally had a dissuasive impact. However, there are indications that this type of disciplinary measure is no longer as extensively used as in the initial phase. Serious cases of corruption involving high level officers are rarely investigated, the 2003 Large Taxpayer Department being an exception.

Corruption at managerial level
The prevalence of corrupt managers is further likely to have an impact on the general corruption level within the revenue authority as a whole. Corrupt managers are unlikely to demonstrate political leadership against corruption, reducing the probability for malpractices to be detected and punished as well as eroding the social stigma associated with corruption.

Political interference

The URA offers well paid jobs, relatively good working conditions and rent-seeking opportunities, making it an attractive target of political interference in the recruitment, dismissal and operations of the institution. Several instances of political interference were featured in the local media, further undermining the reputation of the URA in terms of the prevalence of corruption.

Patronage

Traditional networks of kinships or community origin also appear to be prevalent and tolerated within the URA.

Taxpayer Compliance

As a result, taxpayers lack confidence in the fairness and impartiality of the tax administration as well as in the trustworthiness of the institution. This may undermine the taxpayer's willingness to comply, and increase tax evasion behaviour, which ultimately results in increased opportunities for corrupt practices.

For further information on the state and causes of corruption in the URA, please also see: "Autonomy, Incentives and Patronage: A study on Corruption in the Tanzania and Uganda Revenue Authorities", by Odd Helge Fjeldstad, Ivar Kolstad and Siri Lange, 2003.
(http://www.cmi.no/publications/file/?1688=autonomy-incentives-and-patronage)

Part 2: Corruption Indicators Specific to the Tax Revenue Authorities

Corruption can occur at all stages of the tax administration process, in the identification of tax liabilities, the registration or removal of taxpayers, the assessment of collection of tax dues, the monitoring of incoming payments as well as in the investigations and prosecutions by the tax authorities for suspected tax offences, with an impact on the country revenue trends. For example, an in-depth survey carried out by Transparency International (TI) Indonesia in 21 cities in 2004 found that the prevalence of corrupt behaviour, such as tax officials helping tax payers' fraud practices, had an impact on tax revenue collected by the state. In conducting such surveys, selected indicators should reflect and capture the fact that the forms, levels and incidence of corrupt practices may vary across the various revenue authority departments and activities.

Perception and experiences of corruption in the tax administration

The incidence of corruption within revenue authorities can be measured by asking taxpayers directly about their perceptions and experiences of dealing with the tax administration system. Public perceptions of tax officials may suggest that they are actually indulging in corrupt practices. The World Bank goes further by increasingly focusing on capturing experiences of corruption in the various public institutions. The Enterprise Surveys, for example, specifically look at the percentage of firms for which a gift was expected in meeting with a tax inspector (http://www.enterprisesurveys.org/IndicatorDescriptions.aspx).

Although not directly assessing the prevalence of corruption within the tax administration, a variety of other indicators can suggest that corruption is taking place as well as help identify vulnerable areas.

Institutional environment related indicators

There are a numbers of indicators that could suggest that corruption could be/is actually taking place at the various levels of the tax administration process:

- **Public sector environment**. The level of corruption in tax administration is generally correlated with the administrative environment as a whole.

- **The quality of the overall revenue authority institutional environment** in terms of responsiveness, effectiveness or efficiency, for example, is also likely to have an impact on levels of corruption observed in the institution.
- **Complexity of tax laws and procedures**. The lack of clearly defined rules and regulations generates a supportive environment for abuse. TI Indonesia's survey established for example that confusing numerous tax rates were offering fraud and corruption opportunities. In Uganda, there are still an excessive number of different taxes with different rate structures that are difficult for the taxpayers to understand or give tax officials discretionary power to interpret.
- **Large numbers of exemptions and special rules** are also likely to increase the discretion of tax officials and to lead to arbitrary decisions. Numerous exemptions can also provide leverage for bribery, with taxpayers dealing personally with tax officials to discuss their personal case.
- **Monopoly and discretionary power of tax officials**. Specific geographical areas of operation allocated to single tax officials, for example, can create poorly verifiable monopoly situations and increase the discretionary power of individual tax officials.
- **Lack of monitoring and supervision** of revenue authority activities.
- **Frequency of contacts.** Frequent personal interactions between taxpayers and tax officials, especially when taxes are being assessed and collected create opportunities to develop corrupt networks.
- **Poor tax assessment and collection processes**. For example, the writing-off of tax debts without precise explanations or unwarranted deferment of taxes due could be possible signs of corrupt practices.
- **Poor monitoring of incoming payments and enforcement of payments.**
- **Inadequate tax auditing systems.** Tax officials' discretion, poor transparency or suspicious patterns in selecting audited tax payers or failure to inform tax payers of their rights and duties may also indicate the prevalence of corrupt practices.
- **Lack of effective complaint mechanism**. The lack of clearly-defined competences associated with complex legal recourse and low capacity of decision-making bodies may also increase vulnerabilities to corruption.
- **Detection and sanction of corrupt behaviour**. Such indicators include political leadership to tackle corruption as shown by numbers of cases reported, detected, investigated and punished.

Tax official related indicators

Indicators used in the rest of the public sector to asses the integrity of public officials are also applicable to tax revenue authorities. As listed in a related U4 answer on Corruption within the Tax System (http://www.u4.no/helpdesk/helpdesk/queries/query13.cfm), these indicators include:

- **Evidence of public officials living beyond their means** i.e. living to a higher standard than their income would normally enable them to;
- **The absence of measures designed to maintain the integrity** of staff such as the development and promotion of ethical standards, merit-based recruitment and promotion procedures and regular staff rotation to prevent the creation of corrupt networks;
- **Low ethical standards** among professions linked to the tax system, such as accountants, and corruption among those in charge of protecting the system against abuse.

Taxpayer related indicators

- **Taxpayers' awareness of their rights and obligations.** The lack of requisite information makes tax payers unaware of their rights and more exposed to the discretionary powers of corrupt officials.

- **Taxpayers' willingness to pay taxes.** In some developing countries, extreme unwillingness to comply increases the readiness of tax payers to pay bribes in order to reduce their tax liability. A survey conducted in 2003 in Tanzania explored citizens' views on taxation and reasons to comply or not with the local authorities in Tanzania. (http://www.cmi.no/publications/file/?2359=to-pay-or-not-to-pay).
- **Tax evasion**. A recent study based on a sample of 48 countries indicates that the lower the level of tax evasion and the tax law complexity, the lower is the level of fiscal corruption in a country. (Please see "Taxation determinant of fiscal corruption: evidence across countries", Richardson, Grant, 2006).
- **Perceptions of public officials and trust in the institutions**. Furthermore, the high incidence of corruption among tax officials is likely to reduce tax compliance and provide incentives for corruption. Citizens' perceptions about the role of the state, how the tax law is administered, as well as enforcement and trustworthiness of government institutions are also contributing factors to taxpayers' behaviour.

Part 3: Examples of Tax Revenue Corruption Assessment Tools

There are different types of corruption-assessment techniques that can be used separately or combined to get a comprehensive picture of the situation, based on both quantitative and qualitative data. These include public opinion surveys, where service users (citizens), enterprises and/or public officials are asked about their perceptions and experiences on types, levels, costs and returns of corrupt practices; focus group discussions with targeted stakeholders in government and civil society; and Sentinel Community Surveillance surveys, using a cross-designed methodology to collect both quantitative and qualitative data, as well as legal and institutional assessments. The surveys listed below are meant as examples of how these various indicators and methodologies can be applied to tax revenue authorities.

An opinion poll conducted in June 2006 by Gallup International on behalf of Europeaid in Georgia surveyed 1000 citizens in face-to-face interviews, exploring **the Georgian citizens' awareness of their rights and obligations under the tax code of Georgia and their perceptions of the tax administration,** using indicators such as perceptions of public sector corruption, levels of integrity of public officials, public level of satisfaction with the tax system, service assessment and interface with tax officials, etc. (http://www.gorbi.com/store/en/20070227_151238.PDF).

Uganda's first National Integrity Survey, conducted in 1998, used a Sentinel Community Surveillance survey, including opinion surveys, focus group discussions and key informant interviews, as well as a service workers survey, to gather corruption-related data while involving beneficiaries in the process of evidence-based planning. 94,000 people together with 1600 service workers and 180 key informants were interviewed in this process, gathering both quantitative and qualitative data from representative sites. Although not exclusively focused on the tax administration, the survey collected data on perceptions of the URA services. (http://www.ciet.org/en/documents/projects_library_docs/2006223144324.pdf).

Although not specifically focused on corruption-related issues, the Tanzanian Revenue Authority (TRA) conceived and conducted a **TRA stakeholders' perception survey** in 2003, which was a baseline survey followed between January and April 2005 by a second survey, soliciting the views of stakeholders on how they perceive TRA's operations and tax administration as a whole in Tanzania. (http://www.tra.go.tz/MessageCG.htm)[1]

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[1] It was not possible to have direct access to this research within the 10 days allocated for this answer.

The survey on **citizens' views on taxation in local authorities in Tanzania** was conducted in 2003, covering 210 households in 6 case councils. It explored a variety of tax related issues such as taxation and tax evasion, compliance motivations, service delivery, tax collection problems as well as possible solutions to improve revenue collection. (Please see: http://www.cmi.no/publications/file/?1859=to-pay-or-not-to-pay)

A study conducted in 2005 looked at firms' perceptions of **business constraints for micro enterprises**, including bribes, taxes and regulations, using data from a survey of 160 firms in Tanzania. Within this framework, the survey looked at perceptions of taxpayers, such as micro-enterprises, on the Tanzania Revenue Authority. 6 constraints were rated severe by at least 50% of the firms surveyed, including high taxes and corruption. (http://www.cmi.no/publications/file/?2124=bribes-taxes-and-regulations)

Within the framework of the World Bank supported **Latvia's State Revenue Service Modernisation Project**, an assessment of vulnerability to corruption in the tax and customs administration was accompanied by in-depth surveys of business, household and public officials, helping to prioritise areas of reform. (http://www1.worldbank.org/prem/PREMNotes/premnote88.pdf)[2].

For further reference on methodological options to corruption diagnostic tools, the sectoral section of the "**Local Corruption Diagnostics and Measurement tools in Africa**" provides a mapping exercise of measurement tools that have been implemented in African countries to measure public sector ethics and integrity. Among other public sector ethics surveys, this paper describes the methodology used to carry out **Revenue Authority Staff Integrity Reviews** in Tanzania, Uganda and Ghana, looking at the procedures established for the maintenance of integrity of staff as well as assessing their effectiveness and perceived impact on the overall performance of tax revenue authorities.
(www.transparency.org/content/download/1595/8186/file/U4report_local_surveys_africa.pdf)

Part 4:   Practical Challenges and Recommendations

Although it is often argued that administrative practices and tax evasion are difficult to measure because of the confidential nature of this type of data, the experience of conducting taxpayers' surveys shows that, with appropriate survey questionnaires and interview techniques, both quantitative and qualitative data can be collected on this sensitive issue.

Strategic challenges

The empirical strategy selected to collect the data may have an impact on the willingness of respondents to answer the questions. In Uganda, as in many other countries, there is a deep-rooted distrust of the public sector. To overcome this constraint, it might be advisable to identify a body in which most firms and taxpayers have confidence to implement the survey. Experience shows that surveys addressing tax payers, especially firms, may need to cooperate with, or get approval from, a business association. For example, the above-mentioned firm level survey conducted in Uganda in 1998 was implemented by the Manufactures Association Consultancy and Information Service. ("Survey Techniques to Measure and Explain Corruption", http://siteresources.worldbank.org/INTPEAM/Resources/PETS2.pdf).

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[2] It was not possible to have direct access to this research within the 10 days allocated for this answer.

The methodology used should also match the local conditions and context. The process of adapting the measurement tool to the local conditions should take into account the feasibility of the research in terms of available resources and capacity to access information at the local level. The degree of cooperation, political will for such scrutiny as well of degree of access to information and data reporting are factors to take into account while designing the survey. The capacity of local organisations to carry out the exercise should also be taken into account, evaluated and built if necessary.

The dissemination strategy of the results is also a central component of the whole assessment exercise. As the intended use of the information will determine the survey techniques as well as the nature of data that will be collected, the communication strategy to publish the findings needs to be thought through from an early stage in the survey design. The challenge in this case is to present and make the information collected from anonymous taxpayers available to the public as well as key policy makers and stakeholders. To achieve the intended change, data needs to be translated, packaged and communicated with appropriate key messages to the intended audiences. Furthermore, dissemination of findings needs to be carried out through target-oriented channels of communication.

Methodological challenges

Identifying the right tool
Measurement tools should serve the purpose they are designed for. As integrity challenges often differ substantially between different departments (Customs, VAT, etc), it is important that the survey cover different categories of tax payers. In the case of the URA, it would also be advisable to conduct both household and firm surveys, combining qualitative and quantitative approaches.

Sample
As already mentioned, the sample should ideally include different type of taxpayers, both individuals and firms (foreign, domestic, small, medium, large…) that interact with different tax departments. Who will be interviewed at the firm level is also an issue to consider (general manager, head of financial department, employees…). Since the URA has district revenue offices in various towns, the survey should also cover different geographic locations, including different regions. A "sufficiently" large number of independent units is needed.

Questionnaire
The respondents should be interviewed anonymously and must trust that the results of the interview will be kept strictly confidential. The surveyed firm should also be insured that the results will not include any name of companies.

The survey must be marketed in a way that may overcome potential resistance to answer the questions. To avoid bias in the response, it shouldn't be marketed as a corruption study, which would be likely to exaggerate corruption levels. The questionnaire should have a broader focus - not only corruption - and address different types of questions of relevance for taxpayers. Hence, questions on tax rates, tax base or tax use, are important issues to include in addition to integrity related questions. The respondents' perceptions of change over time are also an important element to capture. Both quantitative and qualitative data should ideally be collected. One way to do it is to include qualitative questions that the respondents fill out which, however, poses specific challenges for data-processing. A more common approach is to use quantitative surveys where each question has several possible options that the respondent is required to tick.

The wording and sequencing of the questions will also have an impact on the quality and reliability of collected data. The World Bank Working Paper "Surveying surveys and questioning questions – learning from the World Bank experience" shares the Bank's experience and lessons learnt on corruption survey design and provides useful tips for the survey design process. (http://ideas.repec.org/p/wbk/wbrwps/2307.html)

Data Processing
SPSS and Stata are very common software programmes to help computerise and analyse the data.

Part 5:   Further Reading

"Tool kit for Tax Administration Diagnosis"
Within the framework of tax administration reforms, this toolkit compiled by the World Bank provides a checklist to identify tax administration weaknesses, environmental constraints and reform priorities.
(http://www1.worldbank.org/wbiep/decentralization/Module7/Toolkit.pdf).
Please also see **"A Diagnostic Framework for Tax Administration"** which provides a comprehensive set of indicators to assess tax administration systems. (http://siteresources.worldbank.org/INTTPA/Resources/DiagnosticFramework.pdf). For further reference on tax policy and administration, please also see the World Bank's **Tax Policy Administration subsite**:
(http://web.worldbank.org/WBSITE/EXTERNAL/TOPICS/EXTPUBLICSECTORANDGOVERNA NCE/EXTPUBLICFINANCE/0,
contentMDK:20261127~menuPK:1747624~pagePK:148956~piPK:216618~theSitePK:133956 4,00.html)

"The Public Sector Governance Reform Cycle: available diagnostic tools"
This guide describes with concrete examples the characteristics and implementation procedures of WBI's governance and diagnostic tools.
(http://www1.worldbank.org/prem/PREMNotes/premnote88.pdf)
Please also see **"Using Surveys for Public Sector Reform"** (http://www-wds.worldbank.org/servlet/WDSContentServer/WDSP/IB/2001/01/20/000094946_0101050534 2545/Rendered/PDF/multi_page.pdf)

"Tax Evasion and Fiscal Corruption"
This paper documents compliance and tax administrative practices in East and South Africa, drawing on various studies and research conducted in Uganda, Tanzania and South Africa.
(http://www.cmi.no/publications/publication/?2461=tax-evasion-and-fiscal-corruption)

"**What's trust got to do with it? Non-payment of service charges in local authorities in South Africa**"
This study focuses on the determinants of non-compliance in South Africa and indicates that compliance is determined by factors such as the trust in the government to provide expected services, trust in the authorities to establish fair procedures for revenue collection and distribution and trust in other citizens to pay their share.
(http://www.cmi.no/publications/file/?1686=what-has-trust-got-to-do-with-it)

"Corruption in Tax Administration"
This paper analyses the causes of corruption in tax administration and reviews the impact of corruption on the economy. (http://www.africa-sbo.org/cabri/uploads/files/CABRI%20&%20WBI%20Training%20Programme/7.%20Day%203 %20session%202%20Purohit.pdf).

"The Nuts and Bolts of Revenue Administration Reform"
The paper discusses the rationale behind revenue administration reform and offers some key indicators that could be used to assess if reform is needed. It presents a methodology to diagnose the institutional and organizational deficiencies of revenue administration. Finally, it summarizes some of the major lessons from experience.
(http://siteresources.worldbank.org/INTTPA/Resources/NutsBolts.pdf)